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Financial Inclusion, Inclusive Growth and Availing a loan

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Abstract

Financial inclusion has become the buzz word today and has caught the attention of policy makers and economists across the globe. Focus of Financial inclusion is on conversion of unbanked area into banked area. It plays a very crucial role in the growth and development of an economy. In all economies of the world, it is important to build Financial Inclusive systems for increasing access to finance, access to capital, and resources. Easy Access to credit at an affordable cost is also one of the important elements of financial inclusion. Through this study an effort has been made to explore the current status of credit availed and their distribution in Haryana. This study also analyzes the impact of demographic characteristics of BPL households on opening of bank account to avail a loan. The present study is explorative cum descriptive in nature. In the present study, both primary and secondary sources of data have been adopted for the purpose of data collection. The primary data was obtained with the help of a well-structured questionnaire. This study is based on a large representative sample of 988 BPL households of Haryana. BPL households were selected randomly from six districts of haryana i.e. Ambala , Faridabad , Rewari , Sirsa , Rohtak , Panipat by the method of multistage random sampling method followed by simple random sampling. After this, for analysis of data T- test, analysis of variance and Post Hoc analysis – Tukey method has been used. Findings of the study have been shown in form of table and graphs. It is observed that total credit given by scheduled commercial banks of Haryana is increasing year by year. In 2012 total credit given by scheduled commercial bank was 1159232 million, which has increased to 17, 82,410 in 2016. It is also seen out of all,

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share of urban sector in total credit is highest whereas metropolitan has least share among all. There is a need to make more effort to increase their share in total credit. Simplification of the lending procedures and lending at reasonable rate of interest can improve financial access. Banks will have to take steps to reduce the legal procedure and insistence of collateral while lending to the poor to increase the access of financial services to the poor. Further males were found more inclined towards opening bank account to avail a loan in comparison to females. There is a need to make an effort to increase inclusion among females by providing credit to them at low rates. Female should be encouraged to avail a loan through banks instead of local lenders.

Keywords: Financial Literacy, Financial Awareness, Below Poverty Line, United Nation.

Introduction

Banking and financial services play very crucial role in the growth and development of an economy. Financial development is widely recognized as an important determinant of economic growth **(Levine, 2005).** Enhancement in growth rate can be obtained through circulation of financial and banking facilities **(Sharma & Tuli, 2012). Global Partnership for Financial Inclusion (GPFI, 2011)** explained financial inclusion "a state in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers". Access to financial services help in development process through the reduction in income inequality. Financial inclusion has become an issue of worldwide concern, relevant equally in economies of the under developed, developing and developed nations. It has become the buzz word today and has caught the attention of policy makers and economists across the globe. Many countries like India, UK and UN, World Bank (WB) etc. have set up task force/committees to understand financial inclusion and to improve its scope.

The term financial inclusion is perceived in different ways under different contexts. Various financial experts argue that bank account is the most basic step of bringing excluded people under financial mainstream. So the primary objective of financial inclusion should be to open bank accounts of unbanked people. **Chakrabarty K. C. (2010),** reserve bank of India defined Financial Inclusion as "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players". **The Rangarajan Committee, GOI (2008),** defines financial inclusion as "the process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost". An inclusive financial system has several merits. An easy access to credit at an affordable cost is also one of the important elements of financial inclusion. An inclusive financial system can help reduce the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. In comparison to developed economies, developing economies need to make more effort to increase financial inclusion **(Chaudhary R., & Tuli. R., 2019).** Financial inclusion is important simply because it is a necessary condition for sustaining equitable growth **(Subbarao, 2009).**

Review of literature

As far as the literature on the role of finance in economic development is concerned, it is recommended that, financial development creates pro-growth conditions in an economy, through the demand-following or supply leading channels. The strong association between financial development and economic growth is well reported in the literature **(Demirgruc Kunt and Maksimovic, 2008). Adam Smith (1776)** had expressed his view about the remarkable and key contribution of high density of banks in Scotland for encouraging the development of the Scottish economy. **Levine (1997)** explored the linkages and the transmission mechanism through which finance and economic growth are connected. **Rani (2007)** reports "giving loans to poor women through SHGs is a beginning in their journey for economic emancipation and empowerment. The micro-credit, especially to women is a notion that mixes 'ethics' with 'economics' and is a socially conscious program". **Iqubal (2012)** pointed out "microfinance was a promising alternative which offers funds at the door steps of the poor and weaker section of the population in rural areas. Lending to Indian poor population could be extremely attractive option for private firms from the developed economics".

Statement of the Problem

Financial Inclusion, Inclusive Growth and Availing a Loan

Objectives of the Study:

- To explore the current status of credit given by scheduled commercial banks in Haryana.
- To analyze the advances given to different sectors in Haryana.
- To study the impact of demographic characteristics of BPL households on opening of bank account to avail a loan.

Research Design

The present study is explorative cum descriptive in nature. It basically seeks to extract information about financial inclusion. It provides an insight on how adults borrow money and tried to gain an acquaintance with various aspects and dimensions of financial inclusion. It basically seeks to extract information about financial inclusion specifically in Haryana context. It tried to know the status of credit given by scheduled commercial banks in Haryana among years. It also required prior formulation of hypotheses which have been statistically tested to derive conclusions in the light of given objectives.

3.6 Data collection and statistical tools

In the present study, both primary and secondary sources of data were adopted for the purpose of data collection. The primary data was obtained with the help of a well-structured questionnaire. This study is based on a large representative sample of 988 BPL households of Haryana. BPL households were selected randomly from six districts of haryana i.e. Ambala , Faridabad , Rewari , Sirsa , Rohtak , Panipat by the method of multistage random sampling method followed by simple random sampling. Secondary data was obtained from various academic journals, books, the Global Findex database, the financial access survey, the website of ministry of finance and reserve bank of India. For analysis of data T- test, analysis of variance and Post Hoc analysis – Tukey method was used. Results and findings of the study have been shown in form of table and graphs.

Table 1.1: Respondents Profile

Variables	Categories	Frequency	Percent	Cumulative Percent
Gender	Male	533	53.9	53.9
	Female	455	46.1	100
	Total	**988**	**100**	
Marital Status	Single	199	20.1	20.1
	Married	658	66.6	86.7
	Widow/widower	131	13.3	100
	Total	**988**	**100**	
Household Annual Income	Less than 8,000	169	17.1	17.1
	8,000 – 16,000	235	23.8	40.9
	16,000 – 24,000	247	25.0	65.9
	24,000 – 32,000	221	22.4	88.3
	32,000 – 40,000	107	10.8	99.1
	More than 40,000	9	.9	100
	Total	**988**	**100**	
Location of residence	Rural	465	47.1	47.1
	Urban	523	52.9	100
	Total	**988**	**100**	

Findings of the Study

Status of credit and their distribution in Haryana

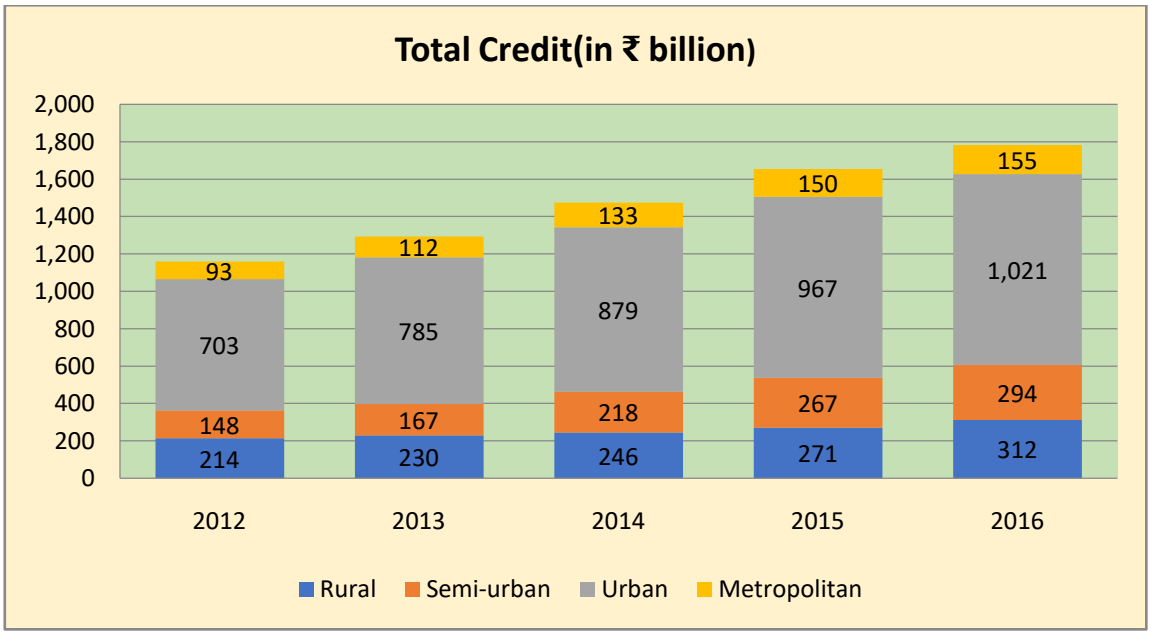
Aggregate bank credit of scheduled commercial banks in Haryana and credit given to different sectors in Haryana among years has been shown below with the help of tables and graph:

Table 1.2: Aggregate Deposit and Gross Bank Credit of Scheduled Commercial Banks in Haryana (Amount in ₹ Millions)

year	(Amount in ₹ Millions)	Rural	Semi-urban	Urban	Metropolitan	Total
2012	Credit	2,14,215	1,48,214	7,03,349	93,453	11,59,232
2013	Credit	2,30,142	1,66,540	7,84,535	1,11,520	12,92,737
2014	Credit	2,45,613	2,17,542	8,79,154	1,32,757	14,75,065
2015	Credit	2,70,766	2,66,655	9,67,249	1,50,263	16,54,934
2016	Credit	3,12,393	2,93,872	10,20,913	1,55,232	17,82,410

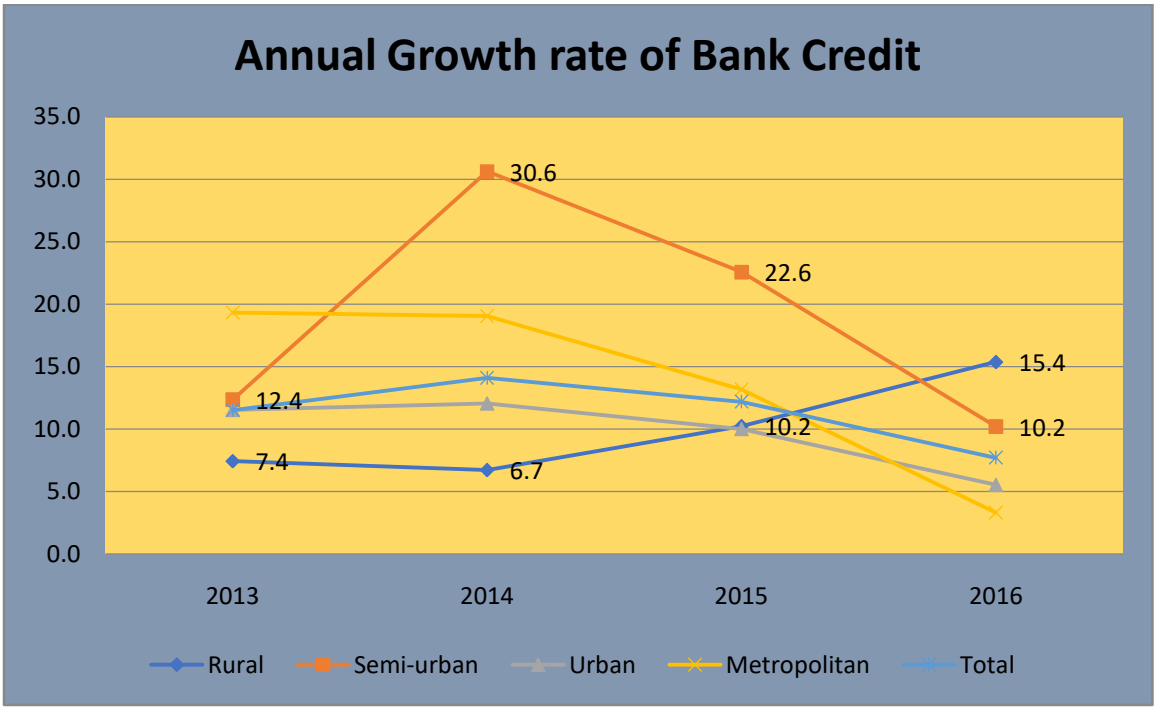
Source: Bank Branch Statistics, Reserve Bank of India, *https://rbi.org.in*

Figure 1.1: Aggregate Gross Bank Credit of Scheduled Commercial Banks in Haryana (Amount in ₹ Millions)



It can be seen from above table and graph that total credit of scheduled commercial banks of Haryana is increasing year by year. In 2012 total credit given by scheduled commercial bank was 1159232 million, which has increased to 17, 82,410 in 2016. Out of all, proportion of urban sector in total credit is highest.

Figure 1.2: Annual Growth rate of Bank Credit (in percent)



It can be easily inferred from the above table that the rate of growth of bank credit is increasing in Rural area after 2014, while all other Areas viz Metros, semi urban and urban are seeing a seeing a slowdown in growth of Bank Credit. It clearly indicates that Banks are now trying to reach previously not accessed areas and contributing more in financial inclusion than in previous years.

Table 1.3: Advances Given to Different Sectors Among Years (Amount in ₹ Crore)

Sector	June, 2015	June, 2016	June, 2017	Variation June, 2017/ June, 2016	
				Absolute	**%age**
Priority Sector	97212	107650	112966	5316	4%
Agriculture Sector	38608	42923	44331	1408	3%
MSME Sector	44041	48490	52113	3623	7%
Weaker Sector	21101	23264	22378	-886	-4%

Source: Agenda Papers, 140th meeting of state level banker's committee Haryana, *http://www.slbcharyana.org.in/*

Advances under Priority Sector have increased from Rs.107650 Crore as at June, 2016 to Rs.112966 Crore as at June, 2017, thus showing an increase of Rs. 5316 Crore on YOY basis

or 4%.Total outstanding under agriculture advances increased from Rs.42923 Crore as at June, 2016 to Rs. 44331 crore as at June, 2017, showing an increase of Rs.1408 crore or 3% on YOY basis. Advances to Micro, Small & Medium Enterprises have increase by Rs.3623 crore from Rs.48490 Crore as at June, 2016 to Rs.52113 Crore as at June, 2017 thereby registering a growth of 7%. Advances to Weaker Sector decreased by Rs.886 Crore on year-on-year basis from Rs.23264 Crore as at June, 2016 to Rs.22378 Crore as at June, 2017 showing a negative growth of 4%. Decline in weaker sector advances is due to SHGB.

Impact of demographic characteristics of BPL households on opening of bank account to avail a loan

To analyze the Impact of demographic characteristics of BPL households on opening of bank account to avail a loan - T- test, analysis of variance and Post Hoc analysis – Tukey method has been used.

T-Tests, Mean and Standard Deviations of Male and Female

(Null Hypothesis: There is no significant difference in mean of opening bank account to avail a loan between male and female)

Table 1.4: Group Statistics

	gender	N	Mean	Std. Deviation	Std. Error Mean
To Avail A Loan / Credit	Male	487	3.21	1.058	.048
	Female	427	2.86	1.080	.052

Table 1.5: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
To Avail A Loan / Credit	Equal variances assumed	.634	.426	4.879	912	.000	.346	.071	.207	.485

	Equal variances not assumed			4.872	891.366	.000	.346	.071	.206	.485

The above table shows the significance value was 0.000 (i.e., p = .000), which is below 0.05. Therefore, null hypothesis was rejected. It meant there was statistically significant difference in mean of opening bank account to avail a loan between male (M =3.21, SD = 1.058) and female (M = 2.86, SD = 1.080) households; statistics t (912) = 4.879, p =. 000. These results further suggest that males were more inclined towards opening bank account to avail a loan in comparison to females. **Tejerina and Westley (2007)** found men were 1.6 times more likely to make use of formal credit than women. **Chavan (2008)** Observed gender inequality in banking service and found women receive only around one-tenth of the total individual credit from banks. Dalit and adivasi women belonging to socio- economically backward groups have seen a fall in their share in total bank credit.

T-Tests, Mean and Standard Deviations of Rural and Urban Households

(Null Hypothesis: There is no significant difference in mean of opening bank account to avail a loan between rural and urban household)

Table 1.6: Group Statistics

	location of residence	N	Mean	Std. Deviation	Std. Error Mean
To Avail A Loan / Credit	rural	406	2.93	1.048	.052
	urban	508	3.14	1.100	.049

Table 1.7: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
To Avail A Loan / Credit	Equal variances assumed	3.106	.078	-2.945	912	.003	-.211	.072	-.352	-.070

	Equal variances not assumed			-2.961	884.310	.003	-.211	.071	-.351	-.071

An independent-samples t-test was conducted to compare decision of opening of bank account for the purpose of availing loan between urban and rural households. The significance value was 0.003 (i.e., p = .003), which is below 0.05. Therefore, null hypothesis was rejected. It meant that there was statistically significant difference in mean of opening bank account to avail a loan between urban (M =3.14, SD = 1.110) and rural (M = 2.93, SD = 1.048) households; statistics t (912) = -2.945, p =. 003. These results further suggested that urban households were more inclined towards opening bank account to avail a loan in comparison to rural households.

One Way Analysis of Variance Tests, Mean and Standard Deviations of Various Categories of Annual Income of BPL Households:

(Null Hypothesis: There is no significant difference in mean of opening bank account to avail a loan among different categories of annual income)

Table 1.8: Descriptive

To Avail A Loan / Credit

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
less than 8,000	158	2.77	.836	.067	2.64	2.90	1	5
8,000 - 16,000	214	3.08	1.188	.081	2.92	3.24	1	5
16,000 - 24,000	217	3.25	1.006	.068	3.11	3.38	2	5
24,000 - 32,000	211	2.91	1.223	.084	2.74	3.07	1	5
32,000 - 40,000	106	3.31	.960	.093	3.13	3.50	1	5
more than 40,000	8	4.38	.518	.183	3.94	4.81	4	5
Total	914	3.07	1.092	.036	2.99	3.14	1	5

The table describes the mean and standard deviation relating to reason for opening bank account to avail a loan between BPL households having different annual income. Their overall mean score was 3.07 with a 1.092 standard deviation. The mean score for opening of bank account for availing loan of household having annual income less than 8,000 was 2.77, for income 8,000 – 16,000 was 3.08 , 16,000-24,000 was 3.25 , 24,000-32,000 was 2.91 , 32,000 – 40,000 was 3.31 and for more than 40,000 was 4.38. It can also be observed mean score increased as the level of annual income increased except for the households having

annual income 24,000-32,000. One way ANOVA was used for further analysis. There is large gap in account ownership around the world according to income group (Chaudhary and Tuli 2019).

Table 1.9: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	46.510	5	9.302	8.109	.000
Within Groups	1041.551	908	1.147		
Total	1088.061	913			

This table shows the output of the ANOVA analysis. The significance value was 0.000 (i.e., p = .000), which is below 0.05. Therefore, null hypothesis was rejected. There was a statistically significant difference in the mean of opening of bank account to avail a loan between households having different categories of annual income. It showed at least one of the categories of household annual income significantly differs from rest in the mean, but it did not mention which of the specific income category differed. For that purpose, paired multiple comparisons was conducted through post hoc analysis by using tukey method.

Table 1.10: Multiple Comparisons

Dependent Variable: To Avail A Loan / Credit

Tukey HSD

(I) Annual Household Income	(J) Annual Household Income	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
less than 8,000	8,000 - 16,000	-.312	.112	.062	-.63	.01
	16,000 - 24,000	-.477*	.112	.000	-.80	-.16
	24,000 - 32,000	-.133	.113	.846	-.45	.19
	32,000 - 40,000	-.539*	.134	.001	-.92	-.16
	more than 40,000	-1.603*	.388	.001	-2.71	-.49
8,000 - 16,000	less than 8,000	.312	.112	.062	-.01	.63
	16,000 - 24,000	-.165	.103	.601	-.46	.13
	24,000 - 32,000	.179	.104	.518	-.12	.48
	32,000 - 40,000	-.227	.127	.475	-.59	.14
	more than 40,000	-1.291*	.386	.011	-2.39	-.19
16,000 - 24,000	less than 8,000	.477*	.112	.000	.16	.80
	8,000 - 16,000	.165	.103	.601	-.13	.46
	24,000 - 32,000	.344*	.104	.012	.05	.64

	32,000 - 40,000	-.062	.127	.996	-.42	.30
	more than 40,000	-1.126*	.386	.042	-2.23	-.03
	less than 8,000	.133	.113	.846	-.19	.45
	8,000 - 16,000	-.179	.104	.518	-.48	.12
24,000 - 32,000	16,000 - 24,000	-.344*	.104	.012	-.64	-.05
	32,000 - 40,000	-.406*	.128	.019	-.77	-.04
	more than 40,000	-1.470*	.386	.002	-2.57	-.37
	less than 8,000	.539*	.134	.001	.16	.92
	8,000 - 16,000	.227	.127	.475	-.14	.59
32,000 - 40,000	16,000 - 24,000	.062	.127	.996	-.30	.42
	24,000 - 32,000	.406*	.128	.019	.04	.77
	more than 40,000	-1.064	.393	.074	-2.19	.06
	less than 8,000	1.603*	.388	.001	.49	2.71
	8,000 - 16,000	1.291*	.386	.011	.19	2.39
more than 40,000	16,000 - 24,000	1.126*	.386	.042	.03	2.23
	24,000 - 32,000	1.470*	.386	.002	.37	2.57
	32,000 - 40,000	1.064	.393	.074	-.06	2.19

*. The mean difference is significant at the 0.05 level.

There was statistically significant difference between categories of household annual income as determined by one-way ANOVA (F (5,908) = 8.109, p = 0.00) (table anova2).The table above, multiple comparisons**,** shows which category of annual income differed from each other. In all comparison of sub category wherever p value was less than 0.5, those two categories were significantly different in their mean score. for example when the decision of opening of bank account to avail a loan of households having income less than 8,000 was compared with other households , there was a significant difference in the mean of opening of bank account to avail a loan between the households having annual income less than 8,000 and annual income 16,000-24,000 (p=.000); between the annual income less than 8,000 and annual income 32,000-40,000 (p=.001); and between the annual income less than 8,000 and annual income more than 40,000 (p=.001). However, there was no significant difference between the households having annual income less than 8,000 and annual income 8,000-16,000(P=.062); and between the annual income less than 8,000 and annual income 24,000-32,000 (p=.842). Similarly when other sub categories were compared with each other it was found there was no significant difference between the households having annual income 16,000 – 24,000 and annual income 32,000 – 40,000 (P=.996) and also there was no difference between the households having annual income 32,000 -40,000 and annual income more than 40,000(.074). Post hoc analysis (table 4.50) and mean score (table 4.48) value clearly revealed that household having income 32,000 - 40,000 (3.31 ± .960) and household

having income more than 40,000(4.38 ± .518) were found more inclined towards opening bank account for availing loan than other households or it was readily available to them . Mean score also revealed as the level of household annual income increased, the inclination of respondents towards opening of bank account for availing loan also increased except for the households having annual income 24,000-32,000.

One Way Analysis of Variance Tests, Mean and Standard Deviations of Single, Married and Widowed For Opening of Bank Account To Avail A Loan.

(Null hypothesis: There is no significant difference in the mean of opening of bank account to avail a loan between single, married and divorced households)

Table 1.11: Descriptive

To Avail A Loan / Credit

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Single	189	3.21	1.160	.084	3.04	3.37	1	5
Married	618	3.08	1.081	.043	2.99	3.16	1	5
Widow/Widower	107	2.74	.965	.093	2.55	2.92	1	5
Total	914	3.07	1.092	.036	2.99	3.14	1	5

The table describes the mean and standard deviation relating to reason for opening bank account to avail a loan between single, married and widowed households. Their overall mean score was 3.07 with a 1.092 standard deviation. The mean score for saving money of single was 3.21, married was 3.08 and widowed was 2.74. One way ANOVA was used for further analysis.

Table 1.12: ANOVA

To Avail A Loan / Credit

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	15.321	2	7.661	6.506	.002
Within Groups	1072.740	911	1.178		
Total	1088.061	913			

From the above table it can be seen, the significance value was 0.002 (i.e., p = .002), which was below 0.05. Therefore, null hypothesis was rejected. It meant there was a statistically significant difference in the mean of opening of bank account to avail a loan between single, married and widowed households. For detailed analysis, paired multiple comparisons was conducted through post hoc analysis by using Tukey method.

Table 1.13: Multiple Comparisons

Dependent Variable: To Avail A Loan / Credit

Tukey HSD

(I) Marital Status	(J) Marital Status	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Single	Married	.127	.090	.337	-.08	.34
	Widow/Widower	.468*	.131	.001	.16	.78
Married	Single	-.127	.090	.337	-.34	.08
	Widow/Widower	.341*	.114	.008	.07	.61
Widow/Widower	Single	-.468*	.131	.001	-.78	-.16
	Married	-.341*	.114	.008	-.61	-.07

*. The mean difference is significant at the 0.05 level.

There was statistically significant difference between single, married and widowed as determined by one-way ANOVA (F (2, 911) = 6.506, p = 0.02). A Tukey post hoc method (table 1.13) and mean score revealed that there was significant difference between single and widowed (p = .001); married and widowed (p = .008), however there was no significant difference between single and married (p = .337). It also revealed that mean score (table 1.11) for availing loan as the reason for opening of bank account was significantly lower between married (3.08 ±1.081, p=0.337) and widowed (2.74 ±.965, p = 0.001) compared to single(3.21 ± 1.160)

Conclusion

Increase in financial inclusion is important for growth and development of an economy. An easy Access to credit at an affordable cost is also one of the important elements of financial inclusion. It was observed, total credit given by scheduled commercial banks of Haryana is increasing year by year. In 2012 total credit given by scheduled commercial bank was 1159232 million, which has increased to 17, 82,410 in 2016. It is also seen out of all, share of urban sector in total credit is highest whereas metropolitan has least share. There is a need to make more effort to increase their share in total credit. Simplification of the lending procedures and lending at reasonable rate of interest can improve financial access. Banks will have to take steps to reduce the legal procedure and insistence of collateral while lending to the poor to increase the access of financial services to the poor. There was a statistically significant difference found in mean of opening bank account to avail a loan between male (M =3.21, SD = 1.058) and female (M = 2.86, SD = 1.080). Males were found more inclined towards opening bank account to avail a loan in comparison to females. Further urban

households were more inclined towards opening bank account to avail a loan in comparison to rural households. There is a need to make an effort to increase inclusion among females by providing credit to them at low rates. Female should be encouraged to avail a loan through banks instead of local lenders. Further household having income 32,000 - 40,000 (3.31 ± .960) and household having income more than 40,000 (4.38 ± .518) were found more inclined towards opening bank account for availing loan than other. This inclination may depend upon the income of households, as income ultimately reveals repayment capacity of households or it was easily available to households having high income. Further respondents who went to middle school(3.5 ± -.898) and high school (4.00 ± 1.118) were found more inclined towards opening bank account for availing a loan than households who never went to school, illiterate(2.78 ± .988) or studied up to class 5 (3.19 ± 1.028). It clearly shows education also play important role in increasing inclusion. As Financial literacy and education plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity. Government should take steps for increasing the 'financial literacy and financial education'. It should be introduced as a part of course curricula at High School level particularly in rural areas. Children should be educated about the benefits of having loan from banks instead of local lenders. Panchayat offices should also be involved in enhancing financial literacy in rural areas.

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