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A Study on Financial Inclusion and Economic Well-Being in Rural Areas with Special Reference to Dhenkanal District

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ABSTRACT:

Financial inclusion has emerged as the latest phenomenon in formulation of social policy. Over the last two decades, especially for the Indian economy, financial inclusion occupies a top priority among policy makers. The aim of the study was to find out whether access to banks and financial institutions leads to the desired results, especially in achieving the financial well-being of households in rural area. In turn the economic well-being of the rural economy was studied, understanding the impact of financial inclusion on the achievement of human development and economic well-being of rural households. A total of 300 rural households were drawn from the selected villages of Dhenkanal district, Odisha for data collection.

The availability of financial inclusion has increased dramatically, but the availability of those financial inclusions very limited. Basically in rural sector bank accounts are usually used for Govt. payments like MGNREGA, salaries, scholarships, old age pensions etc. In addition, it was revealed that economically healthy rural households used banking channels effectively. Financial literacy, distance of bank, behavior of banking staffs, KYC documents for opening bank account ,customized products are the main factors hindering the impact of financial inclusion. Thus, policy makers and implementers should work closely together in formulating a financial inclusion policy to serve the weaker sections of the society and render new business opportunities to the banking sectors.

Keywords: Financial inclusion, Economic well-being, Financial literacy, Inclusive growth.

Introduction

The number of unbanked people worldwide has decreased by nearly 500 million, since 2011, thanks to a combination of new technology, creative business models, and ambitious Govt. reforms. However 2 billion (nearly about 38%) of adults globally are not part of the mainstream of financial inclusion. As of 2016, The Organization for Economic Cooperation and Development (OECD), nearly about 6% of adults in high-income OECD nations were unbanked, compared to 46% in underdeveloped countries. Demirguc-kunt (2015), adults who don't have bank account are nearly about 40% of the world population. The Govt. of India has taken several initiatives to reach out to the unbanked people in an effort to achieve financial inclusion.

Review of literature

Rangarajan Committee report 2008, financial inclusion is the process of ensuring access to financial services timely and at an affordable cost by weaker section and low-income group**.**

Sarma and Pias 2008, Cross country regression analysis shows that countries with low GDP, low per capital income, low literacy, higher income inequality, low urbanization and poor connectivity appear to be less economically inclusive.

Bhandari, Amit k. 2009, Availability of banking and financial services at reasonable price to the most disadvantaged population groups of the society.

Sarath Chandra and Manju 2010, financial inclusion helps SMEs to use banking services such as savings, credit, insurance etc. to make productive investment that will surely boost economic growth, while poor households have access to financial services such as savings, loans and insurance to improve their quality of life.

Chattopadhyay 2011, A study conducted in rural area of Bengal found that improvements in basic in fracture increased the use of banking services by rural household.

Vighneswar 2011, Access to finance for the poor is a prerequisite for poverty reduction and sustainable economic development.

Bae & Sohn 2012, underdeveloped financial systems make low-income people more likely to live geographically far from formal financial institutions.

S.Ananth & T. Sabri 2013, Financial inclusion requires among other things a paradigm shift that goes beyond opening bank account and facilitating the direct transfer of money to the economically marginalized.

Nadia 2014, One of the main causes of poverty in rural India is lack of access to financial resources.

Silivia 2015, Savings encourage wealth accumulation, help create a buffer against shocks and ease credit constraints, providing an important rout out of poverty.

Klapper & Zogbhi 2016, Financial inclusion supports many sustainable development by removing poor adults, empowering women, promoting sustainable incomes and eliminating economic inequality.

Goel & Sharma 2017, Lack of financial literacy in rural areas and depopulation affects economic growth as about 67% of the total population lives in villages and about 51% elderly households are unable to access loans to the organized sector.

The World Bank 2018, The dormancy of savings account (more than 23%) opened in financial institutions in India indicate the challenges of financial inclusion.

Yangdol & Sarma 2019, High level women literacy and employment have a positive relationship with financial inclusion.

Anshari 2020, Countries with a large number of internet users and a large number of FinTech organizations help to raise level of financial inclusion, especially for unbanked people.

Oshora 2021, Supply and demand side factor of financial inclusion has positive impact on financial inclusion while, institutional factors have negative impact on financial inclusion.

RBI 2022, Card transactions was favored by older poll respondents, while mobile wallets and united Payments Interface (UPI) were chosen by younger and middle –aged respondents.

Research Objectives and Methodology

The purpose of the research is to find out how financial inclusion helps rural households achieve economic well-being.The Economic well-being has been studied with two parameters based on human development and economic well-being.

Table-1: Financial inclusion: Measurement of Human development & Financial well-being

Parameters	Components	Objectives
Human Development	Health	Find out the composition and source of the health expenses incurred by family members.
	Education	Lear about the composition and source of funding for education by household.
	Income	Study about the composition and source of fund arranged for increasing income of the rural household.
Economic Well-being	Asset ownership	Learn about the composition and source of fund arranged for purchasing new assets by household.
	Vulnerability	Learn about the composition and source of fund arranged for unmet needs.
	Debt repayment	Find out the composition and sources for arrangement of funds for repayment of loan.
	Investment	Study about the composition and source of fund arranged for investment.
	Household consumption	Study about the composition and source of fund arranged to meet house hold expenditures.
	Others	Find out the composition and source of fund to meet other financial needs.

The impact of financial inclusion on human development and economic well-being was studied based on the source and the composition of the fund organized to satisfy the financial need. The composition of fund tells about the composition of fund i.e savings, loans, sale of assets, while the source of fund is where the fund ids organized from i.e formal and informal sources.

Table-2: Sources & composition of fund used by rural household.

Sources of Fund	Formal	Highly Formal	Equal	informal	Highly informal
Composition of Fund	Savings		Borrowings	Sale of assets	

By examining the financial portfolio of households i.e. (composition of fund) and arrangement (sources of fund) to meet a specific financial need, we can determine whether financial inclusion actually helped change financial well-being and human development of rural house hold. Odisha state and Dhenkanl district deliberately selected for this study because it was found that the district achieved a credit to deposit ratio of over 60% among other nine district.We combined qualitative and quantitative data collected from Twenty villages in Dhenkanl district, Odisha.

In the first stage of this research semi structured interviews, group discussion and observations (qualitative tools) were used to study the nature and purpose of savings and borrowings of rural house-holds. Through semi-structured interviews, we found out about their level of understanding about formal banking and the obstacles that prevent them from using formal banking.

In the second stage, data were collected through a planned survey of 300 rural house-holds in twenty selected villages. All three hundred rural households have a bank account. The main focus of the research was to find out the socio-economic characteristics and banking habits of households.

In third stage, both qualitative and quantitative statistical tools were used to analyze the data.

Research outcome: 1

To find out the role of mainstream banking in terms of the financial well-being of rural households the survey results were measured by three parameters. The first parameter tells about the purpose of the fund organized for the economic well-being of rural households and number of times fund arranged. The second parameter tells about the composition of the fund, which is organized based on savings, borrowings and sale of assets. The third parameter tells about the sources of fund organized in relation to formal and informal source of banking.

Table - 3: Purpose and number of times fund arranged by rural household

Parameters	Purpose of fund arrangement	Number of times fund arranged	% to total No. of times fund arranged
Human Development	Health	235	19
	Education	91	7.36
	Income generation	95	7.68
Economic Well-being	Asset ownership	137	11.08
	Vulnerability	178	14.39
	Repayment of debt	172	13.90
	Investment	41	3.31
	Consumption Expenditures	190	15.36
	Others	98	7.92
	Total	1237	100

Source: Field survey, 2022

Table3 states that the different purposes for which the rural households had arranged fund. As is shown, most funds are arranged for health (19%) followed by consumption expenditure (15.36%), Vulnerability (14.39%), repayment of debt (13.90%), asset ownership (11.08%), others (7.29%), income generation (7.68%), education (7.36%) and investment (3.31%).

Research Outcome 2:

Table - 4: Composition of fund arranged

Number of times fund arranged	Saving	Borrowing	Sale of asset
1237	174 (14%)	804 (65%)	259 (21%)

Source: Field survey, 2022

Table 4 shows the composition of the fund arranged. It talk about what are the components such as savings, borrowings, sale of assets have been used by the rural household to arrange found for particular purpose. As shown in 1237 times there is a need arise of fund arrangement and most the time borrowings account for (65%0 followed by the sale of assets (21%) and savings (14%) respectively. However going in to loan (borrowings) and sale of assets play a very important role in the arrangement of fund by rural people.

Research Outcome: 3

Table – 5: Economic well-being and sources of fund arranged

Parameters	Purpose of fund arrangement	Number of times fund arranged	Only formal	High formal	Equal	High Informal	Only Informal	Sale of assets
Human Development	Health	235(19%)	6(2.55%)	23(9.79%)	0.00	35(14.89%)	79(33.26%)	92(39.15%)
	Education	91(7.36%)	4(4.40%)	33(36.26%)	0.00	9(9.99%)	26(28.57%)	19(20.89%)
	Income Generation	95(7.68%)	8(8.42%)	13(13.68%)	0.00	26(27.37%)	37(38.95%)	11(11.58%)
	Total	421(34.04%)	18(4.28%)	69(16.39%)	0.00	70(16.63%)	**142(33.73%)**	**122(28.97%)**

Economic well-being	Asset ownership	137(11.08%)	9(6.57%)	26(18.98%)	0.00	19(13.87%)	58(42.33%)	25(18.25%)
	Vulnerability	178(14.39%)	2(1.12%)	10(5.67%)	0.00	15(8.43%)	83(46.63%)	68(38.15%)
	Repayment of debt	172(13.90%)	0.00	0.00	0.00	26(15.11%)	82(47.68%)	64(37.21%)
	Investment	41(3.31%)	6(14.63%)	10(24.39%)	0.00	19(46.34%)	6(14.63%)	0.00
	Consumption expenditure	190(15.36%)	17(8.95%)	0.00	0.00	71(37.37%)	112(53.68%)	0.00
	Others	98(7.92%)	0.00	0.00	0.00	38(38.78%)	62(61.22%)	0.00
	Total	816(65.96%)	34(4.17%)	46(5.64%)	0.00	**188(23.04%)**	**397(48.65%)**	557(18.50%)

Source: Field survey 2022

Table 5 states the indicators and sources of fund arranged. Sources of fund arranged have studied in different possible combinations such as only formal, high formal, equal, high informal, only informal and sale of assets. From table -5 we can conclude that total 1237 (human development 421 times & economic well-being 816 times) times fund has been arranged. Most of the funds have been arranged for economic well-being (65.96%) followed by human development (34.04%). A total of 816 times funds have been arranged by the households for economic well –being. In case of economic well-being, out of 816 times fund arranged most of the fund has been arranged for consumption expenditure (15.36%), vulnerability (14.39%), repayment of debt (13.90%), followed by asset ownership (11.08%), others (7.92%) and investment (3.31%) where as in case of human development a total of 421 times funds have been arranged and out of 421 times fund arranged most of the fund have been arranged for health (19%), income generation(7.68%) and education(7.36%) respectively. The major source of fund arranges in achieving human development comes from only informal (33.73%) followed by sale of assets (28.97%), highly formal (16.39%), highly informal (16.63%) and only formal (4.28%).On an overall basis we can conclude that only informal, sale of assets & and highly informal sourness across the arrangement of a fund for human development and economic well-being holds a predominant position. Based on the qualitative study we conclude that access to a financial institution is definitely highly visible but this visibility creates the illusion that rural households are excluded from main stream of formal banking sector. The hindrances which make rural house hold not to obtain formal banking sector due to lack of customized products as per borrowers need, unlawful practice and rude behavior of banking personnel, geographical distance from bank.

Conclusion:

Undoubtedly, we have made progress in achieving one aspect of financial inclusion, which is access to a financial institution, much work remains to be done in measuring the effect of financial inclusion on well-being of rural house hold. The govt. has to work on inclusive financial program considering both demand and supply side in the rural area so that rural households can be benefited. Financial institutions have to work on financial literacy to create awareness among the rural household. Proper financial counseling should be under taken in rural villages especially for the vulnerable sections of the society. Involvement of women and marginalized sections of the society utmost required for financial inclusion. Direct involvement of State and central govt. along with financial institutions, corporate sectors and NGO required for making financial inclusion achieving target of inclusive growth.

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