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A Review On Financial Inclusion In Rural Area

Rajendra Fakir Wekhande[1] & Dr. Pruthviraj Desai[2]

[1]*Ph.D. Research Scholar, Department of Economics,*

Shri J.J.T. University, Rajasthan, India

[2]*Ph.D. Research Guide, Department of Economics,*

Shri J.J.T. University, Rajasthan, India

Corresponding Author: Rajendra Fakir Wekhande

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ABSTRACT:

One definition of financial inclusion is the ease with which all members of the economy may have access to formal financial services or systems and make use of those services or systems. New theories of development imply that a higher degree of financial inclusion may have the potential to improve the lives of those who are economically disadvantaged. On the other hand, an individual is said to be financially excluded if they do not have access to financial services. Because of this, it is difficult to lessen inequities and relieve poverty when people are excluded from the financial system. Recent years have seen a rise in the importance of financial inclusion, which refers to the provision of access to financial services for all individuals.

Keywords: Financial Inclusion, Financial Determinants, Financial Measurement

INTRODUCTION:

The year 2005 was declared as the worldwide year of microcredit by the United Nations, which also adopted the objective of constructing financial systems that are inclusive. I am Pradhan Mantri. According to the Press Information Bureau of the Government of India, the Jan-Dhan Yojana (PMJDY) is a programme that was initiated on August 28, 2014, by the Prime Minister of India, Narendra Modi, with the intention of achieving total financial inclusion. It was at his first address on Independence Day, which took place on August 15, 2014, when he had revealed this plan. The goal of the national mission for financial inclusion is to guarantee that individuals have access to inexpensive financial services such as banking and savings and deposit accounts, remittance, credit, insurance, and pensions with the intention of achieving financial inclusion. Accounts may be established at any branch of the bank or at any Business Correspondent (Bank Mitr) store nationwide. PMJDY accounts are now showing a balance of $0. Nevertheless, in order for the account holder to be eligible for a check book, they will be required to meet the minimum balance requirements set out by the Department of Financial Services and the Ministry of Finance. As a result of the Jan-Dhan Yojana programme, more than 12.5 crore households have been brought into the mainstream of the financial system in only one hundred days (The Economics Times, March 1, 2015).

The literature on financial inclusion does not have a complete measure that can be used to reflect the amount of financial inclusion across countries, according to Mandira Sarma and Jesim Pais (2008). This is despite the fact that the significance of financial inclusion has been widely acknowledged. Indicators that are often employed as measures of financial inclusion, such as the number of bank accounts, the number of bank branches, and so on, are only able to give a limited amount of information on the extent to which an economy is financially included. In order to be considered complete, a measure of financial inclusion should be able to combine information on several elements (dimensions) of financial inclusion, ideally in the form of a single number. The Financial Inclusion Index (FII) is a concept that has gained popularity in recent times. This index is a comprehensive measure that encompasses information on two or more aspects of financial inclusion. It is also easy and straightforward to compute, and it can be compared across countries. Its values range from zero to one, with zero indicating the least amount of financial inclusion and one indicating complete financial inclusion.

REVIEW OF LITERATURE:

The Financial Access Survey (2012) has unequivocally shown the current state of affairs regarding the inclusion of financial services. The fact that fifty percent of the adult population in every region of the globe does not have a bank account with a conventional financial institution has been observed. In addition, seventy-five percent of persons living in poverty do not have bank accounts. According to the findings of the Financial Access Survey, a higher level of financial inclusion, as assessed by deposit penetration, is associated with better levels of income (GDP per capita and GDP per capita growth), as well as a decrease in income inequality. For a nation with low levels of financial inclusion and financial depth, inequality initially increases, but then decreases as the financial system becomes deeper and more inclusive. Higher levels of financial inclusion are associated with lower levels of inequality; however, a certain degree of financial access and usage as well as the depth of the financial sector is required before inequality can improve. An study conducted by Mohi-UD- Din Sangmi (2013) revealed that there exists a significant disparity among the nations located in the South Asian area with regards to the penetration of bank accounts and the availability of credit. According to Mandira Sarma and Jesim Pais (2008), the problem of financial inclusion is a priority for development strategy in a number of nations. Using the index of financial inclusion that was created in levels of human development and financial inclusion in a nation move closely together, but there are a few exceptions to this rule. To be predicted, income is positively related with the amount of financial inclusion among the socio-economic parameters that are taken into consideration. Other factors that contribute to the improvement of financial inclusion include increased physical and technological connectedness as well as the availability of information. These factors include the use of the road network, telephones, and the internet. According to the findings of Minakshi Ramji's (2009) research, the initiative to promote financial inclusion in Gulbarga was unsuccessful in attracting a substantial number of individuals to the realm of formal finance. In spite of this, the government projects that focus on financial inclusion have the potential to significantly expand access to bank accounts and also have the ability to boost use. It is important to note that access does not equate to use; hence, creating a bank account without accompanying training or marketing may merely result in more expenses for the bank, without any advantages being provided to the community. Joseph Massey (2010) asserts that the function of financial institutions in a developing nation is of the utmost importance in the process of fostering financial inclusion. According to the findings of a research conducted by Peter J. Morgan and Victor Pontines (2014), the increased financial inclusion may either be beneficial or detrimental to the stability of individuals' financial situations. According to statements made by Namita Rajput and Shelly Oberoi, the policy decision regarding the banking industry in India has made the inclusion of financial services a vital component. Through the establishment of new branches in both urban and rural regions, all commercial banks, including cooperative banks, are actively participating in the process of achieving financial inclusion. A composite index of financial inclusion has been produced for each state as a result of this research, which used a broad variety of factors. To this day, the numbers that have been calculated for the Crisil Inclusix Index demonstrate that the situation that the states in India are in is not worthy of praise. It has been suggested by Gandhi M.M. (2013) that financial inclusion ought to be a social obligation for the banks in the short-term, but that it will turn out to be an economic opportunity in the long-term. Including people in the financial system is no longer a choice; rather, it is a need.

In light of the fact that this experiment in India is being observed by people all over the globe, it is essential that financial institutions rise to the occasion and effectively face the challenge. The findings of the research conducted by Shabna Mol TP (2014) indicate that when it comes to being a global player, India must prioritise financial inclusion as the path that it must take. This will result in an increase in the number of prospects for employment and business, as more global market participants will be drawn to our nation as a consequence of increased access to financial resources. There are a few issues that need to be addressed, such as a lower level of financial literacy, a lack of awareness, the high cost of transaction and client acquisition, and most importantly, it is not cost-effective at all. The Reserve Bank of India (RBI) has implemented a number of financial inclusion programmes. It is possible for banks to increase their financial inclusion for those who do not have bank accounts thanks to the opportunities presented by information and communication technology.

To this day, the Marathwada area has not been the subject of any exhaustive research that is based on source evidence. As a result, the current research is an effort to quantify the availability of financial resources, the amount of financial inclusion in rural Marathwada, and the utilisation of those resources.

OBJECTIVES OF THE STUDY:

1. The purpose of this study is to determine the use and availability of financial resources in rural areas.
2. The purpose of the financial inclusion index is to determine the level of total financial inclusion in rural areas.
3. with the goal of recommending actions that would promote the overall financial inclusion in rural areas.

RESEARCH METHODOLOGY:

Both primary and secondary sources of information will be used in this investigation. A combination of primary and secondary sources of information are used in the process of constructing the overall financial inclusion index (FII) for the two districts of Aurangabad and Jalna. We have gathered secondary data from the Socio-Economic Review and District Statistical Abstract of Aurangabad and Jalna districts, as well as from the Economy Survey of Maharashtra. This data includes the number of banks and bank branches, the number of automated teller machines (ATMs), the poverty rate, the population, and the Human Development Index (HDI) value. The main data on the number of savings and loan accounts, Kisan Credit Card, Money Transfer, health, life, and general insurance, Mutual Fund Scheme, and

Post office Banking were acquired from the households that were included in the sample. In addition, the sample of homes has been the source of information for determining the current level of financial literacy. All of the main data were gathered during the month of March in the year 2015. The index is an example of a complete metric that is used for the purpose of assessing financial inclusion. It is possible for this measure to integrate information on a number of different elements (dimensions) of financial inclusion, ideally in a single number. The current financial inclusion index (FII) was constructed using a two-dimensional technique, similar to the human development index (HDI) that was developed by the United Nations Development Programme (UNDP).

It is not possible to get the comprehensive secondary information that would provide adequate information on financial inclusion, and the information that is accessible does not illustrate the situation accurately. As a result, the current investigation is an effort to carry out a thorough household survey in order to evaluate the many aspects of financial inclusion and exclusion. The districts of Aurangabad and Jalna, which are located in Marathwada, are the ones that are most and least financially included in the research, respectively.

We have chosen two districts from the Marathwada area for the purpose of conducting an in-depth investigation. In light of the fact that the purpose of the research is to investigate the reality of financial inclusion and the factors that determine it on a ground level, the districts of the Marathwada area that come with a reasonably high FII value and one district with a lower FII value have been chosen. The villages that are situated in the vicinity of the districts have been separated into two distinct groups: those that are located in close proximity to urban areas and those that are quite a distance away from urban areas. Initially, two distinct lists of villages belonging to the two categories were compiled. Subsequently, the villages were assigned numbers, and a random selection was made to choose one village from each of the two lists. The socioeconomic backgrounds of the settlements are distinct from one another. A listing of the households in the villages that were selected has been completed, and one hundred homes have been picked at random for the main survey. A total of one hundred families provided the primary source of information.

DETERMINANTS OF FINANCIAL INCLUSION:

There are a number of variables that influence financial inclusion, and the ways in which these elements interact with one another are quite complicated. For the sake of simplicity, an effort has been made to determine the variables that determine the amount of financial inclusion by using multiple regression models. The financial inclusion index is a wide statistic that determines the extent to which households in various villages are included in the financial system. For the purpose of determining the relative relevance of the numerous factors that impact financial inclusion, multiple regression models have been created for each village on its own. A number of factors, including education level, household income, landholding, a dummy for SC/ST households, a dummy for farm households, and awareness of the respondent, have been taken into consideration as independent variables. These factors have been included as dependent variables.

RESULTS AND DISCUSSION:

An estimation of the two-dimensional FII has been made in the Marathwada area, and the results are shown in Table 1. Based on the findings presented in Table 2, it has been determined that the majority of the districts fall into the category of medium financial inclusion group. In terms of the high mean value of financial inclusion (FII), the districts of Aurangabad and Beed are in prime position. There are just two districts that have high financial inclusion scores that are more than 0.5, according to the findings. Latur, Parbhani, Hingoli, Osmanabad, and Nanded are the other five districts that are included in the medium FII group. Jalna is the only district that is included in the lower medium value FII group. The table and rankings that are provided within it make it abundantly evident that there is a direct and favourable link between the amount of development and the level of financial inclusion that exists in that particular location.

Table 1: District wise Financial Inclusion Index

Districts	Average Availability Index	Average Usage Index	Average Financial Inclusion Index	Rank
Aurangabad	0.670	0.608	0.639	1
Beed	0.590	0.502	0.546	2
Latur	0.600	0.140	0.370	3
Parbhani	0.340	0.230	0.285	4
Hingoli	0.260	0.284	0.272	5
Osmanabad	0.220	0.320	0.270	6
Nanded	0.340	0.185	0.262	7
Jalna	0.220	0.220	0.220	8
FII of Marathwada Region			0.358	

Source: District Socio-economic Review of Aurangabad, Beed, Latur, Parbhani, Hingoli, Osmanabad, Nanded, Jalna in 2013

Table 2: Distribution of Districts on the Basis of Financial Inclusion Index

Value of Index	No. of Districts	Districts with their Rank
0.75< IFI>1.00	00	--
0.50<IFI>0.75	2	Aurangabad (1) , Beed (2)
0.25<IFI>0.50	5	Latur (3), Parbhani (4), Hingoli (5), Osmanabad (6), Nanded (7)
0.10<IFI>0.25	1	Jalna (8)
0.00<IFI>0.10	00	--

Note: *(a) 0.75< IFI>1.00 – high financial inclusion, (b) 0.50<IFI>0.75 – high medium financial inclusion*

(c) 0.25<IFI>0.50 – medium financial inclusion, (d) 0.10<IFI>0.25 – lower medium financial inclusion

(e) 0.00<IFI>0.10 – low financial inclusion

Source: *From Table 1*

However, it has previously been mentioned that there is a lack of full secondary information that provides enough information on financial inclusion, and the information that is accessible does not provide an accurate depiction of the situation. As a result, the current investigation has made an effort to conduct a thorough household survey in order to evaluate the many different aspects of financial inclusion and exclusion. In the Marathwada area of the Maharashtra State of India, the research focuses on two districts: Aurangabad and Jalna, respectively. One of the districts is considered to have a high level of financial inclusion, while the other is considered to have a low level of financial inclusion. A lot of studies have been conducted that investigate the current state of financial inclusion in the state of Maharashtra in India; however, it is regrettable that there is no empirical research that has been conducted for the Marathwada area. This work makes an attempt to bridge this gap in knowledge.

Two districts from the Marathwada area were chosen for the purpose of conducting an in-depth analysis. Because the purpose of the research is to investigate the reality of financial inclusion and the factors that determine it on a local level, the districts of the Marathwada area that are relatively high in terms of financial inclusion and those that are relatively low in terms of financial inclusion were chosen. Villages in the districts have been separated into two distinct groups: those that are located close to urban areas and those that are located farther away from metropolitan areas. The first step was to create two distinct lists of villages that were representative of the two categories. After that, the villages were assigned numbers, and a random selection was made from each of the two lists to choose one village from each list. On the other hand, Danapur (Jalna) was selected from the second category, while Chincholi (Limbaji) (Aurangabad) was selected from the first category. The households of the villages that were selected were compiled into a list, and fifty homes from each village were picked at random for the main survey. For this reason, a survey of one hundred homes was carried out in the month of May in 2015, using a questionnaire that was specifically prepared and constructed. One of the key objectives of the survey is to identify and conduct an empirical investigation into the group that is able to obtain financial services and the group that is not able to do so. The study investigates the characteristics of households and the socio-economic conditions of both of these categories, as well as the reasons that are acting as obstacles to receiving financial services, among other things.

In comparison to the values of the financial inclusion index in other districts, the value of the index in the Jalna district is relatively low. In 2012-2013, the city of Aurangabad was home to 379 commercial bank branches, 1376 branches of five primary agricultural and non-agricultural credit co-operative societies, 151 branches of the District Central Co-operative Bank and the Agricultural and Rural Development Bank, 8050 self-help groups, 39 insurance company branches (both LIC and private), and 109 registered money lenders. On the other hand, in the Jalna district of the Marathwada region, there are 97 branches of commercial banks, 800 branches of five primary agricultural and non-agricultural credit co-operative societies, 70 branches of the District Central Co-operative Bank and the Agricultural and Rural Development Bank, 90 self-help groups, three insurance company branches (both LIC and private), and 98 registered money lenders in the year 2012-2013.

Salient Features of the Selected Villages:

A number of distinguishing characteristics distinguish the chosen settlements from one another. Chincholi, which is located in the Aurangabad district and is a hamlet with a bank branch, is one of them. Although it is located distant from the urban region, only one post office and four bank branches are accessible there. In addition to being situated in a rural region, Chincholi is home to a branch of the Bank of Maharashtra, the District Central Co-operative Bank, the Adarsh Credit Society, and the Buldana Urban Co-operative Bank. The other hamlet in the Jalna district, Danapur, is located in close proximity to the metropolitan region, yet there is only one bank branch accessible there, and that is the

Bank of Maharashtra.

The process of achieving financial inclusion at the household level takes place within a certain geographical region that is contiguous to one another or within the command area of a bank branch or any other network of financial institutions. Only when each and every home in a particular village is included in the field research is it possible to conduct an investigation that is both significant and comprehensive into the dynamics of the process of financial inclusion and the variables that influence it. Due to the restricted availability of financial help The initial survey was conducted using a random selection of one hundred homes from a certain community. One hundred and fifty families in a chosen village in the district of Aurangabad and fifty households in a selected village in the district of Jalna have respectively been surveyed. A total of one hundred families were investigated. The primary purpose of the analytical framework that was chosen is to evaluate the inclusion and exclusion of financial services in every respect. The consequences have been brought to light via the use of cross-sectional analysis of data from both the households that were included and those that were excluded.

Extent of Financial Inclusion/Exclusion:

First and foremost, it is fascinating to get an understanding of the degree to which certain villages in the sample homes are included or excluded from the financial system. The level of financial inclusion and exclusion in these two chosen villages is shown in Table 3, which can be seen here. The information shown in the table makes it abundantly clear that there is a difference in the pattern of financial inclusion and exclusion in two villages located in two separate districts throughout the country. From the total number of families in a given village (Chincholi), 88 percent of those in the chosen village of Aurangabad and 92 percent of those in the selected village of Danapur in Jalna are considered to be financially involved. Using a bank account as the only indication of financial inclusion is not a recommended practice. Additionally, it is essential to have an understanding of the proportion of the public that is aware of the range of financial goods and services that are available. Awareness is a crucial component of having a good understanding of finances. It makes it simpler for them to get loans and increases the earnings they generate from their savings. In order to begin the process of financial inclusion, it is necessary to first raise knowledge about the presence of financial institutions, the availability of a wide range of financial goods and services, the terms and circumstances under which these products and services are offered, and the advantages that may be obtained via their use.

Table 3: Financially Included and Excluded Households

Village	Total Respondents	Financially Included		Financially Excluded	
		Number	Percent	Number	Percent
Danapur	50	46	92.00	4	8.00
Chincholi (L)	50	44	88.00	6	12.00
Total	100	90	90	10	10

Source: *Field Survey*

In a number of villages in the districts of Aurangabad and Jalna, almost all of the families that were investigated claimed that they were aware of the presence of a bank branch either in their own village or in close vicinity to their villages. A similar reaction is also noticed in the case of knowledge of loan facility 88 percent and awareness of saving facility in Aurangabad (Chincholi). Both of these responses are observed in the same way. In contrast, the opposite reaction is shown when people in Danapur (Jalna) are aware of the availability of saving facilities. This is because the prospects for investment are limited in Jalna (Danapur), and the assets available for loan access are limited, which means that people are less interested in the loan facility. When it comes to the knowledge of the money transfer facility, mutual fund schemes, post office banking, and other banking facilities, less than fifty percent of the respondents from the chosen village in the districts of Aurangabad and Jalna have claimed that they are aware of these facilities (Table 4).

Table 4: Awareness of Availability of Financial Services

Awareness of Financial Services	Danapur		Chincholi (L)	
	Number	Percent	Number	Percent
Existence of bank branch	50	100.00	50	100.00
Saving facility	50	100.00	45	90.00
Loan facility	44	88.00	41	82.00
Money transfer facility	18	36.00	18	36.00
Mutual fund schemes	3	6.00	2	4.00
Other banking facility	7	14.00	7	14.00
Post office banking	7	14.00	8	16.00
Not aware (any one)	0	0.00	0	0.00

It is essential to have access to financial services in order to realise an increase in income and ultimately eliminate poverty. Access to financial services is the primary focus of the notion of financial inclusion, and according to this concept, these services should be accessible anytime and wherever they are required. We have attempted to view access in terms of the services that are being used in this research.

DETERMINANTS OF FINANCIAL INCLUSION:

There are a number of variables that influence financial inclusion, and the ways in which these elements interact with one another are quite complicated. Using multiple regression models, an effort is made to determine the elements that determine the amount of financial inclusion. This is done for the sake of simplicity. A financial inclusion index has been developed on the basis of the approach presented by Thinagalaya et al. (2010) in order to conduct research on the factors that determine the level of financial inclusion in the region under investigation. When it comes to the utilisation of financial goods and services, the index of financial inclusion offers a comprehensive measurement of inclusivity. When it comes to the evaluation of different financial goods and services, the value of 0 is assigned to the absence of financial products and services, while the inclusion of these products and services is evaluated according to their significance. Scores are awarded in a proportional manner based on the number of families who have used the different financial goods and services. The financial inclusion index is designed for the purpose of addressing the issue of financial exclusion, and a maximum score of one is assigned to the extent to which all chosen financial goods and services are financially inclusive. In light of this, the financial inclusion index is a comprehensive measurement of the degree to which households in various villages have been included in the financial infrastructure. For the purpose of determining the relative relevance of the many factors that affect financial inclusion, multiple regression models are created for each village on its own.

It has been determined that the causative variables that have been chosen for regression analysis are connected to both the supply side and the demand side. In terms of the supply side factors, the government is doing what it can, such as opening branches of nationalised commercial banks, promoting self-help groups and microfinance companies, making provisions for accounts with no frills, planning to make bank accounts mandatory for the payment of wages in accordance with the Mahatma Gandhi National Rural Employment Guarantee Act, launching special schemes, and so on. On the other hand, these efforts have not been very successful in the area of the region that is considered to be backward. This is due to the fact that increased availability of financial services of possibilities does not guarantee participation. Due to the fact that individuals who are economically disadvantaged, uneducated, and socially backward are not prepared to participate in banking operations, the degree of financial inclusion is low in the majority of the country. Because of this, the demand side is where the majority of the issue sits. This is the reason why the demand side variables have been taken into account the majority of the time in the regression analysis that we have attempted. The financial inclusion index is assumed to be the dependent variable, whereas the independent factors include education level, household income, land holding, a dummy for SC and ST households, a dummy for farm households, and awareness of the respondent.

CONCLUSION:

For the purpose of this research, we have made an effort to investigate the elements that are connected with financial inclusion. To begin, we will summarise the current state of financial inclusion across all of the districts that make up the Marathwada area by using an index of included financial services. According to the index that is compiled at the district level, the branch development plan of the banks has not been made an intrinsic component of the efforts that are being made to achieve financial inclusion in undeveloped regions such as Marathwada. There are a number of causes, both on the demand and supply side, that have been highlighted in the literature for the increased scope of financial exclusion. According to the findings of our empirical research, the level of education, the assets of the family, and the degree of awareness of the household are major factors that determine financial inclusion. The findings of an empirical research provide support for the assertion that the steps taken by the government and the Reserve Bank of India (RBI) to expand the conversance of the financial system have made a substantial contribution to the process of financial inclusion in India. However, the rate of exclusion is still greater among the most vulnerable segments of society. The research also reveals that families belonging to scheduled castes (SCs) and scheduled tribes (STs), as well as agricultural households, are more likely to be excluded from the financial system. In light of the findings of this research, it is recommended that the government prioritise the enhancement of the process of financial inclusion by enhancing financial knowledge, particularly for families in low-asset households and regions that are undeveloped.

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