A Study of Digital Financial Inclusion in developing countries and Emerging Economies

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Abstract:
Around the world, high inflation, slow economic growth and food shortages are hurting the poor the most. To address this, the World Bank is committed to expanding financial inclusion through digitization. The rapidly expanding sector of digital finance has the potential to help poor nations in a variety of ways with long-term growth. Expanding people's access to financial services in developing nations is one of these methods, which can also increase economic development and tax income. In order for underprivileged individuals, particularly women, to participate in the contemporary economy, it is crucial that they have access to digital financial services. Global poverty has greatly grown as the unequal consequences of Covid phase have come to light and the present numerous crises have already drastically reversed growth. Positively, the Covid crisis has sparked unheard-of transformation, particularly in sectors with a significant digital component. Digital technology can be a game changer in tackling the multi-decadal challenge of achieving universal financial inclusion. The financial services that are available and used in developing economies have risen as a result of the digital revolution. The fast adoption of digital technology in the countries over the past 15 years has served as the basis for a number of success stories among the members. With great success, the emerging economies have taken important steps to promote financial inclusion online in their countries. Universal financial inclusion has been one of the major developmental priorities for the developing countries over the last few decades. Governments and central banks of the developing countries have undertaken several initiatives to ensure access and affordability of financial services to all sections of the society, especially the weaker sections and low-income groups.

Keywords: Financial Inclusion, Digitalization, Developing Countries

Introduction: The ease of access to and availability of formal financial services are improved by the emerging phenomena of digital financial inclusion. Furthermore, one of the key elements influencing the growth and development of the financial sector is economic freedom. Therefore, there is a compelling case for investigating how economic freedom affects financial inclusion. On the links between these factors, however, there is no empirical support in the literature. Digital Financial Services have a great deal of promise to offer a variety of accessible, practical, and safe financial services to the underprivileged in emerging economies. Digital financial inclusion fosters effective connectivity among those involved in economic activity. Unbanked people are getting more and more access to financial services via digital means. In order to provide basic financial services at a higher level of convenience, scale, and affordability than is possible with traditional banking, banks, microfinance institutions, mobile operators, and third party providers are utilizing mobile phones, point-of-sale devices, along with networks of small-scale agents.

The abbreviation **"FinTech" stands for "financial technology**." Fin tech refers to

- use it to swiftly and inexpensively comply with industrial sector rules.
- Cyber security: Due to the rise in cyber-attacks in the nation and the decentralized nature of data, fin tech and cyber security concerns are interwoven.

Objectives of study:

- To spread the awareness about financial inclusion
- Explain the impact digital financial inclusion on developing countries economy.

Research Methodology:

The research is supported by secondary data. Websites, journals, RBI bulletins, publications from the Government of India's Ministry of Finance, various research papers and other sources have all been used to gather data and information.

Review of literature:

The global digital financial services: a critical review to achieve for digital economy in emerging markets dr. Nageswara Rao Dara Post-Doctoral Fellow (UGC), Department of Economics, Andhra University, Visakhapatnam says Globally, financial sector policymakers recognize the "game-changing" potential of digital financial inclusion. The Bank for International Settlements emphasized this point by noting that institutions including the G20 and global financial regulators „"have the opportunity and indeed the responsibility to prepare the standard-setting world for both the risks and the rewards of the digitization of financial services (Asli Demirguc-Kunt, Leora Klapper,Dorothe Singer,Peter Van Oudheusden, 2014)22 .

In India, the environment for financial inclusion is getting better. This was made known in a report. According to the Economist Intelligence Unit-2019 Global Microscope on Financial Inclusion study, which was published on Thursday, India isone of the top nations in the world for creating an environment that is favourable for financial inclusion.According to the research, India has given its non-banking sector permission to issue e-money and has created a setting with appropriate consumer due diligence and strong consumer protection. Furthermore, it notes that there has been a change in the global context for financial inclusion. India, Colombia, Peru, Uruguay, and Mexico offer the most hospitable environments for financial inclusion in this regard.According to the report, four core things are needed to encourage digital financial inclusion. These four things are... permission to issue e-money to the non-banking sector, presence of financial services agents, customer due diligence on a proportionate basis and effective consumer protection. Only four countries got full marks on these four parameters.

FINANCIAL INCLUSION IN INDIA: ITS NEED AND FUTURE:

The term 'Financial Inclusion' has remained a buzzword in the past few years among the banking industry. The term is related with increasing the spread of financial services to those who are not aware of or who are not in a position to avail financial services due to remote areas or lack of technology etc. In India, the reforms done in past few years are consistent with the growth and development of poor and disadvantageous groups. The slogan “SABKA SAATH SABKA VIKAS” by P.M. Modi is true in this sense which aims at Balanced Development of all people. It will be possible only when the issues related with corruption and huge gap between poor and rich will be reduced. The term financial inclusion focuses on providing the financial services such as banking and insurance to all people.

Shortcomings and limitations :

1. **Lack of efficient policy implementation**: The Jan Dhan Yojana led to the creation of thousands of inactive accounts where no financial transactions had really occurred. These entire operations raise the price of the institutions, and having high operating costs has a negative impact on their financial situation. It is crucial that all stakeholders take part in such programmers with the right motivation and not only out of a sense of formality in order to avoid these negative effects.
2. **Informal and cash-based economy:** Since India has a cash-based economy, adoption of digital payments is difficult. Around 81 percent of Indians, according to the International Labour Organization, labour in the unorganized sector. A major barrier to digital financial inclusion is the large informal sector's significant reliance on a cash-based economy for transactions.
3. **Low-income consumers**: Low-income consumers who are unable to afford the technology needed to access digital services are said to be living on the "digital divice." These people are also un technical.
4. **Gender Gap in Financial Inclusion:** At India, 77 percent of women over the age of 15 operated an account in a financial institution, compared to 83 percent of men, according to the Global Findex Report-2017. This disparity is the result of socioeconomic reasons, with men having easier access to mobile phones and internet data than women.
5. **Lack of credibility:** those who are the backward class of the society and those who are poor, even they do not trust the transactions that happen through digital medium or online ,it is also become a big obstacle in financial inclusion.
6. **Belief in moneylender:** there is very large section of society which still trusts the moneylender system very much and because of its trust in it, they are unable to trust the facilities provided by The government so much, they feel that it is easier to take money from moneylender rather than bank . it is very difficult to take money from bank because the process of the bank is difficult , like documentation , lack of awareness, these due to these factors people prefer to take money from moneylender.
7. **lack of technical knowledge**: there is a lack of technical education or less technical knowledge in the rural people. due to they are not able to use new technology. And it becomes a big problem in financial inclusion.
8. **Lack of awareness**: Financial exclusion is a result of problems like lack of knowledge, poverty, and illiteracy that decrease the demand for financial services. On the other words Lack of awareness, poverty and illiteracy are among the factors that result in reduced demand for financial services and thus financial exclusion.
9. **Bank branches are not available adequately:** Particularly in rural areas, there is a lack of proper access to bank branches. Additionally, it is frequently impossible to distribute, arrange, or structure financial products in a way that meets the needs of women.
10. **The fundamental infrastructures**—such as fast internet, devices (computers or smart phones), energy, etc.—that serve as the backbone of financial inclusion are insufficiently accessible.

11. **The unfavourable and insensitive attitude of banks: The** unfavourable and insensitive attitude of banks towards customers also plays an important role in reducing the demand for financial services.

Findings:

Despite so many shortcomings, if digital financial inclusion is implemented correctly , it will definitely play an important role in development of any countries , especially in the developing economies it will be helpful. Like.

1. **Capital formation;** This aids the nation's effort to accelerate "capital formation." The money that is generated as a result of this flows into the economy of the nation and stimulates business activity.
2. **Preventing misappropriation in government subsidies and welfare programmers:** Financial inclusion enables the government to pay the subsidy amount directly to the beneficiary's account rather than subsidizing the products, which aids in closing gaps and preventing misappropriation in government subsidies and welfare programmers.
3. **Improve saving habits:** financial inclusion inculcates a culture of savings among a large section of the rural population and plays an important role in the process of economic development.
4. **Motivate start-ups:** financial inclusion help to motivate the youth for participate and turn your India into business.
5. **Increase the Employment**: through financial inclusion new business opportunity come in the market .those create the job opportunity in rural area.
6. **Increase the agriculture productivity**: farmer is utilizing many government pre-program ,which is helpful for agriculture , eg. loan insurance and organize many financial literacy camp , and digital literacy camp , and aware about new agriculture technique.
7. **Direct Cash Transfer:-** financial inclusion enables direct cash transfer to the beneficiary's account thereby reducing the cost, minimizing leakage in the distribution network, identifying the beneficiary paying in someone else's name, reaching the intended beneficiary and timely delivery of services becomes easy.
8. **Elimination of the moneylender system**: By facilitating simple access to official credit, it lessens the exploitation of vulnerable groups by moneylenders who lend money at interest.
9. **Control of Illegal Money**: By helping the most vulnerable members of society escape poverty and by reducing inequality in society, it attempts to promote inclusive development.
10. **Formalization:** It establishes a formal structure for small businesses or micro firms to access loans. This will encourage the owners of these companies and firms to make investments and expand their operations.
11. **Benefits to Banks**: Financial inclusion plays a critical part in the process of economic growth by instilling a culture of saving among a significant portion of the rural population.
12. **Reducing inequality in the society**: It aims at inclusive development by enabling the poorest and weaker section of the society to come out of poverty and reducing inequality in the society.
13. **Flow of money**: The money flow that results from this helps to stimulate economic activity and the nation's economy
14. **Government subsidies and welfare programmers**: Financial inclusion also helps the government to plug gaps and manipulation in government subsidies and welfare programs, as it allows the government to transfer the subsidy amount directly to the beneficiary's account instead of subsidizing the products.

15. **Self-reliant:** Self-reliant India means being dependent on yourself, that is, not making yourself dependent on anyone else. on the other words Being self-reliant means that through the skill you have, you have to move forward yourself on a small level or do something for your country on a large scale. so for this purpose government provide loan ,and free of cost training. Financial inclusion helps this purpose.
16. **Economic growth**: Financial inclusion is crucial to the economy because it promotes the generation of wealth and long-term, steady growth

Suggestions:

1. Steps should be taken to enhance the knowledge of people in India about the financial services and the way to avail these services at low costs.
2. The government should focus on the key reasons for the failures of education for all.
3. The banks should take steps to increase innovation in banking products for different types of occupational structure to meet the
4. demands of people from various backgrounds.
5. The government needs to increase the public confidence in the banks and related financial institutions. The past scams held in banking industry has discouraged the people to keep their money in the banks rather they keep the money with themselves and such people again remains ignored from the financial services offered by banks and insurance sector.
6. Bank employees should visit the areas which are not aware of banking services and they should encourage the people to open bank accounts to get access to the basic financial services

Conclusion: The findings might be used to comparable developing countries and emerging economies to encourage financial inclusion of vulnerable populations such women, elderly people, residents of undeveloped areas, rural areas, and small cities. Certain results might be utilized as criterion by banking organizations and government organizations to target efforts at incorporating these demographic segments who have not yet been financially involved through digital banking. To tackle the multi-decadal issue of achieving universal financial inclusion, digital technology has the potential to be a game changer. The fast adoption of digital technology in emerging economies and developing nations over the past 15 years has served as the basis for a number of success stories among the member countries. With great success, emerging economies and developing nations have made substantial steps to promote digital financial inclusion in their regions.

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