



## Financial Inclusion V/S Financial Literacy: Evidence from Field Survey

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**Abstract-** In recent years, some of the most important efforts made by the government have been successful in bringing a large population of the country under the ambit of financial services, thereby achieving the goal of financial inclusion. Financial inclusion has not only made financial services accessible to a large section of the population but has also helped a lot in sending the benefits of government schemes directly to the beneficiary's account. Financial literacy is a very important aspect related to financial inclusion. In other words, financial inclusion can be called financially successful in the true sense only when financial literacy can be spread and strengthened. In the present research paper, an attempt has been made to reveal the above facts.

In addition to the above, the research paper is divided into three major parts, in which the introduction and literature review have been given place in the first part, while the research objective, research methodology and research area have been analyzed in the second part, with the third part data analysis- Along with the findings are included in themselves.

**Keywords:** Financial inclusion, Financial literacy.

**Introduction-** The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc.

**Financial inclusion** may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost<sup>1</sup>. Financial Inclusion, broadly defined, refers to universal access to a wide range of financial

<sup>1</sup> The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan

services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products<sup>2</sup>.

**Financial Literacy** is defined as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being<sup>3</sup>. The term Financial Literacy and Financial Education are not the same, these are related concepts.

**Financial Education**, defined as the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being<sup>4</sup>.

**Review of Literature**- Many more research efforts have been made in area of financial inclusion. In which some relevant studies are as follows:

**Chakravarty and Pal (2010)** demonstrate that the axiomatic measurement approach developed in the human development literature can be usefully applied to the measurement of financial inclusion. **Chattopadhyay (2011)** observed that although there has been an improvement in outreach activity in banking sector, heterogeneity across states is widespread. Gap between rural and urban areas in respect of outreach is also prevalent even after the reform period. While significant improvement in has taken place in credit/loan account in the urban household, the situation has become worse for the rural households. **Bagli and Dutta (2012)** examined the achievement of the Indian states regarding the financial inclusion. By applying the methodology of Rotated Principal Component Analysis they have computed a comprehensive measure of financial inclusion for each state. They used the data published by the Reserve Bank of India (RBI) and the Government of India. Ranks of the states in accordance with the Composite score showed that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However, the levels of financial inclusion of the states in India have a low mean and high disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the states in India. **Singh et al (2014)** focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby makes it more efficient and user friendly for the interest of the rural population as well as the formal sector. **Garg and Agarwal (2014)** attempted to understand financial inclusion and its importance for overall development of society and Nation's economy. This study focused on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements. The relevant data for the study has been collected with the help of from various Research journals, Articles, reports of RBI, reports of NABARD and online resources. **Agrawalla et al (2014)** found that the level of financial literacy among the working young in urban India is similar to the levels among comparable groups in other countries. The influence of the standard socio-demographic attributes on financial literacy in India is also broadly similar to those for other

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<sup>2</sup> The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan

<sup>3</sup> OECD, 2012

<sup>4</sup> OECD, 2005

countries. However, there are several noticeable differences that are important for policy decisions on financial education. **Iqbal and Sami (2017)** examined the impact of financial inclusion on growth of the economy over a period of seven years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP. **Garg and Singh (2017)** argued that the financial literacy level among youth is low across the most part of the world that has become a cause of concern. In this study it has been also observed that various socio-economic and demographic factors such as age, gender, income, marital status and educational attainment influence the financial literacy level of youth and there exists an interrelationship between financial knowledge, financial attitude and financial behavior. **Barik and Sharma (2019)** Taken data from Financial Access Survey, Global Findex and Reserve Bank of India bulletin, analyzed the progress occurred and the future prospect of financial inclusion in India. Analysis depicts that India has witnessed a quick progress in financial inclusion. Though there is long way to go to achieve the dream of universal financial inclusion, there is no doubt that tremendous progress has been achieved in the recent time. Specifically, after the implementation Pradhan Mantri Jan Dhan Yojana in August 2014, much improvement has happened in opening of bank deposit accounts. Similarly, the post-dimerization period has seen a rapid growth of digital finance in India. Despite high growth of digital transaction, digital payment among the women, rural people, elderly people, and less educated people is much less than other groups of people. The provision of good digital infrastructure to the remote area, opening of more financial literacy centers and extension of credit to the marginalized people can help to fulfill the true essence of financial inclusion in India. **Schuetz and Venktesh (2020)** review the literature on financial inclusion, adoption, and blockchain in India, and posit that to resolve financial exclusion, the four challenges of geographical access, high cost, inappropriate banking products, and financial illiteracy need to be overcome.

## Section-II

### Objectives of the study

An attempt is made in this paper to study and cover the following objectives:

- To know the status of financial inclusion among beneficiary.
- To know the status of financial literacy among beneficiary.
- To know the outcomes of government effort regarding financial inclusion and financial literacy.

**Methodology-** The data has been collected from both primary and secondary sources to fulfill the research objectives set out in the research paper. The data has been collected through various websites as a secondary source whereas sampling procedure is followed for primary data. Mix sampling approach has been realized in the sampling process, under which a total of 500 samples were collected at different levels of selection.

|                       |           |               |        |        |        |
|-----------------------|-----------|---------------|--------|--------|--------|
| Sampling<br>Technique | Purposive | Proportionate | Random | Random | Random |
|-----------------------|-----------|---------------|--------|--------|--------|

|           |                      |             |                   |          |     |
|-----------|----------------------|-------------|-------------------|----------|-----|
| Selection | District<br>Pilibhit | Rural       | Block<br>Bisalpur | Gajroula | 125 |
|           |                      |             | Block<br>Marouri  | Sanda    | 125 |
|           |                      | Urban       | Pilibhit (NPP)    |          | 125 |
|           |                      |             | Puranpur (NPP)    |          | 125 |
|           |                      | Sample Size |                   |          |     |

**Table-4: Sampling Procedure**

As it is clear from Table 4 that first, the district Pilibhit was selected under the purposive sampling process, after that, dividing it into two parts, urban and rural, 50% sample size was fixed for each. Bisalpur and Marauri Development Blocks were randomly selected to represent rural areas, while Pilibhit Nagar Palika Parishad and Puranpur Nagar Palika Parishad were randomly selected to represent urban areas. One village each in Bisalpur and Marouri block was randomly selected, and finally selecting 125 sample beneficiaries from each of the selected areas the information were collected through a schedule prepared by the researcher himself.

Data analysis has been presented with the help of various statistical returns, categorizing and tabulating them from both primary and analytical point of view.

| Year      | GDDP        |                | % of GSDP   |                |
|-----------|-------------|----------------|-------------|----------------|
|           | @Base Price | @Current Price | @Base Price | @Current Price |
| 2018-19*  | 11660.96    | 17491.72       | 1.03        | 1.09           |
| 2019-20*  | 12127.48    | 18791.84       | 1.06        | 1.09           |
| 2020-21** | 11124.40    | 17878.00       | 1.02        | 1.04           |

**Study Area: Some Features-** The district of Pilibhit is the north-eastern most district of Rohilkhand division which is situated in the sub Himalayan belt on the boundary of Nepal. It lies between the parallels of 28°6' and 28°53' north latitude and the meridians of 79°57' and 80°27' east longitude. On the north are the district Udham Singh Nagar and the territory of Nepal, on the south lies the Shahjahanpur district, on the east the district is flanked for a short distance by district Kheri and for the remaining distance by the Shahjahanpur district and on the west the district of Bareilly<sup>5</sup>.

According to District Statistical Magazine 2021, the total area of Pilibhit district is 3686 sq km and according to census year 2011, the total population of the district is 20.31 lakhs, in which rural population is 16.8 lakhs and urban population is 3.51 lakhs. The nature of the economy of the district can be clearly understood through the following data.

Source: <http://updes.up.nic.in/> ; \*Final; \*\*Provisional; Amount in Crore Rupees

**Table-1**

<sup>5</sup> <https://pilibhit.nic.in/about-district/>

In the table 1, the figures of Gross District Domestic Product from the year 2018-19 to 2020-21 are displayed in the original form in the first column while in the second column as a percentage of the Gross State Domestic Product. It is clear from the observation of the table that in each year the Gross District Domestic Product is only about one percent of the Gross State Domestic Product, due to which the economy of the district is mainly based on agriculture.

Table 2 is showing other important real economic indicators namely Net District Domestic Product of the district from the year 2018-19 to 2020-21 its displayed in the original form in the

| Year      | NDDP        |                | % of NSDP   |                |
|-----------|-------------|----------------|-------------|----------------|
|           | @Base Price | @Current Price | @Base Price | @Current Price |
| 2018-19*  | 10082.91    | 15460.47       | 1.02        | 1.08           |
| 2019-20*  | 10368.91    | 16517.62       | 1.05        | 1.09           |
| 2020-21** | 9442.93     | 15651.44       | 1.01        | 1.09           |

Source: <http://updes.up.nic.in/> ; \*Final; \*\*Provisional; Amount in Crore Rupees

**Table-2**

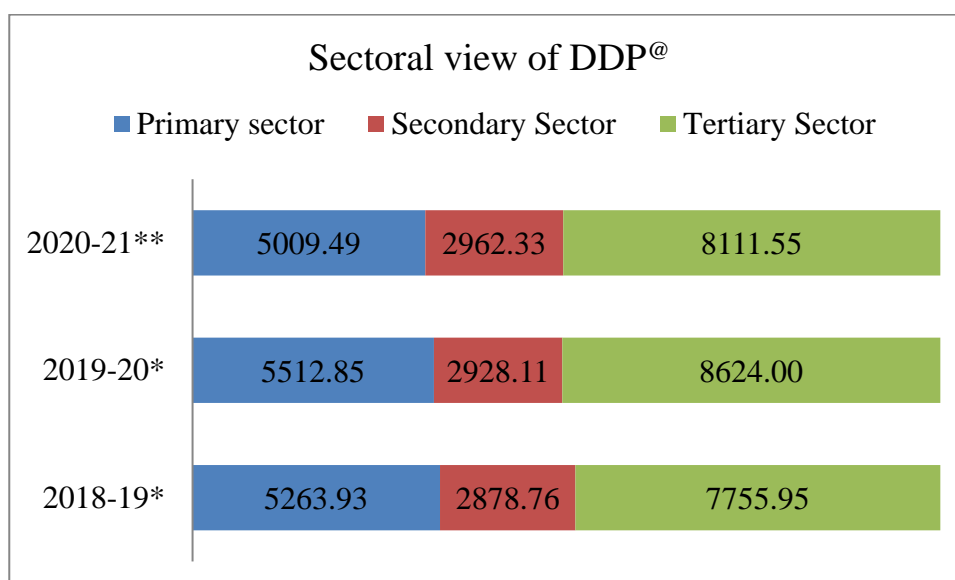
first column while in the second column as a percentage of the Net State Domestic Product. It is clear from the observation of the table that in each year the Gross District Domestic Product is only about one percent of the Gross State Domestic Product.

| Year      | NDP (Per Capita) @current Price | Projected Population (in Lakh) |
|-----------|---------------------------------|--------------------------------|
| 2018-19*  | 15460.47                        | 23.2                           |
| 2019-20*  | 16517.62                        | 23.6                           |
| 2020-21** | 15651.44                        | 24.00                          |

Source: <http://updes.up.nic.in/> ; \*Final; \*\*Provisional; Amount in Rupees

**Table-3**

Table 3 is showing the net domestic product per capita. According to this, the per capita net domestic product, which was 15 thousand in the year 2018-19, has not registered any significant increase in the year 2020-21. It is clear from this that the structure of the economy of the district, which is mainly based on agriculture, has not proved effective in increasing the per capita net domestic product during the period under consideration.



Source: Author's own calculation based on secondary data;

\*Revised,\*\*Provisional; @Current Price; Amount in Crore Rupees

Figure1: Sectoral Composition of District Domestic Product (at current price)

**Data Analysis-** In response to the question that, are you aware about PMJDY? Out of 500, 470 people says 'yes' i.e. 94% people are aware about PMJDY, and out of 470 people, 230 people (48.94%) got information through Television, 30 people (6.38%) got information through Radio, 40 people (8.51%) got information through Newspaper and 170 people (36.17%) informed by more than one media source. This implies that relative to Radio and newspaper, Television is more popular among the people for getting the information for financial inclusion programme like PMJDY.

In response to the specific information about financial inclusion programme like PMJDY, PMJJBY, PMSBY and APY, 370 people (78.72%) told that the account has opened easily on the basis of ID or Aadhar card or Voter card or Ration card etc. and almost 55% people opted PMJJBY, PMSBY and APY scheme but it observed that very few people aware about PMJDY account eligibility for Micro Units Development & Refinance Agency (MUDRA) yojana.

Only 25% of total sample beneficiary have used ATM Debit Card once or twice in a month for cash transaction while rest of the people prefer Aadhar Enable Payment System (AEPS) service for cash transaction. The reasons behind preference of AEPS over ATM Debit Card/NEFT/RTGS/IMPS are sacredness of ATM, unavailability of cash in ATM, unawareness of ATM operations and availability of Bank Correspondent (Bank Mitra).

Almost all sample beneficiary accepted that PMJDY Account is very much helpful to get DBT benefits like PM Kissan Samman Nidhi, Pahal.

### Section-III

**Findings, Conclusion and Policy Suggestion-** Financial inclusion is a very important aspect in inclusive development. In other words, it is difficult to imagine inclusive growth without financial inclusion. Based

on the data analysis in the present research paper, the following conclusions have been obtained in relation to financial inclusion and financial literacy:

The promotion of financial inclusion with the aim of covering a large section of the population in the banking system has been successful to a great extent. At the same time, the DBT system implemented by the government in terms of welfare schemes has also got a lot of support from this financial inclusion and corruption has come down. It is clear from the primary data that the majority of the population of Pilibhit district, which is known as a remote district located in the Terai region, has joined the banking sector through financial inclusion and the benefits of banking services are reaching them. Bank Mitra's are playing a big role in the context of the above. Through their small setup, Bank Mitra's are also providing various types of services to the general public, otherwise it is very difficult task to open any bank branch in remote village and provide such type of facility to the people.

The other aspect of the research topic i.e. the side of financial literacy has also been revealed and it was found that much more beneficiary despite having a Jan Dhan account are unaware of many important information related to the account and all the benefits it can get. With the opening of the Jan Dhan account, the beneficiary is only sure that now he/she will be able to get the benefits of all government schemes like other people, while all the facilities associated with the account, including social security schemes, Mudra Yojana etc. Even if he is involved in the schemes, he is not aware of this fact.

Although, along with promoting financial inclusion by the government, a lot of emphasis is also being laid on financial literacy, under this, the Reserve Bank of India through its Financial Literacy and Credit Counseling Center scheme, by using of information technology they spread financial information to the general public and it is working to reveal all the important aspects related to the Financial Literacy. It is also worth mentioning in this context that Financial Literacy Week is also celebrated by the Reserve Bank of India under the Financial Education Initiative. Financial Literacy Week was celebrated from 14 to 18 February 2022 based on the theme of Go Digital Go Secure, under which work was done to encourage financial awareness among the general public through various media of publicity like poster, leaflets and videos. Notwithstanding the above, the government at the grassroots level and Reserve Bank of India including other banks will have to continuously make similar efforts in terms of financial literacy so that Financial Inclusion 2.0 can be realized.

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