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Challenges and Recommendations for Fostering Financial Inclusion among Unorganized Sector

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Abstract*: The unorganized sector constitutes a significant portion of the workforce in many economies, yet achieving financial inclusion remains a formidable challenge. This article examines the unique challenges faced by individuals in the unorganized sector in accessing formal financial services and presents strategies to enhance financial inclusion. Key challenges include the informal nature of the sector, lack of documentation, irregular income streams, limited financial literacy, and geographic barriers. To address these challenges, solutions such as technology adoption, simplified documentation processes, flexible financial products, targeted financial literacy programs, and the expansion of agent banking networks are proposed. By implementing these strategies, policymakers, financial institutions, and stakeholders can work towards ensuring that individuals in the unorganized sector have access to the financial tools and services necessary for economic empowerment and growth.*

Keywords: unorganized sector, financial inclusion, challenges, solutions

I. INTRODUCTION

Financial inclusion among the unorganized sector is a crucial aspect of economic development in many countries, especially those with significant informal economies. The unorganized sector typically encompasses a wide range of activities and workers who operate outside the formal regulatory framework, often lacking access to formal financial services such as banking, insurance, and credit facilities. This segment of the population includes small-scale farmers, street vendors, artisans, construction workers, domestic helpers, and others engaged in informal employment. Despite their significant contribution to the economy, many individuals in the unorganized sector face barriers to accessing financial services due to factors like limited documentation, irregular income streams, and lack of collateral and geographical remoteness.

Financial inclusion initiatives aim to bridge this gap by extending the reach of formal financial services to the unorganized sector. These initiatives often involve the implementation of innovative technologies, such as mobile banking and digital payment systems, to overcome traditional barriers to access. Additionally, microfinance institutions and self-help groups play a vital role in providing small loans and other financial services tailored to the needs of individuals in the unorganized sector.By promoting financial inclusion among the unorganized sector, governments and policymakers seek to empower marginalized communities, stimulate economic growth, reduce poverty, and foster broader social development. However, achieving meaningful financial inclusion requires addressing not only infrastructural challenges but also issues related to financial literacy, consumer protection, and regulatory frameworks to ensure that vulnerable individuals can access and use financial services safely and effectively.

Significance of study

Financial inclusion is crucial for several reasons. Firstly, it promotes stability by allowing individuals to access various financial services, enabling better management of their finances. Secondly, it contributes to economic well-being by facilitating effective savings, investments, and planning for future needs such as education and healthcare. Thirdly, it aids in risk management by providing services like savings accounts and insurance, which help individuals handle emergencies with confidence. Additionally, it opens doors to the financial market, enabling investments and driving economic growth, which in turn creates job opportunities. Furthermore, financial inclusion plays a significant role in poverty reduction by providing access to credit and financial services, thereby empowering individuals to break free from poverty and achieve financial independence. Ultimately, it fosters a financially inclusive society by empowering participation in the economy, elevating living standards, and promoting stability within the community.

Objectives

- To examine the challenges faced by unorganized labour force
- To provides suggestions to overcome the challenges

Research methodology

This study is based on secondary data. In this regard various articles, books,newspaper and websites are used to address the current issue.

II. LITERATURE REVIEW

Rangarajan C (2008)Report of the Committee on Financial Inclusion,' financial inclusion entails guaranteeing vulnerable groups, such as weaker sections and low-income individuals, access to financial services and sufficient credit when necessary, at a cost that is both affordable and timely.

Das Kabita, Das B.K., and Mohanty Subhransubala (2012) conducted a study on social security in the informal sector. The objective of this research was to assess the level of social security among women working in the informal sector in Odisha. To achieve this aim, a sample survey was carried out in districts such as Keonjhar, Mayurbhanj, and Cuttack. In each district, 100 women were randomly selected and provided with a structured questionnaire regarding the availability of social security measures implemented by the Government of Odisha. The data available indicated a consistent decline in social security provisions within the organized sector. However, the primary concern lay with the informal sector, which imposes significant societal costs in terms of employment, income, and healthcare.

Michael Chibba (2009) describes financial inclusion as a comprehensive strategy for inclusive development and poverty alleviation, integrating into the evolving nexus of financial inclusion, poverty reduction, and Millennium Development Goals (MDGs). Yet, amidst ongoing global crises, the imperative to expand financial inclusion emerges as a crucial complementary and incremental approach. This necessity is now arguably more vital than ever before in recent history, serving as a means to advance progress toward achieving the MDGs."

Remesh P. Babu(2012) Rethinking Social Protection for India's Working Poor in the Unorganised Sector is the subject. Social security was deemed important in this study. The unorganized sector was characterized by low pay, unfavorable living and working circumstances, seasonality in the workplace, contract work, a lack of social security and welfare programs, and a rejection of rights and privileges. Since the industry has grown to be a competitive and low cost device to absorb labuor which cannot be absorbed elsewhere, any attempt to regulate it and place it within a more effective institutional and legal framework is seen as reducing the industry's ability to absorb labour.

Dave Vandana(2021) carried out research on women employed in the unorganised sector.

The study concentrated on female employees in domestic service, agriculture, and construction. Finding out about the living, working, and socioeconomic circumstances of employees was the aim of this study. Using a multistage stratified random sample technique, information was gathered from 350 female workers in the urban and rural regions of Panipat, Kaithal, and Kurukshetra districts of Haryana. Workers had to deal with issues like pay inequality, where female employees received lower pay. There were no set working hours, and harassment at the office was frequent.

Challenges

Incorporating the impoverished and rural populations into the coverage area is the primary obstacle to financial inclusion. People who do not have a basic education cannot access financial services (Aggarwal, 2014). Even in cities, the impoverished do not fully utilize financial services because they perceive it to be expensive and exorbitant, which discourage them from using them.Low income groups have additional difficulties in the process of financial inclusion because they believe banks exclusively serve the wealthy (Aggarwal, 2014).

People find it difficult to use financial services because of their inability to comprehend formal languages, a variety of

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paperwork, and numerous formalities in the banking process. In distant areas of India, the security of electronic transactions is a problem, particularly when there are a lot of new accounts (Singh, 2018). Slums in cities and sizable portions of rural areas are where financial exclusion is most apparent. Spreading knowledge about the banking products that are accessible is essential to achieving financial inclusion. Some communities Lack Banking Facilities: Despite the fact that numerous communities throughout the nation lack bank branches. Enough banking facilities are necessary for financial inclusion to succeed.

Absence of advanced technology:

The financial inclusion initiative cannot succeed without advanced technology. However, banking technology is not as advanced in India, which means that each transaction with a bank costs more. Absence of Sufficient Infrastructure: India's infrastructure is insufficient. As a result, financial inclusion's goal cannot be effectively accomplished.

In India, those employed in microbusinesses, unpaid family members, casual labourers, and householdworkers, migrant labourers, young people not in school, domestic employees, street vendors, etc. According to the 66th wave of the NSS survey (2009–10), roughly 92.8% of all workers were unemployed. The sector is diverse, encompassing both organized and unorganized economic activity in both rural and urban locations. A vast number of labourers, both impoverished and not so impoverished, travel around India in pursuit of a better life for their family. The impoverished cannot use many of the general financial goods, and little effort is made to create products that meet their needs. The banks' indifferent and cynical attitude toward the customers also plays an inevitable role in undermining the necessity for financial services.

Another significant factor eroding the need for financial services is clients. Furthermore, onerous terms and conditions affixed to the financial goods, together with costly and frequently opaque fees, further reduce demand.

On the supply side, bankers encounter significant barriers primarily due to perceived transaction costs. With current low volumes, banks often deem it financially inefficient to extend financial services. Additionally, obstacles such as inadequate communication, infrastructure deficiencies, language barriers, and low literacy levels further escalate service provision costs and deter bankers from proactively engaging (Subbarao, 2009).

Among the significant barriers, gender plays a crucial role. For instance, numerous women in developing countries encounter difficulties accessing finance due to limited mobility, lower levels of human capital, and minimal influence within their families. These challenges are not confined to developing nations; they persist in developed countries as well. For instance, in the UK, Kwong et al. (2012) discovered that aspiring female entrepreneurs perceive significant financial hurdles It is required to evaluate the credit requirements for different categories of borrowers for both goods and services and to transfer the appropriate credit to the clients.

(Arora, 2017).Encourage financial literacy and inform people about services like phone banking, low-cost phones with UPI and NFC capabilities, and improved touch less payment (NFC & QR) systems. Common functions like ticket booking and bill payment are already compatible with Bharat QR (Warhamni, 2021).

Suggestion and Opportunities for improving financial inclusion

Technological and communications innovations provide a powerful complement to the financial innovation ecosystem, leading to inclusive socio-economic progress. This strengthens the back-end administrative procedures, increases transparency and competitive efficiency, and may lower service delivery costs. To make it more inclusive for people in the lower social strata, financial, health, and social inclusion should be combined. PMSBY, PMJJBY, RWBCIS, Ayushman Bharat (PMJAY) must be promoted. There have been more than 158 million Ayushman Cards distributed to date, thus reaching all eligible residents must happen quickly. (Mallad, 2021)In order to clearly grasp the number of workers needed in a given location, geospatial technology can be used to analyze the population density of target service areas. It can also be used to discover gaps in current services.(S, 2018)

Technology should struggle to lower transaction costs, keep pushing recommendations to each person to guarantee social, health, and fiancial inclusion, and make sure that funds are getting to last-mile beneficiaries at minimal costs. Strengthening the payment infrastructure through digital retail payment systems such as AEPS, NACH, UPI, CTS, and IMPS, operated by NPCI, represents significant paces forward. The Aadhaar-linked direct benefit transfer has revolutionized public fund distribution in India.

Our strategy for enhancing financial inclusion focuses on more than just opening bank accounts; it's about facilitating meaningful connections between individuals and the banking system. This encompasses addressing the small credit requirements of individuals, granting them access to payment systems, and offering remittance services. Here are some significant advancements:

1. **Introduction of "no-frills" accounts**: In November 2005, the RBI mandated banks to provide basic banking accounts with minimal or no minimum balances and reduced charges, aiming to extend banking services to low-income groups.
2. **Streamlining credit access**: Banks were instructed to implement General Purpose Credit Card (GCC) facilities, allowing credit up to Rs. 25,000. However, the total number of GCCs issued by banks by the end of March 2009 was only 0.15 million.
3. **Simplification of KYC procedures:** To ensure easier access to bank accounts for individuals from low-income backgrounds, both in urban and rural areas, the Know Your Customer (KYC) process for opening accounts was simplified. This applied to accounts with balances not exceeding Rs. 50,000 and credits not exceeding Rs. 100,000 annually.
4. **Utilization of Information Technology:** Banks have been strongly encouraged to expedite the implementation of IT projects for financial inclusion, ensuring robust security measures, auditability, and adherence to widely-accepted open standards to facilitate future interoperability among various systems.

Key initiatives include:

Introduction of smart cards with biometric identification for opening bank accounts, enabling customers to access banking services conveniently in their vicinity.

Integration of mobile handheld electronic devices for conducting banking transactions. In October 2008, the RBI provided guidance to banks on technology, security standards, and customer protection in this regard.

Electronic Benefit Transfer (EBT) through banks: The Reserve Bank is collaborating with state governments to promote the adoption of EBT facilitated by banks.

The Reserve Bank initiated a comprehensive drive for achieving 100% financial inclusion, targeting one district in each state initially. Based on the insights gained from this initiative, the coverage has been expanded to include other areas and districts. An external evaluation was conducted to assess the effectiveness of financial inclusion efforts reported by banks. Subsequently, in January 2009, the following recommendations were made to banks:

1) Ensure the availability of banking services closer to the location of no-frills account holders through various channels.

(ii) Offer General Purpose Credit (GCC) or small overdraft facilities along with no-frills accounts to encourage active usage of the accounts by holders.

(iii) Conduct awareness campaigns to inform no-frills account holders about the services available to them.

(iv) Evaluate the extent of coverage in districts declared as 100% financially included.

(v) Effectively utilize technology-enabled financial inclusion solutions to maximize outreach and impact (Subbarao D. D., 2009).

III. CONCLUSION

In a financially inclusive system, every segment of society should have an equal opportunity to participate and benefit. To enhance financial inclusion, particularly for marginalized groups, emphasis should be placed on promoting financial literacy and education, along with offering customized financial products. Simply opening a bank account is insufficient to address the challenges faced by financially excluded individuals, especially those from marginalized, vulnerable, and disadvantaged backgrounds. Both governmental bodies and non-governmental organizations (NGOs) will play pivotal roles in fostering a more inclusive financial system. They can facilitate the integration of marginalized communities into mainstream banking services. The government should ensure that unorganised workers guarantee the rights and opportunities for individuals to earn their livelihoods. Providing proper training in business operations and skill development to such workers can directly and indirectly contribute to the financial well-being of their households. Regular training sessions and workshops aimed at enhancing financial literacy will empower marginalised groups to

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make informed decisions regarding financial products and services. Models of banking such as microfinance institutions (MFIs) and cooperative banking hold promise in improving access to financial products for this demographic.

Closing the gap in remote connectivity and providing doorstep financial services is critical for last-mile delivery. ICT-based solutions like business correspondents/facilitators and IPPB represent significant milestones in this regard. Additionally, the introduction of UPI on feature phones is poised to be a game-changer, fostering an ecosystem for NFC-based contactless payments. Addressing financial literacy and awareness remains a primary challenge for advancing financial inclusion in India. While the launch of financial literacy programs in 2013 has made some headway in tackling this issue, there is still much progress to be made.

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