



Impact of Small Finance Banks on Rural People of Davanagere District: A Study

Dr Janardhan Kumar

Associate Professor of Economics

Government First Grade College & PG Centre, Haveri -581128.

Abstract: Small Finance Banks (SFBs) were introduced in India to promote financial inclusion among underserved populations, especially in rural and semi-urban areas. This study examines the impact of SFBs on rural communities in Davanagere District, Karnataka. The research adopts a descriptive and analytical approach using both primary and secondary data. The findings reveal that SFBs have significantly improved access to credit, enhanced savings habits, promoted entrepreneurship, and contributed to socio-economic development. However, challenges such as financial literacy gaps, repayment issues, and technological barriers persist. The study concludes with policy suggestions to strengthen the role of SFBs in rural transformation.

Keywords: Small Finance Banks, Financial Inclusion, Rural Development, Davanagere District, Microfinance.

I. INTRODUCTION

Financial inclusion has emerged as a cornerstone of inclusive economic development in India, particularly in rural regions where access to formal banking services has historically been limited. In response to this challenge, the Reserve Bank of India introduced the concept of Small Finance Banks (SFBs) in 2015 with the objective of extending banking services to underserved and unbanked sections of society. These banks are specifically mandated to focus on low-income households, small and marginal farmers, micro and small enterprises, and other vulnerable groups, thereby playing a crucial role in strengthening the rural financial ecosystem.

The establishment of Small Finance Banks represents a significant shift in India's banking landscape, aiming to bridge the gap between formal financial institutions and rural populations. Unlike traditional commercial banks, SFBs emphasize priority sector lending, simplified banking procedures, and localized service delivery. Their operations are designed to enhance accessibility, affordability, and availability of financial services, which are essential for fostering sustainable rural development.

The Davanagere District, located in the central part of the state of Karnataka, provides a relevant context for examining the impact of SFBs. The district is predominantly agrarian, with agriculture and allied activities forming the backbone of its rural economy. In addition, the presence of small-scale industries and self-employment activities makes access to timely and affordable credit a critical factor for economic growth. Despite progress in recent years, rural areas in Davanagere continue to face challenges such as limited financial awareness, dependence on informal credit sources, and inadequate banking infrastructure.

In this context, Small Finance Banks have emerged as important financial intermediaries by providing essential services such as savings accounts, micro-loans, agricultural credit, and digital banking facilities. Their role extends beyond mere financial transactions, as they contribute to improving livelihoods, promoting entrepreneurship, empowering women through Self-Help Groups (SHGs), and reducing dependency on exploitative moneylenders.

This study aims to analyze the impact of Small Finance Banks on rural people in Davanagere District by examining their contribution to financial inclusion, income generation, and overall socio-economic development. It also



seeks to identify the challenges faced by rural customers in accessing SFB services and to suggest measures for enhancing their effectiveness. By focusing on a district-level analysis, the study provides valuable insights into the practical implications of financial inclusion policies and the transformative potential of Small Finance Banks in rural India.

II. OBJECTIVES OF THE STUDY

The present study titled “Impact of Small Finance Banks on Rural People of Davanagere District: A Study” is undertaken with the following objectives.

1. To analyze the role of Small Finance Banks in promoting financial inclusion among rural households.
2. To evaluate the accessibility and utilization of banking services such as savings, credit, and insurance provided by SFBs.
3. To assess the impact of SFBs on income generation, employment opportunities, and livelihood improvement in rural areas.
4. To study the contribution of SFBs in supporting small farmers, micro-entrepreneurs, and Self-Help Groups (SHGs).
5. To examine the role of SFBs in reducing dependence on informal sources of finance such as moneylenders.
6. To identify the level of awareness and financial literacy among rural customers regarding SFB services.

III. RESEARCH METHODOLOGY

The study is based on a descriptive and analytical research design.

- The descriptive approach is used to describe the existing conditions of rural banking and the role of SFBs.
- The analytical approach is employed to interpret the data and assess the impact of SFBs on socio-economic variables such as income, savings, and employment.

3.1 Nature and Sources of Data

3.1.1 Primary Data

Primary data is collected directly from rural respondents through:

- Structured questionnaires
- Personal interviews
- Field observations

The respondents include farmers, small business owners, Self-Help Group (SHG) members, and beneficiaries of Small Finance Banks.

3.1.2 Secondary Data

Secondary data is obtained from,

- Reports of the Reserve Bank of India
- Government publications and policy documents
- Research journals, articles, and books
- Websites and annual reports of Small Finance Banks

IV. CONCEPTUAL FRAMEWORK OF SMALL FINANCE BANKS

The conceptual framework of Small Finance Banks (SFBs) is grounded in the broader objective of financial inclusion and rural development. Introduced under the regulatory guidance of the Reserve Bank of India, SFBs are designed to bridge the gap between formal financial institutions and underserved populations, particularly in rural and semi-urban areas such as Davanagere District.

4.1 Concept of Small Finance Banks

Small Finance Banks are specialized banking institutions established with the primary aim of providing basic banking services to sections of society that are not adequately served by traditional commercial banks. These include:

- Small and marginal farmers
- Micro and small enterprises (MSEs)
- Unorganized sector workers
- Low-income households

SFBs operate with a localized approach, focusing on inclusive growth by ensuring access to affordable credit and secure savings options.

4.2 Core Components of the Conceptual Framework

The conceptual framework of SFBs in the context of rural development can be understood through the following interconnected components:



4.2.1 Financial Inclusion

Financial inclusion is the foundation of SFB operations. It involves, Opening of basic savings bank accounts, Providing access to formal credit, Offering insurance and pension services, This reduces financial exclusion and integrates rural populations into the formal banking system.

4.2.2 Credit Delivery Mechanism

SFBs emphasize priority sector lending, ensuring that a significant portion of loans is directed towards, Agriculture and allied activities, Micro-enterprises, Self-Help Groups (SHGs), This facilitates productive investment and reduces dependence on informal credit sources such as moneylenders.

4.2.3 Savings Mobilization

SFBs encourage rural households to develop savings habits by Providing accessible and low-cost deposit accounts, Promoting recurring and fixed deposit schemes, Savings mobilization strengthens financial security and capital formation in rural areas.

4.2.4 Digital Financial Services

With increasing digitization, SFBs promote, Mobile banking, ATM and micro-ATM services, Digital payment systems, These services improve efficiency, transparency, and convenience, especially in remote areas.

4.2.5 Financial Literacy and Awareness

A critical component of the framework is educating rural people about, Banking products and services, Responsible borrowing and saving practices, Digital financial tools, Financial literacy enhances the effective utilization of banking services.

4.2.6 Linkage Between SFB Activities and Rural Development

The conceptual framework establishes a cause-and-effect relationship between SFB activities and rural development outcomes:

SFB Functions	Immediate Outcomes	Long-Term Impact
Access to banking services	Increased account ownership	Financial inclusion

SFB Functions	Immediate Outcomes	Long-Term Impact
Credit provision	Investment in agriculture & business	Income growth
Savings promotion	Improved financial security	Poverty reduction
Digital banking	Faster transactions	Economic efficiency
Financial literacy	Better financial decisions	Sustainable development

4.2.7 Theoretical Underpinning

The framework is supported by, Financial Inclusion Theory: Access to financial services leads to economic empowerment, Microfinance Theory: Small-scale credit enhances productivity and income, Development Theory: Financial access is a key driver of socio-economic progress

V. RURAL PROFILE OF DAVANAGERE DISTRICT

Davanagere District is characterized by a mix of semi-arid and fertile regions, making agriculture the dominant occupation. The district comprises several taluks and numerous villages, with a significant proportion of the population residing in rural areas.

- Majority of the population depends on agriculture and allied activities
- Presence of small and marginal farmers
- Moderate population density with dispersed rural settlements

The demographic composition reflects a diverse socio-economic structure, including farmers, agricultural laborers, artisans, and small entrepreneurs.

5.1 Economic Structure of Rural Areas

1. Agriculture and Allied Activities, Agriculture forms the backbone of the rural economy in Davanagere. Major crops include, Paddy, Maize, Cotton, Pulses, In addition, activities such as dairy farming, poultry, and sericulture contribute to supplementary income. However, agricultural productivity is often influenced by factors such as monsoon dependency, irrigation facilities, and access to credit.



5.2 Small-Scale and Cottage Industries

The district has a growing base of Small-scale industries, Agro-based industries, Cottage and household enterprises, These industries provide employment opportunities and support rural livelihoods. Access to institutional finance is crucial for their growth and sustainability.

5.3 Banking and Financial Infrastructure

Despite improvements in recent years, rural areas of Davanagere face challenges in accessing formal financial services, Limited number of bank branches in remote villages, Dependence on cooperative banks and regional rural banks, Increasing presence of Small Finance Banks and microfinance institutions, The introduction of SFBs has helped bridge the gap by extending banking services to previously unbanked populations.

5.4 Socio-Economic Conditions

Income and Employment, Predominantly low to moderate income levels, Seasonal employment due to agricultural dependency, Growing trend of self-employment and micro-enterprises, Education and Literacy, Gradual improvement in literacy rates, However, financial literacy remains relatively low in rural areas, Standard of Living Improving due to government schemes and financial inclusion initiatives, Yet, disparities exist between different rural communities Dependence on Informal Credit Sources Traditionally, rural people in Davanagere have relied on, Moneylenders, Local financiers, Informal borrowing networks, These sources often charge high interest rates, leading to indebtedness. The emergence of SFBs provides an alternative by offering affordable and regulated credit.

Role of Government Schemes and Financial Inclusion Initiatives Various government initiatives have contributed to improving rural financial access Pradhan Mantri Jan Dhan Yojana (PMJDY), Kisan Credit Card (KCC), Self-Help Group (SHG)–Bank linkage programs, These initiatives complement the efforts of Small Finance Banks in expanding financial services.

The rural profile of Davanagere District reflects a transitioning economy with significant potential for growth. While traditional occupations continue to dominate, the increasing adoption of

financial services and government support schemes are driving positive change. In this context, Small Finance Banks play a pivotal role in enhancing financial inclusion, supporting rural livelihoods, and fostering socio-economic development.

VI. ROLE OF SMALL FINANCE BANKS IN RURAL AREAS

Small Finance Banks (SFBs) play a transformative role in strengthening the rural economy by enhancing financial inclusion and supporting socio-economic development. Established under the regulatory framework of the Reserve Bank of India, these banks are specifically designed to cater to the financial needs of underserved and unbanked populations in rural and semi-urban regions such as Davanagere District.

6.1 Promoting Financial Inclusion

One of the primary roles of SFBs is to promote financial inclusion by ensuring access to basic banking services for rural people. These include, Opening of zero-balance savings accounts, Providing affordable and accessible banking services Extending services to remote and unbanked villages By bringing rural households into the formal banking system, SFBs help reduce financial exclusion and enhance economic participation.

Providing Accessible Credit Facilities SFBs play a critical role in offering timely and affordable credit to Small and marginal farmers Micro and small entrepreneurs Self-Help Groups (SHGs) Rural artisans and laborers These loans support agricultural activities, small businesses, and income-generating ventures, thereby contributing to rural economic growth.

Reducing Dependence on Informal Sources Traditionally, rural populations have relied on moneylenders and informal credit sources, often at exorbitant interest rates. SFBs provide a formal alternative by Offering loans at regulated interest rates, Ensuring transparency in lending practices Protecting borrowers from exploitation, This significantly reduces indebtedness and financial vulnerability.



6.2 Encouraging Savings and Financial Discipline

SFBs encourage rural people to develop savings habits by providing Savings and recurring deposit accounts fixed deposit schemes easy and secure banking options savings mobilization helps rural households build financial security and manage future uncertainties.

Supporting Agriculture and Allied Activities Agriculture being the backbone of rural economies, SFBs contribute by Providing crop loans and agricultural credit Financing irrigation, equipment, and inputs Supporting allied activities like dairy, poultry, and fisheries This improves agricultural productivity and income levels.

Promoting Micro and Small Enterprises SFBs facilitate the growth of rural entrepreneurship by: Providing working capital and term loans supporting start-ups and small businesses, encouraging self-employment opportunities this leads to employment generation and diversification of rural income sources.

Empowering Women and Self-Help Groups (SHGs) SFBs actively support women empowerment by Financing women-led enterprises strengthening SHG-bank linkage programs encouraging financial independence among rural women this contributes to social development and gender equality.

Advancing Digital Banking and Financial Technology with the rise of digitalization, SFBs promote Mobile banking services digital payment systems micro-ATMs and doorstep banking these initiatives enhance convenience, transparency, and efficiency in rural financial transactions.

The role of Small Finance Banks in rural areas is multifaceted and impactful. By addressing the financial needs of marginalized sections, they act as catalysts for inclusive growth. In regions like Davanagere District, SFBs are instrumental in transforming the rural financial landscape and fostering long-term socio-economic development.

6.3 Impact of Small Finance Banks on Rural People of Davanagere District

Small Finance Banks (SFBs) have emerged as significant agents of change in rural economies by improving access to financial services and

fostering inclusive growth. In the context of Davanagere District, the presence of SFBs has brought notable transformations in the socio-economic conditions of rural people. Their impact can be analyzed across economic, social, and financial dimensions.

SFBs have enabled rural households to access credit for productive purposes such as agriculture, dairy farming, and small businesses. This has resulted in, Enhanced agricultural productivity Growth of micro-enterprises diversification of income sources, Consequently, rural families have experienced a gradual rise in income levels and financial stability.

Access to small loans and working capital has encouraged rural entrepreneurship. Many individuals have started small retail shops, cottage industries, agro-based businesses, This has not only increased individual earnings but also contributed to local economic development.

With better financial access, rural households are able to, Invest in education and healthcare Improve housing conditions enhance overall quality of life this indicates a positive shift in living standards.

SFBs have played a vital role in empowering women by, Supporting Self-Help Groups (SHGs), Providing loans to women entrepreneurs, encouraging savings and financial independence, women's participation in economic activities has increased significantly, leading to improved decision-making power within households.

The outreach of SFBs has resulted in, increased number of bank accounts, Greater access to savings and deposit schemes, improved utilization of formal financial services, This has strengthened the financial inclusion framework in rural areas. prior to the introduction of SFBs, rural people largely depended on informal credit sources. With the availability of institutional credit, borrowing from moneylenders has declined interest burden on borrowers has reduced, Financial exploitation has decreased

VII. CONCLUSION

The present study titled "Impact of Small Finance Banks on Rural People of Davanagere District: A Study" highlights the significant role played by Small Finance Banks (SFBs) in transforming the



rural financial landscape of Davanagere District. Established under the regulatory framework of the Reserve Bank of India, SFBs have emerged as key instruments for promoting financial inclusion and socio-economic development among underserved populations.

The findings of the study clearly indicate that SFBs have contributed substantially to improving access to formal banking services, particularly among small and marginal farmers, rural entrepreneurs, and low-income households. The expansion of savings accounts, availability of affordable credit, and increased penetration of financial services have reduced the dependence on informal sources such as moneylenders. This has not only lowered the financial burden on rural borrowers but also enhanced transparency and security in financial transactions.

Economically, SFBs have facilitated income generation by supporting agricultural activities, micro-enterprises, and self-employment initiatives. Socially, they have contributed to improving the standard of living, promoting financial awareness, and empowering women through Self-Help Groups (SHGs). The adoption of digital banking services, though gradual, has further strengthened financial accessibility and operational efficiency in rural areas.

However, the study also identifies certain challenges that need to be addressed to maximize the benefits of SFBs. These include limited financial literacy, technological barriers, issues related to loan repayment, and inadequate outreach in remote villages. Addressing these constraints through targeted financial education programs, improved digital infrastructure, and

customer-friendly policies is essential for enhancing the effectiveness of SFBs.

In conclusion, Small Finance Banks have played a transformative and catalytic role in fostering inclusive growth in rural areas of Davanagere District. Their continued expansion and strengthening, coupled with supportive policy measures, can significantly contribute to sustainable rural development and economic empowerment. The study underscores the need for a collaborative approach involving financial institutions, government agencies, and local communities to fully realize the potential of SFBs in bridging the rural-urban financial divide.

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