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FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT OF HANDICRAFT ARTISANS

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ABSTRACT:

Handicraft sector is one of the biggest employment generating sectors in India and contributes towards the cultural richness and export earnings of the country. However, the people who keep it alive are often poor, indebted and reliant on mediators, much of the time because they're not part of the formal financial system. This article looks at the link between financial inclusion and the economic empowerment of handicraft artisans. It contends that financial inclusion, defined as having access to and using affordable financial products related to credit, savings, insurance, and digital payment services is a precondition to the process of moving the artisan from a dependent craftsperson to an independent micro-entrepreneur, but not the only one. Based on the conceptual and empirical literature, this article builds the conceptual framework that connects the dimensions of financial inclusion to the dimensions of economic empowerment and that seeks to understand the barriers that remain to exclude artisans from formal finance, as well as the types of financial services that can fill the gap, including self-help groups, cooperatives, microfinance, and digital financial services. It ends with policy and practice implications, highlighting that financial inclusion is a powerful empowerment tool if it is accompanied by financial literacy, market linkage and social organisation. The discussion is illustrated using the example of the craft rich state of Rajasthan.

KEYWORDS:

FINANCIAL INCLUSION, ECONOMIC EMPOWERMENT, HANDICRAFT ARTISANS, MICRO-ENTREPRENEURSHIP, SELF-HELP GROUPS, DIGITAL FINANCE, RAJASTHAN.

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1. INTRODUCTION

Handlooms have a unique position in Indian economic and cultural life. It is extremely labour intensive and decentralized, has low capital requirements, and supports the livelihood of millions of rural and semi-urban families, many of whom are women and are part of disadvantaged groups. It is also a significant foreign exchange generator and medium for the maintenance of intangible cultural heritage. Notwithstanding this significance, the artisan at the bottom of the value chain is one of the most economically vulnerable actors, and the income is low and unpredictable, while the conditions of the financing and selling of the craft products are very much in the hands of others.

This lack of access to the formal financial system is a recurring explanation for this vulnerability. Many artisans, lacking collateral, documentation and financial literacy, are unable to access credit from the banks and are forced to borrow from traders and moneylenders at high interest rates or are forced into accepting advance payment from the intermediaries under unfavorable conditions of trade.

The artisan is deprived of savings, insurance, and working capital to invest in raw material, tools and stock, to tolerate income shocks, and to realize a fair price for the value of craft products in the market. In brief, financial exclusion is a manifestation, as well as a factor, of the economic disempowerment of the artisan.

The article explores the link between financial inclusion and economic empowerment of handicraft artisans. It emphasizes that financial inclusion is a prerequisite for artisans' empowerment as micro-entrepreneurs rather than being dependent on other people's craft, and that financial inclusion is a driver of empowerment if it is

coupled with financial literacy, market linkage and social organisation. It builds a conceptual link between financial inclusion and economic empowerment dimensions, explores the existing barriers to financial inclusion of artisans and examines the tools to achieve financial inclusion – self-help groups, cooperatives, microfinance and digital financial services. The discussion is supported by a number of examples from the craft-rich state of Rajasthan which represents the potential and dilemma of the craft sector.

2. RESEARCH OBJECTIVES

1. To explore the linkage between financial inclusion and economic empowerment of handicraft artisans, especially the access to affordable credit, savings and/or insurance and digital payment services.
2. To explore the key challenges to artisans' financial inclusion and the contribution they can make to strengthening self-help groups, cooperatives, microfinance institutions and digital financial services in supporting artisans' income, autonomy, resilience and market engagement.

3. RESEARCH SIGNIFICANCE

The study is important because it is an indicator of financial inclusion as an important tool for the transformation of the economically vulnerable handicraft artisans into independent micro entrepreneurs. The paper helps to understand sustainable livelihoods of artisans by understanding how access to formal credit, savings, insurance, and digital payments can help to mitigate artisans' reliance on the moneylender and intermediary. Its emphasis is on Rajasthan and women artisans, and hence offers valuable lessons for policy makers, financial institutions, cooperatives and development organizations in developing 'all inclusive' financial products and interventions that incorporate financial education, market linkage and collective organization.

4. METHODOLOGY

The study uses conceptual and descriptive research methods and is conducted through literature review and synthesis of existing academic and empirical research on financial inclusion and handicraft livelihood, microfinance, self-help groups, cooperatives, digital finance and economic empowerment. It builds up a conceptual framework linking the major dimensions of financial inclusion with indicators of the economic empowerment of artisans, namely income stability, asset creation, autonomy, resilience, less reliance on intermediaries and enhanced socio-economic status. The financial constraints faced by artisans and financial inclusion instruments that can be used in the context of the handicraft sector of Rajasthan is explained using the same as a case study.

5. CONCEPTUAL FRAMEWORK

5.1 FINANCIAL INCLUSION

Financial inclusion is about making all vulnerable groups and lower income groups have access to financial products and services suitable for their needs at reasonable terms and conditions and in a transparent and equitable way. It's a concept that has multiple dimensions to it. Access: Formal financial services: bank account; source of credit; way to save; insurance product; way to pay. Use refers to how the services are actually and regularly used, not to the fact that they are available. Quality is the degree of appropriateness of the services to the needs and situation of the user. It is therefore not enough to have an account opened, financial inclusion is realised when the account and the broader package of services is used effectively to enhance the economic situation of the household or enterprise.

The financial inclusion of the handicraft artisan has four main aspects. This is the first, which is the access to cheap credit, both for working capital and for investment finance at reasonable rates and terms appropriate to the seasonal and irregular income of craft work. The second is access to savings - a safe and convenient way to save small surpluses that could be used to cover consumption and investment. The third is insurance — coverage against the shocks of illness, accident and loss that may otherwise result in distress borrowing or selling assets. The fourth aspect is the access to payment and remittance services, which are becoming increasingly digital and enable the artisan to collect payment directly from the buyers and to make transactions without the intervention of others. Every dimension is directly related to the artisan's ability to run a business.

5.2 ECONOMIC EMPOWERMENT

Economic empowerment is about an individual or group gaining the ability to take and act on economic decisions that affect their life, and the positive effect that this has on them. Economic empowerment can be seen in a variety of ways for the handicraft artisan. Economic achievement is the ability of achieving higher and more stable income and building productive assets. Autonomy is the situation of the artisan having control over the enterprise (what is produced, how it is priced, and who it is sold to) and over the income that it generates. Less dependence means a decrease in the need for the artisan to rely on intermediaries and informal lenders. Social standing and self-confidence are the artisan's position in the family and community, and their own confidence and sense of self-worth that comes from earning income.

So understood, empowerment is not just about earning more money, but the economic shift of the artisan's relative power and agency. When an artisan earns more but cannot get a loan from another trader, and must still deal with this trader, he is better off but not necessarily more empowered; when an artisan acquires the ability to produce with his own capital, to sell directly to the consumer, and to negotiate the price with the consumer, he is empowered without necessarily earning more directly. The difference lies at the heart of the argument in the article because it informs us why financial inclusion – changing the economic condition of the artisan, and not

just his income – is so intertwined with empowerment.

5.3 LINKING FINANCIAL INCLUSION TO ECONOMIC EMPOWERMENT

Financial inclusion and economic empowerment can be put in a sequence. When the artisan has access to credit and working capital, he or she can buy raw material in bulk, invest in tools and have stock, thus increasing the volume and quality of production and reducing reliance on advances from intermediaries. Access to saving and insurance offer protection against shocks lowering the need for distress borrowing and asset deterioration. Digital payments allow the artisan to get paid from the purchase by the buyer without the need to go through intermediaries and earn more value. These combine to improve income, autonomy, independence and social status and self-confidence – all dimensions of economic empowerment. Table 1 summarises the relationship.

Dimension of Financial Inclusion	Mechanism	Dimension of Empowerment Advanced
Affordable credit / working capital	Enables bulk purchase, investment, inventory; reduces reliance on advances	Higher income; greater autonomy; reduced dependence
Savings services	Smooths consumption; finances investment from own surplus	Resilience; asset accumulation; autonomy
Insurance	Protects against shocks; avoids distress sales and borrowing	Security; reduced vulnerability
Digital payments / remittances	Direct receipt of payment from buyers; disintermediation	Reduced dependence; higher value capture
Financial literacy (enabling condition)	Effective use of the above services	Confidence; decision-making capacity

TABLE 1: LINKING THE DIMENSIONS OF FINANCIAL INCLUSION TO ECONOMIC EMPOWERMENT

6. BARRIERS TO THE FINANCIAL INCLUSION OF ARTISANS

Handicraft artisans are one of the most financially excluded groups of economic actors in India despite the strong conceptual connection of financial inclusion and empowerment. The barriers are multiple and interrelated, both on the demand side and the supply side of the financial system.

6.1 DEMAND-SIDE BARRIERS

On the supply side, the artisans do not have the documentation, collateral, or credit history formal lenders require and thus the requirements for a bank loan are not met. The irony of the situation is that low financial literacy adds to the issue as many artisans lack understanding of formal financial products, don't know how to access them, and are wary of the paperwork and process required. Craft income is uneven and unpredictable and artisans look like high-risk borrowers to their lenders, and traditional repayments schedules are not suitable for them. Factors like the restricted mobility and autonomy of women artisans and cultural and social barriers also limit access. Although their cost is high, the informal lender is well known and easily available to many, and does not require documentation.

6.2 SUPPLY-SIDE BARRIERS

On the demand side, formal financial institutions have traditionally not been able to make money in serving low income and small transaction customers like artisans, who are spread out. The expense of assessing, disbursing and monitoring small loans is high for their size; the network of branches is sparse in the areas where artisans live and work, and the standard products are not well suited to the cash flow requirements and modest size of craft enterprise. If formal institutions exist, they might not fit because of the lack of tailored products such as credit calibrated to craft cycles, the lack of savings tailored to small and irregular surpluses and the lack of tailored insurance for the risks artisans face. This leaves a significant difference between the financial requirements of artisans and the services they have available to them.

6.3 THE CONSEQUENCES OF EXCLUSION

The impacts of financial exclusion are profound and reinforcing. Due to a lack of affordable credit, artisans are forced to take loans from moneylenders and traders at high rates of interest and/or advance on their future production at unchosen prices, thus strengthening their reliance upon intermediaries. If they don't save and insure, they would be affected by shocks, leading to distress selling and additional borrowing. If they cannot invest, they cannot enhance their work quality or size and prevent them from escaping from the low-income group, thus pushing them back into a vicious circle of poverty. Financial exclusion therefore becomes a vicious cycle that will keep the artisan in a vicious circle of having low incomes, high cost loans and dependence.

7. INSTRUMENTS OF FINANCIAL INCLUSION AND EMPOWERMENT

For certain groups of people, like handicraft artisans, a variety of institutional instruments has been created to bring financial inclusion to them. These four are especially pertinent: self-help groups, cooperatives, microfinance, and digital financial services. Each tackles some of the issues mentioned above and each has its own specific significance in terms of the empowerment of artisans and, in particular, women artisans.

7.1 SELF-HELP GROUPS

Small, mostly women-only, self-help groups which collectively save and offer credit to members have become a major instrument of financial inclusion in rural India. Self-help groups offer the artisans a credit and saving opportunity on terms much better than offered by the moneylender and without collateral and documentation, through aggregation of small savings and lending each other and by linking to banks. In addition to their economic objectives, self-help groups instil confidence, financial education and a sense of collective bargaining power amongst the members and are especially significant for the empowerment of women artisans as they provide an economic resource and a social forum for women.

7.2 COOPERATIVES AND PRODUCER ORGANISATIONS

In addition to association and access to finance, cooperatives and producer organisations bring together artisans to collectively secure raw materials, share facilities and collectively sell their products. Cooperatives can offer better credit terms as they become a bigger and more structured counterparty, and also can direct institutional and government finance to their members. Their position in the value chain is strengthened, thus contributing to empowerment through greater autonomy and less dependence on others in the chain. The effectiveness of collective organisation to build economic power through financial access is demonstrated by the experience of successful craft cooperatives.

7.3 MICROFINANCE

Low-income people without access to traditional banking services borrow small amounts from microfinance institutions, and more recently, deposit money and save in microfinance institutions. For artisans, microfinance provides working capital and investment finance at rates much lower than those of informal providers and with procedures modified to suit the artisans' situation. Though there are limitations, such as high interest rates that are still higher than the moneylenders, and being able to overindulge and become indebted to the moneylender, as long as it is well designed and linked to training, it can be an effective tool for providing microloans for craft micro-enterprises and for the reduction of dependence on exploitative informal credit.

7.4 DIGITAL FINANCIAL SERVICES

Digital financial services (DFS), including mobile banking, digital payments and app-based credit, have created a new landscape of financial inclusion. Digital payments are useful for the artisan as it eliminates intermediaries such as traders and allows them to receive money directly from buyers, even for far away or online buyers, and therefore helps to achieve financial inclusion and disintermediation in marketing. Digital platforms can also help artisans who wish to borrow money or deposit their savings without going to banks located in their neighborhood, and at a lower cost. The potential of digital finance is great, but it will only be realized if there is also a concerted effort to invest in digital literacy, connectivity and trust – investments that may be most needed by the same artisans that are most likely to be marginalized by the digital divide.

8. THE RAJASTHAN CONTEXT

The situation in Rajasthan with its large number of craft rich population exemplifies the significance and the challenge of financially including handicraft artisans. Rajasthan is famous for its block print and tie-dyed fabrics, blue pottery, jewellery and enamel craft, leather craft, marble craft, wood carvings, and many other crafts, which are spread across the state in craft clusters. These crafts provide livelihoods to numerous artisans' households and are associated with the state's tourist economy. However, the artisans producing them are subjected to all the financial constraints mentioned above: lack of access to formal credit, reliance on middlemen and money-lenders, and price fluctuations of raw materials and market demand.

The condition of women artisans in Rajasthan is of special interest. Women have traditionally played a key role in the craft industry, as they are a significant part of the craft workforce, and as they are key to the transmission of craft knowledge, they are also subject to extra barriers to financial inclusion stemming from their low mobility, lack of access to documentation and assets, and social constraints on women's economic independence. Combining financial inclusion with social organisation – in terms of self-help groups, women-oriented livelihood programmes and skill-development – has been a particular success in the state, turning craft skill into a viable and more autonomous enterprise for the women. The Rajasthan experience, therefore, reinforces the key thesis of this article: financial inclusion promotes empowerment best when it is integrated into broader frameworks of literacy, market linkage and collective organisation.

9. IMPLICATIONS FOR POLICY AND PRACTICE

The analysis has a number of implications for those who want to improve the economic status of handicraft artisans by supporting their financial inclusion.

- Create financial products focusing on the artisan. Non-standard products consisting of credit that matches the cash flows of craft work, savings that match the small and irregular surpluses, and insurance that matches the risks of craft livelihoods are more successful than standard products that are poorly suited to craft livelihoods.
- Use inclusion along with financial education. Extension of financial services, however, doesn't bring empowerment unless the artisans can take advantage of it, so training in financial-literacy needs to go hand-in-hand with access to financial services.
- Develop social organisation. Self-help groups, cooperatives and producer organisations promote financial access and enhance confidence and

bargaining power, the bases of empowerment, and are particularly significant for women artisans.

- Connect the financial world with the markets. Financial inclusion should be coupled with market linkage to the remunerative markets to boost incomes the most; finance and market linkage should go hand-in-hand.
- Reduce the digital divide. It is imperative that the potential of digital financial services is realised through investment in digital literacy, connectivity and trust, to ensure that inclusion is reaching the most disadvantaged artisans, and not further worsening their situation.
- Coordinate interventions. The barriers to inclusion are entangled, so better than isolated measures are coordinated action points through finance, skills, markets and institutions.

10. CONCLUSION

Financial inclusion and economic empowerment of handicraft artisans have a causal and close relationship. The formal financial system is bypassed by the artisan, which is a consequence and also a cause of economic disempowerment, trapping the artisan in an economy of low earnings, high cost of informal debt and need for intermediaries. Financial inclusion – having access to and using affordable credit, savings, insurance, and digital payments – is one way to break this cycle, allowing the artisan to finance production on their own, buffer against shocks, access the market directly, and secure a more equitable value chain. It helps to raise the level of empowerment – to increase income, to gain more independence, to become less dependent and to improve social status and confidence.

However, financial inclusion is not enough for empowerment. Empowerment through access to services can only be achieved if financial literacy is available, market linkages are strengthened, and social organisations are developed and if the barriers on the demand and supply side are removed simultaneously. While all of these elements have a role to play, especially in women artisans' empowerment, their success depends on their being part of a broader and coordinated approach. However, financial inclusion of handicraft artisans is not just about providing the extension of accounts and loans, it is about empowering the artisan as a micro entrepreneur and ensuring the livelihood of the artisans and the sustainability of the crafts they produce, for craft-rich Rajasthan, as also for the rest of India.

11. SUGGESTIONS

1. Future research should investigate the impact of different financial services on the livelihood, independence, coping capacity and performance of the artisans through the experimental approach.
2. Financial institutions should develop flexible and collateral-free financial products which are appropriate for seasonal and irregular cash flows of handicraft businesses.
3. Financial inclusion programmes should be linked with financial and digital literacy, market linkages, skill development and artisan collectives.

12. LIMITATIONS

1. The study is conceptual and based on literature, so the propositions of the study are not verified by primary data collected from artisans.
2. The observations made in 2 are mainly about the artisans of Rajasthan and may not be generalisable to other areas of India as a whole or other craft sectors.

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