

# An Analysis of Financial Inclusion's Effect on Tamil Nadu's Rural Development

S.Jacob Mathan<sup>1</sup> and R.Sunderaraj<sup>2\*</sup>

<sup>1</sup>Research Scholar, PG and Research Department of Commerce, Ayya Nadar Janaki Ammal College, Sivakasi, Tamil Nadu

Email: [madhan.jacs@gmail.com](mailto:madhan.jacs@gmail.com)

<sup>2</sup>Guide and Assistant Professor, Department of Commerce, Ayya Nadar Janaki Ammal College, Sivakasi, Tamil Nadu

\*Corresponding Author Email: [r.sunderaraj@gmail.com](mailto:r.sunderaraj@gmail.com)

## Abstract

*One such topic is financial inclusion (FI), in which academics and the Reserve Bank of India actively participate. India is actively adopting the best strategies to support financial inclusion because a large percentage of rural households still have restricted access, highlighting the urgent need to solve this issue in rural India. In the Indian state of Tamil Nadu, a sizable section of the population resides in rural areas. FI may make a substantial contribution to the state's inclusive development by encouraging financial awareness and access. For Tamil Nadu's socio economic development, financial inclusion is crucial. There is a significant lack of research on the Indian environment, especially in the state of Tamil Nadu, despite the fact that a large body of literature examines the worldwide implications of financial inclusion with regard to socioeconomic development and women's empowerment. Thus, this study's main goal is to provide a thorough knowledge of how FI promotes rural development in the state of Tamil Nadu. The study's findings support the idea that FI includes initiatives to involve a sizable portion of the population in the course of rural development by offering a variety of financial services. Tamil Nadu's rural development could be significantly impacted by the incorporation of FI, which would ultimately result in higher living standards for the state's residents. The state may empower its citizens and clear the way for a more wealthy and inclusive society by expanding access to formal financial services.*

*Keywords: Rural development, women's empowerment, social empowerment, economic development, and financial inclusion.*

## **Introduction**

In nations like India, where a sizable section of the rural population faces economic uncertainty, rural development has become a major worldwide concern (Jayakumari, 2015). The main goal of rural development is to improve rural residents' quality of life by reducing poverty through wage employment and self-employment programs. This is accomplished by supplying necessary community infrastructure, such as roads, electricity, clean drinking water, medical facilities, and educational opportunities. Financial inclusion is a key component that supports effective rural development. It facilitates advancement and growth by acting as a lubricant (Christabell and Vimal, 2012). Millions of low-income rural families receive essential financial services through FI (Levine, 1997).

Initiatives for growth and development now rely heavily on these services. The act of guaranteeing that each person in an economy has easy access to and can efficiently use the official financial system is known as financial inclusion (FI) (Sarma, 2008). It is an essential tool for reducing poverty and fostering inclusive growth (Simatele & Maciko, 2022). Access to formal financial services has a major impact on a person's social and economic standing in the modern economy, as well as the advancement of their organization or nation (Anand & Kuldip, 2013). The idea that access to financial services, especially through sophisticated financial systems, is essential for promoting socioeconomic empowerment and general economic development is highly supported by recent macroeconomic data (Sharma, 2010). FI does more than just provide rural communities with a variety of financial services; it also involves educating people about these services, how to use them, and how to manage their finances.

Additionally, it entails educating people about the range of financial programs and resources available to them (Singh, 2022). FI is a major issue that involves international researchers, Indian officials, and the Reserve Bank of India. It's a worldwide problem, not simply one in India. Although India is implementing best practices to improve financial inclusion, a significant portion of rural households still do not have access, underscoring the significance of financial inclusion in rural areas. A paradigm change in rural finance is contingent upon the conviction that rural communities are, in fact, "bankable." The significant economic potential of rural areas can be unlocked by guaranteeing their FI, resulting in comprehensive rural development (Devaki, 2008). In Tamil Nadu, a mostly rural state with a sizable population living in isolated and economically challenged areas, this study intends to

investigate the impact of FI in empowering women and promoting socioeconomic development. This study aims to identify the noteworthy benefits of FI initiatives for rural communities in Tamil Nadu. An outline of the research is given at the beginning of the article.

A thorough literature study that explores the impact of FI on women's empowerment, social empowerment, and economic development—all of which contribute to rural development in particular Tamil Nadu districts—comes next. Tamil Nadu, one of the states in India with a sizable population living below the poverty line, might profit from FI by giving underprivileged people access to banking services, allowing them to start enterprises, make educational investments, and escape poverty. The study's goals and a thorough explanation of the framework that serves as the basis for the suggested testing methodology are presented in the next section. Following an explanation of the research approach, structural equation modeling (SEM) is used to examine the findings.

The article concludes with a detailed discussion of the study's conclusions. It also provides managers with useful insights to think about and acknowledges any limits that may have arisen during the study process. This study advances our understanding of FI's ability to empower women and propel rural development.

## **Review of Literature**

Any nation's rural communities must have access to financial services in order to achieve inclusive growth and development. Improving the living conditions of poor farmers and other vulnerable members of the community is especially crucial (Bongomin et al. 2018). Every nation today faces a major difficulty in ensuring that the impoverished and other underserved groups, particularly those living in rural regions, have access to financial services (Abraham, 2018). According to Sarma and Pais (2011), an inclusive financial system improves efficiency and general welfare by reducing reliance on exploitative informal lending sources. According to Claessens et al. (2000), that reducing rural poverty, encouraging balanced urban and rural development, and stimulating economic growth in rural areas all depend on the expansion of financial institutions and the diversification of financing channels. Furthermore, their results support the claim made by Davis et al. (1998) that enhancing rural finance systems can raise rural residents' incomes. Mahjabeen (2008) found that comprehensive advancements in financial development can significantly increase the incomes of many social groups, with a focus on rural residents.

Access to financial services empowers people economically and promotes social inclusion and self-confidence. People who live in rural areas and are economically disadvantaged are more likely to be excluded from financial markets, according to a study by Zins and Weill (2016). According to Simatele and Maciko (2022), transaction fees are a major deterrent to using financial services. However, technological developments present a potential way to cut these costs, resulting in much cheaper costs related to offering financial services to customers in rural locations (Simatele et al., 2021).

A sizable section of India's rural populace is still cut off from official financial institutions. Rural residents have less FI, which restricts their access to financial opportunities and services (Cicchello et al., 2021). Because they empower beneficiaries to make well-informed decisions about long-term consumption and investments, financial institutions have come to be recognized as an effective tool for poverty reduction and rural development. Additionally, having access to financial institutions enables people to actively engage in productive activities and decision-making processes, preparing them to handle unanticipated short-term shocks (Bika et al., 2022; Lal, 2018). The lives of marginalized populations could be significantly improved by the incorporation of these financial services.

This strategy encourages sustainable development and contributes to the creation of a more just and affluent society by closing the financial gap and improving financial inclusion. Financial services are essential for protecting disadvantaged rural people from income shocks and providing access to remittances, which enhances their livelihoods and resilience (Simatele & Maciko, 2022). Therefore, FI plays a vital role as a stimulant for economic growth and poverty alleviation, resulting in a society that is more prosperous and equitable. To ensure that everyone has easy access to credit and other financial services to enhance their social and economic well-being, financial institutions must go above and beyond (Lal, 2017). By building a strong financial system, FI gives everyone access to opportunities for investment and education (Rewilak, 2017). It makes it possible for consumers to get bank loans and make safe payments (Mader, 2018).

Additionally, efficient and well-functioning financial systems encourage the formation of new firms and support the expansion of already-existing ones while enabling vulnerable and marginalized populations to actively engage in the financial system (Hendriks, 2019). Expanding access to financial services is positively correlated with promoting economic growth and development, according to numerous research (Sarma and Pais, 2011; Ghosh,

2013). As a result, FI has emerged as a key goal on the national agendas of numerous developing nations, who understand the critical role that the financial sector plays in reducing poverty and promoting economic growth.(Shaf&Medabesh, 2012; Park & Mercado, 2015).

In summary, the research findings included in this study demonstrate the beneficial effects of FI on rural development. They stress how important financial intermediaries are to advancing economic development, lowering unemployment, boosting investment, and advancing equal opportunity. There is a conspicuous dearth of research explicitly addressing the Indian context, with only a few studies carried out in the state of Tamil Nadu, despite the fact that the majority of the literature now in publication focuses on the worldwide implications of FI on socioeconomic development and women's empowerment. As a result, further study is desperately needed to advance our understanding of this field. The purpose of this study is to close this research gap and offer insightful information about the relationship between FI and people's economic empowerment in the Indian setting. This study aims to advance knowledge of how FI might improve rural communities' quality of life and promote general economic growth by analyzing the effects of FI projects in Tamil Nadu. By examining this connection, it hopes to advance knowledge of the topic and find significant ramifications for FI practice and policy.

### **Hypothesis Development Women empowerment**

The importance of FI in fostering women's empowerment, increasing financial access, lowering inequality, generating entrepreneurial opportunities, and enhancing general quality of life has been repeatedly highlighted in several research studies. The benefits of FI for women's empowerment are highlighted in the works of Bhatia and Singh (2019) and Hendriks (2019). Morsy (2020) emphasized how FI improves people's access to financial services. According to Kairiza et al. (2017), FI can give women entrepreneurial options. Churchill and Marisetty (2020) concentrated on FI's wider influence on raising people's standard of living. The results of a study by Pal et al. (2022) showed that three important factors—women's earning status, their participation in household financial decision-making, and their status as recipients of social welfare schemes—have a major impact on women's empowerment through FI.

### **Economic Development**

According to Lal's (2021) comprehensive research, FI plays a critical role in fostering economic growth in underprivileged communities. The study highlights the significant and immediate impact that credit and financial services availability can have on promoting

development and prosperity among underprivileged groups. Erlando et al. (2020) found evidence that FI favorably boosts economic development and a statistically significant relationship between FI and economic growth. FI gives low-income households the capacity to take advantage of entrepreneurial opportunities and actively participate in economic progress. The benefits of FI for economic development have been emphasized by Sharma (2016) and Lenka & Sharma (2017). In the meantime, Nizam et al. (2020) conducted an analysis of the effects of financial inclusion (FI) on economic growth, and their results indicated the existence of a threshold effect of FI on economic growth; thus, FI plays a pivotal role in driving economic growth and empowering communities by providing them with access to a comprehensive range of financial services (Kim et al., 2018; Michael and Sharon, 2014). These findings underscore the significance of inclusive financial policies and practices in promoting economic prosperity.

### **Social Empowerment**

Financial institutions act as catalysts for the economic and social growth of individuals and the overall progress of an economy (Banerjee & Francis, 2014; Kapoor & Singh, 2014; Padma & Gopiseti, 2013) by providing access to financial services. This access to financial services has far-reaching effects, such as fostering financial empowerment, promoting social inclusion, and building self-confidence, especially among rural populations, particularly women. These transformations ultimately lead to the economic development of these communities (Kelkar, 2010; Uma et al., 2013; Paramasivan & Ganesh kumar, 2013). Recent research by Nandru et al. (2021) emphasizes that providing rural families, including farmers, with access to banking services and products can significantly boost farm revenues through increased agricultural productivity. In summary, FI acts as a catalyst for economic growth, social progress, and overall development, positively impacting individuals and entire communities alike.

### **FI and Rural Development**

According to Divya (2014), Uma et al. (2013), and Paramasivan and Ganesh kumar (2013), FI is an essential and transformative method for changing the socioeconomic conditions of rural communities, particularly those who are disadvantaged, have limited skills, and are women. Additionally, having access to financial services empowers people in rural areas by making it possible for them to purchase farming equipment, which in turn increases agricultural output (Abraham, 2018). By giving the rural population access to necessary financial services, FI plays a critical role in promoting rural development. The secret to unleashing rural areas'

enormous economic potential and promoting comprehensive and sustainable development in these areas is to close the FI gap (Christabell and Vimal, 2012; Devaki, 2008). Millions of rural households that are financially disadvantaged receive vital financial services from it (Levine, 1997). These services are now essential for supporting development and expansion projects. The following theories can be plausibly put forth after a thorough examination of theoretical frameworks and empirical data.

H1: Social empowerment is significantly impacted by FI

H2: Economic development is significantly impacted by FI

H3: Women's empowerment is significantly impacted by FI

H4: Women's empowerment, economic growth, and social empowerment have a big impact on rural development

### **Research Methodology**

Understanding the relationship between FI and rural development in Tamil Nadu with an emphasis on social empowerment, women's empowerment, and economic advancement is the main goal of this study. Because it was not feasible to include every person in the study, a purposeful approach was used. Carefully selected for inclusion were four districts (Cuttack, Khordha, Kendrapara, and Jagatsinghpur) with literacy rates higher than 85%. The researcher used a purposive sample strategy to gather primary data. Inspired by earlier research projects, a thorough questionnaire of thirty items was developed. An analysis of pertinent literature in the field guided the selection of these items. Based on knowledge gained from previous empirical research, important constructs and variables were identified. A pilot test with 70 participants was carried out prior to the main poll.

In order to improve the questionnaire's understandability and relevance, study participants were urged to point out any parts that seemed unclear or confusing and to share their opinions. The researchers used the knowledge they gained from these insightful exchanges to improve the questionnaire's refining. The survey instrument was somewhat improved in response to feedback from this pilot test, guaranteeing its suitability and effectiveness for the ensuing extensive survey. Prominent researchers in the field were consulted in order to determine whether the study's sample size was adequate. For every item or parameter under test, Nunnally (1967) recommended at least ten observations. In accordance with these suggestions, a minimum sample size of 300 was judged suitable for this

investigation. With the help of volunteers, data was gathered from 800 people due to the vast geographic area and the high number of required responses. In order to collect primary data on how financial inclusion in Tamil Nadu promotes rural development, 800 questionnaires were randomly given to people in the four districts that were chosen. 750 of the 800 questionnaires that were given were returned, and 734 of them were deemed legitimate for the final analysis following a thorough screening process.

The robustness and reliability of the research were ensured by the sample size and response rate meeting the acceptable standards established by other studies (Cochran, 1977). Our goal in this study is to use previously validated and experimentally tested measures from earlier research to examine the suggested links. For this study, a total of thirty measurement variables have been carefully chosen from the literature. In particular, we have incorporated "FI"-related measuring items from research by Bongomin et al. (2016) and Nandru and Rentala (2019). Additionally, the "Social Empowerment" and "Economic Development" measuring scale elements were taken from the research of Niyaz et al. (2018) and Michael & Bustelo (1986), respectively. Furthermore, the measurement scale items for "rural development" and "women empowerment" were taken from the studies by Lal (2018) and Hendriks (2019). Participants were able to score each of the 30 measurement items according to their degree of agreement using a five-point rating system that the researcher used to gather data. "Strongly disagree" (1) and "strongly agree" (5) were the extremes of the scale. In order to accurately represent the opinions and answers of the respondents, this rating system was selected.

### **Data-analysis procedures**

Structural equation modeling (SEM) is used in this study to explore the intricate relationships between variables, providing thorough results for the analysis of theoretical concepts. By examining the effects of several independent and dependent elements within a carefully structured framework, SEM gives researchers the ability to simultaneously assess many complex hypotheses (Anderson and Gerbing, 1988; Byrne, 2010).

### **Scale Reliability**

To assess a scale's internal consistency and ascertain how effectively its items measure the same underlying constructs, researchers have employed the coefficient alpha technique (Sekaran, 2010). According to Hair et al. (2010), the reliability of the scales in this study is deemed good if the Cronbach's coefficient alpha value for each tool (displayed in Table 1) surpasses the indicated threshold of 0.60.

**Table No.1 Reliability**

Constructs	N	Alpha
Social Empowerment	5	0.967
Economic Development	5	0.963
Women Empowerment	5	0.871
Financial Inclusion	5	0.884
Rural Development	5	0.949

Calculated by the researchers

### Convergent validity

The study's validity is determined using three metrics: Average Variance Explained (AVE), Factor loadings, and Composite Reliability (CR). Table No. 2 shows the calculated values for AVE and CR, which show that they are higher than the suggested thresholds of 0.5 for AVE and 0.7 for CR. Furthermore, as indicated by Hair et al. (2010),  $CR > AVE$  and the factor loadings ( $C.R. > 1.96$ ) are significant and exceed 0.50.

**Table No.2 Convergent validity**

Variables	Estimate	AVE	CR
F5	0.853	0.77	0.88
F4	0.788		
F3	0.749		
F2	0.788		
F1	0.682		
S5	0.937	0.92	0.96
S4	0.923		
S3	0.906		
S2	0.933		
S1	0.931		
W5	0.705	0.76	0.87
W4	0.805		
W3	0.832		
W2	0.828		
W1	0.651		
E5	0.932	0.91	0.96
E4	0.878		
E3	0.965		
E2	0.93		
E1	0.866		
R1	0.816	0.88	0.95
R2	0.879		
R3	0.894		
R4	0.943		
R5	0.872		

Calculated by the researchers

### Discriminant Validity

As indicated in Table No. 3, the analysis of the sample data confirms the existence of discriminant validity. According to the results of Hair et al. (2011), the square root of AVE ( $\sqrt{AVE}$ ) is found to be greater than the correlation coefficients between different constructs.

**Table No.3 Discriminant validity**

	$\sqrt{AVE}$	Social Empowerment	Economic Development	Women Empowerment	Financial Inclusion	Rural Development
Social Empowerment	0.877	1	.107	.365	.297	.275
Economic Development	0.95	.107	1	.165	.425	.324
Women Empowerment	0.76	.365	.165	1	.341	.259
Financial Inclusion	0.877	.297	.425	.341	1	.388
Rural Development	0.93	.275	.324	.259	.388	1

**Source :** Calculated by the researchers

### Measurement Model

The goodness-of-fit indices for each latent construct were calculated using distinct models, in accordance with the recommendations made by Schreiber et al. (2006). The outcomes show acceptable model fit indices, as shown in Table 4.

**Table No.4 Model fit**

Fit Index	Value
CMIN/DF	2.912
GFI	0.923
AGFI	0.903
CFI	0.972
RMSEA	0.051
P-CLOSE	0.331

**Source:** Calculated by the researchers

### Hypothesis Testing

The developed assumptions were tested using path analysis, as shown in Figure 1. The strengths of the relationships between variables are revealed by the regression weights and crucial ratios, which are shown in Table No. 5. The results show that financial inclusion (FI) has a favorable and significant impact on women's empowerment ( $p < 0.05$ ), social empowerment ( $p < 0.05$ ), and economic development ( $p < 0.05$ ). In a similar vein, FI ( $***p < 0.05$ ) has a strong influence on rural development. As a result, Table No. 5 confirms hypotheses H1, H2, H3, and H4.

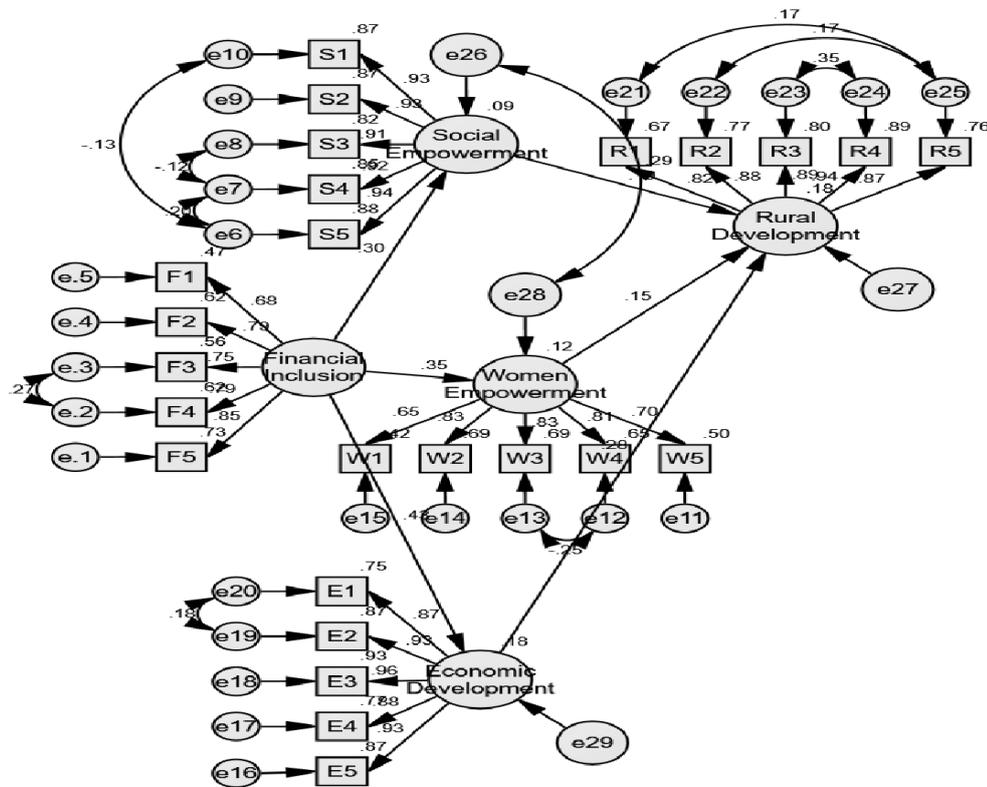
**Table No.5 Regression Weights**

Variable		Variable	Estimate	S.E.	C.R.	P
Women Empowerment	<---	Financial Inclusion	.290	.035	8.187	***
Social Empowerment	<---	Financial Inclusion	.334	.044	7.585	***
Economic Development	<---	Financial Inclusion	.466	.042	11.084	***
Rural Development	<---	Social Empowerment	.164	.033	4.928	***
Rural Development	<---	Women Empowerment	.170	.047	3.647	***
Rural Development	<---	Economic Development	.248	.032	7.661	***
F5	<---	Financial Inclusion	1.000			
F4	<---	Financial Inclusion	.926	.039	23.775	***
F3	<---	Financial Inclusion	.861	.039	22.131	***
F2	<---	Financial Inclusion	.914	.038	24.176	***
F1	<---	Financial Inclusion	.802	.040	19.940	***
S5	<---	Social Empowerment	1.000			
S4	<---	Social Empowerment	.986	.019	51.541	***
S3	<---	Social Empowerment	.969	.023	42.908	***
S2	<---	Social Empowerment	.992	.021	47.584	***
S1	<---	Social Empowerment	.985	.022	45.216	***
W5	<---	Women Empowerment	1.000			
W4	<---	Women Empowerment	1.156	.060	19.382	***
W3	<---	Women Empowerment	1.174	.059	20.010	***
W2	<---	Women Empowerment	1.159	.056	20.813	***
W1	<---	Women Empowerment	.905	.055	16.564	***
E5	<---	Economic Development	1.000			
E4	<---	Economic Development	.949	.024	39.485	***
E3	<---	Economic Development	1.034	.019	54.697	***
E2	<---	Economic Development	1.003	.021	47.497	***
E1	<---	Economic Development	.934	.025	37.925	***
R1	<---	Rural Development	1.000			
R2	<---	Rural Development	1.081	.037	28.880	***
R3	<---	Rural Development	1.097	.039	28.056	***
R4	<---	Rural Development	1.155	.038	30.534	***
R5	<---	Rural Development	1.077	.034	31.302	

**Source:** Calculated by the researchers Figure No-1:Path Diagram

## Findings and Discussion

Figure No. 1: Path Diagram



The study's conclusions highlight the clear effects of economic growth, women's empowerment, and social empowerment on financial inclusion (FI), as well as the impact of FI on rural development. According to earlier research by Kim et al. (2018), Michael and Sharon (2014), Sharma (2016), Lenka & Sharma (2017), Nizam et al. (2020), Erlando et al. (2020), and Lal (2021), FI is the most significant element influencing economic development. As a result, FI plays a crucial role in driving economic growth, reducing poverty, and empowering people and communities through all-encompassing access to financial services. According to research by Singh (2019), Hendriks (2019), and Pal et al. (2022), social empowerment is the second most important factor influenced by FI.

By giving women more access to financial resources and opportunities, FI greatly promotes women's empowerment. With credit, FI also gives people the chance to start their own businesses, promoting self-sufficiency and economic progress. The entire quality of life improves as a result of FI's beneficial effects on many facets of social and economic well-being, especially for rural populations. According to studies by Singh (2019), Hendriks (2019), Churchill and Marisetty (2020), and Pal et al. (2022), women's empowerment is the third most

important element impacted by FI. Particularly in rural areas, the provision of financial services through FI encourages social inclusion, financial empowerment, and self-confidence. The results of the study also demonstrate the clear influence of FI on rural development, which is supported by studies by Christabell and Vimal (2012) and Devaki (2008). By giving the rural population access to necessary financial services, FI plays a critical role in promoting rural development. Unlocking rural areas' enormous economic potential and promoting comprehensive and sustainable development in these places depend on closing the FI divide.

The economic, social, and general well-being of rural communities is greatly influenced by FI, which has a dramatic impact on rural development. By making financial services, credit, and savings opportunities accessible, it promotes economic growth in rural areas. This encourages people and companies to invest in profitable endeavors, increase their economic activity, and generate employment possibilities local economic development.

## **Conclusion**

Rural communities can become more resilient to natural catastrophes and economic shocks when they have access to banking services. FI's savings and insurance alternatives help people and communities deal with emergencies more effectively and bounce back from negative occurrences more quickly. Financial literacy initiatives and FI frequently go hand in hand. Rural inhabitants' financial well-being improves when they are empowered to make educated decisions regarding investments, savings, and money management. In addition to promoting overall rural development, the expansion of financial institutions in rural regions can aid in the construction of physical infrastructure, such as better roads, communication networks, and transit facilities.

By encouraging economic growth, lowering poverty, advancing social justice, and enabling rural communities to create a more prosperous and sustainable future, FI has a revolutionary effect on rural development. It makes vital services like insurance, healthcare, and education available to rural residents. FI closes the access gap to essential services, especially in rural locations, by enabling financial transactions and mobile banking services. It is essential for lowering poverty in rural areas. FI helps households manage their finances more effectively, deal with unforeseen costs, and invest in income-generating ventures, all of which help individuals escape poverty. By guaranteeing that all residents, especially women, young people, and marginalized groups, have equal access to financial services and opportunities, it also fosters social inclusion in rural communities. In rural communities, this promotes social

cohesion and gives people more authority. FI supports the creation and expansion of small businesses and microenterprises, which are essential forces behind rural development, by offering financial services to prospective entrepreneurs.

### **Managerial Implications**

Tamil Nadu must be financially inclusive in order to propel its socio-economic growth, as a significant section of its people lives in poverty. Poverty reduction, gender equality, agricultural expansion, entrepreneurship, and inclusive development across the state can all be greatly aided by FI. FI has the ability to significantly improve the lives of Tamil Nadu's citizens and advance the state's comprehensive and sustainable development by tackling these issues. By giving farmers access to credit, insurance, and savings options, FI can promote agricultural development by empowering them to adopt cutting-edge farming methods, buy better inputs, and reduce agricultural hazards. Micro, small, and medium-sized businesses (MSMEs) and entrepreneurship are encouraged by FI. In Tamil Nadu, having access to financial services enables prospective business owners to launch and grow their ventures, promoting regional economic growth and job creation. Scope for further research and Limitations

The study has produced insightful findings that have consequences for both theoretical comprehension and real-world management. But it's important to recognize and deal with its shortcomings. Further research might examine how FI affects area development and the political empowerment of rural populations in Tamil Nadu in order to further knowledge of the topic. Furthermore, incorporating an analysis of financial literacy into the study may offer insightful information on how it influences the connection between FI and rural development. Because the investigation was limited to Tamil Nadu residents, care must be taken when projecting the results of this study to other states. Further research across a variety of states while incorporating different dimensions may be beneficial in order to overcome this limitation and validate the suggested links. This method would provide a more thorough understanding of the topic and increase the study's results' applicability.

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### Author Biographies



**S.Jacob Mathan** is an Assistant Professor in the Department of Business Administration at Ayya Nadar Janaki Ammal College (Autonomous), Sivakasi, Tamil Nadu, with over 11 years of teaching and academic experience. His research interests primarily focus on Financial Management, Accounting Practices, Rural Development, Financial Inclusion, Environmental Sustainability, and Digital Payment Systems. He has been actively involved in research-based academic activities, and his research work emphasizes applied and field-based studies, particularly examining the socio-economic impacts of financial inclusion initiatives in rural regions. His scholarly approach integrates both quantitative and qualitative research methods, with a strong inclination towards survey research, statistical analysis, comparative studies, and policy-oriented evaluation. Committed to academic integrity and continuous professional development, he strives to bridge the gap between theoretical frameworks and real-world applications, contributing to sustainable development, ethical business practices, and inclusive economic growth through research and teaching.



**Dr. R. Sunderaraj** is an Assistant Professor in the Department of Commerce at Ayya Nadar Janaki Ammal College (Autonomous), Sivakasi, Tamil Nadu, India. He has been actively engaged in academic teaching and research since 2013. He holds a Ph.D. from Bharathiar University, which reflects his strong foundation in scholarly inquiry and academic research. His academic expertise spans Business and Finance, with specific research interests in Human Resource Management and Entrepreneurship, where he integrates theoretical frameworks with practical organizational applications. He has contributed to the academic community through peer-reviewed publications, including journal articles, demonstrating his commitment to scholarly dissemination. He effectively balances teaching responsibilities with ongoing research activities in commerce and management, contributing significantly to student development and academic scholarship within his discipline.