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Impact of Financial Inclusion on Poverty Alleviation - An Empirical Study of Tumkur District

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Abstract: ***Evident fringes of income dissemination created imbalance society. Utmost of the poverty mitigation packages are financial empowerment schemes. Number of experiments led to conclusion that financial inclusion can resolve the issue of poverty in India. Financial inclusion makes people to come to the ambit of formal financial services.Reducing poverty is related to human development. Human development includes better environment, health condition, education, social stability, and higher productivity. The preview of financial exclusion has extended its boundaries. Financial inclusion considered as one of the effective tool of poverty mitigation. The current study conducted in Tumakuru District of Karnataka state. The study comprises of 600 households, five Taluq, and five public sectors banks of Tumakuru. Multi stage sampling used to collect target samples. This empirical research paper attempts to study the impact of financial on poverty alleviation.***

Keywords: Financial inclusion, households, poverty line & poverty alleviation

1. Introduction

Poverty is a social phenomenon in which a section of society having scarcity for necessities of life. Lack of employment opportunities in a country leads to no/sufficient income to an individual.Economic inclusiveness is inevitable to eradicate poverty. Government and apex bank of the country designed and revamped certain financial policies and considered poverty alleviation as policy of objective.Unequal distribution of income creates glaring differences among different sections of the society. Low income is synonyms with low standard of living. Lack of economic empowerment makes people to stay away from growth line of the society.The process of financial inclusion will not stay with opening bank account. Financial inclusion provides better banking access, availability of financial products, enhances the usage of products, educates unbanked, implement poverty elimination schemes, give credit to meet financial emergencies, pass the benefits directly to the beneficiaries, include people to pension and insurance bracket and contributes to holistic social development.

2. Literature Review

Elevating people from the bracket of financial inequality is also considered as important goal of financial inclusion. Micro finance is more appropriate to reach rural India and people who are living in below poverty line Bahagya Shree (2020)[1]. Md Abdullah & Kazuo Inaba (2020)[2] studied 116 emerging economies of the world in view of assessing the role of financial inclusion in lessening poverty. The study found that, per capita income, internet facility, income disparity, inflation, and other factors were considered to understand the realistic contribution of financial inclusion in decreasing poverty. Financial inclusion has extensive influence in lessening poverty. The paper measured the poverty data from 1980 to 2017. The study establishes that credit, branch penetration, ATMs, savings, access to information technology will affect the economic empowerment of people Ibrahim Hassan Bakari et al., (2019)[3]. Umaru Hussaini & Imo Casmir Chibuzo (2018)[4] conducted a constructive study was done to know the influence of micro finance a tool of financial inclusion to eliminate poverty. The study revealed there is an optimistic impact of financial inclusion in plummeting poverty. Micro finance has significant impact on financial inclusion and poverty elimination.

Objectives

- To understand the status of financial inclusion and poverty in India
- To evaluate the impact of financial inclusion on poverty alleviation.

Hypotheses

H_0:There is no significant impact of financial inclusion on poverty reduction.

[1]Bahagya Shree, M. (2020).Impact of financial inclusion on poverty alleviation in India.*Our Heritage, 68*(2), 111-116.
[2]Abdullah, M., & Inaba, K. (2020). Does financial inclusion reduce poverty and financial inequality in developing countries? A panel data analysis, *Journal of Economic Structures*, *37*(9), 1-25.

[3]Bakari, I. H., Donga, M., Idi, A., Hedima, J. E., Wilson, K., Babayo, H., & Ibrahim, Y. (2019). An examination of the impact of financial inclusion on poverty reduction: empirical evidence from sub-Saharan Africa.*International Journal of Scientific and Research Publication, 9*(1), 239-250.
[4]Hussaini, U., & Chibuzo, I. C. (2018).The effect of financial inclusion on poverty reduction: A moderating impact of effect of micro finance.*International Journal of Multidisciplinary Research and Development*, *5*(12), 188-198.

H_1: There is a significant impact of financial inclusion on poverty reduction.

3. Research Methodology

The aim of the current study is to assess the impact of financial inclusion on poverty alleviation. The study area is confined to Tumakuru District of Karnataka state. Survey method used to collect data from the beneficiaries of financial inclusion. Multi stage sampling adapted to for sample selection. At the outset, Judgemental sampling used to select, five sub-districts out of ten sub-districts and public sector banks of Tumakuru. Stratified and simple random sampling used to select the bank branches. Systematic sampling used to select the final respondents. Validated survey instrument utilized to collect data from final 600 respondents. Exploratory factor analysis, confirmatory factor analysis, ANOVA and Structural Equation Models are used for data analysis

4. Discussion

Organization of Economic Cooperation and Development as define financial inclusion; "Financial inclusion refers to the process of promoting affordable, timely and adequate access to a range of regulated financial products and services and broadening their use by all segment of society through the implementation of tailored existing and innovative approaches including financial awareness and education with view to promote financial wellbeing as well as economic and social inclusion" (OECD-INFE, 2010) [*Financial Literacy: Challenges, Approaches and Limitations*. (2010). In *RBI-OECD Workshop*. Reserve Bank of India. https://www.rbi.org.in/rbioecd/more.html].

Poverty Line: India defines poverty line based on consumed calories. Consumption levels are fixed at 2400 kcal / day in rural and 2100 kcal / day in urban areas. Based on purchasing poverty parity, poverty line fixed at $ 1.25 per day. According to World Bank, more people are extremely poor and incidence of poverty reaching the middle-income countries. 1.3 billion People are living under below poverty line and 23.1 per cent are multidimensional poor. United Nation Development Council (UNDP) is releasing Human Development Index (HDI) since 1998. UNDP is also releasing Human Poverty Index to measure the incidence of poverty.

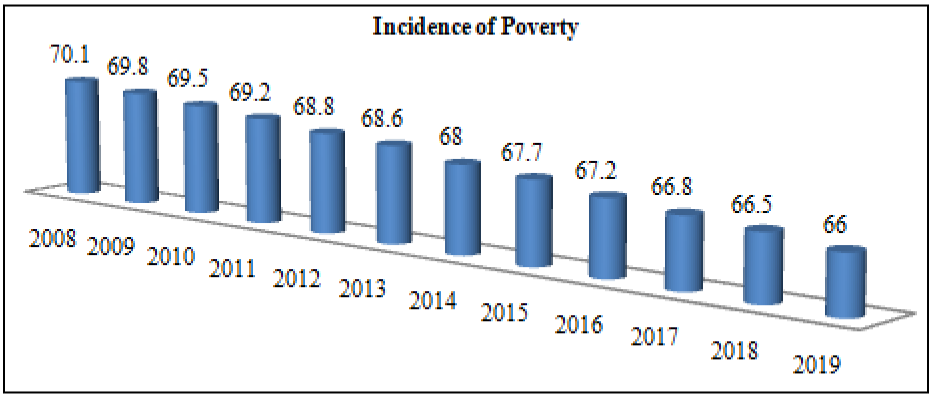

Figure 1: Showing Incidence of Poverty in India – Rural Population
Source: World Bank

India has been the issue of poverty from centuries. Even after independence, India could not able to come out of the vicious circle of poverty. Nearly 65 per cent India's population concentrated in rural areas, Government focused more on their upliftment. The agricultural dependency and vulnerable weather and market conditions in India kept the rural masses in below poverty line. The state and central Governments put in huge efforts to take out the rural poor from poverty line. Due to the efforts, percentage of population in below poverty line declining year by year. The decline is little sluggish. It may be due to growing population and unequal distribution of income and wealth. In last one decade, there is a downfall of nearly 4 per cent. Still 66 per cent of rural population is in below poverty line.

Table 1: State-Wise Poverty Rate (Based on MRP*))

Name of the State	1993-94	1999-00	2004-05	2009-10	2011-12
Andhra Pradesh	22.19	15.77	29.90	21.10	9.20
Arunachal Pradesh	39.35	33.47	21.10	25.90	34.67
Assam	40.86	36.09	34.40	37.90	31.98
Bihar	54.96	42.60	54.40	53.50	33.74
Chattisgarh	--	--	49.40	48.70	39.93
Goa	14.92	4.40	25.00	8.70	5.09
Gujarat	24.21	14.07	31.80	23.00	16.63
Haryana	25.05	8.74	24.10	21.10	11.16
Himachal Pradesh	28.44	7.63	22.90	9.50	8.06
Jammu and Kashmir	25.17	3.48	13.20	9.40	10.35
Jharkhand	--	--	45.30	39.10	36.96
Karnataka	33.16	20.04	33.40	23.60	20.91
Kerala	25.43	12.72	19.70	12.00	7.05
Madhya Pradesh	42.52	37.43	48.60	36.70	31.65

Maharashtra	36.86	25.02	38.10	24.50	17.35
Manipur	33.78	28.54	23.00	47.10	36.89
Meghalaya	37.92	33.87	16.10	17.10	11.87
Mizoram	25.66	19.47	15.30	21.10	20.40
Nagaland	37.92	32.67	9.00	20.90	18.88
Odisha	48.56	47.15	57.20	37.00	32.59
Punjab	11.77	6.16	20.90	15.90	8.26
Rajasthan	27.41	15.28	34.40	24.80	14.71
Sik-1aakim	41.43	36.55	31.10	13.10	8.19
Tamil Nadu	35.03	21.12	28.90	17.10	11.28
Tripura	39.01	34.44	40.60	17.40	14.05
Uttarakhand	--	--	32.70	18.00	11.26
Uttar Pradesh	40.85	31.15	40.90	37.70	29.43
West Bengal	35.66	27.02	34.30	26.70	19.98
Andaman & Nicobar	34.47	20.99	3.00	0.40	1.00
Chandigarh	11.35	5.75	1160	9.20	21.81
Dadra & Nagar Haveli	50.84	17.14	49.30	39.10	39.31
Delhi	14.69	8.23	13.10	4.20	9.91
Daman & Diu	15.80	4.44	8.80	33.30	9.86
Lakshadweep	25.04	15.60	6.40	6.80	2.77
Puducherry	37.40	21.67	14.10	1.20	9.69
All India	35.97	26.10	37.20	29.80	21.92

Source: National Sample Survey Organization, NITI Ayog
*Mixed Recall Period

The above table revealed the incidence of poverty in India from 1993. After independence, India has thriving to eradicate poverty. Stakeholders disseminated their sincere efforts to eliminate poverty. In 1993-94 Bihar's poverty level was half of the population Odisha's poverty level was 48.56 per cent and was in second place. In 2000 Odisha's percentage of poverty 47.15 per cent and Bihar status of poverty was 42.60 per cent. Bihar tops in 2003-04 and 2009-10. In 2011-12 Chattisghar tops in poverty ration in case of union territories Dadra and Nagar Haveli tops in all years except in 2000s. There is evidence of variation in poverty percentage in India. It was 35.97 per cent in 1993 and dropped to 26.10 per cent in 2000. Again, it went up to 37.20 in 2004-05 and dipped to 29.80 in 2009-10. In 2011-12 the percentage of poverty declined to 21.92 per cent.

Financial Inclusion – A Tool for Poverty Alleviation

Economic empowerment is the sole ingredient for poverty alleviation. Generation of economic activity produce more employment and hence standard of living. Lack of productive activity demotivates people to participate in economic activity of the nation. Nearly 23 per cent of population is poverty ridden. Glaring extremities of income distribution created disequilibria society. Most of the poverty alleviation programs are financial empowerment schemes. Number of experiments led to conclusion that financial inclusion can resolve the issue of poverty in India. Financial inclusion makes people to come to the ambit of formal financial services. Availability of financial products strengthens the poor economically. Economic exclusion is a biggest threat to any country. It will diminish the quality of life of feeble sections.

Economic inclusiveness is inevitable to eradicate poverty. Government and apex bank of the country designed and revamped certain financial policies and considered poverty alleviation as policy of objective. To expand the more people and provide quality access to low income groups Government compelling banks to deliver financial services at affordable cost. Government is promoting digital means to reach unbanked of remote areas. Reducing poverty is related to human development. Human development includes better environment, health condition, education, social stability, and higher productivity.

Hence, poverty is a social phenomenon in which a section of society having scarcity for necessities of life. Lack of employment opportunities in a country leads to no/sufficient income to an individual. Unequal distribution of income creates glaring differences among different sections of the society. Low income is synonyms with low standard of living. Lack of economic empowerment makes people to stay away from growth line of the society. If a vast section of the populace suffer from poverty will disturbs the equilibrium of growth of any nation. Government tends to focus more on such groups to empower them. Of course, it is he social obligation of Government as India follows socialistic economic structure. Other sectors of the economy suffer due to inequality distribution of Government expenditure. A large part of exchequer shall be spent on social welfare programs of families under below poverty line. They will be excluded from the economic growth model. This economic exclusion results in social exclusion. Financial inclusion empowers people to have more economic choices before them. The process of financial inclusion will not stay with opening bank account. Financial inclusion provides better banking access, availability of financial products, enhances the usage of products, educates unbanked, implement poverty elimination schemes, give credit to meet financial emergencies, pass the benefits directly to the beneficiaries, include people to pension and insurance bracket and contributes to holistic social development.

The stated hypothesis of impact of financial inclusion on poverty alleviation assessed by building the model of

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financial inclusion on poverty lesseningis projected with the assistance of the path diagram represented in Figure 02.

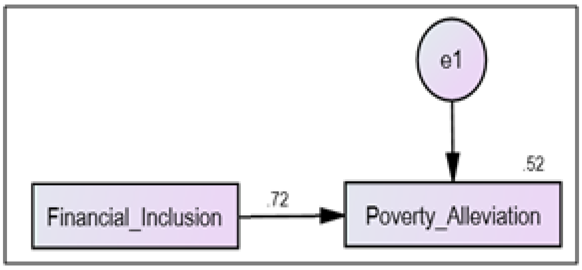

Figure 2: Impact of Financial Inclusion on Poverty Alleviation

Table 2: Estimates of Impact of Financial Inclusion on Poverty Alleviation

Constructs	Unstandardized				Standardized	R^2
	Estimate	S.E.	C.R.	P	Estimate	
Poverty Alleviation← Financial Inclusion	.716	.028	25.41	***	.720	.518

Table No 02signifies the output of the estimations of the structural model of impact of financial inclusion on poverty alleviation. Since, the estimate is statistically significant at 1%, therefore, the hypothesis of "*There is no significant impact of financial inclusion on poverty alleviation*" can be rejected and it can be concluding that financial inclusion has positive impact on poverty alleviation.

5. Limitation of the Study

- The study is limited to geographical area of Tumakuru district.
- The study is based on opinion of the respondents.
- The study confined to public sector banks.

6. Conclusion

Financial inclusion termed as a game changer in the process of socio-economic development of the nation. Financial inclusion has been given with utmost importance of policy initiatives of Governments of emerging economies. Speculations are there on the actual impact of financial inclusion on various socio-economic dimensions. This empirical paper is attempted to study the impact of financial inclusion in lessening poverty. The result of the study reveals that, there is a strong correlation between financial inclusion and poverty reduction. Financial inclusion is playing a graeter role in alleviating poverty of households.

References

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