International Journal of Arts, Humanities and Social Studies

ISSN Print: 2664-8652
ISSN Online: 2664-8660
Impact Factor: RJIF 8
IJAHSS 2025; 7(1): 673-676
www.socialstudiesjournal.com
Received: 16-03-2025
Accepted: 20-04-2025

Arbole Supriya Suresh
Research Scholar, Dept. of Commerce, Radha Govind University, Ramgarh, Jharkhand, India

Sanjay Kumar Sriwastaw
Research Guide, Dept. of Commerce, Radha Govind University, Ramgarh, Jharkhand, India

Corresponding Author:
Arbole Supriya Suresh
Research Scholar, Dept. of Commerce, Radha Govind University, Ramgarh, Jharkhand, India

Bridging the gap: A study on financial inclusion in rural Karnataka

Arbole Supriya Suresh and Sanjay Kumar Sriwastaw

DOI: https://www.doi.org/10.33545/26648652.2025.v7.i1i.258

Abstract
With the goal of better understanding how and where rural Karnataka residents use banking services, this research investigates the breadth and depth of financial inclusion in this demographic. The study analyses rural individuals' banking service consumption patterns, awareness levels, and motives using a descriptive research approach. Using convenience sampling, we were able to pick 200 respondents from a wide range of socioeconomic backgrounds. Structured questionnaires were used to gather data, which was then methodically recorded and categorized in Excel. The replies were analyzed using descriptive statistics, which include percentages and frequency distributions. In order to improve financial knowledge and accessibility in rural Karnataka, the results highlight current gaps in financial inclusion and point the way for governmental reforms and awareness campaigns.

Keywords: Banking Awareness, Rural Finance, Direct Benefit Transfer, Cooperative Banks, Financial Inclusion

Introduction
Modern India's socioeconomic development is incomplete without financial inclusion, the practice of making affordable and transparently available a wide range of financial products and services to all people, with a particular focus on underserved and vulnerable populations. Opening bank accounts is only the beginning of financial inclusion in India; the goal is to help individuals gain economic independence, improve their quality of life, and close the gap between urban and rural areas in terms of development. Researching financial inclusion, especially in rural Karnataka, a state renowned for technological and agricultural advancements, offers a distinct case study. Financial inequities, infrastructure limits, and social restraints continue to be obstacles to the uptake and effectiveness of inclusive financial services in rural Karnataka, despite substantial economic improvement and interventions at the governmental level. The majority of Karnataka's population lives and works in rural areas, where they are engaged in agriculture, small-scale manufacturing, and informal work. Traditional banking, credit, insurance, and savings and loan programs have not always been available to these communities in a fair and consistent manner. Because of this, people continue to depend on unofficial sources, such as moneylenders and unlicensed credit firms, which may lead to vicious debt cycles and economic instability. In order to safeguard people against predatory activities and provide them with resources for saving, investing, and long-term financial planning, it is critical to expand access to financial services in these regions. One reason inclusive finance is important is that it has the ability to boost social fairness, enhance livelihoods, and encourage rural development.

Numerous programs have been launched by federal and state governments in the last twenty years with the goal of expanding access to formal financial services. Many government programs have changed the way rural Indians manage their money. These include the Pradhan Mantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), Aadhaar-enabled payment systems, and the rise of microfinance companies. When looking at the number of new accounts and digital transactions, Karnataka stands out. The qualitative aspects of financial inclusion, including actual use, access to credit, financial literacy, and confidence in the formal banking system, are sometimes obscured by these quantitative statistics. Systemic obstacles such as a lack of paperwork, insufficient connection, an inadequate financial infrastructure, and socio-cultural obstructions continue to be a problem for rural populations, particularly for women, marginal farmers, and reserved castes and tribes. The lack of knowledge and understanding of personal finance is a major problem in rural Karnataka. Digital banking systems may be difficult to understand and use, and many people living in rural areas are unaware of all the ways in which banks can help them. The growing digitalization of financial services has further exacerbated this digital divide. Inadequate road connection in certain regions and the physical distance to bank branches are two geographical obstacles that impede the frequent usage of financial services. There are still infrastructure obstacles and a lack of digital skills among the rural population, thus mobile banking and digital wallets don't get much use.

Another major problem with financial inclusion is the gender gap. Even though they handle most of the household's money, women in rural Karnataka have a harder time getting their hands on official financial services. They are unable to fully participate in the financial mainstream because to factors such as lower levels of literacy, mobility restrictions, lack of collateral, and limited financial autonomy. Rural women have poor involvement and confidence in financial goods and services because these offerings do not take their individual needs and situations into account. However, there are some encouraging changes on the horizon. Important roles in expanding rural residents' access to savings and credit have been performed by cooperative banks, SHGs, microfinance institutions, and community-based organizations. Slowly but surely, the gap is being filled in by programs that teach people about money, empower women via SHGs, and implement fintech solutions that are specific to the requirements of rural areas. The need of a working bank account and engagement in the formal sector has been further emphasized by government programs that seek to provide direct cash transfers, rural jobs, housing, and agricultural subsidies.

Review of Literature

Ambarkhane, Dilip *et al*., (2022) [3]. This study aims to assess the effect of the Prime Minister's Jan Dhan Yojana (PMJDY) in each of India's 30 states and 6 union territories for 2016, 2017, and 2018. It also seeks to devise a strategy for expanding outlets geographically within each state to maximize the scheme's overall impact. Considerations such as the scheme's demographic penetration in rural and urban regions, the proportion of accounts having Rupay cards, and the average balance in these accounts are used to compute the state-wise effect factor. It is hypothesized that the effect factor is directly proportional to the following variables: literacy rate, per capita GDP, demographic penetration of banks, and poverty rate. Through principal component analysis, the sub-parameter weights are obtained. The equation is estimated using a generalized linear model that accounts for heteroscedasticity and autocorrelation consistency, which allows for robust standard errors. In contrast to previous research that has shown illiteracy to be an obstacle to financial inclusion, this strategy has shown to be more successful in states with greater rates of illiteracy. Optimizing the scheme's overall effect is the goal of the suggested state-wise strategy for geographical development of outlets, which also includes recommendations for improvement. Since information on ATMs and bank mitras is only accessible for a subset of the states and years, we have to resort to extrapolation or averages to fill up the gaps. Also, the panel data is accessible for three years, which is a rather short time. It is possible that these factors impacted how accurate our estimations were. This article takes a look at the recently unveiled ambitious initiative PMJDY, which is spearheaded by the GoI and is expected to have a significant influence on financial inclusion.

Haluwalia, Sumit *et al*., (2021) [8]. When it comes to a society's inclusive and long-term growth, financial inclusion is a game-changer. Supporting social inclusion, it plays a crucial role. Agricultural laborers' economic well-being and financial inclusion were the foci of this research. It also looked at how farm laborers' economic well-being was affected by financial inclusion. Scheduled castes accounted up the majority of agricultural laborers, according to the data. It revealed the bleak economic and financial situation of workers. They still often use informal lending sources. Their financial situation is equally terrible. Many of the workers still can't break out of their poverty cycle, which prevents them from saving money and dealing with unforeseen costs. Workers' economic well-being is greatly affected by financial inclusion and other socio-demographic factors, according to the research. The study's conclusions support local initiatives that are more inclusive in nature.

Kaur, Simrit & Kapuria, Cheshta. (2020) [9]. This study follows male-and female-headed families in rural India to find out what factors influence their access to institutional and non-institutional financing, as this is an effective tool for economic growth, social inclusion, and women's empowerment. The four ways in which households may access finance are classified using multinomial logistic regression: only through institutional finance (IF), only through non-institutional finance (NIF), both through both sources of finance (BF), and neither through either source of finance (N). The factors have been examined at both the household and state levels. Basic Road Statistics 2016, Agricultural Statistics at a Glance 2016, Rainfall Statistics of India 2014, the database on Indian Economy RBI, and the 2011 Census are among the state-level data sources used to compile the household data set from the Situation Assessment Survey (NSSO, 70th round). There have been assessments of econometric regressions for FHHs, MHHs, and HHs as a whole, as well as for households headed by women. There are four key takeaways. To begin, in comparison to MHHs, FHHs are more likely to have access to NIF and less likely to have access to IF. Secondly, FHHs that have access to IF are more likely to have higher levels of education, higher monthly consumption expenditures, larger land holdings, more irrigated area, and a higher penetration of scheduled commercial banks. Third, the likelihood of FHHs from socially disadvantaged castes receiving IF is reduced. Lastly, in contrast to MHHs, a large number of FHHs do not have access to either IF or NIF. Policymakers in rural India would find this article useful since it provides a comprehensive analysis of the problem of FHH and MHH access to financing. The report concludes that one way to alleviate poverty and income disparity in rural India is to provide financial services to women. Adding to the little empirical research on gender and money, this piece fills a need.

Rastogi, Shailesh & E, Ragabiruntha. (2018) [10]. this research aims to construct a model that demonstrates how financial inclusion (FI) contributes to economic growth by identifying essential components. Structurald questionnaires were used to generate primary data. The survey was filled out correctly by 311 out of 350 people. The data came from Tamil Nadu's rural regions. The causes and variables pertinent to FI have been assessed using Exploratory Factor Analysis (EFA). The discovered factors have been validated and shown to be reliable using Confirmatory Factor Analysis (CFA). To aid in economic development (ED), a structural model that incorporates financial inclusion has been developed and put to the test. Here are the key takeaways from the present study: 1) Financial inclusion is propelled by three main factors: 1) financial literacy, 2) online banking, and 3) comprehending banking services. 2) The paper's suggested model of economic growth via financial inclusion is supported by statistical evidence (GFI >.90 and AGFI >.85), suggesting that financial inclusion can lead to economic progress. 3) The chi-square test for manner of financial transaction is significant, indicating that demonetization has altered people's behavior in this regard. The sample should be representative of the whole country of India. There ought to be an equal split between urban and rural residents in the sample. Improved outcomes for financial inclusion in India might be achieved by putting greater emphasis on the three identified factors: OB, UBS, and FL. Financial inclusion programs can be better implemented if these conditions hold. Furthermore, policymakers have every reason to trust financial inclusion to drive economic growth. None of the previously mentioned three drivers for FI have been investigated. Not only that, but no one has ever tried to measure economic progress (via FI) using a structural model. Applying the results of this research, the Government of India (GOI) may refocus its policy on financial inclusion (FI). For improved FI outcomes in India, it is possible to increase the reach of the formal financial system while simultaneously putting greater emphasis on OB and FL.

Sujlana, Paramjit & Kiran, Chhavi. (2018) [15]. "It would be a tremendous sin on our part if our institutions were to blame for the plight of the poor, rather than the laws of nature." Written by Charles Darwin Any emerging nation's financial industry is its backbone. Thus, to guarantee ongoing development, the focus must be on the expansion and security of all residents' financial situations. So, for an economy to thrive inclusively, financial inclusion is crucial. Financial inclusion, in its simplest form, is an initiative in India aimed at helping the country's rural population overcome the problem of limited access to banking services. Financial inclusion has its roots in a United Nations project that mandated the availability of banking services such as credit, insurance, savings, and more to all "bankable households" in a certain year. The Indian government has made a concerted effort to increase the number of people who have access to formal financial services. The goal of this article is to provide a synopsis of the recent developments on financial inclusion in India. The results of the study show that, in terms of branch penetration, financial inclusion in India is progressing. Certain initiatives aimed at inclusive development, however, are just in their early stages and would need the combined efforts of the Indian government and its population to take form.

Singh, Charan *et al.*, (2014) [12]. Problems with financial inclusion arise for India's economy since most rural residents are still left out of inclusive development. Although the Reserve Bank of India and the Government of India has launched several joint initiatives since 2005 to promote financial inclusion, they have failed to provide the desired outcomes. In order to better serve the needs of both the informal and formal sectors, this paper will concentrate on making better use of current resources such mobile phones, banking technologies, the India Post Office, fair price shops, and business correspondents (BCs).

Research Methodology

Research Design

This study used a descriptive research approach to learn about rural residents' banking service use, motivations, and familiarity.

Sample size

By using convenience sampling from rural regions, a total of 200 respondents were chosen, guaranteeing that there was a diverse representation of socio-economic backgrounds.

Data Analysis

In order to tabulate the data, it was methodically coded and input into Microsoft Excel. The replies were summarized using descriptive statistics, which include frequency counts and percentages.

Data Analysis and Interpretation

Table 1: Type of Bank Used

Bank Type	Frequency	Percentage (%)
Public Sector Bank	120	60.0%
Private Sector Bank	50	25.0%
Cooperative Bank	20	10.0%
Post Office	10	5.0%
Total	200	100%

According to the statistics, 60% of rural residents utilize public sector banks, demonstrating a high level of confidence in these types of organizations. A quarter of those who took the survey use private sector banks, which is a modest level of penetration. Only 5% use post office banks, while 10% use cooperative banks, which are often associated with agricultural and rural finance. There is room for improvement in the accessibility and significance of alternative banking choices, but this does show that public sector banks dominate rural financial services.

Table 2: Purpose of Using Bank Account

Purpose	Frequency	Percentage (%)
Savings	90	45.0%
Receiving Government Subsidies	60	30.0%
Availing Loans	30	15.0%
Money Transfers	20	10.0%
Total	200	100%

Respondents' use of bank accounts is heavily influenced by Direct Benefit Transfer (DBT) in rural areas, with 45% of accounts being used for savings and 30% for obtaining government subsidies. Less common reasons for using credit services and digital transactions were requesting loans (15%) and transferring money (10%), highlighting the need to improve financial knowledge and increase access to credit.

Table 3: Awareness of Financial Services

Awareness Level	Frequency	Percentage (%)
Aware of all services	40	20.0%
Aware of some services	100	50.0%
Not aware	60	30.0%
Total	200	100%

While 30% are completely unaware of the financial services that are accessible to them, 50% have a rudimentary understanding. An only 20% possess thorough understanding. This shows that there is a big knowledge gap in rural regions, which can prevent people from making the most of their financial resources. The only way to close this gap and give rural residents more agencies is to increase public education on personal finance and launch more robust awareness efforts.

Conclusion

Research on rural Karnataka's access to banking services has shown that public sector banks play a pivotal role as the most reliable lenders to rural residents. Few people in rural areas use credit or use digital financial services, even though these are two of the most common reasons people use banks (savings and government subsidies). Furthermore, there is an immediate need for focused financial literacy initiatives due to the substantial ignorance of accessible financial services shown by several respondents. If we want to close the gap in financial inclusion, we need banks and government agencies to work together to reach more people, make services easier to use, and raise awareness and understanding in rural areas so that people there can take part in the economy and be better off financially.

References

1. Ademola SS. Influence of financial inclusion and social inclusion on the performance of women-owned businesses in Lagos State, Nigeria. Scholedge Int J Manag Dev. 2017;4(3):18-27.
2. Ajit D, Donakar H, Saxena R. Corporate boards in India: Blocked by caste? Econ Polit Wkly. 2012;47(32).
3. Ambarkhane D, Singh A, Venkataramani B, Marak Z. Overcoming barriers to financial inclusion: Empirical evidence from India. Int J Soc Econ. 2022;49(3):1-4.
4. Aziz F, Sheikh SM, Shah IH. Financial inclusion for women empowerment in South Asian countries. J Financ Regul Compliance. 2022;30(4):489-502.
5. Chafa A, Gupta P, Makadi YC. A comparative analysis of recent efforts on financial inclusion and the policy recommendations of financial inclusion in India and Nigeria. J Namib Stud Hist Polit Cult. 2023;34(2):6386-6398.
6. Dar AB, Ahmed F. Financial inclusion determinants and impediments in India: Insights from the global financial inclusion index. J Financ Econ Policy. 2021;13(3):391-408.
7. Datta D. The future of financial inclusion through fintech: A conceptual study in post pandemic India. Sachetas. 2023;2(1):11-17.
8. Haluwalia S, Bhat G, Bhat M. Financial inclusion and economic wellbeing of agricultural labourers in rural Haryana, India. IASSI Q Contrib Indian Soc Sci. 2021;40(2).
9. Kaur S, Kapuria C. Determinants of financial inclusion in rural India: Does gender matter? Int J Soc Econ. 2020. [Advance online publication].
10. Rastogi S, Ragabiruntha E. Financial inclusion and socioeconomic development: Gaps and solution. Int J Soc Econ. 2018;45(7):1-5.
11. Satish P. Excluding the poor from credit: Lessons from Andhra Pradesh and Telangana. Econ Polit Wkly. 2018;LIII(30):65-70.
12. Singh C, Mittal A, Garg R, Goenka A, Goud R, Ram K, *et al*. Financial inclusion in India: Select issues. SSRN Electron J. 2014:1-2.
13. Singh G, Singh K. Employment patterns among agricultural labourers in rural Punjab. Soc Change. 2016;46(3):409-427.
14. Sinha D, Azad R. Can Jan Dhan Yojana achieve financial inclusion? Econ Polit Wkly. 2018;LIII(13):165-171.
15. Sujlana P, Kiran C. A study on status of financial inclusion in India. Int J Manag Stud. 2018;5(2(3)):1-6.
16. Vakulabharanam V. Growth and distress in a South Indian peasant economy during the era of economic liberalisation. J Dev Stud. 2005;41(6):971-997.
17. Wagle U. Multi-dimensional poverty measurement with economic well-being, capability, and social inclusion: A case from Kathmandu, Nepal. J Hum Dev. 2005;6(3):301-328.