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FINANCIAL INCLUSION AND ENTREPRENEURSHIP

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ABSTRACT

Many nations, especially developing ones, have financial inclusion as a top economic priority since, according to research, it is inversely correlated with poverty. The World Bank defines financial inclusion as having widespread access to the absence of tariff or non-tariff barriers to the use of financial services is defined as such. Since traditional banking techniques to address financial inclusion in developing nations are ineffective, this issue is still a top priority and is included in the strategies to accomplish nearly half of the United Nations' sustainable development goals effectively (Isukul and Tantua 2021). More crucially, many low-income nations still lack the social advancement and decline in income disparities that financial inclusion is intended to support. Financial exclusion, on the other hand, accentuates the already noticeable gender gap on the economic front: in less developed nations, female-headed businesses use 20% fewer loans than male-headed businesses, and households headed by women are 8% less likely to have formal accounts than households headed by men (Ghosh and Vinod 2017). Women entrepreneurs are typically not able to meet the stringent and particular standards of formal finance institutions, such as collateral and proof of domicile. This is partially brought on by cultural norms that discriminate against them and land or property rights. Another Women entrepreneurs sometimes encounter prejudice and preconceptions in their interactions with bankers, which makes it extremely difficult for them to join the formal financial network. As a result, the majority of female business owners rely heavily on self-financing when their companies are still starting started. Financially excluded female business owners may lack the resources necessary to seize opportunities or weather systemic or industry-specific shocks (Zogning 2021). Many nations have come to the conclusion that encouraging female entrepreneurs remains a crucial problem, and ensuring their access to and usage of top-notch formal financial services is one way to do this. This is particularly true in light of the pivotal role that female entrepreneurs play at the home and community levels, which has been identified as a common thread for economic and social transformation.

Keywords: *Financial Inclusion, Entrepreneurship, World Bank, Social Transformation, Sustainable Development.*

Introduction

Economic expansion Economic expansion and entrepreneurship have a close relationship. Many of the earlier investigations (Casson, 1990 and Livesay 1995, Goel 1997, Glancey and McQuaid, 2000) had already established this association and had built theoretical models based on the empirical data. One of the elements affecting entrepreneurship is access to capital. Small and medium-sized businesses in emerging nations confront substantial financial obstacles. Gaps in the financial system, such as high administrative expenses, stringent collateral requirements, and a lack of knowledge among financial intermediaries, place restrictions on small and medium-sized businesses. By promoting innovation, macroeconomic resilience, and GDP, greater access to credit for small and medium-sized businesses can enhance the economic climate in developing nations.

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Access to capital has been cited in numerous studies as the primary determinant of entrepreneurship. Specifically, the International Finance

Cooperation (IFC) rates economies based on how simple it is to conduct business there. The ability of a corporation to obtain financing is a crucial element in this framework. One of the most important criteria for encouraging and sustaining entrepreneurial activity is the availability of financial resources for small and medium-sized businesses in the form of financing and equity, according to the Global Entrepreneurship Monitor's (GEM) Entrepreneurship Framework Condition.

According to the World Bank's Investment Climate Surveys, access to capital boosts business success. It not only makes market entry, company expansion, and risk management easier, but it also encourages innovation and entrepreneurial activity. Additionally, businesses with better access to finance are better able to take advantage of expansion and investment opportunities.

According to the World Bank Enterprise Surveys, 43% of enterprises with 20 to 99 employees in low-income countries identify access to capital or the cost of capital as a significant barrier to ongoing operations. Only 11% of enterprises of the same size in high-income nations see access to credit as a problem.

In this context, an analysis of the effect of financial inclusion on entrepreneurship in India was made. The study's particular goals are listed below.

Meaning of Financial Inclusion

Financial inclusion is defined as the practise of providing banking and financial services to every member of society without regard to their background. Without taking into account a person's income or savings, it essentially seeks to involve everyone in society by providing them with basic financial services. Financial inclusion is primarily concerned with giving trustworthy financial assistance to those in the economically disadvantaged parts of society without discrimination. It aims to offer financial solutions devoid of any indications of inequity. It is also dedicated to transparency while providing financial support without any additional fees or unexpected charges.

Everyone in the society should be involved and take part in wise financial management, according to financial inclusion. In India, a large number of low-income households lack access to any financial services. They are ignorant about banks' operations. Many of the poor people lack access to banks' services, even when they are aware of them.

They might not satisfy the minimal eligibility requirements established by banks, in which case they will be unable to obtain a bank's services. The minimum income, minimum credit score, age requirements, and minimum years of work experience are only a few of the conditions set by banks.

Only if an applicant satisfies these requirements will a bank provide him or her a deposit or a loan. Due to a lack of resources, resources, money, etc., many impoverished people may be unemployed and have no history of employment.

These socially and economically disadvantaged people might also lack the necessary documentation to present to banks for identity or income verification. When applying for a loan or opening a bank account, each bank has a list of required documents that must be submitted. Many of these individuals are unaware of the significance of these texts. Additionally, they are unable to apply for official documentation.

The goal of financial inclusion is to remove these obstacles and offer reasonably priced financial services to the less fortunate segments of society so they can become financially independent without relying on charity or other unsustainable sources of funding. The goal of financial inclusion is to increase societal understanding of financial services and money management. Additionally, it seeks to provide formal, organised channels for providing loans to the underprivileged.

Only the middle and upper echelons of society were able to get formal forms of credit for a number of years. Poor people have little choice but to rely on illegitimate and unauthorised kinds of credit. As a result of their lack of education and basic financial skills, many of them were taken advantage of by the opportunistic and wealthy members of society. Many low-income people have been taken advantage of for years in the name of financial aid.

Objectives of Financial Inclusion

Financial inclusion aims to assist individuals in obtaining affordable financial services and goods, such as deposits, fund transfer services, loans, insurance, payment services, etc.

It attempts to create suitable financial institutions that can meet the requirements of the underprivileged. These organisations ought to adhere to strict laws and the high standards already in place in the financial sector.

The goal of financial inclusion is to establish and maintain financial sustainability so that those who are less fortunate can count on having the money they need.

In order to create enough competition and give customers a wide range of options, financial inclusion also aims to have several organisations that provide inexpensive financial help.

The market offers conventional banking choices. However, there are surprisingly few institutions that provide low-cost financial goods and services.

The goal of financial inclusion is to raise the benefits of financial services' awareness among society's economically disadvantaged groups.

Financial inclusion aims to develop financial products that are appropriate for the less fortunate members of society.

The goal of financial inclusion is to raise the country's level of financial knowledge and awareness.

The goal of financial inclusion is to provide the nation's economically vulnerable citizens with digital financial solutions.

In order to reach the most vulnerable citizens who reside in the most isolated regions of the nation, it also plans to introduce mobile banking or financial services.

It attempts to give disadvantaged people specialised and personalised financial solutions based on their unique financial situations, household needs, preferences, and income levels.

Numerous governmental and non-governmental organisations are working to increase financial inclusion. These organisations are committed to facilitating the receipt of documents that have received official approval. Due to a lack of identification documentation, a large number of the poor are unable to open bank accounts or submit loan applications. There are a lot of people in rural areas and tribal settlements who are unaware of documents like PAN, Aadhaar, driver's licences, and voter identification cards.

As a result, individuals are unable to utilise many of the services provided by public or private institutions. They are unable to get any government assistance to which they are truly entitled since they lack these documents.

Relationship between Financial Inclusion and Entrepreneurship

Although the rule of financial inclusion in the development of a safe and effective financial system that supports economic growth has been adequately documented in economic and financial literature, there is still little empirical research that explores the specific links between financial inclusion and the growth of entrepreneurs or that builds models to analyse the effects of changes in financial inclusion on entrepreneurial activities. The majority of research has mostly concentrated on how macroeconomic statistics can show how financial inclusion affects growth, income inequality, or poverty alleviation. However, it has been demonstrated that entrepreneurship plays a significant role in driving individual economic progress through creating jobs.

Through a variety of means, including lowering start-up costs for people lacking self-financing, enabling established enterprises to take advantage of expansion prospects, and giving them access to increased innovation chances, financial inclusion can encourage entrepreneurial activity. On the other hand, there is evidence that the expansion of microbusinesses in many contexts has been mostly unaffected by inclusive financial measures like microfinancing.

According to research by Fareed et al. (2017) conducted in Mexico, financial inclusion is associated with entrepreneurship favourably and may open up business options for women entrepreneurs. Women who work in the unorganised sector, however, are not covered by this beneficial relationship.

This outcome is not unexpected considering the substantial correlation between the degree of informality and the entrepreneur's access to financial services. Similar to this, Kede Ndouna and Zogning (2022) examined how access to financial products affected the reduction of income disparities between men and women working in Cameron's informal sector. The empirical findings demonstrate that there are still significant income disparities between men and women working in the informal sector. These disparities are primarily caused by the two groups' varying access to credit, which is itself accounted for in 13.9% of cases by gender.

This indicates that men are more financially included than women when it comes to loan availability, and this advantage enables them to produce much greater revenues and more sustainable activities.

Ajide (2020) used a sample of 13 African nations to show how financial inclusion might encourage the growth of entrepreneurs. This comes after Wang and Tan (2017) who emphasise the beneficial impact of financial inclusion on the entrepreneurial development of farmers, Fan and Zhang (2017) who empirically examine the relationship between financial inclusion and entrepreneur training, or Goel and Madan (2019) whose work concludes that financial inclusion plays a major role in increasing the number of women in entrepreneurial activities because it can open up economic opportunities for them.

While pointing out three major obstacles to financial inclusion for young people, Koloma (2021) contends that financial inclusion has the same favourable effect on the degree of entrepreneurial intention among youth. the

The price of financial services, a lack of funds, and the belief that financial services like savings are not essential are all factors.

In actuality, there is a counterexample to the positive correlation between the degree of financial inclusion and the growth of entrepreneurial activity. In South Africa, Matindike and Mago (2022) offer a sharp contrast. Despite the nation's high rate of financial inclusion (nearly 70% of adults have an active bank account, among other things), the fraction of entrepreneurs still operates at a low level.

Since access to financial services is a key component of financial inclusion, it is important to consider how often these services are really used, especially in South Africa where many people only utilise their accounts transitorily by withdrawing their whole paycheque on pay dates. This fact prompts us to reconsider the relationship between financial inclusion and increased entrepreneurship and to inquire as to whether there are any moderating factors in play.

Importance of Financial Inclusion for Entrepreneur

The population in lower socioeconomic tiers will be able to safely store money and contribute to preventing the concentration of economic power with a small number of people, reducing the risks that the underprivileged may experience as a result of economic shocks. As a result of the significant economic and social ramifications, enabling access to financial services is now a concern for governments.

For medium-sized Indian households, moneylenders continue to be the one source of credit that is employed the most frequently. Political interference and bureaucratic restrictions continue to hinder a sizable portion of our financial system, limiting their potential contribution. India's poor, many of whom are employed as low-wage agricultural and unskilled semi-skilled labourers, are generally shut out of the formal financial system. Even micro and tiny businesses struggle to access formal sources of financing, and as a result, they are essentially shut out of the financial system. More than 40% of Indian workers earn a living yet have no savings. The impoverished are protected by financial inclusion against the influence of shady money lenders.

Conclusion

In fact, the worldwide issue of reducing inequality, which is at the core of boosting financial inclusion, must be addressed. However, because of the size of the informal sector, barriers to access to health care and education for those from disadvantaged social strata, and even challenges faced by women in finding decent employment, the challenge of financial inclusion, which is meant to result in social inclusion, is even more acute in developing economies.

Specifically, at the level of the entrepreneur, an inclusive financial system mobilises more resources for beneficial uses, which promotes more economic growth, better opportunities, and the eradication of poverty.

Due to limited access to the financial tools needed for economic actors to invest, finance projects, or conduct business, poverty traps can develop and impede economic development in the absence of inclusive financial systems.

Low financial inclusion thus hinders the expansion of both existing VSEs and SMEs as well as the development of new small businesses. This helps to explain why low-productivity, predominately informal microenterprises create the majority of precarious jobs

Another barrier that is specific to gender exacerbates this situation. Although many entrepreneurs in developing nations experience financial exclusion, there is convincing empirical evidence that women entrepreneurs typically gain less from initiatives to increase financial inclusion than their male counterparts. The evidence that is currently available demonstrates that financial access barriers that disproportionately affect women prevent them from expanding their entrepreneurial activities.

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