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2 Finance Accessibility Plays An Important Role In Developing The Rural Economy In India

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Abstract

Financial Institutions (FIT) play an important role in educating account holders about government programs and enhancing their financial Literacy; this study seeks to evaluate the efficacy of educational activities like free seminars in this regard. Using the Ranchi District in Jharkhand State as a case study, this research looks at how different variables affect financial literacy and inclusion in rural areas.It goes on to list the difficulties that rural areas have when trying to utilize financial services, such as exorbitant maintenance fees, complicated paperwork, poor user interfaces, and privacy concerns. Descriptive statistics were used to determine the importance of the replies obtained from 43 villagers using a well-formed questionnaire and planned interviews. According to the results, there is a strong inverse relationship between the difficulties and the success of Financial Inclusion (FI) initiatives. The increasing prevalence of these obstacles diminishes the once-positive effects of financial literacy programs, underscoring the need for financial institutions to address these concerns in order to improve the efficacy of their efforts. In order to increase financial inclusion and literacy in rural areas, this study highlights the significance of tackling these obstacles. Policymakers and financial institutions may use the findings to inform the development of more efficient programs to increase access to banking services and economic autonomy for rural residents.

Keywords: *Financial Inclusion, Financial Literacy, Financial Institution, Development, Rural Community.*

Introduction

Cash is still often used as a means of payment in rural areas, where savings are frequently kept in the form of tangible assets like gold or land (Matin et al., 2002; Zelizer, 2021). However, there has been a

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continuous shift toward more formal financial management practices as digital financial services have multiplied and the government has pushed for FI (Cohen & Nelson, 2011). Arora (2016) points out that a major barrier to effective financial management in rural areas is a lack of knowledge about financial issues. Few individuals in rural areas really understand basic financial concepts like interest rates, inflation, and risk management. People tend to choose unlicensed moneylenders who charge exorbitant interest rates and mistrust formal FIT as a result (Lusardi & Mitchell, 2011). The cyclical nature of rural income could make prudent money management difficult. Because so many rural households work in seasonal employment or agriculture, income levels often fluctuate throughout the year. As a consequence, making plans for the future and saving for emergencies may be challenging (Parvin et al, 2016).

In order to promote global sustainable development, FI has gotten the attention it needs recently (Sarma & Pais, 2008; Twumasi et al., 2022). A developing country's GDP may rise by 3.7 trillion dollars, or six percent, by 2025 if FI is improved, according to McKinsey research conducted for the World Bank. Furthermore, in an effort to advance financial inclusion, 143 countries have targeted 67% of bank regulators, according to study conducted by the World Bank (Nguyen, 2021). The primary concern for rural communities in developing countries with regard to FI is the large socioeconomic gap between the rural and urban populations, with the urban population being four times richer than the rural population (Cooke et al., 2016; Twumasi et al., 2022). Because of this, there has been significant work done to expand the concept of financial inclusion, especially in developing countries where 1.7 billion people, or 9/10 of the world's population, lack access to FIT (Demirgüç-Kunt et al., 2020; Twumasi et al., 2022). Moreover, contended that wealthy rural residents possess better health, education, entrepreneurial skills, and risk mitigation abilities due to their higher income; as a result, increased income eliminates poverty in rural areas and boosts economic prosperity. Higher financial literacy, therefore, leads to better financial decisions and saving practices, which support insurance and diversified savings. The rural population with the lowest wealth composition is not privileged to possess a large number of funds with the low capability to do financial planning due to the high vulnerability and volatility of their income. As a result, these communities demand financial literacy for a better financial decision making with zero expense ratio. However, the OECD (2017) notes that the vast majority of disadvantaged people living in developing nations have relatively low levels of financial literacy, even with the widespread usage of financial literacy programs. Thus, this study aims to critically analyze the role of financial literacy in

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socio-economic empowerment through financial inclusion, taking into account the mediating role of financial decision-making and financial management behavior. This will provide a new direction for current research concerning financial literacy and inclusion.

In rural India, a variety of factors impact financial management and behavior, including income levels, education, cultural norms, and access to financial services (Demirguc-Kunt & Klapper, 2013). Significant efforts have been made to improve FI and education in rural areas, even though there are still many unanswered questions. These efforts should eventually benefit both the general public and the broader economy (Ozili, 2018). The current research aims to ascertain the potential contributions of financial inclusion, financial decision-making, and behavior to socioeconomic empowerment in light of these broader issues and challenges (Mader, 2018). The article's introduction provides background information on the topic, followed by a review of the relevant literature. The approach was used to present the research strategy and samples. After that, the discussion and the result are given, together with the relevant explanations and analyses.

Review of Literature

Dupas et. al. (2016) in their research study they concluded that, When it comes to acquiring agricultural funding, the challenges that farmers face. In light of the findings, it seems that policymakers may be able to streamline the application procedure for agricultural loans, lower interest rates for the farming community, and address the issue of core banks that are not cooperative. Given that farm owners have a limited grasp of agricultural finance, it would be beneficial to educate them about the recovery procedure that the bank uses in order to assist relieve their anxieties.

ArunKumar &Padmanabham (2019) in this research, the limited services that are provided to farmers in Tamil Nadu by organized FIT are investigated, and a description of such services is provided. A variety of funding alternatives are made available to farmers by banks and other financial organizations in order to encourage them to remain in the agricultural sector. This research brings attention to the many actions that the state of Tamil Nadu has made in order to improve the lives of its farmers.

Chaudhary & Anand (2019)the purpose of this article was to pinpoint the obstacles in the way of financial inclusion. The intricacy of the paperwork is noted to be the main obstacle to FI in rural regions. Still,

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majority of the responders have some education—they are either postgraduates or graduates. Still, they believe the paperwork is complicated. Though there is a widespread belief that acceptance of paperwork varies according to academic level. The responders in this instance have a fair degree of knowledge, but they find it difficult to document. One further significant obstacle to FI in rural regions is the high maintenance costs. People do not use financial services as upkeep is expensive. Still, the majority of the respondents fall within the 4,50,000–10,00,000 income range, which is reasonable enough, but they object to paying exorbitant fees. Leading reason of financial exclusion is this. An additional important obstacle to FI is the absence of internet infrastructure. The internet connection is problematic in remote places. People cannot utilize technology for FI if they cannot make solid relationships. Although most people agree that the internet is the main engine of finance, this research argues that financial exclusion might result from a lack of internet access. This way, the research pinpoints the difficulties with FI with particular attention on the Sonipat area of Haryana. This suggests that another research with comprehensive findings for every rural location in India is required in order to pinpoint the common issues and provide a solution.

Panakajeet. al. (2023)Their study found that financial literacy had an effect on FI via several mediators, which in turn had an effect on the overall socioeconomic empowerment of rural Karnataka, India residents. The results showed that financial literacy has an effect on financial inclusion, but it also has a substantial effect on the financial decisions made and the financial management practices that lead to inclusion. More research on its effects on economic and social empowerment has shown that FI is crucial to this goal. Financial literacy has a significant impact on the ability of low-income rural residents to participate in formal financial institutions. Having a firm grasp of money matters equips the disadvantaged to plan ahead and make prudent choices when it comes to using the sophisticated financial services and products offered by reputable financial institutions. Because they are always strapped for cash and on the verge of collapse, the impoverished need it. When one is able to compare and contrast various financial goods and services, they are better equipped to make educated decisions that enhance their utility, savings, and overall well-being. People who have figured out how to budget their money are finally strong in society and the economy. Based on the findings of this study, it is clear that promoting financial literacy is crucial for ensuring better financial decision-making and management practices

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among rural populations. This, in turn, will lead to inclusive and sustainable growth that promotes balanced regional development.

Financial Inclusion Drives Development

The recognition that having access to financial services that are both affordable and suitable is becoming more widespread around the globe as a vital driver of economic development, poverty reduction, and prosperity is growing. Access to formal financing has the potential to promote investments in human capital, minimize susceptibility to economic shocks, and infuse the economy with more employment opportunities. At the macro level, increased FI has the potential to foster socioeconomic development that is both sustainable and inclusive for everyone.

Key for development

One of the most important factors that may help alleviate poverty and increase prosperity is financial inclusion. Because they have access to fundamental financial services, those who are less fortunate and more vulnerable in society are able to break free from the vicious cycle of poverty and gain the ability to empower themselves and their family. Promoting FI contributes to the collective development of whole communities and contributes to the achievement of economic growth that is inclusive overall. When people and companies are able to access useful and cheap financial goods and services, such as transactions, payments, savings, credit, and insurance, that are tailored to their specific need and are provided in a responsible and environmentally conscious manner, this is what we mean when we talk about financial inclusion. The first step toward achieving wider FI is to provide individuals with access to a transaction account. This is because a transaction account enables individuals to keep and transmit money as well as receive payments. Due to the fact that a transaction account acts as a doorway to other financial services, the globe Bank Group's Universal Financial Access 2020 effort is centered on making certain that individuals all over the globe are able to have access to a transaction account. The availability of formal financial goods and services makes it easier to live a cautious lifestyle. This is because it enables families and companies to plan their long-term objectives and investigate possibilities that would not be available to them for any other reason. Individuals who have accounts are more likely to use additional financial services, such as credit and insurance, to make investments in healthcare or education,

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to establish or develop a company, to manage risks, and to weather "financial shocks," which ultimately leads to an improvement in the overall quality of their life.

Continued growth in account ownership

Even if there has been an increase in financial inclusion, there are still gaps. An important step toward overcoming poverty is having an account at a bank or with a mobile money provider, which is held by 3.8 billion individuals throughout the world, which accounts for 69% of adults. 62% in 2014, compared to only 51% in 2011, is an increase from that. According to the Global Findex Database, there have been 1.2 billion adults who have gotten an account beginning in 2011. Additionally, during the period from 2014 to 2017, there were 515 million people who opened an account. On the other hand, although some countries have seen an increase in the number of people who hold accounts, growth has been slower in other economies. This is often due to the fact that there are significant discrepancies between men and women as well as between the wealthy and the poor. 94% of people in nations with a "high income" had an account as of the year 2017, whereas 63% of persons in emerging economies had an account. On the other hand, differences in FI remain glaring even in the developing world. From 2014 to the present day, the proportion of account ownership has stayed essentially stable in nations such as Brazil, China, Malaysia, and South Africa. On the other side, the percentage of adults in India who have an account has increased by more than double since 2011, reaching 80%. This is mostly because to the government policy that was implemented in 2014 with the intention of increasing account ownership among adults who do not have a bank account and enrolling a larger proportion of the population in formal banking services.

Objective of the study

Objectives of the study are as follows: -

- To Analyse the Distribution of Bank Deposits Across Different Bank Groups.
- To Analyse the Efforts of Financial Institutions in Improving Financial Literacy.
- To Examine the Role of Financial Institutions in Explaining Government Programs.
- To Evaluate the Effectiveness of Financial Inclusion Programs in Reducing Rural Poverty.

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Research Methodology

The research methodology employed in this study involves a quantitative approach to assess the factors affecting financial literacy and financial inclusion among rural populations. Data was collected through structured questionnaires distributed to rural respondents, capturing their opinions on various challenges and factors related to financial services. The sample included a diverse group of individuals from different rural regions to ensure comprehensive coverage. Responses were categorized into five levels of agreement (Strongly Disagree, Disagree, Somewhat Agree, Agree, Strongly Agree) to analyse the perceived impact of each factor. Statistical analysis, including correlation and frequency distribution, was conducted to identify significant trends and relationships among the variables. This method provides a robust framework for understanding the key challenges and opportunities in enhancing financial literacy and inclusion in rural areas.

Data Analysis

Table: - 1 Population group and Bank groups wise deposits

(No. of Accounts in Thousand and Amount in (₹ Crore) as on Mar 2020)

Bank Groups	Population Groups	No. of offices	Deposits	
			No. of A/C	₹
Public Sector Banks(PSBs)	Rural	28,938	4,77,054	11,06,317
	Semi-Urban	24,746	4,75,695	16,61,912
	Urban	18,546	2,58,592	20,21,471
	Metropolitan	19,268	2,58,546	37,86,321
	All India	**91,498**	**14,69,886**	**85.76.021**
Foreign Banks	Rural	15	13	6.787
	Semi-Urban	7	17	4.577
	Urban	41	353	30.460
	Metropolitan	249	6,972	6.22.964
	All India	**312**	**7,354**	**6.64.788**
Regional RuralBanks(RRBs)	Rural	15,352	1,88,483	2.60.647
	Semi-Urban	4,783	62,476	1.18.707
	Urban	1,570	13,882	70.343
	Metropolitan	425	2,654	17.725
	All India	**22,130**	**2,67,495**	**4.67.422**
Private Sector Banks	Rural	7,200	37,778	1.28.999
	Semi-Urban	10,880	71,988	4.73.915
	Urban	7,355	72,880	8.29.457
	Metropolitan	9,538	1,25,843	25.45.386

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	All India	**34,973**	**3,08,489**	**39.77.757**
Small Finance Bank(SFBs)	Rural	812	1,552	2.703
	Semi-Urban	1,618	6,504	9.857
	Urban	1,029	4,484	17.742
	Metropolitan	790	3,283	32.364
	All India	**4,189**	**15,823**	**62.667**
ALL INDIA		**1,53,102**	**20,69,047**	**1.37.48.655**

Sources: - Secondary data

An extensive summary of the amount and distribution of bank deposits in India as of March 2020 across different bank groupings and demographic categories is given in the table. It displays, for every combination of bank and demographic category, the number of bank offices, the number of accounts in thousands, and the deposit amounts in crore rupees. At 91,498 offices in India, public sector banks have the most presence. Their total deposits are the largest, coming to ₹85,76,021 crore. Their presence is seen in rural, semi-urban, urban, and metropolitan regions; the deposits are largest in metropolitan areas (₹37,86,321 crore). At only 312 locations around the country, foreign banks are seldom present. The bulk of these offices—which house the bulk of their deposits—are located in cities (₹6,22,964 crore). Spread across 7,354 thousand accounts, their total deposits come to ₹6,64,788 crore. At 22,130 offices, Regional Rural Banks serve rural and semi-urban regions. Their whole deposit balance of ₹4,67,422 crore is mostly split up in rural regions (₹2,60,647 crore). They are not very well-known in cities and metropolitan regions. 34,973 offices and ₹39,77,757 crore in total deposits make up the substantial presence of private sector banks. They are well-represented in every demographic group, with the most portion of deposits (₹25,45,386 crore) coming from urban regions. Having 4,189 branches, Small Finance Banks concentrate on FI in underprivileged communities. Though the sums are less than those of other bank groupings, their total deposits of ₹62,667 crore are distributed fairly across rural, semi-urban, urban, and metropolitan regions.

Over its 1,53,102 branches, the banking industry in India oversees deposits of ₹1,37,48,655 crore over 20,69,047 thousand accounts. In metropolitan regions particularly, public sector banks dominate in terms of both reach and deposit levels, whereas private sector banks and RRBs are essential components of the financial ecosystems in urban and rural areas, respectively. Though few, foreign banks mostly serve the urban population. All demographic groups' FI is the main goal of small finance banks.

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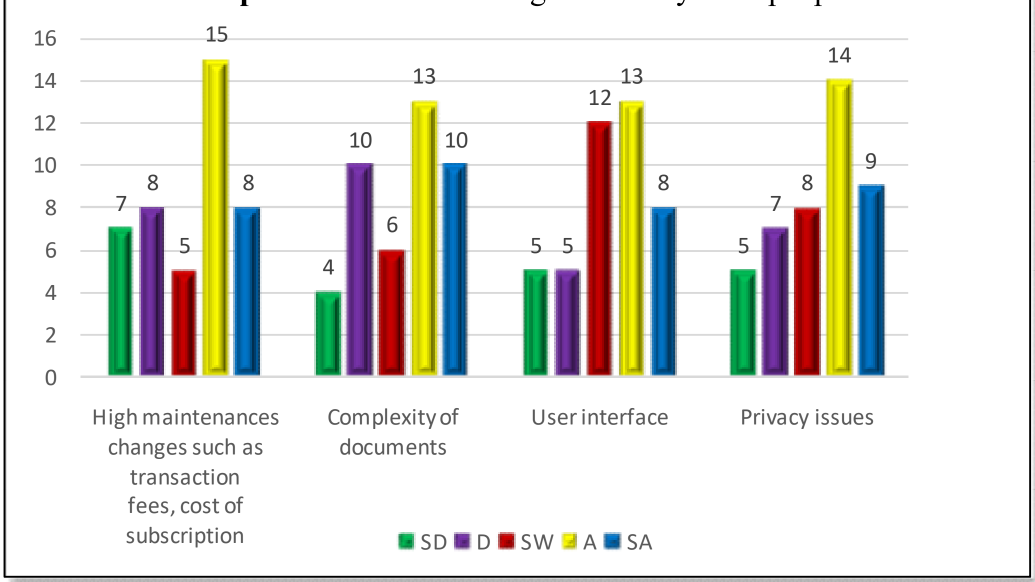
Table: - 2 Various challenges faced by Rural people

Challenges	Opinion				
	SD	**D**	**SW**	**A**	**SA**
High maintenances changes such as transaction fees, cost of subscription	07	08	05	15	08
Complexity of documents	04	10	06	13	10
User interface	05	05	12	13	08
Privacy issues	05	07	08	14	09

Sources: - Primary Data



Graph: - 1 Various challenges faced by rural people

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The table shows thoughts of people living in rural areas on the several obstacles they encounter when trying to get financial services. Among these difficulties include expensive upkeep, complicated paperwork, problems with the user interface, and privacy concerns. A significant percentage of respondents (15 Agree and 8 Strongly Agree) mention that one major problem is the hefty maintenance expenses, like transaction fees and membership rates.

Accordingly, over half of the respondents believe that these fees stand in the way of their ability to use financial services. An additional important problem is the intricacy of the papers; 13 respondents said it was difficult, and 10 strongly agreed. This suggests that most rural residents struggle to use financial services because they believe the paperwork needed is too complicated. A problem is also the user interface. Less respondents—five each—definitely disagree or disagree, but thirty-three respondents overall agree, somewhat agree, or strongly believe that the user interface is troublesome.

This implies that to serve consumers in rural areas, financial service platforms' design and usability need to be improved. An additional important problem for rural residents is privacy issues. A sizable portion of respondents—14 agreeing and 9 strongly agreeing—are concerned about the privacy of their financial information. This emphasizes the importance of FIT improving security protocols and fostering confidence among rural clients.

According to the statistics, rural people have a number of serious obstacles in their way of obtaining financial services. The majority of respondents said that the intricacy of the paperwork and the high maintenance costs are especially problematic. Though much less so, user interface problems and privacy concerns are also noteworthy. FIT must lower expenses, streamline paperwork, make their services more user-friendly, and provide strong privacy safeguards in order to meet these issues. They may better serve the rural population and promote FI by doing this.

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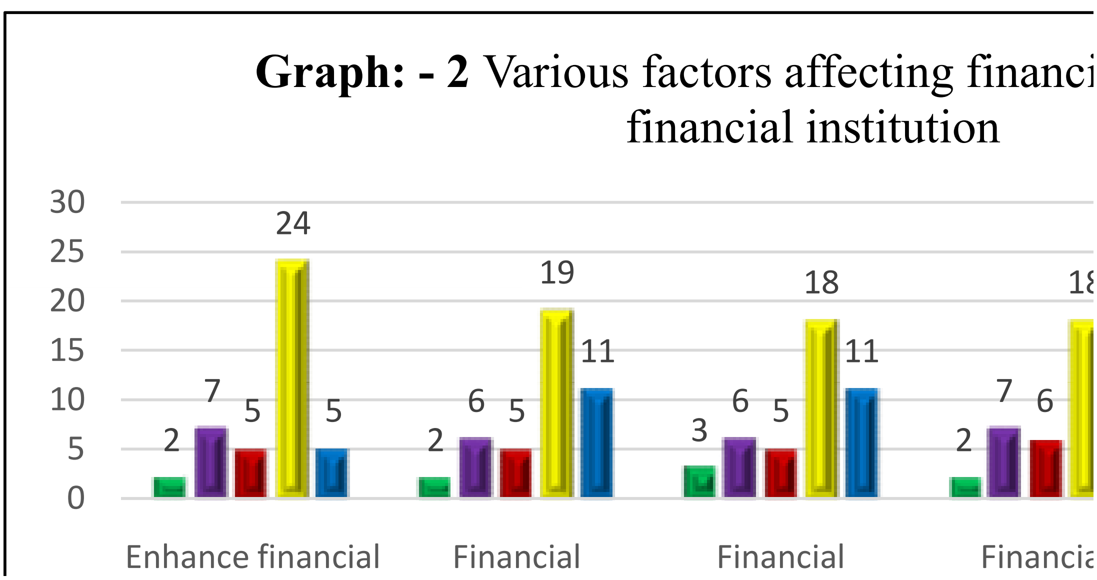
Table: - 3 Various factors affecting financial literacy and financial institution involvement with financial inclusion

Factors	Opinion				
	SD	**D**	**SW**	**A**	**SA**
Enhance financial understanding with free workshops	02	07	05	24	05
Financial institutions explain government programs	02	06	05	19	11
Financial institutions improve account users' financial literacy	03	06	05	18	11
Financial institutions understand account holders' requirements	02	07	06	18	10
Financial institutions decrease rural poverty via financial inclusion programs	01	05	02	24	11

Sources: - Primary Data



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The table offers thoughts of rural residents on a number of aspects influencing financial literacy and the role of FIT in advancing financial inclusion. Many respondents—24 Agree and 5 Strongly Agree—think that providing free seminars greatly improves financial literacy.

This suggests that FIT might be rather important in enhancing financial literacy among rural people via educational programs. Quite a few respondents (19 Agree and 11 Strongly Agree) believe that FIT should be responsible for clearly outlining government initiatives. This implies that rural account holders may be more informed and involved in government programs when there is clear information about them. Eighteen respondents agreed, and eleven strongly agreed, that account users' financial literacy needs to be improved.

This emphasises the good effect that FIT may have by enlightening their clients, which improves financial decision-making. Eighteen Agree and ten Strongly Agree respondents said that FIT should be aware of the needs of account holders. This emphasizes the significance of providing individualized services that meet the particular requirements of clients in rural areas. Very many respondents (24 Agree and 11 Strongly Agree) think that FIT can be essential in lowering rural poverty via FI initiatives.

This suggests a significant support for programs meant to include more rural people into the official financial system, which may result in economic empowerment and the reduction of poverty. The table lists important elements affecting FI and the participation of financial institutions.According to the statistics, free seminars to develop financial literacy among account users, efficient communication about government initiatives, and financial knowledge are highly valued by rural people.

Furthermore, FIT are believed to have important responsibilities in reducing poverty via FI initiatives and in recognizing consumer needs. These results imply that the advancement of FI and literacy in rural regions depends on focused educational programs and individualized services.

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Table: - 4 Correlation

Posterior Distribution Characterization for Pairwise Correlations[a]				
			CHALLENGES	FACTORS
CHALLENGES	Posterior	Mode		-.403
		Mean		-.381
		Variance		.016
	95% Credible Interval	Lower Bound		-.613
		Upper Bound		-.121
	N		43	43
FACTORS	Posterior	Mode	-.403	
		Mean	-.381	
		Variance	.016	
	95% Credible Interval	Lower Bound	-.613	
		Upper Bound	-.121	
	N		43	43
a. The analyses assume reference priors (c = 0).				

Sources: - Primary Data

The posterior distribution characterization for pairwise correlations between challenges and factors affecting financial literacy and FI reveals a statistically significant negative relationship. The posterior mode (-0.403) and mean (-0.381) indicate a consistent negative correlation, suggesting that as challenges increase, the positive impact of factors such as workshops, financial literacy programs, and tailored services decreases. The narrow variance (0.016) and the 95% credible interval (-0.613 to -0.121) further reinforce the reliability of this negative correlation. This implies that addressing the identified challenges is crucial for the effectiveness of FI efforts. The findings highlight the need for FIT to mitigate these challenges to enhance the overall success of their financial literacy and inclusion programs in rural areas.

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Conclusion

The intention of this study was to determine the obstacles rural people have in obtaining financial services and to evaluate the effects of different variables on financial literacy and financial inclusion among them. The results show that improving financial literacy is mostly dependent on educational activities, like free seminars and open communication regarding government efforts. Advancement of financial inclusion also depends on financial institutions' efforts to enhance account users' financial knowledge and to address the particular demands of rural account holders. High maintenance fees, complicated paperwork, user interface problems, and privacy concerns are just a few of the obstacles the survey found that prevent rural people from using financial services. The posterior distribution characterisation in particular of the statistical study revealed a strong negative link between these issues and the efficacy of financial inclusion and literacy initiatives. This suggests that the beneficial effects of financial literacy programs decline with the escalating of these issues.

The study emphasizes the need of resolving these issues in order to raise the effectiveness of financial inclusion initiatives. To create a more welcoming financial environment, financial institutions must concentrate on cutting transaction costs, streamlining paperwork procedures, improving user interfaces, and protecting privacy. They can then better serve rural people, which will eventually help to lower poverty and provide these areas more economic freedom.

Finally, the research emphasizes the importance of focused interventions to address current issues and offers insightful information on the elements affecting financial literacy and inclusion in rural areas. These conclusions help direct financial institutions and legislators in creating and putting into practice more successful plans to encourage financial literacy and inclusion among rural people.

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