Journal Homepage: -www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

ISSN NO. 2320-5407

Article DOI:10.21474/IJAR01/19630
DOI URL: http://dx.doi.org/10.21474/IJAR01/19630

RESEARCH ARTICLE

FINANCIAL INCLUSION OF WOMEN: BARRIERS, CHALLENGES, AND POLICY INTERVENTIONS IN INDIA

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Manuscript Info

Manuscript History
Received: 10 August 2024
Final Accepted: 14 September 2024
Published: October 2024

Key words:-
Women, Credit, Microcredit, Barriers, Policy

Abstract

Restricted access to credit creates barriers to women's economic empowerment and their ability to contribute fully to society's economic growth. Historically, Indian women have had limited opportunities to obtain formal financial services. Promoting women's control over financial resources is essential for achieving gender equality, reducing poverty, and driving economic development of the country. This study presents a data driven analysis of workforce participation, bank deposits, decision making powers, ownership of assets and access to microcredit of women in India. The paper discusses the socio cultural, economic and institutional barriers that hamper women's access to various credit sources and examines the role of various policy initiatives introduced by the government. The study concludes that despite improvements there are significant gaps in financial inclusion of women in India and more targeted efforts are required to bridge the gaps.

Introduction:-

Access to money and credit is vital for economic development and poverty alleviation. Women's access to financial services and borrowing opportunities is a crucial factor in achieving gender equality and economic empowerment in India. Despite various financial inclusion initiatives, women face significant barriers to accessing credit. For women, access to credit is linked with improved household income, better health and education outcomes and, greater autonomy and empowerment. (Hansen, 2015, Swain & Wallentin, 2017). In India, women's access to formal credit remains limited due to socio-economic, cultural, and institutional barriers.

Historically, Indian women have had limited opportuniteis to obtain formal financial services, including credit. Traditional banking institutions often viewed women as higher-risk borrowers due to their lower income levels, lack of collateral, and social norms that discouraged women from participating in economic activities. This has resulted in a significant gender gap in financial inclusion (Chavan, 2008). Despite improvements in financial inclusion, women still have lower access to credit compared to men. The Global Findex 2021 shows a 12 percentage-point difference between women account owners who had an inactive account (42 percent) and men account owners who did so (30 percent) (blogs.worldbank.org). Women's share of total bank credit remains disproportionately low (Demirgüç-Kunt et al., 2018).

The inability to access credit hampers women's economic potential. Restricted access to credit creates significant barriers to women's economic empowerment and their ability to contribute fully to society's economic growth. It

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limits their capacity to start or expand businesses, invest in education, or improve their livelihoods. Without it, women may struggle to launch entrepreneurial ventures or scale existing businesses. Women who cannot access credit may miss opportunities to increase their economic output and improve their financial independence. And when formal credit options are unavailable, women may turn to informal lenders who often charge unreasonably high interest rates. This can lead to a cycle of debt and further limit their financial growth. According to a report by the International Finance Corporation (IFC), closing the credit gap for women-owned SMEs (Small and Medium Enterprises) could add up to $1 trillion to the global economy (ifc.org). The inability to access credit also reinforces gender inequality, as it perpetuates the economic disadvantages women face compared to men. This can limit women's influence in economic decision-making and their overall empowerment. The paper discusses various barriers and challenges in empowering women with access to cash and credit in India. It presents a data- driven analysis based on findings from data sourced from the National Statistical Office (NSO) and the National Family Health Survey (NFHS) and an evaluation of policy initiatives by the government.

Empowering Women Through Credit: Insights From Data
Workforce Participation
Employment plays a significant role in determining women’s access to credit. As income generation is directly linked to creditworthiness, women’s employment status often dictates their ability to access financial services, including loans and other forms of credit. Employment data from NSO in three categories self-employed, regular wage /salaried and casual labour are examined in rural and urban spaces (figure 1). In rural areas, 71% of females are self-employed compared to 58.8% of males. Among regular wagers / salaried individuals, women in urban areas are doing marginally better with 50.8% females as compared to 47.1 % males. In rural areas however, only 8% regular wage / salaried employees are females and 14.3% are male. More women in urban areas are self-employed or regular wagers / salaried employees than men. Among casual laborers, 26.8% are male and 21% are females in rural areas. In urban areas, the percentages are 13.6 % and 8.9 % respectively. In rural areas, more women are self employed than salaried or casual laborers. Women’s labor force participation in India in both rural and urban areas, is significantly lower than men’s. This limited economic participation restricts their access to financial services like credit, as banks often favor salaried individuals or those with a higher income.

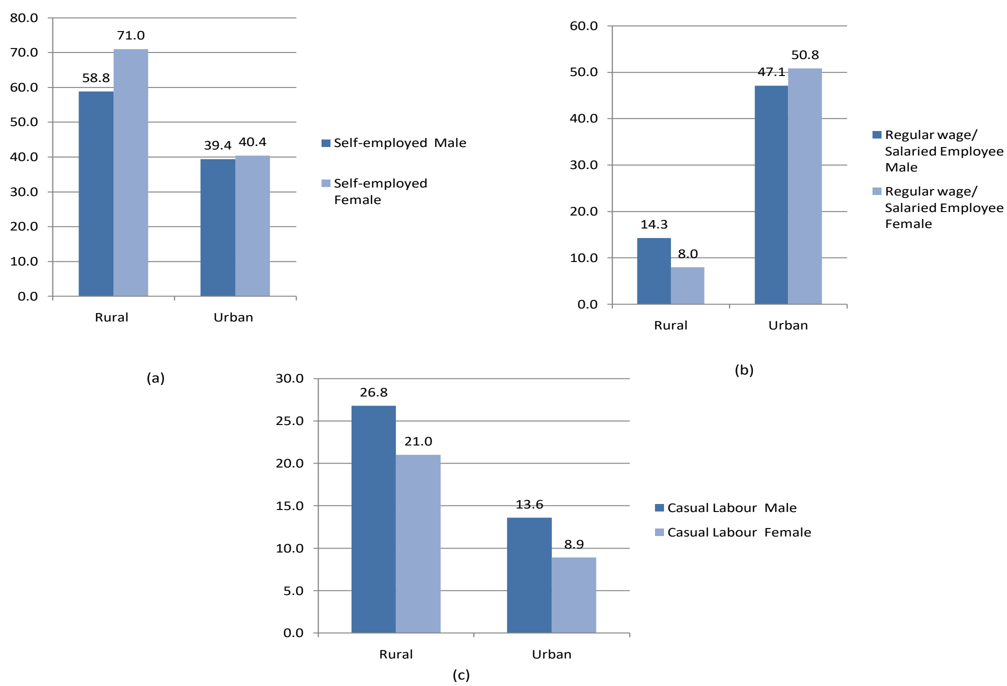


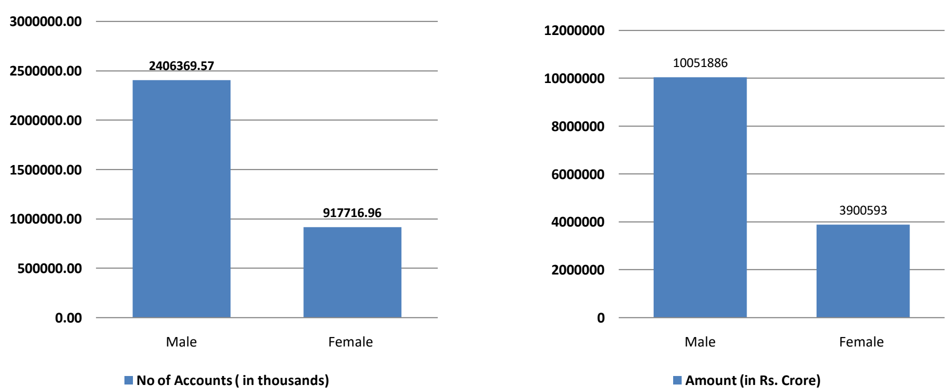
Figure 1: (a) Percentage of Self Employed individuals (Male and Female) in rural and urban areas, (b) Percentage of Regular/ Self Employed individuals (Male and Female) in rural and urban areas, (c) Percentage of Casual Laborer (Male and Female) in rural and urban areas. Source: NSO, MOSPI, Government of India

Bank Deposits

Data on deposits in scheduled commercial banks as of March 2023 from the report ‘Women and Men 2023’ published by the MOSPI, Government of India is shown in figure 2. There is a significant disparity in the number of accounts (in thousands) in scheduled commercial banks between males and females in India, with males holding 2,406,369.57 thousand and females holding 917,716.96 thousand accounts. The percentage difference between male and female bank accounts in India is approximately 61.86%, with males holding significantly more deposits than females. Data on bank deposits between males and females indicate that men hold ₹6,151,293 crore more than women, again a 61.18% higher share. The significant difference in bank accounts and deposits between males and females in India highlights persistent gender inequality in financial inclusion, economic participation and, the control and accumulation of financial assets in India.

Deposits in scheduled commercial banks (March 2023)		
	No of Accounts (in thousands)	Amount (in Rs. Crore)
Male	2406369.57	10051886
Female	917716.96	3900593

(a)



(b) (c)

Figure 2:- (a) Data showing number of accounts and deposits in scheduled commercial banks (b) Number of accounts (in thousands) (c) Amount of deposits (in Rs. Crore). Source: NSO, MOSPI, Government of India.

Decision-Making About Own Money

When women make decisions about their own money, it significantly improves their economic security, personal autonomy, and overall well-being. Achieving financial independence empowers women and also leads to better outcomes for families, communities, and societies. Having control over their finances allows women to make informed decisions about saving, investing, and managing their resources. Promoting women’s control over financial resources is essential for achieving gender equality, reducing poverty, and driving economic development. Women’s control over finances fosters more equal partnerships within households. It enables women to negotiate and have a say in major financial decisions, from investments to long-term family planning, reducing the power imbalances that often exist in households.

The National Family Health Survey (NFHS) in India provides comprehensive data on various health, social, and economic indicators, including women's access to credit. In NFHS 5 conducted during 2019- 2021, 636,699 households in India were interviewed with a response rate of 98%. Among the households, 7,24,115 women in the age group 15 to 49 years were successfully interviewed with a response rate of 97%, and 101,839 men in the age group 15 to 54 years were interviewed with a response rate of 92%. Data from NFHS-4 (conducted in 2015-16) and NFHS-5 (conducted in 2019-21) on the percentage of women who have money that they can decide how to use was analyzed to compare trends and changes in women's financial empowerment over time. Figure 3(a) presents this data across different age groups from 15 to 19 years up to 40 to 49 years. Across all the age groups there is an increasing trend in the decision making-power of women. It presents a comparison, using data from NFHS 4 and NFHS 5, indicating changes over time in the decision-making power of women. Figure 3(b) is a comparison of the percentage of women who have money that they can decide to use across the rural and urban divide. The data reflects a change in the positive direction, with the percentage of women with access to money they can use going up from 37.9 in NFHS 4 to 48.6 in rural areas and from 48.4 to 56.8 in urban areas just crossing the halfway mark. What is notable about this data is the gap between these two regions. The rural-urban gap continues with women in urban regions doing somewhat better than women in rural areas. Among women who have been widowed, divorced, separated or deserted, the percentage is higher in both NFHS 4 and 5 - 67.8% and 72.8 % respectively (figure 3(c)).

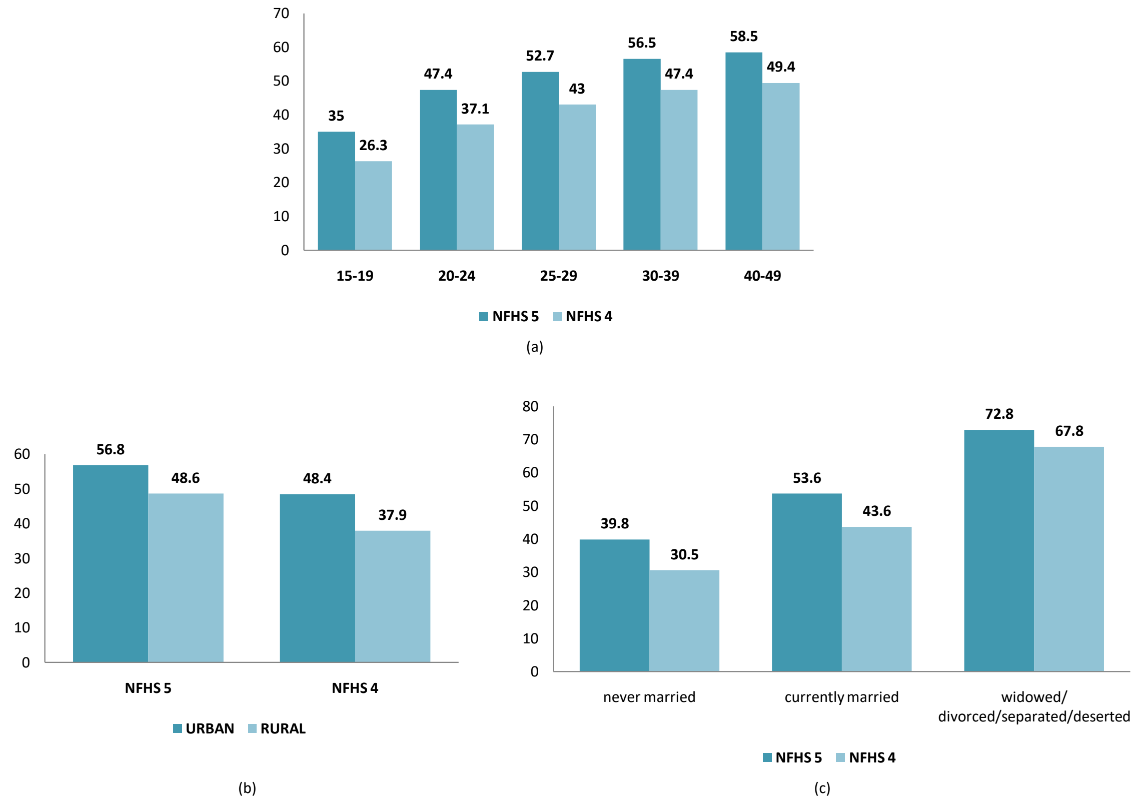


Figure 3:- Percentage of women who have money that they can decide how to use (a) Across different age groups (b) Rural vs Urban (c) by marital status. Source: NSO, MOSPI, Government of India.

Ownership of Assets

Asset ownership is crucial for women for a variety of reasons, encompassing economic, social, and psychological benefits. Assets, which can include land, property, savings, livestock, or other financial resources, play a transformative role in enhancing women's economic empowerment, social standing, and overall well-being. Women with assets are better able to cope with economic downturns, natural disasters, or personal emergencies. For example, owning land can provide food security during times of financial crisis, and having savings or property can help women recover more quickly from economic shocks. Owning income-generating assets, such as farmland or a business enables women to generate wealth independently. This can provide a stable and continuous source of income, reducing dependence on male family members or external sources for financial support. Credit allows women to acquire assets like land, machinery, or technology that can enhance productivity and income. Women who cannot access credit may miss opportunities to increase their economic output and improve their financial independence. Figure 4 presents data from NFHS 5 on house and land ownership of women and men, either alone or jointly. It may be observed that women are lagging both in ownership of land as well as houses. There exists a gap across all age groups and the gap widens significantly in the age group 40 to 49 years. In this age group 54.8% men own land as compared to 37.1% of women.

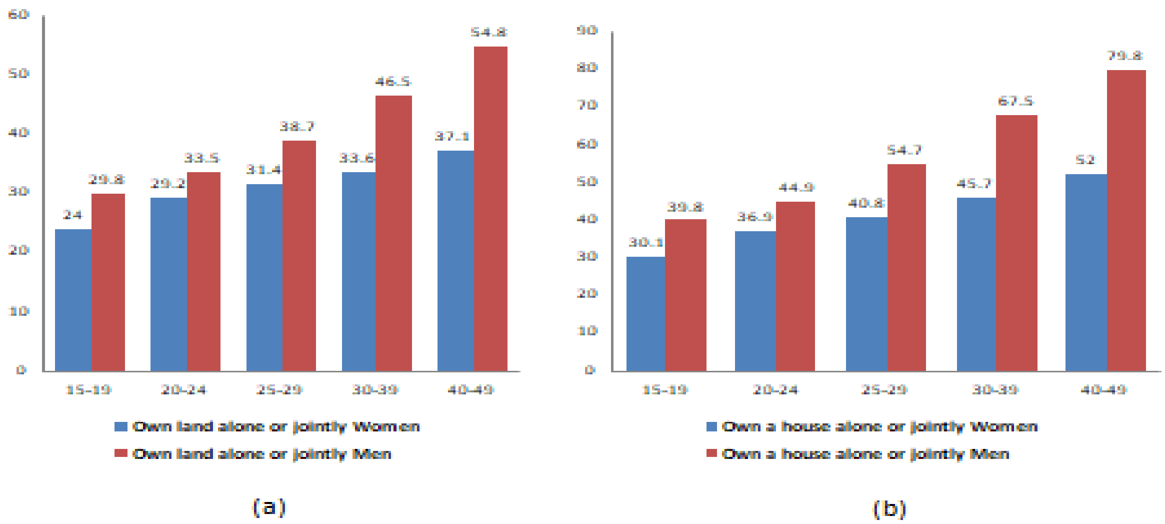


Figure 4:- Percentage of women and men (a) own land alone or jointly across age groups (b) own a house alone or jointly across age groups. Source: NFHS V, 2019-21, India Report.

Access to Microcredit

Microcredit is an essential tool for empowering women, particularly in developing countries, by providing them with access to financial resources that enable them to start and grow small businesses, improve their livelihoods, and contribute to their communities. Access to microcredit is crucial for starting and expanding businesses. Without it, women may struggle to launch entrepreneurial ventures or scale existing businesses, which limits their ability to generate income, create jobs, and contribute to economic growth. Data from NFHS 5 shows extent of awareness and utilization of microcredit by women in India (figure 5). Knowledge of micro credit among women in all age groups is prevalent and shows an increase in the higher age groups. However, the percentage of women who have availed a loan from a micro-credit program, though gradually increasing, are still significantly low across all age groups, particularly in the age group 15 to 25 years. Even though women are aware of such programs, this knowledge has not translated to women availing such credit.

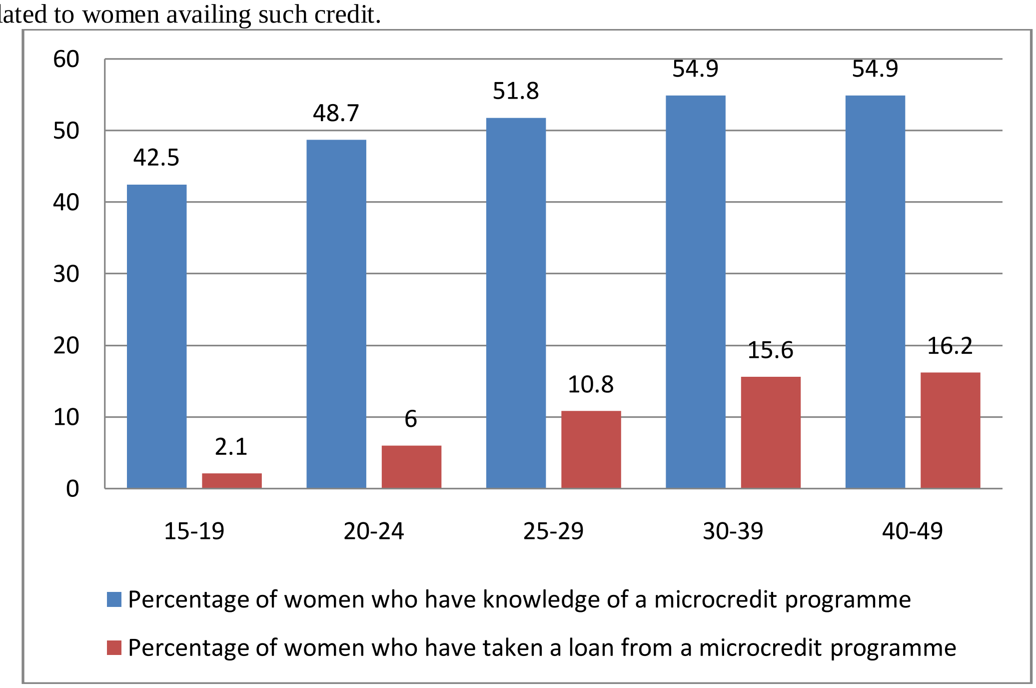


Figure 5:- Percentage of women who have knowledge of microcredit vs. Percentage of women who have taken a loan from a microcredit programme. Source: NFHS V, 2019-21, India Report.

Barriers To Women's Access To Credit

Socio-Cultural Barriers

Lower deposits held by women as evident from the NSO data could reflect the limited economic independence of women. Socio-cultural norms significantly limit women's access to credit in India and may contribute to this disparity. Patriarchal attitudes restrict women's financial independence, with many women being excluded from household and community decision-making processes. Such exclusion hampers their ability to seek and obtain credit (Agarwal, 1994). Some barriers related to the socio-cultural context that contribute to this disparity are lower labor force participation, wage gaps, limited inheritance rights in many parts of India decision-making power, access to money, and other related factors. Financial empowerment is closely tied to broader social empowerment. Women with greater financial autonomy often invest in the health, education, and overall well-being of their families. The gap in bank deposits suggests that women's limited financial resources may affect their ability to contribute effectively to the socioeconomic development of their households and communities.

Economic Barriers

Access to credit is often tied to participation in formal economic activities. Women who cannot secure credit may be excluded from key sectors of the economy, limiting their ability to contribute to and benefit from economic development. Credit allows individuals to acquire assets like land, and property that can enhance productivity and income. In India, women typically have lower income levels and limited ownership of assets such as land or property, which are often required as collateral for loans. Additionally, many women work in the informal sector, where income is irregular and less documented, complicating their ability to secure loans (Swamy, 2014). The substantial gap in bank deposits (figure 2(a)) indicates that men have greater financial resources or more opportunities to save and invest in formal banking institutions compared to women. This highlights ongoing gender inequality in financial inclusion, with women possibly facing barriers to accessing banking services or earning lower incomes.

Institutional Barriers

Microcredit is an essential tool for empowering women, particularly in developing countries, by providing them with access to financial resources that enable them to start and grow small businesses, improve their livelihoods, and contribute to their communities. Microcredit helps women to become economically self-sufficient. This economic activity not only increases their income but also contributes to the financial stability of their households (Kabeer, 2005). Access to microcredit can improve women's social status by enhancing their role in the household decision-making process and increasing their influence within their communities (Mayoux, 2001). By facilitating access to financial services, microcredit helps reduce poverty and promotes sustainable development, making it an essential component of women's empowerment strategies. Banks and financial institutions have historically been less accessible to women due to their location, operating hours, and the paperwork required. Even when women access these institutions, they often face discriminatory practices. For instance, loan officers may question a woman's ability to repay loans based on gender stereotypes, or women may be offered smaller loan amounts than men (Coleman, 2004).

Addressing the issues discussed above calls for a multi-dimensional approach that encompasses policy adjustments, awareness campaigns, and targeted financial services to ensure that women can fully participate in and benefit from economic activities.

Policy Initiatives By The Government And Challenges

Governments and international bodies are increasingly recognizing the need for policy reforms to enhance women's access to credit. This includes revising discriminatory laws, promoting gender-sensitive financial products, and implementing financial literacy programs targeted at women. The Indian government has introduced several schemes aimed at enhancing women's access to credit.

The *Pradhan Mantri Mudra Yojana* (PMMY) was launched by the Government of India in 2015. Under this scheme collateral-free loans of up to 10 lakhs are offered to micro and small enterprises, with a significant portion of these loans directed towards women entrepreneurs (Government of India, 2018). The scheme has been particularly effective in reaching out to women entrepreneurs, with several loans being granted to women-led businesses. According to a report on the impact assessment of PMMY conducted by KPMG, women entrepreneurs have always had the major share of PMMY loans. For the FY 2022, they held around 71.4 percent of the total number of accounts in their name.

Self-Help Groups (SHGs) have emerged as a grassroots financial system that enables women to access credit, and support each other's economic activities. SHGs are small, voluntary associations of people, typically comprising 10 to 20 members, who come together to save regularly and use pooled savings to provide loans to members. The *Self Help Group-Bank Linkage Programme* (SHG-BLP) facilitated by National Bank for Agriculture and Rural Development (NABARD) links SHGs with banks to enable credit access. A major portion of SHGs are women-led, and this program has been instrumental in providing them access to credit, enabling them to undertake income-generating activities. Over time, SHGs have evolved from simple savings and credit groups to multifaceted institutions engaged in various developmental activities, including health, education, and environmental conservation (Nicholas, 2021).

The rise of digital technology has opened up new opportunities for SHGs. Digital platforms are being used to facilitate savings, credit, and communication among SHG members. These platforms also provide access to financial literacy programs and market information, further empowering women economically. Digital financial inclusion in SHGs have acted as a catalyst for sustainable development by fostering financial inclusion, empowerment, and improved livelihoods. (Kadaba et.al., 2023).

The *Aadhar-Linked Direct Benefit Transfer* (DBT) is an effort by the Government of India to streamline the disbursement of government benefits directly into the bank accounts of beneficiaries. By linking bank accounts to Aadhar, DBT ensures that women receive subsidies and benefits directly, enhancing their financial autonomy and credit history. This scheme was launched by the government of India in 2016 to promote entrepreneurship among women and marginalized groups by providing loans between ₹10 lakh to ₹1 crore for setting up a greenfield enterprise. This scheme specifically targets women entrepreneurs, helping them overcome credit barriers by offering easier access to institutional finance. The integration with Aadhaar allows for precise identification of eligible beneficiaries, enabling more effective targeting of welfare schemes. DBT has proven effective in improving transparency and increasing financial inclusion. However, it also presents significant challenges, particularly in terms of technical difficulties, privacy concerns, and administrative complexities. Implementing DBT at a large scale requires coordination between various banks, government agencies, and local authorities. Managing this process can be challenging, especially in areas with weak administrative infrastructure and in rural areas with poor internet connectivity. Addressing these issues is crucial in order to harness the full potential of DBT systems.

Some banks in India have started implementing gender-sensitive practices, such as women-only branches and products specifically designed for women, like lower interest rates or reduced collateral requirements. These initiatives aim to make banking more accessible and appealing to women (RBI, 2020). A few financial institutions are adopting gender-sensitive credit scoring models that consider non-traditional data sources, such as mobile phone usage and social media activity, to assess creditworthiness. This approach helps to mitigate the bias inherent in traditional credit scoring methods that disadvantage women.

Conclusion

A notable area where women were doing significantly better than men was in the percentage of self-employed individuals in rural areas. In rural areas, formal employment opportunities are often limited, and women may face greater challenges in securing jobs due to traditional gender roles, lack of education, or gender bias in the labor market. As a result, women may turn to self-employment, such as farming, small-scale trading, or handicrafts, as a means of generating income. Self-employment allows them to work from home or nearby, aligning with cultural expectations while still contributing to household income. Another reason could be the success of SHGs in many rural areas. Rural women have greater access to microfinance institutions (MFIs) which provide small loans for self-employment activities.

Equal wages for men and women are crucial for promoting gender equality, economic justice, and social well-being. Even when women find formal employment, they are often paid less than men for similar work. For example, in India, the average wage-earning (in Rs) per day for the male casual laborer is 416 for males and 287 for females in rural areas and 515 for males and 333 for females in urban areas (Women and Men Report, 2023). Ensuring that women receive the same pay as men for equal work will help to close the gender pay gap, reduce poverty rates among women, and improve their financial independence. It also promotes fairness in the workplace, enhances overall productivity, and contributes to economic growth by maximizing the potential of the entire workforce. Furthermore, equal wages can improve family well-being, as women often invest their earnings in health, education, and community development, benefiting society as a whole.

Microcredit plays a vital role in empowering women by equipping them with the necessary financial means to achieve economic independence. There has to be an increase in awareness and access to microcredit schemes, particularly in areas where usage is low. Providing education on financial management could further empower women to utilize these resources effectively. Digital finance, which includes services like mobile banking and digital payments, provides women with greater access to financial resources and services that were previously out of reach. It can play an important role in enabling women, especially in rural areas, to access financial services remotely, eliminating the need for in-person branch visits to. It is essential to strengthen digital infrastructure in rural and semi-urban areas. This includes improving internet connectivity, promoting digital literacy, and ensuring that digital financial services are user-friendly and accessible to women (GSMA, 2019). This access will help them manage savings, make transactions, and receive payments directly, fostering greater financial independence. It can help in reducing gender disparities in financial access by providing tools that are accessible via mobile phones or the internet, which many women increasingly have access to. This can also lead to greater gender equality in economic opportunities. By addressing the socio-economic, cultural, and institutional barriers that women face, and by promoting innovative financial solutions, it is possible to empower women economically and contribute to broader economic growth. While progress has been made, there remains a significant need for targeted efforts to close the gender gap in access to credit in India.

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