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Viksit Bharat@2047: Transformative Role of Financial Literacy and Financial Inclusion

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Abstract

Financial literacy is an extremely critical component of the economic development of a country, as it provides financial empowerment to its citizens. Equally important is the role of financial inclusion, which provides individuals with access to financial services and products, thus making them an integral part of this development. While financial literacy enables individuals to make informed financial decisions, financial inclusion provides them with the opportunity to make those decisions. Together, they provide a roadmap for the economic empowerment of the country, including marginalised sections, who are often excluded from economic development due to either a lack of financial knowledge or adequate digital infrastructure. In light of this gap, the Government of India and the Reserve Bank of India (RBI) have launched various schemes aimed at providing financial literacy and financial inclusion to people. Institutions like the Securities and Exchange Board of India (SEBI) and the National Centre for Financial Education (NCFE) have initiated several programs for the financial education of people. The National Education Policy (NEP) 2020, by providing for financial education at the school and university level, aims to make both financial literacy and inclusion more comprehensive to cover all sections of the population. For a country like India, where income inequality is higher than the global average, financial inclusion is crucial for reducing economic disparities. However, introducing financial inclusion schemes without improvements in financial literacy will not serve the purpose as people will not be able to benefit from these schemes. Hence, financial literacy and financial inclusion are complementary to each other, and their synergy is a must to ensure a financially secure society.

Keywords: Financial Literacy, Financial Inclusion, Development, Financial Planning.

Introduction

In the world of flourishing technology and advancements, financial markets around the world are also developing at a fast pace, which is making financial system complex with the passage of every single day, with more complex and financial products available in the financial market like mutual funds, Exchange traded funds (ETFs), Real Estate investment trust (REITs), Sovereign Gold bonds (SGBs), and many more. All this adds to the need for financial education. Financial literacy is nothing but the ability of individuals to process economic information and make informed decision related to finance, such as, financial planning, wealth accumulation, debt management, retirement planning. According to the Organisation for Economic Co-operation and Development (OECD), financial literacy not only involve the knowledge and understanding of financial concepts and risks but also the application of financial knowledge and understanding it in order to take appropriate decisions, so as to improve the financial well-being of individuals and society, and to enable participation in economic activities (Annamaria Lusardi, 2019). PISA score also recognises importance of financial literacy as a skill essential for participation in economic activities.

Role of Financial Literacy

A large chunk of the low-income group presumes that financial education is made for the ones who have money. However, not taking financial education into account and preliminary financially illiteracy hampers poor from getting richer. Lack of financial education impacts the borrowing behaviour and leads to inappropriate use of not only own money but may be of borrowed money as well. Illiterate people tend to misjudge their income and often take a greater amount of loan, often at a higher interest rate when better alternatives can be accessed, generally for financing their personal expenses, and their failure to pay back the loan often make them fall into a debt trap.

Financial literacy empowers individuals to make informed financial decisions, thus helps people manage money better. Most importantly, aware them about scams, frauds, and risky financial products. It encourages saving habit among individuals and alongside educates them about responsible borrowing and maintaining a healthy credit score. Most part of the income of lower income strata goes into expenditure on necessary items financial planning difficult for them. Firstly, because all the short-term goals and the long-term goals of individuals cannot be financed with a little money and secondly, little financial literacy, and they have to bear the cost in future.

Most of the people don't understand the power of investing and compounding, thus resulting into mismanagement of investment. The poor and middle-income strata end up investing in housing or in bank/post office accounts. The returns they get are

sometimes not even beating the inflation rate which means that their purchasing power is declining.

All these aspects give rise to understanding the need of financial literacy so that each and every person has enough financial knowledge about different kind of financial products so that they can manage their personal finances in a much better way. For instance, if safety is a person's priority, he/she can invest in bonds for a short term that can give them more liquidity and better returns than a savings account. For the long term, one can choose mutual funds for diversification and more returns and lesser risk than direct equity investing. According to Benjamin Franklin, "An investment in knowledge pays the best interest."

Factors impacting Financial Literacy

Difference in financial literacy can be attributed to various factors and the foremost ones are as follows:

- **Demographic Factors:** The existing literature suggests that younger people are usually less financially literate than the older generation. This might be because the younger generation is usually less exposed to financial products. As their age increases, they gain more experience about the financial products and they also gain autonomy to take financial decisions.

An important parameter other than age, under demographic factors is gender. Existing studies suggest that in emerging nations because of gender inequality, females are often excluded from financial decisions, resulting into a higher level of financial literacy among males on an average than women. Another key parameter that also comes under this factor is the level of education. There is a positive relationship between the level of education attained by a person and the level of financial knowledge but an illiterate can also have good knowledge about financial products.

- **Family Background:** It has been noticed that a person, who is brought up in a family where his parents have financial knowledge then, that child is more likely to have some basic knowledge about financial terms. Also, the individuals living alone is more likely to have a better knowledge and ability to manage finance than the one residing with family. It could be because the person who is living alone has to manage his personal finances on his own and also enjoy the autonomy to do so. It has been also seen that people from a high-income households have more financial knowledge than the ones from poor or middle family background.
- **Personal Characteristics and Behavioural Influences:** How motivated an individual is towards learning, how to manage personal finances and attain financial education also impacts the individuals' knowledge about financial

literacy. An individual with higher motivation and interest towards financial literacy will have more financial knowledge. An individual's analytical skills and his interest towards managing finance can help him understand finances easily.

- **Access to technology and resources:** Technology also decides the level of financial literacy. An individual with access to technology and resources is likely to have more knowledge of finance in comparison to a person having no access to technology (Refera, K. et al., 2016). With the integration of markets, financial events prevalent across the globe also impact financial decisions. Taking the example of 2008 financial crisis, we notice people becoming more interested towards financial education to make better informed decisions, post 2008 crisis.

Role of Financial Inclusion

Financial inclusion aims at including the vulnerable and marginalized strata of population in contributing to financial goals of economy. It enables the unbanked population to open bank accounts and help them avail credit at affordable interest rates. It also aligns with Digital inclusion by promoting digital payments, mobile banking, and fintech adoption in remote areas, which will empower the least empowered. Lusardi (2019) emphasize that digital and financial literacy are key enablers of effective use of financial services. Schemes such as insurance and pensions provide social security. Direct Benefit Transfers (DBT) enhance transparency and ensure reducing leakages, so that welfare benefits reach the intended recipients efficiently. In short, inclusive financial systems empowers not just individuals but ultimately leads to economic development by unlocking the potential of all citizens.

Interconnection Between Financial Literacy and Financial Inclusion

Financial literacy cannot be separated from financial inclusion, as both complements each other. While financial inclusion ensures access to financial services such as bank accounts, insurance, and digital payments, which is possible when people possess the knowledge and skills to use financial tools responsibly. Without adequate knowledge, people may misuse services or fall victim to fraud, reducing the intended benefits of inclusion programs. For instance, having a bank account is not enough, users must also learn to avail facilities, ATM use, online safety, money management, and must keep themselves updated with new financial schemes and securities. Research highlights that financial literacy enhances the proper use of financial services, thus adding to financial inclusion (Lusardi & Mitchell, 2014; Khan et al., 2022).

Literature Review

Rajesh & Giridhar (2024) in their study titled “Financial literacy and personal financial management: Smart moves towards personal finance” comments that financial literacy is the continuous process that can transform attitude of individuals by teaching them smart money moves and it is the responsibility of policy makers to make it accessible for all.

Desello & Agner (2023) in their study titled “Financial inclusion and the role of financial literacy in the Philippines” examined how financial literacy contributes to financial inclusion which can boost prosperity of a country. Their paper tried to identify the determinants of usage of financial services in Philippines, and concludes **that a high rate of unemployment, or a fixed income, hinders financial literacy**. This study confirms the positive relationship between the ownership of account and use of financial services to financial literacy. College education encourages people to avail financial services. The results show that financial literacy is directly linked with the likelihood of availing a financial account, a formal credit, an investment, or insurance.

Hernandez-Mejía et al. (2021) research article titled “Financial literacy and the use of credit cards in Mexico” use a probit regression model on adult card holders in Mexico, found a low level of financial literacy and number of male card holders were found to be over and above number of female card holders. The three basic finance questions were asked to decide the level of financial literacy, namely calculation of interest rate, effect of inflation and diversification of risk. Since only card holders were a part of study so the sample shows more level of financial literacy than rest of the Mexico on an average.

Ozdemir et al. (2019) study titled “Financial literacy in developing countries” have examined pooled data of five emerging nations namely, Mexico, Lebanon, Uruguay, Turkey and Colombia and concluded that instead of education level, quality of education may be a good indicator for financial literacy. Use of programme for International Student Assessment (PISA) maths score for measuring students’ mathematical literacy, use of various types of bank cards and Deposit accounts per 1000 adults are the major factors that can reflect the level of financial literacy. **The results indicate that the female financial literacy level than males, which is a reflection of existing gender biasness in financial decisions.**

Lusardi (2019) in paper titled “Financial literacy and the need for financial education: Evidence and implications” finds that several nations are gradually introducing private defined contribution plans, and replacing the traditional employer-sponsored pension plans, thus shifting the responsibility for retirement planning on the shoulders of employees, which adds to essence of financial knowledge for all. The paper discusses the need of financial literacy in an individual's life and how it can impact an individual's wealth. The measurement of level of financial literacy includes

three basic questions based on interest rate, inflation and risk diversification, asked from the citizens of 15 rich countries and it was found to be low and unsatisfactory as only 30% of the sampled population could correctly answer all three questions while only 50% of the sampled population could correctly answer the two questions on interest rate and inflation. Moreover, financial literacy should be seen as fundamental right instead of a small number of privileges having the access. The paper is evident that being wealthy or literate does not necessarily mean the individual will be financially literate as well. Thus, Lusardi concludes that financial literacy could be by choice.

Garg & Singh (2018) in their review paper “Financial literacy among youth” examines, financial knowledge, financial attitude, financial behavior, and demographic influences on youth. The study finds that the level of financial literacy among youth is low across around the world, and it has been observed that various socio-economic and demographic factors such as age, gender, income, marital status and educational attainment influence the financial literacy level of youth.

Refera et al. (2016) in their study “Financial literacy for developing countries in Africa: A review of concept, significance and research opportunities” have talked about financial literacy for emerging nations in the African continent. They have found that financial education helps in improving social-economic well-being, poverty eradication, development of financial sector and sustainable development as people can exploit benefits of the financial services and information available to them and make best available and viable financial decision.

Ali et al. (2015) in their paper titled “Financial satisfaction and the influence of financial literacy in Malaysia” conducted a survey in Malaysia of 1,957 individuals who attended investment seminars and found a cause-and-effect relationship between financial planning (which was found to be a function of financial literacy) and financial satisfaction, but no direct relationship between financial planning and basic money management was noticed. The results were evident that the lack of debt management skills have led to rising defaults on credit cards and personal loans in Malaysia.

Akin (2014) in his paper “Credit card satisfaction and financial literacy: Evidence from an emerging market economy” argues that in Türkiye, one of the emerging market economy, default and complaints related to credit cards was linked to financial education. It is difficult for a layman to manage finance and plan personal finance efficiently, especially when he is a net borrower, leading to defaults on credit cards.

Research Objectives

The study using the existing literature and Government of India reports aim to understand the role of financial literacy and financial inclusion schemes in making Indian citizens financially aware and stable, thus contributing to Viksit Bharat@2047.

- **Financial Literacy and Inclusion Schemes**

In the past decade, several financial inclusion schemes and financial literacy programmes were launched by Government of India, which have drastically improved the financial scenario of the country, making India the world's fifth-largest economy by nominal GDP (World Economic Outlook).

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, which translates to National Mission for Financial Inclusion, was launched in 2014, turned out to be world's largest financial inclusion programme. Its primary aim is to provide universal access to banking facilities by ensuring that every household has a bank account. The scheme targets the integration of the unbanked population, especially rural and economically weaker sections (EWS) into the banking system. For the first time, zero-balance savings accounts were introduced in Indian history. RuPay (portmanteau of "Rupee" and "Payment") payment, debit cards, accidental insurance, overdraft facilities, and direct benefit transfers (DBT) for government subsidies are some of the major benefits that can be attained by having a Bank account. PMJDY has encouraged saving habits in each household (Government of India, 2022; Garg & Singh, 2018).
- **Pradhan Mantri MUDRA Yojana (PMMY)**, which translates to Prime Minister's Micro Units Development & Refinance Agency Ltd. Scheme, was introduced in 2015. It aims to provide institutional finance to micro and small enterprises often excluded from traditional banking. The scheme offers collateral-free loans up to ₹10 lakh through three categories based on business stage namely, Shishu (child- initial stage), Kishore (adolescent-growth stage), Tarun (young adult- established stage), and Tarun Plus (mature- advanced stage). The benefits of PMMY include credit at affordable interest rate, and support for business expansion. It empowers self-employed individuals, women, and artisans, to become entrepreneurs and set up their small business by availing credit from financial institutions, and become financially independent (Khan et al., 2022; Rajesh & Giridhar, 2024).
- **Atal Pension Yojana (APY)**, formerly known as Swavalamban Yojana, which translates to Self-Support Scheme, was launched in 2015. It is designed to provide old-age income security, primarily for unorganized sector workers. It encourages low-income earners to save for retirement to get a fixed monthly pension ranging from ₹1,000 to ₹5,000 after age 60, based on their contributions. The government also co-contributed premiums for eligible individuals during initial years of the scheme. APY fosters long-term financial planning and promotes consistent saving behaviour (Adam et al., 2018; Ahamed, 2024).

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**, which translates to the Prime Minister's Life Insurance Scheme, was introduced in 2015, the PMJJBY offers life insurance coverage to individuals aged 18–50 who have a savings account. In case of the policyholder's death, for an annual premium of ₹436, the scheme provides life cover of ₹2 lakh. This initiative promotes awareness of life insurance among low-income groups and enhances financial resilience in vulnerable households (Lusardi & Mitchell, 2014; Rajesh & Giridhar, 2024).
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**, which translates to the Prime Minister's Safety Insurance Scheme, was also launched in 2015. The scheme provides accidental insurance for individuals aged 18–70 at a nominal premium of ₹20 per year. It offers coverage of ₹2 lakh for accidental death or full disability and ₹1 lakh for partial disability. This scheme supports financial security for daily wage earners and low-income households while promoting awareness of personal insurance (Desello & Agner, 2023; Lusardi, 2019).
- **Stand-Up India Scheme** was launched in 2016, with the aim of promoting entrepreneurship among women and Scheduled Castes/Scheduled Tribes by offering loans from ₹10 lakh to ₹1 crore for greenfield enterprises. It combines loan facilitation with financial literacy, thus promoting entrepreneurial landscape (Bongomin et al., 2017; Moghadam et al., 2024).
- **Digital India Initiative**, launched in 2015, is not a financial scheme in itself, but it has greatly supported financial inclusion since its launch. The initiative aims to transform India into a digitally empowered society by expanding broadband connectivity and promoting digital infrastructure. It supports digital banking, UPI payments, Aadhaar-enabled services, and mobile banking. This has enabled many, especially the people in rural areas to participate in the formal financial system, enhancing transparency and reducing transaction costs (Lo Prete, 2022; Klappen et al., 2015).
- **Financial Literacy Initiatives by Reserve bank of India (RBI), Securities and Exchange Board of India (SEBI), and National Centre for Financial Education (NCFE)**. The abovementioned, financial inclusion were insufficient, and incomplete without extensive literacy campaigns by the financial regulators of India. The RBI's Financial Literacy Week every year in February since 2016, addresses the key financial issues like savings and fraud prevention. SEBI conducts investor awareness programs, especially World Investor Week in mid-October, focusing on mutual funds and safe investing. The NCFE promotes early financial education through schools and colleges. These initiatives aim to build a financially empowered population capable of

making informed financial decisions and not get trapped in frauds (Atkinson & Messy, 2012; Koskelainen et al., 2023).

Conclusion

The developing economies in most of the cases, have a higher savings rate, which is a major step towards development compared to the under developed nations, which are not in a position to save because of high average propensity to consume (APC) whereas the developed countries have developed financial markets still they have less propensity to save because they have already achieved the necessities. But only higher savings rate in the emerging economies cannot drive that economy alone, unless the savings rate is parked in an appropriate portfolio for which financial knowledge is required to exploit the benefits of sophisticated financial products available in the market.

Institutions have an eternal role in the development of an economy as emphasized by Daron Acemoglu, Simon Johnson and James Robinson, the noble prize winners in the field of Economics, in 2024. So, there is a need to strengthen the regulatory body in financial sector, so that people can conveniently access finance, and one way to do this is by providing it required autonomy, so that the financial sector can flourish.

Financial education programs should be introduced from time to time, keeping in mind the needs of public. Financial education can be introduced at school level, before these children make big financial decisions. This knowledge will be cost efficient at the school level and those students who might not be able to continue their education post schooling, also have a chance of gaining financial knowledge (Annamaria Lusardi, 2019). Financially literates can make better decisions resulting in lesser financial problems. (G. Akin et al., 2014) If individuals rightly place their finance, it will generate a handsome amount of revenue, thus contributing in development of an economy. Also creating an appropriate portfolio and managing it properly helps in tackling adverse shocks like inflation, job loss and other uncertainties in a better way, with least impact on our future plans.

The need of financial literacy is required, especially in the developing countries where several myths pertain because of asymmetry of information which makes it difficult for the investors to rely on financial markets, making these markets to remain developing for a long-time horizon, unless some serious step is taken. The lack of trust in financial markets by the domestic citizens also makes potential foreign investors end up not investing in the developing economies. Furthermore, weak regulatory institutions in emerging economies fail to build trust of foreign investors thus, grab a little foreign investment. Also, wrong financial planning can be very dangerous and can put individuals into a debt trap.

Without basic financial education, people often rely on traditional saving methods like keeping money at home or investing only in gold or land. While these may feel safe, they don't help the economy grow the way formal financial investments do. Even worse, when people don't know how to manage their money well, they can make poor choices, borrow too much, or fall into debt traps that are hard to escape. Schemes like PMJDY and MUDRA turned out to be very effective with dual aim of financial inclusion as well as financial security like insurance and pension schemes.

This paper has been written with a hope to contribute to the development of financial literacy in the developing countries like India, by presenting complications and evidences from several financial literacy and financial inclusion schemes introduced in India over the recent years. These schemes not only improve access to finance but also foster long-term financial stability, inclusion, and empowerment across all sections of society.

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