IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925, Volume 16, Issue 3 Ser.6 (May - June 2025), PP 84-88
www.iosrjournals.org

"Digital Financial Inclusions and It's Impact on Rural Economic Development Evidence from South Asia"

Haiyalappa pujari
At, post kadamgera B
Tq. Shahapur
Dist Yadagir
State karnataka-585319

Abstract
The purpose of this research is to investigate the ways in which the inclusion of digital financial services may contribute to the expansion of the rural economy in South Asia. In order to do this, it makes use of a research method that is both conceptual and descriptive, and it is based entirely on secondary data. With the use of digital financial services such as mobile banking, digital wallets, and government initiatives, this research investigates the ways in which individuals living in rural areas may be able to increase their access to money, increase their savings, increase their usage of credit, and increase their participation in the economy. Despite the fact that there are still issues that need to be addressed, such as inadequate infrastructure, a lack of digital literacy, and social exclusion, the research demonstrates how things may potentially improve. According to the findings of the study, digital banking holds a great deal of potential for rural development; however, it will not be successful unless there are laws that include all individuals, implementation at the local level, and ongoing assistance from institutions to guarantee that all individuals have access to financial resources that are both equitable and meaningful..
Keywords: Digital finance inclusion, Economic development, Sustainability

I. Introduction

In the current scenario many governments and institutions are coming to the realisation that increasing access to financial services is an essential component of sustainable development. According to the Sustainable Development Goals (SDGs) established by the United Nations, the creation of excellent employment, the reduction of poverty, and inclusive economic growth are all objectives that are essential for sustainable development. It is possible that financial inclusion might be of great assistance in achieving these objectives by providing those who have been excluded with access to funds, which they can then use to invest in areas such as education, healthcare, and small enterprises. According to the World Bank, there are currently more than 1.4 billion individuals throughout the world who do not have access to banking services, despite the fact that financial inclusion is recognised to be beneficial to economic growth and development. Teenagers and women living in remote areas are the most difficult to communicate with. DFI has a great deal of potential, but it is not yet known how well it will function or how much it will contribute to the expansion of the local economy. It is almost certain that institutions have an effect on the environment in which digital financial services are offered, either by making it simpler or more difficult for these services to be used and established (Geng, 2021). The South Asian nations have poor institutions, corruption, unpredictable politics, and an inadequate number of regulations, all of which may lower the effectiveness of DFI efforts. It is possible that the existing dearth of reputable institutions in the sub-region will make it more difficult for the expansion of digital financial services, particularly in regions where a large number of people do not have access to these services. The foundation of this research is the idea that institutions are essential for maximising the potential of DFI, which has the potential to contribute to the expansion of the economy over the long run. There has been a significant amount of new research conducted on Digital Financial Inclusion (DFI) over the course of the previous ten years. The majority of it is centred on the notion that it has the potential to alleviate poverty, stimulate economic development, and safeguard the environment (Demir, 2022).

The process of digital transformation has evolved at a rapid pace, and it has brought about significant changes in the manner in which individuals may access and make use of financial services, especially in new regions such as South Asia. The usage of digital financial inclusion has shown to be an effective method for addressing long-standing disparities in access to financial resources, particularly in rural regions for whom conventional banks have generally disregarded the issue. Rural communities are now able to participate in the formal financial system in ways that they were previously unable to do so. This is made possible by the combination of mobile technology, internet connection, and new financial instruments. The significance of this trend is particularly noteworthy in South Asia, which is characterised by a large population, a significant amount of rural poverty, and significant disparities in terms of wealth and social position. A growing number of people are turning to digital financial inclusion as a means of delivering financial services, as well as a means of contributing to the growth of the economy, the development of rural areas, and the alleviation of poverty.

People who reside in rural parts of many South Asian nations have traditionally had a difficult time obtaining official financial services. This is partially due to the fact that they are located a significant distance from banks, they do not have a lot of knowledge about money, and they face social and cultural hurdles. As a result of these issues, it has become more difficult for people to hold money in a safe manner, get credit, receive payments in a timely manner, and participate in activities that generate income. There is a possibility that digital technology might be able to circumvent these issues by providing financial solutions that are inexpensive, simple to implement, and accessible to all individuals. Several innovations, including mobile banking applications, electronic payment systems, digital wallets, and banking based on biometric identification, have brought about significant changes in the world of finance. These innovations have made it simpler for families in rural areas to participate in the economy. This transformation has also been accelerated by steps taken by the government and collaborations between the public and private sectors to promote digital financial services. This is particularly true in countries such as India, Bangladesh, Pakistan, and Nepal.

Through the use of secondary data and academic research, the purpose of this article is to investigate the ways in which the inclusion of digital financial services influences the economic growth of rural regions in South Asia. The purpose of this study is to get an understanding of the ways in which digital financial services influence the capacity of rural communities to generate income, establish enterprises, improve the efficiency of farming, save money, and be financially robust in general. This research investigates the extent to which digital banking contributes to the creation of a more fair society by making it simpler for low-income families and women to get financial resources. The report acknowledges the potential for digital financial inclusion to bring about positive changes in people's lives, but it also examines the challenges and threats that are associated with its rapid expansion. These include the digital divide, cyber vulnerabilities, and the fact that individuals who are unable to use technology because they do not possess the appropriate tools or do not know how to use it are unable to use it.

In recent years, the issue of financial inclusion has emerged as a subject of significant concern among academics, stakeholders, and politicians, particularly in developing countries. Even yet, sixty-five percent of individuals living in the most impoverished developing countries do not have a transaction account, and only twenty percent of them save money via a legitimate financial institution. There are only 33 percent of individuals in the regions who have a bank account with a formal financial institution, as stated in the Global Findex study from 2017. In comparison to any other area in the globe, this is the lowest rate. The first step towards achieving financial inclusion is for adults to have a transaction account that makes it simple to create savings accounts, send and receive money, and transfer money. The maintenance of regular bank accounts may be a strain and a significant financial burden for people and families that have salaries that are not very high (Rahman, 2024). On the other hand, the proliferation of mobile phones has brought to a reduction in the severity of these issues, particularly in rural regions (Ajide, 2022).

Significant shifts have occurred in the manner in which we live, work, and communicate with one another as a result of the ubiquitous availability of mobile phones and the internet. By attempting to integrate those who do not have access to conventional financial services into the official financial system, mobile financial services are bringing about a paradigm shift in the way that the game is played in developing nations. By bridging the gap in the existing financial infrastructure, the ability to utilise mobile devices to access banking services has significantly improved the quality of financial inclusion. According to Jack and Suri's Citation 2014, M-Pesa is among the most widely used mobile phone-based financial services in the whole globe. What this demonstrates is that in order to bring individuals who do not have bank accounts into the formal financial system, developing nations need to include mobile technology, well-designed financial products and revenue models, a cheap transactional platform, and a regulatory environment that is supportive (Ratombo, 2024).

II. Literature Review

According to the findings of different studies, there are two approaches that may be used to analyse the financial sector in its entirety: financial development, which encompasses financial depth and liquidity, and financial inclusion, which focuses on access to financial services. When it comes to a financial system, financial development refers to the implementation of new financial technology and enhancements to existing institutions. The goals of this process are to eliminate information asymmetry, make markets more accessible to all individuals, stimulate competition, and lower transaction costs. It illustrates the changing nature of financial institutions and markets throughout the course of time, as well as the changes that have occurred in the movement of foreign money. All of these changes contribute to a reduction in the costs of information, transactions, and enforcement (Khan, 2022). The goal of financial inclusion is to provide those who do not have bank accounts or who do not have sufficient funds with the opportunity to get access to financial services that are transparent, dependable, and easily accessible. The economy stands to gain a great deal from this. There is a strong connection between the concepts of financial inclusion and financial development, with financial inclusion considered to be an essential component of financial growth. On the other hand, it is essential to keep in mind that a nation may nevertheless achieve financial growth even if a significant number of its citizens are not yet actively participating in the official financial system (Shen, 2021). In spite of the fact that a great deal of study has been conducted on the topic of how financial inclusion influences economic development, there is still a great deal of work to be done on the topic of how "digital" financial inclusion influences growth. The literature does not have a significant amount of research that investigates the connection between the inclusion of digital financial services and the expansion of the economy in SADC nations. More and more study is being conducted on the topic of financial inclusion and growth; however, the majority of this research is concentrated on industrialised countries, and there is no clear consensus over which direction the effect is going. It is clear that the outcomes are dependant on the specific criteria and procedures that were used for financial inclusion, which demonstrates how nuanced and context-dependent this relationship is (Udeagha, 2021).

Over the course of the last several years, the market for digital financial inclusion has been steadily expanding and becoming more and more significant. In addition, there have been a great deal of fresh concepts about the many kinds of goods and services that are offered, which demonstrates a model of financial growth that is diverse, individualised, and standardised. The term "digital financial inclusion" refers to the process of including all individuals into the financial system via the rapid expansion of digital banking. This may be accomplished by lowering the prices of financial services and making them available to a greater number of individuals (Tiwari,2021). The disruptive technology that makes digital financial inclusion feasible has been identified by researchers as the driving force behind this phenomenon. It is mostly due to the increasing prevalence of digital financial services and the current technological advancements in banking that a greater number of individuals are able to get access to financial services.

Considerable research has been conducted to investigate the ways in which digital financial inclusion may be more inclusive, innovative, and effective in risk management. Some individuals believe that the inclusion of digital financial services might significantly cut down on the amount of people who are excluded from the financial system in society as a whole. The participation of rural families in digital financial inclusion is increased via the use of online social interaction, which in turn expands the scope of its impact and reach. From the perspective of innovation, there are many who believe that financial technology, also known as fintech, has solved issues that have been plaguing the conventional finance sector and has increased the level of activity in financial markets (Meniago, 2022). Researchers hypothesised that the fast proliferation of digital financial inclusion might potentially alter the method in which conventional banks conduct their commercial operations in both horizontal and vertical directions. Digital financial inclusion, according to the findings of researchers, has the potential to improve the efficiency of the financial system and address issues related to the misallocation of resources. It might also inspire businesses to come up with new ideas that are environmentally friendly by making it simpler for them to get funding for environmentally friendly initiatives (Jungo, 2022). The researchers came to the conclusion that the inclusion of digital financial services has a positive impact on corporate innovation, making it simpler for businesses to carry out initiatives that include innovation. By fostering the use of cutting-edge technologies within the realm of finance, digital financial inclusion has the potential to bring about significant transformations not just inside the financial sector but also outside it.

III. Methodology

A conceptual framework that relies entirely on secondary data serves as the foundation for the research methodology used in this study. This approach is consistent with the exploratory character of the research, which seeks to comprehend and explain the patterns, trends, and relationships that exist between digital financial inclusion programmes and the consequences of rural economic development in South Asia. A descriptive method is used in this research project. This method is the most effective method for demonstrating the present state of digital financial activities and the consequences that these activities have on society and the economy, especially in rural regions. Descriptive research provides a comprehensive picture of the subject under investigation, which makes it simpler to examine various aspects in a methodical manner. Some examples of this type of research include digital payment platforms, mobile banking services, government-sponsored financial inclusion programmes, and advances in technology that make it simpler for individuals to obtain financial resources. Academic journals, policy papers, reports from central banks, government databases, publications from international development organisations, and statistical archives administered by the World Bank, the International Monetary Fund, and the United Nations Development Programme were some of the sources from which we obtained secondary data. These sources are considered to be reputable and authoritative. We are able to conduct a comprehensive analysis of the ways in which digital money may contribute to the development of rural areas since these data sources provide both numerical and descriptive information. For the purpose of arriving at significant findings, we investigated a number of significant factors, such as the number of individuals living in rural regions who have access to financial services, the number of digital transactions that take place, the manner in which they save and borrow money, the frequency with which they use mobile money, and the amount of money that they earn in rural areas. Additionally, data from a number of South Asian nations has been included in order to show the variations and similarities in the efforts that are being made around the region to integrate digital financial systems.

To a great extent, the technique makes use of literature synthesis and trend analysis in order to compile the most recent information on digital financial inclusion and to place it within the context of how it impacts rural economies. It is not possible to acquire fresh data or do field research for this project. Instead, it examines the current body of literature in order to construct a narrative that establishes a connection between digital financial services and improved economic empowerment, financial literacy, agricultural production, women's engagement in finance, and the expansion of micro-enterprises in rural regions. This study takes a critical look at the concept of digital financial inclusion in low-income rural areas. It examines not only the advantages of this concept, but also the challenges and limitations that are associated with it. By providing us with a more accurate picture of the ways in which digital financial ecosystems impact the lives of individuals living in rural parts of South Asia, this methodical and theoretical approach contributes to the improvement of academic discourse.

IV. Discussion

The critical research examines the intricate link that exists between digital financial systems and rural development. It demonstrates both the potential for change as well as the challenges that are currently present in South Asia. By making it simpler for individuals to get financial services that were previously out of reach due to social, geographic, and infrastructural constraints, digital financial inclusion has become a crucial component in reshaping the economy of rural regions, as shown by secondary sources. This is being accomplished by making it easier for people to obtain financial services. There has been a significant growth in the financial independence of disadvantaged people, particularly smallholder farmers, women living in rural regions, and informal labourers, as a result of the proliferation of mobile banking, digital wallets, and digital transfer schemes supported by the government. The availability of credit and savings tools has been simplified as a result of these services, which have also facilitated the acceleration and security of financial transactions. A greater number of individuals have been involved in the formal economy as a result of this. According to the findings of the article, the benefits of digital financial inclusion are not dispersed uniformly throughout the geographical areas of rural South Asia (Odugbesan, 2022). Differences in infrastructure, a lack of digital literacy, and social and economic disparities are the primary reasons for this phenomenon. Many rural areas continue to struggle with issues such as unreliable internet access, limited smartphone access, and a lack of user awareness, which prevent them from fully benefiting from digital finance. This is despite the fact that countries such as India and Bangladesh have made a lot of progress in improving their digital financial infrastructure through both public and private efforts. According to the findings of the research, there is a digital gap that is comparable to economic inequality and also overlaps with exclusion based on gender and caste. This makes it more difficult for disadvantaged groups to use digital financial systems. Mobile banking services continue to present women in particular rural regions with a number of hurdles, including cultural and practical obstacles. This demonstrates how vital it is to have policies that are attentive to gender issues and solutions that are grounded on the community (Yiadom, 2021).

There is also a discussion in the report on how individuals are concerned about the extent to which they depend on digital platforms in regions where technology is still in its infancy. In the event that digital financial systems are implemented without providing sufficient fundamental help, they may make it even more difficult for persons who are already excluded to make ends meet. There is a lack of consumer protection, a lack of knowledge of finances, and instances of cyber fraud, all of which may cause individuals to have less confidence in digital money (Mavlutova, 2022). This problem is made worse by these factors. During the course of the talk, the significance of incorporating digital financial services within comprehensive rural development projects that emphasise education, capacity building, infrastructure, and regulation is emphasised. In order to maintain economic growth in rural regions via the implementation of digital financial inclusion, it is necessary to see it as more than simply a technological solution. In order for it to be successful, it must be a social and economic revolution that involves everyone in the planning, execution, and ongoing backing from the government.

According to the findings of the research, the role that the government and regulatory organisations play in defining the ecosystem of digital financial transactions is changing. This is an important discovery. People in nations such as India have found it simpler to get access to digital financial services as a result of initiatives such as the Pradhan Mantri Jan Dhan Yojana, payment systems that are enabled with Aadhaar, and the Unified Payments Interface (UPI). The study investigates the hierarchy of these initiatives and how they are implemented from the top down. It places an emphasis on the need of localised governance, community participation, and feedback systems in order to guarantee that digital financial instruments are effective in rural regions. On the other side, the decentralised and market-oriented policies that are less prevalent but still promising and have been shown in countries such as Nepal and Sri Lanka may be able to assist in fostering innovation and flexibility (Khera, 2021).

V. Conclusion

In the essential conversation, it is made abundantly obvious that digital financial inclusion has the potential to revolutionise the economy of rural communities in South Asia; but, it will not be successful unless structural imbalances are rectified, institutional capacity is strengthened, and consumers learn to trust digital services. According to the findings of the research, a comprehensive, all-encompassing, and context-aware strategy is required in order to guarantee that digital financial services really contribute to the reduction of the wealth gap between the affluent and the poor, as well as to the development and resilience of rural regions throughout the course of time.

References

[1]. Ajide, K. B., Alimi, O. Y., Asongu, S. A., & Raheem, I. D. (2022). The role of institutional infrastructures in financial inclusion-growth relations: Evidence from SSA. International Journal of Finance & Economics, 27(1), 175–191

[2]. Demir, A., Pesqué-Cela, V., Altunbas, Y., &Murinde, V. (2022). Fintech, financial inclusion and income inequality: A quantile regression approach. The European Journal of Finance, 28(1), 86–107

[3]. Geng, Z., & He, G. (2021). Digital financial inclusion and sustainable employment: Evidence from countries along the belt and road. Borsa Istanbul Review, 21(3), 307–316

[4]. Jungo, J., Madaleno, M., & Botelho, A. (2022). The effect of financial inclusion on credit risk in SADC countries: The moderating role of financial regulation and stability. Africa Review, 15(2), 138–169

[5]. Khan, I., Khan, I., Sayal, A. U., & Khan, M. Z. (2022). Does financial inclusion induce poverty, income inequality, and financial stability: Empirical evidence from the 54 African countries? Journal of Economic Studies, 49(2), 303–314

[6]. Khera, P., Ogawa, M. S., & Sahay, M. R. (2021). Is digital financial inclusion unlocking growth? International Monetary Fund

[7]. Mavlutova, I., Spilbergs, A., Verdenhofs, A., Natrins, A., Arefjevs, I., & Volkova, T. (2022). Digital transformation as a driver of the financial sector sustainable development: An impact on financial inclusion and operational efficiency. Sustainability, 15(1), 207

[8]. Meniago, C., & Eita, J. H. (2022). Fiscal policy-growth nexus in CFA countries: Assessing the role of institutional quality and debt. Studies in Economics and Econometrics, 46(1), 64–82

[9]. Odugbesan, J. A., Ike, G., Olowu, G., & Adeleye, B. N. (2022). Investigating the causality between financial inclusion, financial development and sustainable development in Sub-Saharan Africa economies: The mediating role of foreign direct investment. Journal of Public Affairs, 22(3), e2569

[10]. Rahman, S. M. K., Chowdhury, M. A. F., & Sristi, N. R. (2024). Impact of digital financial inclusion on economic growth: A study on Bangladesh. International Journal of Social Economics, ahead-of-print

[11]. Ratombo, N. E., & Mongale, I. P. (2024). Establishing the effects of internet users on inclusive growth for the SADC member states: Panel ARDL approach. International Journal of Economics and Financial Issues, 14(4), 316–329

[12]. Shen, Y., Hu, W., &Hueng, C. J. (2021). Digital financial inclusion and economic growth: A cross-country study. Procedia Computer Science, 187, 218–223

[13]. Tiwari, A., & Bharadwaj, T. (2021). Assessing the impact of institutions on economic growth in the BRICS countries. BRICS Journal of Economics, 2(4), 30–46.

[14]. Udeagha, M. C., &Ngepah, N. (2021). The asymmetric effect of trade openness on economic growth in South Africa: A nonlinear ARDL approach. Economic Change and Restructuring, 54(2), 491–540

[15]. Yiadom, E. B., Dziwornu, R. K., &Yalley, S. (2021). Financial inclusion, poverty and growth in Africa: Can institutions help? African Journal of Economic and Sustainable Development, 8(2), 91–110