Financial Inclusion of Marginalized Population in India – a Review

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Abstract
Financial inclusion or inclusive financing is the access of financial services at legitimate prices to all and specially to low-income and disadvantaged population, in contrast to financial services that are not affordable and available. Globally, approximate 2 billion working-age adults are having lack of access to the financial services. The present paper attempts to understand and emphasize the factors behind the financial inclusion of marginalized population in India (specifically scheduled caste, scheduled tribes and religious minorities). Financial inclusion means access to finance as well as financial services in a fair and equitable manner at a reasonable cost and thus leading to reduction of poverty. Historically, socially disadvantaged groups have been facing various forms of discrimination in the society, one of which can be financial exclusion, i.e. economic discrimination. This has resulted in differences in the income and other associated benefits. Majority of India’s financially excluded sector consists of small and marginalized farmers, labourers and entrepreneurs in the unorganized sector, urban poor and migrants. SC/STs and religious minorities comprise a vast proportion of this segment. The present survey article focuses on the extent of financial inclusion in India among socially disadvantaged group and the factors behind the prevalence of financial exclusion among them. Analyzing the supply side and demand side reasons, it concludes for more support from government, NGOs and international agencies and early steps towards increasing financial literacy of marginalized population to enhance their financial sustainability and a comprehensive financial inclusion.

Key words: Financial Inclusion, marginalized population, Financial literacy

I. Introduction: -
Finance is undoubtedly the most powerful tool of intervention for economic development. Access to finance and financial services is necessary because financial exclusion frequently leads to social exclusion as well. Even though effort has been made to a large extent still formal finance and financial services does not appear to have adequately infused to vast segments of India, specially among poor and marginalized population. Majority of India’s financially excluded sector consists of small and marginalized farmers, laborers and entrepreneurs in the unorganized sector, urban poor and migrants. SC/STs and religious minorities comprise a vast proportion of this segment. These segments of population have historically been subjected to various forms of discrimination and exclusion in the society one of which is economic discrimination like financial exclusion. Although the nature and extent of financial exclusion varies all over the world but the basic characteristics of financially excluded segment of the population by and large remains same. Solo (2008) observed in Mexico and Bolivia, “the unbanked in all the countries studied show other characteristics of marginality: lower incomes and lower educational levels than the population at large; and higher representation among minority and immigrant population groups, and among those dependent on the on the informal sector and living in informal settlements”. As it is evident that financial exclusion leads to social exclusion and vice versa, the present survey article focuses on the extent of financial inclusion in India among socially disadvantaged group and the reasons behind the prevalence of financial exclusion among them. On the whole it has been organized into five sections. Section I deals with introduction, Section II briefly reviews the existing literature on financial exclusion among marginalized group in India; after analyzing the state of financial exclusion among the socially disadvantageous class in Section III,

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II. Literature Review:

Estimated almost two billion people all over the world are excluded from access to finance and financial services. Though the problem of financial exclusion specially lies with developing countries, it is also present in developed world as well. However, the main difference is “massive inaccessibility to financial institutions” between developing and developed countries (World Bank, 2005). In developed countries, generally the minorities and unemployed are unbanked; whereas in developing countries employed individuals are unbanked as well. According to Pratt et al. (1996), in United Kingdom 26% of adults did not have access to financial services. Many researchers have found that the social-characteristics of the financially excluded are sometimes similar in developing as well as developed countries. Devlin (2009) observed that “low-level education” as a key factor for financial exclusion. Also, distant staying from cities and financial centers can be the reason behind financial exclusion (Leyshon and Thrift, 1995, Ford and Rowlingson, 1996). In Australia these types of characteristics of the financially excluded were also noticed (Burkett and Drew, 2008). Though the financial inclusion is the newest form of poverty reduction; its exact impact on poverty is still not proven. Majority of studies use macro level analyses that provide regional or national data on the number of accounts in respect of population. Very limited analysis is available from the perspective of household level (e.g.,Solo, 2008) and even fewer have analyzed the same for households belonging to socially disadvantageous class of population. The majority of the literature on the access to finance deals with the urban poor and limited information is available on the level of financial inclusion and exclusion in rural areas. One remarkable study conducted by Canna et al (2012) found in rural southern part of India middle-caste people, “those who have informal loans, and those with low levels of education are more likely to be financially excluded as the low-caste people are experiencing an aggressive governmental campaign of affirmative action.”

The existing literature has divided the reason behind financial inclusion mainly in two categories supply side and demand side and quite a handful of them have focused on the former. Some of the existing literature has also focused on demand side factors. Cole (2010) has shown that “financial literacy” is an important contributor of “financial behavior in emerging market countries”. Ghatak (2013) found the factors influencing and affecting the demand for financial services are accessibility (e.g. proximity), culture, assets, literacy and income of the population. Policy Interface Report (2010) also mentions about self-imposed exclusion specially by dalits and religious minorities which is purely a demand side phenomenon.

III. Financial Inclusion in India:

Broadly financial inclusion can be represented as access to finance by financially excluded sections of society, and in recent years, this has come to the fore-front of public discourse. Globally, policy makers are experiencing with various options to ensure financial inclusion of the financially excluded. There are political supports for financial inclusion as this would ensure increase in equity and welfare. In our country India also, financial inclusion has got a large focus. The scope of the problem and the nature of interventions undertaken by the developing and developed countries are the major differences regarding financial exclusion and the consecutive inclusion process. In developed countries, as the problem related to minority of residents, states level interventions are for developing supply side measures. For example, in United Kingdom, financial inclusion policy included the establishment of Financial Inclusion Funds (Byrne, 1999),Collard (2007), Fuller et al. (2006)). In France, the 1984 Banking Act was designed to make access to a bank account a “legal right” (Kempson, 2006)). Subsequently, in 1992a charter was signed by banks to open “bank accounts at an affordable cost with related payment facilities to all”. In Germany, the banking industry had introduced ‘Current Accounts for everyone’ to provide current account to all on demand (NABARD, 2008). In Canada, legislation entitled ‘Access to Basic Banking Services Regulations’ has been enforced in 2003
which ensures every Canadian can open personal bank accounts, and can realize government cheques at free of cost.

It must be mentioned at the outset that direct data on financial exclusion is not available in a form amenable to statistical analysis. The limitation of the available data is that they focus mainly on the banking or credit aspect of financial exclusion and not on other aspects like insurance. Nevertheless, since banking inclusion is a primary and inevitable step towards the broader process of financial inclusion, data on the banking or credit exclusion can be regarded as firsthand information on the extent of financial exclusion.

For several decades, in India, major focus of banking policy has been creating access to formal financial services. In 1969, fourteen major commercial banks in India were nationalized which was a big initiative in the “journey towards mass banking”. After that several efforts were made in extending banking facilities and reducing the regional inequalities from the perspective of availability of banking services. Many banking establishments, some in remote villages had appeared. According to Mohan (2008), Reserve Bank of India (RBI) focused on inflation as well as on growth, like many developing countries. Due to failure of micro-credit sector to provide the requisite growth, since 2004 RBI’s priority was providing access to finance to the largest number of people. As per the estimation of Ramesh and Sahai (2007), “on an all-India basis, 59 percent of the adult population in the country has bank accounts. 41 per cent of the population is, therefore, unbanked.” As per the study conducted by the Indian Council for Research on International Economic Relations (ICRIER), in which they have rated countries according to their levels of financial inclusion, India is lagging behind other nations in terms of financial inclusion (Sarma (2008)). India’s rank was 50 out of 100 studied countries which shows financial exclusion is quite intense in India.

To meet the commitment of the Government of India to extend financial inclusion as far as possible, the Government constituted a “Committee on Financial Inclusion” in 2006. The Indian policymakers at various levels have undertaken various measures to bring the financially excluded or the “under-served” population under the framework of formal finance. Accordingly, the Government of India and the RBI have followed a range of innovative measures to push forward the agenda of financial inclusion. The “big push towards financial inclusion in India” has originated from the Pradhan Mantri Jan Dhan Yojana (PMJDY), the scheme was launched in August 2014; and the Jan Dhan Aadhaar Mobile (JAM) trinity pronounced in the Government’s Economic Survey 2014-15. Another initiative on financial inclusion was by the Financial Stability and Development Council (FSDC) that includes establishment of a Technical Group which deals with the financial inclusion issue. Thus, the financial inclusion agenda becomes a broader national “development policy goal” and has not been confined only to various financial regulators. Despite several efforts, still in the 21st century, the expansion of branches was limited in India. Due to the limited access to formal banking services, specially in remote areas, RBI treats financial inclusion as an important policy drive. They have introduced the concept of Business Facilitators (BFs) and Business Correspondents (BCs) and also launched deregulation of the opening of ATMs and branches to ensure sufficient coverage to hitherto unbanked areas. All these moves accelerated the rate of branch opening, specially in unbanked rural and semi-urban areas. In spite of all these development, still the number of branches per one lakh of population in rural and semi-urban areas is less than half of that in urban and metropolitan areas (Table 1).
For providing basic banking services to the marginalized people merely expansion of branches is not enough, so opening of ‘no-frills’ accounts in the banks were introduced, which subsequently named as Basic Saving Bank Deposit Accounts (BSBDA). These BSBD accounts have risen by near to six times in the past few years, and majority of these accounts were opened through Business Correspondents (BCs). The introduction of no-frills accounts helped poor households to have access to formal finance like bank that were before considered for the rich only. Moreover, as per as levels of basic financial inclusion is considered, the policy to give preferential treatment to the lowest caste (i.e. ST) was also proved to be successful. All these examples indicatethat plannedand targeted policies can stimulate inclusion of traditionally socially excluded groups.

In spite of all these efforts made by government a large proportion of the SC/STs and marginalized population in India are still far from getting the benefits of formal finance. Dr Rangarajan Committee report (policy interface 2010), with reference to the financial exclusion of Dalits, states that 49.77% of SC households, 63.68% of ST households and 48.58% of OBC households are financially excluded. So, worst affected by financial exclusion are the most marginalized sections of society: Dalits (SC/ST) and OBCs (other backward classes). SSingh has estimated the situation thus: “[T]here is a denial from the government machineries to extend the credit to the Scheduled Castes because direct funding from banks is a problem. It is linked to lack of education, attitude of bankers and policy directions to the banking sector. At the scheme level access is denied because of non-inclusion in the lists like Below Poverty Line (BPL)... and [because of] social exclusion itself. Most schemes require paper work, recommendations, forwarding of applications, and other processes. Schedules castes lack or cannot facilitate most of these formalities.” As a part of the 48th Round, for the first time, NSSO ventured into the task of picking up data pertaining to the position of indebtedness of households belonging to different social groups. Indebtedness, although it sounds negative for those who are indebted, perhaps is the best sign of understanding whether a person has access to the existing sources of financial resources irrespective of the fact that the source of finance is institutional or non-institutional. Needless to add that if one has availed finance and thus indebted to an institutional source then it can be deemed the best. For the general population having adequate asset base and good credit history, access to finance from the institutional source is not an issue, but contrary to this for a poor and socially backward population viz., the SC and ST it is perhaps perplexing to get access to formal sources. Hence, the level of indebtedness of these groups of people to formal source of finance appears to be very low. The data on indebtedness by the NSSO for the social group viz., SC and ST obviously throws light on these facts. NSSO in its reports provides a number of indicators to show the

<table>
<thead>
<tr>
<th>As on March</th>
<th>Number of Branches</th>
<th>Estimated population* (in millions)</th>
<th>Branches/ One Lakh population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural + Semi-urban</td>
<td>Urban + Metropolitan</td>
<td>Total</td>
</tr>
<tr>
<td>2001</td>
<td>44,905</td>
<td>20,713</td>
<td>65,618</td>
</tr>
<tr>
<td>2006</td>
<td>45,673</td>
<td>23,904</td>
<td>69,577</td>
</tr>
<tr>
<td>2010</td>
<td>53,086</td>
<td>31,072</td>
<td>85,158</td>
</tr>
<tr>
<td>2014</td>
<td>76,753</td>
<td>40,958</td>
<td>1,17,711</td>
</tr>
<tr>
<td>June 2015</td>
<td>82,358</td>
<td>43,716</td>
<td>1,26,074</td>
</tr>
</tbody>
</table>

*Population estimates are based on CAGR between Census 2001 and Census 2011 data
indebtedness of social group at various levels. It is evident from the data that the total debt outstanding in cash (TD) for the SC and ST is dismally low when compared to the general population.

Table No. 2: Percentage share of total debt by social group of households-all India (Total Debt Outstanding in Cash Dues)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>1991 (48th Round)</th>
<th>2002 (59th Round)</th>
<th>2013 (70th Round)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>ST</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>SC</td>
<td>16</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>OBC</td>
<td>-</td>
<td>-</td>
<td>45</td>
</tr>
<tr>
<td>Others</td>
<td>79</td>
<td>90</td>
<td>37</td>
</tr>
<tr>
<td>All</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on NSSO Data

As the table illustrates SCs and STs together share very low portion of the total debt outstanding in cash in both 1991 and 2002. Interestingly, the share of both SCs and STs in total debt in rural areas appears to be phenomenally higher than that of in urban are as in both round sviz. 48th and 59th although the difference has narrowed down when it comes to the 59th round.

Though it is clear that financial exclusion among SCs, STs and religious minorities are very widespread but very few of the studies in literature had particularly focused on this angle. The study conducted by Cnaan et al (2012) based on sample survey covering four states of Southern India shows religion is a significant factor behind the financial exclusion. The extent of financial exclusion is more among Hindus (26 percent) followed by Muslims (14 per cent) and Christians (11 per cent). This difference is also statistically significant ($\chi^2 = 11.86$, df = 2, $p < 0.01$). Caste is also statistically significant ($\chi^2 = 66.2$, df = 3, $p < 0.001$). The study found the lowest caste (ST or Dalit) is actually hardly excluded (13 per cent), which is almost at the same level as and slightly better than the highest castes (16 per cent). The probable reason can be planned government programs designed to provide preferential treatment to STs who are historically discriminated. The study also found the second level caste, the SC, is significantly more financially excluded (58%), among OBCs 21% of households are excluded.

### IV. Reasons behind Financial Exclusion

Estimated over two billion people globally are being excluded from access to financial services.² All though majority of financially excluded people are from developing countries, the financial exclusion is known phenomena in developed world also. However, in developed countries, the minority and among them unemployed are the unbanked; whereas many employed individuals do not have access to financial services in developing countries. The reason behind financial exclusion can broadly be categorized into supply side and demand side reasons. Though some studies have added another factor as societal like “structural changes in the labour market and the rising number of single people and single parents, as well as other demographic evolutions”. Supply side factors take into

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² According to Chaia et al., (2009) there are 2.1 billion people financially excluded; while CGAP (2009) estimate that there are 2.7 billion people who are financially excluded.
account a financial institution’s criteria for accepting a client (which may be too stringent), the fees charged for availing its services and its other requirements like its risk assessment procedures. These can lead a bank to reject services to a person and can act as a constraint to a potential client requiring financial services. On the perspective of demand, the client’s priorities, concerns and cultural context may play a vital role. For example, lack of saving behavior can lead to savings exclusion with a general aversion towards banking due to some past experiences or prejudice; which can be referred to as ‘self-exclusion’. Financial exclusion is often related to social exclusion, when social exclusion leads to automatic financial exclusion and vice versa. Hence, the financial exclusion is true for individual as well as for society also. However, in the developed countries, the problem of financial exclusion has been addressed mainly by supply side factors. Governments have intervened in two ways: through regulatory initiatives that forced banking institutions to serve the poor compulsorily or through voluntary efforts by financial institutions to give access to financial services in a discriminatory way at an affordable cost by encouraging them. Nationalization of banks was also done when the access to finance by poor and marginalized groups was low (Kempson (2006)). Though India can learn from the policy level responses of developed countries, but here the problem is much more complex as the reasons behind exclusion are both supply side as well as demand side.

V. Concluding Remarks:

The well-known fact is economic exclusion leads to the condition for other types of exclusion. Therefore, financial inclusion stimulates social and political inclusion and reduces inequality. Kempson (2006) indicates countries having low level of income inequality are also having higher level of financial inclusion. It is required to understand the nature and extent of exclusion at micro as well as macro level. As mentioned earlier, in developed countries financial exclusion is majorly a supply side phenomenon so can be dealt at policy level. But for a country like India it’s both supply side as well as the demand side phenomenon and reasons for exclusion vary a lot from non-existence of branches (completely supply side phenomenon) to self-exclusion (demand side).

Moreover, it is critical to understand that not all marginalized sectors are homogenous. There is a remarkable diversity between the many communities of Dalits, Tribals and religious minorities spread across the vast Indian landscape, and every community’s concerns must be addressed separately within the specific context of their livelihood, habitat and socio-cultural background not through broad conceptual grids. The fact should be understood that financial exclusion is not an absolute concept (excluded or not), but a relative one, with degrees of exclusion. Merely having a bank account does not necessarily guarantee true financial inclusion. True demand generation and supply creation for financial products should be taken care of. So only the availability of financial services to the targeted class is not enough but the usage of financial services and products also should be reviewed. Therefore, there is a need of designing appropriate policy for mobilizing, motivating and training human resources for optimum and prudent utilization of the available financial products. Otherwise, the entire inclusion process will remain as an “unfinished agenda” for India.

References:

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