



Research Paper

Literacy Versus Financial Literacy in India: Exploring the Divide

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Abstract

This research paper explores the divide between general literacy and financial literacy, emphasizing the increasing importance of financial literacy in navigating today's complex economic landscape. While general literacy provides fundamental reading and writing skills, financial literacy empowers individuals to understand and apply financial knowledge effectively. Focusing on the context of India, this study examines the current state of financial literacy and reviews existing literature on its significance and impact. We analyze the growth of financial literacy rates compared to previous reports. This research paper provides an exhaustive comparison amongst states of India depicting literacy and financial literacy level.

Keyword: Literacy, Financial literacy, States of India.

I. Introduction

In an increasingly complex financial landscape, the ability to navigate economic choices effectively is paramount. While general literacy equips individuals with fundamental reading and writing skills, financial literacy empowers them to understand and apply financial knowledge in their daily lives. This research paper delves into the distinct yet interconnected concepts of literacy and financial literacy, exploring the divide that separates them and the implications for individual and societal well-being. We examine the current state of financial literacy, particularly in India and review existing literature on its importance and impact. This study aims to shed light on the difference between general literacy and financial literacy with comparison amongst the states of India. We will analyze the growth of financial literacy rates in comparison to previous reports. By understanding the nuances of this divide, we can pave the way for more informed financial decision-making and a more financially secure future for all.

II. Literature Review

Dube and Asthana (2017) according to their research, Uttar Pradesh has a financial literacy level of just 10%, which is less than the central zone's (14%), as well as half of India's (20%) level. According to the results, Uttar Pradesh ranks third in financial attitude, last in financial behavior, and third in financial knowledge out of the four states in the central zone.

Chhetri (2019) in his study of Darjeeling District Financial Literacy, in order for people to profit from higher returns following rigorous analysis and interpretation, they must be adequately informed about both new and old financial products that are available on the international market. The study also reveals that households in the Darjeeling area that are economically marginalized lack both ability and awareness in financial affairs, and that poor money management will negatively affect their future.

Hridhya P.K. and Dr. R. Jayaprakash Reddy (2020) and AIMS Centre for Advanced Research looked into India's efforts to enhance financial education and access, which they believe are essential for a nation's development and citizen well-being. Their study identified key initiatives by Indian regulatory bodies to improve financial understanding and access among citizens.

Kandari et. al. (2021) in their study demonstrated a strong correlation between financial inclusion and socioeconomic characteristics. The overall analysis of the survey indicates that in the hill rural areas of the state, the likelihood of holding a bank account, using mobile banking, and getting credit increases with one's financial literacy. The survey also demonstrates that when it comes to cellphone usage and credit availability, women are more vulnerable than males.

Rath and Patra (2023) define financial literacy as essential components including awareness, knowledge, skills, and attitudes leading to sound financial decisions and individual prosperity. Their study highlights India's financial ecosystem and the vital role financial literacy plays in understanding diverse services from banks and insurance companies.

III. Research Methodology

Research Design

Descriptive research identifies and explains a population, condition, or occurrence under study, answering questions such as 'what', 'when', 'how', and 'where'. This research also provides an in-depth description of the analyzed subject.

Objectives

1. To understand the concepts of literacy and financial literacy.
3. To track state wise changes in financial literacy rates over time.
4. To assess the state wise difference between literacy and financial literacy levels.

Collection of Data

Data was obtained from secondary sources consisting of global reports, research documents, academic articles, websites, and published research papers.

Limitations of the Study

Similar limitations apply to this research as any other, given the unfeasibility of covering all aspects and areas of an issue. This study is restricted to using secondary data and information available on various websites and academic publications, specifically in an Indian context.

Definitions of Literacy

The word literacy is defined as the ability to read, write, speak and listen in a way that lets us communicate effectively and make sense of the world.

List of State Wise Literacy Rate in India 2023

Based on the National Statistical Office (NSO) survey the state-wise literacy rate in India in 2023 is shown below.

States & UTs	Male Literacy Rate %	Female Literacy Rate %	Average Literacy Rate %
A&N islands	90.11	81.84	86.27
Andhra Pradesh	73.4	59.5	66.4
Arunachal Pradesh	73.69	59.57	66.95
Assam	90.1	81.2	85.9
Bihar	79.7	60.5	70.9
Chandigarh	90.54	81.38	86.43
Chhattisgarh	85.4	68.7	77.3
Dadra and Nagar Haveli	86.46	65.93	77.65
Daman & Diu	91.48	79.59	87.07
Delhi	93.7	82.4	88.7
Goa	92.81	81.84	87.4
Gujarat	89.5	74.8	82.4
Haryana	88	71.3	80.4
Himachal Pradesh	92.9	80.5	86.6
Jammu & Kashmir	85.7	68	77.3
Jharkhand	83	64.7	74.3
Karnataka	83.4	70.5	77.2
Kerala	97.4	95.2	96.2
Lakshadweep	96.11	88.25	92.28
Madhya Pradesh	81.2	65.5	73.7

Maharashtra	90.7	78.4	84.8
Manipur	86.49	73.17	79.85
Meghalaya	77.17	73.78	75.48
Mizoram	93.72	89.4	91.58
Nagaland	83.29	76.69	80.11
Odisha	84	70.3	77.3
Puducherry	92.12	81.22	86.55
Punjab	88.5	78.5	83.7
Rajasthan	80.8	57.6	69.7
Sikkim	87.29	76.43	82.2
Tamil Nadu	87.9	77.9	82.9
Telangana	80.5	65.1	72.8
Tripura	92.18	83.15	87.75
Uttar Pradesh	81.8	63.4	73.0
Uttarakhand	94.3	80.7	87.6
West Bengal	84.8	76.1	80.5
All-India	84.7	70.3	77.7

Top Performers:

- **Kerala** stands out with the highest literacy rates, especially among females (95.2%), which is significantly higher than many other regions.
- **Delhi** also has high literacy rates, especially among males (93.7%).
- **Mizoram** shows a high literacy rate for both males (93.72%) and females (89.4%).

States with Low Average Literacy Rates:

- **Andhra Pradesh** (66.4%) and **Rajasthan** (69.7%) have some of the lowest average literacy rates.
- **Uttar Pradesh** and **Chhattisgarh** also stand out for lower literacy rates, particularly for females.

Definition of Financial Literacy

Organisation for Economic Co-operation and Development (OECD) (2005) defines financial education as “the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being”.

So, what is financial literacy? It’s really about how well a person can grasp and use the information and skills needed to handle their personal finances. It involves making the most of the financial products that are available to them. Understanding this is super important for managing money wisely.

Financial Literacy in India

Financial Literacy in Rural India (%)

State	Elementary	Moderate	Advanced	Illiterate
A & N Islands	41.9	38.9	0.5	18.7
Andhra Pradesh	45.4	24.8	3.9	26.0
Arunachal Pradesh	32.1	24.3	1.4	42.2
Assam	30.4	27.0	0.8	41.8
Bihar	42.1	12.4	1.2	44.3
Chandigarh	41.8	26.0	10.1	22.1
Chattisgarh	54.9	20.8	0.5	23.8
D & N Haveli	47.0	25.8	0.0	27.2
Daman & Diu	45.5	34.5	7.9	12.0

Delhi	47.2	25.2	10.6	17.1
Goa	39.3	23.7	6.5	30.6
Gujarat	48.6	15.4	1.1	34.9
Haryana	48.7	19.0	3.5	28.9
Himachal Pradesh	53.5	26.2	4.8	15.5
Jammu & Kashmir	55.3	21.6	2.9	20.2
Jharkhand	51.1	13.2	0.6	35.0
Karnataka	53.4	25.3	2.3	19.1
Kerala	33.3	41.5	3.8	21.5
Lakshadweep	13.9	49.1	1.2	35.8
Madhya Pradesh	56.0	10.1	1.1	32.9
Maharashtra	48.1	18.4	2.8	30.7
Manipur	17.1	29.7	0.5	52.7
Meghalaya	16.5	28.0	0.0	55.4
Mizoram	32.2	22.1	4.3	41.4
Nagaland	8.2	20.9	2.7	68.3
Orissa	48.2	21.0	0.7	30.1
Pondicherry	35.2	40.9	4.9	19.0
Punjab	50.8	22.5	2.1	24.6
Rajasthan	48.5	17.6	1.7	32.1
Sikkim	20.2	41.6	3.1	35.1
Tamil Nadu	33.7	39.6	2.2	24.5
Telangana	45.0	26.4	3.6	25.0
Tripura	59.9	14.0	0.8	25.3
Uttar Pradesh	49.1	7.3	0.6	42.9
Uttaranchal	39.6	30.3	3.9	26.3
West Bengal	56.0	14.1	0.6	29.3
All India	47.5	17.6	1.6	33.4

Source: Research and Information System for Developing Countries, November 2023

States with High "Advanced" Literacy Levels:

- Chandigarh (10.1%), Delhi (10.6%), and Himachal Pradesh (4.8%) show relatively high percentages of the population in the *Advanced* literacy category.
- Daman & Diu (7.9%) also stands out in this category, showing a higher percentage of the population with advanced literacy skills.

States with High "Illiterate" Populations:

- Nagaland (68.3%) and Meghalaya (55.4%) have notably high illiteracy rates. These states seem to have a significant portion of their populations without formal literacy, highlighting potential areas for improvement in education systems.
- Arunachal Pradesh (42.2%) and Bihar (44.3%) also have large illiterate populations.

States with High "Elementary" Literacy Levels:

- Madhya Pradesh (56%) and Chhattisgarh (54.9%) have high proportions of the population in the *Elementary* literacy category. This suggests that while a significant portion can read and write at a basic level, they may not have higher educational qualifications.
- Tripura (59.9%) also stands out in this category, with a large portion in elementary literacy.

States with High "Moderate" Literacy Levels:

- Lakshadweep (49.1%) and Kerala (41.5%) show high proportions in the *Moderate* literacy level category. These states seem to have a substantial portion of the population at an intermediate literacy level.
- Pondicherry (40.9%) and Sikkim (41.6%) also have relatively high percentages in this category.

Financial Literacy in Urban India (%)

State	Elementary	Moderate	Advanced	Illiterate
A & N Islands	28.0	60.8	2.3	8.9
Andhra Pradesh	27.5	30.9	11.8	29.8
Arunachal Pradesh	36.4	33.6	4.9	25.1
Assam	22.4	35.9	7.3	34.4
Bihar	31.6	20.5	6.8	41.1
Chandigarh	28.9	31.5	19.8	19.7
Chattisgarh	29.3	35.4	7.1	28.1
D & N Haveli	23.2	37.8	10.1	29.0
Daman & Diu	31.5	34.7	12.8	21.0
Delhi	32.2	25.1	14.2	28.5
Goa	31.3	36.3	13.9	18.5
Gujarat	39.9	23.3	10.3	26.5
Haryana	37.1	21.9	10.1	30.9
Himachal Pradesh	29.0	30.5	18.5	21.9
Jammu & Kashmir	41.1	32.9	8.9	17.1
Jharkhand	40.8	23.4	7.3	28.5
Karnataka	30.4	30.2	17.1	22.3
Kerala	33.3	39.3	5.9	21.5
Lakshadweep	13.2	52.1	2.7	31.9
Madhya Pradesh	44.3	22.6	5.5	27.6
Maharashtra	29.9	26.3	14.1	29.7
Manipur	17.7	38.9	2.8	40.5
Meghalaya	18.9	45.7	3.0	32.3
Mizoram	23.5	40.1	3.7	32.6
Nagaland	11.9	37.5	10.3	40.3
Orissa	25.4	38.9	7.1	28.6
Pondicherry	20.1	44.1	10.9	24.9
Punjab	34.5	29.0	10.1	26.4
Rajasthan	35.7	24.5	9.6	30.2
Sikkim	22.5	47.0	4.7	25.8
Tamil Nadu	20.8	42.5	10.4	26.2
Telangana	17.0	28.2	19.8	34.9
Tripura	50.5	29.9	2.6	17.1
Uttar Pradesh	36.8	18.5	5.7	39.0
Uttaranchal	24.3	30.8	13.8	31.0
West Bengal	39.1	27.3	5.2	28.4
Total	32.3	28.1	10.2	29.4

Source: Research and Information System for Developing Countries, November 2023

States with High "Advanced" Literacy Levels:

- Chandigarh (19.8%) shows the highest proportion of people in the *Advanced* category, indicating a relatively high number of individuals with higher literacy levels.
- Telangana (19.8%) and Andhra Pradesh (11.8%) also stand out with higher percentages in the *Advanced* category.

States with High "Illiterate" Populations:

- Manipur (40.5%) and Nagaland (40.3%) have some of the highest illiteracy rates, closely following Bihar (41.1%).
- Uttar Pradesh (39%) also has a significant illiterate population, highlighting an area for potential improvement.

States with High "Elementary" Literacy Levels:

- Tripura (50.5%) has a particularly high proportion in the *Elementary* literacy category, suggesting that many people have basic literacy but have not progressed to higher literacy levels.
- Madhya Pradesh (44.3%) and Jharkhand (40.8%) also show a high percentage in this category.

States with High "Moderate" Literacy Levels:

- Lakshadweep (52.1%) and Pondicherry (44.1%) show the highest proportions in the *Moderate* literacy category, which could indicate a significant portion of the population with intermediate literacy skills but not yet advanced.
- Meghalaya (45.7%) and Sikkim (47.0%) also show strong performance in the *Moderate* category.

IV. Conclusion

Particularly in rural areas, financial literacy is a key measure of household welfare and a tool for enabling people economically. Regarding financial literacy and its influence on investment and saving habits, our research reveals some interesting trends. Since both rural and urban residents of Chandigarh, Goa, and Himachal Pradesh have high levels of financial literacy, these states are among the best in this regard. In the meantime, there is a concerning pattern of inadequate financial literacy in both urban and rural communities. Assam, Bihar, Manipur, Nagaland, and Uttar Pradesh are among the states that must catch up to the national average and other states.

The emphasis should be on creating financially sound infrastructure to close the gap and facilitate the integration of specific segments of the population into the mainstream, given the disparities in financial literacy among states. In this regard, financial institutions and the government must work together on financial literacy programs. Therefore, it is necessary to create financial literacy programs that target the particular financial difficulties faced by vulnerable groups, such as women, the elderly, and low-income groups.

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