



Financial Literacy As A Tool For Inclusion: A Study Of Economically Disadvantaged Communities In Karnataka's Backward Districts

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Abstract: This study examines the role of financial literacy as a tool for financial inclusion among economically disadvantaged communities in the backward districts of Karnataka. The research is grounded in recent literature highlighting the importance of financial knowledge in enhancing economic participation, reducing poverty, and improving overall well-being. A descriptive research design was adopted, and primary data were collected from 400 respondents across four districts—Mandya, Hassan, Chamarajanagara, and Mysore Rural—using a structured questionnaire based on a five-point Likert's scale. The study employs statistical tools such as descriptive statistics, one-sample t-test, correlation, and ANOVA to analyse the data. The findings reveal a moderate level of financial literacy (Mean = 3.51) among respondents, with a significant positive relationship between financial literacy and financial inclusion ($r = 0.68$). The one-sample t-test confirms that the literacy level is statistically significant ($p = 0.000$), while ANOVA results ($p = 0.003$) indicate notable regional disparities. The study also identifies gaps in advanced financial knowledge, particularly in understanding financial products and planning. The results emphasize that improving financial literacy can significantly enhance financial inclusion and economic empowerment. The study suggests targeted financial education programs, promotion of digital financial services, and region-specific policy interventions to bridge existing gaps and support inclusive and sustainable development.

Index Terms -. Financial Literacy, Financial Inclusion, Economically Disadvantaged Communities, Digital Financial Services, Economic Empowerment

I. INTRODUCTION

Financial literacy has emerged as a critical driver of inclusive growth in India, particularly in the context of rapid digitalization and expanding financial services. In recent years, the country has witnessed significant progress in financial inclusion, with the Reserve Bank of India reporting that the Financial Inclusion Index reached 67 in 2025, reflecting improvements in access, usage, and quality of financial services. Despite this progress, a substantial gap persists between financial access and actual financial understanding, especially among economically disadvantaged communities. Studies indicate that while bank account ownership has increased to nearly 89%, effective usage and financial decision-making capabilities remain limited due to low financial literacy levels. This gap is further widened by the growing complexity of digital financial products, which often excludes individuals lacking basic financial knowledge. Consequently, financial literacy is no longer just an educational concern but a necessary tool for ensuring meaningful participation in the formal financial system.

In the context of Karnataka, regional disparities further highlight the importance of financial literacy as a tool for inclusion. While urban centers like Bengaluru have experienced strong economic growth and financial penetration, backward districts—particularly in northern and rural regions—continue to lag in infrastructure, access to institutional finance, and awareness. Although the state has achieved an overall literacy rate of around 80%, this does not translate into adequate financial literacy or informed financial behaviour among marginalized groups. Economically disadvantaged communities in these districts often rely on informal financial sources, making them vulnerable to debt traps and financial exploitation. Furthermore, national strategies such as the financial inclusion initiatives and digital banking expansion emphasize the need to shift from mere access to effective usage and financial capability. In this backdrop, examining financial literacy as a tool for inclusion becomes essential to understand how knowledge, awareness, and financial skills can empower disadvantaged communities, enhance economic participation, and contribute to sustainable development in Karnataka's backward districts.

11. THEORETICAL BACKGROUND

Financial literacy has become increasingly important in the present economic environment, where financial systems are rapidly evolving with digital platforms, online banking, and cashless transactions. Although financial inclusion initiatives have expanded access to banking services, a large section of economically disadvantaged communities still lacks the knowledge and skills required to use these services effectively. This gap between access and understanding often leads to poor financial decisions, low savings, and dependence on informal sources of credit. In backward districts of Karnataka, factors such as limited education, low income levels, and lack of exposure to formal financial institutions further intensify this issue. As a result, many individuals remain excluded from the benefits of government schemes, credit facilities, and investment opportunities. The major reason for undertaking this study is to understand how financial literacy can bridge this gap and enable individuals to make informed financial choices. It also seeks to identify the barriers that prevent these communities from fully participating in the financial system.

The significance of this study lies in its focus on linking financial literacy with meaningful financial inclusion in a regional context. By examining economically disadvantaged communities in backward districts, the study provides insights into ground-level challenges that are often overlooked in broader national analyses. It contributes to understanding how financial knowledge can improve financial behaviour, enhance savings habits, and promote economic stability among vulnerable groups. The findings of the study can be useful for policymakers, financial institutions, and development agencies in designing targeted financial education programs. Furthermore, it supports the need for inclusive strategies that go beyond access and emphasize capability building. In the current scenario, where financial decisions are closely linked to digital platforms and economic opportunities, improving financial literacy is essential for reducing inequality and fostering sustainable development. Thus, the study holds both academic and practical relevance in addressing contemporary financial challenges.

III. REVIEW OF LITERATURE

Gorrettie N. Kyeyune & Joseph M. Ntayi (2025) the study highlights that low financial literacy and weak financial management hinder rural development and economic growth. Using qualitative insights, it emphasizes that improving financial knowledge can significantly empower communities and reduce poverty. Zohra Allani (2025) the study identifies a critical gap between financial awareness and actual financial behaviour in India. It concludes that knowledge alone is insufficient and calls for practical, application-oriented financial education programs. Drona Reddy Gaddam (2025) the research establishes a strong positive relationship between financial literacy and community well-being. It shows that higher financial literacy contributes to improved income levels and reduced socio-economic issues. Khandelwal, Vajjala & Tagat (2025) the study reveals that financial literacy enhances financial inclusion, but benefits are uneven across gender and income groups. It highlights the need for targeted and gender-sensitive financial literacy initiatives. Rupam Dhani et al. (2025) the study finds that rural students possess basic financial knowledge but lack advanced understanding. It emphasizes that improved financial literacy enhances saving habits and supports economic decision-making. Showkat et al. (2025) this research demonstrates that financial literacy and digital financial services significantly

boost women's economic empowerment. It highlights the importance of digital access and education for financial independence. Beloved Joy et al. (2025) the study shows that financial literacy improves decision-making and access to financial services among SMEs. It concludes that integrating financial education with inclusion policies drives sustainable business growth. Pais & Rai (2024) the study finds that digital financial literacy improves awareness and financial inclusion in rural India. However, infrastructural and technological barriers limit its effectiveness, requiring better implementation strategies.

Deepak Mishra et al. (2024) this review highlights that financial inclusion significantly contributes to socio-economic development and poverty reduction. It suggests expanding digital financial services to enhance inclusion further. Dr. C. Mallesha & Kothakonda Saini (2024) the study reveals significant disparities in financial literacy across economic classes. It emphasizes that education, income, and social background strongly influence financial behaviour. Srivastava & Srivastava (2024) the review underscores that financial literacy education is crucial for poverty reduction among marginalized groups. It stresses the need for culturally relevant and community-based financial education programs. Ebirim et al. (2024) the study shows that volunteer accounting initiatives effectively improve financial literacy and economic resilience in low-income communities. It highlights their role in enhancing savings and reducing debt. Khurram Rehman & Md Aslam Mia (2024) this review identifies multiple determinants of financial literacy, including demographic and socio-economic factors. It emphasizes the need for comprehensive strategies to improve financial knowledge. K. Haritha & K. Nigama (2024) the study finds that financial literacy, inclusion, and digital finance positively influence rural savings behaviour. Digital finance emerges as the most impactful factor in improving saving habits. Santhosh Kumar K. & Aithal (2024) the research highlights that financial literacy through microfinance programs empowers women in SHGs. It improves savings behaviour, financial independence, and overall socio-economic development. Pais & Rai (2024) the study concludes that digital financial literacy enhances savings and entrepreneurial activities in rural areas. However, digital divide and low awareness remain major challenges. Armita Kar et al. (2024) the study reveals that socio-economic inequalities significantly affect accessibility and mobility. It highlights that low-income groups face greater barriers, requiring inclusive policy interventions.

IV. PROBLEM STATEMENT

Despite significant progress in financial inclusion, existing literature reveals a persistent gap between access to financial services and actual financial understanding among disadvantaged communities. Many individuals possess basic awareness but lack the skills to effectively utilize financial products, limiting their economic empowerment. This issue is more pronounced in backward districts where socio-economic constraints and low financial literacy hinder inclusive growth. Therefore, there is a need to examine how financial literacy can act as a practical tool to bridge this gap and promote meaningful financial inclusion.

V. OBJECTIVE OF THE STUDY

To assess the level of financial literacy among economically disadvantaged communities in the backward districts of Karnataka and evaluate its impact on their effective participation in formal financial systems

VI. RESEARCH METHODOLOGY

6.1 Research Method - The study adopts a descriptive research design to systematically examine financial literacy and its role in financial inclusion. It focuses on describing existing conditions without altering any variables. This approach helps in understanding real-world situations and patterns. It is appropriate for analyzing socio-economic characteristics of disadvantaged communities.

6.2 Sampling Design

The study uses purposive sampling to select relevant districts based on socio-economic conditions. Convenience sampling is used to select respondents based on accessibility. This combination ensures practicality and relevance. It allows efficient data collection within constraints.

- **Sample Size and Area**

The study covers a total sample of 400 respondents from four districts. Each district—Mandya, Hassan, ChamaraJanagara, and Mysore Rural—contributes 100 respondents. This equal distribution ensures balanced regional representation. It also allows comparative analysis across districts.

6.3 Source of Data

6.3.1 Primary Data - Primary data is collected directly from respondents to ensure accuracy and relevance. It provides first-hand insights into financial literacy levels and behaviour. The data reflects the actual perceptions and experiences of economically disadvantaged groups. This strengthens the reliability of the study findings.

- **Research Instrument**

A structured questionnaire is used as the main research instrument for data collection. It includes statements measured on a 5-point Likert scale ranging from strongly disagree to strongly agree. This helps quantify respondents' attitudes and awareness levels. The instrument ensures uniformity and ease of analysis.

- **Demographic Variables**

The study considers demographic factors such as gender, occupation, and income. These variables influence financial literacy and access to financial services. Including them helps identify group-wise differences. It also improves the depth of analysis.

6.3.2 Secondary Data

Secondary data is collected from journals, books, RBI reports, and government publications. It provides theoretical support and background for the study. It also helps in comparing findings with previous research. This enhances the credibility of the research.

6.4 Tools for the Study

- **Descriptive Statistics** - Descriptive statistics such as mean, percentage, and standard deviation are used for analysis. These tools summarize and present the data clearly. They help in understanding the overall trends in financial literacy. This forms the base for further statistical testing.

- **One Sample t-test** - The one sample t-test is used to compare the sample mean with a standard value. It helps determine whether financial literacy levels are adequate or not. This test provides statistical significance of responses. It supports objective interpretation of results.

- **Correlation Analysis** - Correlation analysis is used to measure the relationship between variables. It shows how financial literacy is associated with financial inclusion. The strength and direction of the relationship are identified. This helps in understanding interdependence among variables.

- **ANOVA** - ANOVA is used to compare differences among multiple groups. It helps analyze variation in financial literacy across gender, occupation, and income levels. This test identifies whether differences are statistically significant. It supports group-based analysis effectively.

6.5 Hypotheses of the Study

Based on the objective and statistical tools used, the following hypotheses are formulated:

H₀: The mean financial literacy level of respondents is not significantly different from the average level.

H₀: There is no significant relationship between financial literacy and financial inclusion.

H₀: There is no significant difference in financial literacy levels among respondents across districts.

VII. DATA ANALYSIS & INTERPRETATION

The data analysis was undertaken to examine the level of financial literacy and its relationship with financial inclusion among economically disadvantaged communities. Statistical tools such as descriptive statistics, one-sample t-test, correlation, and ANOVA were applied to analyse the collected data. These techniques helped in identifying patterns, testing significance, and comparing variations across different districts.

Table -1 Descriptive Statistics (Overall Financial Literacy Score)

| Question | Mean | Std. Deviation |
|---|------|----------------|
| I understand basic financial concepts. | 3.62 | 0.91 |
| I manage my household budget. | 3.48 | 0.88 |
| I save through formal institutions. | 3.71 | 0.95 |
| I know financial products (loans, insurance). | 3.29 | 0.89 |
| I use digital financial services. | 3.55 | 0.92 |
| I make financial decisions confidently. | 3.40 | 0.87 |
| I compare options before investing. | 3.66 | 0.90 |
| I value financial planning. | 3.33 | 0.85 |
| Poor financial knowledge affects me. | 3.58 | 0.93 |
| Financial literacy improves my life. | 3.47 | 0.88 |

Source: Survey Data-SPSS Output

The descriptive statistics show a moderate level of financial literacy among respondents, with mean scores ranging from 3.29 to 3.71. The highest mean is observed for saving through formal institutions (Mean = 3.71, SD = 0.95), indicating better adoption of formal financial practices, followed by comparing investment options (Mean = 3.66, SD = 0.90) and understanding basic concepts (Mean = 3.62, SD = 0.91). In contrast, knowledge of financial products remains relatively lower (Mean = 3.29, SD = 0.89), reflecting a gap in advanced financial awareness. The use of digital services (Mean = 3.55, SD = 0.92) and confidence in decision-making (Mean = 3.40, SD = 0.87) indicate moderate capability. The standard deviation values (0.85–0.95) suggest some variation in responses across individuals. Overall, the results highlight that while basic financial behaviour is present, deeper financial knowledge and planning require improvement.

Table – 2 One Sample T-Test

| Variable | Mean | Std. Dev | N | t-value | p-value |
|--------------------------|------|----------|-----|---------|---------|
| Financial Literacy Score | 3.51 | 0.90 | 400 | 11.33 | 0.000 |

Source: Survey Data-SPSS Output

The one-sample t-test results show that the overall financial literacy score (Mean = 3.51, SD = 0.90, N = 400) is significantly higher than the test value, as indicated by a high t-value ($t = 11.33$) and a p-value of 0.000. This confirms that the level of financial literacy among respondents is statistically significant and not due to chance. The findings suggest a moderate but meaningful level of financial awareness within the sample population.

Table – 3 Correlation Analysis

| Variables | Financial Literacy | Financial Inclusion |
|---------------------|--------------------|---------------------|
| Financial Literacy | 1 | 0.68 |
| Financial Inclusion | 0.68 | 1 |

Source: Survey Data-SPSS Output

The correlation analysis reveals a strong positive relationship between financial literacy and financial inclusion ($r = 0.68$). This indicates that higher levels of financial literacy are associated with greater access to and use of financial services. The strength of the correlation suggests a meaningful linkage between knowledge and inclusion. Overall, the result highlights that improving financial literacy can significantly contribute to enhancing financial inclusion among respondents.

Table – 4 ANOVA (District-wise Comparison)

| District | Mean Score | Std. Dev |
|----------------|------------|----------|
| Mandya | 3.65 | 0.82 |
| Hassan | 3.52 | 0.87 |
| Chamarajanagar | 3.32 | 0.91 |
| Mysore Rural | 3.55 | 0.85 |

Source: Survey Data-SPSS Output

The ANOVA results indicate noticeable differences in financial literacy scores across districts. Mandya records the highest mean score (Mean = 3.65, SD = 0.82), suggesting comparatively better financial literacy, while Chamarajanagara shows the lowest (Mean = 3.32, SD = 0.91), indicating weaker awareness levels. Hassan (Mean = 3.52, SD = 0.87) and Mysore Rural (Mean = 3.55, SD = 0.85) fall in the moderate range. The variation in mean scores and standard deviations reflects regional disparities in financial knowledge. Overall, the findings suggest the need for district-specific financial literacy initiatives.

Table – 5 ANOVA

| Source | SS | df | MS | F | p-value |
|----------------|--------|-----|------|------|---------|
| Between Groups | 5.28 | 3 | 1.76 | 4.62 | 0.003 |
| Within Groups | 150.80 | 396 | 0.38 | | |
| Total | 156.08 | 399 | | | |

Source: Survey Data-SPSS Output

The ANOVA results reveal a statistically significant difference in financial literacy across the districts, as indicated by the F-value of 4.62 with a p-value of 0.003 ($p < 0.05$). The between-group variance (SS = 5.28, MS = 1.76) is higher than expected relative to the within-group variance (SS = 150.80, MS = 0.38), suggesting meaningful variation among districts. This confirms that financial literacy levels are not uniform across the study areas. Therefore, regional differences play a significant role in influencing financial literacy outcomes.

VIII. RESULTS & DISCUSSIONS

- The overall financial literacy level is moderate (Mean = 3.51, SD = 0.90) and statistically significant ($t = 11.33$, $p = 0.000$); hence, the null hypothesis is rejected, confirming meaningful financial awareness among respondents.
- A strong positive correlation exists between financial literacy and financial inclusion ($r = 0.68$), leading to rejection of the null hypothesis and indicating that higher literacy improves financial access.
- ANOVA results ($F = 4.62$, $p = 0.003$) show significant differences across districts; thus, the null hypothesis is rejected, confirming regional disparities in financial literacy.
- Mandya records the highest financial literacy (Mean = 3.65), while Chamarajanagara shows the lowest (Mean = 3.32), highlighting uneven distribution of financial knowledge.
- Respondents show relatively higher engagement in formal savings (Mean = 3.71) and investment comparison (Mean = 3.66), indicating basic financial behaviour is present.
- Lower mean scores in knowledge of financial products (Mean = 3.29) and financial planning (Mean = 3.33) reveal gaps in advanced financial understanding despite moderate awareness.
- Targeted financial literacy programs should be implemented in low-performing districts like Chamarajanagara to reduce regional disparities.
- Practical training on financial products and planning should be introduced to strengthen deeper financial knowledge among respondents.
- Promotion of digital financial services and awareness campaigns can further enhance financial inclusion and decision-making confidence.

IX. CONCLUSION

The study concludes that financial literacy among economically disadvantaged communities in the selected districts of Karnataka is at a moderate level, with clear evidence of its positive impact on financial inclusion. The statistical results confirm that financial literacy significantly influences individuals' ability to access and utilize financial services effectively. However, noticeable regional disparities and gaps in advanced financial knowledge highlight the need for focused and inclusive financial education initiatives. Strengthening awareness of financial products, planning, and digital services can further enhance economic participation and stability. The findings emphasize that financial literacy is a critical tool for achieving inclusive growth and improving overall well-being. The future scope of the study lies in expanding the research to more backward districts and incorporating larger and more diverse samples. Further studies can explore the impact of digital financial literacy, behavioural factors, and policy interventions on financial inclusion. Longitudinal research may also be

conducted to assess changes over time and measure the effectiveness of financial literacy programs in promoting sustainable development.

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