Financial Inclusion and financial literacy as tool for sustainable development of economy

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ABSTRACT: *This is supported by World Bank (2009) argument that financial literacy facilitates decision making processes, savings rates and credit worthiness of potential poor borrowers, thereby economically and socially empowering them, hence poverty reduction. The research investigated the level of awareness method of financial inclusion and their opinion on method of financial inclusion effectiveness.*

Key Words: *Financial Literacy, Financial Inclusion, Sustainable development.*

Introduction:

The Reserve Bank of India and the Government of India is continuously focusing their effort on improvement in financial inclusion as of today. Few initiatives which have been taken in last five decade comprised of nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, beginning of mandated priority sector lending targets, lead bank scheme, creation of self-help groups (SHG), zero balance BSBD accounts, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

Financial Inclusion is a superior idea but Financial Literacy is the first step towards achieving Financial Inclusion. Financial inclusion is can be achieved through Financial Literacy only. It is considered an important adjunct for promoting financial inclusion, financial development and ultimately financial wellbeing. It has assumed significant value in recent years especially from 2002 as financial markets have become more and more complex and the common man finds it very hard to make informed decisions. Financial Inclusion comes with potential dangers. Recently it has been observed that many poor people took loans from the microfinance institution and they were unable to repay it. So It leads them to suicide because of debt problems. Financial literacy is equally important as financial inclusion otherwise instead of helping the poor, they will be put into more trouble. It is the ability to make informed judgments and to take effective decisions regarding the appropriate use of money means Financial literacy. It is regarded as an important requirement for functioning effectively in modern society. It makes a man to understand the importance of savings. India is considered to be the one of the world's most efficient financial markets in terms of technology, regulation and systems. It also has one of the highest savings rate in the world. Regardless of the same, India is still one of the poorest countries in the world. While savings are more in India, where the savings are invested is a cause for concern. Wealth creation for the investor and the economy will remain a unattainable dream, unless the common man becomes a smart investor and is secluded from incorrect doings. It is to be converted from a country of savers into a nation of investors. Financial literacy can make a difference not only in the quality of life that individuals can afford, but also the integrity and quality of markets. The basic tools for budgeting can help individuals to acquire the discipline to save and thus, ensure that they can enjoy a dignified life after retirement. In India, the need for financial literacy is even more considering the low levels of literacy and the large section of the population, which still remains out of the formal financial system particularly in the rural areas. It is surprising that even graduates in India are not really financially literate. Financially educated consumers can benefit the economy by encouraging genuine competition, forcing the service providers to innovate and improve their levels of efficiency.

Financial literacy is the capability to analyze how money works in the market, how to manage or invest money to earn more and how to donate it to help others. Financial inclusion means ensuring access to suitable financial products and services needed by all sections of the society in general and vulnerable groups, such as weaker sections and low income groups in particular, at a reasonably cost, in a fair and transparent manner by regulated mainstream institutional players.

Financial literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability.

In developing countries like India, the growth of Microfinance Institutions (MFIs), which specifically target low-income individual, is viewed as potentially useful for the promotion of financial literacy and financial inclusion. When it comes to taking financial decisions of buying a particular financial product, a majority of the people act as loyalists who trust the company in which they have made their previous investments. Even though MFIs, at present, mainly offer only credit products, as they grow, they are likely to expand their product range to include other financial services.

Financial literacy and financial inclusion are a global concern mainly in undeveloped and developing economies. Complicated financial products, low level of awareness and lack of knowledge about financial matters make the want of financial literacy and financial inclusion significant. It was also required to analyze and interpret the financial behavior of people across all demographies. There is a need to inform and make masses aware about the financial services and financial regulators in the country. Also it was required to check the satisfaction levels of masses about the financial bodies and services in the country and listen to their grievances along with making a note to pinpoint the pitfalls and lags in financial services offered to the common masses.

A large volume of research studies are available on financial inclusion and financial literacy but limited but no study found in Mehsana district of Gujarat.

Financial Inclusion: World Bank (2008) observes that financial literacy helps to improve efficiency and quality of financial services in financial markets. According to UNESCO (2014), the ability to make well-informed financial decisions plays an important role for poor individuals to manage their financial affairs. Indeed, financial literacy is relevant for the poor who operate at the margin and are vulnerable to persistent downward financial pressures. Financial literacy helps in empowering and educating the poor so that they are knowledgeable about finance in a way that is relevant to their lives and enables them to use this knowledge to evaluate products and make informed decisions (OECD, 2009). Poor households with good level of financial literacy are likely to be better placed than their colleagues without financial skills and knowledge. OECD (2013) contends that financial literacy facilitates access and where appropriate, encourages widening use of relevant financial products and services, especially among poor households. Besides, Braunstein and Welch (2002) argue that financial literacy can offer a better understanding of mainstream financial services and thus, encourages the unbanked to avoid non-standard financial services.

Furthermore, OECD (2005) also Suggests that poor households who are financially literate are more likely to make use of financial products and services. In addition, Cohen and Nelson (2011) also continue to state that financial literacy drive enables the poor to become more informed financial decision makers with high sense of awareness on financial issues and choices coupled with basic financial skills. This is supported by World Bank (2009) argument that financial literacy facilitates decision making processes, savings rates and credit worthiness of potential poor borrowers, thereby economically and socially empowering them, hence poverty reduction. Research by Carpena et al. (2011) revealed a significant improvement on poor households' basic awareness of financial products and services available to them, as well as their familiarity about details of such products and services as a result of financial literacy drive.

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.

(The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

(The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

The essence of financial inclusion is to ensure delivery of financial services which include -bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Literature Review:

Jose and Chacko (2017) suggests that microfinance activities that aim at the borrower's communities are not sustainable due to the lack of diversion of funds. Allen et al. (2016) state that the larger financial inclusion is related with lesser account costs, larger closeness to financial intermediaries, stronger legal rights and more politically stable environments.

Joseph & Varghese (2014) found that banks were providing their products and services to poor people but the awareness level among the poor for availing facility was very low. According to (Gupta, 2015) the need for financial inclusion in India was to include the financially excluded people, who were unable to access the financial services provided or rendered by banking and financial institutions. Shah & Dubhashi (2015) explained the technological reforms pertained to banking sector such as mobile phones, e-commerce, email, ATMs and plastic money were available only in towns and cities, it leads to limited access to financial products & services in rural and remote regions. The reviews were obtained on the basis of level of awareness of financial inclusion through financial literacy, (Atkinson & Messy 2013) contributions by various intermediaries towards promoting and serving financial inclusion to rural poor and the level of financial inclusion through Information and Communication Technologies (ICT) like mobile banking and e-banking services (Jain 2015).

Leeladhar (2006) addressing financial exclusion needs holistic approach on the part of the banks to create awareness on financial products and education, advice on money management, debt counselling, saving and affordable credit. Shaik (2015)stated that the support of financial inclusion can be achieved only through linkages between micro finance institutions and local communities. Banks should give mass publicity about zero balance account, accessing banking products by using more technology in the rural areas and modify ATMs as user friendly for those who are illiterate and less educated (Dem irgüçKunt & Klapper 2012). Babajide et al. (2015) illustrated that banks needs to redesign their service approach to promote financial inclusion to low income group and consider the policy as business opportunity and corporate social responsibility. The earlier studies on financial inclusion showed in two ways like thought-provoking the unsophisticated bank or unbanked distinction and underutilizing their bank accounts. Bagli & Dutta (2012) argued that this segment must be given an ample attention, if financial inclusion drive is to be successful. Which is also challenged the present measures of success for financial inclusion.

Balakrishnan (2015)found that the benefits can only be derived from active commitment with financial product and services and not just by access. Here the vigorous assurance is about usage of financial products & services. There has been some successful intervention by micro finance institutions (MFIs) on financial education; however, there has been a little discussion on how such education should be provided and who should lead this effort. Technologies which are mobile phones could be featured more prominently in areas where penetration rates are higher. It is proposed that education should be targeted to poor individuals who have distinct financial needs and varied levels of understanding.

Objectives of the study:

To examine the awareness level and major tools of financial inclusion among selected respondents.

Research Methodology:

The study is an empirical one based on both primary and secondary data.

Primary Data

The study is mainly based on primary data, which is obtained through an interview and open discussions with the respondents.

Secondary Data

The secondary data has been drawn from various publications.

Sample Design

Convenience sampling method selected for selection of a sample. The total numbers of 5 villages in Mehsana district is taken under the current study .30 respondents were selected conveniently from each village. Hence, the total sample was 150.

Tools: A structured questionnaire was administered to collect data

Type of study : It was field study

Techniques of Analysis : For the purpose of analysis and to facilitate interpretation statistical tools like percentages, averages are used on SPSS is used for the purpose of extensive analysis.

Data analysis and Interpretation:

Respondents' Profile (Table 1)

Variable	Range	Frequency	%
Gender	**Male**	**58**	**38.67**
	Female	**92**	**61.33**
Age	**18 to 25**	**25**	**16.67**
	26 to 35	**42**	**28**
	36 to 45	**53**	**35.33**
	46 to 55	**30**	**20**

Highest Educational qualification	**Illiterate**	**53**	**35.33**
	Up to secondary	**45**	**30**
	Higher secondary	**34**	**22.67**
	Graduate	**16**	**10.66**
	Post Graduate	**2**	**1.33**
Category	**SC**	**38**	**25.33**
	OBC	**65**	**43.33**
	ST	**28**	**18.66**
	Gen	**19**	**12.66**
Occupation	**agricultural labour**	**55**	**36.67**
	farmers	**32**	**21.33**
	private employment	**21**	**14**
	Government employment	**6**	**4**
	Construction labour and Industrial labour	**19**	**12.67**
	Living on rearing livestock	**17**	**11.33**
Marital status	**Single**	**12**	**18**
	Married	**132**	**88**
Family Income (In Rupees)	**Less than 5000**	**37**	**24.67**
	5000 to 10000	**68**	**45.33**
	10001 to 15000	**23**	**15.33**
	15001 to 20000	**9**	**6**
	20001 to 25000	**8**	**5.33**
	25001 and more	**5**	**3.33**

It can be observed from the sample, majority of the respondents i.e., 92 out of 150 total respondents representing 61.33 per cent belongs to female category, whereas the remaining 58 respondents representing 38.67 per cent belongs to male category. A large number of respondents i.e., 53 out of 150 respondents representing 35.33 per cent belongs to 36-45 years age group, followed by 30 respondents representing 20 per cent belongs to 46-55 years age-group. 25 representing 16.67 per cent belongs to 18 to 25 age-group. Majority of the respondents i.e. 132 representing 88 per cent are married people, whereas 12 respondents representing 18 per cent are either widow or unmarried.

Highest number of respondents i.e. 43.33 per cent belongs to OBC category, 25.33 per cent belongs to SC category, 18.66 per cent belongs to ST category and 12.66 per cent belongs to General category. It reveals that more than one fourth of respondents i.e. 35.33 per cent are illiterates, 30 per cent have completed up to secondary, 22.67 per cent possess qualification up to higher secondary, 10.66 per cent and 1.33 per cent possess graduation and post graduation qualifications respectively. It can be inferred that 36.67 per cent are agricultural labour and 21.33 per cent are farmers, 14 per cent are having private employment, 6 per cent have government employment, 12.67 per cent are working as construction labour and Industrial labour and 11.33 per cent are living on rearing livestock . It can be observed that more than half of the respondents i.e., 45.33 per cent belongs to the income level of Rs.5,001-10,000, followed by 24.67 per cent belongs to the income level of less than 5000, 15.33 per cent belongs to the income level of below of Rs 10001 to Rs 15000, 6 per cent and 5.33 per cent belongs to income level of Rs.15,001-20,000 and income level of Rs.20,001-25,000 respectively and the remaining 3.33 per cent belongs to income level of above Rs. 25,000.

The background of an individual plays a vital role in formation of one's personality. Personality includes various features like gender, age, education level, occupation, etc. These features have their own impact on the formation of their perception and development of the understanding ability.

Distribution of Respondents Based on their Membership (Table 2)

Sr. No	Membership	No. of Respondents	Per cent
1	Cooperative Credit Society	5	3.33
2	Self- Help Group	58	38.66
3	Milk Producers Cooperative Society	79	52.66
4	No Membership	8	5.33

	Total	150	100

Table 2 shows the distribution of respondents based on their membership. Since multiple responses are considered in tabulation, the total number of memberships is more than the actual 150 respondents. This is due to the family members are having different memberships even though they belongs to the same family. Almost 52.66 per cent of the respondents have membership in Milk Producers Cooperative Society , followed by 58 respondents representing 38.66 per cent are having membership in Self-Help Groups and a 5 per cent have membership in Cooperative Credit Society. 8 percent of respondents have no membership.

The definition of awareness is a state of knowing and being informed of something. Awareness means knowledge that something exists, or understanding of a situation or subject at the present time based on information or experience.

Acceptance in human psychology is a person's assent to the reality of a situation, recognizing a process or condition (often a negative or uncomfortable situation) without attempting to change it, protest. It is an agreeing either expressly or by conduct to the act or offer of another so that a contract is concluded and the parties become legally bound.

Respondents' Awareness on the Methods of Financial Inclusion (Table 3)

Sr. No	Methods	Yes	No	Total
1	Business correspondents	96 (64)	54 (36)	150 (100)
2	Business facilitators	107 (71.33)	43 (28.66)	150 (100)
3	Joint Liability Groups	127 (84.66)	23 (15.33)	150 (100)
4	Financial Inclusion Network and Operations (FINO)	12 (8)	138 (92)	150 (100)
5	Self Help Groups (SHGs)	150 (100)	0 (0)	150 (100)
6	Micro Finance	126 (84)	24 (16)	150 (100)
7	Micro Insurance	92 (61.33)	58 (38.67)	150 (100)
8	Zero Balance Accounts/ No Frills Account	150 (100)	0 (100)	150 (100)

Awareness about different methods for improving the financial inclusion has been collected and presented in Table 2. Out of the total respondents, 150 representing 64 per cent know about business correspondents and the remaining 54 respondents representing 36 per cent does not know about it. 107 representing 71.33 per cent said that they know about business facilitators, while 43 respondents representing 28.66 per cent do not know about it. More than 84.0 per cent of the respondents, i.e., 127 representing 84.66 per cent know about joint liability groups, whereas 23 respondents representing 15.33 per cent do not know about it. Out of the total respondents, 12 representing 8 per cent know about Financial Inclusion Network and Operations (FINO) and the remaining 138 respondents representing 92 per cent does not know about it. 150 representing 100 per cent know about Self Help Groups, whereas 0 respondents representing 0 per cent do not know about it. A little over 80.0 per cent of respondents, i.e., 126 representing 84 per cent said that they know about Micro Finance, but 24 respondents representing 16 per cent do not know about it. Majority of the respondents i.e., 92 representing 61.33 per cent of the respondents have awareness about Micro Insurance and the remaining 58 respondents representing 38.67 per cent are not aware of it. All of the respondents i.e., 150 representing 100 per cent of the respondents are aware of zero balance accounts / no frills account, where the remaining 0 respondents representing 0 per cent are not aware of them.

Respondents' opinion on Methods of Financial Inclusion (Table 4)

Sr. No	Particulars	Highly improves	Moderately improves	Neutral	I do not know	Does not Improves	Total	Mean Score
1	Business correspondents	38 (39.58)	21 (21.88)	14 (14.58)	12 (12.5)	11 (11.46)	96 (100)	3.66
2	Business facilitators	35 (32.71)	22 (20.56)	18 (16.82)	14 (13.08)	18 (16.82)	107 (100)	3.39
3	Joint Liability Groups	65 (51.81)	14 (11.02)	17 (13.39)	26 (20.47)	5 (3.94)	127 (100)	3.85
4	Financial Inclusion	4	2	2	3	1	12 (100)	3.41

	Network and Operations (FINO)	(33.33)	(16.67)	(16.67)	(25)	(8.33)		
5	Self Help Groups (SHGs)	78 (52)	46 (30.67)	11 (7.33)	12 (8)	3 (2)	150 (100)	4.22
6	Micro Finance	53 (42.06)	21 (16.67)	20 (15.87)	31 (24.60)	1 (0.01)	126 (100)	3.74
7	Micro Insurance	9 (9.78)	19 (20.65)	16 (17.39)	25 (27.17)	23 (25)	92 (100)	2.63
8	Zero Balance Accounts/ No Frills Account	52 (34.66)	49 (32.66)	25 (16.67)	12 (8)	12 (8)	150 (100)	3.78

Respondents' opinion on methods of improving financial inclusion is presented in table 4. It can be observed from the analysis that the mean score ranges from 2.63 to 4.22, which indicates that all these methods are helpful in increasing financial inclusion. Among them SHGs is the prominent method to increase the financial inclusion in the opinion of the respondents as it has the highest mean score of 4.22, followed by Joint Liability Groups having a mean score of 3.85. The last preferable method is the Micro Insurance having a mean score of 2.63 in the opinion of the respondents. According to the opinion of the respondents, the major method for improving the financial inclusion is by encouraging SHGs.

Out of 96 respondents, 38 respondents representing 39.58 per cent said that business correspondents highly improves financial inclusion, followed by 21 respondents representing 21.88 per cent said that it moderately improves, while 14 respondents representing 14.58 per cent are neutral, whereas 12 respondents representing 12.5 per cent do not know and the remaining 11 respondents representing 11.46 per cent said that it does not improve. Majority of the respondents i.e., 35 respondents representing 32.71 per cent, out of the total of 107 respondents, said that business facilitators can highly improves financial inclusion, followed by 22 respondents representing 20.56 per cent said that it moderately improves, while 18 respondents representing 16.82 per cent are neutral, whereas an 32 respondents representing 30 per cent said that they do not know and it does not improve. Around half of the respondents out of 127 respondents i.e., 65 respondents representing 51.81 per cent said that Joint Liability Groups can highly improves financial inclusion, followed by 26 respondents representing 20.47 per cent said that they do not know, while 17 respondents representing 13.39 per cent are neutral, whereas 14 respondents representing 11.02 per cent said that it moderately improves and the remaining 5 respondents representing 3.94 per cent said that it does not improve.

It can be noted from the analysis that out of 12 respondents i.e., 4 respondents representing 33.33 per cent said that Financial Inclusion Network & Operations can highly improves financial inclusion, followed by 3 respondents representing 25 per cent said that they do not know, while 2 respondents representing 16.67 per cent are neutral, whereas 1 respondents representing 8.33 per cent said that it does not improve and the remaining 2 respondents representing 16.67 per cent said that it moderately improves. A fraction over half of the respondents out of 150 respondents i.e., 78 respondents representing 52 per cent said that Self-Help Groups can highly improves financial inclusion, followed by 46 respondents representing 30.67 per cent said that it moderately improves, while 12 respondents representing 8 per cent said that they do not know, whereas 11 respondents representing 7.33 per cent are neutral and the remaining 3 respondents representing 2.0 per cent said that it does not improve. Out of 126 respondents, 53 respondents representing 42.06 per cent said that Micro Finance can highly improves financial inclusion, followed by 31 respondents representing 24.60 per cent said that they do not know, while 21 respondents representing 16.67 per cent said that it moderately improves, whereas 20 respondents representing 15.87 per cent are neutral and the remaining 1 respondents representing 0.01per cent said that it does not improve. Majority of the respondents i.e., 25 respondents representing 27.17 per cent, out of the total of 92 respondents, said they do not know whether Micro Insurance can improve financial inclusion or not, followed by 19 respondents representing 20.65 per cent said that it moderately improves, while 16 respondents representing 17.39 per cent are neutral whereas 23 respondent 25 % said it does not improve, and the remaining 9 respondents representing 9.78 per cent said that it highly improves financial inclusion. It can be noted from the analysis that out of 150 respondents i.e., 52 respondents representing 34.66 per cent said that zero balance accounts/no frills accounts can highly improves financial inclusion, followed by 49 respondents representing 32.66 per cent said that it moderately improves, while 25 respondents representing 16.67 per cent are neutral, whereas 12

respondents representing 8 per cent said that they do not know and the remaining 12 respondents representing 8 per cent said that it does not improves financial inclusion.

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