



Photo by [IEIC]

# Financial Access in Rural India: Tracking a Rapidly Expanding Landscape

## KEY FINDINGS

- A census of financial service points in rural Bihar, India, shows how financial access points have grown tremendously, particularly since early 2020.
- This growth reflects major investments to increase the supply of, and ability to access, financial services in rural areas.
- Despite expanded access, rural banking points offer limited services to clients.
- Alongside other expansion efforts, government-supported Bank Sakhi positions provide rural women an important opportunity to operate their own banking outlets in settings where female employment and empowerment are low.
- Our analysis of Bank Sakhis in Begusarai district, Bihar, highlights how Sakhis report working hours comparable to other local operators but - at least at the beginning of their tenure - serve a smaller, local, and primarily female clientele.

## OVERVIEW

Over the last decade, India has emerged as a global leader in banking the unbanked. Account ownership in India more than doubled between 2011 and 2021, rising from 35 percent to 78 percent.<sup>1</sup> This progress is partly driven by government efforts to increase both the supply of and demand for financial services. For example, access to digital financial services (DFS) across underserved areas was expanded by launching the Aadhar-Enabled Payment System (AePS) in 2010, and so-called “payments banks”, a type of fintech retailer formally approved in 2015.<sup>2</sup> Meanwhile, India’s widely-known account opening program, PMJDY,<sup>3</sup> encouraged many unbanked citizens to open accounts.

Despite these advances, gender gaps in the use of financial services persist. Although 78 percent of rural women in Bihar, a large, low-income state in eastern India, had their own bank account in 2017 - equal to men - only 47 percent had transacted in the previous year.<sup>4</sup> In an attempt to support women’s financial activity while employing rural women, the government of Bihar introduced the Bank Sakhi (or Bank “Friend”) program. Dedicated to women’s economic empowerment, the Bank Sakhi program provides women in rural Bihar the opportunity to run their own banking outlet, known as a customer service point, or CSP. These Sakhis are often the only financial outlets women operate in their villages. In addition to offering women a potentially lucrative business opportunity, the Bank Sakhi program could shift restrictive social norms around women’s engagement in formal banking systems and improve their engagement with formal financial services.

<sup>1</sup> According to 2021 Global Findex Data.  
<sup>2</sup> Payment banks, such as Common Service Centers and Customer Service Points, are operated by bank-affiliated representatives that offer a limited number of services. At the same time, fintech retailers utilize AePS to provide customers with access to accounts via MicroATMs using biometrics, their AePS number, and a phone app.  
<sup>3</sup> Short for the Pradhan Mantri Jan Dhan Yojana.  
<sup>4</sup> Authors’ calculations from Financial Inclusion Insights (FII) data.

## METHODS

Between April and May 2022, researchers affiliated with Inclusion Economics at Yale and staff from Inclusion Economics India Centre (IEIC) collected data in Begusarai, Bihar, where the government had recently hired 65 Sakhis as part of a randomized control trial (RCT) designed to evaluate the impact of the Bank Sakhi program. Even in 2022, Bihar's adult female literacy rate was just over 40 percent, ranking nearly last among Indian states,<sup>5</sup> and only 1 in 10 rural women were in the labor force.

Surveys in Begusarai censused 110 village clusters (known as Gram Panchayats, or GPs) across seven blocks.<sup>6</sup> The district of Begusarai is similar to others in much of the state. It has 2.6 million people, with income levels typical for the state, although fewer households rely on agriculture than other parts of Bihar.

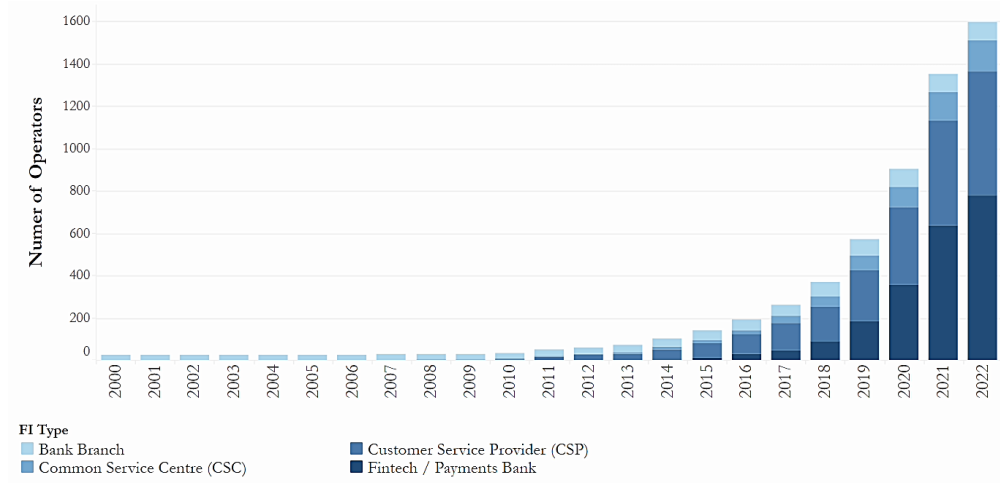
We used a snowball approach to map all financial outlets in the study blocks, including bank branches, CSPs, common service centers (which provide banking and other administrative services), and fintech retailers (payments banks). Overall, the census mapped banking points in 345 villages across these village clusters, identifying 1,604 financial outlets run by 1,334 operators.

To understand how Bank Sakhis are faring in Bihar's financial services ecosystem, we conducted surveys to monitor Sakhi outlet set-up. An ongoing impact evaluation, with results expected in 2024, will provide more nuanced information on banking practices, preferences, and norms in Bihar - and Sakhis' impacts on these indicators.

## FINDING 1: Rapid growth of financial institutions driven by the rise of payment banks and fintech retailers

In the previous decade, Begusarai's financial landscape has changed rapidly in coverage and composition, with villages now hosting anywhere from 1 to over 30 outlets, with a median of 5 outlets per village. 98 percent of the financial outlets mapped in this exercise opened in 2011 or later, while 77 percent opened in 2019 onward. Despite the number of bank branches tripling between 2008 and today, their share of the mapped outlets fell from nearly 100 percent in 2008 to just 6 percent in 2022. Meanwhile, CSPs, CSCs, and fintech retailers have proliferated. Fintech retailers grew the most in the share of the financial landscape in the study area, increasing from 5.7 percent to 48.8 percent between 2014 and today, with nearly half of the outlets owned by Spice Money.

Figure 1: Growth in Financial Institutions (2000-2022)



## FINDING 2: Expanded coverage but limited services

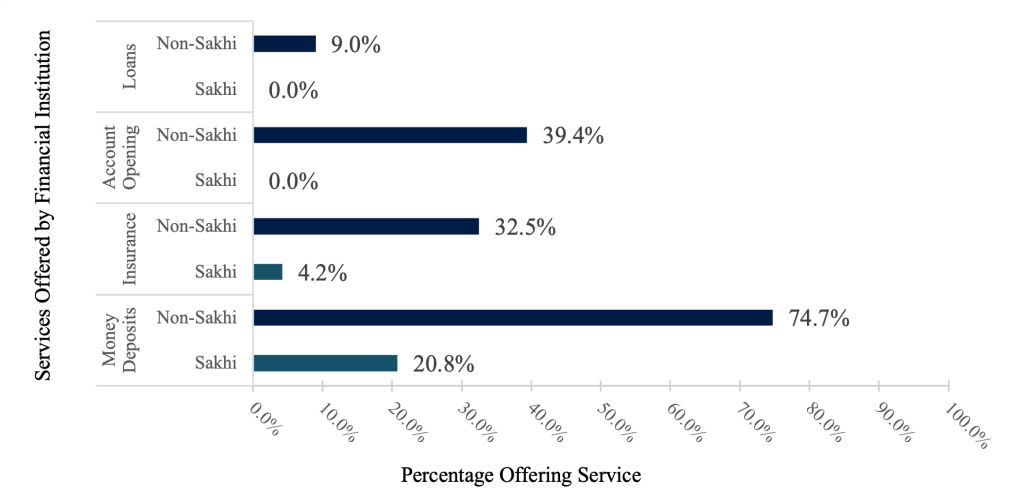
Though payment banks and fintech retailers have dramatically expanded their reach, they offer limited services. While virtually all outlets offer withdrawals and account statements, only three-quarters offer deposits and transfers. Even fewer offer insurance-related services, account opening services, and loans (see figure below). Sakhis are 54 percentage points less likely to offer money deposits, 39 percentage points less likely to offer the ability to open accounts, and 28 percentage points less likely to offer insurance services compared to banking points of all types operated by non-Sakhis.

<sup>5</sup> Based on 2022 Periodic Labour Force Survey data for rural women aged 18 - 55.

<sup>6</sup> The block is the administrative level below the district and covers approximately 225,000 citizens.

Nearly all operators claimed that all the services they offer were availed by customers, with the exception of loans (81 percent) and insurance (88 percent).

**Figure 2: Sakhis' Services Offered Compared to Non-Sakhis**

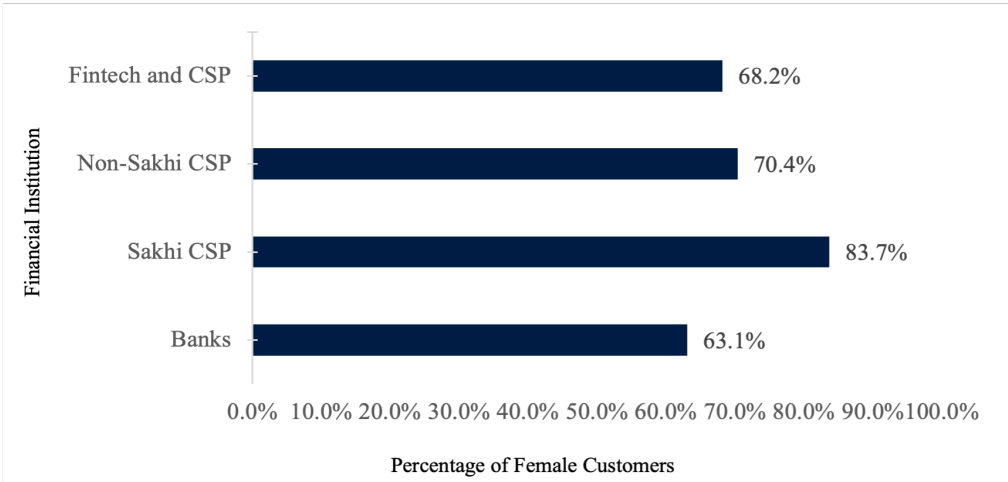


**FINDING 3: Bank Sakhis are working comparable hours but serve a smaller, more local customer base**

The Sakhis studied in Begusarai were surveyed less than a year after officially launching in their communities. Therefore, these initial findings should be interpreted as preliminary practices that likely evolved as they gained experience and further developed their businesses. The picture at this early juncture is one of limited reach, with significant opportunities for growth.

Though Sakhi and non-Sakhi operators have comparable hours of operation, reporting they were open for business an average of 6.7 days out of the week and 10.0 hours per day, Sakhis report serving less than one third the number of regular clients as other providers – averaging only 8.9 customers each day, compared to 33.0 for non-Sakhi CSPs. Sakhis are also significantly less likely to cater to customers from outside their village or GP; they report recognizing 95 percent of their daily customers, 14 percent more than other operators. Particularly striking is that 82 percent of Sakhi customers are women, a much higher portion than the 66 percent reported by non-Sakhis. Results from the ongoing randomized controlled trial will help us understand whether this gendered nature of the Sakhis' customer base is due to women's preference, discrimination by local men, or something else.

**Figure 3: Percentage of Female Customers Per Financial Institution**



## SUMMARY & NEXT STEPS

Findings from this financial outlet census show rapid growth in financial outlets in our study blocks in Begusarai district, Bihar. This growth has been driven by an increase in various types of financial outlets, with newly-approved fintech retailers' market share having grown substantially. With the proliferation of rural financial outlets in rural Bihar, local households have better access than ever to banking points offering basic financial services. Though expanding coverage of Sakhi outlets in the study area has the potential to improve economic opportunities and increase accessibility to formal financial institutions for women, Sakhis may need additional support as they establish themselves to ensure their businesses can expand their relatively narrow customer bases and operations to better compete for more customers in rural financial markets.

Moving forward, the team will continue to study how Bank Sakhis fare and whether business volume increases for Sakhis as they establish themselves within their respective villages or whether they struggle to compete. The team will also explore how markets continue to evolve and what that means for women's financial engagement and empowerment in rural Bihar.



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**Inclusion Economics'** network of researchers asks how policy can promote inclusive and accountable states, markets, and societies and how citizens – especially the marginalized – can gain influence to make political and economic systems more responsive to their needs.

Inclusion Economics at Yale University (YIE) is a collaboration between the Economic Growth Center and the MacMillan Center. The Inclusion Economics network spans YIE, Inclusion Economics India Centre at the Institute for Financial Management and Research (IFMR), Inclusion Economics Nepal at Governance Lab, and exploratory engagements in Sub-Saharan Africa.