

## Original Research Article

### **Constraints of Financial Inclusion among the Rural Households of Andhra Pradesh, India**

#### **ABSTRACT**

Socio-economic development of rural households is directly linked with the extent of access and usage of financial services, since it equips the households with credit in times of emergency and also useful in upliftment of their status by investing in the productive purposes. Moreover it helps in limiting the disparities of income between the urban and rural households. Despite possessing bank account by all rural households under study, access and usage of the financial services was found to be very low. The present study was conducted during the year 2019-20 with an attempt to analyse the constraints that would be responsible for availing financial services by rural households in Andhra Pradesh and to suggest measures to improve the financial inclusion. The responses collected on constraints of financial inclusion were analysed using Garrett Ranking Technique. Based on the Garrett means score the rank was assigned to the constraints. Financial illiteracy emerged as significant constraint of accessing the financial services followed by the difficulty in getting a loan/emergency credit from the financial institutions. So, to improve the accessibility and usage of formal financial services, there is need to simplify the procedures of financial institutions and also the security norms have to be relaxed for the rural households. Financial literacy has to be increased by conducting periodical programmes by the concerned banks in the area to strengthen the accessibility to financial services.

**Keywords:** Financial Inclusion, Financial illiteracy, Rural households, Garrett Ranking.

#### **Introduction**

The access to financial institutions and services is necessary for the socio-economic upliftment of rural households and financial inclusion is one such way. Financial inclusion refers to delivery of financial services, at affordable cost, to the lower segments of society (Sharma and Kukreja 2013). Well-developed financial system includes three aspects: access to financial services, affordability of such services and the utilization of such services (Shetty 2006). Beyond account opening in bank, usage of these services equips the households with

money and protects against vulnerability. In this direction the Government of India has introduced various schemes and programmes and taken several measures to bring the rural households in the folds of financial access.

Though the technological intervention has brought drastic change in the banking technology supplemented by ATMs, Debit / Credit cards, online money transactions, internet banking etc., the accessibility and usage of these services remained as the major problem. In rural areas of India, the share of debt from the institutional and non-institutional credit agencies was 66.1 and 33.8 per cent respectively, which was 35.8 per cent and 64.2 per cent respectively in Andhra Pradesh state showing the declining share of institutional credit in total credit. The huge dependency of households on informal credit sources for their financial needs reveals the difficulties faced by the households in accessing the financial services from institutional sources. There can be many reasons for inefficient spread of financial services like lack of awareness, distance to bank, high interest rates, lack of assets, age dependency, illiteracy and low income/savings etc. (Uddin *et al.* 2017). Hence the research paper entitled **“Constraints of Financial Inclusion among the Rural Households of Andhra Pradesh, India”** is aimed at identifying the constraints of financial inclusion of rural households and suggesting suitable policy measures.

## **Methodology**

### **Sample selection**

Andhra Pradesh state was purposively selected for the present study. A multistage sampling technique was adopted to select the rural household respondents. Based on the CRISIL (Credit Rating Information Services of India Limited) Inclusix 2018 results, two districts each with highest and lowest CRISIL Inclusix score from each of the three regions of Andhra Pradesh viz., Srikakulam and Visakhapatnam from North Coastal zone, Krishna and Nellore from south coastal zone and Kadapa and Kurnool from the Rayalaseema zone were selected. Two mandals in each selected district based on the maximum and minimum number of bank branches with highest concentration of rural population were selected. Top two villages with highest rural population and at least one bank branch were selected from each of the selected twelve mandals for selection of the final respondents. The total account holders of the banks in all the 24 selected villages were considered as the total population for final selection of the respondents. Sample size was derived using Cochran's formula. Respondents were selected by simple random sampling, in proportion to the sample size, from each of the

selected village. Thus a total of 410 respondents were selected for collecting the data pertaining to the constraints of financial inclusion.

## Data Analysis

Garrett ranking technique was used to interpret the results. In Garrett's ranking technique, the respondents were enquired to rank the factors or problems and the ranks were converted into per cent position by using the following formula.

$$\text{Per cent position} = 100 * (R_{ij} - 0.5) / N_j$$

Where

$R_{ij}$  = Rank given to the  $i^{\text{th}}$  problem by the  $j^{\text{th}}$  sample respondents

$N_j$  = Total rank given by the  $j^{\text{th}}$  sample respondents

With the help of Garrett's Table the percentage position estimated was converted into scores. Then for each factor, the scores of each individual were added and then total value of scores and mean values of score was calculated. The factors having highest mean value is considered to be the most important factor.

## Results and Discussion

### Constraints of Financial Inclusion

As observed from the Table 1 and Fig. 1, the constraints selected for the study include: Bank is far away, no regular income, minimum balance is too high, non-availability of ATMs/ other financial services, financial illiteracy, no trust in the banking system, difficult to get a loan/emergency credit, prices of the financial service products are not affordable, only branch in the area, heavy crowd, waste of time and money, poor response of the bank employees. The ranks along with the mean score of the constraints of financial inclusion are depicted in the Figure 1. It was observed that most of the respondents reported financial illiteracy as the major constraint to avail the financial services from the formal sources, which was ranked first by the rural households with mean score of 66.82. Unavailability of emergency credit from the financial institutions (63.82) and no regular income (61.87) were ranked II and III respectively. Illiteracy is the major hindrance to avail the technology based financial services by the rural households. Due to lack of familiarity to conduct any banking activity, people refrain from using banking services especially due to fear of losing money. Lack of financial literacy alongside the basic education prevents people to have access to

financial services. This finding is in conformity with Manreet and Arjinder (2019) who reported that illiteracy was one of the hindrance factors in availing credit and Ray (2015) who reported that due to lack of literacy and financial awareness, the utilization of accounts was limited only to deposits and withdrawals. The second most important constraint of financial inclusion in the study area was unavailability of emergency credit from the financial institutions. The AIDIS (All India Debt & Investment survey) 2019 also reported that the rural households share of debt from informal credit sources (64.2%) was highest than that of formal credit sources (35.8%), revealing the rural households dependency on informal credit sources for their financial needs was higher than that of formal credit sources. The reasons include easy access, timeliness, personal relations, easy repayment etc. In contrast, the formal sources provide credit only when the households fulfil the security criteria which the rural households find difficult since the asset holding of the rural household was low with no guaranteed income sources especially for the unemployed labourers.

**Table 1. Ranking given by respondents to different constraints**

S.No.	Constraints	Garrett's mean score	Rank
1	Bank is far away from the home	40.31	8
2	No regular income	61.87	3
3	Minimum balance is too high	47.21	7
4	Non availability of ATMs / other financial services	48.07	6
5	Financial illiteracy	66.82	1
6	No trust in the banking system	34.40	9
7	Difficult to get a loan/emergency credit	63.82	2
8	Prices of the financial service products are not affordable	48.59	5
9	Only branch in the area, heavy crowd, waste of time and money	55.68	4
10	Poor response of the bank employees	33.23	10

Source: Authors Calculation

The third most important constraint for financial inclusion in the study area was irregular income (61.87%). Most of the respondents depend on the informal works to earn their livelihood which are uncertain, hence they might not get sufficient income all the time.

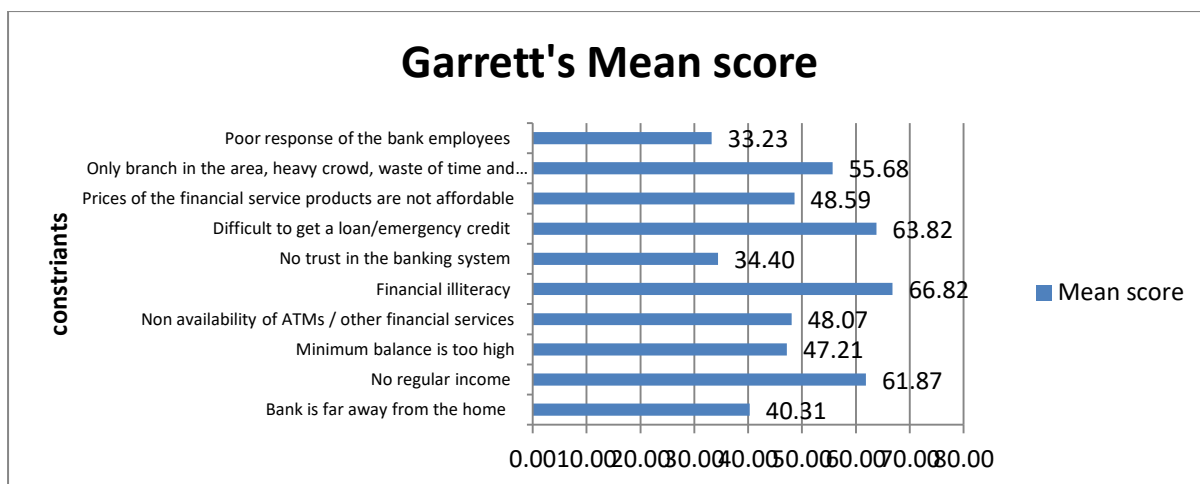
This finding was in conformity with Ray (2015) who reported that lack of sufficient and regular income was found to be the main reason for involuntary financial exclusion.

The presence of only one bank branch in the area leading to heavy crowd, waste of time and money (55.68%) was reported as the fourth constraint by the rural households. The government with the intention of providing the banking services established the bank branches in the rural areas in mission mode but the infrastructure and availability of banking staff was very poor in some of the study areas. Supported to that, the people from unbanked areas approach these bank branches making it inconvenient for the respondents to get the services on time. It was also observed that households who took a bank account in a particular branch for availing the services still visit to that branch though new bank branch was established in their locality, because the account could not be transferred from one bank to other bank because of the fear that the institutional agencies loose their business.

The fifth ranked constraint was unaffordable financial service products with 48.59 per cent. Not all the respondents are affordable to avail the financial services. The earnings of the households are meagre such that it may be difficult for them to maintain even minimum balance amount. Unless the account is a PMJDY account, the customer has to bear charges for every financial service starting from opening account, availing debit card and non-maintenance of minimum balance, etc.

Non-availability of ATMs was ranked as the sixth constraint with 48.07% score by the rural households. Out of the twenty four selected villages, six villages were not having any ATM facility. Some of the villages with ATM are not having enough cash to dispense and at often times they are not functional.

The other constraints reported were, minimum balance is too high, distance of the bank, no trust in the banking system and response of the bank employees is not good with mean scores of 47.21, 40.31, 34.40 and 33.23 respectively



**Fig. 1 Mean score of the constraints of financial inclusion of rural households**

## Conclusions

Financial illiteracy in availing the technology based financial services was found to be the major constraint of financial inclusion. The problems next to it reported by most of the respondents were difficulty in getting emergency credit from the financial institutions followed by irregularity in the income, etc. These constraints lead the respondents to approach the non-institutional sources as these sources included lesser formalities, ease of repayments and benefit of borrowing small sums.

## Policy Implications

- Financial literacy programmes should be organised by the grass root level agencies like NGOs, which would help in building informed customers and would result in win-win situation for all. Customer service points can also be used as a medium for educating the households.
- The banks should consider the borrower credentials in sanctioning the emergency credit in times when security was the problem. The security norms should be relaxed so that the households can have easy access to institutional credit.
- Government should take instrumental role in providing the employment opportunities to the rural poor through the schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).
- Banking staff in proportion to the population served may be increased, besides improving the banking infrastructure. The branches with high density should make use of the Business correspondents and Customer service points in extending the financial services to the rural households.

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