A Study on the Sustainable Financial Inclusion in Selected SAARC Countries: A Gender-based Perspective

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Abstract

Financial inclusion (FI) plays a vital role in improving socio-economic conditions of households. Despite of the penetration of the FI worldwide, inequality and inequity still persists, particularly in lower income countries like South Asian Association for Regional Cooperation (SAARC). In order to enhance the participation of women, there is a critical need to examine the trend in awareness of FI gender-wise and to understand the initiatives taken by regulators in SAARC countries. Secondary data is used to measure the significant difference in the level of FI among elected SAARC nations using descriptive analytics. The results reveals gender inequality in digital payment and increasing trend in borrowing from non-financial institution. The policy implications are further suggested in line with the Sustainable Development Goals (SDGs).

Keywords: Financial Inclusion; SAARC countries; Gender; Digitalization; Discrimination; Economic Development; SDGs; Sustainability

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1. Introduction

Financial inclusion is a tool to eradicate income and gender inequality. It is prerequisite to poverty alleviation which enables economies to grow faster by overcoming loss of employment, financial stress and economic stress (Beck, Demirguc Kunt, & Levine, 2007; Ghosh and Vinod, 2017). Many of the nations have adopted FI as a goal for sustainable economic growth and inclusive social development of the developed and developing economies (Zuleika, 2010; Anand and Chhikara, 2013; Sahay et al., 2015; Van et al., 2019). According to United Nations Development Program, financial inclusion is considered to be one of the targets as part of United Nations' 17 sustainable development goals (SDGs); which also ensures technical and financial access to 1 billion people by 2020 (United Nations, 2014; UNDP, 2015; World Bank, 2018; Singh and Stakic, 2020).

As highlighted by the researchers, FI not only impact the economic lives of the women but also help them in improving the standards of living (Ellis, Lemma, & Rud, 2010; Swamy, 2014). More specifically, women are less likely to own an account as compared to men as per the study conducted World Bank (Demirguc Kunt et al., 2018). In addition to that, the gap of owning an account between men and women is about 30%, particularly in India, Bangladesh and Pakistan according to Global Findex Database (Global Findex Database, 2017). It is imperative to understand and study the gender inequality in terms of financial inclusion which is a critical research need (Mulligan and Sala-i-Martin, 2000). Therefore, the study establishes the assessment of the awareness of FI gender-wise and to understand the initiatives taken by regulators, particularly in SAARC countries; wherein there is a lot of scope to improve the FI indicators.

The remainder of the paper is structured as follows. Section 2 presents the literature review. In section 3, study methodology and data analysis are presented, section 4 outlines the findings and discussion. Section 5 highlights the policy implications followed by conclusion and scope of future study in section 6.

2. Literature Review

2.1 Current State of Studies in Financial Inclusion

Financial inclusion is playing a crucial role in empowering the vulnerable class of the society by providing access to financial services. It helps to create job opportunities by providing credits to small medium enterprises (SMEs) which helps in improving socio-economic conditions for the poor class of the society. Poteat et al. (2021) found that microfinance intervention has improved financial literacy and gave non-estimatizing employment for economically vulnerable class. Eton et al. (2021) have showed significant association between level of financial inclusion and the growth of SMEs. Emara & El Said (2021) found that financial inclusion improves GDP per capita growth. Singh & Ghosh (2021) have studied financial inclusion and economic growth during demonetization period in India. Their study found that increase in banking transaction improves economic growth. They found that only accessibility to saving account do not improve economic growth unless bank accounts are frequently used for transaction. Sharma (2016) examined a positive relationship between economic growth and dimensions of financial inclusion particularly availability and usage of banking services. Demirgüç-Kunt & Klapper (2012) have studied the use of financial services by small and medium enterprises in Africa. Thus, access to finance is major problem in Africa as compared to developing countries. Hence, there is a need of financial inclusion to provide financial access to MSMEs in Africa. Honohan (2004) showed that given a level of per capita income, it is a higher penetration of mobile phones and good institutional governance increases access to financial services. Hasan & Hoque (2021) revealed significant association between financial literacy and usage of financial services. In addition, other variables such as level of income, knowledge of money withdrawing & deposit and profession also improve accessibility of financial services. The earlier research has revealed that usage of technology, internet and mobile banking improved the level of financial inclusion particularly in the branchless areas. Survase (2019) found that usage of internet banking and digital transaction increased significantly after demonetization 2016 in India. Coulibaly (2021) has studied factor affecting the mobile banking in to West African Economic Monetary Union (WAEMU) and African. The study mentioned that financial illiteracy many be the reason for low mobile penetration in WAEMU. Further, it is showed that same factors are affecting to mobile banking in AWEMU & African. Chamboko (2021) examined gender-wise preferences of bank agent in banking at Democratic Republic of Congo. The study discovered that the female clients preferred female bank agent particularly when they are making higher transaction and bank account. Similarly, Sawadogo & Semedo (2021) analyzed the impact of financial inclusion on income inequality in 28 sub-Saharan

African countries and found that the financial inclusion is high in the countries where high institutional quality is more that has helped in reducing inequality. Survase & Inumula (2019) showed strong association between financial inclusion and socio-economic conditions of the rural households in India. Hannig & Jansen (2010) discovered that financial inclusion helps to manage vulnerability of financial crisis, reduces poverty, and improves economic growth.

2.2 Financial Inclusion in SAARC Countries

SAARC nations have various hurdles in accessing financial services. However, mobile banking and internet banking have helped in providing financial services in the branchless arears. Rentala et al. (2016) have found the association of demographic bank branch, Teller Machines (ATMs), mobile accounts, and mobile money transactions with financial inclusion in SAARC countries. The study found significant association of bank branch, ATMs, mobile bank accounts with deposit accounts and number of depositors in the commercial banks. Sri Lanka ranks on top position in financial inclusion in the using these financial services. Lenka & Barik (2018) showed positive association between growth of mobile and use of internet with financial inclusion. In addition, the study revealed positive association of income and education with financial inclusion, whereas, unemployment and size of population have negative association with financial inclusion.

The earlier studies showed positive association between financial inclusion and economic growth of the SAARC countries. Kumar & Mohanty (2011) revealed that enforcement mechanisms of financial inclusion are below the requirement in SAARC countries. Though, microfinance plays crucial role in financial inclusion, high interest rate has increased debt burden of the households. Singh & Stakic (2021) revealed that financial inclusion improves the economic growth. Siddiqui & Siddiqui (2019) have examined the impact of gender, income, education on ownership of the bank account in SAARC countries using Findex report 2017. In contrast, Sehrawat & Giri (2016) have studied financial development, rural-urban income inequality and economic growth of SAARC nations. Their study revealed that financial development widens the rural-urban inequality. Lenka & Bairwa (2016) studied the financial inclusion and the monetary policy of the SAARC countries and revealed that interest rate, exchange rate and financial inclusion have inverse correlation with inflation in these countries.

Many studies have conducted a comparative analysis of financial inclusion of SAARC countries. Ahmad & Sehgal (2018) analyzed the credit-growth spillover effect in SAARC countries. The study found India as a major driver of financial integration and economic growth followed by Bangladesh and Pakistan. Similarly, Ravikumar (2020) found that Maldives ranked on top in penetration of demographic ATM and geographic bank brank, whereas, Sri Lanka performed well in population per branch and demographic penetration of branch as compared to Maldives. Bhutan has performed well in branch penetration but lacks in ATM penetration, whereas, India rank on the average position in all the parameters of financial access. Afghanistan has scored in all the parameters in SAARC countries. Laha & Sen (2021) have conducted the cross-country variations in the quality of life and financial inclusion in SAARC countries.

3. Study Methodology and Data Analysis

The study is based on secondary data which is collected from World Findex report (World Bank, 2017), Government departments, research papers and articles. The study has considered India, Afghanistan, Bangladesh and Nepal only as data of other SAARC countries was not available. The data is analyzed with the help of descriptive statistics and the results are presented in the subsequent sections.

3.1 Bank Accounts

Figure 1 shows that there is an increasing trend in opening bank accounts in all the nations since 2011 to 2017. However, an improvement in bank account were less in Nepal and Afghanistan in 2014. There is a significant improvement by 45 percent in opening bank accounts in India since 2011 to 2017 followed by Bangladesh and Nepal.

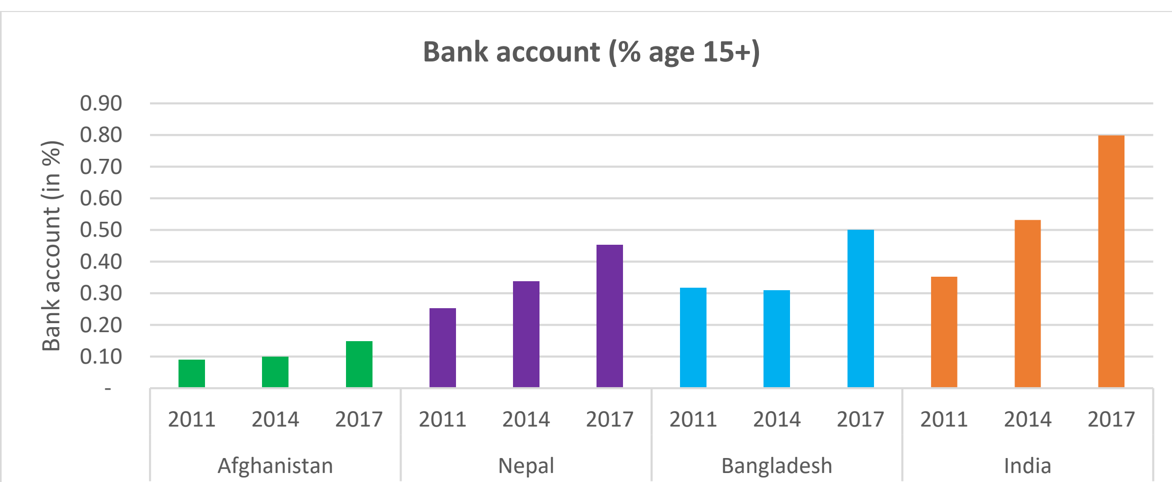


Figure 1. **Bank accounts (in percentage age 15+)**

Figure 2 present gender-wise inequality in having bank accounts which is high in Afghanistan, Bangladesh and India than Nepal. This gap has further increased for Bangladesh in 2017. However, India shows an improvement in reducing the gap in the year 2017.

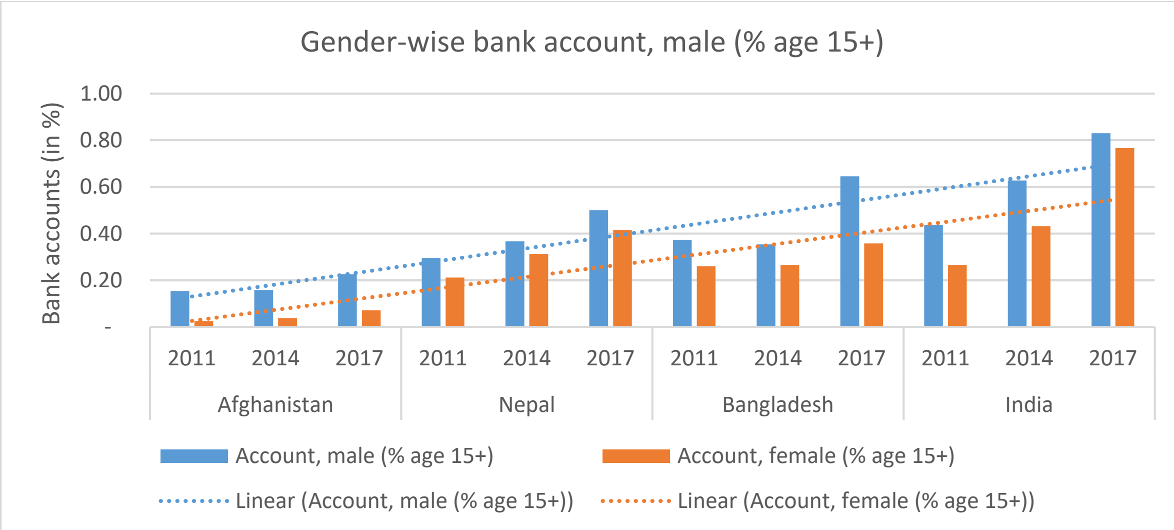


Figure 2. Gender-wise bank accounts (in % age 15+)

3.2 Financial Institution Accounts

Financial institutional accounts play an important role in enhancing financial inclusion by providing accessibility to credit and safe place to save the surplus income. Figure 3 depicts increasing trend in financial institution bank accounts since 2011 to 2017 in all the countries. India ranks on first position followed by Bangladesh, Nepal and Afghanistan. Male has more accounts than the female in financial institution. This inequality is more in India, followed by Afghanistan, Bangladesh and Nepal However, India shows an improvement in opening more female accounts in 2017, whereas gender inequality in opening bank accounts financial institutions is increasing in other nations

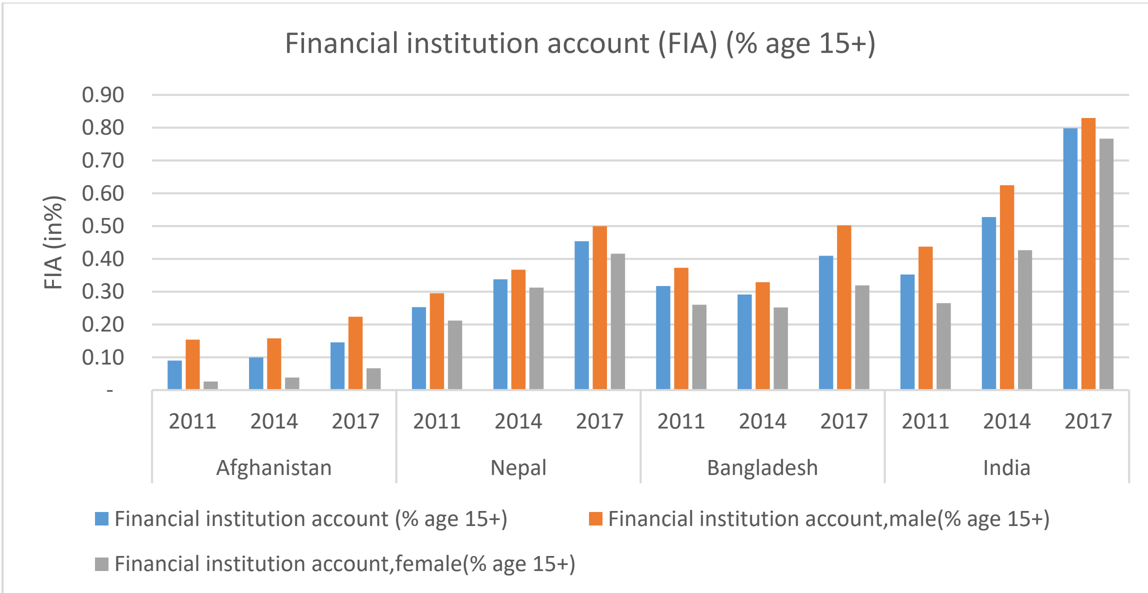


Figure 3. Financial Institution bank accounts (in % age 15+)

Figure 4 depicts an increase in use of internet to pay bills or buy something online in all the nations except Afghanistan. The usage of internet is more in India followed by Bangladesh and Nepal.

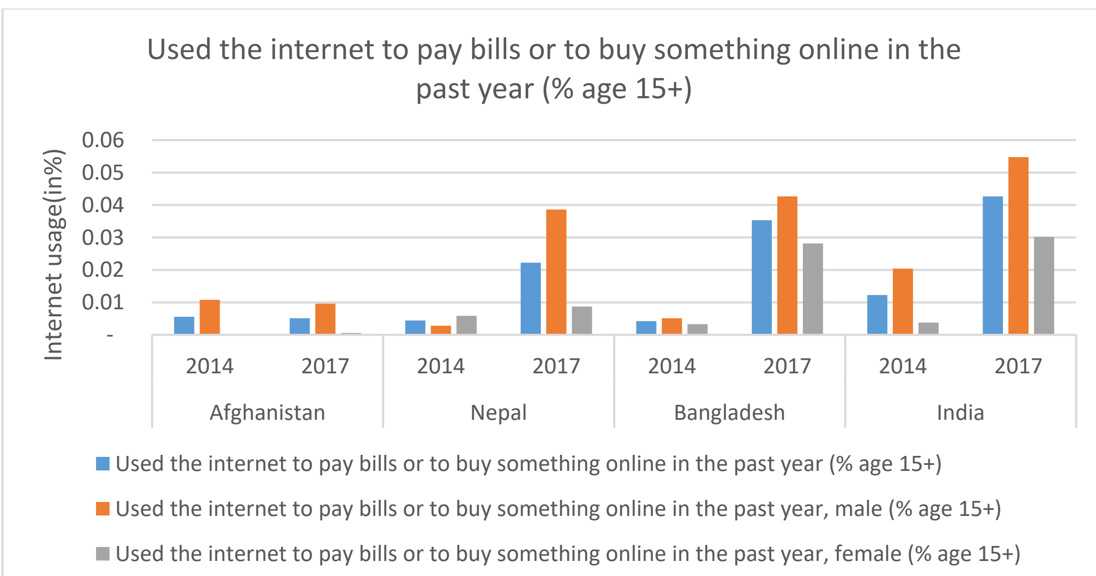


Figure 4. Usage of internet to pay bills or buy something online in past year (in % age 15+)

Figure 5 exhibits that the ownership of debit cards has increasing from 8 to 33 percent in India since 2011 to 2017 respectively. However, the ownership of debit cards is less than 10 percent in other nations.

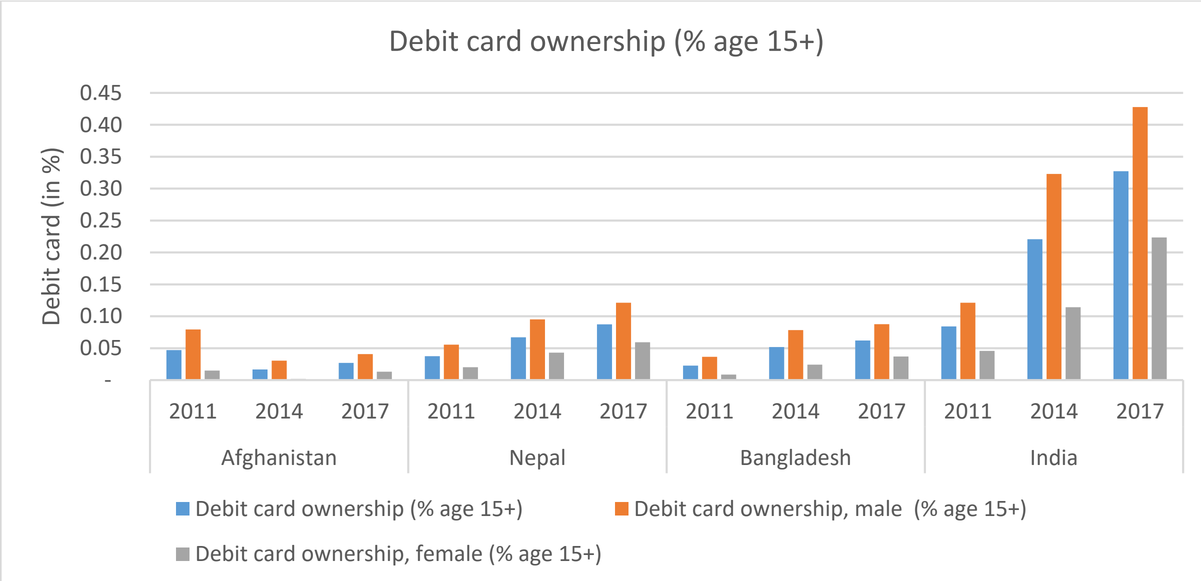


Figure 5. Debit card ownership (in % age 15+)

Figure 6 indicates decreasing trend in borrowing from financial institution in all the nations except Nepal.

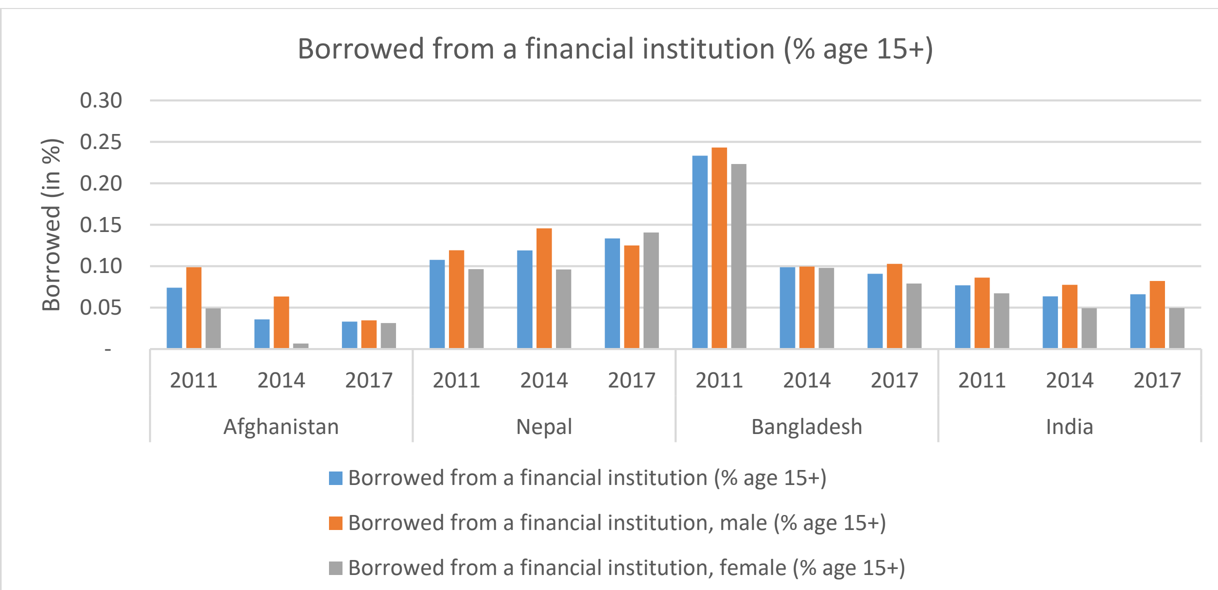


Figure 6. Borrowed from a financial institution (in % age 15+)

Figure 7 shows increasing trend in borrowing from family or friends in all the nations. More than 50, 30, 20, 18 percent people borrow from family/friends in Nepal, India, Afghanistan and Bangladesh respectively.

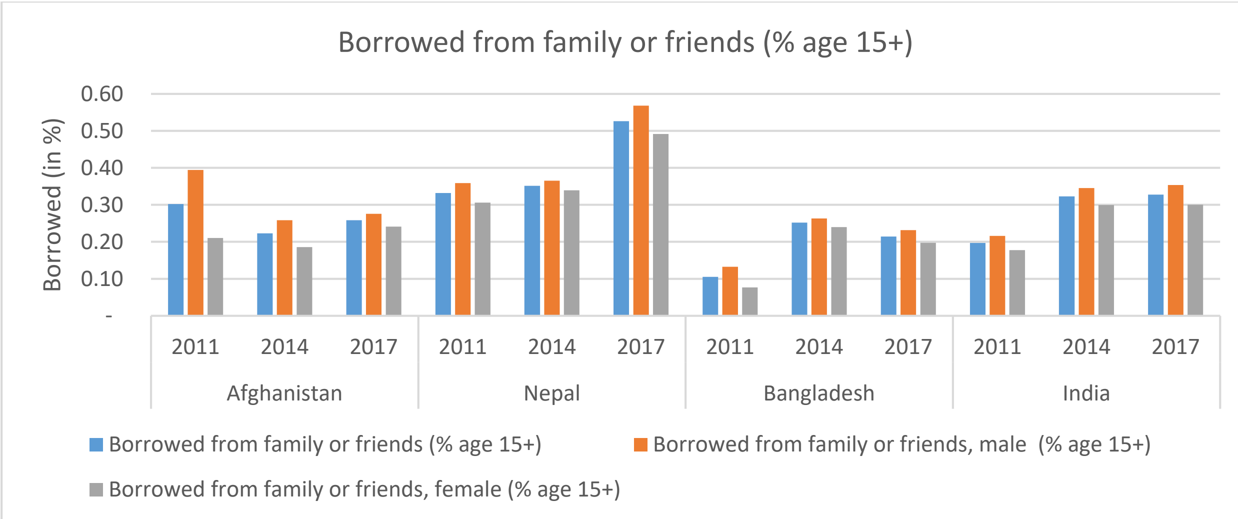
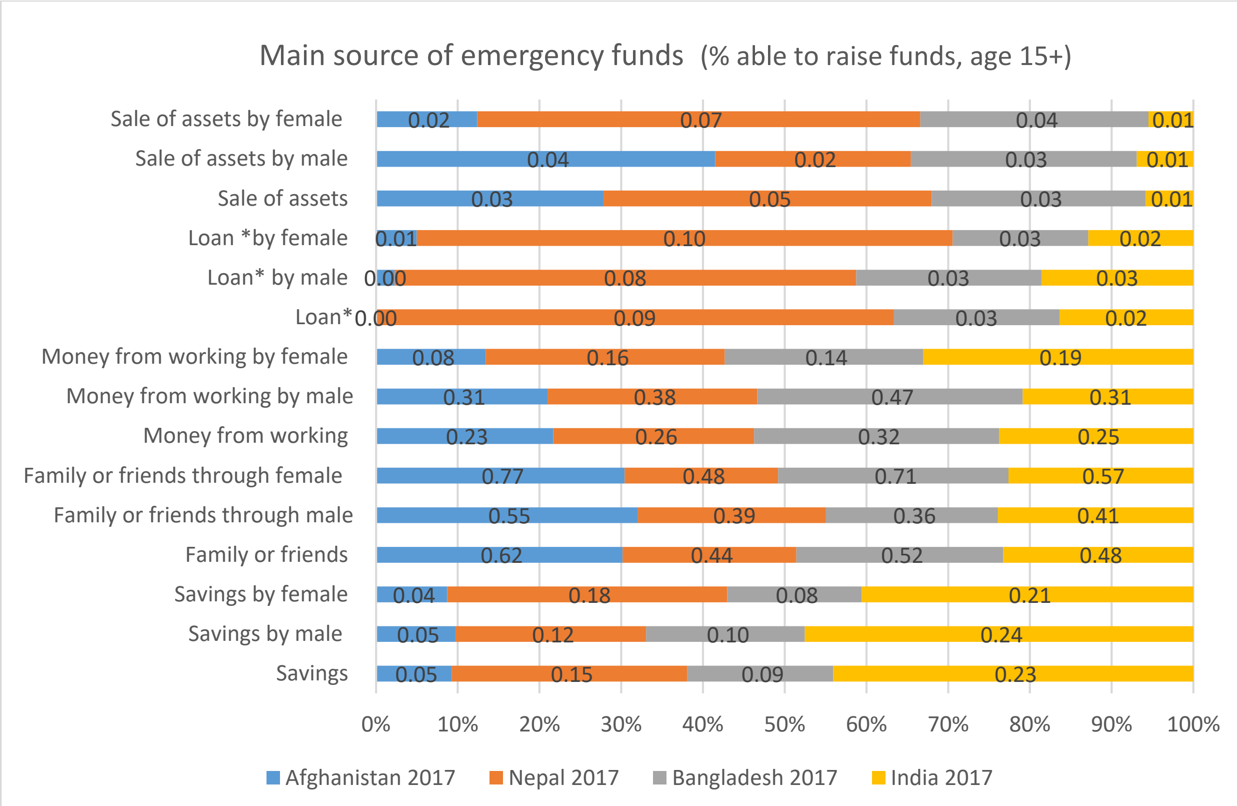


Figure 7. Borrowed from family or friends (% age 15+)

Figure 8 depicts that saving as a source for emergency fund is more in India and Nepal as compared to Bangladesh and Afghanistan in 2017. Whereas, borrowing from family and friends is more in Afghanistan and Bangladesh as compared Nepal and India. Female borrows more than male from their family or friends in all the selected countries. Provision of money at work place for emergency fund is more in Bangladeshi females as compared to other countries. Loan from bank, employer and private lender is considered more in Nepal as compared to other countries, whereas it is almost less than one percent in Afghanistan. Female take more loan in Nepal as compared to male during emergency. Less than 6 percent people feel that sale of assets is a source of emergency fund. Female consider it more than male in Nepal and Bangladesh. Only 1 percent Indians consider it as source of emergency fund.



*Loan from bank, employer & private lender

Figure 8. Main source of emergency funds (% able to raise funds, age 15+)

Figure 9 indicates that 22 percent customers use mobile or internet to access an account more in Bangladesh. Male are more user of it than female. However, the user are less than 5 percent in other nations.

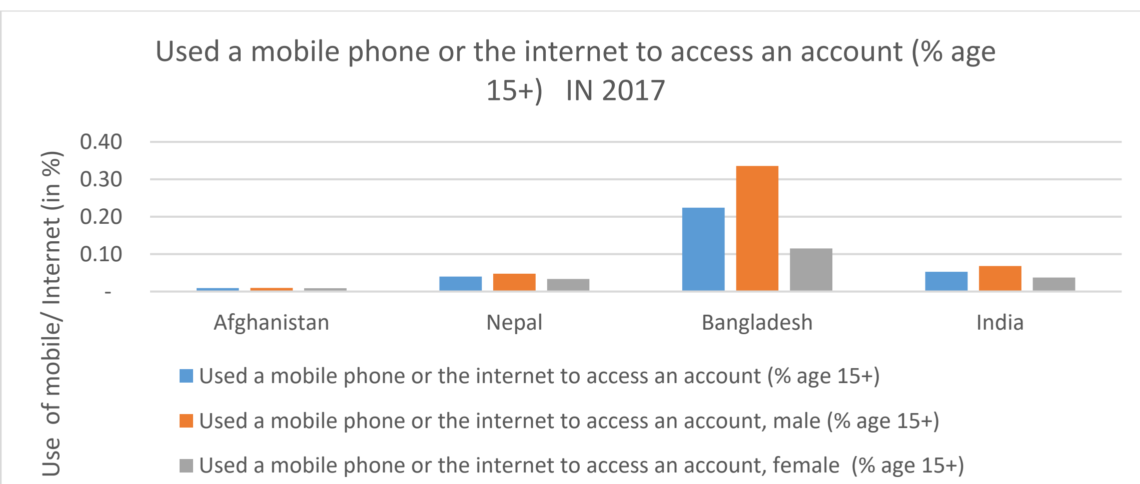


Figure 9. Used a mobile phone or the internet to access an account (% age 15+)

As presented in Figure 10, it is seen that credit card ownerships are more in India as compare to other nations. It has marginally decrease in 2017 from 2014. However, gap in the ownership of credit cards between male and female has decrease in India 2017 comparatively.

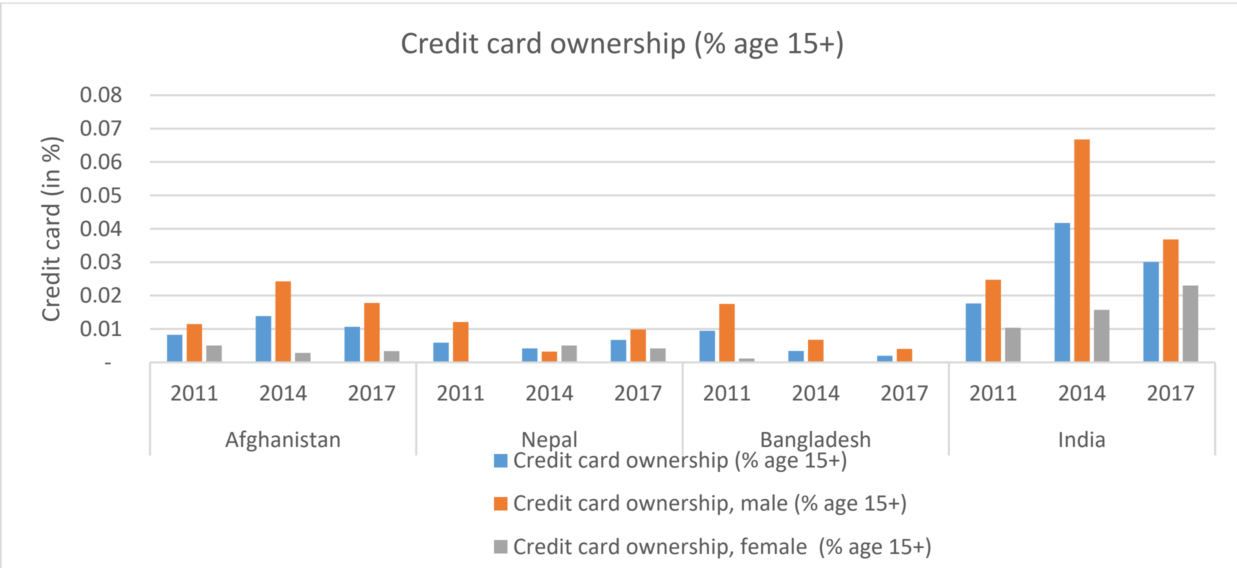


Figure 10. Credit card ownership (% age 15+)

Figure 11 shows that digital payments have increased significantly in Bangladesh followed by India in 2017. Around 30 percent digital transaction is done in these two countries and less than 15 percent in other countries.

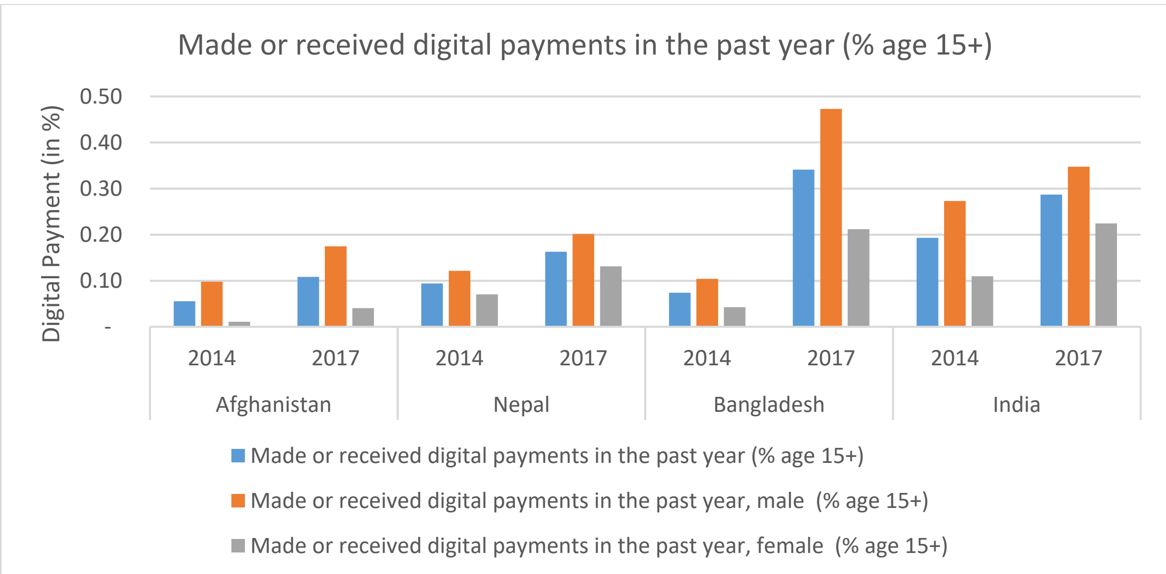


Figure 11. Made or received digital payments in the past year (% age 15+)

The analysis indicated that less than 2 percent people have mobile bank account in India, Nepal and Afghanistan in 2017. However, mobile banking has improved drastically in Bangladesh from 3 to 22 percent since 2014 to 2017. Female has less mobile banking than male in these countries as presented in Figure 12.

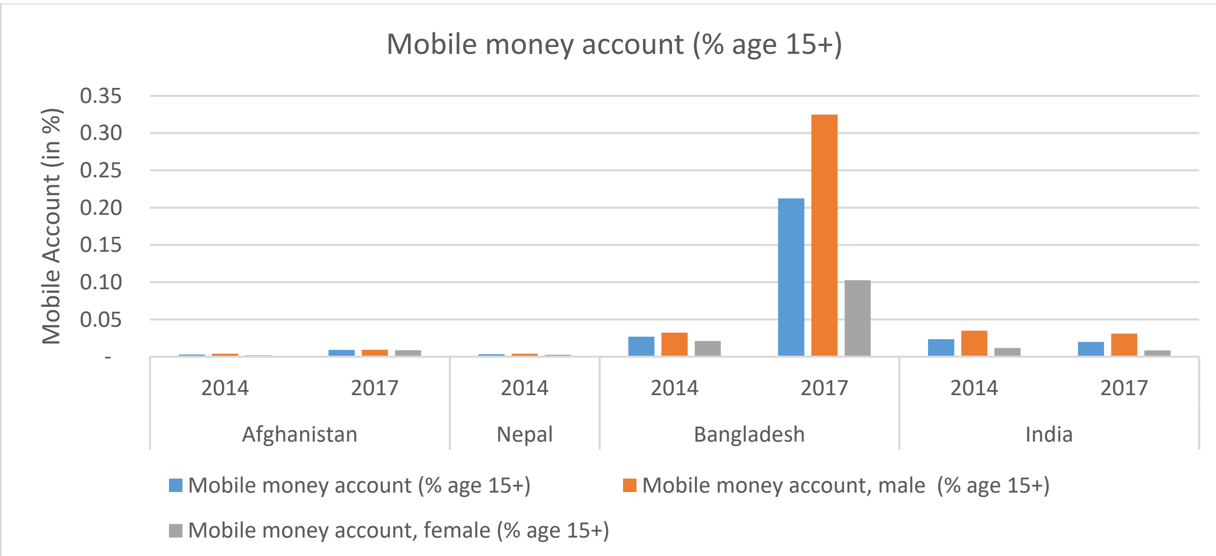


Figure 12. Mobile money account (% age 15+)

4. Findings and Discussion

India ranked on the first position by 45 percent improvement in terms of opening the bank accounts after 2011 followed by Bangladesh, Nepal and Afghanistan. Males are found to have more accounts as compared to females. This is in line with the study conducted by Kumar & Mohanty (2011) and Thomas et al. (2017) which states that poor numeracy and awareness skills results in the gender-wise inequality among SAARC countries. Gender-wise inequality has reduced in India by encouraging female participation more in financial inclusion after 2014 as nation has taken many initiatives by launching various schemes such as Pradhan Mantri Jandhan Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana and Sukanya Samriddhi Yojana, etc. The findings of the study revealed that less than 35 percent people has provision of money at work place as emergency fund. The provision of emergency fund at work place is less in case of female than male. Borrowing from non-financial institutions particularly form family or friends has increased in all the nations. More than 50, 30, 20, 18 percent people borrow from family/friends in Nepal, India, Afghanistan and Bangladesh respectively. As per the study conducted by Choudhury (2020), cultural barriers, trust and financial structures play an important role for borrowing from non-financial institutions. The credit card ownership is more in India as compare to other nations. The gap in the ownership of credit cards between male and female has decrease in India in 2017 comparatively. Digital payments have increased significantly in Bangladesh followed by India in 2017. More than 22 percent customers use mobile or internet to access bank account in Bangladesh, whereas less than 5 percent customers use it in other nations. The use of mobile or internet to access bank account is more by male than female. Less than 2 percent people have mobile bank account in all the nations except Bangladesh which is 22 percent in 2017. The results are in line with the study conducted by Hannig & Jansen (2010), Ravikumar (2020), Chamboko (2021), and Coulibaly (2021).

5. Policy Implications

The study underlines three implications which are as follows. Firstly, financial inclusion being a major driver of economic growth, it is therefore very important for the policy makers in SAARC countries to generate social and literacy awareness among the people so as to reap the benefits of the same. Secondly, in order to bridge the financial gap in gender inclusion, government should ensure proper fintech services for women which are easily accessible and relevant. Flexible regulations should be made and coordination between the financial institutions and the government should be there so that financial literacy may be improved, particularly among women. Finally, the stakeholders should focus more on the addressing and achieving the SDGs by proposing various schemes for women and girls for sustainable development of the nation.

6. Conclusion and Future Scope of Study

The study describes the current scenario of gender-wise financial inclusion of SAARC countries based on the Findex report of World Bank. Study showed significant variation in level of financial inclusion among the nations and gender wise as well. There is a scope for further research to explore the reason for the differences in the level of financial inclusion in SAARC countries. The study is based on India, Bangladesh, Nepal and Afghanistan only as the data of other SAARC countries was not available. Further study may be done using other financial inclusion indicators which constitute an important part of the SAARC countries. Multicriteria Decision Making (MCDM) techniques may be employed to prioritize and identify the critical enablers and barriers for the gender inequality with respect to financial inclusion.

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