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Impact of Pradhan Mantri Jan-Dhan Yojana (PMJDY) Participation on the Financial Inclusion of Small Vendors in Chennai

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Abstract

Financial inclusion has become an important consideration for promoting the financial capabilities of small business owners and vulnerable groups. The Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched to promote financial inclusion by providing banking access to socially vulnerable groups. Small vendors form an important part of the informal business sector, but their level of financial inclusion may be affected by their knowledge of financial products and services. The present study was conducted to evaluate the impact of participation in PMJDY on the financial inclusion of small vendors. The study was conducted using quantitative research design. The research instrument was a structured questionnaire administered to 210 small vendors using Google Forms to collect primary data. The study adopted a purposive sampling technique to select small vendors with PMJDY accounts. The questionnaire had 25 statements on PMJDY Participation, Financial Literacy and Financial Inclusion using a five-point Likert scale. Statistical analysis of the data was done using IBM SPSS Statistics and JASP research software using reliability analysis, Confirmatory Factor Analysis, Pearson correlation and multiple regression analysis. The results of the study revealed that PMJDY Participation has a positive influence on Financial Inclusion ($\beta = 0.191$, $p < 0.001$). The study further revealed that Financial Literacy has a positive influence on Financial Inclusion ($\beta = 0.573$, $p < 0.001$). The regression model explained 44.7% of the variance in Financial Inclusion. The study recommends the need for banks and policymakers to pay more attention to the financial inclusion of small vendors through PMJDY and financial literacy programs.

***Keywords**: PMJDY, Financial Inclusion, Financial Literacy, Small Vendors, Banking Services, Digital Payments, Chennai.*

Introduction

Financial inclusion generally refers to the availability, accessibility and effective use of appropriate financial services by individuals and businesses. Financial inclusion can be viewed as a process through which people can access and make use of financial products and services such as bank accounts, saving schemes, credit facilities, insurance products, payment services and other related financial services in an affordable and convenient manner. For individuals running small businesses, access to formal financial services can improve their ability to save, take credit, make payments and manage their cash flows.

Financial inclusion has become an important policy focus in India because of the huge number of people involved in economic activities who are not formally banked. Small vendors are an important segment of the informal business sector in India. They mostly run small businesses such as grocery shops, vegetable and fruit stores, tea shops, clothing businesses, mechanic workshops and other small business units. Like other small business owners, these vendors are mostly informal in their business operations and therefore face several financial challenges. Financial inclusion can help these vendors to improve their business operations and cash flow management.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a financial inclusion scheme initiated by the Indian government with the objective of promoting financial inclusion by providing access to formal banking services to socially vulnerable groups. PMJDY participation can improve the level of financial inclusion of these small vendors by providing them with banking services such as RuPay cards, Direct Benefit Transfer and other related services. However, simply having a bank account is not sufficient for financial inclusion. It is important for these small vendors to utilise the various services offered by the banks to achieve financial inclusion.

Small vendors may have PMJDY accounts, but the level of account usage can vary between vendors. Some vendors may use their accounts regularly while others may not utilise them. Additionally, the level of knowledge of small vendors on financial products and services such as digital payments, saving schemes, credit facilities, insurance and other related services can also vary. These factors raise several questions on the level of financial inclusion of small vendors in Chennai.

Financial literacy is an important determinant of the level of financial inclusion. Financial literacy refers to the level of financial knowledge and understanding of individuals in relation to financial products and services. Financial literacy can further be defined as the ability of individuals to make informed decisions on financial matters and utilise financial services efficiently. Financial literacy empowers individuals to understand financial products and services and take informed decisions on their usage. In the context of small vendors, financial literacy can help them to utilise formal financial services to promote their business and personal financial needs.

The present study was conducted to assess the influence of PMJDY participation on the financial inclusion of small vendors in Chennai. The study focused on small vendors in Chennai because of the large number of these businesses in the local area and their potential role in promoting economic development. The study further examined the mediating role of Financial Literacy on the relationship between PMJDY Participation and Financial Inclusion. The study was relevant to Indian Overseas Bank (IOB) as a commercial bank that participates in the PMJDY financial inclusion scheme.

There is a need for further studies on the role of PMJDY participation on the financial inclusion of small vendors in Chennai. Previous studies on financial inclusion have focused on financial literacy levels of households and vulnerable groups. However, there is a need for more studies on the impact of financial inclusion on small business owners such as small vendors.

Objectives

- To assess the effect of PMJDY participation on the financial inclusion of small vendors in Chennai.
- To evaluate the level of PMJDY participation among small vendors.
- To examine the level of financial literacy among small vendors.
- To analyse the effect of financial literacy on financial inclusion.
- To examine the relationship between PMJDY participation, financial literacy and financial inclusion.
- To examine if financial literacy mediates the relationship between PMJDY participation and financial inclusion

Conceptual Framework and Review of Literature

PMJDY participation is hypothesized to influence financial inclusion through enhanced access to and use of formal banking services. Financial literacy is considered an intervening individual characteristic since knowledge about products and services is likely to affect the extent to which an individual benefits from the available formal banking services.

The main relationship examined is PMJDY Participation → Financial Inclusion. Financial Literacy is explored both in relation to Financial Inclusion and as a moderator of the relationship between PMJDY Participation → Financial Inclusion.

PMJDY Participation is measured by account ownership, usage, access to banking services, RuPay card and Direct Benefit Transfers. Financial Inclusion is captured by formal banking access, saving, formal credit, usage of digital payment and financial security. Financial Literacy is assessed using knowledge of banking products, saving and credit, digital payments and decision-making.

Review of Literature

Demirgüç-Kunt et al. (2018): The Global Findex work revealed that financial inclusion involves not only account ownership but also use of these accounts and that access to financial services facilitates savings, credit and overall participation in the formal financial system. This has implications for examining both account ownership as well as actual utilisation among the small vendors.

Sharma (2016): The work on financial inclusion and economic growth showed that increased banking access promotes improved saving, higher credit availability, entrepreneurship development and hence increased income for individuals and small businesses.

Singh and Singh (2017): The study on PMJDY accounts and financial inclusion highlighted the increased access to banking services among the low-income groups. However, the study also showed the presence of inactive accounts as well as lack of utilisation of the accounts among the account holders thus illustrating some challenges in achieving financial inclusion through PMJDY.

Kaur and Kapuria (2019): The study on PMJDY and banking access showed that financial inclusion and access depend on awareness and financial literacy. Factors such as education, income, gender and awareness play a role in determining the extent to which an individual is financially included.

Chattopadhyay (2011): The work on financial inclusion in India highlighted the need to consider banking access and other financial facilities as aspects of financial inclusion. It provides a framework that can be used to evaluate financial inclusion status among small vendors.

Bhanot, Bapat and Bera (2012): This work provided information on financial inclusion among economically disadvantaged sections of society. In addition to banking access, the study highlighted awareness, accessibility and affordability as critical areas in financial inclusion.

Allen et al. (2016): This study focused on the foundation of financial inclusion and demonstrated that individual and institutional factors determine formal account ownership and usage. It provides background evidence on the variables used in this study.

Gupta and Singh (2021): This study highlighted the role of digital financial services in financial inclusion. It demonstrated that digital financial services require financial literacy for effective use.

Research Methodology

- **Research Design**

The study adopted quantitative research design. The choice was appropriate since the study aimed to examine the relationships and effects of the variables under study using statistical analysis. The conceptual framework guided the identification and measurement of the study variables.

- **Source of Data**

The study used primary data collected from the target population. The data collection instrument was developed by researchers and was administered through Google Forms. The instrument was designed to capture demographic information and obtain responses to statements for the three constructs of the study.

- **Population and Sample**

The population of the study comprised small vendors in Chennai. A sample size of 210 was chosen for analysis. The sampling was done with reference to the inclusion criteria that the respondent should be a small vendor with an active PMJDY account.

- **Sampling Technique**

The study used purposive sampling which is a type of non-probability sampling. The sampling was appropriate since it was necessary to identify and recruit respondents who met the inclusion criteria for the study.

- **Questionnaire Design**

The questionnaire had two sections. The first section collected demographic information while the second section sought information relating to the three constructs being studied. Statements on the constructs were scored using a five-point Likert scale ranging from 1=Strongly Disagree to 5=Strongly Agree.

Construct	Indicators	Items
PMJDY Participation	Banking access, usage, RuPay, DBT	8
Financial Literacy	Banking products, savings, credit, digital payments, decisions	8
Financial Inclusion	Banking access, savings, credit, digital payments, security	9
Total		25

- **Variables and Measurement**

The independent variable is PMJDY Participation. Financial Inclusion is the dependent variable. Financial Literacy is treated as the moderating variable in the conceptual framework and is also examined as a predictor of Financial Inclusion in the reported regression model.

- **Statistical Tools**

IBM SPSS Statistics and JASP were used for analysis. Reliability analysis was conducted using Cronbach's Alpha. Confirmatory Factor Analysis was used to examine the measurement model. Pearson correlation was used to assess associations among the constructs, and multiple regression was used to estimate the effects of PMJDY Participation and Financial Literacy on Financial Inclusion.

- **Ethical and Scope Considerations**

The study is limited to the selected sample of small vendors in Chennai and respondents possessing PMJDY accounts. Consequently, the findings should be interpreted within the study context and should not be automatically generalised to all vendors or other geographical regions.

Analysis and Discussion

- **Demographic Profile of Respondents**

The sample consisted of 210 small vendors. Female respondents accounted for 56.2% of the sample and male respondents accounted for 43.8%. The age distribution covered respondents below 25 years, 25–34 years, 35–44 years, 45–54 years and 55 years and above. The largest age group was 45–54 years, representing 41.0% of respondents.

With respect to educational qualification, respondents were distributed across no formal education, primary education, secondary education, higher secondary education and graduate or above. The business profile included grocery, vegetable/fruit, tea/food, clothing, mechanic and other businesses.

Regarding business experience, the largest group had 6–10 years of experience.

Demographic Variable	Major Result
Gender	Male 43.8%; Female 56.2%
Age	45–54 years: 41.0%
Education	Higher secondary and graduate formed substantial groups
Business type	Clothing, vegetable/fruit and tea/food were important categories
Business experience	6–10 years: 46.7%

- **Reliability Analysis**

Reliability analysis was conducted to examine the internal consistency of the measurement scales. Cronbach's Alpha values above the accepted threshold indicate that the items within each construct measure a common underlying concept.

Construct	Cronbach's Alpha	No. of Items	Interpretation
PMJDY Participation	0.788	8	Reliable
Financial Literacy	0.739	8	Acceptable reliability
Financial Inclusion	0.852	9	Highly reliable

PMJDY Participation recorded a Cronbach's Alpha of 0.788, indicating good internal consistency. Financial Literacy recorded 0.739, indicating acceptable reliability. Financial Inclusion recorded the highest coefficient of 0.852, demonstrating strong internal consistency. These results indicate that the scales are suitable for further analysis.

- **Confirmatory Factor Analysis**

Confirmatory Factor Analysis was used to assess whether the observed indicators adequately represented the intended constructs. PMJDY Participation consisted of PAR1–PAR8, Financial Literacy consisted of FL1–FL8 and Financial Inclusion consisted of FI1–FI9.

The reported CFA results showed statistically significant loadings for the measurement indicators. For PMJDY Participation, the observed loadings included PAR2 = 0.4657, PAR3 = 0.9131, PAR4 = 0.5399, PAR5 = 0.7809, PAR6 = 0.5692, PAR7 = 0.9538 and PAR8 = 0.7675, with PAR1 serving as the fixed reference indicator. The results supported retention of the indicators in the measurement model.

For Financial Literacy, the CFA model included eight indicators. The reported loadings included FL2 = 1.3220, FL3 = 1.0500, FL4 = 0.5570, FL5 = 0.9927, FL6 = 1.0720, FL7 = 0.9635 and FL8 = 0.6621, with FL1 used as the reference indicator. The indicators were retained for the construct.

Financial Inclusion was represented by nine indicators, FI1–FI9. The reported loadings included FI2 =

1.1480, FI3 = 0.9567, FI4 = 1.0690, FI5 = 1.1760, FI6 = 1.1940, FI7 = 0.9627, FI8 = 1.0120 and FI9 = 0.9415, with FI1 serving as the reference indicator. The CFA results therefore support the proposed measurement of Financial Inclusion.

- **Pearson Correlation Analysis**

Pearson correlation analysis was conducted to examine the direction and strength of relationships among PMJDY Participation, Financial Literacy and Financial Inclusion.

Variables	Pearson r	Significance
PMJDY Participation – Financial Literacy	0.376	$p < 0.001$
PMJDY Participation – Financial Inclusion	0.406	$p < 0.001$
Financial Literacy – Financial Inclusion	0.645	$p < 0.001$

The correlation between PMJDY Participation and Financial Literacy was positive and statistically significant ($r = 0.376$, $p < 0.001$). This suggests that vendors with stronger participation in PMJDY tend to report higher levels of financial literacy, although the relationship is moderate.

PMJDY Participation was positively associated with Financial Inclusion ($r = 0.406$, $p < 0.001$). This finding indicates that greater participation in PMJDY is associated with improved access to and use of formal financial services. The result supports the underlying expectation that PMJDY can contribute to financial inclusion among small vendors.

Financial Literacy demonstrated the strongest correlation with Financial Inclusion ($r = 0.645$, $p < 0.001$). This comparatively strong relationship indicates that financial knowledge and understanding are closely associated with the ability of vendors to participate effectively in the formal financial system.

The pattern of correlations is consistent with the literature. PMJDY can provide an institutional entry point into formal banking, while financial literacy can help individuals understand and utilise the services made available to them. Therefore, both access and capability are important dimensions of financial inclusion.

- **Regression Analysis**

Multiple regression analysis was conducted with Financial Inclusion as the dependent variable and PMJDY Participation and Financial Literacy as predictors.

Model Statistic	Value
R	0.669
R^2	0.447
Adjusted R^2	0.442
Standard Error of Estimate	0.49946
F	83.629
Significance	$p < 0.001$

The regression model is statistically significant, $F(2,207) = 83.629$, $p < 0.001$. The R value of 0.669 indicates a strong overall relationship between the predictors and Financial Inclusion. The R^2 value of 0.447 indicates that 44.7% of the variance in Financial Inclusion is explained jointly by PMJDY Participation and Financial Literacy.

Predictor	B	Standardized β	p-value
PMJDY Participation	0.209	0.191	< 0.001
Financial Literacy	0.659	0.573	< 0.001

PMJDY Participation has a positive and statistically significant effect on Financial Inclusion ($B = 0.209$, $\beta = 0.191$, $p < 0.001$). Thus, an increase in PMJDY Participation is associated with an increase in Financial Inclusion. The result provides empirical support for the positive role of PMJDY in improving formal financial participation among small vendors.

Financial Literacy also has a positive and statistically significant effect on Financial Inclusion ($B = 0.659$, $\beta = 0.573$, $p < 0.001$). The standardised coefficient is considerably larger than that of PMJDY Participation, indicating that Financial Literacy is the stronger predictor of Financial Inclusion in the reported model.

- **Hypothesis Testing**

Hypothesis	Statement	Decision
H01	PMJDY Participation does not have a significant positive effect on Financial Inclusion.	Rejected
H11	PMJDY Participation has a significant positive effect on Financial Inclusion.	Accepted
H02	Financial Literacy does not have a significant positive effect on Financial Inclusion.	Rejected
H12	Financial Literacy has a significant positive effect on Financial Inclusion.	Accepted

The results support the positive main effects of PMJDY Participation and Financial Literacy. The combined model is statistically significant. However, the supplied statistical results do not contain a separate interaction-term coefficient for PMJDY Participation × Financial Literacy. Therefore, a statistically confirmed moderation effect should not be claimed from the current regression output alone. The conceptual framework may position Financial Literacy as a moderator, but a formal moderation conclusion requires an interaction analysis.

Findings and Suggestions

Findings

- The study examined 210 small vendors in Chennai and focused on respondents possessing active PMJDY accounts.
- Female respondents constituted 56.2% of the sample, while male respondents constituted 43.8%.
- The largest age group was 45–54 years, accounting for 41.0% of the respondents.
- Respondents represented multiple small-business categories, including grocery, vegetable/fruit, tea/food, clothing and mechanic businesses.
- PMJDY Participation demonstrated good internal consistency with Cronbach's Alpha of 0.788.
- Financial Literacy demonstrated acceptable internal consistency with Cronbach's Alpha of 0.739.
- Financial Inclusion demonstrated strong internal consistency with Cronbach's Alpha of 0.852.
- The CFA results supported the proposed indicators for PMJDY Participation, Financial Literacy and Financial Inclusion.
- PMJDY Participation had a significant positive correlation with Financial Inclusion ($r = 0.406$, $p <$
- 0.001).
- Financial Literacy had a stronger positive correlation with Financial Inclusion ($r = 0.645$, $p <$
- 0.001).

- PMJDY Participation significantly predicted Financial Inclusion ($\beta = 0.191$, $p < 0.001$).
- Financial Literacy significantly predicted Financial Inclusion ($\beta = 0.573$, $p < 0.001$).
- The regression model was significant and explained 44.7% of the variance in Financial Inclusion.
- Financial Literacy was the stronger predictor of Financial Inclusion in the reported regression model.
- The main-effect hypotheses relating to PMJDY Participation and Financial Literacy were supported.

Suggestions

- Banks can promote awareness among small vendors about the benefits and usage of PMJDY.
- Financial literacy programs should be relevant to the needs of small vendors and target practical aspects of financial management.
- Small vendors can be encouraged to open PMJDY accounts and utilise them for formal financial transactions.
- Banking officials can demonstrate the use of digital payment options and advise on financial management.
- Financial literacy programs should be developed using simple language and materials that are easy for small vendors to understand.
- Small vendors should be encouraged to save on a regular basis and utilise formal financial services for appropriate transactions.
- Awareness should be created on formal credit options to help small vendors understand how to access credit and utilize it responsibly.
- Financial literacy should be incorporated into the account-opening campaigns since the mere act of opening an account is not sufficient for financial inclusion.
- Banks can conduct regular follow-up activities to understand how the small vendors utilise their accounts and encourage more frequent use of the accounts.
- Future interventions can focus on combining awareness on PMJDY, financial literacy and promoting responsible and sustainable financial practices.

Conclusion

The study concluded that the level of PMJDY Participation significantly predicted the levels of Financial Inclusion among small vendors in Chennai. The study demonstrated the potential of the PMJDY scheme to facilitate financial inclusion through increased access to formal banking services. This conclusion will contribute towards supporting the goal of financial inclusion since the majority of small vendors belong to the formal banking system.

Additionally, the study revealed that Financial Literacy was significantly correlated with and predicted the levels of Financial Inclusion. Financial literacy was a critical determinant of Financial Inclusion among the small vendors. A high level of Financial Literacy translated into better understanding of the benefits offered by PMJDY and hence increased levels of Financial Inclusion. The regression analysis revealed that approximately 44.7% of the variance in Financial Inclusion was predicted by PMJDY Participation and Financial Literacy. A large portion of the variance in Financial Inclusion was predicted by the combination of the two variables. Since the study only captured some of the variables that affect Financial Literacy and Financial Inclusion, future studies with more variables would be needed to fully capture the dynamics.

The findings will help inform the efforts of banks in promoting the financial inclusion of small vendors. The findings suggest that it is not enough to simply encourage small vendors to open PMJDY accounts. Banks need to engage in more intensive outreach and awareness campaigns to help the vendors understand how to utilise formal financial services to support their business activities. This could include providing financial literacy training on topics of relevance to the small vendors such as how best to use the RuPay card and other digital financial services. Additionally, banks should be concerned with ensuring that existing PMJDY account holders utilise their accounts more frequently.

The main effect hypothesis was supported by the findings which suggest that both PMJDY Participation and Financial Literacy predicted Financial Inclusion. However, it is important to note that although the conceptual framework hypothesised that Financial Literacy moderated the relationship between PMJDY Participation and Financial Inclusion, the statistical analysis did not provide sufficient evidence to support this assertion. In order to adequately establish the moderation effect of Financial Literacy, future studies could utilise a more comprehensive statistical analysis such as Moderated Regression Analysis.

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