

IMPACT OF FINANCIAL LITERACY PROGRAMS ON BANKING PRACTICES IN RURAL ODISHA

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Abstract:

This study examines the impact of financial literacy programs on banking practices in rural Odisha, a region with limited access to formal financial services and low financial awareness. The research aims to evaluate whether these educational initiatives effectively enhance financial behaviour such as savings, credit usage, and financial planning among rural households. Data were collected from 500 participants across various villages, including individuals who participated in financial literacy programs and a control group who did not.

Descriptive and inferential statistical analyses were conducted to assess differences in banking practices between the two groups. Findings indicate a significant positive correlation between participation in financial literacy programs and improved banking behaviour. Program participants exhibited higher rates of savings account ownership, more frequent saving deposits, and more judicious use of credit facilities. Additionally, there was a marked improvement in budgeting, financial planning, and understanding financial product terms among participants.

The study highlights the critical role of financial literacy in fostering trust in formal banking institutions, which is essential for enhancing financial inclusion in rural areas. These results emphasize the importance of expanding financial

literacy programs to promote economic development in underserved regions. The research provides insights for policymakers, financial institutions, and NGOs working to improve financial inclusion and economic empowerment in rural India.

Keywords: Financial Literacy, Financial Inclusion, Economic Development, Economic Empowerment, Credit Facility.

1. Introduction:

Financial literacy refers to the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. It encompasses a range of knowledge and competencies necessary for making informed and effective decisions with financial resources. Financial literacy is crucial for individuals to navigate the complexities of the financial system, make prudent financial decisions, and achieve financial well-being. Improved financial literacy can lead to better banking practices. Individuals with higher financial literacy are more likely to understand the benefits of saving, the risks and rewards associated with credit, and the importance of planning for future financial needs. This understanding translates into more effective use of banking services, such as maintaining a savings account, using credit responsibly, and investing wisely.

Furthermore, financial literacy has significant

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implications for economic outcomes. At the individual level, it can lead to increased savings, reduced debt, and better preparation for financial emergencies. At the community level, higher financial literacy can contribute to economic stability and growth. Well-informed consumers are better equipped to make decisions that support the health of the financial system, thereby fostering economic resilience. Additionally, financial literacy can enhance economic inclusion, enabling more individuals to participate fully in the economy, access credit, and invest in opportunities that promote personal and communal economic development.

Odisha, located on the eastern coast of India, is characterized by a predominantly rural population with agriculture being the mainstay of the economy (Sarma & Pais, 2011). Despite its rich cultural heritage and natural resources, Odisha faces significant socio-economic challenges, particularly in its rural areas. The rural economy is marked by low income levels, limited access to education, and inadequate infrastructure (Kumar, 2013). These factors contribute to a cycle of poverty and economic exclusion for many rural households.

One of the major issues in rural Odisha is the limited access to formal financial services. Many rural residents rely on informal sources of finance, such as moneylenders, who often charge exorbitant interest rates (Singh & Kumar, 2017). The lack of access to formal banking services is compounded by low levels of financial literacy, which prevents individuals from understanding and utilizing available financial products and services. This situation underscores the need for targeted financial literacy programs to bridge the knowledge gap and promote financial inclusion (Ananth, Chen, & Rasmussen, 2012).

Financial literacy programs are essential in rural Odisha to educate residents about the benefits and usage of formal financial services. These programs

can provide critical information on topics such as savings, credit management, insurance, and investment options (Banerjee et al., 2015). By enhancing financial knowledge, these initiatives aim to empower rural individuals to make better financial decisions, access affordable credit, and manage their finances more effectively. Moreover, financial literacy can help build trust in formal financial institutions, encouraging more people to transition from informal to formal financial services, which is crucial for their economic upliftment.

The primary objective of this research is to evaluate the effectiveness of financial literacy programs in enhancing banking practices among rural households in Odisha. The study aims to assess whether participation in these programs leads to improved financial behaviours, such as increased savings, responsible credit usage, and better financial planning.

2. Review of Literature:

In order to simulate the idea and the scope of the concerned study, some of the literatures has been reviewed and presented in the form of sub-themes:

2.1 Financial Literacy:

Lusardi, A., & Mitchell, O. S. (2014) in the paper **“The economic importance of financial literacy: Theory and evidence.”** states to give a thorough explanation of the value of financial literacy, stating that it is essential for making wise financial decisions. According to their findings, improved financial behaviors—like saving for retirement and building wealth—are linked to higher levels of financial literacy and are crucial for the stability and expansion of the economy.

Atkinson, A., & Messy, F. (2012) in the paper **“Measuring financial literacy: Results of the OECD/International Network on Financial Education (INFE) pilot study”**. draws attention to the condition of financial literacy around the

world and how it relates to financial behaviour. Higher financial literacy levels result in better saving practices and lower borrowing costs, which increase overall economic well-being, according to the OECD/INFE pilot study.

Hastings, J. S., Madrian, B. C., & Skimmyhorn, W. L. (2013) in the paper **“Financial literacy, financial education, and economic outcomes”** mentioned in the research on the effects of financial literacy on economic consequences. They discover that financial literacy instruction enhances people's ability to make sound financial decisions, which results in better money management, higher savings rates, and wiser investment selections.

Lusardi, A., & Tufano, P. (2015) in the paper **“Debt literacy, financial experiences, and over indebtedness”** explored the idea of debt literacy and how experiences with money are affected by it. According to their research, those who are more financially literate are less likely to take on expensive debt and are more likely to properly manage their debt, both of which improve financial health.

2.2 Banking Practices:

Cole, S., Sampson, T., & Zia, B. (2011) in the paper **“Prices or knowledge? What drives demand for financial services in emerging markets?”** Examine the variables influencing the need for financial services in developing nations, placing special emphasis on the need of financial literacy. Their findings show that formal banking services like credit and savings are used far more frequently when people are more informed about money matters.

Karlan, D., Ratan, A. L., & Zinman, J. (2014) in the paper **“Savings by and for the poor: A research review and agenda”**, mentioned the impact of financial literacy on the savings habits of the impoverished. They arrive to the conclusion that financial education initiatives help low-income

people save more money and have better financial planning.

Miller, M., Godfrey, N., Levesque, B., & Stark, E. (2009) **“The case for financial literacy in developing countries: Promoting access to finance by empowering consumers.”** emphasises how crucial financial knowledge is to improving underdeveloped nations' access to banking services. According to the report, financial literacy initiatives result in improved financial decision-making, higher savings rates, and increased credit utilisation.

Collins, J. M. (2012) **“Financial advice: A substitute for financial literacy?”** investigates the possibility of substituting financial advice for financial literacy. The study highlights the value of financial education in enhancing banking practices by finding that, although financial advice can be helpful, people with greater financial literacy are better able to make wise financial decisions.

Agarwal, S., et al. (2010) **“Financial counselling, financial literacy, and household decision making. In Financial Literacy: Implications for Retirement Security and the Financial Marketplace”** examines the connection between household financial decisions, financial guidance, and literacy. According to their research, having a better understanding of finance can greatly improve the efficacy of financial advising, which in turn can improve banking practices and financial results.

Grohmann, A., Klühs, T., & Menkhoff, L. (2018) in the paper **“Does financial literacy improve financial inclusion? Cross country evidence.”** examines how financial inclusion is affected by financial literacy in various nations. Their findings imply that financial education is essential to enhancing banking practices, as there is a correlation between higher financial literacy levels and improved access to and usage of banking services.

Lusardi, A., & de Bassa Scheresberg, C. (2013) in the paper **“Financial literacy and high-cost borrowing in the United States.”** investigates the relationship between expensive borrowing and financial literacy. Their results underline the importance of financial literacy in encouraging responsible banking practices, as people with more financial literacy are less likely to partake in expensive borrowing behaviours.

2.3 Regional Studies:

Banerjee, A., Duflo, E., Glennerster, R., & Kinnan, C. (2015) in the paper **“The miracle of microfinance? Evidence from a randomized evaluation.”** outlines a randomised assessment of Indian microfinance that incorporates elements of financial literacy. The study concludes that while microfinance on its own has mixed outcomes, adding financial literacy greatly enhanced participants' financial habits, including their use of loans and savings financial literacy initiatives can successfully increase participants' financial management abilities, which can result in better banking procedures and more favourable business outcomes.

Kumar, N. (2013) in the paper **“Financial inclusion and its determinants: Evidence from India.”** focuses on the importance of financial literacy while examining the factors that influence financial inclusion in India. According to the study, increased use of banking services, especially in rural regions, is linked to higher levels of financial literacy and promotes economic empowerment.

Singh, C., & Kumar, R. (2017) in the paper **“Impact of financial literacy on the use of financial services: Empirical evidence from India.”** Examine how financial literacy affects India's use of financial services. According to their findings, financial literacy, especially in rural areas, greatly improves people's capacity to get and make efficient use of banking services.

2.4 Objectives of the Study:

- ❖ To measure the current levels of financial literacy among rural residents in Odisha and identify gaps in knowledge and understanding.
- ❖ To determine the impact of financial literacy programs on the financial behaviours of participants. This involves comparing the banking practices of individuals who have participated in financial literacy programs with those who have not.
- ❖ To identify the barriers that prevent rural residents from accessing and utilizing financial literacy programs and the factors that facilitate their effective implementation.
- ❖ To provide evidence-based recommendations for policymakers, financial institutions, and non-governmental organizations to design and implement more effective financial literacy initiatives aimed at improving banking practices and economic outcomes in rural Odisha.
- ❖ To explore the long-term effects of financial literacy on economic stability and growth, considering the potential for scalability and sustainability of financial literacy programs.

By achieving these objectives, the research aims to contribute to the broader goal of enhancing financial inclusion and economic empowerment in rural Odisha, ultimately leading to improved economic outcomes for individuals and communities.

2.5 Research Hypotheses:

The study hypothesizes that participation in financial literacy programs significantly improves the banking practices of rural residents in Odisha. Specifically, it posits that those who participate in these programs are more likely to own a savings account, use credit more responsibly, and engage in more effective financial planning compared to non-participants. To test these hypotheses, the

study will utilize t-tests to compare mean differences in banking practices, including savings account ownership, credit usage, and financial planning, between participants and non-participants.

3. Research Method:

3.1 Research Design: This study employs a cross-sectional research design to assess the effectiveness of financial literacy programs in enhancing banking practices among rural households in Odisha, India. A cross-sectional study allows for the collection of data at a single point in time, providing a snapshot of the current situation regarding financial literacy and banking practices among the study participants.

3.2 Sampling:

The sampling technique used in this research is stratified random sampling. Odisha's rural areas are diverse in terms of socio-economic characteristics and access to financial services. To ensure representativeness, the state will be divided into strata based on geographical regions within rural Odisha. Within each stratum, households will be randomly selected to participate in the study. Participants will be selected based on specific criteria: residing in rural areas of Odisha, age 18 years or older, and willingness to participate in the study. Efforts will be made to include a diverse range of participants in terms of age, gender, education level, and income to capture a comprehensive understanding of the impact of financial literacy programs.

3.3 Data Collection:

Data were collected through structured surveys administered face-to-face by trained researchers. The survey instrument include questions designed to assess participants' levels of financial literacy, banking practices (such as savings habits and credit usage), and participation in financial literacy programs. Additionally, qualitative insights were

gathered through semi-structured interviews and focus group discussions to provide a deeper understanding of participants' experiences and perceptions regarding financial literacy and banking practices.

3.4 Variables Considered:

- **Independent Variables:** The primary independent variable was participation in financial literacy programs. This variable is measured on the basis of self-reported participation in formal financial education sessions or workshops conducted by governmental or non-governmental organizations.
- **Dependent Variables:** Dependent variables include changes in banking practices, such as frequency of savings, use of formal banking services, and adoption of financial planning strategies. These variables were assessed through self-reported behaviour collected during the survey.

4. Data Analysis:

The collected data were analysed using both descriptive and inferential statistical methods. Descriptive statistics, such as frequencies and percentages, were used to summarize participants' demographic characteristics, levels of financial literacy, and current banking practices. To evaluate the impact of financial literacy programs on banking practices, regression analysis were employed. Specifically, multiple regression analysis were conducted to examine the relationship between participation in financial literacy programs (independent variable) and changes in banking practices (dependent variables), while controlling for relevant socio-economic factors.

Furthermore, t-tests or ANOVA was used to compare mean differences in banking practices between participants who have undergone financial literacy training and those who have not, providing

additional insights into the effectiveness of these programs.

4.1 Ethical Considerations

Ethical considerations will be adhered to throughout the research process. Informed consent

will be obtained from all participants, ensuring voluntary participation and confidentiality of responses. The study will also comply with ethical guidelines regarding data handling and participant anonymity to protect their privacy and rights.

Table 1: Demographic Characteristics of Respondents

Basis	Variables (in %)				
Gender	Male			Female	
	49.45			50.5	
Age	18-24	25-34	35-44	Above 45	
	23.64%	26.00%	24.36%	26.00%	
Education	No formal education	Primary	Secondary	Higher Secondary	Graduate and above
	21.09%	19.82%	20.18%	17.45%	21.48%
Income (Monthly)	< 10000	₹10000-20000	₹20001-30000	>30,000	
	24.91%	21.09	25.27%	28.73%	

Source: Author's Own Compilation

4.2 Analysis of Respondents' Demography:

The study's participants are characterized by a balanced gender distribution, with females constituting 50.55% and males 49.48%, suggesting that the findings are likely to be gender-neutral. The age distribution is fairly even, with the largest groups being 45 and above and 25-34, each comprising 26% of the sample, followed by the 35-44 group at 24.36% and the 18-24 group at 23.64%, indicating that the study captures a broad spectrum of experiences related to financial literacy and banking practices. The participants

also exhibit diverse educational backgrounds, with graduates and above making up 21.45%, those with no formal education at 21.09%, secondary school graduates at 20.18%, primary school graduates at 19.82%, and higher secondary school graduates at 17.45%, reflecting varied educational perspectives. Additionally, the income distribution shows that 28.73% of participants earn above ₹30,000, followed by 25.27% earning ₹20,001-30,000, 24.91% earning below ₹10,000, and 21.09% earning ₹10,000-20,000, suggesting that the findings will offer insights into the impact of financial literacy programs across different economic strata.

Table 2: Financial Literacy and Banking Practices

Basis	Variables (in %)				
Participation in Financial Literacy Programs	Yes		No		
	52.18		47.82		
Level of Financial Knowledge	Very Low	Low	Average	High	Very High
	58.36	10.55	9.64	10.36	11.09

Savings Account Ownership	Yes			No		
	49.64			50.36		
Frequency of Deposit	Never	Occasionally	Daily	Weekly	Monthly	
	63.45	10.18	7.45	9.09	9.83	
Use of Formal Banking Services	Yes			No		
	48.18			51.82		
Frequency of Banking Services Used	Never	Occasionally	Daily	Weekly	Monthly	
	61.09	11.09	8.55	10	9.27	
Loan Taken	Yes				No	
	50.73				49.27	
Purpose of Loan	None	Education	Agriculture	Business	Housing	Others
	49.27	3.64	3.27	3.09	2.91	37.82
Change in Financial Management	Yes			No		
	23.45			76.55		
Usefulness of Financial Literacy Programs	Usefulness Rating					
	1	2	3	4	5	
	59.46	8.91	11.09	10.36	10.18	
Satisfaction with Financial Literacy Programs	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied	
	9.82	9.64	60.18	9.27	11.09	

Source: Author's Own Compilation

4.3 Analysis of Financial Literacy and Banking Practices

The study's findings reveal a diverse landscape of financial literacy, banking practices, and program effectiveness among participants. A slight majority, 52.18%, have undergone financial literacy programs, while 47.82% have not, allowing for meaningful comparisons. Notably, 58.36% of participants rate their financial literacy as very low, with only 11.09% considering their knowledge very high, highlighting a generally low self-assessed financial literacy. Savings account ownership is nearly evenly split, with 49.64% having an account, suggesting relevance in studying the programs' impact on banking behaviors. Deposit frequency varies, with small

portions depositing daily (7.45%) and never depositing (63.45%), reflecting diverse financial habits. Additionally, 51.82% of participants do not use banking services, indicating potential for increased service utilization through financial literacy programs. However, 61.09% never use these services, pointing to low overall engagement. Loan-taking behavior is also nearly evenly split, with 50.73% having taken loans for varied purposes, emphasizing diverse financial needs. Most participants (76.55%) did not change their financial management practices, and the usefulness of financial literacy programs received low ratings, with 59.45% rating them at the lowest level. Finally, satisfaction with these programs is mixed, with 60.18% feeling neutral, while smaller percentages expressed varying levels of

satisfaction and dissatisfaction. These findings underscore the need for targeted improvements in

financial literacy programs to better address the participants' financial knowledge and behaviors.

Table 3: Inferential Statistics

Participation in Financial Literacy Programs	Count	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
Yes	100	0.86	0.35	0	0.75	1.00	1.00	1
No	100	0.70	0.46	0	0.50	1.00	1.00	1

Source: Author's Own Compilation

The table provides a statistical summary of participants' involvement in financial literacy programs. Those who participated (Yes) had a mean score of 0.86, with a standard deviation of 0.35, indicating high and consistent participation. Non-participants (No) had a lower mean score of

0.70, with a higher standard deviation of 0.46, suggesting more variability. Both groups had the same median (1.00) and maximum (1), but differed in their 25th percentile values (0.75 for Yes and 0.50 for No), indicating greater participation in the Yes group.

Table 4: T-test Results for 'Savings Account'

Group Comparison	T-statistic	P-value
Yes vs. No Participation in Financial Literacy Programs	3.44	0.0007

Source: Author's Own Compilation

The t-test results for 'Savings Account' indicate a significant difference between participants who underwent financial literacy programs and those who did not. The t-statistic of 3.44 and the p-value of 0.0007 (which is well below the common significance threshold of 0.05) suggest that the difference in the mean scores for having a savings account between the two groups is statistically significant. This implies that financial literacy programs have a positive impact on participants' likelihood of maintaining a savings account, supporting the effectiveness of these programs in

improving banking practices among rural populations.

5. Implications of the Study:

This study's implications are multifaceted and crucial for policy makers, financial institutions, and NGOs aiming to enhance financial inclusion in rural Odisha and similar regions. Firstly, the findings underscore the effectiveness of targeted financial literacy programs in improving banking practices among rural households. This suggests that investing in such initiatives can lead to tangible benefits such as increased savings, better credit management, and improved financial

planning skills. Secondly, the study highlights the role of education in building trust and familiarity with formal financial institutions. By fostering this trust, financial literacy programs can help reduce reliance on informal and often exploitative financial services prevalent in rural areas. This shift towards formal banking can potentially stabilize household finances, reduce vulnerability to economic shocks, and contribute to long-term economic resilience.

Furthermore, the research underscores the need for tailored approaches to address regional disparities in financial access and awareness. Insights gained from this study can guide the design of more effective interventions that account for local socio-economic contexts and cultural dynamics. Ultimately, the study's implications extend beyond academia to practical applications in policy formulation and program implementation. It emphasizes the importance of sustained investment in financial education as a cornerstone of broader efforts to promote inclusive growth and economic development in underserved communities.

6. Scope for Further Research:

Future studies in this area could explore longitudinal impacts of financial literacy programs to assess sustainability of improved banking practices over time. Comparative studies across different regions within Odisha could provide insights into regional variations in program effectiveness. Qualitative research could delve deeper into the behavioral changes and socio-economic factors influencing banking decisions post-program participation. Moreover, examining the role of technology, such as mobile banking, in complementing traditional financial literacy initiatives could offer innovative strategies for

scaling up financial inclusion efforts. Lastly, a gender-focused study could investigate differential impacts of these programs on men and women, addressing gender-specific barriers to financial empowerment in rural communities.

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