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Financial Economy, Inclusion, and Marginalised Society in Jammu and Kashmir

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Abstracts

Financial inclusion is the process of making financial services accessible to all sections of society, especially those who are excluded due to poverty, lack of education, or other socio-economic factors. Inclusion is essential to achieve sustainable development and reduce poverty. However, despite significant progress in recent years, a large section of the population remains excluded from financial services. The marginalized society, which includes individuals from low-income households, women, rural areas, people with disabilities, and minority groups, faces numerous challenges in accessing financial services. This paper aims to explore the relationship between financial inclusion and the marginalized society and its impact on their lives.

Introduction

Being an agarin economy in India as per the data from the 2011 Census of India, out of the total population of 121 crores at that time, 83.3 crore people lived in the rural areas while the remaining 37.7 crore people were staying in the urban areas. Taking these data into consideration the villages and the rural areas generally lack basic facilities, infrastructure, and employment opportunities, due to which most of the rural areas are still out of the mainstream development process and also out of the financial system. Countries, which have a large portion of their population excluded from the formal financial system, have a higher poverty ratio. The financial economy and inclusion collectively work for inclusive finance, the purpose of inclusive finance is to provide equitable opportunities to every individual, including those who are marginalised, by accessing formal financial channels to get affordable and suitable services for a better life and better income. According to the new Global Findex data (2014) although the share of the population without an account has dropped by 17% points between 2011 and 2014 more than half of the population (54%) is still unbanked. And the gender gap in bank account ownership is not narrowing, remaining constant at about 7%. In fact, in 2011 47% of women accounted for 54% of men; whereas in 2014, 58% of women have an account for 65% of men. The Pradhan Mantri Jan Dhan Yojana. (PMJDY) is a national initiative aimed at ensuring that all citizens have access to essential financial services, including banking, savings accounts, credit, insurance, and pensions. The scheme allows individuals to open bank accounts with zero balance, making it easier for people to participate in the banking system. In Jammu and Kashmir, the financial inclusion indicators are notably low, with a credit-deposit ratio of 71%, which is below the national average of 75.7% as of December 2019.

Financial inclusion

The development of a country does not only refer to the development of its infrastructure, innovations, and technology but it is also related to the development of each citizen in terms of their quality of life. If the people of a country are poor, they will think only about earning their livelihood and their inclusion in the progress of the nation will be miles away. (Pant, 2015).

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit, where needed, by vulnerable groups such as weaker sections and low-income groups at an affordable cost (Rangarajan's committee). Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered responsibly and sustainably (World Bank) Financial access facilitates day-to-day living and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

Financial inclusion enables people to mobilise their funds into savings that further facilitate investment, most rural area has not availed of financial services especially the marginalised section has not much aware of the benefits of financial services and they continue in the trap of informal financial system such as money lenders etc.

Following are the reasons for the financial exclusion that the marginalised section lacks from financial services. 1. lack of financial literacy 2. low and volatile income 3. inaccessibility of banks 4. banking procedures 5. High transactions cost.

At the same time, financial inclusion is important for the following reasons. 1. For providing credit with safety 2. For instil the habit of saving in the marginalised section 3. Mobilisation of funds 4. Important for investment purposes 5. Create a bridge between saver and investor 6. Beneficial for DBT schemes 7. Finally, it promotes not only economic growth but also social growth

Status of the marginalised section in financial inclusion

Financial Inclusion is important to bring the financially excluded marginalised sections under the circle of financial services and avail banking facilities such as basic bank accounts, debit cards, loan facilities etc. Financial Exclusion is the nonavailability of financial services and banking for poor people. “Financial Exclusion is a phenomenon that often affects a significant minority of predominantly vulnerable and otherwise disadvantaged people, such as single parents, social tenants, the long-term unemployed, members of some minority ethnic communities and those living on persistent low incomes” (Kempson and Whyley).

The financially excluded sectors in India consist largely of marginal farmers, landless labourers, self-employed small vendors (hawkers), unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities, senior citizens, and women. About 36 % of the Indian population lives on less than $1 per day. Most of this population lives in the states of Bihar, Madhya Pradesh, Rajasthan, Chhattisgarh, Jharkhand, Uttaranchal, and Uttar Pradesh, which are collectively known by the acronym BIMARU. According to the Summary Recommendations of the Committee on Financial Inclusion, 51.4 % of the farming households in India are financially excluded from both formal and informal sources of credit, and only 27 % of total farming households have access to formal sources of credit. The situation is worse in the Central, Eastern and North-eastern regions where 64 % of farmer households are financially excluded. (NABARD report 2008).

Financial inclusion in Jammu and Kashmir (J&K) plays a crucial role in empowering marginalized communities and fostering economic development. Despite various initiatives, significant barriers remain, including limited access to financial services and low financial literacy. The following sections outline key aspects of financial inclusion in J&K.

Impact on Economic Development

- Financial inclusion directly influences economic development by enhancing social and economic empowerment among marginalized groups (Lal, 2021).
- Initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) have increased account openings, yet many accounts remain dormant, indicating underutilization of financial services (Poswal & Siddiqui, 2022).

Role of Local Institutions

- Khidmat Centres, established by Jammu and Kashmir Bank, aim to bridge the gap for unbanked populations, with over 12 lakh accounts opened(Siddiqui & Jan, 2015).
- The Indian Post has also emerged as a significant player, providing accessible financial services to rural communities, thereby reducing socio-economic disparities(Andotra & Manhas, 2017).
- Barriers such as illiteracy, lack of awareness, and institutional biases hinder effective financial inclusion(Lal, 2021)(Khuan, 2024).
- Enhanced financial literacy programs and inclusive policy frameworks are essential for maximizing the benefits of financial inclusion(Poswal & Siddiqui, 2022)(Khuan, 2024).

Conversely, while financial inclusion initiatives are vital, they may inadvertently reinforce existing inequalities if not implemented with a focus on education and empowerment, highlighting the need for a holistic approach to economic development in J&K.

Access to finance is an important macroeconomic requirement for economic growth as it leads to higher investment and income, empowers households and frees them from poverty circles (Solo 2008). A survey conducted by the RBI in India (All India Rural Credit Survey-1947) revealed that the financial inclusion of rural marginalised people was dependent on informal sources and that the money lenders met more than 90 per cent of the rural credit needs. (Jayasheela et al 2008).

Thousands of low-income marginalised groups (small farmers, tribe castes, women, street hawkers) earn their livelihood through agriculture and its ailed activities without taking any type of credit from the financial system. They are locally depending upon moneylenders for short-term credit and the interest rate is normally higher than the interest rate of banks.

According to reports by NABARD, by March 2021, the savings of nearly 70 lakh SHGs (7.5 crore families) out of 112.23 lakh SHGs, touched an all-time high of Rs 37,478 crore and the banks have disbursed loans of Rs 58,071 crore. However, the fact remains that more than 50 per cent SHGs are still not credit linked, which points out that real financial inclusion still eludes half of the target groups.

Literature review

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There are 203 million households in India, out of which 147 million are in rural areas. This huge chunk of the population has access to only three types of financial products, simple credit facilities, basic saving accounts or a fixed deposit, and insurance. Only 48% of India's population has access to these elementary financial services compared to 59% in Sri Lanka, 60% in Malaysia and 63% in Korea. The poorest group spends the highest proportion of income on food (60% -90%). Any drop in earnings or additional expenditure (health or funeral cost) has immediate consequences on family welfare (RBI).

Informal sector (not regulated by the banking sector) - this includes moneylenders, rotating or accumulating savings and credit associations. Semi-formal institutions - not regulated by banks but licensed and supervised by another govt. agencies such as self-help groups (SHG), and NGOs involved in the provision of financial services. Formal Institution - subject to banking regulations and supervision, such as banks and microfinance. Amongst all the sectors the informal segment rules the rural market with a share of $82 billion. Moneylenders are said to control a third of all rural loans. Annual credit demand is about 1,50,000 crores but the demand of only 4000 crores is met. Despite having such a huge market why are the private and foreign banks still reluctant to tap it? Banerjee and Newman (1993) have noted that access to finance is an important factor that enables people to exit poverty.

Binswanger and Khandker (1995) have reported that the Indian rural expansion programme significantly reduced rural poverty and increased non-agricultural employment.

Bell and Rousseau (2001) have also established that financial intermediaries have influenced India's economic performance.

Beck et al. (2009) observed that a well-developed financial system, which is accessible to all, reduces information and transaction costs, enhances savings rates, encourages investment, and promotes technological innovations and long-term growth.

According to the World Bank's Global Findex Database (2013) report, worldwide, 50% of adults report having an individual or joint account in a formal financial institution (a bank, credit union, cooperative, post office or microfinance institution). But while account penetration is almost universal in high-income countries, with 89% of adults reporting that they have an account in a formal financial institution, the corresponding figure for developing countries is only 41%. Globally, more than 2.5 billion adults, mainly in developing economies, do not have a formal account. The differences in account ownership by gender are particularly large in developing countries: while 46% of men have a formal account, only 37% of women do.

Methodology

Funds flow to the priority sectors, especially when it comes to marginalised sections of society, cannot be assessed as there is no direct association or credit linkage between the marginalised sections of society and the Government. It can only be done by banks constituted to be the link between any such Government schemes and the marginalised people. It is here that financial inclusion assumes significance and is required for the upliftment of the poor, development of the rural areas and nation-building. This study was taken up to find out the barriers to the full realisation of the potential of the schemes and the impact of the said schemes in the empowerment and upliftment of these marginalised sections of society.

This study is mainly using secondary data from various government schemes on financial inclusion and poverty alleviation, the conclusion is mainly drawn from NABARD All India Rural Financial Inclusion Survey 2016-17. NAFIS primarily covered rural and semi-urban areas across 29 states of the country. The centres having a population of less than 50,000 (Tier III to Tier VI centres as per RBI classification) were included in the sample. The survey was conducted between January 2017 to June 2017. Another major component of NAFIS was collecting individual-level details regarding financial knowledge, attitude and behaviour, and their experience of availing financial services.

Secondly, Pradhan Mantri Jan-Dhan Yojana (PMJDY) scheme was used for checking the status of financial inclusion. Pradhan Mantri Jan-Dhan Yojana (PMJDY), launched by the Indian Prime Minister, is a step ahead for strengthening financial inclusion practices in the country. PMJDY is a national mission for financial inclusion to ensure access to financial services, namely, banking/savings and deposit accounts, remittance, credit, insurance, pension, etc. in an affordable manner. PMJDY is an ambitious program with a target of covering 7.5 crore unbanked households in the country by January 26, 2015. It was launched on August 28, 2014.

Objectives

1. Status of financial inclusion among marginalised section.
2. Impact of PMJDY on financial inclusion particularly in marginalised sections.

Findings

- The PMJDY scheme has successfully opened a total of 25,66,678 bank accounts in Jammu & Kashmir by December 31, 2020, showing significant growth since its inception in 2014.
- As of September 30, 2021, approximately 13.77% of these accounts were still inactive, indicating that many account holders do not utilize their accounts regularly.
- The distribution of RuPay debit cards has been relatively low, with only about 66% of account holders having received a debit card by September 30, 2021.
- A significant issue is the high number of zero-balance accounts, with 50.87% of accounts being inactive as of September 30, 2015, which raises concerns about the effectiveness of the scheme in promoting active financial participation.
- The paper highlights that over 68% of PMJDY accounts in Jammu & Kashmir were opened by private sector banks, which is unique compared to other regions where public sector banks dominate.
- Overall, while the scheme has made strides in account opening, there are still challenges related to account usage, debit card distribution, and financial literacy that need to be addressed for better outcomes.
- The Pradhan Mantri Jan Dhan Yojana (PMJDY) has successfully opened a significant number of bank accounts, particularly in Jammu & Kashmir, where private sector banks play a leading role, unlike in other regions of India where public sector banks dominate.
- Despite the success in account opening, there is a notable gap between the targets set for the scheme and the actual achievements, indicating that merely opening accounts does not fulfill the broader goal of financial inclusion.
- A considerable percentage of accounts remain inactive, with around 14% of PMJDY accounts in Jammu & Kashmir having zero balances, which suggests that many beneficiaries are not utilizing the financial services available to them.
- The distribution of RuPay debit cards has not been effectively managed, with about 34% of account holders still not linked to this facility, highlighting a need for improvement in this area.
- To enhance the effectiveness of PMJDY, there is a pressing need to focus on financial literacy programs, especially in rural areas, to encourage saving habits and better usage of financial services.
- The Economic Survey 2013-14, there are 24.21 lakh individuals below the poverty line in Jammu and Kashmir, indicating a significant need for financial inclusion.

- The Jammu and Kashmir Bank Ltd. initiated the establishment of Khidmat Centres to facilitate financial inclusion, with 697 centres operational across 2,572 villages, leading to the opening of 12.18 lakh accounts.
- Despite these efforts, the analysis reveals that the services and products offered by the Khidmat Centres have not been fully utilized or provided to the target population.
- The primary survey conducted as part of the case study indicates that there is still a considerable gap in achieving the goals of financial inclusion for the unbanked and under-banked populations.
- Overall, the findings suggest that while the Khidmat Centres are a step towards financial inclusion, there is a long way to go before they can effectively serve the needs of the financially excluded individuals in the region.

Conclusions

- The establishment of Khidmat Centres by Jammu and Kashmir Bank Ltd. is a significant initiative aimed at promoting financial inclusion among the unbanked and under-banked populations in Jammu and Kashmir.
- Despite the operational success of 697 centres and the opening of over 12 lakh accounts, the study concludes that the full range of services and products has not been effectively delivered to the target audience.
- The primary survey indicates that many individuals still lack access to essential financial services, highlighting a gap between the intended goals of financial inclusion and the actual outcomes.
- The findings suggest that while the Khidmat Centres represent progress, there is a need for further efforts and improvements to ensure that the financial inclusion plan is successful in reaching all segments of the population.
- Overall, the study emphasizes that achieving financial inclusion is a complex challenge that requires ongoing commitment and strategic enhancements to the services provided by Khidmat Centres.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) aims to provide banking facilities to all households in India, promoting financial inclusion and encouraging savings among the population

Despite the awareness, there are still challenges in achieving full financial inclusion, especially in rural areas where banking services are limited.

The government is encouraged to involve private banks in the PMJDY initiative to reach more unbanked households and individuals.

Financial literacy programs are essential to educate people about the benefits of using banking services, such as the use of RuPay cards and the advantages of having a bank account.

Overall, the successful implementation of PMJDY can enhance the social status of account holders and contribute to economic growth through increased savings and financial participation.

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