FINANCIAL INCLUSION AND ECONOMIC WELL-BEING OF RURAL HOUSEHOLDS

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Abstract: *Financial inclusion is turning out to be the latest phenomenon in social policy formulation. For the last two decades especially with reference to Indian economy financial inclusion gets top priority amongst the policymakers. The research was conducted to know whether access to banking /financial institutions will lead to the desired outcomes, especially, in achieving the economic well-being of the rural households. The economic well-being of a rural household, in turn, had been studied by understanding the contribution of financial inclusion in achieving human development and financial well-being of the rural households. A total of 205 rural households were drawn out of the selected villages of district Bareilly, Uttar Pradesh to collect the data.*

Access to financial inclusion has witnessed a sharp increase but the outcome of this access to financial inclusion is very limited. Bank accounts are generally used for the purpose of using government payments such as MGNREGA wages, scholarship, old age pension etc. It was also found that the economically sound rural households had used the banking channels in an efficient way. Financial literacy, customized products, too many documents, and requirement of collaterals are the main issues which are hampering the impact of financial inclusion. Hence, the policy makers and implementers should work in close co-ordination while formulating the policy on financial inclusion to serve the underprivileged sections of the society and provide new business opportunities to the banking sector as well.

Keywords: Finance, Social inclusion, financial literacy and inclusive growth.

1. Introduction

Since 2011, Globally a blend of new technologies, innovative business models, and ambitious government reforms have brought down the number of unbanked adults by about a fifth—or 500 million. But still, 2 billion adults, or 38 percent of all adults worldwide, are excluded from the mainstream financial system. Around 46 percent of adults who are unbanked reside in developing economies as compares to 6 percent in high-income OECD economies. Almost 40 percent of the unbanked adults belong to India, China, and Indonesia (Demirguc-Kunt et. al.2015). In order to promote the financial inclusion, government of India had taken a number of steps to reach to the unbanked. As per the Rangarajan Committee report (2008) Financial Inclusion is defined "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low-income groups at an affordable cost". As per the Committee on Financial Sector Reforms, financial inclusion "refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products" (The Committee on Financial Sector Reforms, Chairman: Raghuram G. Rajan, 2008). As per the World Bank policy research report financial inclusion is defined as "An absence of price or non-price barriers in the use of financial services (Demirguc-Kunt et al., 2007). Overall financial inclusion revolves around the access, usage, and impact of financial inclusion on improving the well-being of an individual, households as well as society**.**

2. Review of literature

An accessible financial system can help the poor to utilize the financial resources for education which results in improving the human resources of a country. Human resource development can help in enhancing productivity and growth (Romer 1986 & 1990). Due to financial market imperfections poor's are unable to invest in human capital development therefore due to low human capital development they are forced to work in low paid jobs and finally puts them into a vicious cycle of poverty (Galor and Zeira, 1993).

Studies have proved that financial inclusion is both pro-poor as well as pro-growth. Financial inclusion provides benefits to all the economic agents of the economy. Financial inclusion helps the small and medium micro enterprises, to utilize the banking facilities such as saving, credit, insurance etc. for productive investment which will surely contribute to the economic growth whereas access to financial services such as savings, credit, and insurance to the low-income households will improve their quality of life (Sarath Chandra and Manju, 2010). Impact of improved financial services is not only confined to increase economic growth but it also helps in reducing poverty and income inequality (Beck et al. 2009).

A cross-country regression analysis shows that countries with low GDP per capita, low levels of literacy, higher levels of income inequalities, low urbanization and poor connectivity seems to have less financially inclusive (Sarma and Pias, 2008). Besides the availability of physical infrastructure facilities, availability of financial infrastructure can bring a meaningful impact of financial inclusion in low-income households (Pal and Pal, 2012). A study conducted in rural West Bengal found that how an improvement in basic infrastructure facilities have resulted in increasing productivity of physical resources and lead to increase in the use of banking services amongst the rural households (Chattopadhyay, 2011). A study conducted in Kenya have found that lack of infrastructure and telecommunication facilities and heavy branch regulations have played a very important role in restricting the bank branch expansion in Kenya(Demirgüç-Kunt and Klapper, 2012). Poor physical infrastructure facilities have led to the poor market linkages which resulted to inaccessibility to financial services in poor states like Madhya Pradesh in India (Rather and Lone, 2012).

Technology can play a vital role in the expansion of financial inclusion making small ticket banking transactions cheaper, easier and faster for both banking sector and small customers (Gupta, 2011; Thorat, 2008).Technological innovations such as mobile banking have reduced the cost of transactions and made electronic fund transfer easier and cheaper (Raghuram Rajan Committee Report, 2008; Ismail and Masinge, 2012). Introduction of the agency banking and business correspondent model by the RBI have transformed the Indian banking sector (Thorat, 2010). To provide door to door banking services in rural areas, RBI launched branchless banking and technology-driven model like business correspondent and business facilitator in 2006 (Sarath Chandra and Manju, 2010). Besides performing the roles and responsibilities of business correspondents regarding banking operations, they should also create awareness regarding financial products and provide education and advice of money management and perform debt counselling (Oxford Policy Management Ltd, 2011). A study emphasized on the importance of financial literacy not only forms the demand side (customers) but also from the supply side (financial institutions). Proper training should be provided to bank staff and the field staff so that they communicate to the customers regarding the availability of different financial products available to them (Rai and Saha, 2010).To promote the financial literacy RBI has advised lead banks to open Financial Literacy and Credit Counseling Centre's (FLCCCs) in their respective areas. The objective of this scheme is to educate the urban and rural population regarding financial products, providing financial counselling session etc. (RBI, 2010).

A study conducted in Kenya by using non-experimental data in order to determine the impact of reduced transaction costs of mobile money on risk sharing. They found that M-PESA users were able to fully absorb large negative income shocks without any reduction in household consumption but the household consumption fell on average 7 percent in case of non-M-PESA users in response to a negative income shock (Jack and Suri, 2014). Micro insurance can play a very vital role especially in case of poor people for mitigating the risk arise due to external shocks (Matul, Dalal, De Bock, and Gelade, 2013).In Kenya, index insurance proved to be a very important tool in getting protection from the negative impacts(selling of assets, less food consumption etc.) arises due to natural disasters (Janzen and Carter, 2013). A study conducted in India and Ghana proved that weather-based index showed a positive impact on farmers' income and helps in improving their quality of life (Cole, et al., 2013; Karlan, Osei-Akoto, Osei, and Udry, 2014).

A study conducted in rural Malawi showed a positive impact of commitment savings on business investment, crop output and increased expenditures (Brune, Giné, Goldberg, and Yang, 2013). Access to commitment savings accounts in the Philippines had shown a positive impact on female empowerment (increase in household decision making power) (Ahsraf, Karlan, and Yin, 2010). A study conducted in Kenya found that people participate in health saving and investments in preventive health helps them in reducing their vulnerability to health shocks (Dupas and Robinson, 2013b). The study conducted in rural western Kenya amongst the female vendors showed that access to commitment savings helps them to mitigate the effects of health shocks, increase in food expenditure and increase in business investment in comparison to female vendors who do not have access to savings account (Dupas and Robinson, 2013a). Access to credit helped in new business creation, improving the income of the existing business, business size, scale of agricultural activities, and diversification of livestock and micro-entrepreneurs ability to mitigate the risk (Attanasio et al., 2011; Augsburg, de Haas, Harmgart, and Meghir, 2012). A study conducted in South Africa had found that access to consumer credit helped the borrowers in increasing their well-being (increase in food consumption, improvement in decision making, increase in borrower's status in the society etc.) but side by side they more subject to risk (Karlan and Zinman, 2010). On longer time duration, microcredit does not play a very vital role in later-stage improvements (education, health, or women's empowerment etc.) of the borrowers (Banerjee, Duflo, Glennerster, and Kinnan, 2013).

Till date most of the studies provide mixed evidence on the impact of microcredit on measures of household welfare studied over short-term horizon (Banerjee, Duflo, Glennerster, and Kinnan, 2010 and 2013; Crépon, Devoto, Duflo and Parienté, 2011; Karlan and Zinman, 2011; Angelucci, Karlan and Zinman 2013). A new body of evidence suggests that access to financial services have a positive impact on a number of microeconomic indicators (self-employment, household consumption etc.) and well-being (Bauchet et al., 2011). Financial diaries literature had shown how poor families of developing economies using are borrowing and saving in order to achieve the desired objectives (Collins, Murdoch, Rutherford, and Ruthven, 2009).

3. Research objectives and methodology

The research has been conducted to study the contribution of financial inclusion in achieving the economic well-being of rural households. The economic well-being has been studied on two parameters i.e. human development and financial well-being.

Table 1: Financial inclusion: Measurement of human development and financial well-being

Indicators	Sub Indicators	Objectives
Human development	Health	Study the composition and source of fund arranged for health expenditure made on family members.
	Education	Study the composition and source of fund arranged for education expenditure made on family members.
	Income	Study the composition and source of fund arranged for increasing income of the household.
Financial well-being	Asset ownership	Study the composition and source of fund arranged for purchasing an asset for the household.
	Vulnerability	Study the composition and source of fund arranged for meeting out the vulnerability or unmet needs.
	Repayment of debt	Study the composition and source of fund arranged for repayment of old debts.
	Investment	Study the composition and source of fund arranged for making investments for the future need(s) (life cycle needs).
	Consumption expenditure	Study the composition and source of fund arranged formaintenance of the smooth consumption expenditure for the household.
	Others	Study the composition and source of fund arranged for meeting out of any other kind of financial emergency(s).

The contribution of financial inclusion on human development and financial well-being has been studied on the basis of source and composition of fund arranged for meeting out the financial requirement as and when required. The composition of fund talks about how the fund is composed i.e. saving, borrowings and sale of asset whereas the source of funds includes, from where the fund has been arranged i.e. formal and informal source.

Table 2: Source and composition of fund used by the rural households

Source of fund	Only formal	Highly formal	Equal	Highly informal	Only informal
Composition of fund	Saving		Borrowing		Sale of asset

By studying the financial portfolio (composition of the fund) and arrangement of the fund (source of the fund) of the household for meeting out a particular financial requirement can bring us to a conclusion whether financial inclusion has really helped in changing the financial well-being and human development of the rural household.

We have combined qualitative and quantitative data collected for the period of 2016 and 2017 in five villages of Bareilly district, Uttar Pradesh. In the first stage of this research qualitative tools (semi-structured interviews, group discussions and observations) were used to study the nature and propose of saving and borrowing of rural households. Through semi-structured interviews, we came to know about their level of understanding towards formal banking and problems or hindrances which make them not to use formal banking. This helps us in building an effective schedule for collecting data. In the second stage, data was collected by conducting a survey using a schedule on 205 rural households in five selected villages. All the 205 rural households have their bank account. The main focus of this survey was to study household socio-economic characteristics and their banking habits. In the third stage, both qualitative and quantitative statistical tools were used to analyze the data. The Pearson χ^2 has been to test the null hypothesis that the distribution across purpose categories for a given source is the same as the distribution for the entire sample.

4. Research Outcomes

In order to study the role of main stream banking towards economic well-being of the rural households, research outcomes have been measured on 3 parameters. The first parameter talks about purpose and number of times fund arranged by rural households for economic well-being. The second parameter talks about the composition of fund arranged with reference to savings, borrowings and sale of asset. The third parameter talks about the source of fund arranged with reference to formal and informal source of banking.

Research Outcome 4.1: Purpose and number of times fund arranged by rural household

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

Indicators	Purpose of fund arrangement	Number of times fund arranged
Human Development	Health	154 (18.71%)
	Education	61 (7.41%)
	Income generation	65 (7.89%)
Financial Well-being	Asset ownership	90 (10.93%)
	Vulnerability	118 (14.33%)
	Repayment of debt	117 (14.21%)
	Investment	33 (4%)
	Consumption expenditure	120 (14.58%)
	Others	65 (7.89%)
	Total	823

Source: Field survey, 2018

Table 3 states the different purposes for which the rural households had arranged fund. As is shown, most funds are arranged for health (18.71 percent) followed by Consumption expenditure (14.58 percent), Vulnerability (14.33 percent), repayment of debt (14.21 percent), asset ownership (10.93 percent), others (7.89 percent), income generation (7.89 percent), education (7.41 percent) and investment (4 percent).

Research Outcome 4.2: Composition of fund arranged

Table 4: Composition of fund arranged

Number of times funds arranged	Saving	Borrowing	Sale of asset
823	107(13%)	529(64.27%)	187(22.72%)

Source: Field survey, 2018

Table 4 states the composition of fund arranged. The composition of fund arranged talks about what is/are the components such as saving, borrowing, the sale of an asset etc. have been used by the rural household for arranging that particular fund. As shown in 823 times there is a need arise of fund arrangement and most the time borrowings accounts for (64.27%) followed by the sale of an asset (22.72%) and savings (13%) respectively. Still, indebtedness (borrowing) and sale of asset hold a very prominent role in the arrangement of funds.

Research Outcome 4.3: Economic well-being and source of fund arranged

Table 5: Economic well-being and source of fund arranged

Indicators	Purpose of fund arrangement	Number of times fund arranged	Only formal	High formal	Equal	High Informal	Only Informal	Sale of asset
Human development	Health	154(18.71%)	2.60	9.74	0.00	14.29	33.77	39.61
	Education	61(7.41%)	4.92	36.07	0.00	9.84	29.51	19.67
	Income generation	65(7.89%)	7.69	13.85	0.00	27.69	38.46	12.31
Financial well-being	Asset ownership	90(10.93%)	6.67	18.89	0.00	13.33	42.22	18.89
	Vulnerability	118(14.33%)	1.69	5.08	0.00	8.47	46.61	38.14
	Repayment of debt	117(14.21%)	0.00	0.00	0.00	15.38	47.01	37.61
	Investment	33(4%)	15.15	24.24	0.00	45.45	15.15	0.00
	Consumption expenditure	120(14.58%)	0.00	0.00	0.00	37.50	62.50	0.00
	Others	65(7.89%)	0.00	0.00	0.00	38.46	61.54	0.00
	Total	823						

Source: Field survey, 2018

Table 5 states the indicators (Human development and economic well-being for which fund arranged) and Source of fund arranged. Source of fund arranged have studied in different possible combinations such as only formal, only informal, a combination of formal as well as informal (Highly formal, highly informal and equal) and sale of an asset. From the table 5, we can conclude that total 823 times fund has been arranged most of the funds have been arranged for economic well-being (66 percent) followed by human development (34 percent). A total of 543 times funds have been arranged by the rural households for economic well-being. In case of economic well-being , out of 543 times fund arranged most of the fund have been arranged for vulnerability (22 percent) , consumption expenditure (22 percent) and repayment of old debt (22 percent) constituting of 66 percent of total economic well-being fund arranged followed by asset ownership (17 percent), others (12 percent) and investment (6 percent) where as in case of human development a total of 280 times funds have been arranged and out of 280 times fund arranged most of the fund have been arranged for health (55 percent), income generation(23 percent) and education(22 percent) respectively. The major source of fund arranged in achieving human development comes from only informal (33.93 percent) followed by sale of asset (28.93 percent), both highly informal and highly formal (6.43 percent) and only formal (4.29 percent) whereas in case of achieving the economic well-being the major source of fund arranged comes from only informal(49.36 percent) followed by highly informal (23.02 percent) , sale of asset (19.52 percent) , highly formal (5.71 percent) and only formal (2.39 percent).On an overall basis, we can conclude that only informal, a sale of an asset and highly informal sources across the arrangement of a fund for human development and economic well-being holds a predominant position.

The Pearson χ^2 demonstrates that the distribution across purpose categories (human development and economic well-being) for a given source is significantly different across the entire sample. From our qualitative study, we come to the conclusion that no doubt the access to the financial institution can be visibly seen but this visibility makes an illusion of rural households being kept out or opted out from the mainstream banking. The main hindrances which make rural households not to opt for mainstream banking facilities area that it is a time-consuming process; people do not know banking operations and process, lack of customized products as per borrower need, the requirement of collaterals, unlawful practice, employee behavior and distance to a bank.

V. Conclusion

No doubt, we have made progress in achieving the one aspect of financial inclusion that is access to the financial institution still a lot of work has to be done towards the usage of financial products and measuring the impact of financial inclusion in achieving the wellbeing of the rural households. Banks should work on the inclusive financial program especially for the rural areas so that rural households can be benefitted only from saving and borrowing but also from asset creation, protection, investment etc. For the inclusive financial inclusion, the government has to work on financial inclusion from two sides i.e. demand side and supply side. Financial institutions have to work on financial literacy program for creating awareness amongst the rural households, availability of customized financial products as per the need and requirement of the rural households, proper financial counseling sessions should be held in rural villages especially for the marginalized and vulnerable sections of the society lastly bank employees should involve in any kind of unlawful practices. Involvement of females, poor, marginalized and vulnerable sections of the society are the utmost requirement of inclusive financial inclusion. Involvement of government along with the financial institutions, development institutions, corporate houses and NGO's is required for making financial inclusion in achieving the target of inclusive growth.

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