Chapter 2

FINANCIAL EXCLUSION: CONCEPTS, THEORETICAL UNDERPINNINGS AND THE RESEARCH METHODOLOGY

2.1 Introduction

This chapter discusses the concepts and theoretical underpinnings of the problem of financial exclusion besides elaborating on the research methodology adopted in the present study. Apart from this, this chapter also intends to provide the historical evolution of exchange economy and finance to illustrate the importance that has been growingly attached to the tool of finance in the present exchange system. This chapter also elaborates on how finance becomes imperative for a socially controlled and culturally rigid people like the tribes.

2.2 Defining Financial Exclusion

Defining financial exclusion is a very complex and difficult task as many academicians have attempted to define it in divergent ways. One could categorize the definitions under two heads: One is based on banking experts’ perceptions of defining financial exclusion, and the second is based on how the pure and unbiased financial
economists define it. The former form of definitions carries a very narrow but technical meaning of financial exclusion that is the people having no bank account are considered as financially excluded whereas the latter defines it from the perspective of an array of financial services. Our study focuses on this latter form of definition. Nevertheless, a detailed account of important definitions of financial exclusion is worthwhile as it helps one to comprehend the broad meaning of this phenomenon.

If one attempts to trace out the origin of the term financial exclusion, it can be seen that this term first came into the financial literature in 1993 to describe a situation of limited physical access to banking services on account of bank closures (Sinclair, McHardy, Dobbie, Lindsay, & Gillespie, 2009). It means that in its original form financial exclusion meant not the lack of access to financial products like banking and insurance, which ameliorate the vulnerability of the people, but merely the lack of geographical access to banks. Nevertheless, it was in 1999 the term financial exclusion began to be used to designate the condition of not having access to mainstream financial services (Kempson & Whley, Kept out or Opted out?: Understanding and Combating Financial Exclusion, 1999). Still, the concept of financial exclusion undergoes changes as many writers both academicians and policy makers have been attempting to enrich the literature on financial exclusion. According to the objective of their study, they define financial exclusion in ways suitable to them. Nevertheless, it has been observed that most of the writers have defined financial exclusion in narrow way, or in other words, they have confined the scope of financial exclusion to not having bank accounts as if are talking not about the larger and complex issue of financial exclusion rather the very limited issue of banking exclusion. Notwithstanding this, it deserves to be mentioned that having an account with the formal banking is the first step towards financial inclusion although but it is not the last and the sole element of financial inclusion.

Thus, it is obvious that the term financial exclusion has a broad range of definitions. Research carried out and discussions held among experts lead us to propose the following definition: Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in society to which they belong. The above definition of financial exclusion
obviously reveals that financial exclusion is the culmination of a long process of inaccessibility that certain groups of people like the tribes in the present study face in getting access to financial products. To put it in a simplified form, a person can be said to be financially excluded if he or she does not possess either a saving account or a loan account with a formal financial institution, most probably a banking institution. However, this criterion of defining a person as financially excluded appears to be very narrow, as it does not involve many other relevant dimensions of financial exclusion like exclusion from insurance and pension system, which also help them to withstand vulnerabilities. Financial exclusion is being viewed as a barrier towards accomplishing the goal of financial inclusion. Viewing from that point, it appears that financial exclusion ‘is a confluence of multiple barriers: lack of access, lack of physical and social infrastructure, lack of understanding and knowledge, lack of technology, lack of support, lack of confidence, among others’ (Rao, 2007). Breaking these barriers is the key to achieve ‘financially inclusive growth’.

Unsurprisingly, financial exclusion appears to have been associated with social and economic exclusion. Some definitions of financial exclusion appear to have encompassed this association in a meaningful manner. Let us have a bird’s eye view of such definitions. First, financial exclusion has been defined in the literature in the context of the larger issue of social inclusion (or exclusion) in a society. Leyshon & Thrift (1995) define financial exclusion as referring to those processes that serve to prevent certain social groups (like the tribes in the present study) and individuals from gaining access to the financial system. According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Mohan (2006) opined ‘financial exclusion signifies the lack of access by certain segments of society to appropriate, low-cost, fair, and safe financial products and services from mainstream providers’. Similar views were expressed by Thorat (2008) that ‘by financial inclusion we mean the provision of affordable financial services, (viz. access to payments and remittance facilities, savings, loans and insurance services) by the formal financial system to those who tend to be excluded’. Thus, almost all of these definitions emphasise financial exclusion to be the manifestation of a much broader issue of social exclusion of certain societal groups such as the poor and the disadvantaged. For the purpose of this paper, we define financial exclusion as a process that fails to ensure the ease of access, availability and usage of the formal financial
system for all members of an economy. This definition emphasizes several dimensions of financial exclusion, viz. accessibility, availability and usage of the financial services. As highlighted by international commentators, financial exclusion is complex and multidimensional and can come about because of a range of problems with access, conditions, price, marketing or self-exclusion (Kempson, Whyley, Caskey, & Collard, 2000). These dimensions together build an inclusive financial system.

As banks are the gateway to most basic forms of financial services, financial exclusion is often used as analogous to banking inclusion/exclusion. Those who are excluded by the banks are often termed as “unbanked” (Russell, Maitre, & Donnelly, 2011). These are people without any form of transactional bank account. Associated with this notion is the concept of “under banked”, i.e. those who have a bank account but do not use it regularly or adequately to manage their money. These are also sometimes referred to as “marginally banked”. The literature also points out that there are gradations of financial exclusion. These range from those who are “hyper-included” to those who are “unbanked” and have no access to mainstream financial services. In between these extremes fall the under banked or the marginally banked (Kempson et al, 2000). Banking services have become progressively more important due to financialization of social relationships i.e. social relations are increasingly expressed in monetary terms (Gloukoviezoff, 2007). Consequently, the majority of consumers now have a bank account. A proportion of the population, however, remains excluded from banking and other financial services. In this way, financial exclusion is exclusion from affordable and appropriate financial products, including bank accounts, current accounts, credit, savings and insurance. Low-income consumers are at great risk of financial exclusion and being financially excluded not only prevents people from escaping from poverty, but can also result in people falling into poverty. Simply put, financial exclusion is the inability to access necessary financial services in an appropriate form. A number of aspects, or dimensions, of financial exclusion have been identified which are described as follows (FSA, 2006).

1. **Access Exclusion**: sometimes access to financial services particularly banking services may be restricted to some segments of population through the process of risk assessment. Banks consider lending to these people as more risky, and hence opening the door to such people is considered unwise for the banks.
2. **Condition Exclusion**: Financial products come along with some conditions like prescribing margin, which are discretionary for the financial official to decide. Such conditions may turn out to be disastrous for the interest of the low income and socially disadvantaged population. Because of these conditions attached with financial products, people may find it futile to approach banks for getting access to services.

3. **Price Exclusion**: The price of financial products mainly the interest rate that the financial institutions charge may not be affordable to the people. Nevertheless, this has been questioned by some works in India, which argue that most of the needy borrowers are not sensitive to interest rate. If some have credit at interest rates unaffordable to them due to compulsions, in future it is likely that they may be drawn into abject debt trap, as they would find it difficult to make timely repayment of the credit.

4. **Marketing Exclusion**: Today financial institutions adopt marketing strategies aiming at credit worthy individuals. Financial products have been designed and marketed in such a way they appeal most to the well-today segments of the population. Thus, thanks to the marketing strategy of the profit-oriented financial institutions, some people are effectively excluded.

5. **Self-Exclusion**: Most of the studies on financial exclusion have highlighted self-exclusion as an important driving force of financial exclusion. People decide themselves that there is no use in applying for financial products as they think that the financial services providers would mercilessly refuse their request for such things. They arrive at these conclusions because of their experiences with the financial system.

### 2.2.1 Developing a working definition of Financial Exclusion

Having discussed a wide array of definitions pertaining to financial exclusion, the next attempt is to develop a definition of financial exclusion that best serves the purpose of this study. From the review of the above definition, it is obvious that finance means an array of products, which enable the people to transfer resources from one point of time to another point of time, or from one form to another form, or from one location to another location so as to address different type of vulnerabilities that they are likely to face. From an array of financial products, the study chooses only three viz.
bank account, credit, and insurance. In the following sections on the extent of financial exclusion, a detailed account of the exclusion of tribes from the pension system is also illustrated. However, as tribes hold pension largely not because of demand for it but due to supply side reasons, from the measurement of the degree of financial exclusion pension has been omitted. There are many related concepts pertaining to the broader issue of financial exclusion/inclusion. Now, the study intends to provide a brief account of such concepts, which are deemed important for understanding the issue of financial exclusion among the tribes.

2.3 ‘Access’ v/s ‘Use’ of Financial Services

While dealing with the issues of financial exclusion one must be conversant with the distinction between two seemingly similar words viz. access and use. In a straightforward commonsensical view, access is just conveying the same meaning of “supply”, while the ‘use’ connotes both demand and supply (WB, 2008). A bank existing in a locality ensures the availability of necessary financial products in that locality. That means use is driven by both demand and supply. Alternatively, to use a thing first we must have the demand for that thing, and then there must be a source to supply the thing. The same is the case with finance as well. In the advanced economies even, the wealthy customers, despite having accessing to all kinds of financial services, may be inclined not to use such services.

2.4 ‘Exclusion’ v/s ‘Access’

Experts opine that instead of using the term financial ‘exclusion’, ‘access’ to finance must be used in the context of developing countries. This is because access to financial services is the preserve of a minute minority in low income countries whereas in advanced industrial economies, most of the people have access to financial services as the financial infrastructure is relatively well developed, and that means ‘access’ is not a built in problem in such countries (Carbo, Gardner, & Molyneux, 2005). Nevertheless, in advanced economies still some 4 to 6 percent of people are ‘excluded’ as they keep themselves out of the financial framework. Putting it differently, exclusion is more active whereas access is passive in the sense that in the case of the former, despite having intention to be included in the financial system people are denied access due to supply side bottlenecks and policy issues. It is to be noted here that the ‘percentage rate
of access in poor countries is about equal to the percentage rate of excluded in the advanced industrial economies’. Accepting this view we may argue that in Indian context there is nothing wrong in using the word ‘exclusion’ as we have initiated supply side interventions like offering no-frill accounts aiming at cent percent financial inclusion. In simple parlance, ‘access’ is a supply side issue where as ‘exclusion’ can be taken to be a demand side issue.

2.5 Active and Passive Exclusion

Exclusion of any kind can be active and passive. This distinction is immensely useful when we search for the nature and causes of exclusionary process. Precisely the significance of this distinction lies in identifying solutions to address the problem of financial exclusion. As in the case of any form of exclusion, the above said matter turns out to be equally relevant in the process of financial exclusion as well.

2.5.1 Active exclusion

Exclusion is said to be active when it happens not because of any process or the interplay of variables working within the system. Active exclusion is the fall out of deliberate attempts of the host communities and the systems working therein to deliberately exclude someone from having access to what people inhibiting in that system enjoys. History is flooded with the instances of such active exclusionary process. Active exclusion does not require an in depth study to unearth the factors leading to it, and the solution to such kind of exclusion can be swiftly taken by the government through some legislative measures or government orders.

2.5.2 Passive Exclusion

Passive Exclusion on the other hand results from factors working within the system (endogenous factors) and consequently it becomes pertinent to seek researchers’ assistance to enquire into the factors leading to the development of passive exclusion. What distinguishes passive exclusion from active exclusion is that the former is not the outcome of any deliberate attempts to exclude some categories of people from having access to what they intend to. Such exclusion happens as an offshoot of policies followed by government. Applying Sen’s views (Sen, 2000) on the distinction between
active and passive exclusion to the context of finance, one could see that passive financial exclusion, which is the fallout of policy induced decisions and behavioral issues of the clients of the financial sector, needs to be cogitated. Nevertheless, geographical desertification, which often happens following the closure of a bank branch in a specific geographical area, can be resolved overnight with a direction to retain the bank in the same locality.

2.6 Unfair Exclusion and Unfair Inclusion

It would be interesting to explore the distinction between unfair exclusion and unfair Inclusion, which is contextually fitting especially in this study, and these two concepts have assumed unquestionable place in the literature pertaining to social exclusion in recent years (Sen, 2000). It is a general perception that people in a society can have legitimate access to all type of rights being bestowed upon them by that society either constitently, if it happens to be a democratic republic, or customarily. Nevertheless, sometimes individuals forming a part of specified social group viz. Scheduled Tribes and Scheduled Castes are denied the same equal access to all rights and privileges, owing mainly to the social identities of these individual, then such a state of affairs give rise to the issue of unfair exclusion.

On the other hand, unfair inclusion, albeit sounds as if inclusion has happened, connotes a seemingly different but dangerous situation where individuals from the above said social groups, may have gained access but on discriminative terms and conditions most probably unsuitable to serve their basic interest. In the present context of unraveling the extent and degree of financial exclusion of the socially and economically disadvantaged, like the unfair exclusion, it is possible to place the concept of unfair inclusion as well in a suitable way. A typical instance of ‘unfair inclusion’ is banks’ attitude of denying different financial products to the holders of accounts. To fulfill the target of financial inclusion, banks offer accounts to hitherto excluded, but when the newly included people approach banks for many other products like credit, the managers of banks may impose some discriminative restrictions in their own interest, which may go against the interests of these customers.
2.7 Individual Exclusion and Group Exclusion

This is another set of concepts frequently used in the context of studies relating to exclusion particularly social exclusion, which may find some reflections in the present study as well. As these concepts plainly sound their meanings, further explanation seems to be unwarranted. What needs to be stated is that in the present study, the researcher confronts with the case of group exclusion rather than individual exclusion as the purpose is to study the problem of financial exclusion of the socially and economically disadvantaged social groups, the Scheduled Tribes.

2.8 Voluntary v/s Involuntary Exclusion

If an individual decides himself or herself to be excluded from having access and use of financial services, then such a condition is said to be voluntary exclusion (Caskey, Duran, & Solo, 2006). This happens frequently in the case of old age individual who may not access financial services despite having all avenues for it. It is a case where they themselves decide not to have such services as they feel that they do not want it despite being aware of the need of it. On the contrary, involuntary exclusion is imposed on them by the system in which they live in.

2.9 The Approach to Financial Access and Use

One pertinent question arises at this juncture: What are the things to be included under the label access to finance to judge whether or not a person has enough access to financial services. World Bank (2008) has elaborated on four key areas of the access, which can be taken as indicators of identifying whether a household or an individual is included in the financial services or not. These are: 1. Transaction Banking, 2. Savings, 3. Credit, 4. Insurance.

2.9.1 Transaction Banking

Having bank account for transaction purpose is seen as a necessity in financially developed nations. Transaction purpose covers payments made against purchasing commodities in the market through cheque, or through credit/debit cards. Moreover, bank accounts generally help a person to encash payments he gets in the form of cheque or drafts. Utility bill payments also get easier if done through banks. Researches into the
benefit of financial inclusion have revealed that with the help of having an account, transaction costs can be reduced. Reduction in transaction cost will add to the pocket of the households. Transaction account, which comes via inclusion in the banking system, is said to be primary owing to the fact that it is a key to accessing saving and credit facilities. Lack of it in fact disturbs market access in all forms. It is often found that lack of transaction account makes things difficult and expensive for people and it enhances the risk of poverty. The type of transactions that can be connected bank account are: Receiving regular payment (for instance in India, payments in the MGNREP have been made statutorily through Bank Accounts); converting cheques into cash; storing money safely until it is withdrawn; paying for goods and services other than in cash as it is less time consuming and more comfortable; paying bills electronically; making remittances.

Having access to a banking account generally qualifies a household or individual to be designated as financially included. Nevertheless, there are degrees of financial inclusion depending on the facilities that they enjoy via having a banking account. These degrees or gradations of financial inclusion are:

‘Unbanked’- people or household with no bank account at all.

‘Marginally banked’- people with bank account but have no cheque-book and other modern electronic payment and withdrawal facilities like Debit/Credit Cards. In terms of the use of the bank products, marginally banked can also be those who have these banking amenities but make little or no use of such facilities.

‘Fully banked”- this category enjoys all facilities being offered by the modern banking system. They have access to all financial products and make the best use of these facilities.

2.9.2 Saving Exclusion

The lack of access to a saving account in a bank or in a post office creates enormous problems in the economic life of people. Inflation erodes the value of money. If people are aware of the advantageous of saving with bank or investing in other income earning assets, then they can be insulated largely from the adversaries of inflationary tendencies. Saving exclusion is often considered as a consequence of the lack of money to save due to the wide mismatch between income and expenditure.
mainly in the case of low-income households like the tribes. Lack of habit to save money in bank because of the past negative experiences that they might have encountered with the officials of the banks may compel the people to exclude themselves from having saving accounts. Apart from this, it is seen that some people may not have faith in the formal banking system, as they are illiterate or ignorant about this.

2.9.3 Credit Exclusion

Credit is indispensable especially to those who find a negative mismatch between their income and expenditures. Credit, undoubtedly, facilitates smoothing out consumption and protects the households from unexpected income shocks that are likely to be experienced mainly by the low-income households. It should be mentioned here that National Sample Survey Organization defines and estimates the extent of financial exclusion on the bases of the indebtedness to the formal banking system, that is, it considers only those who have access to credit facilities as being financially included. Of the various ways of financial exclusion credit exclusion assumes significance. In the present study, the researcher deals extensively with the issue of credit exclusion of the tribe households.

2.9.4 Insurance Exclusion

Insurance products are the inevitable forms of finance in the modern society. Insurance serves when we face unexpected and unforeseen incidence in our life. Such incidence if occurs can wipe out all earnings and savings that a person has made in his lifetime. Hence, we need some protection against such mishap in our life. Insurance products help us to transfer resources from a time of certain conditions to a time of uncertain conditions. For instance, health insurance, which has been a popularized mode of insurance nowadays, helps us to transfer resources from a period of good health condition to a period of bad health. Most of the poor people find it difficult to break their vicious circle of poverty in the event of them being affected by diseases. Insurance products can be categorized into two parts: Mandatory insurance products and non-mandatory insurance products. In the case of mandatory insurance products, for instance vehicle insurance, their lack of access does not deserve to be studied. Hence, in the
analysis of the extent of insurance exclusion of tribes, the study does not give much attention to the mandatory insurance products.

2.10 Theories of Financial Exclusion

This section dwells into the efforts of providing a theoretical framework to illustrate how financial exclusion is emanated and exacerbated in the process of financial and economic development. Globally, current financial exclusion has stemmed from the evolvement of a fragile financial foundation built on the sole objective of making exorbitant profit through the adoption of new cost saving technical devices (Automatic Teller Machines (ATM), Mobile Banking, and Internet Banking) by the banking institutions. This is obviously different from the phenomenon of “exclusion” that occurred in India in days immediately succeeding the attainment of independence and the advent of Planning Process in 50s and early 60s, when the lack of branch expansion was supposed to be the hurdle. In response to this state of affairs, in 1969 the historic decision of nationalizing commercial banks was taken, and consequent up on that the policy of branch expansion got a fillip, resulting in the spread of banks to the hitherto “unbanked” places in India (Bera, 2009). Of course, one can hardly deny the truth that in countries like India where fundamental bottlenecks are associated with society and polity, the germination, and perpetuation of financial exclusion are imminent. Hence, as far as the financial exclusion of tribes is concerned, these fundamental factors deserve to be thoroughly looked into. Keeping this in mind, let us now turn to two theories that explain the process of financial exclusion, as it appears, in countries like India.

1. Free Market Model.
2. The Theory of Asymmetric Information.

2.10.1 Free Market Model

This model, technically labeled as the “Share holder Wealth Maximization Model, hereafter abbreviated as SWMM, explains the process of financial exclusion at the macro level. This model rests on the principle of projecting “Market” as the sole panacea for all illness of an economy. It is argued that a deregulated economy (a market
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(economy) has an inherent tendency to move closer to “Pareto Optimum”. Intervention by the policies of government will take away the economies from the path of attaining growth accompanied by the removal of all type of imbalances.

In deregulated financial scenario, financial institutions indulge in stock market operations to collect fund for their functions. Most of the leading financial institutions encompassing banking institutions have embarked on placing their shares in the capital market. Besides the new generation and private banks thronging on the capital market to collect fund, nationalized commercial banks in India have also followed the suit, thanks to policy change of government in favor of disinvestment. Consequently, the share holding of government in most of the Public sector banks has come down to a level as low as 51 percent (Table No.2.1). Owing to this, the pressure of making the institutions worthy of stock market investment has in fact forced these institutions to abstain from risky lending. At this juncture, one could find a paradox that whilst deregulation appears to increase financial inclusion, the opposite, financial exclusion, seems to have surfaced as a growing problem. The argument that deregulation should have resulted in financial inclusion rather than financial exclusion rests on the principle that market driven strategies always lead to the spawning of financial products. Nevertheless, the risks in lending, efforts to abide by capital adequacy norms and the increasing pressure to be more productively efficient conspire to force banks to focus more on certain groups, rather than on customers in general, leading to the financial exclusion of non-valuable customer groups including tribes. The inclusion of more valuable customer group even at the cost of the exclusion of the underprivileged or the least valuable will immensely enrich the value-added in SWM sense. Most of the new generation banks and private banks seem to have been adopting this strategy. As Boyce (2000), summarizes the process: ‘Customer valuation is shown to have become a means to increase shareholder income and wealth, almost inevitable at the cost of further marginalizing the poor and disadvantaged’.

The deregulation of the financial sector in force in India since the onset of neo-liberal policies has in fact exacerbated financial exclusion (Chavan, 2008). Evidently, financial exclusion is the result of the enhanced competition triggered by globalization.

1 “Pareto Optimum”, is a condition, which does not envisage an economic agent’s position being deteriorated following the enhancement of the gain of other persons (Leach, 2004).
and deregulation. The shift that the banking institutions have made to ‘valuable customers’ in the pursuit of enhancing their ‘value addition’ can rightly be called as a “strategic shift” which has been underway in banking operations world over.

Table 2.1 Share Holding of Govt. in Public Sector Banks in 2009

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<tr>
<th>Name of the PSB</th>
<th>Government shareholding in percent</th>
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<tr>
<td>Central Bank of India</td>
<td>80.20</td>
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<tr>
<td>Indian Bank</td>
<td>80.00</td>
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<tr>
<td>Bank of Maharashtra</td>
<td>76.77</td>
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<tr>
<td>Canara Bank</td>
<td>73.17</td>
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<tr>
<td>Oriental Bank of Commerce</td>
<td>51.09</td>
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<tr>
<td>Andhra Bank</td>
<td>51.55</td>
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<td>Dena Bank</td>
<td>51.19</td>
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<tr>
<td>IDBI</td>
<td>52.67</td>
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<tr>
<td>Bank of Baroda</td>
<td>53.81</td>
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<tr>
<td>Vijaya Bank</td>
<td>53.87</td>
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<tr>
<td>UCO Bank</td>
<td>63.59</td>
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<tr>
<td>Syndicate Bank</td>
<td>66.47</td>
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<tr>
<td>Union Bank of India</td>
<td>55.43</td>
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<tr>
<td>Allahabad Bank</td>
<td>55.23</td>
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<tr>
<td>Corporation Bank</td>
<td>57.17</td>
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<tr>
<td>Punjab National Bank</td>
<td>57.80</td>
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Source: RBI Bulletin

This strategic shift has in fact led to a separation between lower income customers and higher income customers mainly in the case of financial products to which they have access. This separation has been intensified by a lot of other factors including technological advancement that banks have gained in recent times, whereas these
‘advancements’ appear to be not accessible to a large number of low income and socially disadvantaged customers like the tribes.

2.10.2 The Theory of Asymmetric Information

One reason for financial exclusion is the lack of correct information about the potential borrower and lender. At a time when information technology rules the world of financial operation, financial exclusion, arising out of information asymmetry assumes significance. The information happens to be asymmetric or imperfect when one party to a product has more information than the other. When these conditions persist, many problems surface, which may adversely affect economic exchanges of financial products and in its culmination it can lead to the denial of financial products to some groups of people. In addition, sometimes it is likely that the potential borrower may misinform the lender, the banks, about their credit worthiness, which ultimately raises the loan default rate, paving the way for an escalation of financial crisis, making the financial institutions to be more vigilant in lending. This extra vigilance will finally end up with the exclusion of more people, who would otherwise be included, from the purview of financial network.

It is observed that institutional arrangements in the form of banks find it difficult to break the barrier of information asymmetry especially in rural areas, which ultimately tempt the buyers to seek financial products from informal sources. Informal sellers of financial products like moneylenders, on the other hand, are quick in addressing the problem of information barrier. Hence, the low or zero information cost coupled with low transaction cost of the financial products being offered by the informal sellers of financial products makes the lending operation cost-effective. Thus, perfect or near to perfect information is the key to the successful and sustainable operation of a financial system. This is because many of the credit contracts that happen in the financial sector are of forward looking in nature. This necessitates the identity and the intentions of the buyers of financial products critical to the likelihood of the repayment. Things go wrong when information pertaining to the borrowers is partially or false fully disclosed to the prospective lender. If the borrower fails to live up to his agreement of making regular repayments, then definitely the lenders (the Banks) may seek ways not to lend further to

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2 For a detailed analysis of the nature of financial market, see the Appendix 2.1
such defaulters culminating into financial exclusion of the defaulters or the future prospective borrowers howsoever they appear to be honest. Institutional mechanisms have been put in place by the banks to mitigate or at least to minimize the impact of asymmetric information.

Having thrown insight into the theoretical underpinnings of the problem of financial exclusion with emphasis on the exclusion of the socially disadvantaged like the tribes from the credit market, now we turn our attention to sketch the historical evolution of the problem of financial exclusion.

2.11 Historical Genesis of Financial Exclusion

Well known is the fact that exclusion, in particular of certain groups of people like the tribes from the main stream of social framework, surfaces on account of divergent causes and, as such development literature is blessed with nomenclatures like social exclusion, economic exclusion, financial exclusion and the like. All these forms of exclusion, no matter howsoever they distinguish themselves from each other, boil down to the single feeling that the excluded social groups are not taken along with the mainstream, or the excluded are, by themselves, inclined not to be a part of the mainstream society. Beneath all analytical concerns of any type of exclusion, one can identify a number of underlying factors, which are rooted in the fundamental nature, and working of the society or the economy in which the exclusion persists. Moreover, all types of exclusion are intertwined with each other. Very often, one can hardly find the beginning and the end of this intertwining process. For instance, social exclusion can pave the way for economic exclusion and vice versa. Both of these can engender financial exclusion, and at a later stage, one may find financial exclusion as exacerbating the seeds of social and economic exclusion. How this vicious circle can be broken with deliberate inclusionary techniques and instruments like access to finance, credit, and empowerment of social groups like the tribes is an issue that deserves to be probed.

At the outset it must be mentioned that exclusion has become popular and a much disheartening thing today albeit it has been there all times throughout the history of humankind. It needs to be borne in mind that the unprecedented policy attention that has been paid to the problem of exclusion stems from the unrest spread all over the
world following the overemphasis that the neo-liberal market driven policies have gained in the policy space of democratic governments. Looking into the origin of the social life of humanity, one can see the elements of exclusionary process in every walk of life, underscoring the fact that exclusion is germane to the human community. From the hunting man to the space man, one can easily peep into the structure and institutions creating circumstances leading to the exclusion of some people who become the outliers being denied of all fruits of development. Today’s exclusion of all kinds can at best be considered as the culmination of the hitherto occurred and persisting exclusionary processes viz. social and economic exclusion. Hence, a solution to the problem of financial exclusion must have a historical perspective of how human society has experimented with varied forms of exclusionary process over the years. This section attempts to sail through the historical evolution of the exclusionary process.

2.11.1 The Hunting Society and Economic Exclusion

The very primitive form of society is the hunting society in which men used to engage in the occupation of hunting animals and fishing. This was the society before man came to know about the significance of agriculture and other allied primitive activities. In a hunting society, the hunter mostly the well built shares his things among the members of the community regardless of the relation he had with them. In this sense, hunting was used to be done in order to satisfy the hunger needs of the population of the community. This can be rightly called as “subsistence hunting” (Conklin, Laura, & Graham, 1997). The hunter, having not acquainted with the process of keeping the things for future consumption, might not have adopted any ways by which he could store things and thereby exclude somebody from having a legitimate share of what he would earn through hunting. In such a communal sharing framework which can be said to be similar to the concept of a Need Based Economy (Kurien, 1995) exclusion, in the fullest sense of the term, might not have crept into such an ancient need based economic system. Nevertheless, as time passed, some hunting societies began to be adopting some exclusive practices by not sharing the earnings equally or unequally among the members of the society based on their needs.

As has been narrated earlier, a hunting society, where every member interest was taken care of as far as the distribution is considered, is a society consisting of people devoid of unbridled greed as is found in later societies where members would nurture
the habit of keeping for future in anticipation of indulging in conspicuous consumption and profiteering activity. Such societies built on the premises of materializing the unbridled greed of somebody would slip into the process of keeping some people away from tasting the share of what they ought to get legitimately from the activity they perform. Here, one would notice a want based economy (Kurien, 1995) or a society where some influencing members prioritize economic decisions so that they could have their ambitions materialized at the cost of depriving others of their legitimate rights. The alienation of tribes from their lands by the plainsmen is a fitting example to this, and consequently as we see today tribes have become dispossessed of their land, which has been cited to be an important reason for the economic and social backwardness of these indigenous people. Largely the reasons for financial exclusion could also be observed in this particular aspect.

It brings us the picture that hunting society had no system of ownership of assets, and of course, due to that had no individualistic motive of keeping or accumulating more. Sharing among the members based on each one’s need, not greed was probably the guiding principle of such a society. Exclusion is alien to such a society. Moreover, such a system is, and has been, never prone to any derailing because of the blocking of the circular flow as it might happen in the case of a want based capitalist framework, where exclusion to the zenith paves the way for the paucity of aggregate demand for produced things, leading to over production and other associated chaos and social unrest. Thus, it can be argued that exclusion is either an inbuilt component or a byproduct of a Want Based System or a market driven economy.

2.11.2 River Based Settlement and Exclusion

It is obvious that men started settled life along the banks of the rivers, leading to the origin of river based ancient civilizations. The settled life and the circumstances around the place where they zeroed in consequently prompted them to cultivate vegetables and the invention of fire added further taste to their vegetables (a former version of value addition). The origin of cultivation culture might have triggered off a chain of exchange process within members of the community. The place of an individual in an exchange economy of this nature was used to be determined by the quantity of things he or she could cultivate and process. Since, finance was apparently absent, the asset of an economic agent was his physical labour power. Those who were
reluctant to put labour power to work, or those who could not toil on land on account of physical inability might have been excluded from the exchange economy. As there was no mechanism to take care of such individuals then it might lead to their exclusion from the society. These kinds of exclusionary process, which often happens not because of the deliberate inactivity of the person involved, may be encapsulated as involuntary exclusion.

The transformation, which the hunting society underwent from that of a lawless hunting-based functioning to that of a cultivation-based society, heralds the beginning of a sea change in the social and economic exchange functions of people. Hunting society is a top-down society where the hunter earns and distributes things to other members. This one side exchange is prominent in every sense in such a system. Nevertheless, when people started encamping along the buds of the rivers, it fuelled the need for joint endeavors in cropping and harvesting agricultural goods. Thus, every member of the community or camp happened to be the earner or producer or at least a part of the producer groups. This naturally made people capable of exchanging things in a society. Thus, there came in what can be encrypted as an exchange economy where exchange becomes intertwined as everyone has something to offer against something. Evidently, exclusion of an individual from the exchange process was uncommon in such a society, unless some non-economic reasons tended to force somebody voluntarily exclude himself or herself from the mainstream economic process.

The growth of the exchange economy in both size and value necessitated the invention of a medium for facilitating the easy and speedy exchange of goods and services. Unknown about the possibility of using a thing like money or coins as we use it today, people naturally began to put in place precious stones and metals as medium of exchange. Obviously the reason for choosing precious metals as the medium of exchange was their shortage of supply in relation to demand. (The market based value determination where the paucity of a thing in relation to demand determines the value). Thus in those times a thing like money derived its value not from utility but from scarcity. The money had no features of being backed by legal sanctions, as there was hardly any government in the formative stages of early civilizations.

The advent of currency and coins supported by established state governments marked the beginning of an epoch in the history of exchange. The use of money
underwent transformations and additions as the volume of trade and the complications of exchange process enlarged. The role of money went beyond merely acting as a medium of exchange to that of an instrument with which more wealth could be amassed. The origin of money as finance capital brought with it an array of divergent functions. While in an old monetized economy production of things could command money, in the newly over monetized framework production no longer becomes a necessity for a person to secure money. If one can have access to fiancé capital or money or credit he can trigger off operations by which more wealth in the form of money could be harnessed. Here, a person having no access to finance capital or money will be at a disadvantage and he or she will have to struggle with social and economic hazardous unless access to finance is ensured. Hence, it is apparent that in a highly monetized economy as we have today access to finance is a prerequisite to prosper as far as economic agents are concerned.

The evolution of money should be analyzed based on the evolution of exchange economy. It is apparent that the nature of money changes as it assumes different roles. As the medium of exchange function was the primary role a thing like money is expected to play in early stages, the price of money (interest) did not deserve much attention. Later money began to be assigned more proactive roles other than exchange functions. The prominence that the money came to occupy in an exchange economy might have tempted individuals to go in search for ways to garner more monetary resources. The enviable role of money had attracted some price for it. Thus, interest rates came in. Many in the ancient period considered charging interest as a sin. In this context to get a vivid picture of how finance has become important in the modern economy, it is indispensable to have a look at the evolution of the exchange economy and finance. Through this, we intend to explain the fact that since finance is a key factor to be reckoned with, any exclusion from the system of finance is tantamount to an exclusion from the society, and such financial exclusion will result in more deprivation of economic agents. Let us now turn to the evolution of the exchange economy and finance for a deeper understanding of how access to finance becomes inevitable even for the tribes in today’s economy.
2.11.3 Exchange Economy and the Evolution of Finance

An overview of the evolution of the concept of money and finance over the years in the broader framework of an exchange economy is indispensable for the analysis of the process of financial exclusion of tribes. Such an in-depth study will help us to see theoretically how money and finance have evaded the underprivileged sections of the community from participating in, contributing to, and benefiting from the activities of an exchange economy, resulting in their pauperization and concomitant exclusion from the mainstream financial framework, which comprises of formal financial institutions like banks. First, we shall go through the evolution of the exchange economy to understand how this evolution has shaped the emergence of the problem of financial exclusion.

2.11.4 The C-C Economy

Economists from the time of Adam Smith have attempted to emphasize the role of money as a medium of exchange, which is the primary and the most innocent role a thing like money is expected to play. In a moneyless economy, like barter system, (C-C Economy) where commodities are exchanged for commodities, exchange is supposed to take place on a limited scale. In this C-C system, a thing like money or finance has little role. In such a system the real sector dominates in the sense that if one has to be a part of the exchange economy, he or she must toil on the land or on ‘capital’ to produce something in real. A person having nothing in real form to exchange with has nothing to do with a C-C exchange system. Thus, it is obvious that in such system it is unlikely that a person is excluded from the exchange process just because of the fact that he or she does not possess money or finance. Hence, the question of financial exclusion lies outside the purview of the C-C Economy. However, such a system is beset with many inconveniences as it requires the double coincidence of wants, and C-C economy does not seem to be capable of keeping pace with the speed with which the real sector progresses.

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3 This is based on concepts referred by Prof. Oommen in a forward written for book Global Economic Crisis: End of Growth Paradigms (Oommen, 2009).
2.11.5 The C-M-C Economy

The difficulty which people had to encounter with C-C Economy naturally paved the way for the coming up of a medium of exchange known as money. Thus came into being the C-M-C economy, where commodities were produced and sold against money and using that money people would purchase things, which they could not produce. The major distinguishing element between a C-C economy and C-M-C economy lies in respect of the fact that the latter is one, which considers Money as a medium of exchange. Here, money is supposed not to do an important function that is, acting as a store of value. However, besides being a medium of exchange, in this system, money may act as a measure of value since while exchanging products for money, people may think of whether the value of their products are equal to the value of money which they get in return, or not. Likewise, when a person buys products, he or she appears to be keen in ensuring that the value of the money offered is at least equal to the value of the products they desire to purchase. Thus directly or indirectly in C-M-C economy money plays the role of measure of value while it explicitly does act as a medium of exchange. In C-M-C exchange system, it is obvious that still the real sector dominates. Money’s role seems to be limited to that of facilitating exchange so that it oils the exchange economy to enable it to undertake production on a large scale. It drives us to the inference that only those economic agents who toil to produce are eligible to be a part of the exchange economy because of the primary reason that if one wishes to have money, he or she must have something to sell in the market against money, and of course using that money so earned commodities can be bought. The implication is that here too finance does not seem to be excluding anyone on the basis of any group identity or lack of economic entitlements because the only one prerequisite to obtain money or finance is to produce things in real form first, and then exchange it against money.

2.11.6 M-C-M’ Economy

Quite different from C-M-C exchange system, another extended system rendering priority to money has come into being in response to an array of developments covering large scale production, technological innovation, growing population and a lot other elements which are generally attributed to factors responsible for the boom that has been witnessed in the global economy in recent times. This
system, although very complex in its nature and functioning, can be encrypted in the form M-C-M* exchange economy. As is evident, with this new money based exchange economy, real sector has been relegated to a secondary importance, while money has come to occupy a large position than ever before. The form of this economy clearly reveals that only those having sufficient source of money or finance, or assets or skills, can produce commodities to be a part of the exchange system. People in this system borrow money by pledging their assets in the form of land, jewels, or house as security, from different formal and informal sources. They put this money into the process of production and sell the produced things in the market at profitable price. Thus they earn more than from the market (M*) than what they usually spend as cost of producing the commodity which is labeled as ‘M’ in the above form of relation. What is interesting to note here is that under normal conditions we expect the theoretical outcome that M < M*. If M* happens to be greater than M, and as is the case elsewhere, people will begin to consider money or finance as very important. It is here money or finance becomes very crucial in the new variant of the exchange economic system. Thus in this system, the main prerequisite to be a part of the exchange economy is that one should have money or finance. Since money or finance appears to be as important as the system itself, the question of finance arises and consequently the question of financial exclusion as well. The coming up of M-C-M* system has brought about revolutionary changes in the structure of the exchange economies. It actually heralded the beginning of the establishment of a number of formal and informal financial institutions spawning financial products tailored to the needs of mostly the greedy people who actually do not ‘toil and trouble’ to create anything in real terms. Since these financial institutions, mostly in private sector, thrive upon profit in a competitive economy with unfettered individual freedom and inadequate government intervention, it is apparent that many such institutions move after the credit worthy persons unless otherwise strictly directed by the apex regulatory bodies that credit should be allotted to priority areas. Causing threat to the existence of the real economy and its fundamentals, M-C-M* system is said to have grown to that level where, today, the money market decoupled from the real world exponentially expands to create more money M-M*-M**-M*** and so on. All these boil down to the fact that when we use money as an instrument of accumulation and store of value rather than as a medium of exchange, all problems pertaining to finance or money crop up.
Thus, it is obvious that unlike C-C and C-M-C exchange economies, the M-C-M* exchange economy is much more prone to the phenomenon of financial exclusion, which becomes acute unless addressed properly by the directive measures of the government. As the M-C-M* exchange economy becomes more and more complex as we see today, the problem of financial exclusion assumes varying dimensions. For instance, the nature of financial exclusion in the pre and immediate post-independence days, mostly geographical and institutional exclusion, seems to have disappeared now and instead much more sophisticated ways have been put in place, which ultimately pursue some socially, and economically disadvantaged social groups viz. STs to keep themselves outside the reach of the mainstream financial system. In addition, transformation from the ‘Brick-Mortar’ Financial Intermediation to the ATM, Mobile, and Internet based intermediation has in fact alienated some segments of population from accessing the services of financial institutions. Now, the researcher attempts to provide a theoretical and historical explanation for the marginalization and pauperization of tribes, which would be helpful for further analysis.

2.11.7 Pauperization and Marginalization of Tribes: A Historical and Theoretical Look

In this section we intend to journey through the historical and theoretical crossroads that meet with the narratives of how the tribes as a society has been excluded in all spheres of life, not only in the realm of finance alone. This type of an elucidation is highly warranted, as tribes are a peculiar community to whom probably the world of finance and the need of comprehending about it may appear to be at odds with their economic and social life. And this type of a narration would help one to critically asses the hollowness involved in the strategy of financial inclusion by way of just opening account in the name of the ‘unbanked’ especially the marginalized and weaker like the tribes regardless of enquiring whether they need or not. Moreover, to explain the problem of financial exclusion of tribes from the perspective of demand side, this theoretical framework would be of immense use.

It is well known that certain segments of society particularly those who have been flocked under one umbrella ‘the marginalized and weaker’ have always been pulled to the periphery in the process of development, dispossessed of their traditional entitlements like land, and disempowered by dismantling the production relations to
which their skills were most fit once. They have been rendered hopeless, homeless, landless, and footless by the changing paradigm of development strategy, which ultimately fail to accommodate them constructively and fruitfully, culminating into their deprivation. The story of tribes most fits to this reality as well. Hence, any attempt to include them virtually into the edifice of the modern exchange economy and finance through the seemingly easy way of financial inclusion has to be built on this understanding.

In the very primitive form of society when men were leading a nomadic life, owning nothing individually as everything was perceived to be common to all (Common Property Resources (CPRs) as it is used today) the need of money, and therefore the question of greed did not come up. As no one had anything explicitly specific to him or her except the raw or unskilled labour power that was of course embodied by birth, the perplexing question of ‘exclusion’ was altogether absent. Nevertheless, this seemingly idealistic social and economic equilibrium that had existed in those days gradually started evading with the advent of State (or a ruling class) giving deed power to certain segments of population in return of tax proceeds, often belonging to the upper caste in the social ladder. This made land a private property of somebody who could rub their shoulders with the emerging ruling class. Thus, the hitherto commonly held land assets were converted into exclusive private assets of those who could grab it from the rulers, compelling others, the real cultivators, to bid adieuo to their common assets only to become hired or bonded workers. This, in course of time, led to the emergence of a landless class leading to their dispossession of land assets, making them the mere sellers of labor power in exchange of a part of yield that they would create on ‘others’ land. Once the land more particularly the fertile land, the prime assets, the traditional indispensable factor of production after labour, become a thing to be possessed, those who had to remain devoid of land to cultivate on, freely and fearlessly, became economically ‘excluded’ from the whole structure of production system and relations thereof, and thus began the saga of exclusionary tendencies.

In the very crudest and simplest form of production function land, labour and capital are the main factors of production. The advent of private ownership of property had made the lower segments of society dispossessed of land, and thus as said earlier, they had to continue as the landless labour class. Once the bonded system of labour or
‘un-free labour’ got started, the labour class had to be dispossessed of their naturally embodied labour power in the sense that they themselves got rid of their control over their ‘labour’. Thus, a segment of population like the tribes devoid of any factors of production, like land and control over labour naturally became marginalized and weaker in all aspect of life viz. social, political, and economical. Faced with the lack of land, and other assets they had to confine themselves within their own moorings, some might have been inhabited in settlement colonies very close to forests and hills whereas some started leading nomadic life. Using the ‘un free labour’, the landowners embarked on a production process for market, thus creating a ‘surplus’, which allowed them to accumulate more and more capital whereas the marginalized particularly the tribes were producing for ‘self consumption, not for market. The ‘surplus’ which they (the advantageous) would create was actually the ‘labour surplus’, which could be fetched using the cheap labour made available though the system labour bondage.

The land owning class with abundance capital cornered chiefly through the exploitation of labour and other social space they had by virtue of their elite social and economic position, started acquiring additional labour skills, which would meet the requirements of the labour market. On the other hand, the disadvantaged sections had to contend themselves with the traditional skills as they had no choice for better education and skill up gradation. Consequently, they found their innate skills unsuitable to the changing labour market, forcing them to remain in the traditional sectors of employment offering low wages. Moreover, the method of production and the natural resources, which made such production possible, began to be replaced by the modern production methods requiring sophisticated skills. Thus, this marginalized segment of population started facing these kinds of labour market impediments, putting their life at stake. The growing deforestation coupled with draconian forest laws thwarted their traditional source of livelihood making them impoverished in all aspects. The privatization of the common property resources following the liberalization policies in fact added fuel to this problem.

Now, coming to the realm of finance, or putting it broadly, the financial market, we know that there are two groups of agents or participants: the Surplus group and the Deficit group. The former has income left after consumption to save whereas the latter finds expenditure exceeding income and reason to borrow. Nevertheless, those coming
under the deficit group have skills, or putting it rightly, may have entrepreneurial aptitude to invest, and hence they seek credit for productive purposes. In addition to that, they have creditworthiness to demand credit from the financial market. Thus, in the financial market one segment of society, the advantageous group, thanks to their resourcefulness (backed mainly by land ownership) and skillfulness, enter as both surplus group and deficit group. They act as surplus group as they have more wealth to be parted with the banks and other financial institutions to fetch interest income, and to gain out of ups and downs in the economic activities (Capital market operations). They act as deficit group as they have demand for credit to invest in productive proposes, and their credit demand is worthy of being met by the financial entities as it is backed by creditworthiness in the eyes of such entities.

On the other hand, as far as the disadvantages segments like the tribes are concerned, generally, they never act as the surplus group as they have no ‘surplus’ since they struggle to survive, and they produce, if they do so, only for domestic consumption, and not for market. Nor do they demand credit, as they have no skills to invest or produce, and if they demand credit, it is unlikely that the demand is met by the above said financial entities, as they (the disadvantageous group) are credit unworthy in the eyes of such entities. Moreover, financial sector constitutes a part of tertiary sector. Since the disadvantaged marginalized people like the tribes, due to their poor resourcefulness (lack of land and other assets) and skillfulness, still confines themselves mostly to the primary sector activities, it can hardly be expected that they involve constructively in the financial sector. All these substantiate the fact that for the disadvantageous marginalized people like the tribes their ‘inclusion’ into the realm of finance is not something which stem from their urge to be included into the system, rather their inclusion is something which the external force desires to accomplish seemingly for their vested interests. Because of this credit unworthiness from the point of view of formal credit suppliers, the low-income marginalized people find informal sources as the last resort to meet their credit demands.

Thus, it is obvious that the root cause of the problem of financial exclusion that the disadvantageous marginalized people like tribes confront with lies in their social and economic exclusion, which they have been experiencing ever since the system of the ownership of private property (especially land) came into being. The ownership of land
coupled with the capability to acquire and sharpen skills through education made a segment of people advantageous in every sense whereas the landless adorned with poor and unfit skills became the disadvantaged group, and this backwardness has got reflected in their exclusion from the financial system as well (Figures 2.1 and 2.2).

Figure 2.1 The Case of Advantageous Group

Ownership of Land (the main Assets) → Acquisition of Skill and Access to Labour Market → Capability to generate surplus, production for market

Better prospects of Financial Inclusion

Acquisition of Skill and Access to Labour Market → Act as suppliers of credit and demand credit of high volume backed by credit worthiness → Accumulation of Capital and capacity to save, engage more in tertiary sector

Figure 2.2 The case disadvantageous marginalized section

Dispossession of Land (the main Assets) → Traditional Skills, unfit to changing labour market → Does not generate surplus, production is for self consumption

Bad prospects of financial inclusion/engulfs in financial exclusion

Dispossession of Land (the main Assets) → Traditional Skills, unfit to changing labour market → Does not generate surplus, production is for self consumption

Having said this, it does not mean that the marginalized groups as tribes do not want to use money, the primary form of finance. In an evolving exchange economy, which uses cash in every sphere of transaction, the tribes as a society can no keep itself away from the monetized exchange system since tribes are not self sufficient in every respect. They need to transact with the ‘outer world’ for many things, and hence the use of money or cash is quite indispensable for them. Looking in that way, the marginalized as the tribes have also become a part of the monetized economy, although they have not been experiencing the process of financialization as it happens in the case of the general population.
2.11.8 Strategies to address the problem of Financial Exclusion

Now it would be pertinent to look into various strategies that have been suggested to address the problem of exclusion in general and financial exclusion in particular. First, we shall have a peep into the three financial development theories, which establish the relation between the development of the financial system and the economic development.

2.11.8.1 The Theory of Active or Supply Leading Financial Development

This theory articulates that equipping people with all apparatus of financial instruments is the key to tackle the problem of financial exclusion. Once adequate financial needs people are legitimately met by the financial system, then they will start earning other economic entitlements, and this economic empowerment of the people will in course reinforce financial development. The wide scale branch expansion of major commercial banks in India since 1969 was in line with the preposition of this theory. Recent financial inclusion strategies are based on the spirit of this theory. The following figure illustrates the theory of Active Financial Development.

2.11.8.2 The Theory of Passive or Demand Following Financial Development

This theory states that economic development and economic empowerment of people paves the way for financial development. It is argued that when the people are actively involved in economic activities generating employment and income, the demand for various kinds of financial products arises. This generation of demand for financial products will act as stimuli for the establishment of financial intuitions. Because of this stress on demand that this approach has come to be alternatively known as the Demand Following Financial Development. The financial inclusion brought about by this path of financial development will be sustainable in nature compared to the Supply Leading Financial Development. The mushroom growth of informal financial entities in the rural areas of our country can be cited as a best example of how
the need forces the people to go in for credit at any price from whatever sources available to them. The entire argument contained in this approach can be illustrated with the help of the following figure.

2.11.8.3 The Theory of Intertwining Financial Development

This theory argues that it is wrong to say that either financial development or economic development precedes each other. The theory articulates that sometimes-financial development may lead to economic development and vice versa. Hence, it is difficult to point out where the process ends or starts. It can happen in both ways. The following figure captures the entire argument of this approach without any ambiguity.

Now we present two theories, which are predominant in the realm of sociology in the analysis of the process of social exclusion. Since 1990s, the increasing popularity
of the concept of social exclusion among the sociologist has led to attempts to identify the multi-difficulties faced by the socially disadvantaged groups and to suggest measures to help the socially disadvantaged to overcome difficulties (Abrahamson, 1997). Differences surfaced among the sociologists regarding the nature of solutions to be adopted to attain social inclusion. These divergent views led to two widely quoted discourse of social exclusion: The Social Integrationist Approach and the Redistributive Approach (Levitas, 2006). These approaches bear relevance to the problem of financial exclusion as well. Below, an attempt is made to relate these approaches to the problem of financial exclusion.

2.11.8.4 The Integrationist Approach to Financial Inclusion

The crux of this approach hovers around the whole dynamics of the Labor Market. This approach suggests that to wipe out the presence of financial exclusion we must provide the people with the opportunities to participate in the paid work in the labor market. Interestingly, this approach defines the concept of social exclusion in a different fashion that exclusion is nothing but exclusion from the paid work in the job market and hence it prescribes integration through paid work as the better panacea to solve the problem of exclusion. For instance, this approach endeavors to address the problem of the exclusion of the disabled from the labor market through the process of equipping them with different skills, which are seemed suitable to enable them to enter into the labor market. To clean the education system, this approach argues that the system of education must be linked to the needs of the job market. In short, the social integrationists discourse supports a well-integrated society through paid work and relies heavily on the private market to find a lasting solution to the problem of financial exclusion. It is known that workers do not produce all that they need. Instead, they exchange their labor power in the labor market for other products, which they could buy via the medium of money they are supposed to get from the labor market against the labor power they sell. Here money in broader sense finance plays a vital role in connecting the labour market with the product market, increasing the size of the product market, and facilitating capital accumulation.

Integration with the labour market can be a best way to tackle the problem of financial exclusion as well. This is because once people are engaged in paid jobs in the labour market, the income generating from such paid works will definitely force them to
demand various financial products and thereby leading to their effective financial inclusion. The Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP), which has been successfully implemented in India, is a fitting example of how integration with the labor market can be a weapon for financial inclusion. Under this programme, every beneficiary that is the laborer will have to open an account with any nationalized bank for getting his or her wages regularly. The wage is disbursed through accounts. Here, so long as a person continues to work under the above said programme, he will have to be in constant touch with the banks, which will cultivate banking habit in that person. In this study, we will try to unearth the impact that has been made by this programme to douse the flames of financial exclusion among the tribal households.

Notwithstanding the bright side of this approach, critics argue that it has too many drawbacks viz. obscuring the inequality between the paid workers, overlooking the gender inequality in the labor market and ignoring the values of unpaid works such as taking care of the children in the family (Levitas, 2006). Critics question the suitability of the labor market in generating employment for the people with learning difficulties.

2.11.8.5 The Redistributive Approach to Financial Inclusion

This approach argues that the product and labor market are prone to creating inequality leading to the exclusion of those who cannot fall in line with the parameters of market. This approach is built on the premise that lack of endowments to participate in the customary life of society is the cause of exclusion. The creation of a just society rerouting the movement of resources from the “abundant” hands to the “scarce” hands appears to be the solution to tackle exclusion, and hence active interventionist policies through the arms of tax reforms, expansion of benefit systems, reduction of earning differentials, financial recognition of unpaid works, introduction of minimum wages and minimum income for those who are unable to participate in the job market are called for to address the problem of exclusion (Chau & Hu, 2002). This view associated with equitable society challenges the problems of inequality created by the product and labor market.
In addressing the problem of financial exclusion, the application of the elements of this approach could be found in many endeavors being adopted by the government. For instance, nationalized banks in India adopt the practice of offering loans at subsidized rate of the interest to the low-income people, agriculturists, and petty traders, SCs and STs. This subsidization of loan falls in line with the redistributionist discourse. The difference between these two approaches lies in the division of responsibilities between the government and the market (labour market) in handling the problem of social exclusion. Both approaches recognize the difficulty that the disadvantaged groups face in their run up to be integrated into the mainstream of the society. The redistributionist argues that the market cannot create jobs for them as the market stands for those who are fit to work. Hence, they request the government to help them achieve a decent standard of living independent of the job market. The integrationists, on the other hand, question the government’s ability to provide training to improve the employability of these people.

2.12 Research Methodology: An Introduction

Research ‘methodology’, in sum and substance, means the entire process, approaches, and perspectives involved in undertaking a research work (Stacey, 1969). This chapter details out the methodology adopted to study the financial exclusion of tribes in the study area. The different sources of gathering relevant secondary data for the study and the process of collecting primary data from the tribal respondents are elaborated on this chapter. Apart from these, the issues involved in selecting the sample for the study, processing and analyzing the data, and the way of conducting Focus Group Discussion among the selected respondents from each tribal group to gauge more into the issues, need to be discussed in this chapter.

As it is well known, there is a dearth of information on the access and use of finance by the marginalized and weaker sections like the tribes across the world. The same is the case with India and Kerala too. One question that deserves to be answered is the rationale for taking Kerala as the base for the study. The following explanations suffice to answer this question:

- Kerala has been hailed for its affirmative actions in building social infrastructure like education and health resulting in the accomplishment of high standard of
life that her people enjoy which is undeniably at par with what persists in some of the most developed destinations in the world like Canada and America.

- The social movements that the State has witnessed over the years has led to a significant improvement in the economic and social well being of many of the marginalized and weaker section like tribes in Kerala.
- Tribe in Kerala unlike in many parts of the country is comparatively more exposed to the elements of modernization and her tribal world has been relatively a monetized economy. The question of financial exclusion can be engaged only with such a community, which has been relatively more exposed to the use of cash or money.

The next pertinent question is, why has Wayanad been chosen for conducting the study? The following explanations may well substantiate the rationale for taking Wayanad as the study area.

- The reason for taking Wayanad as the area of focus for collecting the primary data is that among different districts in the State of Kerala, the concentration of tribes is more in Wayanad. This is evident from the fact that the ratio of tribal population to the total district population is high in the districts of Wayanad.
- Wayanad is a relatively less developed district in the State of Kerala. Many tribal development programmes have been implemented in this district. Hence, it would be of much interest to look into what has happened to the tribes of these districts in respect of financial exclusion.

2.12.1 The Research Design

Developing an appropriate research design is indispensable for social science research. This is because the outcome of the research work entirely relies on how the researcher shapes the appropriate research design for the study. Many research methodologies are there in social science research viz. descriptive research, explanatory research, experimental research, explorative research, and evaluative research. The present study is a combination of descriptive and explanatory research. The aim of descriptive research is to understand the frequency with which certain explanatory features of a population occurs (Black, 1999). Descriptive research is of two genres: One is Cross Sectional and the other is Longitudinal of which the former describes a
population at a given time whereas the latter describes the data pertaining to a population at different periods in time. The present study is a Cross Sectional Descriptive research. Apart from this, the present work is explanatory as well in the sense that it goes deep into the question of ‘why is it going’ and tries to test hypothesis on different aspects that influence the process of financial exclusion of the tribe households like the level of educational attainment by the tribes, income and gender of the tribes.

2.12.2 Research Methods

Two types of methods are generally followed in social science research: the Quantitative Methods and the Qualitative Methods. The former is applied when the study requires precise data on variables that need to be expressed in quantitative terms to explain a particular phenomena whereas the latter is employed to interpret things in words rather than in data, and to shed more light on various dimension of the research problem (Miller, 1983). In studies pertaining to social groups like the tribes, in which care has to be given to the anthropological dimension as well, it is better to apply both methods in a judicious manner. This is because since tribes are socially backward and functionally illiterate in many respects, eliciting quantitative data from them may not always be possible in all aspects. In addition, if data is furnished from such groups on issues that come under the study, the reliability needs to be ensured. Moreover, while researching into issue on tribes it is necessary that the researcher must mingle with the tribes so that accurate information can be obtained which is possible only with the help of qualitative research. On the other hand, in the case of quantitative research as is well known often the researcher appears to be a mere spectator once the questionnaire is handed over to the respondent or the researcher’s job ends with the process of interview. Quantitative method of collecting data thus gives insufficient scope for investigating into tribal issue in a better way.

Many issues of tribes are interconnected with the culture and social organization of the tribal system. To go deep into this complex aspects one has to rely on the qualitative research methods like Focus Group Discussion and the Case Study Methods. Using quantitative methods, it is easy to arrive at relationship and association among economic variables but it is quite uneasy to establish the underlying factors responsible
for such associations. It is here the qualitative research comes for rescue, by using which it is possible to unearth the factors leading to the relationship between economic variables (Remenyi, 1998). Thus, qualitative research coupled with quantitative research is imperative for studying the tribal issues. Because of these reasons, the present study employs quantitative investigation involving mainly data collection, analysis, and Focus Group Discussion (qualitative too) for the research work. This method of combining two or more methods in research endeavors is known as ‘triangulation’ (Creswell, 2003). In this study, both primary and secondary data have been employed. Primary data is collected through the interview method and the secondary data have been collected from various sources, which are elaborated in the succeeding sections.

2.12.3 Data Collection and Survey

The present study makes use of the survey method applying a pre-structured and pre-tested interview schedule for the collection of primary data from the respondents (the tribes). The *face-to-face interview technique* was used in the data collection process. This is an effective method in the sense that since the same set of questions is put to each respondent it is easy to arrive at inferences and generalization based on the data analysis. The interview method is applied as most of the tribes being not conversant with filling the schedule may find it difficult to complete the process of furnishing the data. The researcher has tried the best to do away with the possibility of involving any bias while filling the schedule based on the responses of the interviewee. The interview schedule consisted of *closed-ended questions* since they can be applied without any direct confrontation with the respondents. In addition, it is easy to elicit responses using the closed-ended questions as response alternatives are provided in the schedule (Oppenheim, 2000). The interview schedule was pre-tested with a small sample before the actual survey began.

2.12.4 The Sampling Process

The population relevant for the study and the process of choosing the sample for the collection of primary data are discussed in this section.
Chapter 2                                                                                                                Financial Exclusion

Financial Exclusion among the Scheduled Tribes: A Study of Wayanad District in Kerala

2.12.4.1 Population and the Sample Frame for the study

The population relevant for the present study refers to ‘the aggregate of all cases that conform’ to the purpose of the study (Gillham, 2000). In the present study, the term population or universe is meant to mean all the tribe households that fall under the revenue administrative boundary of the districts of Wayanad in Kerala. The researcher chooses the sample frame from the relevant population for the study. It needs to be borne in mind that the sample frame is not the sample. Sample frame is the list of units that form a part of the population from which the researcher has to choose the sample. In the present study sample frame is the tribal settlement colonies that the researcher chooses for the study. To choose the sample frame and the sample for this study the researcher has used the Probability Proportionate to Size sampling techniques (PPS method). This is a form of cluster method of sampling which the researchers usually apply to the anthropologically related studies. The following section elaborates on the selection of sample using the PPS.

2.12.4.2 Procedure of sample selection using Probability Proportionate to Size Sampling

In this sampling first, a list of panchyat and the total number of tribe households (only from selected tribe communities viz. Paniya, Adiya, Kuruma and Kurichya) that come under each panchayt is prepared (see column A in the Appendix 2.2). Then we calculate the cumulative frequency distribution for the panchayats (column B). The last number in this column gives us the total number of these tribe households in the Wayanad district (it is 29397). After this, we decide that 10 panchayats are to be selected for choosing 500 sample households units. Then, we divide the total household by the number of panchayats to be visited, that is 10. The result 2940 (round figure) is the Sampling Interval (SI). Now, we choose a number between 1 and 2940 as the Random Start (RS). In this procedure, we have chosen 1506 as the RS. The panchyat corresponding to the cumulative frequency in which the RS is included is selected as the first panchayat. Here, we take Noolppuzha Panchyat, as the first one since the RS, 1506, is included in the cumulative frequency, which corresponds to this panchayat. Then we add RS with SI to get the second panchayat that is here Pulpally. Then we add RS with
2 x SI to get the third Panchyat. Continuing this process, we have selected the following panchyats from which sample is to be collected.

**Table 2.2 Panchayat Chosen for Collecting Sample**

<table>
<thead>
<tr>
<th>Panchyat</th>
<th>Paniya</th>
<th>Adiya</th>
<th>Kuruma</th>
<th>Kurichya</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noolppuzha</td>
<td>1058</td>
<td>0</td>
<td>920</td>
<td>1</td>
<td>1979</td>
</tr>
<tr>
<td>Pulppally</td>
<td>748</td>
<td>174</td>
<td>341</td>
<td>8</td>
<td>1271</td>
</tr>
<tr>
<td>Padinjarethara</td>
<td>466</td>
<td>700</td>
<td>2</td>
<td>173</td>
<td>639</td>
</tr>
<tr>
<td>Mananthavady</td>
<td>508</td>
<td>700</td>
<td>2</td>
<td>425</td>
<td>1635</td>
</tr>
<tr>
<td>Mooppainadu</td>
<td>174</td>
<td>1</td>
<td>32</td>
<td>9</td>
<td>216</td>
</tr>
<tr>
<td>Kaniyambatta</td>
<td>674</td>
<td>293</td>
<td>270</td>
<td>1237</td>
<td></td>
</tr>
<tr>
<td>Nenmeni</td>
<td>1020</td>
<td>664</td>
<td>3</td>
<td>1687</td>
<td></td>
</tr>
<tr>
<td>Thornadu</td>
<td>500</td>
<td>656</td>
<td></td>
<td>1156</td>
<td></td>
</tr>
<tr>
<td>Kottathara</td>
<td>554</td>
<td>624</td>
<td></td>
<td>1178</td>
<td></td>
</tr>
<tr>
<td>Thirunelly</td>
<td>382</td>
<td>1196</td>
<td>3</td>
<td>365</td>
<td>1946</td>
</tr>
</tbody>
</table>

Source: Compiled and Extracted from Data on Tribes by KILA (2008)

The next step is to decide the size of sample to be chosen for each tribe community from each of these panchyats. Since we have to choose 500 samples from these 10 panchyats we decide to collect 50 samples from each panchyat, and out of this 50 sample, households of each community have been chosen based on the proportion of that community in the total tribe households of that panchyat (See Appendix. 2.3 for detailed table). Based on this the number of sample that have been collected from each panchayat is given as follows.

The next step in the sampling process is to choose the Settlements colony from which sample households are to be selected. For this, with the help of tribal promoters the researcher identified settlement colonies of each community in a panchyat from which sample is to be chosen. After this, the researcher employed simple random sampling method using the table of random numbers to choose the households for conducting the face-to-face interview with the tribe households (Miller, 1983). The sample sizes for each communities are worthy of conducting this study since it is universally accepted that a sample size of more than 30 would be a good estimator of the population (Jessen, 1978).
### Table 2.3 Sample Chosen for Collecting Data

<table>
<thead>
<tr>
<th>Panchyat</th>
<th>Paniya</th>
<th>Adiya</th>
<th>Kuruma</th>
<th>Kurichya</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noolppuzha</td>
<td>27</td>
<td>0</td>
<td>23</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Pullppally</td>
<td>29</td>
<td>7</td>
<td>13</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Padinjarethara</td>
<td>36</td>
<td>0</td>
<td>0</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>Mananthavady</td>
<td>16</td>
<td>21</td>
<td>0</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>Mooppainadu</td>
<td>40</td>
<td>0</td>
<td>7</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Kaniyambatta</td>
<td>27</td>
<td>0</td>
<td>12</td>
<td>11</td>
<td>50</td>
</tr>
<tr>
<td>Nenmeni</td>
<td>30</td>
<td>0</td>
<td>20</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Thornadu</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>28</td>
<td>50</td>
</tr>
<tr>
<td>Kottathara</td>
<td>24</td>
<td>0</td>
<td>0</td>
<td>26</td>
<td>50</td>
</tr>
<tr>
<td>Thirunelly</td>
<td>10</td>
<td>31</td>
<td>0</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>261</strong></td>
<td><strong>59</strong></td>
<td><strong>76</strong></td>
<td><strong>104</strong></td>
<td><strong>500</strong></td>
</tr>
<tr>
<td><strong>Percentage in the total Sample</strong></td>
<td><strong>0.52</strong></td>
<td><strong>0.12</strong></td>
<td><strong>0.15</strong></td>
<td><strong>0.21</strong></td>
<td><strong>1.00</strong></td>
</tr>
</tbody>
</table>

#### 2.12.4.3 Pilot Survey

Pilot survey is necessary as it helps the researcher to verify whether the unit of the sample responds to the survey or not. It is also required to see whether the objective based analysis of the data can be done with the present interview schedule or not. Moreover, in the case of studies pertaining to tribes pilot surveys are indispensable, as the researcher may not know in advance, as to how the tribe responds to the survey. For the present study the pilot survey was undertaken in the month of October 2011 in four settlement colonies each belonging to one tribe community. Convenience sampling method was used to take sample for conducting the Pilot Survey. Before putting the interview schedule for pilot survey, discussions were held with the tribal officers, learned tribe members, tribal promoters, banking officials and all other stakeholders in tribal development to elicit their opinion as to how the questions would be designed to realize the objective of the study. Taking advice from them, the interview schedule was drafted and redrafted before they were put for pilot survey. The experiences from the pilot survey also enabled the researcher to make necessary changes in the strategy of interviewing the tribes. The visits made to the survey fields and the discussion with the tribe men especially the youths had helped the researcher to establish a rapport with the
tribes even before the actual survey took off. The researcher took the help of tribal promoters wherever necessary to communicate with the tribes.

2.12.4.4 The Period of Actual Survey

The actual survey was conducted between November 2011 to April 2012. Continuous interaction with the tribes had made the data collection easy towards the end of the survey period. The cooperation of the tribe officials and the promoters was of immense help to the researcher. The researcher had the opportunity to taste the tribal food on certain days of heavy schedule, as shops were not available in some interior places. The researcher covered kilometers to reach settlement colonies.

2.12.5 Analyzing the Data

The collected responses from the units of sample in the form codes and values were put to statistical software for analysis. Descriptive and inferential statistics were done with the help of the software. Descriptive statistics as mean, medium, standard deviation, and range were calculated wherever they deemed essential for the analysis. With the use of descriptive, it is possible to find out the central tendency and measures of dispersion of the data collected on different variables. Chi-Square test for independence, the one-way Analysis of Variance (ANOVA) are the other statistical tests that this study has used.

Chi-Square Test for Independence: This test is used to understand whether two categorical variables are associated or not. This type of analysis is of immense use in analysis on data relating to different aspect of tribes in our study. The standard equation for the Chi-Square Test for independence is given as:

\[ X^2 = \sum \frac{(O-E)}{E} \]

Where “O” is observed frequencies

And

“E” is Expected frequencies.

One Way Analysis of Variance (ANOVA): This is employed in cases where more than two variables are to be compared with their mean scores. This is known as One-Way as it measures the impact of one independent variable on the dependent variable. It is of extensive use in social science research (Gaur & Gaur, 2010). In this
study, it is used to understand whether there is any difference among tribe communities with regard to the mean income, expenditure and the like.

2.12.6 Qualitative Methods

As discussed above qualitative methods of research have to be adopted to unearth all aspect of the problem of financial exclusion among the tribes under this study. Focus Group Discussion and Case Studies are two popular qualitative research methods being applied by the social scientists (Creswell, 2003).

2.12.6.1 Focus Group Discussion

The present study employs FGDs to understand the reasons for financial exclusion among the tribe households with emphasis on unearthing the factors tempting the tribes to exclude themselves from seeking financial products when the service providers make them available. FGDs were conducted separately for all the four tribal communities under this study. In each FGD, the researcher ensured that 8 to 12 members participated in the discussion (Stewart, Shamdasani, & Rock, 2007). The participants were chosen in such a way that they were not related with each other. The participants for FGD were selected from the sample from which quantitative data were collected. After explaining the need for conducting FGD, the researcher started probing into reasons for exclusion by asking first general questions and then moving on to specific issues. In FGD, the research applied Funnel Approach to Questioning, which begins with broad questions followed by more narrow questions on issues relating to the purpose for which the FGD is undertaken (Stewart, Shamdasani, & Rock, 2007). The researcher chose to use this method, as it is the appropriate method for topics that are sensitive like the issue of the financial exclusion of tribes. Along with the Funnel Approach, the researcher also used the Inverted funnel sequence method of questioning where first closed ended questions are asked followed by increasingly more open-ended questions (Marshall & Rossman, 2006). The purpose of this method is to motivate the participants in FGD to talk more freely about the problems that they face and their opinion on how they are excluded from having basic financial products.

Before we plunge into the analysis of primary data collected adopting the above narrated research design, it is pertinent to get an understanding of the problem of financial exclusion in India based on the secondary data. The next chapter endeavors into this task.
Works Cited


