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Financial Inclusion and Socio-Economic Development: A Study in KBK Districts of Odisha

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Financial inclusion (FI) aims to offer inexpensive and suitable financial services and products to everyone, especially the poor. This notion emphasizes incorporating low-income workers, rural people, and small company owners in mainstream financial institutions. India prioritizes financial inclusion beyond banking access to create a more equitable, resilient, and prosperous society. Giving economically disadvantaged groups the capital they need to become more involved in the market and improve their socioeconomic situation is the goal. The KBK districts of Odisha have historically exhibited severe poverty, underdevelopment, and social marginalization. This is a crucial area for focused research on financial inclusion and its potential impact on the socio-economic development of the population in the KBK districts of Odisha. Financial inclusion may help areas like KBK districts of Odisha, which have high inequality and low development indices. Thus the article explores the impact of FI on socioeconomic development (SED) of people living in KBK districts of Odisha.

Keywords: Financial Inclusion, Socio economic development, Financial Services.

1. Introduction

Since the poor are the most affected by the lack of access to financial services and institutions, the concept of FI fits in the broader context of fighting poverty. The poor are under-privileged in matters of formal financial transactions resort to informal sources for their needs. Such transactions involve high interest which in a way perpetuates poverty and inequality (Ozili 2020). Therefore, FI is highly recognized as an effective measure for the promotion of financial stability as well as for the reduction of income disparities, encouragement of fair development and the achievement of fair growth. FI, as a mechanism that empowers marginalized populations, illustrates the significance of this principle (Erlando et al., 2020). So, FI may be seen as a means to alleviate poverty, promote gender equality, and stimulate economic growth, all of which are targets of the United Nations' Sustainable Development Goals (SDGs) (World Bank, 2021). The Government of India has implemented numerous steps aimed at providing formal financial access to all citizens. Digital technology is perhaps the most essential element of the Indian government's comprehensive goal to enhance the accessibility of financial services. Driven by the proliferation of mobile money, internet transactions, and advancements in financial technology, this has transformed the financial landscape. Consequently, the adoption of these technologies has allowed the residents of remote areas to use financial services.

India, with its population of around 1.4 billion, not only ranks second as the most populous country in the world but also has an evolving economy. There has been considerable advancement in India in the past few decades, both in strategic as well as economic terms, paving the way for its social development in the Asia-Pacific region. However, despite its improvement, the country's economy still faces numerous social and economic challenges, including the issue of financial inclusion. Even today, many people, particularly those living in remote areas or with low incomes lack access to basic banking services and payment systems. The Indian government's measure on economic policies has prioritized lowering financial exclusion advancement, though the Reserve Bank of India, along with the other Indian financial institutions. The govt. has realized the need for raising the FI in the resolution of the issue with the 'unbanked' section of the population. Understanding the importance of an inclusive financial sector in promoting equitable development, combating poverty, and empowering society as a whole, the government has remained firm in its commitment to meeting the needs of financial inclusion (Government of India, 2008). Given India's large population, diverse demographics, regional and rural-urban divide and socioeconomic disparities, it is crucial to emphasize the urgency of Financial Inclusion (FI). FI is a process that provides all citizens, including those in the periphery who lack formal banking services. The service should include a comprehensive range of products and services that meet their needs at a reasonable price and within a timely timeframe. The term has several meanings, but the Reserve Bank of India (RBI) asserts that the most inclusive aspect of the term, "FI: Financial Inclusion" includes various types of transactions related to banks and their accounts and other financial services.

Indian FI has a history that goes back to the 1950s, when the government started taking over banks and putting in place a cooperative credit system to make financial services more available. In 1969, bank nationalization was the most important event. The goal was to bring banking services to distant places that didn't have many or any at all. After that, efforts to make banking and credit easier to get in rural places continued for decades. This effort culminated in the creation of regional rural banks in 1975. Even with these attempts, it was still challenging for people in rural areas and with low incomes to get FI. As India's banking industry grew and the economy became more open in the 1990s, FI possibilities opened up for banks. Law makers and officials started to realize early in the 21st century that banking services needed to be easier for more people to use. However, the FI movement did not begin until this century. Therefore, FI has played a significant role in educating people about digital money and encouraging the use of digital payment methods. Since mobile money solutions and the Unified Payments Interface (UPI) came out, customers have more ways to make deals that are safe and quick, even in rural areas. The availability of digital finance has expanded access to financial services for a greater number of individuals. This indicates that a greater number of individuals may save, incur fees, transfer funds, and get credit. This has augmented economic involvement, legitimized agreements, and reduced expenses for small enterprises, facilitating their social and economic prosperity (Joshi, 2017). The link between the advancement of the economy and the improvement of society is continually impacted by financial inclusion. Severe poverty, underdevelopment, and social marginalization have long been features of the KBK districts of Odisha. This makes it an essential field for concentrated study on financial inclusion and its possible influence on socio economic development of people of KBK districts of Odisha. And so, the authors have examined the impact of Financial Inclusion (FI) on the economic and social growth of the people in the KBK districts of Odisha.

2. Review of literatures

FI has a very wide impact on social and economical life of India as it contributes towards eradicating poverty and improving fair ED. Savings, credit, insurance and other forms of payment comprised the formal financial services as part of the FI, and would assist the individuals from the low and deprived backgrounds (Nizam et al. 2020; Chinoda & Kapingura 2024). FI enhances the capacity to perform development promoting activities such as small enterprises and entrepreneurship due to improved financial services. Small business owners and farmers, regardless of their rural location, engage in socio-economic development and alleviate poverty when they get finance that enables company expansion, increases output, and creates income and job possibilities (Demirguc-Kunt et al., 2020; Bongomin et al. 2018). Currently, most welfare schemes such as Aadhaar linked bank accounts and DBT are transparent and efficient as result of more access of people to financial services (Reserve Bank of India, 2020). Consequently, more people –especially those from the rural areas can get what they are legally entitled to and as such their standard living improves. Consequently, regions with more financial inclusion tend to provide superior economic results, since a greater number of individuals may participate in compositional economic activities to enhance the source of income and better life (Chakrabarty, 2013). Furthermore, by empowering women, rural populations, and lower castes to access formal financial services, FI seeks to mitigate economic disparities. Financial institutions may enhance income distribution by reducing reliance on informal and often exploitative financial services (Sharma, 2016). To be more precise, women with access to financial services sustain better financial contributions, become more involved in purchasing healthcare and education services for family members, and make improved financial decisions. This may lead to changes in their lives or family norms that make the future safer for everyone in the family (Sarma & Pais, 2011; Tough & Forget, 2023). SED is achieved in the long term since people may save resources for emergencies (World Bank, 2021). Existing health insurance and other types of formal pre-financing formal protection for crop failures, accidents, and sickness are risky for rural and low-income individuals. Access to financial services enables marginalized groups to be more resilient, allowing them to overcome obstacles and continue participating in economic activities to manage risks (Garg & Agarwal 2014). Although much research exists about the influence of financial inclusion on the socioeconomic development of rural people, there is a paucity of studies focused especially on the KBK districts of Odisha. Thus, the authors have undertaken study on the influence of financial inclusion on the socioeconomic development of the KBK districts in Odisha.

Objective

The study intends to find the effect of FI on ED and SD on the basis of following hypothesis.

Hypothesis

FI has positive and significant effect on ED and SD.

3. Methodology

The primary aim of this study is to comprehend the correlation between financial inclusion and socioeconomic development in the KBK districts of Odisha. The research used a random sample technique and created an extensive questionnaire with 15 questions derived from prior investigations. The appropriateness of the study's sample size was assessed according to Nunnally's (1967) recommendations. Upon evaluating these recommendations, a sample size of 250 was established for this study. The researcher administered 600 questionnaires to individuals in selected regions to get primary data on how residents of KBK districts of Odisha achieve socio-economic development through FI. Following meticulous evaluation, 480 out of the 600 submitted questionnaires were considered valid for the final research. The objective of the research is to examine proposed correlations using known, validated, and experimentally tested metrics. Fifteen items derived from the studies of Nandru and Rentala (2019), Lal (2019), and Lakshami and Visalakashami (2013) were selected from existing research. The researcher examined and rephrased each question to ensure its relevance and alignment with the primary focus of the study. Participants were directed to assess each of the 15 measurement items using a five-point scale from "strongly agree" to "strongly disagree". The research seeks to clarify the socio-economic advancement of the population and enhance the current literature on the influence of financial inclusion on socio-economic development in the KBK districts of Odisha, concentrating on districts with high educational attainment and using a meticulously crafted questionnaire.

Data-analysis procedures

The intricate interconnections among the study's variables were examined by structural equation modeling (SEM), resulting in comprehensive insights for the theoretical model analysis. SEM allows researchers to test several complicated hypotheses by investigating numerous independent and dependent aspects in a well-structured model (Byrne, 2010). SEM may help researchers understand how these components connect, which enriches the study framework analysis by revealing undiscovered processes.

Reliability and validity

To find out how well a scale measures the same underlying components, researchers use the coefficient alpha approach to evaluate the scale's internal consistency. If the Cronbach's coefficient alpha value (Table 1) for each instrument is more than or equal to 0.70, as proposed by researchers (Hair et al., 2010), then the scales are considered to have sufficient reliability in this study. Three measurements are used to establish validity: Factor loadings, Composite reliability (CR), and Average Variance Explained (AVE). Table 2 displays the computed AVE and CR values; these values are higher than the suggested cutoffs of 0.7 for CR and 0.5 for AVE; moreover, there are substantial factor loadings (C.R. > 1.96) that are greater than 0.50, as stated by Hair et al. (2010).

Table no-1: Reliability and Validity

Construct		Construct	Estimate	AVE	CR	Alpha
F5	<---	FI	0.859			
F4	<---	FI	0.975			
F3	<---	FI	0.879			
F2	<---	FI	0.758			
F1	<---	FI	0.635	0.686	0.881	0.867
E5	<---	ED	0.919			
E4	<---	ED	0.828			
E3	<---	ED	0.945			
E2	<---	ED	0.911			
E1	<---	ED	0.816	0.78	0.91	0.947
S1	<---	SD	0.964			
S2	<---	SD	0.949			
S3	<---	SD	0.932			
S4	<---	SD	0.962			
S5	<---	SD	0.942	0.9	0.95	0.979

Source: Authors' Calculation

Measurement Model

Following the recommendations made by Schreiber et al. (2006), the goodness-of-fit indices for each latent construct were calculated using different models. Table-2 shows the findings, which demonstrate that the model fit indices are adequate.

Table No-3: Model fit

Fit Index	Value
CMIN/DF	2.811
GFI	0.939
AGFI	0.915
CFI	0.982
RMSEA	0.06
P-CLOSE	0.03

Source: Authors' Calculation

Results of Hypothesis Testing

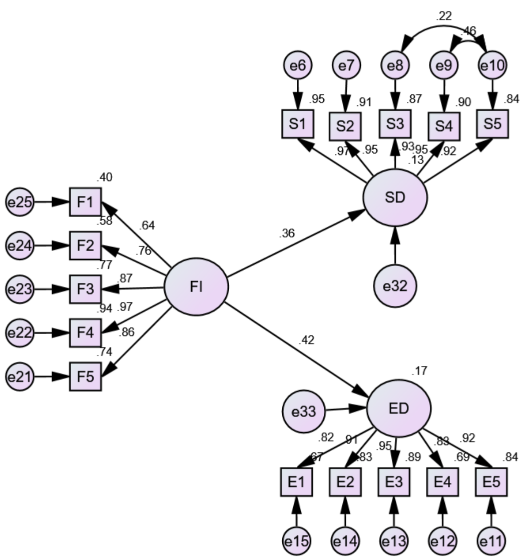
Path analysis was used to examine the assumptions that were created (Figure 1). To help understand the significance of the relationships between the variables, Table 4 displays the critical ratio and regression weights. Both ED and SD were positively and significantly affected by FI (***p < 0.05). There is a considerable correlation between ED and SD and FI as well. So, we accept hypothesis.

Table No- 4: Regression Weights

Construct		Construct	Estimate	S.E.	C.R.	P
SD	<---	FI	.432	.053	8.109	***
ED	<---	FI	.463	.049	9.368	***
F5	<---	FI	.983	.018	54.335	***
F4	<---	FI	.958	.020	47.407	***
F3	<---	FI	.985	.018	53.335	***
F2	<---	FI	.909	.034	27.043	***
F1	<---	FI	1.031	.027	38.606	***
E5	<---	ED	.995	.029	34.500	***
E4	<---	ED	1.000			
E3	<---	ED	1.152	.035	32.730	***
E2	<---	ED	1.011	.038	26.928	***
E1	<---	ED	.888	.042	21.000	***
S1	<---	SD	.754	.047	16.210	***
S2	<---	SD	1.000			
S3	<---	SD	.945	.021	44.063	***
S4	<---	SD	.894	.034	26.242	***
S5	<---	SD	1.000			

Source: Authors' Calculation

Fig: 1-Path Diagram



4. Discussion

The suggested theoretical model/framework has been validated by the study's empirical data. There is strong evidence that FI has a favorable and statistically significant effect on ED (B = 0.463) and SD (B = 0.432). Demirguc-Kunt et al. (2020) and Bongomin et al. (2018) are two of the studies that confirm the findings. Thus, FI includes all the various financial services that aim to include the majority of the public in the socioeconomic advancement process. Financial institutions and policymakers may boost their efforts to reduce poverty and increase socioeconomic progress by identifying and capitalizing on these variables, which will allow more people to participate in the formal financial system. Assuring SED is a critical issue for emerging nations, impacting people's quality of life in many ways. It encompasses the three cornerstones of human flourishing: a comfortable income, an education, and healthy life. Therefore, each rising country should prioritize the promotion of a healthy economic environment and the advancement of that economy. FI is making formal financial services available to all people and so it is a critical component in attaining socioeconomic growth. Access to financial services provides individuals with the capacity to securely store money, earn interest on a regular basis, and allocate funds for emergencies. They may participate in economic activities with confidence, save for emergencies, and enhance their education and skill sets. Providing opportunity and resources to address critical social concerns like poverty, ED provides the foundation for success across several socioeconomic dimensions. For the people of any growing country to be able to satisfy their most fundamental needs and realize their full economic potential, the country must experience rapid ED. For this reason, developing countries should exert themselves to attain robust economic health and consistent progress, with FI serving as the reward for their efforts. Research into FI has advanced rapidly within the last two decades. More and more individuals are using electronic banking methods in addition to traditional bank offices, all because of technology advancements that provide customers additional options to obtain banking services. It is essential to acknowledge that financial inclusion is an ongoing process characterized by persistent efforts to expand and enhance such initiatives. Multiple aspects influence the progression of FI, including enhancements to infrastructure, economic growth, and public awareness. It is vital for emerging countries to possess financial inclusion to advance their economies. Universal access to formal financial services empowers individuals, supports businesses, and enhances governmental efficiency in service provision.

5. Conclusion

Financial inclusion is a growing concept that aims to improve the lives of all populations by increasing access to various financial services and improving their living standards. A well-functioning financial system can lead to faster economic growth by managing assets, savings, payments, loans, and risk. India has implemented various forms of social and economic development (SED) to address the needs of poor individuals, such as retirement savings, educational investment, and entrepreneurial ventures. By reducing costs and improving clarity of financial services, the government can establish a system that caters to the needs of low-income families. Financial inclusion (FI) seeks to engage a broader demographic of individuals and enterprises in the financial sector by ensuring accessibility to financial services and removing barriers to financial sector participation.

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