

Bridging the Financial Inclusion Gap: Analysis of Gender Disparities and Rural-Urban Gap for Financial Inclusion Policies

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Abstract

This paper explores the evolving role of finance in economic development, emphasizing financial inclusion in India. Using World Bank Global Findex data from 2011-2021. The study analyses trends in financial access and the usage of financial inclusion indicators such as the percentage of formal financial accounts, account usage, credit and debit card holdings, inactive accounts, reasons for account inactivity, and reasons for not having a financial account with a formal financial institution. The primary focus of the paper is on descriptive analyses and major policy initiatives in India for financial inclusion

Keywords: *Financial inclusion, World Bank Global Findex Survey, Gender, Rural, Urban, Financial Accounts*

Introduction

One of the most contentious topics in economics is the role of finance in economic development. There are two primary perspectives on this issue. The first argues that economic growth is driven by real factors, with finance playing a secondary role as a facilitator. The second view, however, considers finance to be crucial for reducing market frictions, enhancing resource allocation, and driving economic progress. A financial system consisting financial institutions, markets, products, and services, all of which contribute to lowering transaction costs and risks within an economy, serves as a bridge between savers and investors,

transforming high-risk assets into lower-risk ones. Additionally, it enables the conversion of short-term maturity assets into long-term investments, thereby supporting sustainable economic growth.

A well-functioning financial market enhances efficiency by addressing issues such as asymmetric information, adverse selection, and moral hazard. In a perfectly competitive financial system, these inefficiencies are minimized, leading to optimal economic outcomes (Demirgüç-Kunt, 2006). Furthermore, financial inclusion ensures that a larger segment of the population has access to financial services which boosts competition in the economy.

The nationalization of the Reserve Bank of India in 1949 and of State Bank of India in 1955, followed by the nationalization of 14 banks in 1969 and six more in 1980 greatly expanded the reach of banking services in rural areas, reducing the dependence of rural households on exploitative moneylenders and increasing their access to the formal financial system. Another landmark event occurred in 1991 with the introduction of economic reforms, including financial sector reforms, which marked a shift in the focus of the Reserve Bank of India (RBI) towards financial inclusion, particularly during the 11th Five-Year Plan. Since then, the RBI and the GoI have implemented various policies of financial inclusion.

The first phase of financial inclusion was from 1950 to 1970. During this phase the general public had limited access to private sector banking. During the second phase from 1970 to 1990 expansion of banking services to underserved rural areas took place under the influence of socialist policies. The third phase, from 1991 to 2005, is marked by economic liberalization and financial sector reforms and in the fourth phase, from 2005 to 2014, special policies for financial inclusion were formulated to target the underprivileged sections of the society. In the final phase, from 2014 to the present, the Pradhan Mantri Jan Dhan Yojana and various other policy initiatives were taken which significantly improved financial inclusion.

Microfinance and the Self-Help Group (SHG)-Bank Linkage Program have played a crucial role in the journey of financial inclusion in India. NABARD launched a pilot project on the SHG-Bank Linkage Program in 1992 with just 255 self-help groups linked to banks. By 2021, the number self-help groups had increased to 73,87,123.

The Mudra Yojana (2015) provides loans to small businesses under three categories: Shishu (up to ₹50,000), Kishor (₹50,000-₹5 lakh), and Tarun (₹5-10 lakh), with 87% of loans under Shishu. The Stand-Up India scheme (2016) supports SC/ST and women entrepreneurs with loans between ₹10 lakh and ₹1 crore. The RBI has promoted financial inclusion through regional rural banks, NABARD, banking correspondents, and relaxed KYC norms. The Government of India formed committees, including the Rangarajan Committee (2006), recommending financial literacy programs and business correspondent models. Other key committees include Usha Thorat (2007, 2013) and Nachiket Mor (2013) for financial inclusion strategies

Objectives

This paper focuses on the development and comparison of a gender and rural-urban financial inclusion journey in India with the help of World Bank data. A thorough review of relevant literature has been conducted, covering the construction of financial indices, the relationship between finance and development, and the impact of gender equality on economic progress.

Literature Review

Salman & Nowacka (2020) examined the evolution of women's financial inclusion and institutional, religious, and societal barriers were identified as major obstacles to their financial inclusion. Chatterjee et al., (2019) studied the state of women's financial inclusion in India and found that while 77% of Indian women had access to formal financial services, around 42% of these accounts remained inactive. Bertay et al., (2020) observed that gender disparities in financial inclusion have a significant impact on economic development. Ain et al., (2020) analysed the relationship between economic growth, and development and financial inclusion 33 developing nations and found that financial inclusion and overall development are positively related. Thathsarani et al., (2021) investigated the influence of financial inclusion on economic development and human capital. from 2004 to 2018 for eight South Asian nations. They proved that financial inclusion and economic growth are positively related in the short term. Sahay et al., (2021) evaluated the role of digital financial inclusion in explaining GDP per capita growth 52 developing countries between 2011 and 2018, and concluded that digital financial inclusion significantly contributes to economic growth.

Gálvez-Sánchez et al., (2021) through bibliometric analysis proved that fintech and digitalisation as crucial factors in financial inclusion and in the attainment of sustainable development goals. Barajas et al., (2020) identifies religion, gender, income, and education as very important factors influencing financial inclusion. Sahay et al., (2018) highlighted those significant disparities in financial access which have led policymakers to prioritize financial inclusion policies. Secondly, financial inclusion has become a key component of economic reforms. However, despite its prominence on policy agendas, there is limited empirical evidence linking financial inclusion to macroeconomic outcomes. Their analysis, using various data sources, suggested that while financial inclusion aligns with macroeconomic objectives, an excessive focus on inclusion could lead to financial instability. The impact of financial inclusion is not uniform, as its effectiveness varies based on the services provided. The study also stressed that empowering women through financial access enhances the benefits of inclusion. Since financial inclusion is multidimensional, different indicators play distinct roles.

Data and Methodology

Primary source of data for the present study are the World Bank Global Findex Surveys. World Bank has conducted 04 findex surveys till data. The first was conducted in 2011 followed by 2014, 2017 and 2021. The World Bank Global Findex Survey is the most comprehensive dataset on financial inclusion worldwide, published every three years since 2011. It provides insights into how adults (age 15+) around the world use financial services, including bank accounts, digital payments, savings, and borrowing. The paper utilizes data from all four Global Findex surveys for India. Since indicators vary across different Findex surveys, we have focused on the common indicators available across all surveys. The paper primarily focuses on the descriptive analysis of trends and developments in financial inclusion, with an emphasis on gender and rural-urban disparities.

Analysis and Findings

A. Overall trends in account ownership, inactive accounts, and reasons for not having an account

Financial inclusion has three main dimensions: availability, access, and usage.

Account ownership, using accounts for borrowing, and holding credit or debit cards are some of the important criteria for analysing financial inclusion.

Table1

Percentage of account holding across global findex surveys

Indicators	2011	2014	2017	2021
Account (% age 15+)	35.23	53.14	79.88	77.53

Source: World Bank Global Findex Survey 2021

This dataset in Table 1 presents financial inclusion trends from 2011 to 2021, highlighting account ownership among individuals aged 15 and older. The percentage of people with financial accounts increased significantly from 35.23% in 2011 to 79.88% in 2017, before slightly declining to 77.53% in 2021.

Table 2

Reasons for not having a financial account

Reason for not having an account	2021
No account because financial institutions are too far away (% age 15+)	10.44
No account because financial services are too expensive (% age 15+)	10.42
No account because of a lack of necessary documentation (% age 15+)	6.52
No account because of a lack of trust in financial institutions (% age 15+)	7.75
No account because of insufficient funds (% age 15+)	8.61
No account because of religious reasons (% age 15+)	3.42
No account because someone in the family has one (% age 15+)	12.28

Source: World Bank Global Findex Survey 2021

Various barriers prevented individuals from owning a bank account. The most common reason was that someone in the family already had an account (12.28%), reducing the perceived need for an additional one. Distance to financial institutions was another major obstacle, with 10.44% of individuals citing it as a challenge. Additionally, 10.42% found financial services too expensive, making

account ownership unaffordable for them. A lack of necessary documentation and distrust in financial institutions prevented 6.52% and 7.75% of people, respectively, from opening an account. Insufficient funds prevented 8.61% from maintaining an account. Religious beliefs also influenced 3.42% of individuals to opt out of formal financial institutions.

Table 3

Inactive account for age 15+

Indicators	2014	2017	2021
Has an inactive account (% age 15+)	17.39	30.62	27.44

Source: World Bank Global Findex Survey 2014,2017,2021

Table 3 shows the percentage of individuals (aged 15+) who have an inactive financial account, including gender-based trends, over three periods (2014, 2017, and 2021). Inactive accounts increased significantly from 17.39% in 2014 to 30.62% in 2017, indicating that many individuals who opened accounts were not actively using them. By 2021, the percentage slightly decreased to 27.44%, suggesting some improvements in account usage but still a high level of inactivity

Table 4

Inactive accounts and reason for the inactivity in the accounts

Indicators	2021
Reason for not using their inactive account: bank or financial institution is too far away (% age 15+)	18.11
Reason for not using their inactive account: don't feel comfortable using the account by themselves (% age 15+)	11.24
Reason for not using their inactive account: don't have enough money to use an account (% age 15+)	14.4
Reason for not using their inactive account: don't trust banks or financial institutions (% age 15+)	18.05
Reason for not using their inactive account: no need for an account (% age 15+)	16.97

Source: World Bank Global Findex Survey 2021

Limited banking infrastructure in rural areas poses a significant challenge, with 18.11% of individuals citing the distance to financial institutions as a barrier to account usage. Additionally, distrust in banks prevents 18.05% of people from engaging with financial services, as scepticism toward institutions remains a prevalent issue. For 16.97% of individuals, the lack of necessity for a bank account discourages participation in the financial system. Moreover, financial constraints play a role, with 14.4% believing their earnings are too low to justify maintaining an active account. Lack of confidence in using financial services independently affects 11.24% of account holders.

B. Gender Disparities and Financial Inclusion

This section discusses gender disparity in financial inclusion trends in India between 2011 to 2021 on the basis of Global Findex Survey by the World Bank. Account holding, account holding with financial institutions, borrowing from financial institutions, and credit and debit card ownership are the indicators used to analyse gender disparities in financial inclusion.

B.1 Analysis of Formal Financial Institutions Accounts (2011–2021)

Table 5 presents financial inclusion trends from 2011 to 2021 and compares disparities in account ownership among individuals aged 15 and older.

Table 5

Account Ownership disparities across Global Findex surveys

Indicators	2011	2014	2017	2021
Account (% age 15+)	35.23	53.14	79.88	77.53
Account, female (% age 15+)	26.49	43.13	76.64	77.55
Account, male (% age 15+)	43.74	62.76	83.01	77.51
Financial institution account (% age 15+)	35.23	52.75	79.84	77.3
Financial institution account, female (% age 15+)	26.49	42.64	76.64	77.47
Financial institution account, male (% age 15+)	43.74	62.47	82.94	77.15

Source: World Bank Global Findex Survey 2011, 2014, 2017, 2021

Female account ownership saw a substantial rise from 26.49% in 2011 to 76.64% in 2017, and slightly increased to 77.55% in 2021. Male account ownership followed a similar pattern, growing from 43.74% in 2011 to 83.01% in 2017, before decreasing to 77.51% in 2021.

Table 6

Changes in financial account ownership across Global Findex surveys

Indicators	Growth 2011-14	Growth 2014-17	Growth 2017-21
Account (% age 15+)	50.84	50.32	-2.94
Account, female (% age 15+)	62.82	77.70	1.19
Account, male (% age 15+)	43.48	32.27	-6.63

Source: Author's Calculation

Table 6 presents the percentage growth in financial account ownership across three periods: 2011–2014, 2014–2017, and 2017–2021, with a focus on overall growth and gender-based trends. Strong Growth is achieved in early years in Early Years between 2011–2017. Between 2011 and 2014, account ownership rose 50.84%, driven by financial inclusion initiatives. And Between 2014 and 2017, growth remained high at 50.32%, indicating continued momentum in financial sector expansion. After a sharp increase in previous years, account ownership declined by 2.94% between 2017 and 2021, suggesting market saturation and economic challenges. Percentage growth in account ownership among female was 62.82% (2011–2014) and increased to 77.70% (2014–2017), reflecting significant efforts to bridge the gender gap. However, between 2017 and 2021, growth slowed to just 1.19%, indicating that most female who could access financial services had already done so. Percentage growth in account ownership for men was 43.48% (2011–2014) and dropped to 32.27% (2014–2017), showing a slower but steady increase. Between 2017 and 2021, male account ownership declined by 6.63%. Female registered the most significant inclusion gains, reducing the financial gender gap, but post-2017, engagement challenges may have emerged.

B.2 Analysis of Borrowing Trends from Formal Financial Institutions (2011–2021)

Table 7 presents data on the percentage of individuals (aged 15+) who borrowed

from formal financial institutions at four time points: 2011, 2014, 2017, and 2021.

Table 7

Borrowing from Formal Financial Institutions (2011–2021)

Indicators	2011	2014	2017	2021
Borrowed from a formal financial institution (% age 15+)	7.7	9.12	8.15	11.78
Borrowed from a formal financial institution, female (% age 15+)	6.74	6.18	6.21	10.19
Borrowed from a formal financial institution, male (% age 15+)	8.63	11.94	10.02	13.27

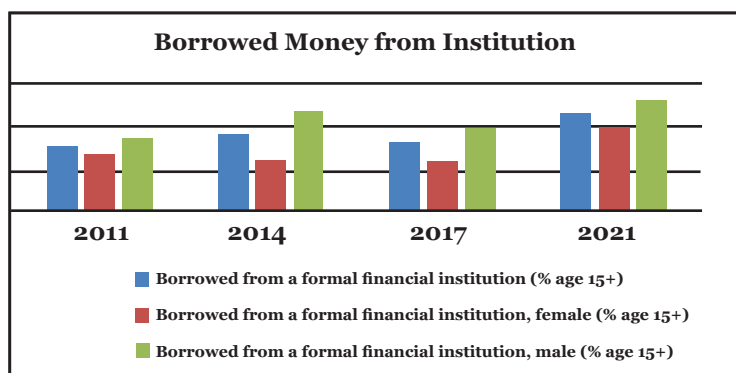
Source: World Bank Global Findex Survey 2011, 2014, 2017, 2021

Borrowing from formal financial institutions increased from 7.7% in 2011 to 11.78% in 2021. While there was moderate growth from 2011 to 2014 (7.7% to 9.12%), borrowing slightly declined in 2017 (8.15%), before rising significantly in 2021 (11.78%). Decline in 2017 may be the result of economic downturns, stricter lending policies and lower demand for formal credit during that period. Female borrowing during 2011–2017, declined from 6.74% (2011) to 6.18% (2014) and remained nearly stagnant in 2017 (6.21%). However, by 2021, there was a sharp increase to 10.19%. Male borrowing increased from 8.63% (2011) to 11.94% (2014) but then declined to 10.02% in 2017, reflecting a similar trend as overall borrowing. By 2021, borrowing among men rose to 13.27%.

Graph 1

Borrowed money from financial institutions

Source: Author's Construction



B.3 : Analysis of Inactive Financial Accounts (2014–2021)

The Global Findex Survey 2011 did not collect data on inactive accounts; therefore, our analysis is limited to the last three Findex surveys.

Table 8

Analysis of Inactive Financial Accounts (2014–2021)

Indicators	2014	2017	2021
Has an inactive account (% age 15+)	17.39	30.62	27.44
Has an inactive account, female (% age 15+)	18.23	34.67	32.32
Has an inactive account, male (% age 15+)	16.59	26.71	22.89

Source: World Bank Global Findex Survey 2014, 2017, 2021

Account inactivity has remain consistently high throughtout the assesment period . It peaked in 2017 (30.67%) before decreasing in 2021(27.44%).The percenatge of females with inactive accounts was consistently higher than that of males throughtout the period.This suggests that while financial inclusion efforts helped more female gain access to formal fiancial sysyetm ,but they were not in the position to use them due to various reasons.Inactive male accounts grew from 16.59% in 2014 to 26.71% in 2017, and by 2021, the percentage dropped to 22.89. Spike in inactive accounts between 2014 and 2017 , may be linked to mass financial inclusion initiatives where many new accounts were opened under PMJDY. During 2017–2021 a slight reduction in inactivity could be attributed to financial literacy programs, digital banking, and incentives for transactions.

B.4: Ownership of credit and debit cards across the four Global Findex survey years

The ownership of credit and debit cards among individuals aged 15 and above has registered significant changes across the four Global Findex survey years (2011, 2014, 2017, and 2021). Overall, credit card ownership remained low but demonstrated a gradual increase from 1.77% in 2011 to 4.62% in 2021.

Table 9

Ownership of credit and debit cards across the four Global Findex survey years

Indicators	2011	2014	2017	2021
Owens a credit card (% age 15+)	1.77	4.18	3	4.62
Owens a credit card, female (% age 15+)	1.04	1.57	2.3	2.38
Owens a credit card, male (% age 15+)	2.48	6.68	3.68	6.72
Owens a debit card (% age 15+)	8.4	22.07	32.72	27.07
Owens a debit card, female (% age 15+)	4.58	11.41	22.34	19.08
Owens a debit card, male (% age 15+)	12.12	32.32	42.77	34.52

Source: World Bank Global Findex Survey 2011, 2014, 2017, 2021

A significant gender disparity is evident throughout the period. In 2011, only 1.04% of females owned a credit card compared to 2.48% of males. While both genders experienced an increase, the gap widened in 2014, when 6.68% of males owned a credit card compared to only 1.57% of females. By 2021, credit card ownership among males had risen to 6.72%, while female ownership remained significantly lower at 2.38%. This persistent gender gap highlights barriers that women face in accessing formal credit. Debit card ownership saw a more substantial increase compared to credit cards. In 2011, only 8.4% of individuals owned a debit card, but this surged to 32.72% in 2017 before slightly declining to 27.07% in 2021. The gender gap was significant in all years, with male ownership consistently higher than female ownership. In 2011, only 4.58% of females had a debit card, compared to 12.12% of males. This disparity persisted and peaked in 2017 when 42.77% of males owned a debit card, compared to 22.34% of females. However, both male and female ownership declined in 2021, with figures dropping to 34.52% for males and 19.08% for females. The decline in debit card ownership in 2021 may be linked to changes in banking behaviour, the rise of digital payment alternatives, or economic challenges brought by the COVID-19 pandemic. Addressing these disparities requires targeted financial inclusion policies to ensure equitable access to financial services for both men and women.

C. Rural -Urban Disparities in financial inclusion

This section discusses Rural-Urban regional disparity in financial inclusion in

India for years 2021, using data from the Global Findex Survey by the World Bank 2021. Financial inclusion disparity is evaluated based on indicators such as account holding, account holding with financial institutions, borrowing from financial institutions, and credit and debit card ownership.

The dataset in Table 10 highlights financial inclusion disparities between rural and urban populations in 2021, covering account ownership, borrowing behaviour, and access to financial products.

Table 10

Financial Inclusion: Rural vs. Urban Comparison (2021)

Indicators	2021
Account, rural (% age 15+)	77.26
Account, urban (% age 15+)	77.83
Has an inactive account (% age 15+)	27.44
Has an inactive account, rural (% age 15+)	31.01
Has an inactive account, urban (% age 15+)	23.33
Borrowed any money from a formal financial institution or using a mobile money account, rural (% age 15+)	11.14
Borrowed any money from a formal financial institution or using a mobile money account, urban (% age 15+)	14.74
Borrowed any money (% age 15+)	44.79
Borrowed any money, rural (% age 15+)	45.18
Borrowed any money, urban (% age 15+)	44.35
Borrowed from a formal financial institution, rural (% age 15+)	10.57
Borrowed from a formal financial institution, urban (% age 15+)	13.18
Financial institution account, rural (% age 15+)	77.03
Financial institution account, urban (% age 15+)	77.62
Mobile money account, rural (% age 15+)	7.2
Mobile money account, urban (% age 15+)	14.17
Owns a debit card, rural (% age 15+)	19.74
Owns a debit card, urban (% age 15+)	35.52

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Owens a credit card, rural (% age 15+)	3.38
Owens a credit card, urban (% age 15+)	6.06

Source: World Bank Global Findex Survey 2021

Overall account ownership was relatively high in both rural (77.26%) and urban (77.83%) areas, showing near-equal financial inclusion. Financial institution accounts also followed a similar pattern (77.03% in rural vs. 77.62% in urban). Mobile money accounts, however, showed a significant urban-rural gap (7.2% in rural areas vs. 14.17% in urban areas), indicating greater digital financial penetration in urban regions. 31.01% of rural account holders have inactive accounts, compared to 23.33% in urban areas.

Formal borrowing (from financial institutions) was lower in rural areas (10.57%) compared to urban areas (13.18%), reflecting accessibility challenges in rural areas. Overall borrowing (including informal sources) was slightly higher in rural areas (45.18%) than urban (44.35%), suggesting reliance on informal credit in rural regions. Borrowing via mobile money or formal institutions was also lower in rural areas (11.14%) than in urban areas (14.74%), indicating urban advantage in digital and institutional lending. In urban areas debit card ownership was nearly twice than that of rural areas (35.52% urban vs. 19.74% rural), reflecting better access to financial services. Almost similar trends were visible for the credit card ownership and credit card uses. High account ownership parity suggests that financial inclusion efforts have broadly succeeded in both rural and urban areas. Urban areas have better access to financial products like debit/credit cards and digital financial services, highlighting a need to improve rural banking infrastructure. Rural reliance on informal borrowing suggests the necessity for more targeted rural credit programs. Mobile money adoption remains low in rural areas, indicating an opportunity for expansion through digital financial literacy and infrastructure development.

Conclusion

The paper delved into an in-depth analysis of financial inclusion barriers, particularly focusing on gender disparities and rural-urban gaps. The data highlighted key challenges such as distance to financial institutions, high service costs, lack of documentation, distrust in banks, and financial constraints. Women and rural populations are disproportionately affected, limiting their access to

formal financial services. To address these issues, policy recommendations include expanding banking infrastructure, promoting digital financial solutions, enhancing financial literacy—especially for women—introducing low-cost financial products, and simplifying account opening procedures. By implementing these strategies, financial inclusion can be improved, ensuring equitable access to financial services.

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