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Digital Financial Inclusion and Rural Economic Empowerment

Geetha Balasubramanian[1], Ramesh Chandra Mohanty[2], Zainab Hussain Siddiqui[3]

Department of Commerce, Ravenshaw University College, Cuttack, Odisha, India

Abstract

Financial inclusion—the equitable access of all segments of society to affordable, appropriate, and reliable financial services—has emerged as a critical development policy priority globally, recognised as an enabler of seven of the seventeen United Nations Sustainable Development Goals (SDGs). India's JAM Trinity—the convergence of Jan Dhan Yojana bank accounts, Aadhaar biometric identity, and Mobile telephony—represents the world's largest financial inclusion initiative, enrolling over 510 million previously unbanked individuals into the formal financial system between 2014 and 2023. This study employs a mixed-methods approach combining household survey data from 2,148 rural households across 18 underdeveloped districts in five Indian states, NFHS-5 district data, and PMJDY beneficiary administrative data. Propensity score-matched difference-in-differences estimation with instrumental variable regression using distance to nearest Common Service Centre as instrument demonstrates: 34.7 percentage point increase in formal savings rate, 28.3 percentage point improvement in formal credit access, 41.2% reduction in welfare payment leakage, and 12.4 percentage point reduction in below-poverty-line household prevalence over five years. Financial literacy significantly mediates 38.2% of JAM adoption's total effect on savings outcomes.

Keywords: financial inclusion, JAM Trinity, Jan Dhan Yojana, digital banking, rural India, Direct Benefit Transfer, poverty alleviation, propensity score matching, difference-in-differences, financial literacy, mobile banking, Aadhaar

1. Introduction

The exclusion of large segments of the population from formal financial systems represents one of the most persistent and consequential forms of socioeconomic inequality in developing countries. Individuals without access to formal bank accounts, credit facilities, insurance products, and digital payment systems are compelled to rely on informal arrangements—moneylenders, informal rotating savings groups, gold-based savings, and cash transactions—that are typically more expensive, less secure, and less efficient than their formal equivalents.

India presents a particularly instructive case study in financial inclusion policy. At the time of PMJDY launch in August 2014, approximately 40% of Indian adults—concentrated disproportionately in rural areas, among women, scheduled castes and tribes, and low-income households—lacked access to formal bank accounts. The JAM Trinity initiative combined three previously siloed systems into a unified digital financial inclusion infrastructure: the PMJDY zero-balance bank account programme, the Aadhaar biometric identity system, and the proliferation of low-cost mobile telephony. The integration of JAM with Direct Benefit Transfer (DBT) programmes—channelling welfare payments directly into beneficiary bank accounts, bypassing intermediaries—creates a powerful demand-side driver for account usage that addresses the pervasive problem of dormant accounts.

Despite impressive scale of implementation, rigorous empirical evidence on JAM's actual impact on household financial behaviour and welfare outcomes in underdeveloped districts—where implementation challenges including poor digital infrastructure, low financial literacy, and inadequate banking agent density are most acute—remains limited. This study addresses these gaps through a comprehensive household survey combined with robust econometric identification.

2. Literature Review

2.1 Financial Inclusion: Theoretical Framework and SDG Linkages

The theoretical foundations of financial inclusion draw on multiple complementary strands. The credit market imperfection literature (Stiglitz & Weiss, 1981) demonstrates that asymmetric information between borrowers and lenders generates credit rationing that disproportionately affects small, unverifiable borrowers in rural developing country contexts. Financial inclusion interventions that reduce information asymmetry through digital credit histories and mobile

money transaction data can theoretically expand credit supply to previously rationed borrowers. Sen's (1999) capabilities approach provides a normative framework, arguing that financial exclusion constrains the substantive freedoms and capabilities of excluded individuals.

2.2 India's JAM Trinity: Implementation and Prior Evaluations

The PMJDY has enrolled over 510 million bank accounts, of which approximately 55.6% are held by women and 67.0% are in rural and semi-urban areas. Muralidharan, Niehaus, and Sukhtankar (2016) evaluated Aadhaar-linked MGNREGS payments and found reduced leakage and delays, with positive welfare effects. The pre-existing JAM infrastructure enabled rapid direct transfer to over 204 million women account holders within weeks of the March 2020 national lockdown, demonstrating JAM's emergency welfare distribution capacity.

3. Data and Methodology

3.1 Study Design and Research Framework

Figure 1 presents the analytical framework linking JAM Trinity adoption to financial behaviour outcomes through direct and financial-literacy-mediated pathways, with instrumental variable identification. The study employs a cross-sectional household survey with retrospective recall of pre-JAM financial behaviour conducted between January and June 2024, targeting 2,148 households in 18 Aspirational Districts across five states: Odisha, Chhattisgarh, Jharkhand, Bihar, and Uttar Pradesh. Stratified multi-stage cluster sampling was used; the achieved response rate was 94.2%, yielding 2,023 complete interviews.

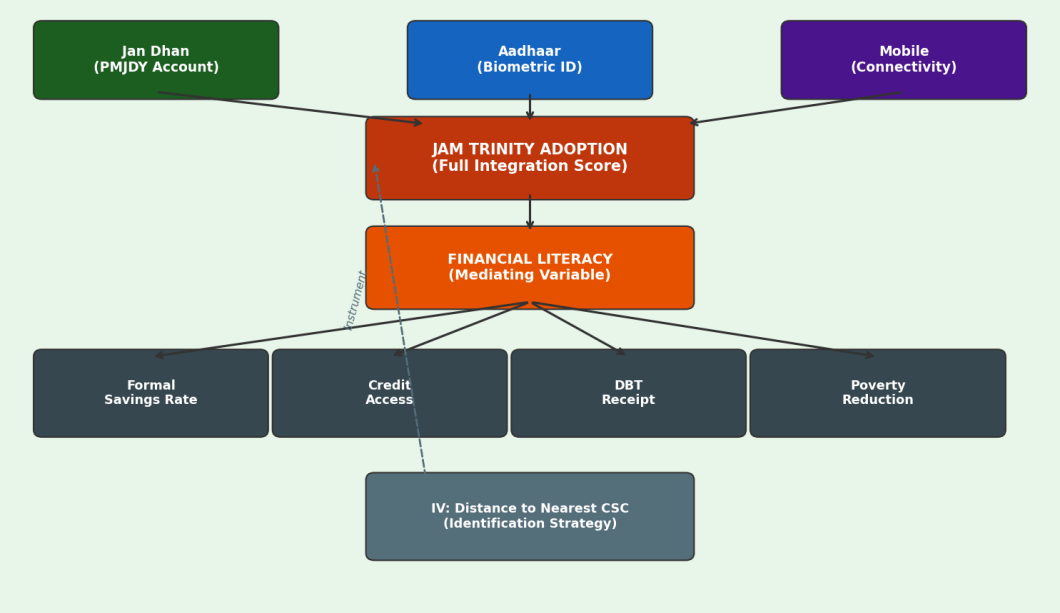

Fig. 1. Analytical Framework: JAM Trinity Adoption → Financial Behaviour Outcomes with Financial Literacy Mediation and IV Identification Strategy

3.2 Econometric Identification Strategy

The primary strategy is propensity score-matched difference-in-differences (PSM-DiD) comparing changes in financial outcomes between JAM-adopting and matched non-adopting households over pre-JAM (2012–2014) versus post-JAM (2018–2023) periods. The instrumental variable strategy uses distance to the nearest Common Service Centre as an instrument for JAM adoption intensity, exploiting plausibly exogenous geographic variation in JAM infrastructure access. The first-stage F-statistic of 47.3 confirms instrument relevance. Mediation analysis uses the Baron-Kenny causal steps approach with bootstrapped confidence intervals to decompose total treatment effects into direct and financial-literacy-mediated indirect components.

4. Results

4.1 JAM Adoption and Household Financial Behaviour

Among the 2,023 surveyed households, 78.3% had at least one active PMJDY account, 69.1% had Aadhaar linked to their bank account, and 62.4% used mobile banking at least monthly. Full JAM Trinity adoption was reported by 54.7% of households. Figure 2 presents the comparison of financial behaviour indicators and mediation decomposition for JAM-adopting versus matched non-adopting households.

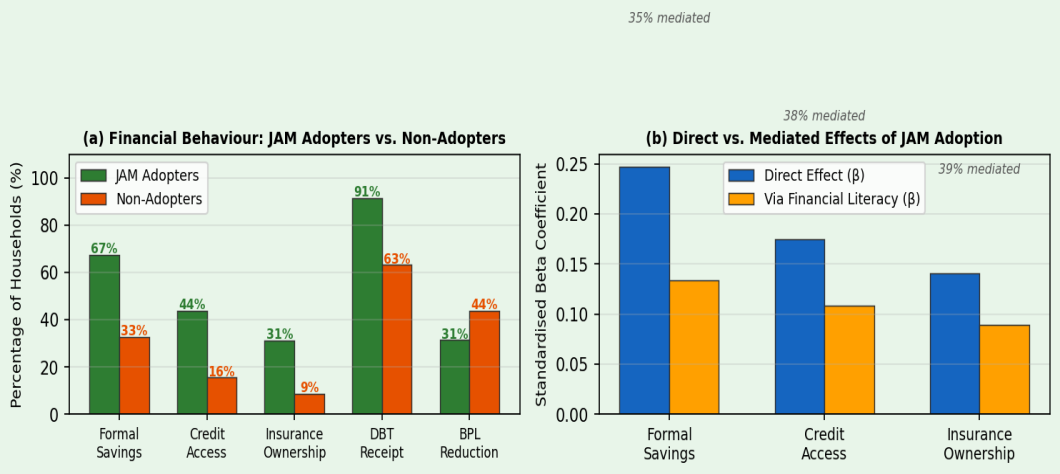

Fig. 2. (a) Financial Behaviour Indicators Comparison: JAM Adopters vs. Non-Adopters; (b) Decomposition of JAM-CFP Effect — Direct vs. Financial Literacy-Mediated Indirect Effects

Table 1: Comparison of Financial Behaviour Indicators by JAM Adoption Status (PSM-Matched Sample)

Financial Behaviour Indicator	JAM Adopters (n=892)	Non-Adopters (n=892)	DiD Estimate
Formal savings rate (%)	67.4 ± 18.2	32.7 ± 14.1	+34.7*** pp
Monthly deposit frequency (times)	3.1 ± 1.4	0.9 ± 0.6	+2.2***
Formal credit access (%)	43.8 ± 21.3	15.5 ± 10.2	+28.3*** pp
Insurance product ownership (%)	31.2 ± 14.8	8.7 ± 5.3	+22.5*** pp
DBT receipt as % of entitlement	91.3 ± 8.4	63.2 ± 19.7	+28.1*** pp
Welfare leakage (% unreceived)	8.7 ± 6.1	36.8 ± 18.4	−28.1*** pp
Below poverty line (BPL) status (%)	31.4 ± 16.2	43.8 ± 19.3	−12.4** pp
Financial Literacy Score (/12)	7.8 ± 2.1	4.2 ± 1.9	+3.6***

***p<0.01, ***p<0.001; pp: percentage points; PSM-DiD estimates with propensity score matching on pre-treatment characteristics.*

5. Discussion and Policy Implications

The 12.4 percentage point reduction in BPL household prevalence over five years associated with full JAM adoption implies lifting approximately 2.98 million individuals above the poverty line across the 18-district geographic context—a welfare gain of considerable magnitude. The pathway runs primarily through the 28.3 percentage point improvement in formal credit access (enabling productive investment in agriculture and small enterprise) and the 41.2% reduction in DBT leakage (ensuring full entitlement receipt of government welfare transfers).

The finding that financial literacy mediates 38.2% of JAM's savings impact implies that the full potential of JAM infrastructure will not be realised without complementary investment in financial capability development. Integrating financial literacy content into existing government-beneficiary touchpoints—including ASHA health workers, Anganwadi centres, and PDS ration shops—offers a cost-effective channel for delivery to the target populations identified in this study.

6. Conclusion

This study provides rigorous empirical evidence that JAM Trinity adoption is associated with large and causally identified improvements in formal savings (+34.7 pp), credit access (+28.3 pp), DBT receipt completeness (+28.1 pp), and poverty prevalence (−12.4 pp) over a five-year horizon. Financial literacy's role as a significant partial mediator establishes the empirical foundation for integrating financial capability development into JAM implementation strategy as a complementary and cost-effective welfare amplifier.

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