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Financial Inclusion in India: A Comparative Study of Male and Female

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Abstract
Financial inclusion has been advocated as a tool to alleviate poverty in developing nations, particularly focusing on boosting the economic resilience of low-income households, particularly women, by enabling them to better manage financial uncertainties, generate income, access vital financial services, and maintain basic living standards. The goal of financial inclusion is to empower individuals economically by facilitating their entry to and utilization of official financial services. Despite numerous global initiatives, progress in achieving financial inclusion for women has been limited over the past decade. Emerging challenges such as the COVID-19 pandemic threatens to reverse some of the gains made, resulting in continued financial exclusion and increased vulnerability for women compared to men. This study aims to provide insights into the present state of financial inclusion for both men and women in India, analysing the extent of access to and usage of formal financial services by gender. The research relies on secondary data obtained from the World Bank's databases. The results indicate a decrease in the gender disparity in access to financial services in India, diminishing from 20 percentage points in 2014 to no difference in 2021. However, full gender equality in financial inclusion remains elusive, as disparities persist in active accounts, digital transactions, savings, and borrowing activities, with males exhibiting higher participation rates than females.

Keywords: Financial inclusion, Alleviate Poverty, Empowerment, Gender disparity.

Introduction

The economic progress of a nation is significantly affected by the development of its financial sector. To facilitate economic growth, financial development can adopt either a strategy focused on increasing the supply of financial services or one that responds to the demand for these services. The expansion of financial services plays a vital role in promoting economic growth by granting access to financial resources to individuals who have limited opportunities. However, it's important to note that while financial services have expanded, structured finance has not grown at the same rate (Mohan, 2006). Consequently, policymakers in India have increasingly prioritized financial inclusion, especially since 2005, recognizing it as essential for fostering inclusive development and sustainable growth (Thorat, 2007). Rangarajan (2008) defines financial inclusion as ensuring that vulnerable groups, such as low-income individuals and marginalized sections, have access to affordable financial services and timely credit. Access to affordable formal financial services allows these groups, especially those with low incomes, to participate in economic activities, leading to income generation and an improved standard of living. In the absence of inclusive financial institutions, these individuals and small businesses are forced to rely on limited personal resources to finance essential needs, education, health, and business ventures (Beck and Honohan, 2008).

Financial inclusion is a crucial factor in alleviating poverty and reducing income inequalities, making it a fundamental element of inclusive development and a key aspect of poverty reduction strategies (Chibba, 2009). Empirical evidence supports the positive impact of financial inclusion on poverty reduction. For instance, research by Burgess, Pande, & Wong (2005) shows that targeted bank lending and the expansion of bank branches into previously unbanked rural areas in India contributed to a decline in poverty, as the poor, particularly from low-caste and tribal groups increased their borrowing from banks. Several studies on the exclusion of women from financial services reveal that women face higher levels of exclusion both at the individual and firm levels compared to men. Research indicates that businesses owned by women encounter greater financial constraints than those owned by men (Presbitero et al., 2014; Henderson et al., 2015; Beck et al., 2018). Similarly, a study in the US found that men receive more favorable treatment than women in terms of access to credit lines, even when considering their creditworthiness (Henderson et al., 2015).

Demirgüç-Kunt et al. (2015) further confirm the gender disparity in financial inclusion after controlling for various individual factors such as age, income, education, employment status, and rural residence.

The underrepresentation of women in the workforce hampers their significant contribution to economic growth, making the gender gap a pressing issue. Furthermore, women's human rights, which should guarantee them equal opportunities to participate in social and economic activities, are violated by such exclusion. Beneria et al. (2015) present two key arguments highlighting the critical importance of gender equality and, consequently, closing the gender gap: the human rights argument and the capabilities argument. The human rights argument asserts that women are entitled to equal access to financial services to ensure equitable participation in social and economic activities. Women make up approximately half of the global population, and their exclusion not only harms them but also hinders overall economic growth for the entire country. Research indicates that gender disparity in education negatively affects economic growth by reducing human capital levels in both developed and developing economies (Knowles et al., 2002; Klasen, 2002; Klasen and Lammana, 2009). The capabilities argument emphasizes the role of women in enhancing household welfare, thus reducing poverty. Studies highlight that women effectively manage resources, with those having access to microcredit experiencing greater gains in annual household consumption expenditure and income (Pitt and Khandker, 1998; Swamy, 2014). Women, as resource managers, positively impact family well-being, especially that of children, and the savings levels of households. They make optimal spending decisions with their children's welfare in mind (Pitt et al., 2003; Rawlings and Rubio, 2005). In line with these prior studies, it can be concluded that financial inclusion empowers women, enabling them to play a more active role in household decision-making, granting them greater access to financial and economic resources, social networks, freedom of mobility, and improved bargaining power (Pitt et al., 2006).

Review of Literature

Levine and Zervos (1996) and Levine (2005) established in their research that financial development at the macroeconomic level is a reliable predictor of economic growth. Beck et al. (2007) and Park & Mercado (2015) propose that financial development diminishes poverty and income inequality by facilitating faster income growth for the impoverished compared to the average per capita GDP. Numerous studies (Banerjee & Newman, 1994; Aghion& Bolton, 1997; Beck et al., 2007; World Bank, 2014) have emphasized that in many countries, a lack of access to formal financial services, particularly credit, can lead to situations where individuals are trapped in poverty. Banerjee et al. (2015) noted in their study that access to financing promotes innovation and entrepreneurship, resulting in increased business creation, employment, and economic growth. According to the World Bank (2014), access to financial services, including credit, economically empowers women. Demirguc-Kunt et al. (2013) argue that women, especially those engaged in self-employment, require greater access to these services compared to men. Isaac (2014) highlighted that women constitute 40% of the global workforce, with 34% of SMEs in developing countries being owned by women. Nevertheless, 42% of women worldwide lack access to the financial system (Demirguc- Kunt et al., 2013). Ashraf et al. (2010) and Aker et al. (2016) found that access to finance can empower women, giving them more control over finances and greater bargaining power within their families, which leads to reduced gender inequality. The allocation of funds controlled by women often prioritizes necessities like energy, water, and child welfare, resulting in positive and productive outcomes (Duflo, 2012). Additionally, women can increase farm output by at least 20% when given similar financial opportunities as men (FAO, 2011). For example, Attanasio et al. (2014) discovered that access to credit spurred growth and increased investments in women-owned enterprises in Mongolia.

Simultaneously, Arnold & Gammage (2019) reported that digital financial technologies can effectively promote the financial inclusion of women. However, addressing rigid gender norms and removing gender- and context-specific barriers requires targeted programming. While scaling up with large government initiatives, as observed in India, can quickly reach those without access to banking services, it also necessitates customized solutions and comprehensive programming to overcome persistent obstacles and exclusions.

Objectives of the Study

The study intends to achieve following objectives:

1. To study the awareness level of male and female towards the financial inclusion.

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2. To Comprehending the Notions of Financial Inclusion
3. To Examining the Significance of Microfinance Institutions (MFIs) in Advancing Financial Inclusion in India

Research Methodology

This research is of a descriptive nature and relies on secondary data sources. The data was sourced from the World Bank databases, academic journals, reports, working papers, research papers, economic publications, and newspapers. The analysis was conducted using diverse statistical techniques, including bar graphs, tables, pie charts, and percentages.

4.1 Current Status of Financial Inclusion In India

The Global Findex Database (2021) report highlights India's substantial advancement in account ownership, demonstrating a remarkable 43-percentage-point surge during the decade spanning 2011 to 2021, which propelled the ownership rate to 78% in 2021 from a modest 35% in 2011 [Fig.1]. Notably, this progress experienced significant acceleration post-2014, marked by a notable growth of 27 percentage points, elevating the ownership rate to 80% in 2017 from 53% in 2014. However, it's important to note that there was a minor setback thereafter, with the ownership rate retracting by 2 percentage points, settling at 78% in 2021 after peaking at 80% in 2017.

This pattern suggests that India's efforts in promoting financial inclusion have yielded substantial gains, especially in the earlier years, with a slightly declining trend in recent times. While the growth trend after 2014 underscored the effectiveness of certain measures, the subsequent marginal reduction by 2 percentage points emphasizes the need for sustained efforts and continued policies to maintain and further improve the high level of account ownership achieved. Such fluctuations underscore the complexity of achieving consistent and widespread financial inclusion, requiring ongoing commitment to address potential challenges and maintain the positive trajectory.

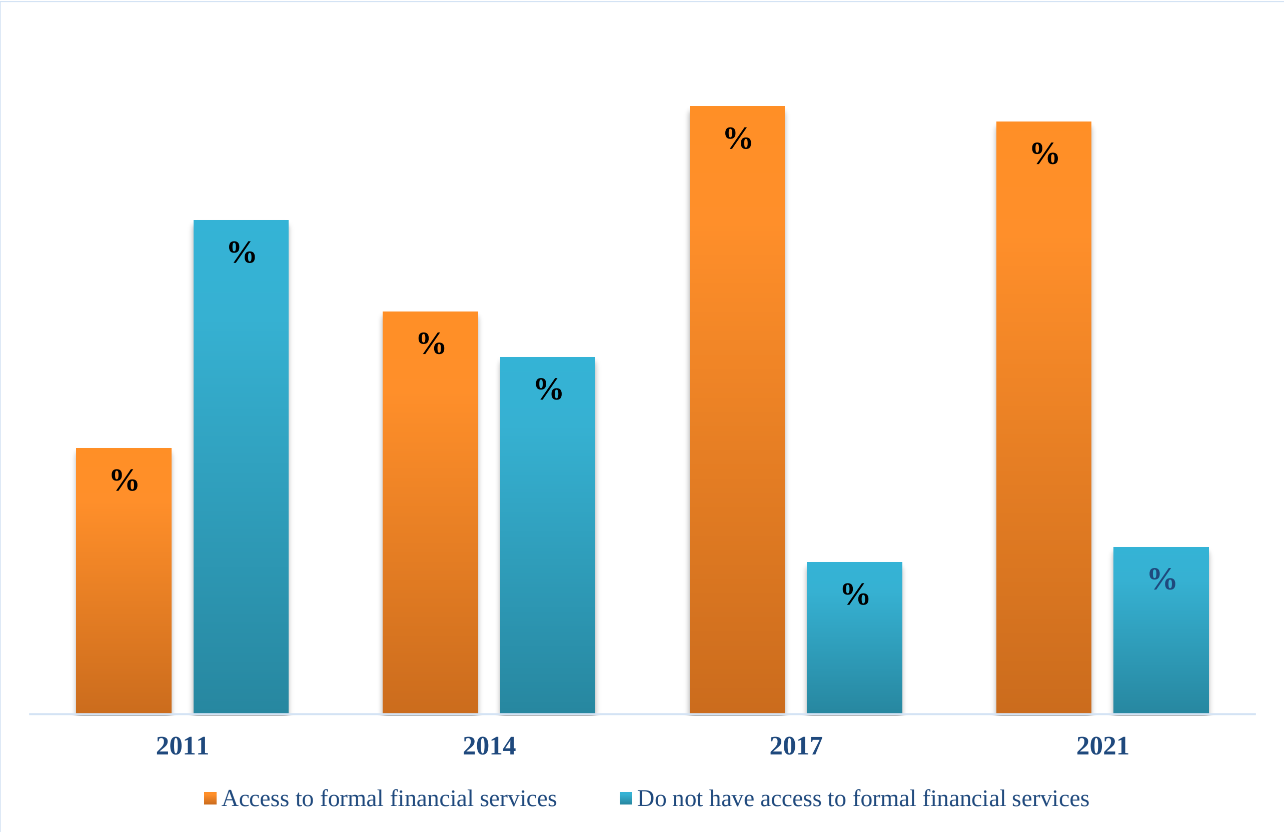


Fig. 1 Financial Inclusion in India
Source: Global Findex Database (2021)

In addition to accounts held with formal financial institutions, mobile money has emerged as a significant catalyst for the expansion of account ownership, experiencing remarkable growth of 8 percentage points, surging from a mere 2 percent in 2014 to 10 percent in 2021, with individuals actively using mobile money accounts.

However, it is imperative to tackle the persisting challenge of inactive accounts, which has shown a concerning increase of 10 percentage points, rising from 17 percent in 2014 to 27 percent in 2021 [Figure 2].

This data, sourced from the Global Findex Database (2021), underscores the transformative potential of mobile money in augmenting financial inclusion by offering accessible account services through mobile devices.

The substantial upswing in the adoption of mobile money highlights its relevance, especially in areas where conventional banking services may be less accessible. Nonetheless, the surge in inactive accounts raises apprehensions about the sustained engagement and utilization of these accounts.

This issue necessitates targeted efforts to promote account activity and ensure that account holders actively participate in the financial ecosystem. While mobile money presents promising opportunities, effective strategies are imperative to address the factors contributing to account inactivity and harness the positive impact of these accounts on overall financial inclusion.

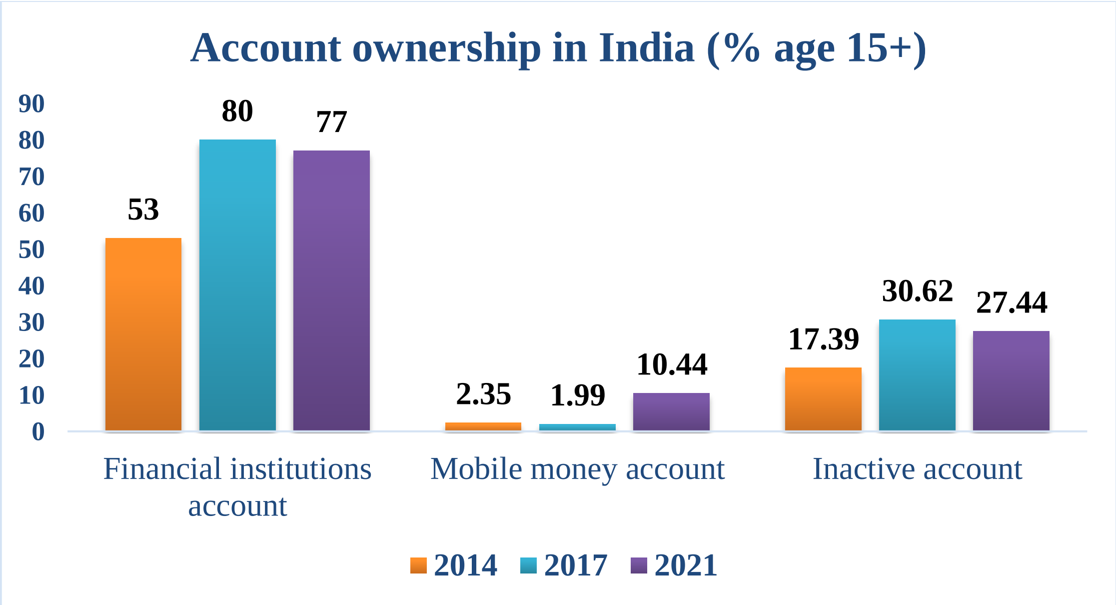


Fig. 2 Account Ownership in India

Source: Global Findex Database (2021)

4.2 Access to Formal Financial Services among Males and Females:

In India, the gender gap in access to formal financial services has significantly diminished, with 78 percent of both females and males having access to such services in 2021. This marks a substantial reduction compared to a 20 percentage point gap observed in 2014 [Figure 3]. The expansion in access to formal financial services has been remarkable, with a 35 percentage point increase for females and a 15 percentage point increase for males since 2014. This growth can be largely attributed to initiatives like the PradhanMantri Jan Dhan Yojana (PMJDY) and various government schemes aimed at promoting financial inclusion in India. As of March 01, 2023, the PMJDY has benefitted a total of 48.27 crore individuals, with 26.82 crore beneficiaries being female, constituting approximately 56% of the total beneficiaries under the scheme (source: www.pmjdy.gov.in).

According to the Global Findex Database (2021) report, 78% of females in India now possess a financial account, reflecting significant growth from 43% in 2014 to 77% in 2017. The subsequent period from 2017 to 2021 witnessed a modest 1% increase in the ownership of financial accounts among females [Figure 3]. For males, 78% of them hold a financial account in India in 2021. This rate was 63% in 2014, experiencing a noteworthy rise to 83% in 2017, followed by a decline to 78% (a 5 percentage point decrease) between 2017 and 2021 [Figure 3].

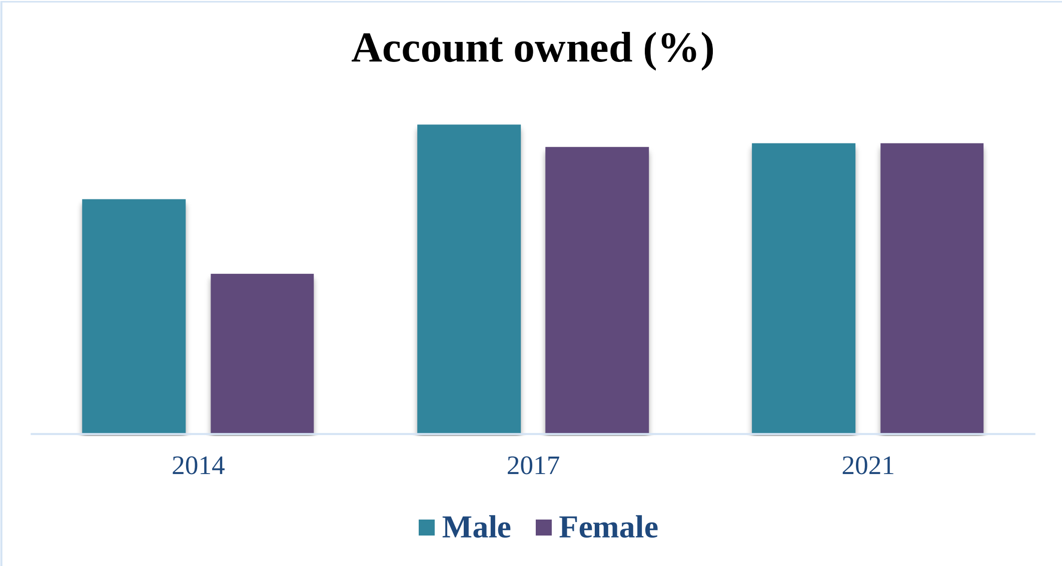


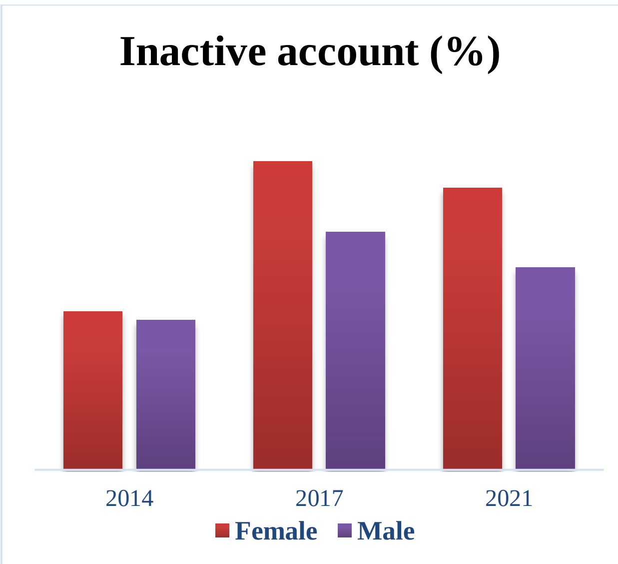
Fig. 3 Account Ownership by Male & Female

Source: Global F index Database (2021)

4.3 Inactivity of Financial Accounts among Males and Females:

As per the 2021 Global Findex Database report, within the 78 percent of financial accounts held by females in India, it was found that 32 percent of these accounts were inactive. There was a 3 percentage point reduction in inactivity from 2017 to 2021; however, there was a notable increase of 14 percentage points from the 18 percent inactivity rate recorded in 2014 to the 32 percent rate in 2021 [Figure 4]. In 2014, among the total of 43 percent of accounts owned by females, 18 percent were classified as inactive, resulting in a 25 percentage point difference (active accounts). This gap widened to 32 percent inactivity compared to the 78 percent of accounts owned by females in 2021, resulting in a 46 percentage point difference (active accounts) [Figure 5] [Table 1].

Conversely, within the 78 percent of financial accounts owned by males in India in 2021, it was observed that 23 percent of these accounts were inactive – marking a 4 percentage point decrease from 2017, but still reflecting a 6 percentage point increase from the 2014 figure [Figure 4]. In 2014, among the 63 percent of accounts owned by men, 17 percent were reported as inactive, leading to a 46 percentage point difference (active accounts). Consequently, among the 78 percent of accounts owned by males in 2021, 23 percent were reported as inactive – representing a difference of 55 percentage points (active accounts) [Figure 5] [Table 1].



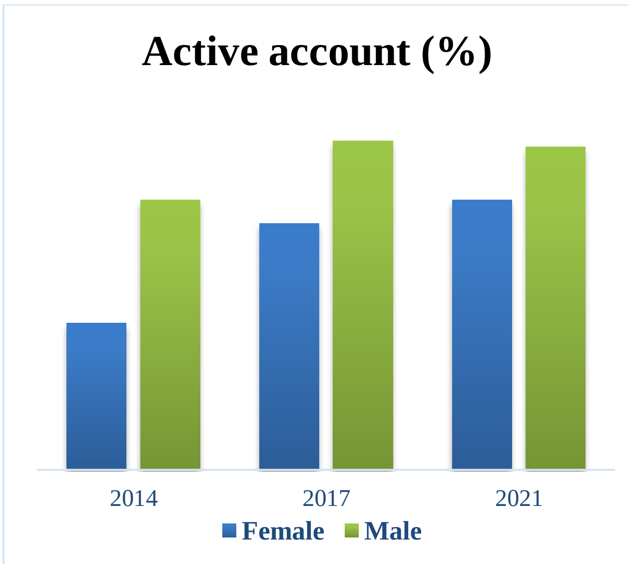


Fig. 4 Inactive Account **Fig. 5 Active Account**

Source: Global Findex Database (2021)

Table 1.Comparative study of account owned and inactive account

Year	Male		Female	
	Account owned (%)	Inactive Account (%)	Account owned (%)	Inactive Account (%)
2014	63	17	43	18
2017	83	27	77	35
2021	78	23	78	32

Findings

1. Closing Gender Gap: The gender gap in access to financial services, measured through account ownership, has significantly reduced from 20 percentage points in 2014 to zero percentage points in 2021. However, it's crucial to recognize that this closure of the gap doesn't equate to complete gender equality in financial inclusion.
2. Account Ownership and Activity: Both males and females exhibit a 78 percent account ownership rate. However, a disparity arises when analyzing active accounts, with only 46 percent of female-owned accounts considered active, compared to 55 percent for male-owned accounts. This indicates an ongoing gender gap, with males holding a 9 percentage point advantage in terms of active accounts.
3. The Global Findex Database of 2021 reports an increase in the utilization of accounts for activities such as savings, borrowing, and digital payment transactions, aligning with the expansion in the ownership of accounts.
4. Digital Payments: In 2021, 41 percent of males and 28 percent of females engaged in making or receiving digital payments, highlighting a gender gap of 13 percentage points, with males leading in digital payment usage. 5. In terms of savings behavior, there was a smaller difference observed, with 25 percent of males and 22 percent of females saving money in 2021. This signifies a gender gap of 3 percentage points, which still leans in favor of males. Furthermore, in 2021, 12 percent of females and 13 percent of males saved money in a formal financial institution, resulting in a minor gender gap of 1 percentage point, with males having a slightly higher propensity to save in such institutions.
6. Regarding borrowing habits, roughly 46 percent of females and 44 percent of males engaged in borrowing activities in 2021, resulting in a gender gap of 2 percentage points, where females had a slightly higher borrowing rate. Importantly, approximately 10 percent of females and 13 percent of males obtained loans from formal financial institutions in 2021, creating a gender gap of 3 percentage points, with males demonstrating a slightly higher propensity to borrow from these formal financial institutions.

Conclusion

The gender disparity in financial service access (account ownership) was fully eliminated, dropping from 20 percentage points in 2014 to zero in 2021, yet full gender equality remains incomplete. Gender discrepancies persist across active accounts, digital payments, savings, and borrowing, with males exhibiting higher participation rates than females. Closing these gaps necessitates focused measures. Priorities include expanding account ownership among the unbanked and promoting formal financial service utilization among existing account holders, leveraging digital platforms. Many unbanked adults receive payments in cash; transitioning them to mobile money or financial institution accounts can substantially boost account ownership.

Similarly, promoting digital payments for various transactions can further encourage financial service utilization. Embracing digital channels is vital for financial inclusion and reducing the gender gap. While progress has been significant, ongoing efforts, especially via digital solutions and inclusion initiatives, are vital to attain genuine financial equality.

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