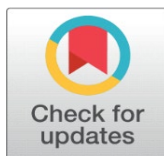
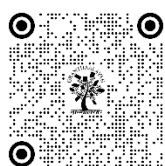


FINANCIAL INCLUSION IN RURAL KERALA: A CASE STUDY OF CHERIYANADU PANCHAYATH

Sreedevi Gopalakrishnan ¹

¹ Assistant Professor, Department of Economics, Sree Narayana College, Chengannur



DOI

[10.29121/shodhkosh.v3.i2.2022.4601](https://doi.org/10.29121/shodhkosh.v3.i2.2022.4601)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Copyright: © 2022 The Author(s). This work is licensed under a [Creative Commons Attribution 4.0 International License](#).

With the license CC-BY, authors retain the copyright, allowing anyone to download, reuse, re-print, modify, distribute, and/or copy their contribution. The work must be properly attributed to its author.



ABSTRACT

Financial inclusion plays a pivotal role in fostering inclusive economic growth and poverty alleviation across developing economies. In India, significant strides have been made through policy interventions, technology-driven banking innovations, and community-based financial empowerment programs. This paper examines the extent and mechanisms of financial inclusion in Cheriyanadu Panchayath, Kerala, a state recognized for its superior human development indicators and progressive social policies. By surveying 50 rural households, this research analyzes the penetration of financial services, financial literacy levels, borrowing behavior, and the role of Self-Help Groups (SHGs) and government schemes. Findings indicate that MGNREGS-linked bank accounts, SHG participation, and high literacy have contributed to strong inclusion outcomes. However, substantial gaps in financial literacy and product diversification persist. Recommendations focus on enhancing financial advisory services, strengthening SHG-bank linkages, and promoting digital and investment literacy.

Keywords: Financial Inclusion, Rural Banking, SHGs, Kerala, Financial Literacy, Digital Finance

1. INTRODUCTION

Financial inclusion is defined as ensuring access to financial services at an affordable cost for disadvantaged and low-income segments of society (RBI, 2008). It encompasses the availability, accessibility, and use of financial products and services, particularly in rural and marginalized areas. Financial inclusion is globally recognized as a key driver of sustainable economic development, social equity, and poverty reduction (World Bank, 2021).

India, despite being home to one of the world's largest banking sectors, still grapples with regional disparities in financial inclusion, particularly in rural areas where geographical isolation, lack of awareness, and low income hinder banking access (Sarma, 2012). However, Kerala stands out as a frontrunner, achieving near-universal financial inclusion, largely attributed to high literacy rates, active local governance, and extensive community-driven initiatives such as Kudumbashree (NABARD, 2022).

This paper studies Cheriyanadu Panchayath in Alappuzha District, Kerala, to explore the practical realities of financial inclusion, the role of government and community institutions, and areas requiring further policy attention.

2. OBJECTIVES

The key objectives of this study are:

- 1) To assess the extent of financial inclusion in Cheriyanadu Panchayath.
- 2) To evaluate household-level financial literacy, savings behavior, and borrowing patterns.
- 3) To examine the role of government schemes, SHGs, and banking institutions.
- 4) To provide policy recommendations for strengthening financial inclusion in rural areas.

3. LITERATURE REVIEW

3.1. FINANCIAL INCLUSION AND INCLUSIVE GROWTH

The Rangarajan Committee (2008) highlighted that financial exclusion is both a cause and consequence of poverty, emphasizing that without access to savings, credit, insurance, and remittance facilities, households remain trapped in low productivity cycles.

Studies by Chattopadhyay (2011) indicated that financial inclusion improves economic resilience and stimulates local development when coupled with financial literacy programs. The World Bank (2021) estimates that 1.7 billion adults globally remain unbanked, with most concentrated in developing regions.

3.2. KERALA'S MODEL AND POLICY INTERVENTIONS

Kerala's high literacy rates, strong cooperative banking network, and decentralized governance have provided fertile ground for financial inclusion (NABARD, 2022). MGNREGS payments, which flow directly into workers' accounts, were instrumental in universalizing access to bank accounts (Mullapally, 2014). This ensured even the most economically vulnerable had a basic foothold in the formal banking system.

3.3. ROLE OF SELF-HELP GROUPS (SHGS)

SHGs, particularly under Kudumbashree, have emerged as a transformative mechanism for financial inclusion, especially for women. Studies by Deogharia (2013) found that SHG participation fosters savings discipline, enhances credit access, and strengthens financial decision-making capacity.

4. METHODOLOGY

4.1. STUDY AREA AND SAMPLING

Cheriyanadu Panchayath in Alappuzha district was selected due to the presence of active SHGs, and strong linkages between banking institutions and government programs. A random sample of 50 households was surveyed using a structured questionnaire covering:

- Bank account ownership and usage
- Credit behaviour and preferences
- Financial literacy and product awareness
- Participation in SHGs and government schemes

4.2. DATA SOURCES

- **Primary Data:** Collected from household surveys.
- **Secondary Data:** RBI working papers, NABARD reports, and published literature on financial inclusion in Kerala.

5. ANALYSIS AND FINDINGS

5.1. BANK ACCOUNT PENETRATION

- 96% of households had at least one bank account, with the majority linked to MGNREGS payments.
- Savings accounts dominated, with limited understanding of other financial instruments such as fixed deposits, recurring deposits, or investment products.

5.2. DRIVERS OF ACCOUNT OPENING

- 54% opened accounts specifically for receiving MGNREGS wages.
- 27% opened accounts for savings purposes, highlighting the role of government-mandated financial linkages in driving inclusion.

5.3. FINANCIAL LITERACY LEVELS

- While 70% of respondents were aware of no-frills accounts, product-specific literacy (e.g., insurance, mutual funds, pensions) remained low.
- Financial literacy outreach from panchayath institutions was negligible, with most households obtaining information directly from banks.

5.4. BORROWING PATTERNS

- 98% of households had some form of debt.
- Sources of borrowing:
 - 39% from SHGs
 - 27% from friends or family
 - 20% from formal banks
 - 14% from moneylenders
- SHGs played a critical role in ensuring emergency credit access, though informal borrowing channels persisted.

5.5. USE OF DIGITAL FINANCIAL SERVICES

- 76% of respondents used ATMs, indicating successful adoption of basic digital banking.
- 66% used bank accounts to pay utility bills, showing increasing functional engagement with formal banking.
- 68% received social security pensions through bank accounts, highlighting the success of Direct Benefit Transfers (DBTs).

6. DISCUSSION

6.1. GOVERNMENT-LED FINANCIAL INCLUSION

The combination of MGNREGS payments, DBTs, and SHG-linked credit access created a strong foundation for financial inclusion. However, inclusion remained transactional rather than transformative, with limited awareness of credit planning, insurance, and investment opportunities.

6.2. SHGS AND SOCIAL CAPITAL

SHG membership enhanced financial confidence, savings behavior, and negotiating power with banks. However, financial literacy training provided through SHGs was sporadic, limiting their potential as financial literacy agents (Deogharia, 2013).

6.3. PERSISTENT CHALLENGES

- Limited product awareness beyond savings and credit.
- Continued reliance on informal credit during emergencies.
- Fragmented financial literacy efforts, particularly at the panchayath level.
- Gender disparities in financial decision-making despite high SHG participation.

7. RECOMMENDATIONS

7.1. PANCHAYATH-LEVEL FINANCIAL LITERACY CENTERS

- Establish community financial advisory hubs to provide product awareness, savings guidance, and debt counseling.
- Conduct regular financial literacy workshops covering:
 - Digital banking and UPI
 - Insurance and pensions
 - Emergency credit planning

7.2. EXPAND SHG TRAINING PROGRAMS

- Incorporate financial literacy modules into SHG training.
- Train SHG leaders to act as financial literacy ambassadors.

7.3. PROMOTE DIGITAL LITERACY AND APP-BASED SERVICES

- Develop vernacular financial literacy apps with interactive content for rural users.
- Expand banking correspondents and digital kiosks for last-mile service delivery.

8. CONCLUSION

Cheriyanadu Panchayath exemplifies the synergy between government programs, community-based financial initiatives, and local governance in fostering financial inclusion. However, sustainable inclusion requires transitioning from basic account ownership to comprehensive financial empowerment through product diversification, financial literacy, and seamless access to formal credit systems. Lessons from this case study offer replicable strategies for rural financial inclusion across India's lower-ranked states.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

REFERENCES

- Chattopadhyay, S. K. (2011). Financial Inclusion in India: A case study of West Bengal. *RBI Working Paper Series*, No. 8.
- Deogharia, P. C. (2013). Financial Inclusion and Financial Literacy: A Paradigm Shift from Financial Exclusion to Formal Credit. *Journal of Rural Development*, 32(4), 381-393.
- Mullapally, J. (2014). Kerala's Social Development Model and Financial Inclusion. *Indian Journal of Economics and Development*, 10(2), 123-136.

- NABARD. (2022). *State Focus Paper 2021-22*. National Bank for Agriculture and Rural Development.
- RBI. (2008). *Report of the Committee on Financial Inclusion*. Reserve Bank of India.
- Rangarajan Committee. (2008). *Report of the Committee on Financial Inclusion*. Government of India.
- Sarma, M. (2012). Index of Financial Inclusion – A measure of financial sector inclusiveness. *Berlin Working Papers on Money, Finance, Trade and Development*, Working Paper No. 07/2012.
- World Bank. (2021). *Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*. Washington, DC: World Bank