



# BRIDGING THE GAPS IN FINANCIAL INCLUSION STRATEGIES: ROLE OF FINANCIAL LITERACY CAMPAIGNS

Dr. Remyakrishnan R.

Assistant Professor, Department of Economics, NSS College, Pandalam, Pathanamthitta, Kerala

## Abstract

India is on the move towards emerging as a global economic super power with a positive growth rate of 8.7 % in 2020-'21. Thirty years after the initiation of economic reforms, different sectors of Indian economy are witnessing its positive reflections. But still there exists a vast majority of marginalized and vulnerable sections of our population being deprived of the benefits of this accelerating economic growth particularly in rural India. Since independence the policy makers are constantly designing policies to make the growth pattern more inclusive in nature. The priority given to inclusive growth strategy in the eleventh plan is a relevant example. Improving the access to finance by the low income and marginalized people is a prerequisite for inclusive growth. But the data published in the NSSO (55th Round) survey was so alarming that 51.4% of the total farmer households in India are financially excluded from both the formal and informal sources of credit. And of the total farmer households, only 27% access formal sources of credit. Though numerous financial inclusion programmes like National Rural Financial Inclusion Plan (NRFIP), "Swabhiman", "Pradhan Mantri Jan Dhan Yojana etc. were launched by different governments, it is significant to note that the very reason behind the much slow pace of diffusion of many of these financial inclusion strategies, especially in the rural areas is the prevailing low level of financial literacy. As per the Global Financial Literacy Survey 2015 conducted by Standard & Poor, it is found that 76% of Indian adults do not understand basic and key financial concepts. The advancements in the field of Information and Communication Technology can be creatively used to empower the financial literacy instruments to reach the unbanked population. The present paper is an attempt to study the need, scope, initiatives and issues regarding the financial literacy campaigns in accomplishing the financial inclusion strategies in India.

**Keywords:** Inclusive growth, Financial inclusion, Financial exclusion, Financial literacy

## Introduction

The existence of a vast vulnerable section of unbanked population, particularly in rural areas remains an unsolved economic issue in Indian economy. S.S Mundra, RBI Deputy Governor, recently pointed out that "according to census 2011, out of 24.67 crore households in the country, only about 14.48 crore or 58.70 % households had access to banking services. Further, of the 16.78 crore rural households, only about 9.14crore or 54.46 % households were availing of banking services." Along with the cultural factors, mistrust of financial institutions and poor level of income, the low level of financial literacy stands as a major demand side barrier to financial inclusion in India. The present paper is an attempt to brief the current financial inclusion strategies

adopted by the authorities and explore the urgent need for enhancing financial literacy in such strategies for generating better outcome.

## Review of Literature

According to **Conroy (2005)** financial exclusion is a process that prevents poor and disadvantaged social groups from gaining access to the formal financial systems of their countries. A well-developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development (**United Nations, 2006**). Bank accounts enables poor households to perform important financial functions such as saving money safely outside the house, accessing credit, making loan or premium payments and transferring money within the country. Thus, although a bank account covers only one aspect of financial inclusion, it may determine access for many other financial services (**Littlefield, 2006**). Definition of financial inclusion varies across nations depending upon the structure and nature of the economy, population and the financial sector. In the Indian context, **C.Rangarajan Committee Report** defines financial inclusion as “the process of access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. Whereas the **Raghuram Committee Report** looks at financial inclusion more from the savings angle by stating, “the most important financial services for the poor are vulnerability reducing instruments. These include savings, remittances, insurance and pension needs. The inference from the study conducted by **Khan, F., Siddiqui, M. A., & Imtiaz, S. (2022)** portrays financial literacy as a foundation stone for attaining financial inclusion. Various comprehensive financial inclusion strategies seem to be achieved the declared goals partially because of the low degree of financial awareness in many of the developing countries.

Another literature bridging the behavioural economics and institutional theory relates to the financial literacy or capability (**Atkinson, 2007**). It points out that the structural changes in the western economies increasingly place the responsibility of financial planning from Government and employers to the individual citizen and employee. The responsibility for retirement planning and insurance in particular are increasingly placed with the individual. This literature in fact asks a very serious behavioural economics question that do people apply their financial literacy to improve their financial and social lives? **Subha M V and Shanmughapriya P (2014)** states financial literacy is simply managing resources effectively with the intention of financial stability. It indicates the process by which individuals understand their financial situation and inculcate basic financial habits of savings, budgeting, planning etc. to make right financial decisions in life. A standardized level of financial literacy is very essential for the progress and fortification of the economy. **Ramakrishnan R (2011)** defined financial literacy as the ability to have awareness with and understanding of financial market products, especially rewards and threats in order to make thoughtful choices. It acts as the very basis for effective money management and financial stability for both the individual and the economy as a whole. The evidences from the study conducted by **Okello, Munene, & Yourougou (2020)** in Uganda highlights the constructive role that can be played by the financial intermediaries like small finance banks in uplifting the financial literacy status of rural population specially in the developing economies. Financial intermediaries prominently facilitate the association between financial literacy and financial inclusiveness.

## Financial Inclusion: A Comprehensive Strategy for Accomplishing Growth with Justice

Financial inclusion in simple terms connotes the delivery of banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups like marginal farmers, landless labourers, self-employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. The various financial services include savings, loans, insurance, payments, remittance facilities, financial counseling and advisory services by the formal financial system. The Government of India and the Reserve Bank of India along with many other participatory agencies have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country for the past few decades. Table 1 summarizes some of the major efforts made in the last five decades in this regard.

**Table: 1.1****Major Financial Inclusion Initiatives in India**

| <b>Year</b> | <b>Financial Inclusion Initiatives</b>            |
|-------------|---|
| 1969        | Nationalization of banks                          |
| 1969        | Lead Bank Scheme                                  |
| 1972        | Priority Sector Lending Norm by RBI               |
| 1975        | Establishment of Regional Rural Banks             |
| 1982        | SHG-Bank Linkage Programme                        |
| 2006        | National Rural Financial Inclusion Plan (NRFIP)   |
| 2006        | Business Correspondent/Business Facilitator Model |
| 2011        | Swabhiman Scheme                                  |
| 2014        | Pradhan Mantri Jan Dhan Yojana (PMJDY)            |
| 2015        | MUDRA Bank  |

**Pradhan Mantri Jan Dhan Yojana (PMJDY): Towards Faster Financial Inclusion**

Pradhan Mantri Jan-Dhan Yojana (PMJDY) officially declared as a National Mission for Financial Inclusion by the honorable Prime Minister of India, Narendra Modi during his Independence Day speech on 15 August, 2014 is a gigantic financial inclusion initiative. Inclusion of the left out and marginalized population into the mainstream of the financial system is the motto of the programme which is based on the development philosophy of "Sab Ka Sath Sab Ka Vikas". PMJDY is popularly acclaimed as world's biggest financial inclusion policy undertaken by a developing country as well before the targeted date; the programme achieved its target of 75 million bank accounts for poor households in October 2014 itself. If efficiently implemented within the projected timeframe tackling the practical difficulties like inadequacy of better financial infrastructure, absence of proper documents among women and migrants to provide a legal identity, presence of limited number of financial services players, low level of financial literacy etc. PMJDY can work as a constructive instrument for the socio-economic transformation of our country.

Figure 1.1

## Six Pillars of Pradhan Mantri Jan Dhan Yojana

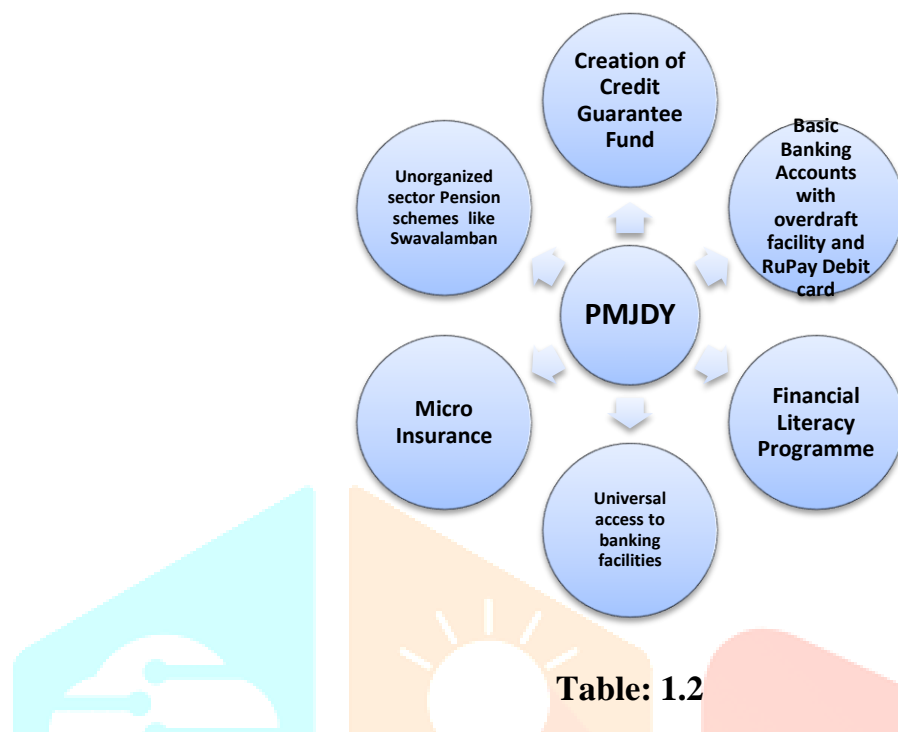


Table: 1.2

## Beneficiaries Under Pradhan Mantri Jan Dhan Yojana as on 05/07/2023

(All Figures in Crores)

| Bank Name           | Rural/Semi urban centre bank branches | Urban metro centre bank branches | Total | No: of Rupay Cards | Deposits in Accounts | % of Zero Balance Accounts |
|---------------------|---------------------------------------|----------------------------------|-------|--------------------|----------------------|----------------------------|
| Public Sector Bank  | 24.33                                 | 14.49                            | 38.81 | 29.10              | 154564.57            | 23.11                      |
| Regional Rural Bank | 7.90                                  | 1.29                             | 9.19  | 3.46               | 38795.67             | 19.98                      |
| Private Banks       | 0.71                                  | 0.70                             | 1.41  | 1.15               | 5766.51              | 34.92                      |
| Total               | 32.93                                 | 16.49                            | 49.42 | 33.71              | 199126.75            | 22.96                      |

Source: Official website of PMJDY

## Financial Literacy of the Masses: A Pre-requisite for Better Inclusion

Financial literacy, comprising of financial knowledge, financial attitudes and financial behavior constitute an essential element of financial inclusion strategy anywhere in the world. Irrespective of the level of economic development achieved, lack of financial literacy among a major share of the population is one of the greatest challenges facing by the policy makers around the globe. As per Standard & Poor's survey (2015), only 24% of Indian adults are financially literate, the lowest score among the BRICS nations. The government, the RBI and other significant economic agents in the country have been working incessantly towards designing policies for the betterment of financial literacy status, especially of the rural population. Though some progress has been made, there is more to be done.

The financial literacy efforts should go hand in hand with our financial inclusion initiatives. But framing the policies for enhancing financial literacy in a country like India is quite a difficult task as it requires a deep understanding about the unique characteristics of the target population like illiteracy, lack of collateral, seasonal or low income, poor credit worthiness, identity issues etc.. Ensuring widespread access to financial products and services and greater knowledge about the basic financial products and services is essential for expanding the outreach and inclusiveness of our financial system. And it is important to realize that financial literacy is of paramount importance for both the users and providers of financial products and services for assuring better financial stability. The state interventions for digital economy can be strongly interlinked with the financial inclusion initiatives through the effective application of mediums like computer, mobile, internet etc. Following are some of the recent initiatives adopted by various financial and economic stakeholders in the country for improving the degree of financial literacy:

- ❖ **Ministry of Finance, Government of India:** The Financial Stability & Development Council (FSDC) headed by the Union Finance Minister to look after financial inclusion and literacy efforts of the country forms the back bone of the institutional framework meant for inclusive strategies. The ministry is also looking forward to make use of the existing infrastructure of more than one lakh Common Services Centers (CSCs) and 11,000 Industrial Training Institutes (ITIs) in the country to make people more aware of the various government schemes related to easy access to credit and opening bank accounts by offering short courses on financial literacy.
- ❖ **Reserve Bank of India:** Framing a multi-agency approach RBI had made lead initiatives for the spread of financial literacy handled by the Technical Group on Financial Inclusion and Financial Literacy (TGFIL). A National Centre of Financial Education (NCFE) was also established for execution of special financial literacy campaigns through mass media and incorporating financial education in the school curriculum. The financial education material uploaded in the website of RBI in 13 Indian languages includes puzzles, competitions, comic books on banking etc. Project Financial Literacy, comprehensive financial literacy guide for banks, Young Scholars Scheme, setting up of Financial Literacy Centers, enacting plays and skits, organizing stalls in local fairs/ exhibitions, etc. are some other initiatives towards this objective. The norms revised by RBI recently made it mandatory for banks to conduct a minimum one outdoor camp per month by each FLC.
- ❖ **Commercial Banks and NABARD:** Setting up of Financial Literacy and Credit Counseling Centers and Rural Self Employment Training Institutes, outreach visits to villages, newspaper campaigns, seminars etc. are the major initiatives undertaken by the commercial banks for the betterment of financial literacy. Mobile financial literacy vans by banks in the North Eastern States, weekly radio programmes on financial literacy in some states and tribal districts, awareness programmes on various government sponsored self-employment schemes, mass media campaigns, tie ups with educational institutes, financial awareness workshops, help lines, training programmes for Farmers Clubs, NGOs & SHG members, books, pamphlets and publications on financial literacy by NGOs are strategies taken up by NABARD. A pilot programme called 'SHG members as Bank Sakhi' all over the country for RRBs and commercial banks was also launched recently aiming to help the disadvantaged rural population.
- ❖ **Securities and Exchange Board of India:** The panel of certified resource persons associated with SEBI is constantly engaged in the provision of training on various aspects of finance to various target segments viz. school students, college students, working executives, home makers, self-help groups etc. across the country. Regional seminars, investor education programmes, 'Visit SEBI' programme, toll free SEBI Helpline in 14 languages etc. are other similar initiatives.
- ❖ **Insurance Regulatory and Development Authority:** Awareness programmes conducted on television, radio and print media, annual seminar on policy holder protection and welfare, publication of 'Policyholder Handbooks' as well as a comic book series on insurance, Integrated Grievance Management System (IGMS), and an interactive website for insurance education are the measures adopted by IRDA for promoting financial literacy of Indians.
- ❖ **The Pension Fund Regulatory and Development Authority:** PFRDA appointed intermediaries are called Aggregators who are directly responsible for pension awareness mostly in vernacular languages and in line with socioeconomic sensibilities. Spreading awareness of social security measures and publicity of NPS among the masses by associating with NGO's is the main strategy they are focusing on currently.

- ❖ **Micro Finance Institutions:** Acting as an effective interface working between the formal financial institutions and credit seekers based on the group lending methodology, MFI's play a crucial role in addressing the challenge of low financial literacy. MFIs persuade potential members by explaining the benefits of usage of the financial products. The loan officers of MFIs are generally drawn from local population and they also provide basic training to members on financial concepts and products.
- ❖ **Credit Bureaus:** With the emergence of JAM (Jan Dhan accounts, the Aadhaar identity infrastructure and the spread of Mobile phones), credit bureaus form an indispensable component of enhancing the financial literacy of the service providers by constructing database on credit seekers regarding their transaction history, utility payments, tax payment etc. They play the dynamic role in the assessment of credit worthiness of first time borrowers.

## Conclusion

Proper knowledge, behaviour and attitude regarding financial matters are very essential for the successful implementation of financial inclusion objectives. The current financial inclusion strategies adopted in India will be successful in meeting its desired objectives only if the concerned authorities take serious initiatives to bridge the awareness and digital divide existing between rural and urban population with regard to the attainment of financial literacy for it is imperative to understand and explore the multifaceted features of financial products, technological changes and market innovations happening in the financial sector.

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