**Socio-Economic factors and Financial Capability of villagers in Gujarat**

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**Abstract:**

*Access to financial services by each and every citizen of India is the core motive of financial inclusion in India and in the same direction triumph efforts has been done by government however later it is realized that financial literacy is must to ensure financial inclusion in India. Financial literacy refers to knowledge of financial matters and the ability to process financial information and make good financial decisions. However in Financial Inclusion 2020 conference in London a term “financial capability” was introduced which has more depth and breadth than financial literacy which basically focuses on knowledge acquisition and Skill development. Financial Capability focuses on behavioral aspect of an individual i.e. mainly confidence, attitude and ability to exercise and take money management related decisions but not limited to access to financial services. However in India Access to financial services was major concern earlier towards which government has taken concrete steps with help of all type of banks, SHG linkage and now also through payment banks which will be operating in India for main two banking services i.e. deposition and withdrawal . Access to Financial service represents supply side while financial capability from demand side. To achieve complete financial inclusion it is essential that demand meet supply side. This paper is an effort to understand the relationship between socio-economic factors and financial capability in rural area which is essential aspect to achieve financial inclusion once the accesses to financial services are assured.*

***Key words****: Socio Economic factors, Financial Capability, Financial Inclusion, Rural Gujarat*

**Introduction**

Financial Inclusion movement in India formally was first introduced in the year 2005 by Y. venugopal Redday RBI Governor in Annual Policy statement and now the latest and successful yojna with mass coverage and inclusion Pradhan Mantri Jan Dhan Yojna has achieved remarkable success for financial Inclusion. Access to financial services by every citizen of India was the main concentrated objective till now but during the process it has been acknowledged and widely accepted that financial literacy is must to achieve full financial inclusivity. Financial literacy refers to knowledge of financial matters and the ability to process financial information and make good financial decisions. In Financial Inclusion 2020 conference in London a term “financial capability” was introduced which has more depth and breadth than financial literacy which basically focuses on knowledge acquisition and Skill development. As defined by centre for financial inclusion “Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one’s life, within an enabling environment that includes, but is not limited to, access to appropriate financial services.” To put it in simpler terms financial capability is not just what you know, but whether you have the willingness, confidence, and opportunity to act.

**Literature Review**

In India financial capability from financial inclusion perspective is not a widely researched area however in behavioural economics few studies have taken place which focuses on certain psychological aspects which enables to understand with rational calculations which are not so accurate about financial decision taken by individuals. (Financial Services Authority David de Meza, 2008) This report shows an initiative of UK government in 2006 in form of financial service survey which measured different types of financial behaviour and attitudes in five key areas: making ends meet, keeping track of money, planning ahead, choosing products, and staying informed across the UK population. It highlighted that Improvements in the level of financial capability require a long-term change in attitudes, habits and behaviour towards money. (Landvogt, 2008) This research report by a community service organization states that there is clearly still some work to do to ensure all sectors of the community are financially included. More affordable insurance products, matched savings schemes, and subsidized superannuation are needed for people on low incomes to realistically take care of their financial futures. (hall) this paper evaluates the relation between financial inclusion and financial capability. It states that

Financial capability is much more about ‘distance travelled’ and in contrast to some aspects of financial inclusion much more about soft outcomes. Financial capability work is therefore vital in the journey towards financial inclusion. Although it was concluded as Does it actually matter if a certain intervention is identified as financial inclusion or financial capability? Will the outcomes be the same no matter what they are called? (ACCION p. 2016) In an Interview Dr, Elisabeth Rhyne, Center of financial inclusion, Accion stated that Indian government still relies on financial education camps in which massive number of people receive lectures on financial product to enable them to use financial services it could be vastly improved if behavioral practices are applied in their design and delivery.

|  |
| --- |
| **Financial Capability****Outcomes** |

Figure 1

|  |
| --- |
| **Socio Economic Factors** |

|  |
| --- |
| Savings |
| Loan/Credit taken from Bank |

|  |
| --- |
| Gender |
| Age |
| Marital Status |
| Size of the Family |
| No.of Children |
| No. of earning member  |
| Annual Income |
| Type of house |
| Land Ownership |
| Education |
| Occupation |

**The Present Study**

The main objective of this paper is to analyze the factors that influence financial capability of individuals residing in villages having population less than 2000 with special reference to Banaskantha district .In order to analyze the socio economic factors which influence financial capability of individuals residing in villages a primary survey is conducted by taking sample size of 120 individuals (residing in villages) from two villages namely Beda and Kaprupur from Banaskantha District. In study Convenience sampling method with structured questionnaire was used and data was collected in August 2016. As depicted in figure 1 to measure financial capability Outcomes considered are restricted to main two factors namely savings and loan/ credit taken from bank. In this analysis it’s been explored that how the different socio economic aspects of individuals influence their Financial Capability.

**Analysis of Primary survey and Data Interpretation**

In order to measure the financial capability for the purpose of this paper the main aspects considered are savings and loan/credit taken from bank as these are the core services of banks which ensures existence of financial capability.

The findings are interpreted as follows,

**Gender, Age and marital status, Family size, no of children and no. of earning member Classification**

Total 36%of the Respondents from both villages were having age less than 30 years and followed by 32% between 30-40years and 16% of each age category between 40-50years and for more than 50 years. Out of total respondent further only 7% were unmarried. This classification gives insight that the responses taken for this particulars study are basically collected from young and married respondents who have the social and economic responsibilities of family and more interested in and growth, development and upliftment of their Socio- economic status.

 **Table: 1 Gender, Age and Marital status.**

|  |  |  |
| --- | --- | --- |
| Age | Gender | Total |
| male | female |
| marital status | marital status |
| unmarried | married | divorcee | unmarried | married | divorcee |
| Count | Count | Count | Count | Count | Count |
| 0-30 | 6 | 27 | 0 | 0 | 9 | 0 | **42** |
| 30-40 | 0 | 15 | 0 | 3 | 18 | 0 | **36** |
| 40-50 | 0 | 12 | 0 | 0 | 6 | 0 | **18** |
| >50 | 0 | 9 | 0 | 0 | 9 | 0 | **18** |
| **Total** | **6** | **63** | **0** | **3** | **42** | **0** | **114** |

From table no. 2 it can easily be refereed that on size of the family in rural area is also maximum up to 10 members as 94 % of respondents fall up to 5-10 members category. However as far as earning member of the family is concerned again 74 % of total respondents have single earning member and merely 26 % have more than one earning member in the family.

Table 2: Size of the family, Children and earning family member

|  |  |  |
| --- | --- | --- |
|   | size\_family | Total |
| 0-5 | 5-10 | 10-15 | >15 |
| Count | Count | Count | Count |
| children | .00 | 6 | 6 | 0 | 0 | 12 |
| 1.00 | 12 | 3 | 0 | 0 | 15 |
| 2.00 | 15 | 21 | 0 | 0 | 36 |
| 3.00 | 21 | 6 | 3 | 0 | 30 |
| 4.00 | 0 | 12 | 0 | 0 | 12 |
| 5.00 | 3 | 3 | 3 | 0 | 9 |
| **Total** | **57** | **51** | **6** | **0** | **114** |
| earning family member | 1.00 | 48 | 36 | 0 | 0 | 84 |
| 2.00 | 9 | 9 | 0 | 0 | 18 |
| 3.00 | 0 | 3 | 3 | 0 | 6 |
| 4.00 | 0 | 0 | 3 | 0 | 3 |
| 6.00 | 0 | 3 | 0 | 0 | 3 |
|   | **Total** | **57** | **51** | **6** | **0** | **114** |

The relationship between Education, occupation and Income is depicted in Table 3.The data shown reflects the situation where 53% of total the respondents have less than 35000 annual incomes and approximately 35%, 25% and 20% of these respondents are involved in farming, housekeeping and daily wage labor.

Table 3: Education, Occupation and Income Classification

|  |  |
| --- | --- |
|   | Annual income |
| <35000 | 35000-70000 | 70000-140000 | 140000-250000 | >250000 |
| Count | Count | Count | Count | Count |
| Education | illiterate | 27 | 18 | 0 | 0 | 0 |
| <ssc | 18 | 30 | 0 | 0 | 0 |
| ssc | 6 | 3 | 0 | 0 | 0 |
| graduate | 9 | 0 | 3 | 0 | 0 |
| post graduate | 0 | 0 | 0 | 0 | 0 |
| **total** | **60** | **51** | **3** | **0** | **0** |
| occupation | farmer | 21 | 15 | 0 | 0 | 0 |
| wage laborer | 12 | 18 | 0 | 0 | 0 |
| salaried employee | 3 | 3 | 3 | 0 | 0 |
| house wife | 15 | 12 | 0 | 0 | 0 |
| shopkeeper/business | 6 | 3 | 0 | 0 | 0 |
| others | 3 | 0 | 0 | 0 | 0 |
| **Total** | **60** | **51** | **3** | **0** | **0** |

 **Hypothesis Testing**

Second part of analysis deals with hypothesis testing wherein Chi square test of independence is used to evaluate that whether any relationship exist between two factors. Gender, Age ,Marital Status, Size of the family, no. of children , earning member of the family ,Annual Income , landownership , type of house, occupation and educations are the socio economic factors considered whereas savings and loan/credit taken from bank are considered as representative of financial Capability. Here level of significance is considered as 0.05 (p value) and based on same decision is taken.

 **Table 4. Savings and Socio- Economic Factors**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sr no. | Hypothesis (Ho) | Chi square | DF | Asymp.Sig.(2-Sided) | Rejected/fail to Reject |
| 1 | Gender and Savings | 1.410 | 2 | 0.494 | Fail to reject Ho |
| 2 | Age and Savings | 17.462 | 6 | 0.08 | Fail to reject Ho |
| 3 | Marital Status and Savings | 2.606 | 2 | 0.272 | Fail to reject Ho |
| 4 | Size of the Family and savings  | 1.788 | 4 | 0.775 | Fail to reject Ho |
| 5 | No. of Children and Saving | 28.880 | 10 | 0.001 | Reject Ho |
| 6 | No. of earning family members and savings | 8.686 | 8 | 0.369 | Fail to reject Ho |
| 7 | Annual income and savings  | 58.475 | 4 | 0.000 | Reject Ho |
| 8 | Land ownership (bigha) and savings | 60.172 | 12 | 0.000 | Reject Ho |
| 9 | Type of House and savings  | 21.714 | 4 | 0.000 | Reject Ho |
| 10 | Education and savings  | 30.970 | 6 | 0.000 | Reject Ho |
| 11 | Occupation and savings  | 44.587 | 10 | 0.000 | Reject Ho |

From table 4 it is observed that there is strong association between annul Income, Type of House, Education, Occupation, no. children with savings. Which states these factors has strong association of an individual’s financial capability to save. Whereas gender, age, marital status, size of the family, earning members does not have relation with financial capability of an individual to save.

**Table 5 .Loan/Credit taken from bank and Socio-Economic Factors**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sr no. | Hypothesis (Ho) | Chi square | DF | Asymp.Sig.(2-Sided) | Accepted /Rejected |
| 1 | Gender and loan/Credit taken | 4.130 | 1 | 0.042 | Reject Ho |
| 2 | Age and loan/Credit taken | 13.772 | 3 | 0.003 | Reject Ho |
| 3 | Marital Status and loan/Credit taken | 0.543 | 1 | 0.461 | Fail to reject Ho |
| 4 | Size of the Family and loan/Credit taken | 0.372 | 2 | 0.830 | Fail to reject Ho |
| 5 | No. of Children and loan/Credit taken | 14.725 | 5 | 0.012 | Reject Ho |
| 6 | No. of earning family members and loan/Credit taken | 2.262 | 4 | 0.688 | Fail to reject Ho |
| 7 | Annual income and loan/Credit taken | 0.214 | 2 | 0.898 | Fail to reject Ho |
| 8 | Land ownership (bigha) and loan/Credit taken | 24.473 | 6 | 0.001 | Reject Ho |
| 9 | Type of House and loan/Credit taken  | 2.262 | 2 | 0.323 | Fail to reject Ho |
| 10 | Education and loan/Credit taken | 17.483 | 3 | 0.001 | Reject Ho |
| 11 | Occupation and loan/Credit taken | 18.736 | 5 | 0.002 | Reject Ho |

Table 5 showcases that Gender, Age, no. of children, Land ownership, Education and occupation has strong association with financial capability of an individual to take loan from bank. Whereas marital status, size of the family, earning member, Annual income and type of house does not have any relation with financial capability of an individual to take loan.

 **Conclusion**

The Study from Banaskantha district revealed that majority of respondents are either illiterate (39.5%) or has education less than SSC (42%). Total 57% are associated with Agriculture as occupation and out of total respondents 46.8 % have land ownership. Approx. 52% have their annual income less than 35000.

From the Study it can be observed that Savings and loan taken from banks has some relationship with the socio economic factors such as annul Income, Type of House, Education, Occupation, no. children, land ownership, Gender and Age. Out of all factors stated above Education, occupation and No. of Children are the common factors. This gives inference that the most important factors which may have high influence on financial capability is education and occupation. As Education empowers an individual with right attitude, knowledge, confidence and ability to act and take financial decisions firmly whereas occupation enables an individual to generate income and create capacity to spend. If Occupation is supported by education it would definitely make an individual in true sense financially capable.

Lastly the time has come that beyond penetration of banks government needs to focus on specific strategies which may ensure and create environment in which an individual have the willingness, confidence, and opportunity to act and use financial services.

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