CHAPTER I
INTRODUCTION

1.1 Background of the Study

The importance of access to financial services is one of the well-recognised development agenda across the countries. Access to finance is an essential driver for economic growth in developing and transitioning economies. Financial inclusion empowers the people and provides them the opportunity to save, invest, to get insurance cover or to take a loan. These financial services are often instrumental in breaking the chain of poverty (Noose, 2006). According to Karmakar et al. (2011), financial inclusion facilitates access to the formal financial system to those segments of the population who are denied these services and remain excluded. Financial inclusion is the process that ensures the ease of access, availability and usage of the formal financial services for all members of an economy (Sarma, 2008), specifically to the vulnerable groups of the society (Rangarajan, 2008). However, according to Barclays (2010), about 74 per cent of world’s population across the countries are excluded from formal banking services. The World Bank has directly linked such exclusion from formal financial system with higher poverty (World Bank, 2018). According to a World Bank estimate, about 2 billion adults worldwide do not have a basic bank account (World Bank, 2018) and this exclusion is more acute in developing countries (Chibba, 2009).

Financial inclusion is often emphasised as an important policy option for economic development. It is regarded as an essential policy measure in alleviating poverty, minimising social exclusion and enhancing economic growth (Cnaan et al., 2011). Access to formal financial services helps in improving the livelihood of the people in many ways. Access to financial services allows people to make financial transactions
more efficiently and helps the poor people to break the vicious circle of poverty. Financial services such as bank accounts facilitate the poor people to manage their income which enables them to withstand shocks like no income or situation like unemployment and other emergencies (Kunt et al., 2017). Better and efficient management of income also paves the way to invest in education and business for the poor people leading them to higher income opportunities. According to the Life Cycle Hypothesis propounded by Franco Modigliani, the income stream of an individual does not remain steady over his or her entire life. According to the hypothesis, saving allows the distribution of income over the course of his or her entire life. This permits the consumption levels and the standard of living to be maintained throughout the life of that individual (Dornbusch et al., 2010). During the young age which is the prime of earning power, people save and invest, at the old age people dis-save. According to Cull et al. (2014), the poor people live and work in the informal economy. Their consumption and production decisions are interlinked as they are self-employed and are consuming households. Highlighting the credit needs of the poor people, Nobel Laureate Muhammad Yunus points out that poor people have to struggle for least amounts of money to support their efforts to make out a living (Younus, 2006). Professor Yunus finds that the formal financial institutions are reluctant to extend credit to the poor because the poor are not considered creditworthy. In 1983, Professor Yunus established the Grameen Bank of Bangladesh which extends credit to poor households, most of whom lack collateral. In his Nobel lecture, Professor Yunus points out that access to small credit can transform the lives of the poor people. According to Karlan and Morduch (2010), Yunus’s model gives a fundamental insight into the economic
theory. This model shows that the poor who lack collateral and often regarded as not creditworthy are bankable if the right lending mechanism is used.

In India, providing access to formal financial services to all sections of the population has remained as the main thrust of banking policy for several decades. The Government is making a constant effort with various policy initiatives ranging from nationalisation of commercial banks in 1969 to Pradhan Mantri Jan Dhan Yojana in 2014 to permeate the benefits of the formal financial system to the poor, vulnerable and those sections of the population who are so far denied formal financial services. Although considerable progress is being made, it has been observed that the inclusion is not been adequately spread through a vast segment of our society (Reserve Bank of India, 2015).

The tea garden workers are one of the most vulnerable and deprived section of Assam. Despite having a considerable economic importance of the tea industry not only in Assam but also for the entire country, the working class in this industry are most vulnerable and deprived in many of the socio-economic aspects. According to Mishra et al. (2012), the tea labour community has considerably poor access to anti-poverty social security schemes, welfare extensions and other social welfare schemes. Harlalka (1975) mentions that poverty of the tea garden workers are hereditary in nature as they are paid very meagre wage and this has been prevailing since the late eighteenth century. As a result, most of the income of the tea labour families is spent in meeting the basic needs of their day to day life (Kar, 2009). Dhar (2015) also notes that the wage of the tea garden labourers is far lower than the wage of labourers in the unorganised sector. According to Kar (1993), the meagre income forces the tea garden labour to depend
heavily on loan or credit. The lack of formal sources of credit compels them to depend on informal sources paving way for more exploitation on them. Different laws oblige the plantation owners in India to provide and maintain adequate houses and sanitary toilets for workers. However, the living conditions of the tea workers are so poor that they live in homes with leaking roofs and terrible sanitation. Their working conditions are below standard and wages are very low.¹

1.2 Statement of the Problem

Many studies highlight that the problem of financial exclusion is faced mostly by the poor and deprived section of the society. The reasons for such exclusion arise mainly from two sides- firstly; the providers of financial services do not consider the low-income people profitable and hence not interested in providing services to them. Secondly, the poor people for different reasons hesitate to approach mainstream financial institutions for their financial needs. Most of the poor with very low income remain more focused towards the earning of basic necessities of life. Out of their small incomes, saving becomes difficult. Moreover, unavailability of suitable formal financial services forces them to rely upon easily accessible informal institutions for their saving, credit or invest requirements. The low-income people find savings in formal institutions difficult because of several reasons such as complex procedural formalities, high transaction and opportunity cost associated with the services of formal financial institutions etc. The poor people are also denied credit at the time of their distress. Lack of credit from formal sources force them to depend on informal sources. Most of the informal sources use to exploit them with exorbitant interest and other terms and conditions. Many a time, poor people use to repay a loan by taking another loan, which aggravates their financial stress. Thus, the denial of financial services or financial
exclusion is equivalent to the denial of opportunity to improve the livelihood of the poor.

In the context of India, in order to avoid financial exclusion, various policy measures are undertaken to bring the larger proportion of people under the formal financial net. However, despite such efforts, a large section of the populations are still financially excluded.

The tea labour community is one of the deprived sections of society in many tea growing regions in the world. Assam, the highest tea producer in India is no exception. Despite being a significant contributor to the state economy, the labour community of tea garden is considerably deprived and marginalised both socially and economically. It is argued in several literatures that financial inclusion can greatly help the poor low income group in breaking their vicious circle of poverty. Thus financial inclusion can also be expected to transform the lives of tea garden labourers by providing them with efficient and easy access to basic financial services such as saving, credit, and insurance. However, there is a dearth of empirical studies which examines the extent of financial inclusion specific to the tea garden labourers in Assam. Therefore, the present study tries to fill this gap by examining the extent of financial inclusion among the tea garden labourers in Assam. Moreover, this study also examines the demand side determinants of financial services for the targeted group. The present study assumes relevance as the findings might be helpful to understand the spread of financial inclusion among the tea garden labourers and formulating public policy accordingly.
1.3 Objectives and Scope of the Study

With the brief background and research problem discussed above, the present study is taken up with the primary objective of examining the extent of financial inclusion among the tea garden labourers of Assam. However, financial inclusion is generally viewed in two dimensions. One is associated with the supply of financial services while the other is with demand for financial services. The supply of financial services is generally driven by two factors: government policy and motive for profit. The present study mainly concentrates on the demand aspect of financial inclusion. The study is an attempt to see the extent to which the tea labour community use the available financial services and the determinants of their financial behaviour.

The specific objectives of the present study are as follows.

a) To examine the availability of basic financial services to the tea garden labourers.

b) To examine the extent of use of the available financial services by the tea garden labourers.

c) To examine if there exists any difference in the level of financial inclusion according to gender and nature of employment of the labourers.

d) To examine the important determinants of financial inclusion among tea garden labourers.

1.4 Research Questions

The underline research questions for the study are as follows.

a) What is the availability of basic banking facilities to the tea garden labourers?

b) What is the extent of use of the available financial services?
c) Do gender and nature of employment of labourers create any significant difference in the level of financial inclusion?

d) What are the important determinants of financial inclusion among the tea garden labourers?

1.5 Data and Methodology

1.5.1 Data

The present study is based on secondary as well as primary data. Secondary data is used to answer the first objective of the study. Along with this, secondary data is also used in designing the sampling strategy for the primary field survey. The required secondary data for the present study are obtained from various publications of central as well as state government. Some non-government/private sources are also utilised to gather necessary data for the present study. Data published by international organisations such as the World Bank and International Monetary Fund are also used to supplement the study.

Various secondary sources that are used to obtain data for the present study are: Tea Board India, Economic Survey Reports published by Ministry of Finance, Government of India; Ministry of Labour and Employment, Government of India; Office of the Registrar General and Census Commissioner India, Government of India; Reserve Bank of India; Statistical Tables Relating to Banks in India published by Reserve Bank of India; Data-Bank of North Eastern Development Finance Corporation Ltd. (NEDFi) and various issues of Economic Survey of Assam and Statistical Handbook of Assam published by Directorate of Economics and Statistics, Government of Assam.
The core of the study is based on primary data collected through a sample survey conducted during July to December 2017. The sample survey was conducted in twelve tea estates from six districts (two tea estates from each district) of the state covering around 66 per cent of the land area under tea production in Assam. These six districts are Tinsukia, Sonitpur, Sivasagar, Cachar, Jorhat and Golaghat.

1.5.2 Methodology

A mix of statistical and econometric tools is used to answer the research questions of the present study. Simple statistical tools such as ratio, percentage and mean are used to trace the availability of financial services and extent of use of financial services by the sample respondents. In addition, according to the requirement of the specific objectives, different econometric tools are applied to obtain answer for the objectives laid out above.

In order to address the specific objectives, the following analytical tools are applied.

- The study uses simple arithmetic tools to find the availability as well as the extent of financial inclusion
- Regression Analyses are used in the study to find the determinants of financial inclusion. Three different regression models are used for the purpose. The models are-
  - Logistic Regression Model
  - Ordered Logit Model
  - Censored Regression (Tobit) Model
- The study also uses Generalised Linear Model (GLM) to check the robustness of regression result obtained using Tobit model.
The methods and models are discussed in detail in the respective sections.

1.6 Layout of the Thesis

The dissertation is comprised of seven chapters including the introduction. The second chapter of the dissertation presents a review of available literature, carried out on two main issues. Initially, literature regarding various aspects of financial inclusion is reviewed. The second part of the chapter reviews the existing literature on the tea labour community with special reference to Assam.

The third chapter is devoted to answer the first objective of the study. With the available secondary data, this chapter analyses the status of financial services in Assam. Though the objective was to examine the availability of financial services to the tea garden labourers, unavailability of information and data on any specific financial product for them restricts the focus to look into the availability of financial services for the state as a whole. Chapter three also includes a brief outline of the geography, demography and economy of the state with an emphasis on the economy related to the tea industry. A section of the chapter is also devoted for discussing various policy initiatives for financial inclusion undertaken by the government from time to time.

The sampling technique used for the primary field survey is discussed in the fourth chapter. Chapter four also presents broad profiles of the sample districts.

The fifth and sixth chapters of the dissertation are entirely based on primary data. On the basis of descriptive statistics obtained from the primary field survey, the fifth chapter discusses the demographic and socio-economic status of the tea labour community. The chapter emphasises the discussion on the use of available financial
services. Moreover, the chapter also discusses the pattern in the use of financial services and other issues related to the financial behaviour of the sample.

The sixth chapter of the thesis attempts to identify and examine the important socio-economic factors which affect the extent of financial inclusion among respondents of the present study. For this purpose, regression models with appropriate econometric specification are used.

In the seventh chapter, broad conclusions and findings derived from the study are summarised. The chapter also outlines some of the limitations of the study and necessary policy initiatives.