



Conference Paper

Need And Challenges of Financial Literacy in Rural Areas

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Abstract

This study specifies the need and significance of financial literacy in the development of rural areas, and it also covers the challenges of financial literacy in rural areas. Financial literacy refers to the mixture of knowledge, skills, attitude and awareness required to make sound and optimum financial decisions. It is the ability to manage finances well through making proper utilisation of available resources for getting maximum benefit. In this modern era, financial literacy has become one of the top priorities for all nations because it is directly related to the economic growth of a country. Financial literacy is playing a vital role in enhancing the socio-economic empowerment of the Indian community and its rural areas. As per the 2011 census, India holds 17.5% of the world population, and more than two-thirds of India's population resides in rural areas. The government is conducting a wide range of financial literacy programmes in rural areas to improve financial literacy awareness among them. Apart from this, due to a lack of access to financial education in rural areas, there are many challenges to financial literacy. According to a study conducted by SEBI, only 27% of India's population is financially literate; the rates are even lower in rural areas. As per a global survey, 76% of India's adult population is not even aware of the basic financial concepts. This study examines how to enhance financial literacy awareness in rural areas and how to manage the challenges related to it.

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1. INTRODUCTION

This study aims to investigate the relationship between financial literacy and rural development. Financial literacy plays a crucial role in the development of our country. Financial literacy includes the understanding of savings, Investments, budgeting and managing debts. It enables the population to make sound financial decisions, which contribute to their secure financial future and the economic stability of a country. India can better address the economic issues like inequalities, poverty, unemployment, regional imbalances, etc., with a financially literate population.

In this modern era, most people have access to basic financial products such as insurance, banking, savings, Investments, UPI payments, pensions, digital banking, etc. All of these financial products help people to get maximum benefit from their investments and arrange financing in case of emergencies to fulfil their essential needs.

Financial literacy helps people make better investment decisions. It educates individuals about risk management strategies and teaches the community about responsible borrowing and managing debts. Financial literacy plays a pivotal role in the development of rural areas by empowering individual communities to make sound financial decisions. It helps rural entrepreneurs for establishing a successful and innovative business unit in rural areas, which will help in increasing employment and reducing poverty in local areas. It will help the entrepreneurs to manage their cash flows and access the required credit to enable in creating sustainable livelihood and local economic growth.



Enhancing the level of financial literacy in rural areas is essential for overall economic development and stability, because almost two-thirds of India's population resides in rural areas, as per the 2011 census. For this purpose, the government and various organisations have implemented financial literacy programs for unprivileged sections of rural areas.

Apart from these practices, there are many challenges to financial literacy in rural areas. Lack of access to quality education and awareness, lack of financial infrastructure, low trust and confidence in financial services, high cost of financial services, seasonal income fluctuations, etc., are the major challenges of financial literacy in rural areas. To remove these

challenges and improve financial literacy, it is necessary to promote financial knowledge, education, skills, awareness, financial culture, financial behaviour, access to financial services, and to promote financial infrastructure in rural areas. Efficient and convenient financial literacy promotes the use of digital financial services such as digital payments, e-banking, mobile banking, etc., which reduce the transaction cost, save time and labour, increase transparency and improve the overall financial management system.



2. REVIEWS OF LITERATURE

Karan Gupta and Prof. Sunil Kumar Gupta (2018) wrote a research paper on “financial literacy and its impact on investment decisions - a study of rural areas of Himachal Pradesh. This study focused on the impact of financial literacy on investment decisions of people living in rural areas of Himachal Pradesh. According to the study, many of the rural population of Himachal Pradesh engaged in agriculture or horticulture. This study also measured the relationship between financial literacy and demographic factors of Himachal Pradesh.

Melbha D (2018) wrote a research paper on “importance of financial literacy in rural areas” This study explained the concept of financial literacy and the importance of financial literacy in rural areas. According to this study, 20% of the world's population resides in India, and only 24% adults have the basic knowledge of financial concepts. According to this study, rural India has a low level of financial literacy compared to other areas. This study also included the consequences of low levels of financial literacy in rural areas. It provided suggestions to improve financial awareness in rural areas.

Dr Shyam Jivan Salunkhe (2020) wrote a research paper on “A Study of Financial Literacy among People of Rural India. He explained financial literacy among the people of rural areas. According to the study, the Government of India introduced many financial inclusion plans for the people of unprivileged areas, and the government had taken an initiative to launch basic banking services for the people of low-income groups. According to this study, there is a low level of literacy in rural areas as compared to urban areas. As per the data availability of this research, only 30% of the population has a bank account,

and only 26% of the population is financially literate. This paper also consists of some challenges incurred before the Indian financial system to improve literacy rate.

Rahul Singh Gautam, Dr Shailesh Rastogi, and Aashi Rawal (2022) wrote a research paper on “Study of financial literacy and its impact on rural development in India. This study examined the impact of financial literacy on rural development in India and financial inclusion. According to them, financial literacy positively impacted financial inclusion and rural development in our country. They also gave some suggestions to promote financial literacy in rural areas.

Silvia Ekasari, Kholid Ansori, and Nurussama (2024) wrote a research paper on “Strategies for improving financial literacy in rural communities - a literature review. This study analysed and identified the strategies that help in improving financial literacy in rural communities. This study also examined the impact of government programs and related infrastructure development on the literacy level of rural areas. It discussed the strategies of financial literacy improvement programmes.

3. OBJECTIVES OF THE STUDY

1. To identify the need for financial literacy in the development of rural areas.
2. To identify the challenges to financial literacy in rural areas.
3. To discuss the suggestions for improving financial literacy in rural areas.

4. RESEARCH METHODOLOGY

This research paper is based on the study of descriptive research. In this study, the data were collected from secondary sources, which were taken from NFCE reports, Global reports, RBI reports, journals, articles and related research papers.

Need of financial literacy in rural areas

In rural areas, many people have appropriate financial resources. But due to a lack of financial literacy and infrastructure, they can't utilise their financial resources properly and efficiently. So, it is very necessary to promote financial literacy in rural areas. The need for financial literacy can be expressed by the following points:

1. Financial literacy gives proper direction to utilise financial resources most profitably. It provides a suitable platform for investing money.
2. Financial literacy teaches how to manage finances properly and how to arrange the funds required in case of emergencies from proper sources.
3. Financial literacy promotes rural entrepreneurship by giving them effective guidance related to managing their cash flows and establishing innovative enterprises successfully in rural areas.
4. Financial literacy encourages the use of financial products and services in rural areas and builds trust among the rural population for these products and services.

5. Financial literacy teaches the community of rural areas about managing debt, taking responsibility for repaying the borrowing and building credit histories.
6. Financial literacy educates the rural population about the strategies of risk control, like emergency funds, insurance and diversification of sources of income, to help in fighting natural disasters, health emergencies and crop failures, etc.
7. Financial literacy promotes economic development, reducing poverty and enhancing employment opportunities in rural areas.
8. Financial literacy empowering rural communities to achieve financial security and prosperity by applying proper finance and risk management strategies.
9. Financial literacy helps in increasing social welfare in rural areas. It empowers individuals to give them control over their finances and participate more in economic and social welfare activities.
10. Financial literacy promotes the overall economic growth by mobilising rural savings and channelising them into productive investments, so that the economy will grow rapidly.
11. Financial literacy enhances the use of banking facilities in rural areas and promotes the financial and banking infrastructure in local areas.
12. Financial literacy helps in empowering women to learn about their savings and investment opportunities and encourages financial independence among them.
13. 13 Financial literacy helps in handling the major fluctuations in the seasonal income of rural farmers. It teaches them to diversify their income from different and innovative sources.
14. Financial literacy helps in increasing the income of rural individuals so that economic and regional inequalities can be reduced, which are the sources of Indian economic growth.

Challenges of financial literacy in rural areas

There are so many factors that contribute to the low level of financial literacy in rural areas. The following are the challenges of financial literacy in rural areas :

- 1. Lack of financial infrastructure:** A well-functioning financial infrastructure is important for improving financial literacy and financial stability. Poor financial infrastructure can lead to many financial crises and can make it difficult for financial institutions to provide their services properly. There is a lack of financial infrastructure in rural areas, because of it there is low level of financial literacy and financial services.
- 2. Lack of access to quality education:** Due to language barriers, lack of transportation, lack of adequate resources, shortage of qualified teachers, gender disparities, etc., rural areas often face challenges to access quality education. It is a major challenge to promote financial literacy in rural areas.

Because without having quality education, it is not possible to encourage the knowledge and skills related to financial services & financial products among the rural population.

3. Lack of financial awareness: Financial awareness is the ability to manage finances. It is an important aspect of financial literacy. It includes the understanding of some basic concepts such as budgeting, investing, savings, etc. It helps in reducing financial stress and planning for unexpected events and emergencies. Lack of financial awareness is a major challenge for encouraging financial literacy in rural areas.

4. High transaction cost: Lack of communication facilities, transportation, electricity, low population density, and small average loan amount make financial services expensive in rural areas. The high cost of transactions discourages the rural population from using financial products and various banking facilities. Thus, it has become a major challenge to encourage literacy in finance in rural areas.

5. Low trust and confidence in financial tools and services: Trust in Financial Services is a core determinant of financial system effectiveness. Trust between Financial Institutions and consumers is an important driver of financial sector development. Rural populations traditionally have low trust and confidence when using financial products. It contributes to low levels of financial education in rural areas. Without trust, it would be rather challenging to enhance FL among the rural communities.

6. Seasonal income fluctuations: Most of the rural individuals depend upon agriculture. In agriculture, there are so many seasonal fluctuations in the income of farmers.

This seasonal income fluctuation has become a major challenge for promoting financial literacy in rural areas. Due to unstable sources of income, rural individuals don't have much savings to invest in different available platforms. It discourages them from using various financial technologies.

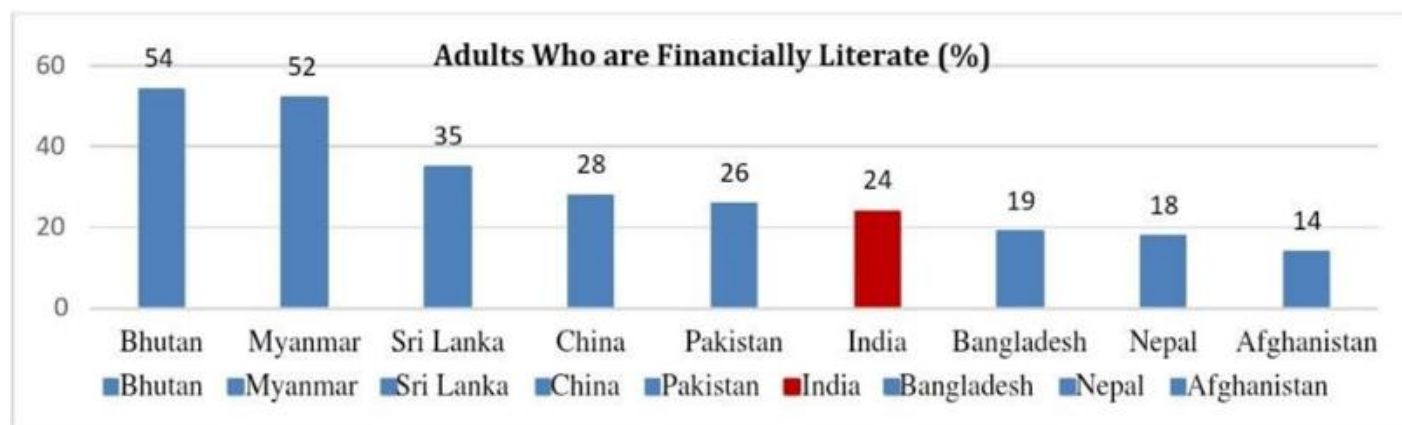
7. Lack of communication technologies and network barriers: Due to Limited infrastructure, rural areas often face challenges of communication technologies & face the problem of network issues. Due to these network barriers, it seems to be difficult to encourage the level of financial knowledge in rural areas. Without proper access to internet networks, various financial products and services cannot be used. Therefore, it contributes to the low level of financial behaviour in rural areas.

8. Lack of Banking habits: Rural communities have low banking habits and low practices to use various financial tools and products. Most of them are not adopting online banking transactions due to improper knowledge about financial services. This is also a major challenge to improving financial attitudes among the rural communities.

9. Lack of proper training and Reform strategies: Financial literacy requires proper training to enhance the skills of financial transactions and using various financial tools. There is a lack of proper training and reform strategies in rural areas for encouraging financial education among individuals. So it refers to a major challenge for improving the level of financial literacy in rural areas.

All of the above challenges are the cause of illiteracy in rural areas of our country. It is necessary to remove all challenges to promote the level of financial literacy in privileged areas.

Findings and analysis

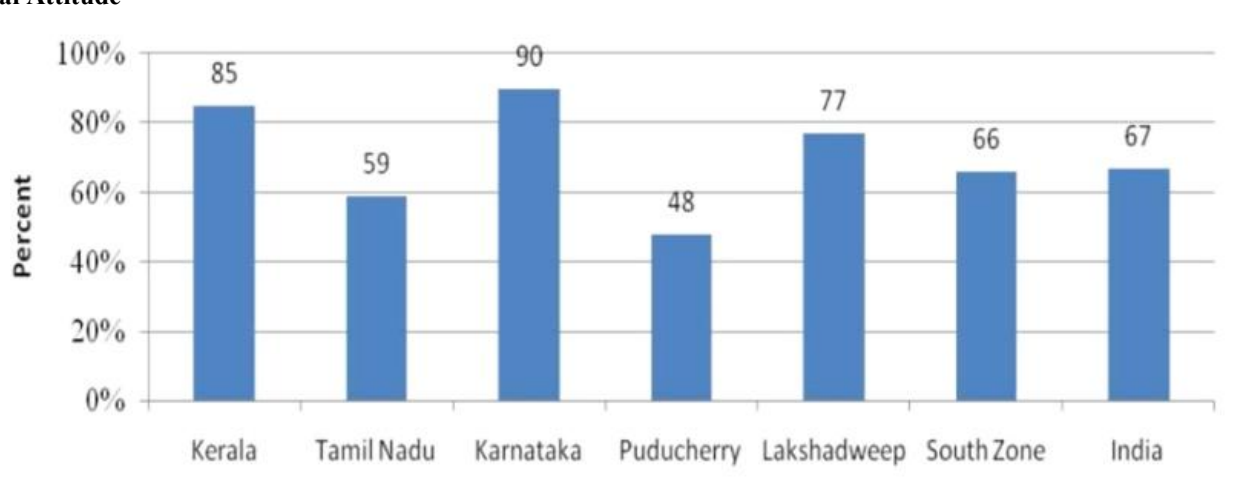


Source: Financial Literacy across the World: Insights from the S&P Global Fin Lit Survey

As per the S&P Global Financial Literacy Survey, 24% of

India's adults are financially literate, which is lower than Bhutan, Myanmar, Sri Lanka, China and Pakistan.

Financial Attitude

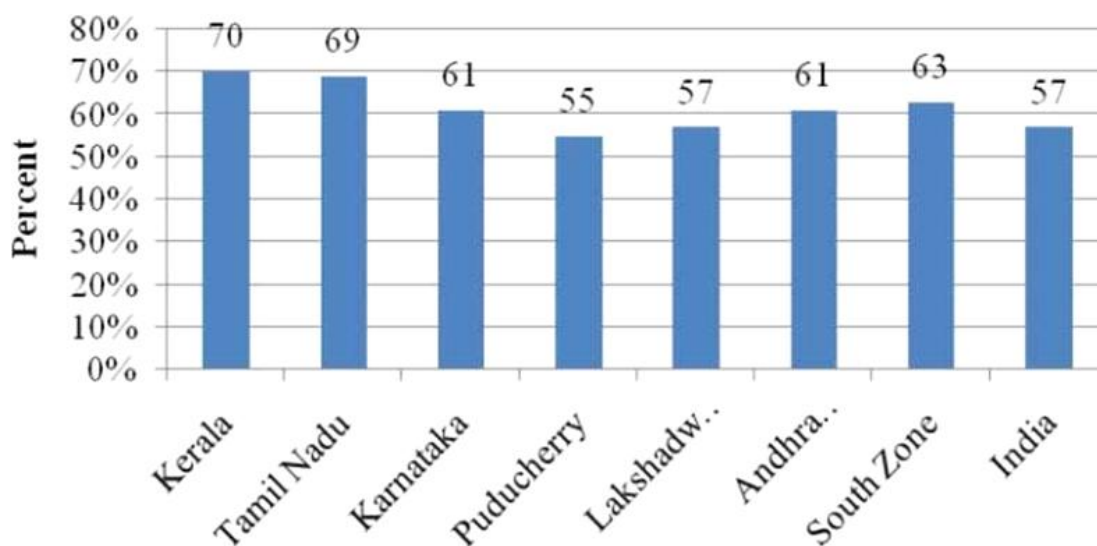


Source: Financial education centre report on financial literacy 2015

As per the above findings of financial attitude based on the National Centre for Education report on financial literacy, Karnataka has the maximum financial attitude of 90%, after it

Kerala, which scored 85% in financial attitude, then other states. India scores 67% in the case of financial attitude, which is lowered as compared to other Nations.

Financial Behaviour

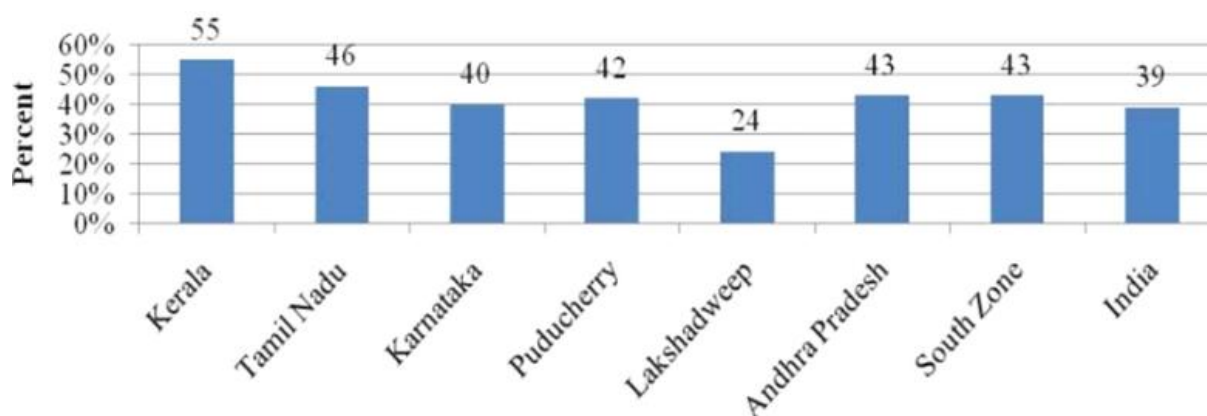


Source: National Centre for financial education report 2015 on financial literacy.

India scored 57% in financial behaviour as per the report of NCFE on financial literacy. 70% of the highest score was covered by Kerala in the case of financial behaviour.

Tamilnadu covers the second-highest score of 69% in the case of financial behaviour, as compared to other states.

FINANCIAL KNOWLEDGE

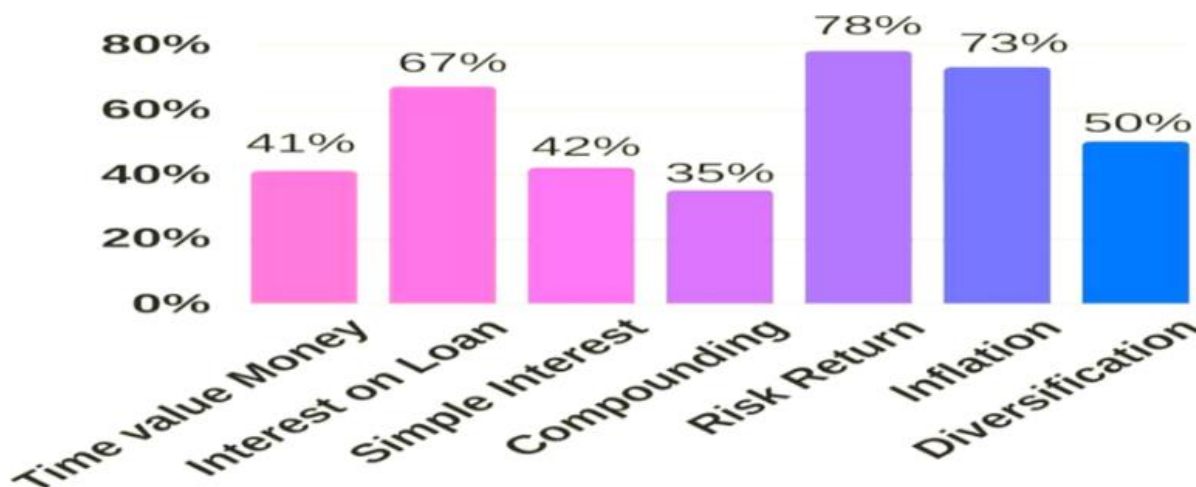


Source: Report of NCFE (National Centre for Financial Education) on financial literacy.

Among the southern states of India, Kerala scored 55% of highest level in financial knowledge, as per the report of the National Centre for Financial Education. India scored 39% in

the case of financial knowledge, which is far lower than that of other nations.

KNOWLEDGE OF DIFFERENT FINANCIAL TERMS

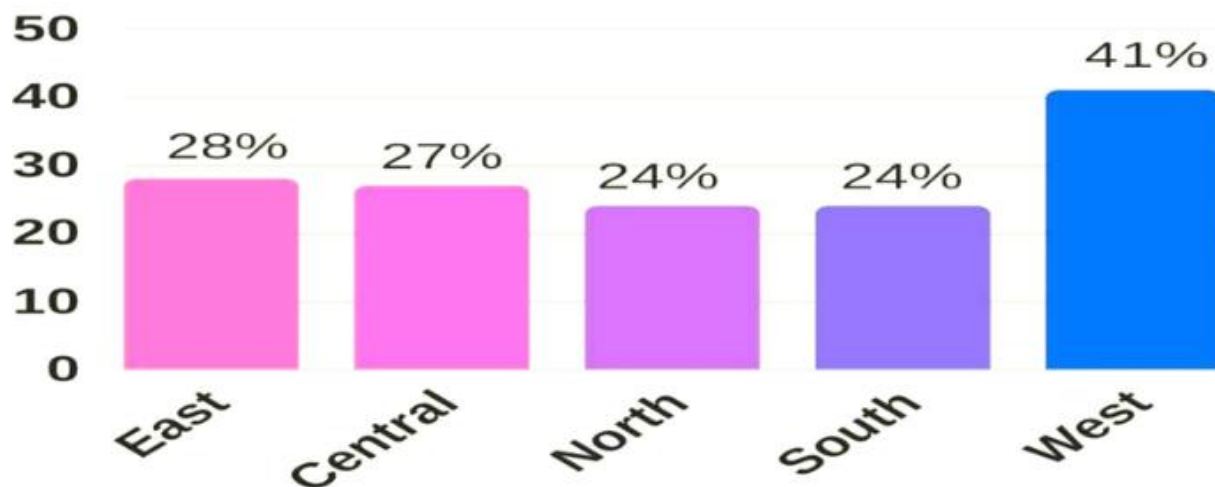


Source: All India Survey, RBI.

According to the above analysis, risk, return, and inflation terms are relatively better understood concepts of financial

knowledge. Whereas time values money, compounding terms are relatively less understood concepts of financial knowledge.

FINANCIAL ATTITUDE AMONG DIFFERENT ZONES



Source: All india survey of financial inclusion department, RBI.

As per the above survey of RBI, the west zone of India scored the highest percentage of 40 in the case of financial attitudes. North & south zones scored 24 per cent in financial attitudes, which is lowered as compared to others. The East and Central zones covered 28 and 27 % score in the case of financial attitudes.

Discussion on financial literacy programmes:

The government and other Institutions introduced many financial literacy programmes to improve the level of financial literacy in our country. NCFE is a not-for-profit organisation in India that promotes financial education for all sections of the

population. NCFE introduced many educational programs like the Money Smart School program (MSSP), Financial Awareness and Consumer Training Program (FACTP), Financial Education Program for Adults (FEPA), etc. The objective of these programmes is to expand financial awareness in the various groups of population, such as farmers, workers, employees of organizations etc. As a result of these programs, the level of financial knowledge has increased in our country as compared to the last few decades. But apart from these, more financial literacy programmes are required to achieve an adequate level of financial behaviour in our country, because India still has a low level of it.



Suggestions to improve financial literacy in rural segments:

- Improve financial awareness among the rural population.
- Develop adequate financial infrastructure in rural segments.
- Improve the quality of the education system in rural areas.
- Build trust and confidence among the rural individuals for the use of various financial techniques & services.
- Reduce the transaction cost of financial services in rural areas.
- Improve banking habits among the rural population.
- Conduct financial literacy promotion programs in the backward areas of our country.
- Conduct various training programs and seminars to improve the level of financial learning in rural areas.
- Improve communication Technologies and improve communication networks in rural areas.
- Promote the rural population to diversify their sources of income to reduce seasonal fluctuations in their income.



CONCLUSIONS

The above study concluded that financial literacy plays a pivotal role in the development of rural areas. Financial literacy provides appropriate guidance to rural individuals for making optimum financial decisions, which gives maximum benefit to them. It helps in reducing the risk of seasonal income fluctuations by encouraging them to diversify their sources of income. Rural India faces many challenges in promoting financial literacy among rural individuals. Many practices have

been adopted to enhance rural financial literacy. But the level of financial education is still low in rural areas, so required steps should be taken to improve financial attitude & remove the challenges of it in rural areas.

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