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Inclusive Banking for Marginalized Communities in India: Progress, Challenges, and Pathways Forward

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Abstract

Inclusive banking in India represents a critical strategy for empowering marginalized communities, including Scheduled Castes (SC), Scheduled Tribes (ST), women, rural poor, and minorities, by providing access to formal financial services. This paper examines the evolution of financial inclusion initiatives, focusing on schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Mudra Yojana (PMMY), and others, while analyzing their impact through statistical data from sources such as the Reserve Bank of India (RBI), World Bank, and government reports. Key findings reveal significant progress: over 55.9 crore PMJDY accounts opened by 2025, with 55.7% held by women and 66.6% in rural/semi-urban areas. However, disparities persist, with SC/ST households showing lower credit access (e.g., 17% gap between STs and upper castes in institutional borrowing). Challenges include urban-rural divides, low financial literacy (27% among adults), and slow fund disbursement. The paper highlights opportunities for digital integration and public-private partnerships to enhance inclusivity, recommending targeted literacy programs and policy reforms for sustainable growth. By bridging these gaps, inclusive banking can reduce poverty, promote gender equality, and foster economic resilience among marginalized groups, aligning with India's Sustainable Development Goals.

Keywords*: Inclusive Banking; Financial Inclusion; Marginalized Communities; Scheduled Castes and Scheduled Tribes; Women Empowerment; PMJDY; Mudra Yojana; Digital Finance; Financial Literacy; India*

Introduction:

India's journey toward financial inclusion has been transformative, evolving from post-independence nationalization of banks in 1969 to contemporary digital-driven initiatives. Inclusive banking refers to the delivery of affordable financial services—savings, credit, insurance, and payments—to underserved populations, particularly marginalized communities such as SC, ST, Other Backward Classes (OBC), women, rural poor, and religious minorities. These groups, comprising over 40% of India's 1.4 billion population, have historically faced exclusion due to socioeconomic barriers, geographic isolation, and discriminatory practices. The World Bank estimates that financial inclusion can boost GDP by up to 3.6% in developing economies like India by integrating the unbanked into formal systems.

The rationale for focusing on marginalized communities stems from persistent inequalities. According to the RBI's Financial Inclusion Index (FI-Index), India's score improved from 60.1 in 2023 to 64.2 in 2024, reflecting gains in access, usage, and quality of services. Yet, 190 million adults remain underbanked as of 2024, predominantly in rural areas where 20% of women lack bank accounts. Marginalized groups face amplified challenges: SC/ST households have 7-17% lower access to institutional credit compared to upper castes, exacerbating poverty cycles.

Government interventions, starting with the RBI's 2005 bank branch expansion policy, have aimed to bridge these gaps. Landmark schemes like PMJDY (2014) have opened over 55 crore accounts by 2025, depositing ₹2.52 lakh crore and covering 55.7% women beneficiaries. Complementary programs such as PMMY for micro-loans and Stand-Up India for SC/ST/women entrepreneurs have disbursed trillions in funds, fostering self-employment. Digital tools, including Unified Payments Interface (UPI) with 45% YoY transaction growth, have accelerated inclusion, but disparities in literacy and infrastructure hinder full realization.

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This paper critically analyses inclusive banking's role in empowering marginalized communities, drawing on RBI and World Bank reports. It reviews literature, examines key schemes, presents statistical data, discusses challenges, and offers recommendations. By addressing these, India can achieve universal financial access, reducing inequality and supporting sustainable development.

Literature Review:

Scholarly discourse on inclusive banking in India emphasizes its potential to alleviate poverty and empower marginalized groups, while highlighting implementation gaps. The World Bank's Global Findex Database (2021) notes India's account ownership surged from 35% in 2011 to 77% in 2021, attributed to PMJDY, but usage remains low among rural poor and women. Demirgüç-Kunt et al. (2018) argue that financial inclusion reduces poverty by enabling savings and credit, particularly for SC/ST communities facing caste-based discrimination.

Studies on gender aspects reveal persistent barriers. Shirono et al. (2024) highlight that women in rural India face 20% lower account access due to cultural norms and low literacy (24% financially literate as of 2021). The OECD (2025) stresses policy interventions like Stand-Up India, which promote women entrepreneurship, but note challenges in credit uptake. For SC/ST groups, Bhukta (2023) uses causal evidence to show bank expansion increases social inclusion, with SC households seeing 42.2% rise in durable goods consumption. Munshi (2019) links caste discrimination to economic exclusion, advocating targeted schemes.

RBI reports underscore progress amid challenges. The National Strategy for Financial Inclusion (2019-2024) aims for universal access, but the 2024 FI-Index (67.0) indicates uneven quality. EY (2024) notes UPI's 900% growth in 2017, yet rural penetration lags at 14.6 bank branches per 100,000 adults. Linguistic barriers exacerbate exclusion for minorities, with 72% of low-FI districts having minority language speakers.

Critiques focus on sustainability. Ozili (2020) argues inclusion efforts overlook cyber risks and literacy gaps, leading to account dormancy (23% of PMJDY accounts inactive in 2025). World Bank (2021) praises India's digital stack but warns of digital divides. Overall, literature affirms inclusive banking's role in equity but calls for addressing structural inequalities through education and infrastructure.

Government Initiatives for Inclusive Banking:

India's government has launched multifaceted schemes to promote inclusive banking, targeting marginalized communities through policy, technology, and incentives.

Pradhan Mantri Jan Dhan Yojana (PMJDY): Launched in 2014, PMJDY is the cornerstone of financial inclusion, offering zero-balance accounts, RuPay debit cards, and overdraft facilities up to ₹10,000. By February 2025, 55.9 crore accounts were opened, with deposits of ₹2.52 lakh crore. Women hold 55.7% of accounts, and 66.6% are in rural/semi-urban areas, directly benefiting SC/ST and poor households. Linked insurance (₹2 lakh accident cover) and pension schemes enhance security for the vulnerable.

Pradhan Mantri Mudra Yojana (PMMY): Aimed at micro-entrepreneurs, PMMY provides collateral-free loans up to ₹10 lakh. By 2024, over ₹1.08 lakh crore was disbursed to women under the Shishu category, fostering self-employment among rural poor and SC/ST women. This has created 20.5% women-owned MSMEs on the Udyam portal.

Stand-Up India: Targeting SC/ST and women, this scheme offers loans from ₹10 lakh to ₹1 crore for greenfield enterprises. It has empowered marginalized entrepreneurs, aligning with Atmanirbhar Bharat.

Social Security Schemes: Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) provide affordable insurance. By 2025, PMSBY enrolled 50.15 crore, PMJJBY 23.12 crore, covering accidents and life risks for the poor. Atal Pension Yojana (APY) ensures post-60 income for informal workers.

National Strategy for Financial Inclusion (NSFI) 2019-2024: Extended into 2025, NSFI focuses on digital infrastructure, with UPI enabling 45% YoY transaction growth. The 2025 saturation campaign opened 1.11 crore new PMJDY accounts and enrolled millions in insurance.

These initiatives have reduced the gender gap from 19.83% in 2014 to near zero in 2021, but rural-SC/ST focus needs strengthening.

Statistical Data and Analysis:

Statistical evidence underscores both achievements and gaps in inclusive banking for marginalized communities.

India's FI-Index rose to 67.0 in March 2025, up from 64.2 in 2024, driven by access (73.3), usage (55.8), and quality (82.0) parameters. Account ownership reached 80% by 2023, per World Bank, but 190 million remain underbanked.

PMJDY Impact:

Category	Accounts (Crore, 2025)	% Share	Deposits (₹ Lakh Crore)
Total	55.9	100%	2.52
Women	30.60	55.7%	N/A

Rural/Semi-Urban	36.59	66.6%	N/A
SC/ST	15-20% (est.)		N/A

(Source: Ministry of Finance)

Women-led startups and MSMEs grew, with 18.73% employment contribution from women-owned units. However, SC/ST credit access lags: 26% of agricultural households borrow institutionally, but STs face 17% lower rates than upper castes.

Caste and Gender Disparities:

SC households: 15.7% increase in food consumption post-bank expansion.

Gender gap: Reduced to 6% in developing economies, but rural women at 20% exclusion.

Rural penetration: 77% banked (2021), but literacy at 27%. Analysis shows inclusion correlates with poverty reduction: 59.7% drop in SC poverty likelihood. Yet, 23% PMJDY dormancy highlights usage issues.

Challenges in Inclusive Banking:

Despite progress, challenges persist in reaching marginalized communities.

Urban-Centric Bias: 50% of unbanked are rural, with only 14.6 branches per 100,000 adults. Linguistic minorities in 72% of low-FI districts face barriers.

Low Participation from Vulnerable Groups: SC/ST: 60% discrimination in credit; women: 25% UPI users. Financial literacy: 27% adults.

Slow Fund Disbursement: Bureaucratic hurdles lead to high defaults; 90% startups fail due to credit delays. Digital divides exacerbate mistrust.

Impacts and Case Studies:

Impacts are evident in poverty reduction and empowerment. In Uttar Pradesh, PMJDY increased SC income by aiding farm investments. Case: Self-Help Groups under NRLM linked 10 crore women to banks, boosting savings and loans. Rural FLFPR rose 23% (2017-2024) due to Mudra loans. However, closures highlight sustainability issues.

Recommendations for Enhancing Inclusive Banking for Marginalized Communities in India:

To achieve truly inclusive and sustainable financial inclusion for marginalized communities—Scheduled Castes (SC), Scheduled Tribes (ST), women, rural poor, minorities, and other vulnerable groups—India must address persistent gaps in access, usage, literacy, and trust. The following recommendations are evidence-based, drawing from RBI reports, World Bank analyses, and successful pilot outcomes as of early 2026. They focus on policy reforms, technological integration, capacity building, and institutional strengthening to ensure that schemes like PMJDY, PMMY, Stand-Up India, and digital platforms deliver equitable benefits.

1. Strengthen Financial Literacy and Awareness Programs with Targeted, Community-Specific Approaches

Financial literacy remains a critical bottleneck, with only 27% of Indian adults financially literate as per the 2021 OECD/INFE survey, and even lower rates among rural women (24%) and SC/ST households. Low literacy contributes to account dormancy (23% of PMJDY accounts inactive in 2025) and underutilization of credit and insurance.

Specific Actions:

Expand the National Centre for Financial Education (NCFE) mandate to deliver **localized, vernacular-language programs** in collaboration with Self-Help Groups (SHGs) and NGOs. Prioritize high-impact districts where minority languages dominate (72% of low-FI districts).

Integrate financial literacy modules into school curricula (Classes 6–12) and adult education programs under Saakshar Bharat, with special focus on digital literacy for UPI and mobile banking.

Launch **community-led peer educator models**, training women SHG leaders and ASHA workers as financial counselors. Successful pilots in Odisha and Jharkhand showed 35–40% improvement in active account usage when SHGs conducted awareness drives.

Allocate dedicated funding (₹5,000 crore annually) under NSFI 2025–2030 for mass media campaigns in regional languages targeting SC/ST and minority communities.

2. Expand Rural and Last-Mile Banking Infrastructure Through Hybrid Models:

Despite progress, rural areas still have only 14.6 bank branches per 100,000 adults, and digital connectivity gaps hinder adoption among tribal and remote populations.

Specific Actions:

Accelerate deployment of **Banking Correspondents (BCs)** with women and SC/ST representatives. Incentivize BCs through higher commissions (currently ₹3,000–5,000 monthly) and performance-linked bonuses for serving marginalized clients.

Promote **Business Facilitator models** involving post offices, Common Service Centres (CSCs), and fair-price shops as banking touchpoints. India Post Payments Bank (IPPB) has already reached 1.55 lakh post offices—scale this to cover all 1.6 lakh Gram Panchayats by 2028.

Establish **mobile banking vans and satellite offices** in tribal blocks and aspirational districts, equipped with biometric-enabled devices to overcome documentation barriers faced by illiterate and migrant populations.

Mandate public sector banks to open at least 25% of new branches in SC/ST-concentrated areas, with relaxed norms for infrastructure in hilly and left-wing extremism-affected regions.

3. Enhance Credit Access and Reduce Discrimination Through Targeted Lending and Monitoring

SC/ST households face 7–17% lower institutional credit access compared to upper castes, with discrimination reported in 60% of credit interactions. Women entrepreneurs, despite 55.7% PMJDY accounts, receive disproportionately lower Mudra loans in higher categories (Tarun).

Specific Actions:

Introduce **dedicated sub-quotas** under Priority Sector Lending (PSL): 10% for SC/ST and 15% for women entrepreneurs, with stricter monitoring via RBI's Central Repository of Information on Large Credits (CRILC).

Expand **Stand-Up India** loan limits to ₹2 crore and simplify documentation for SC/ST and women applicants. Provide interest subvention of 3–5% for the first five years.

Implement **credit guarantee enhancements** under CGTMSE specifically for marginalized borrowers, raising coverage to 90% for loans up to ₹50 lakh.

Deploy **AI-based credit scoring models** that incorporate alternative data (SHG repayment history, utility payments, mobile usage) to reduce bias against applicants lacking traditional collateral or credit history.

4. Leverage Digital Innovation While Bridging the Digital Divide

India's digital public infrastructure (UPI, Aadhaar, Account Aggregator) has driven inclusion, but rural women and tribal communities lag in smartphone ownership and digital literacy.

Specific Actions:

Promote **feature phones and voice-based banking** solutions (e.g., USSD *99# upgrades, multilingual IVR systems) for low-literacy users.

Subsidize smartphones and data packs for women SHG members and SC/ST youth through convergence with Digital India and PMGDISHA schemes.

Develop **regional language interfaces** for banking apps and UPI platforms, covering all 22 scheduled languages by 2027.

Strengthen cybersecurity awareness and grievance redressal (via RBI's Sachet portal) to build trust among first-time digital users from marginalized communities.

5. Foster Public-Private Partnerships (PPPs) and Community Institutions:

SHGs under National Rural Livelihood Mission (NRLM) have linked over 10 crore women to banks, proving the efficacy of community institutions.

Specific Actions:

Scale **SHG-Bank Linkage Programme** to cover all eligible rural women, with priority for SC/ST and minority-dominated villages. Provide revolving funds and capacity-building grants.

Encourage PPPs with fintech companies (e.g., Paytm, PhonePe) to co-create products like micro-insurance and savings plans tailored for informal workers.

Partner with cooperatives and Regional Rural Banks (RRBs) for last-mile delivery, offering them viability gap funding to maintain presence in unbanked areas.

6. Strengthen Monitoring, Evaluation, and Data Collection:

Current data on SC/ST and minority-specific inclusion remains fragmented.

Specific Actions:

Enhance the **Financial Inclusion Index** to include disaggregated sub-indices for SC/ST, women, and minorities.

Mandate annual third-party social audits of PMJDY, Mudra, and Stand-Up India schemes at district level, with public disclosure of findings.

Integrate marginalized community indicators into RBI's banking ombudsman reports and PSL compliance certificates.

7. Policy and Budgetary Support Under NSFI 2025–2030:

The next phase of the National Strategy for Financial Inclusion should prioritize **universal active usage** over mere account opening.

Specific Actions:

Allocate ₹50,000 crore over five years for targeted inclusion initiatives.

Introduce performance-based incentives for states achieving highest gains in FI-Index for marginalized categories (similar to Aspirational Districts Programme).

By implementing these recommendations, India can move beyond access to meaningful usage and empowerment. Evidence from states like Kerala (FI-Index leader) and Tamil Nadu (strong SHG model) shows that focused, community-centric interventions yield sustainable outcomes. With concerted effort, inclusive banking can significantly reduce poverty, enhance gender equality, and contribute to India's goal of a $5 trillion economy by ensuring no marginalized community is left behind.

Conclusion:

India's pursuit of inclusive banking for marginalized communities—encompassing

Scheduled Castes (SC), Scheduled Tribes (ST), women, rural poor, religious minorities, and other vulnerable groups—stands as one of the most ambitious and impactful financial inclusion efforts globally. Over the past decade, landmark initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Mudra Yojana (PMMY), Stand-Up India, and the integration of digital public infrastructure like UPI and Aadhaar have transformed the financial landscape. By early 2026, these efforts have yielded remarkable outcomes: over 55.9 crore PMJDY accounts with ₹2.52 lakh crore in deposits, 55.7% held by women, and a Financial Inclusion Index rising to 67.0. Account ownership has reached near-universal levels, gender gaps in access have virtually closed, and millions from marginalized backgrounds have gained entry into formal financial systems, enabling savings, credit access, insurance coverage, and entrepreneurial opportunities.

These achievements have delivered tangible socioeconomic benefits. Financial inclusion has contributed to poverty reduction—evidenced by declines in multidimensional poverty among SC/ST households—enhanced women's economic participation (with rural female labor force participation rising significantly), and fostered self-employment through micro-loans. Schemes like SHG-bank linkages under NRLM have empowered over 10 crore rural women, while targeted programs have begun dismantling historical barriers rooted in caste, gender, and geographic isolation. The digital revolution, particularly UPI's exponential growth, has democratized payments and remittances, bringing formal finance to remote tribal areas and informal workers who were previously excluded.

However, the journey remains incomplete. Persistent challenges—urban-rural divides, low financial literacy (only 27% among adults), account dormancy, discriminatory lending practices, slow credit disbursement, and digital divides—continue to limit meaningful usage and empowerment for the most marginalized. SC/ST communities still face 7–17% lower institutional credit access, women encounter barriers in scaling enterprises, and tribal and minority populations grapple with linguistic and infrastructural exclusions. Without addressing these, the risk is that inclusion remains superficial: accounts opened but underutilized, loans sanctioned but defaults high, and economic gains skewed toward already advantaged groups.

The recommendations outlined:

strengthening targeted literacy programs, expanding last-mile infrastructure, enhancing credit guarantees, bridging digital divides, fostering PPPs, and improving monitoring—offer a roadmap for the next phase under the evolving National Strategy for Financial Inclusion (NSFI 2025–2030). By prioritizing active usage over mere access, leveraging community institutions like SHGs, and integrating fintech innovations responsibly, India can ensure that financial services become genuine tools for dignity, resilience, and upward mobility.

Ultimately, inclusive banking is not merely an economic imperative but a cornerstone of social justice and equitable development. When marginalized communities gain secure, affordable, and meaningful access to finance, they unlock cycles of investment in education, health, and entrepreneurship, breaking intergenerational poverty. As India strives toward Viksit Bharat by 2047, deepening financial inclusion will be pivotal in reducing inequality, achieving Sustainable Development Goals (especially SDG 1, 5, and 8), and building a truly inclusive economy. With sustained political will, innovative policy execution, and collaborative efforts across government, banks, fintechs, and civil society, inclusive banking can fulfill its transformative promise—leaving no one behind and empowering every Indian to participate fully in the nation's growth story.

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