Financial Inclusion in Rural Development

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Abstract

Rural development generally refers to the process of improving the quality of life and economic well-being of people living in relatively isolated and sparsely populated areas. Rural development has traditionally centred on the exploitation of land-intensive natural resources such as agriculture and forestry. However, changes in global production networks and increased urbanization have changed the character of rural areas. Meanwhile, promoting development in rural areas is a slow and complex process. It requires simultaneous action in various sectors, where an environment undergoes rapid and sometimes, volatile change. The change comes from internal as well as external processes such as privatization and globalization, by forces appearing to be scattered and disparate (Bauman, 1998). What is the role of rural societies in this change? Just adjust to a rapidly changing and highly competitive international economy (World Bank, 2005) or to have a more innovative and proactive role? India is in the midst of a transformation to a network economy with a shift from markets to networks, from quantities to qualities, from commodities to niche, and from supply-driven to demand-driven large chains. The new developments have provided opportunities for small farmers too. Some of them are linked to supermarkets (at least in certain products). However, the process is uneven. Financial inclusion policy priorities are identified primarily with a view to boosting growth in average material living standards as measured by GDP per capita. This has been the hallmark of ‘Going for Growth’ since its launch. The ultimate aim, however, is a genuine and broadly-shared improvement in living conditions, which implies that stronger growth in average income does not come at the expense of other important aspects of well-being. Hence, the researcher is interested to reveal the income, saving and expenditure of rural areas, how far the financial policy reached the study area and to examine the role of financial inclusion policy in rural development.
Keywords: Rural Development; Financial Inclusion Policy; Savings; Village

1. Introduction

In the Indian economy, rural sector is of great importance due to the limits set by this sector to the growth of others sectors. Since, there is an assumption that the rural savings capacities are very low, the policy makers have not seriously considered about the mobilization of savings from this sector. India is a developing country, where there has been a consistent increase in the national saving rate over the independence period, though there are fluctuations from year to year. From international standpoint, India has had a high saving rate compared to other developing countries, China 51 %, Hong Kong 28 %, Japan 22%, and Macao 58% except those in East Asia. To study the rural savings in India, four important aspects such as determinants of savings, the composition of savings, the methods of measuring savings, and the pattern of savings. Savings is that part of the income earned by the individuals meant for future. For the higher economic growth of the country, marginal propensity to save should be higher, but it helps with the multiplier process.

2. Statement of the Problem

Saving is a very important component which is responsible for combating or meeting any emergency accrued by the individuals or the households or any corporate agencies. Saving is meant for meeting contingencies, but sometimes it also acts as a form of investment. In contrast, sometimes people are not inclined towards saving and the reason is lack of awareness. The present study is a relevant one to know the reason of dis-saving and if saving occurs, then what are the determinants responsible for saving. Aggregate saving in any economy is dependent on a number of variables. For effective economic planning, the planners should have an idea regarding the volume of saving of different groups of people and the method by which saving can be improved even more in a better way. To advocate more saving, there is a need to know regarding saving motives of the individuals. An understanding of the saving preferences also, helps in calculating the saving instruments which can efficiently arouse saving. NilakkottaiTaluk in Dindigul District, state of Tamil Nadu in India and Musuvanoothu village are having a very poor access to the saving needs which really has made a great interest in the minds of looking at the perspective as a whole. Right now, saving more and spending more, simultaneously has
become the basic and conflicting factor for the economy. The present influence of the households in Musuvanoothu should experience total saving, which helps to step up the saving in economy. Thus, there is an immediate need to carefully understand the determinates of both the household saving rate and the saving pattern in the rural households of Musuvanoothu village of Dindigul district, Tamil Nadu in India.

3. Significance of the Study

There are not many studies available relating to the determinants of saving pattern of the rural people of Musuvanoothu village in Dindigul District of Tamil Nadu in India at the micro level. There are fewer publications on the state of the rural masses. There are various studies on saving pattern of rural people based on secondary data, which sometimes does not prove to be adequate for the study. Most of the data available do not serve the needs of Musuvanoothu in a ground level prospective. While, studies conducted on the saving and income expenditure among rural and urban households for various expenditure classes, little effort has been made to study the savings pattern related to the individual’s behaviour towards saving within rural sector. The study on pattern of saving behaviour in rural areas provides an important indicator for economic development of the country. This study can also help to define the factors influencing the saving pattern and to analyse certain constraints in the saving attitude in the rural areas.

4. Objectives

The objectives of the present study are:

(1) To examine the socio-economic condition of the respondents in the study area.

(2) To find out the factors influencing savings in the study area.

5. Methodology

The present study is based on both primary and secondary data. Multiple sampling techniques were used for selection of the sample respondents. The primary data was collected from the respondents by personal interview method. The secondary data was collected from books, journals, government reports and websites.
6. Results and Discussions

Of the 120 sample beneficiaries in the study area, 45 beneficiaries had bank accounts, while 75 had accounts in post offices. The proportion of beneficiaries with bank accounts differed across the village significantly. Saving of the 120 respondents, varies as a saving of Rs.400-500 is 15.8%, 31.7% belongs to Rs.500-600 saving, 15.8% belongs to Rs.600-700 saving, 7.5% belongs to Rs.700-800 saving of the respondents and 2.5% belongs to Rs.800-1000 saving which decrease by consumption of the respondents. 26.7% respondents have bank accounts without any saving.

*Figure 1: Details of the savings of the respondents.*

The sample beneficiaries were also asked about sources of their income. Majority of the beneficiaries acknowledged multiple sources of income. Income from agricultural labour was the most prominently found among 90 percent of the beneficiaries. Agriculture was the second important source of income with 46% of the beneficiaries. Casual labour was highest among the ‘other’ category.
The Self Help Groups (SHG) movement is bringing about a profound transformation in rural areas of India. Micro Financial Institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. It is estimated that there are about 10 groups working in the selected village and the fund for their entrepreneurial activity is provided for. Today, there is over 120 respondents linked with banks. The objective of the country is to enrol at least 50% of all rural women in India as members of bank. This has been achieved in the study area.

The access and the usage of the financial services by the sample beneficiaries were analysed. The opening of an account, its operation, travel and transaction costs, and rent seeking costs incurred and so on were analysed. The beneficiaries were asked about the person who accompanied them for the purpose of opening of the account. There is a number of beneficiaries who opened the account, while being accompanied by someone. Twenty-one beneficiaries (about 8 per cent of the sample) did not provide any response with respect to opening of the account as well as its usage/access. The number of sample beneficiaries who responded was 120 accounting for 72% of the total sample. Higher percentages of beneficiaries were accompanied by someone to open the account in post office than in a bank.

Operation of the accounts by the sample beneficiaries analysed to examine as to what extent the beneficiaries have to depend on the others for transacting the business. It was found that about 38% of the sample beneficiaries did transact their business alone without depending on others. Among the persons who were helping the beneficiaries, panchayat members were found to be most predominant followed by Bank/PO officials and neighbours. The proportion of female beneficiaries operating the accounts on their own was found to be less than that of the male beneficiaries while higher proportion of the female beneficiaries were found to be dependent on neighbours.

The majority of 51.79% of the sample respondents are getting services with SHG linkage from the Bank, 7.05% getting agricultural loan and 17.82% getting term loan services. 85.7% of respondents do not use the internet banking, 1.53% had awareness of internet banking and 9.87% have poorly aware, whereas 0.51% of the sample households are fairly aware of
internet banking in the study area. The majority 31.02% of respondents are accessing the bank services, 10.38% accessing the postal services. Financial inclusion is determined by multiple factors like infrastructure development, economic development, financial literacy, etc. Financial inclusion in this paper is measured from saving as well as credit aspects of the respondents by the researcher.

An economic model has been framed, to determine factors that influence income on savings. In order to reassure the researcher’s claim, a multiple linear function was formulated and estimated for primary data. The formulated form runs as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + U_t$$

Where

- $Y$ = Total household Income
- $X_1$ = Education
- $X_2$ = Respondent Wage
- $X_3$ = Work
- $X_4$ = Family Size
- $X_5$ = House
- $X_6$ = Savings
- $X_7$ = Non Food Expenditure
- $X_8$ = Food Expenditure
- $U_t$ = the disturbance term

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ and $\beta_8$ are the coefficients of parameters.

From the table, it is seen that in village the significant factors are $X_2, X_5, X_6, X_7$ and $X_8$. In the significant factor are $X_6$ and $X_7$. However, in the case of village, only one variable $X_2$ is marginally significant.

The linear regression has run on the above model framed in statistical package for social sciences (SPSS). It is seen that in Musuvanoothu village the significant factors are $X_1, X_2, X_3, X_4, X_5, X_6, X_7$, and $X_8$ dependent of income. Regression $R^2$ value is 0.852 and ‘F’ ratio value is 7.550. The model explanatory level is 85% and has the positive variables such as education, wage, work, house, savings, food and expenditure. The income and savings are directly related which
is empirically proved and a rupee increase in income will increase 3 paisa increase in their savings that is three percent increase in savings. The non-food expenditure is increased to 28 paisa when a rupee increases in total income of the family. The expenditure is in higher percentage than the savings due to accessing the children’s education in private sector.

Table 3: Variables with in Musuvanoothu.

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<thead>
<tr>
<th>Variables</th>
<th>Musuvanoothu</th>
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<tbody>
<tr>
<td></td>
<td>Coefficient</td>
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<tr>
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<td>X8</td>
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<tr>
<td>R²</td>
<td>.852</td>
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<td>F-ratio</td>
<td>7.550</td>
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6. Recommendations

In the saving mobilization efforts and in the endeavour to increase physical investment in production fare assets, the government can link the decentralized planning.

Another measure that can be undertaken in the saving mobilization efforts is to empower the women folk in the rural areas. It is widely acknowledged that the post office offered chit funds and small saving schemes to many women subscribers.

7. Conclusion

In the present context, the rural dominated society is experiencing mass poverty, unemployment, low income, low savings and low occupational status. In this context the present study has investigate the socio economic background and the saving pattern determinants of the rural households in the Musuvanoothu village, Dindigul district of Tamil Nadu in India.
References


