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# Financial Inclusion in Rural Oman: A Demand and Supply Analysis

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## Abstract

People living in rural areas are underprivileged and disadvantaged to get necessary financial services almost in all countries. Those living in rural areas still find it difficult to avail appropriate financial services in/on time. The infrastructure facilities in rural areas are not as good as they are in urban areas. Inclusive growth is the key of overall economic development for any economy. In any part of world supplying financial services to this disadvantaged segment of society is a challenging task. Almost all the countries are stressing upon inclusive growth of society and Sultanate of Oman is also not an exception to this. Financial sector in Oman is growing at a rapid rate. The Government in Sultanate of Oman is very much concerned about inclusion of underprivileged and disadvantaged rural population in mainstream economic activities. Introduction of technology in financial services and Islamic finance are a few milestone efforts in this direction. This study is intended to analyze current status of financial services in rural areas of Al-Dakhliya region of Oman and to identify factors influencing demand and supply of financial services in this region. The study is mainly based on primary data. Some secondary data also has been used for support. Collected data has been analyzed using factor analysis, frequency analysis, percentage etc. Outcome of study suggests that, though access to financial services in rural areas is reasonable, there is still scope for improvement in supply infrastructure. Also there is scope to work on demand side of financial inclusion. Hence there is a need to work on both demand as well as supply side of financial inclusion for achieving inclusive economic growth of the country.

**Keywords**: Financial Inclusion, Demand Side, Supply side, Financial services.

## 1. Introduction

People living in rural areas are underprivileged and disadvantaged to get necessary financial services almost in all the countries. Those living in rural areas of countries still find it difficult to avail appropriate financial services in time. The infrastructure facilities in rural part are not as good as it is in urban part of countries. Inclusive growth is the key of overall economic development for any economy. In any part of world supplying financial services to this disadvantaged segment of society is a challenging task. Hence 'Access to financial services or outreach of the financial system has become a major concern for many policymakers in developing countries' [3]. All most all the countries stressing upon inclusive growth of society and Sultanate of Oman is also not an exception to this.

Financial institutions (Banks, Insurance companies etc.) are intermediaries in financial system and work as transporters and facilitator to move financial services from one end to other. Financial institutions provide opportunity to every component of economy to contribute in economic development. Financial institution is a mechanism which works as channel among savings and consumption through financial services, to individuals and institutions, which can pay for these services. The main function of the financial institution is to collect access savings from individuals and institutions in various forms and transfer it to individuals and institutions who need funding for their profitable investments and other purposes. This results in financial inclusion of all stakeholders of economy. Development without inclusion of each and every component of economy in main stream is almost an impossible task to any country. 'Access to finance by poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion' [12]. Financial services are pivot of any economy. Financial services plays important role in flow of capital from the point it is in access to the point it is needed and consecutively results in growth of production, trade, employment and other economic activities. Countrywide access to financial services is a necessity for development.

The key roles of the financial services in society are to promote savings for future needs and minimize the risk to savings, to provide finance to customers (either short term or long term), to invest the money to purchase or sell the commercial products and to educate society about available financial services. Thus, all these roles of financial services require creating awareness in society about the financial dealing, financial services and financial investment.

Timely and appropriate financial services in rural areas are always a matter of concern worldwide. Financial institutions find it difficult to supply appropriate financial services to disadvantaged section of society living in rural part of the countries. This is mainly because of remote geographical location, thick & thin population density, poor infrastructure, financial illiteracy and many more problems in rural areas. Financial inclusion of this section of society in main stream is a challenge for all economies.

Financial Inclusion denotes supplying financial services to most disadvantaged and needy in society. According to Ramji (2009), financial inclusion is timely delivery of financial services to such disadvantaged sections of society. Financial inclusion helps to achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions [5]. Financial inclusion within the broader context of inclusive development is viewed as an important means to tackle poverty and in-equality [4]. Effectiveness and efficiency of financial inclusion depends on good financial decision-making (the demand side) and access to suitable products and services (the supply side). According to United Nations (2006), financial inclusion involves two primary scopes i.e. formal financial services and multiple financial services providers must be accessible to customers. People outside the mainstream financial services suffer financial disadvantages including: higher-interest credit; lack of insurance; no account into which income can be paid; and higher-cost utilities [9]. There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on 'demand side', it includes lack of awareness and illiteracy [14] and on 'supply side' type of products, infrastructure etc. Financial inclusion provides formal identity, access to payments system and deposit insurance, and many other financial services [13].

Oman is a developing country with 26.3% (January, 2012) rural population. Main source of income in rural area is agriculture and livestock. Geographic condition of rural Oman is very challenging. Rural population is scattered all over Oman with very low density. Hence supplying appropriate financial services to rural population is a challenge to financial institutions. In recent past Oman government and Central bank of Oman has placed efforts to reach, to all disadvantaged segment of society. To supply better financial services, different financial institutions has enhanced their branches and ATM network. Banks has also introduced electronic and mobile banking in recent past. Considering religious factors, introduction of Islamic banking is a mile-stone in the direction to financial inclusion. This study is an attempt to highlight current status and factors influencing demand and supply of financial services in the Sultanate of Oman.

## 2. Literature Review

As discussed financial inclusion is access of the financial service for the most disadvantaged people of the country. Financial inclusion is a concept to bring disadvantaged people to main stream of economy. Hence it is worth reviewing literally contribution in this growing field of knowledge.

Financial System in society should: promote financial and economic resilience, safeguard savings and the integrity of financial contracts, facilitate efficient allocation of capital to support economic growth, provide broad access to financial services products and services, enable smoothing of cash -flows and consumption over time, enable payments, provide financial protection, risk transfer and divarication, collect, analyze and distribute information for better economic decision-making, provide effective markets [16]. To achieve this in its totality, financial inclusion of disadvantaged section of society in rural area is a must. According to the Committee for Financial Inclusion, India (2008) "Financial Inclusion is the process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost".

Financial needs of rural population are distinct from that of urban population. World Bank Report (2003), define the rural finance as financial transaction that occur outside the urban areas, which consist the insurance, money transfer, payments, credit card, farm and nonfarm activities. Jonathan (2007), highlights that rural requirements are different than urban economic system. It is mainly because financial transactions are very limited and simple due to the small population in the rural areas. This system of the rural economy consist the input suppliers who provide the people information about financial and other services. As well as it consists the traders who sell their agriculture product in cities in order to earn the profit.

Gallardor (2006) observed that, there are some problems of the financial services in rural areas. Demand of financial services in rural areas has increased but small population size results in high cost and makes financial services less attractive to people in these areas. The capacity of the financial institution is weak to provide appropriate financial support in the rural society. Hence, there is a need of cost effective alliances of financial institutions with society. Financial institutions find it difficult to provide credit in the rural areas because of limited capital resources, hence they just concentrate on non-credit services only, such as, payment, money transfer and safeguarding saving. Info Resources (2008) also highlighted various challenges to rural financial services, the most important of these challenges is the high transaction cost. Financial services are not available in rural part mainly because of difficult topography and weak configuration of infrastructure. Unavailability of financial institutions, banks and ATMs, forces the residents of rural areas to travel long distances to cities for getting financial services. The another challenge of rural financial services is high credit risk, due to dependency of income on an agricultural production which is based on fluctuating weather conditions and fluctuation of prices in an agricultural sector.

The World Bank Report (2003), stressed upon importance of establishing financial institution in rural areas. The significance of financial intermediaries is to improve the level of economic activities, reduce the poverty and to provide the credit and insurance to hedge risk to residents of rural areas.

Hence, the governments in many countries are interested to improve and develop the financial services in rural areas. Rural Finance Institution-Building Program (RUFIN), Nigeria is one of the examples. Objective of this program is to improve the financial services in rural areas by establishing and strengthening linkages between microfinance institutions and formal financial institutions. This will result in improved agricultural production and other business in rural areas.

Study of Ramji (2009) conducted to measure outcomes of the financial inclusion drive to understand processes and uncover perspective and dynamic behind financial inclusion, also observed that the household bank accounts have increased considerably (doubled) during the financial inclusion drive period. These accounts had been opened to receive government assistance. But the uses and awareness of accounts remain low, as people withdraw money as soon as this comes in account. According to this study Self-Help groups in rural areas were very popular for savings. The study concludes, that though government assistance programs are good to include big household population with low-income in financial system but does not often lead to uses. The study stressed upon enhancing financial literacy and marketing for optimal utilization of bank accounts.

Success of any financial inclusion drive depends not only on supply side but demand side is also equally important. Beck and de la Torre (2006) identified different demand and supply constraints in access of financial services. They developed distinction between payment and savings services and fixed intermediation costs, and lending services and different sources of credit risk. The study highlights both supply and demand side frictions that can lead to lower access. Fixed component of transection cost and lending risk are barrier at supply side. On supply side contractual and informational frameworks, the microeconomic environment, technology and other country characteristics need attention. Study also distinguishes between potential demand and actual demand. Voluntary self-exclusion results in limited or no use of financial services by some customers. Three access problems are first the lack of demand due to voluntary self-exclusion; second, supply of financial services below the potential due to lack of competition or other supply side constraints and third a frontier that is too low in international comparisons and explained by the state variables. Ghatak (2013) realized that despite of efforts to improve supply side of access i.e. banking expansion, improvement in financial performance, greater competition and diversification of ownership of banks, by government and central bank of developing countries the existing banking practices tend to exclude vast section of population. The study observed that the most important factors influencing demand side includes Income, Accessibility, Culture, Literacy and Assets. Financial Inclusion in opposite sense may be explained as ‘Financial Exclusion’. Lack of availability of appropriate, low cost, fair and safe financial product and services to certain segments of society, supplied by mainstream suppliers is financial exclusion. Running a micro or small enterprise or a household budget, without mainstream financial services can often be expensive endeavor [10]. Financial exclusion focuses upon the inevitable mixing of social and economic relations [9]. The effects of financial exclusion are extensive and restricting, especially when financial services have become an essential component of life in a modem society [6]. The exclusion in general is large. The exclusion increases with poverty. Improving supply side or delivery system can substantially help improve financial inclusion, it is also worth noting that farmer households have limited or weak demand of financial services. For improving level of inclusion, demand side efforts need to be placed including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages [15].

A single financial inclusion may not be able to serve need of every society and country. Sensitivity and responsiveness of financial inclusion solution is important to the varied circumstances and multifarious financial needs of local community. Due to the diverse local manifestations of financial exclusions, the variety of perceived needs, and the variances of both of these over space and across social groups, 'One-size-fits-all' models of financial inclusion will have limited success. There may be different reasons in different countries for adopting different strategy to implement financial inclusion. But all efforts are being made only because financial inclusion can improve the financial condition and standards of life of the poor and the disadvantaged [9]. Hence the process of financial inclusion becomes self-reinforcing. This process can often be an important factor in social exclusion, especially in rural areas for residents with limited access to financial products [12].

Though very few studies are available about financial inclusion in Oman, the available literature suggests that in Oman people have reasonably good access to financial services. Access to deposit account to each adult is 10.4 percent in Yemen and 19.2 percent in Syria, whereas in Oman, people have more than one deposit account for each adult. Oman is one of the MENA region countries having highest level of bank branches density per population [13].

The literature suggests financial inclusion is significant for inclusive growth of economy in and to generate employment and uplifting poor and disadvantaged people in developing countries. Residents of rural areas are disconnected from main stream financial institutions, hence have limited or no access to financial services. For financial inclusion of this disadvantaged segment of society, not only supply side but demand side also needs attention to provide them appropriate and timely main stream financial services.

## 3. Methodology

The study aims to understand status of demand and supply side of financial inclusion in Sultanate of Oman. Also an attempt has been made to identify factors influencing demand and supply of financial services in the country. The study is qualitative in nature, primarily based upon primary data collected through questionnaire. Sample includes 30 adults from JABALSAMS and SENTT of AL DAKLYAH. Data so collected have been arranged in tables. Data have been Analyzed using factor analysis, percentage and frequency analysis. For easy understanding, results have been presented using graphs and charts.

Since the sample size is too small for fair representation of a country like Sultanate of Oman, and the study is confined to JABALSAMS and SENTT of AL DAKLYAH region also primary data may not be fully reliable. Hence results of the study not to be generalized.

## 4. Results and Findings

The respondents included in the study are 19 male and 11 females. Majority of them are qualified to secondary and below. As few as 5 male and 3 females are graduate (Table 1).

Monthly Income of 8 male and 9 female is below Omani Rial 200. 7 male and 2 female is between Omani Rial 201 and 500 only 4 male earn between 501 to 750 Omani Rial a month and no respondent included in this study earn more than 750 Omani Rial (Table 2).

**Table 1**: Education and Gender classification of respondents.

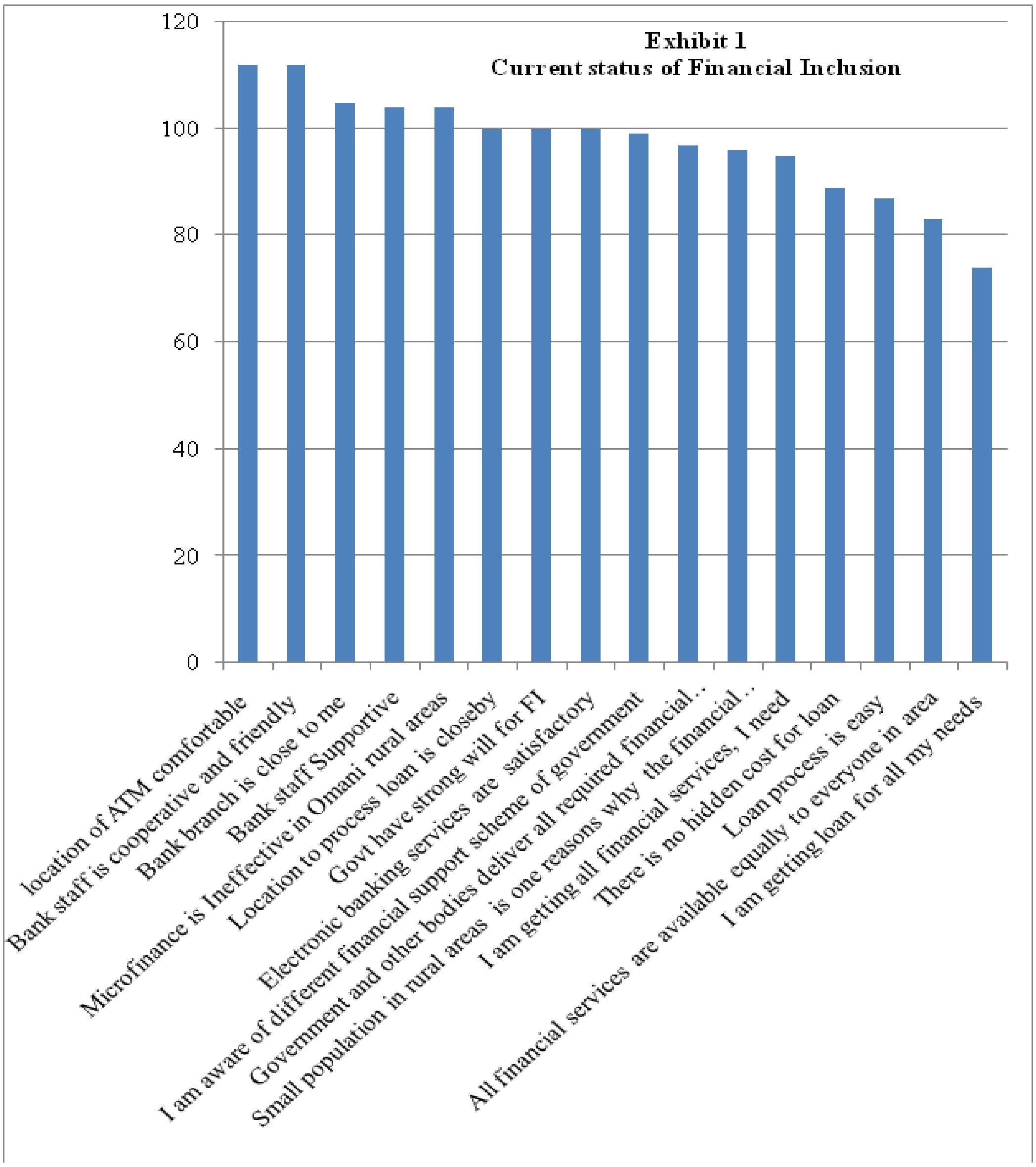
| | **Male** | **Female** | **Total** |
|---|---|---|---|
| None | 4 | 0 | 4 |
| Secondary | 10 | 8 | 18 |
| Graduation | 5 | 3 | 8 |
| Masters | 0 | 0 | 0 |
| Gender (Total) | 19 | 11 | 30 |

**Table 2**: Monthly Income and Gender classification of respondents.

| | **Male** | **Female** | **Total** |
|---|---|---|---|
| OMR: 0-250 | 8 | 9 | 17 |
| OMR: 251-500 | 7 | 2 | 9 |
| OMR: 501-750 | 4 | 0 | 4 |
| OMR 751 and above | 0 | 0 | 0 |
| Total | 19 | 11 | 30 |

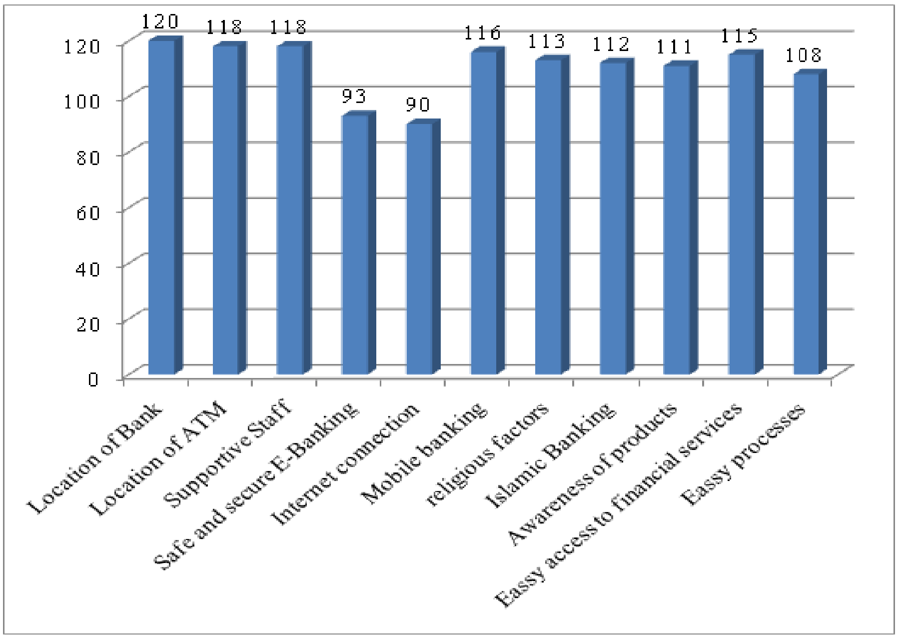
Factor analysis in Exhibit 1 suggests that supply side of financial inclusion in Sultanate of Oman is satisfactory as most of the respondents are resonably satisfied with location of ATMs, Behavior of bank staff, location of bank branches, support in the bank, location to process loan, Government’s will to support and E-banking service. All these factors scored 100 and above from 150 points. Respondents expressed their moderate satisfaction with availability and delivery of financial services in time. Hidden costs, difficult loan process, equal availability of financial services to all, availability of loan for all the needs and effectiveness of micro finance are a few concern of respondents in Sultanate of Oman (with a score of less than 100 out of 150).

Exhibit 2 reveals that facors that have strong influence on demand in rural areas of Sultanate of Oman are Location of banks and ATMs, quality of service delivered by staff, Exhibit 2




Factors influencing demand of financial servicesintroduction of mobile banking, easy access to financial services, religious beliefs, Introduction of Islamic banking products, awareness of different products among peoples and easy processes. On the other hand introduction of E-banking is not so influancing factor in rural Oman, mainly because of weak internet infrastructure.

In response to open questions, respondents highlighted a need for frequent visits of bank staff to conduct awareness programs in rural area of the Sultanate.




## 5. Conclusion

This is evident from above disacussion that financial inclusion is a prirority to majority of developing countries. Inclusive growth is not possible for any economy without including most venurable segemant of society in main stream economic activities. Oman is one among developing economies in GCC. This study also cinfirm outcome of different studies which suggests that coverage of financial inclusion in Oman is satisfactory. The supply side of financial inclusion is satisfactory in Oman. Still there is need for improvement in hidden costs, loan process, equal availability of financial services to all and effectiveness of micro finance. The study concludes that quality and accessibility to financial services and awareness about financial products are key factors that influances demand of financial services.

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