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## **Financial literacy and financial inclusion for women empowerment: A study**

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### **Abstract**

Financial inclusion is the expanding outreach of banking or financial services at an affordable cost to a vast section of disadvantaged groups of society which may provide them a financial cushion for their sustenance as well as social empowerment. In India where women constitute 46% of total population majority of them are denied to opportunities and rights due to their financial dependence. Financial inclusion is much needed for women as it helps in increasing amount of regular savings along with enabling women to pay for micro insurance and obtain credit. It also helps in increasing income from employment and micro enterprise, usage of mainstream banking services that offer appropriate designed products and service. In other words financial inclusion make women informed about their role and right in economic development to improve access to markets and other information for overall empowerment. By helping women to meet their practical needs, micro finance may help women to gain respect and achieve more in their socially defined roles along with wellbeing. This paper mainly deals with- Importance of women's financial inclusion, Women's specific financial needs in respect to men's, Functions of finance and role of women, Growth, development and financial inclusion, Financial literacy as a tool for women empowerment, Institutional framework in India for financial education, Economic and social development of women and financial inclusion, Gender inequality and lack of access to financial services, Certain issues and aspects related with financial inclusion and women empowerment. The paper calls for women empowerment by means of effective financial inclusion and financial literacy by studying the relationship between women empowerment and financial inclusion.

**Keywords:** Financial Inclusion, Financial Literacy, Women Empowerment, Growth and Development

### **1. Introduction**

Poverty does not mean just scarcity of financial resources, but has larger connotations like rights denied, opportunities curtailed & voices silenced (CARE, 2005) <sup>[1]</sup>. The patriarchal society of India has put a check on women's potential, capabilities as well as self-confidence just because of their financial dependence on men folk. There emerges the need of financial inclusion for women empowerment. Financial inclusion is "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker section and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players." (Rangarajan, 2008) <sup>[2]</sup>, the committee on Financial Inclusion). Micro finance programs have significant potential for contributing to women's economic, social and political empowerment. Financial Literacy aids financial inclusion in many ways as it provides knowledge and awareness in the following aspects-

- Why save,
- Why save with banks,
- Why borrow for income generating purposes,
- Why to repay loans in time,
- What is interest and how moneylenders charge it,
- What is the need of insurance etc?

Though government has initiated many plans and different steps are taken there is a required strategic action to increase financial inclusion of women. An effort has been made through this paper to analysis financial literacy and financial inclusion as a tool for women empowerment.

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## 2. Importance of Women's Financial Inclusion

Financial Inclusion of women is essential prerequisite for poverty alleviation, upholding human rights and for sustainable development. Assam Human Development Report (2003) threw light on inequality in the achievement between men and women of Assam in different spheres of life. This report viewed poverty; violence and lack of political participation were main issues of concern women of Assam. It is only when women control decisions regarding credit and savings, they will optimize their own and household's welfare leading to financial sustainability and empowerment. Financial inclusion enables women for- Economic decision making, Enhancing purchasing capacity, Control over loans and Control over income and savings, borrow for investment and insure against risk.

## 3. Women's Specific Financial Needs in Respect to Men's

Women tend to be financially excluded in many countries. They are considered to be weaker section in society. Women has specific financial needs in respect to men's. Programs for financial inclusion of women should be planned according to their needs such as-

- Saving schemes should aim increased decision-making power for women with increase in goods purchased by women,
- Financial literacy program with a view to provide financial training for women leading to greater uptake of loans,
- For village savings and loan association providing training and capital to earn money,
- In case of micro finance schemes reduction in violence and increased empowerment etc.

## 4. Function of Finance and Role of Women

Women play multiple roles in society not only as a home maker but also as a contributor to socio economic development and financial sector facilitates ways to play these roles effectively. Example may be cited of-

- Financial independence of Women as costumer is one of the important aspects. Different types of costumer goods bought and investment decisions are made depending on who controls the cash within a household.
- Women as holder of assets is less likely observed in most of the parts of our country. But when they become formal owner of land, property or other assets by means of financial inclusion their self-confidence and social responsibility will automatically enhance.
- Though gender differences in labour market is observed with women generally earning less or specializing in certain types of employment in many of the cases Women as income earners plays significant role in socio economic setup.

## 5. Growth, Development and Financial Inclusion

Growth, Development and Financial Inclusion are interrelated. Provision of financial services to poor and weaker section can bring benefits for poverty reduction and growth. It was found that a one per cent increase in the number of rural bank branches led to drop in poverty of 0.34% and increase in output of 0.55%, mainly because access to finance made it easier for poor people to diversify out of agriculture. (Burges and Pande, from DFID 2004) <sup>[3]</sup>. Access to financial services can also limit some risk such as holding money in bank reduces risk of loss through fire or theft. Financial Inclusion is

an enabler and accelerator of economic growth, job creation and development.

## 6. Financial Literacy as a Tool for Women Empowerment

Financial literacy is an important tool to help the customers to accept and use the products to which they increasingly have access. It helps to develop skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities. It enables women to act "Smart Financially" by providing them knowledge and skills to understand financial planning, savings, basics of banking, understanding need of household budgeting, cash flow management, asset allocation to meet financial goal etc.

## 7. Institutional Framework in India for Financial Education

Under the aegis of FSDC (Financial Stability and Development Council), The National Strategy for Financial Education (NSFE) for India has been prepared. The strategy envisages ways of creating awareness and educating consumers on access to financial services and calls for active involvement of individuals, financial sector regulators, NGO's, central and state Government. One of the objectives of NSFE is to standardize the messages that various stakeholders seek to disseminate through their financial education initiatives. It identifies simple messages such as why to save, borrow, insure etc. and it is expected that standardization will help in ensuring consistency in the messages reaching the target audience from various sources and making them more focused and empowered.

## 8. Economic and Social Development of Women and Financial Inclusion

Financial Inclusion helps in Social and Economic development as it develops a sense of awareness about various programmes/activities of health, education, water and sanitation and legal rights along with encouraging to adopt health practices, like regular medical checkups, supplementary nutrition to children and family planning etc. It facilitates skills in maintaining accounts, utilizing the loan amounts from consumption to production needs, accumulation of assets and purchase of agricultural inputs.

## 9. Gender Inequality and Lack of Access to Financial Services

There prevails many social stigma regarding position of women in society. Their roles are closely linked to their socially defined gender roles, responsibilities and social structure. Gender inequality is still a major constrain for financial inclusion of women. Women's financial inclusion can make an important contribution to women's economic and broader empowerment. A Financial inclusion program needs to consider whether or not to promote access to other services such as health, education for maximizing the program's impact on women's empowerment. Programs for women's financial inclusion should consider the context in which they are living and multiple levels of exclusion and discrimination. Gender related barriers that inhibit women's ability to access financial services and block women empowerment should be considered carefully while preparing these programs.

## 10. Certain Issues and Aspects Related with Financial Inclusion and Women Empowerment

- **Saving and Women empowerment-** Saving vehicles are important for women to build security and decrease

vulnerability. It enables them to plan and to invest. Village based savings groups have been used by women to put aside funds to cover unforeseen emergencies.

- **Insurance and women empowerment-** Financial inclusion of women in insurance sector enables poor women to overcome risks to health, old age, death etc. Women are typically caregivers in their households and are generally responsible for managing the health risks of their family members. In many developing countries men control family and community finance, so women need to have access to micro-insurance and its benefits directly.
- **Transactions and women empowerment-** The term 'transactions' covers bank accounts and money transfers, which, in turn, can be broken down into remittances, mobile money and cash transfers. For most programmes that aim to achieve systemic improvements in financial inclusion, bank account usage is probably the leading indicator. Promoting the use of mainstream bank accounts can improve women's financial inclusion and reduce vulnerability by making it easier and safer for them to manage their money, including building up savings rather than through a husband or family member.

### 11. Increased well-being through Financial Inclusion

Access to savings and credit facilities and women's decision about what is being done with savings and credit strengthens women's say in economic decisions of the household. This enables women to increase expenditure on the well-being of themselves and their children. This is the main concern in the poverty alleviation paradigm. Women's control over decision-making is also seen as benefiting men through preventing leakage of household income to unproductive and harmful.

### 12. Microfinance in India and women empowerment

The Self Help Groups (SHGs) emerged as a component of the Indian financial system after 1996. They are small, informal and homogenous groups of not more than 20 members each. The size of 20 has been made mandatory because any group larger than this has to be registered under the Indian Societies Registration Act. Self-help groups intermediated by micro credit have been shown to have positive effects on women, with some of these impacts being ripple effects. They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman 2001) <sup>[4]</sup>. Several recent assessment studies have also generally reported positive impacts. In India, for example, microfinance is typically defined as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards (NABARD, 2004) <sup>[5]</sup>. In addition to promoting the establishment or growth of micro enterprises, microfinance can increase the standard of living of the economically active poor, improve their access to health care and education, reduce vulnerability and promote the empowerment of women and marginalized groups.

### 13. Some Problems Related with Women's Financial Inclusion

- ❖ Financial exclusion: It has been found that financial services are used only by a small number of women.

There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. These leads to a vicious cycle. First, high cost of finance implies that first poor person has to earn much more than someone who has access to lower cost finance. Second, the major portion of the earnings is paid to the moneylender and the person can never come out of the poverty.

- ❖ Non-price barriers: Access to formal financial services also requires documents of proof regarding a persons' identity, income etc. The poor women and man do not have these documents and thus are excluded from these services. They may also subscribe to the services initially but may not use them as actively as others because of high distance between the bank and residence, poor infrastructure etc.
- ❖ Behavioral aspects: Research in behavioral economics has shown that many women are not comfortable using formal financial services. The reasons are difficulty in understanding language, various documents and conditions that come with financial services etc.
- ❖ Credit is not easily available: Poor women cannot provide traditional forms of collateral, and are thus excluded from many loan programs. Moreover, illiterate women often find that they cannot cope with complicated loan procedures designed for middle-class clients.
- ❖ Transaction costs of borrowing are high: Standard loan applications take time to process, and poor women lose precious daily wages trying to obtain loans.
- ❖ Transaction costs of using savings facilities are high: Transportation to the bank, in addition to wages lost while going to the bank, also pose a cost. Assuming that poor women use their savings account once a month, an estimated 15 percent of their monthly savings will be spent accessing the account in the first place, according to studies conducted on poor women's use of commercial FIs.
- ❖ Formal features of the banking system clash with women's needs: The rigidity of loan terms and the lack of timeliness of formal credit, in particular, further negate the effects of low interest rates.

### 14. Suggestions

- To popularize SHG-Bank Linkage Model, more awareness should be created for cooperative formation.
- More information regarding services of banks and their benefits should be propagated.
- Training should be imparted for procedural education.
- Women entrepreneurship programs should be arranged at different levels.

### 15. Conclusion

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor, women and other disadvantaged group. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs),

service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the weaker segments of society.

Financial inclusion is a great step to for women empowerment in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them. The author of this paper discusses the pertinent issues of financial inclusion comprising of narrower and broader aspect with respect to women empowerment, the importance of the financial literacy and the detailed perspective of the pros and cons and steps to be taken to improve the reach of financial and banking services at grassroots level. Financial inclusion is the road that India needs to travel toward becoming a global player. Financial access to all sections of people will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

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