Importance of financial inclusion in the indian scenario

Gandhi had once had once remarked, “ Our cities are not India. India lives in her seven and a half lakh of village.....” (Gandhi 1966: 288-89). Thus to build a strong India it becomes very necessary to strengthen and build its villages. The banking and financial services in our country had been limited to a section of elite population. Despite huge demand for these services the financial structure of such services has forever been very weak. The population in these regions have to depend on the informal sector like the local money-lenders for availing finance. Thus there arises the need for “ Financial Inclusion”. By Financial Inclusion we mean the easy delivery of financial services to large sections of the unprivileged society. It also means availing loans to the disadvantaged society at affordable cost.

HISTORY AND EMERGENCE IN INDIA

The concept of Financial Inclusion can be traced back to the year 1904 when ‘ Co-operative Movement’ took place in India. It gained momentum when 14 major commercial banks of the country were nationalized in 1969 and bank scheme was introduced thereafter. Branches were opened in large numbers across the country and even in the areas which were previously being neglected and those which needed quick recovery to escape the viscous cycle of poverty. Even after all these measures even till date a sizable portion of the population of the country could not be brought under the fold of banking system. In India the credit structure is crumbling and the availability of funds to the needy and disadvantaged is very poor. There are only a meagre number of such banks which are actually functional and really fulfilling the aim of bringing about financial equality and stability in the system. There is an immediate need for increased interaction and greater participation from state, banks and SHGs. The enactment of the Regional Rural Bank's Act in the mid 1970s was the first step toward Financial Inclusion. It had lead to the geographical expansion of the credits and has made financial services accessible to the rural poor. In India the financial coverage of the rural communities by the commercial banks and the regional rural banks is only 29% and only about 17 % by the long-term and short-term rural credit cooperative societies. It is rather more saddening to see the result of these financial institutions individually servicing the villages. Presently each branch office of the Scheduled Commercial Banks (SCBs) services only 20 villages and the Primary Agricultural Credit Societies up to 6. 4 villages. These figures itself portray the disheartening condition of the financial structure in rural India and achieving Financial Inclusion seems like a distant dream. In fact, there is a severe gap in financial access which needs special attention.

IMPORTANCE OF FINANCIAL INCLUSION IN THE INDIAN SCENARIO

India ranks second in the world in terms of Financially Excluded Households. In India even today loans are not available to about 135 million households. According to a report in The Hindu dated 8th December, 2012 the Deputy Governor of The Reserve Bank of India Dr K. C. Chakrabarty had remarked, " India needs strong measures for the financial inclusion of the poor and the marginalized ." The main reasons for financial exclusion in India, from the demand side are lack of awareness, low income, poverty and illiteracy while from the supply side is distance from branch , branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes etc. Thus there is an immediate need to improve on the status of

Financial Inclusion in our country and this has to start from the base levels. Financial Inclusion contributes to an all round development of the society. We can show that with help of a systematic diagram:-

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Financial Inclusion fulfils some economics objectives and also some social and political objectives. The economic objectives includes

equitable growth of the society which implies integrating everyone in the development process

mobilization of savings towards the needy

larger markets for financial systems so that loans are available to the unprivileged class easily

While the Social and Political objectives comprised of

poverty elevation for the welfare of the general people

sustainable development programs to be implemented

channelizing governments programs in the right direction

Thus to bring about an all round development in the society we need to have a strong financial structure. It is only possible with both government interventions and also community participation. There has to be community indulgence at a very great extent. They have to come together and collaborate with the banks and take part in their initiatives to promote financial inclusion. There are innumerable loopholes which have to focus on and dealt with to bring about equitable growth. We now concentrate on two case studies which throw light on some of the issues discussed above.

CASE STUDIES

We now narrow down our study and concentrate on two case studies which will help us analyse the problems of Financial Inclusion in India:

Case Study 1: The Economically Backward region of Jharkhand

Case Study 2: The Progressive Ras village of Gujarat

Case study 1: JHARKHAND

The Reserve Bank of India being the apex bank in India had given guidelines to all the commercial banks to promote financial inclusion in rural India. We take up the case study highlighting the economically backward region of Jharkhand. Poverty in Jharkhand had had a prolonged chain and this could be escaped only through financial inclusion. The main reasons for it being –

A very dense population

A very low rate of literacy- about 53. 6%

Extremely poor state with the National Average of people below the poverty line being 40. 2%

The senior level executives in RBI were worried about the extremely low performance of the state in rural areas in Jharkhand and thus a branch of RBI was setup in Ranchi. The commercial banks were given direction to promote financial inclusion. The commercial banks tried to promote financial inclusion in this region by taking into account some other channels as involving the Self-Help Groups (SHGs), Micro-finance Institutions (MFIs), Non-Commercial Banks as National Bank for Agricultural and Rural Development (NABARD), various Non- Governmental organizations, some Non- Banking Finance Companies (NBFCs), Co-operatives and Co-operative banks.

Although a large chunk of the population in Jharkhand lives in rural areas the private banks have only 13% of the total number of branches in the rural areas. The commercial banks were very reluctant to open branches here as due to poverty, less demand for financial inclusion, insufficient manpower and inappropriate technology there were high chances of incurring losses. But it was thought to be the responsibility of the banks to induce into the people a sense of financial inclusiveness. It was Bank of India who was the first to come forward and served as a backbone of the public sector banks in the light of financial inclusion in Jharkhand. Bank of India set up 385 branches in Jharkhand. Bank of India had done a commendable job in Jharkhand in terms of number of branches it had opened keeping in view the highly dispersed and dense population of the country. The products offered were Kisan Credit Card, General Credit Card, loans to run micro-finance and micro-insurance. Also a working group was setup by RBI to internalise NGOs and SHGs as a potential intervention tool for doing banking business with the marginalised and poor. The NABARD too came up with a massive program called the SHG Bank Linkage Programme (SBLP). According to a report there were about 5265 new savings account which were opened through SHG interventions.

Though the initiative seems to be a success at a glance, but the real picture differs. The SHGs and NGOs themselves were not financially and technically sound. For successful community participation it was required to train the individuals, give them basic financial education and acquaint them with modern technologies. Thus technical empowerment could have been enabled by the commercial banks by training and development practices of banking and financial risk management. They also needed financial support. Jharkhand being largely dependent on agricultural and related occupations led to high irregularity of income. This made situations worse as in the years when agricultural and related business did not perform well all steps taken to promote financial inclusion failed. Farmers in Jharkhand do not have access to formal finance for growing crops because of the high risk associated with it. Thus there was need for creating avenues of insurance trade for the farmer to participate in the process of financial inclusion. Development of mobile banking services can be a great way in improving the condition of financial inclusion in the state. Jharkhand having very poor rate of literacy most of the masses know no other language than their vernacular language and in such situations technology based devises like ATM machines do not serve the purpose and becomes a hurdle in the way of financial inclusiveness. Thus there was a need for the RBI and the commercial banks to take up the issue with more intensive research and proper handling. Improving and better monitoring of the commercial banks by reporting at specifies intervals, it should be made mandatory for banks have to undergo a statutory audit every year apart from the internal audit system that they posses and also assessing them on their achievements in the process of promoting financial inclusion. Thus a better planning and better approach towards things were required to achieve the aimed goal.

Case Study 2: RAS VILLAGE IN GUJRAT

The next study concerns the Ras Village in Gujarat. This village unlike that of villages in Jharkhand is a much more developed and progressive village. The Ras Village contributes much to the revolutionary Amul Co-operative movement in Gujarat. The village had a well-functional Government Community Health Centre and branches of public sector banks. According to a report the total deposit base was 250 million dollars on 31 March 2007 where Non- Resident Indians constituted 50 % of the bank's deposit base. The above village was a pretty well off and a progressive village according to the Indian standards, where the dairy activity has helped to improve the living standards of the people. Ras village more or less had some kind of financial structure and was not totally absent as in the case of villages in Jharkhand. We now focus on the data regarding presence of bank accounts and availing credit facilities in these areas:

Economic Research (NCAER)

The above study shows that 75. 2 per cent of the villagers have bank accounts and 26. 7 per cent have availed credit. According to a report by the World Bank Rural Finance Access Survey (RFAS) of 2003 which indicated that on an average only 41 per cent of rural households have bank accounts and among that only 21 per cent have some access to formal credit avenues

(Bapat, 2010). Keeping that as a benchmark we can say that the Ras Village is an Ideal village as the number of people availing loans is 26. 7 per cent and 75. 2 per cent villagers having a bank account is a striking number in itself.

The customers had a high rate of satisfaction in holding the bank accounts. The customer's perceptions were based on efficiency in the functioning of the banks, adequacy, timeliness, cost, security, convenience, staff and transactions Almost 66 per cent of the villagers were inclined towards future credit facilities. The villagers were urged upon taking cattle loans, business loans and also housing loans. There was clear indication of the villagers wanting to participate in rural credit and avail loans. There has been financial penetration up to a very extent and there was ample scope for further penetration. But there is another very important aspect which existed in the Ras village which lead to these – the well-developed cooperative milk collection system. They were already at a stable condition as the community had come forward and formed the milk cooperative. The banks had collaborated with them which lead to the upliftment of the village. It was profitable for the banks to enter into an agreement with the clients and the village cooperative milk-collection centre. Not only the village concerned but the whole of Gujarat has developed very rapidly on all economics terms including banking. And to achieve this goal the community and the cooperatives banks have played a crucial role. There was a significant correlation between holding bank account and their income, education, asset holding status and living conditions. The villagers in this village were economically more or less stable with moderate asset holding and thus they could easily avail loans.

COMPARISONS

After having an extensive view into the case studies we get a contrasting picture of the two villages in India. On one hand we have Jharkhand which is one of the poorest states in India and we see a crumbling financial structure. While on the other hand we have Gujarat, which at one point of time had aimed at 100 per cent financial inclusion, though that remains unattained but it has been is financially stable and has achieved been called a progressive state. The case studies give us an in-sight into the reasons for such glaring disparity in the same country. We now try and systematically try to analyse it in a tabular form.

JHARKHAND

RAS VILLAGE, GUJRAT

ECONOMIC CONDITIONS

Extremely poor state with the National Average of people below the poverty line being 40. 2%

Mostly dependent on agriculture or related activities

Banks unwilling to collaborate

Farmers do not have access to formal finance because of the high risk associated with it

Being a rich state with a stable financial structure

Economically stable and well-off

The well-developed milk cooperative which made the economy flourishing

The total deposit base was 250 million dollars

COMMUNITY PARTICIPATION

The SHGs and NGOs had tried to bring about the community together

People were economically viable and no access to formal finance

They had no formal training or technical knowhow to participate in the interventions

Community participation more or less absent

There was already existing community participation in the form of milk cooperatives

The people wanted to participate based on efficiency in the functioning of the banks, adequacy, timeliness, cost, security, convenience, staff and transactions.

Almost 66 per cent of the villagers were inclined towards future credit facilities.

ROLE OF BANKS

Banks were not willing to open up branches due to the poor economic conditions

Commercial banks came forward and started working with the SHGs, MFIs and NGOs.

Bank of India was the first to take such initiatives

It was profitable for the banks to enter into an agreement with the clients and the village cooperative milk-collection centre

Already public banks had existing branches

Most people were economically aware and active

EDUCATION AND TRAINING

People were illiterate

No economic sense

No technical knowledge

Insufficient manpower and inappropriate technology due to lack of educated masses

Unable to reap the benefits of Kisan Credit Card and General Credit Card

People were already aware of the advantages of banks and formal credit and had some amount of economic sense

Already existing communities and some amount technical knowhow

INFERENCE

Lead to financial exclusion and failure of the government initiatives

Lead to Financial Inclusion and all-round development of the village

CONCLUSION

Empirical evidence shows that Financial Inclusion leads to Economic Growth. To have an inclusive growth we need to bring the under-developed regions of the country at par with the developed regions. The above case studies of Jharkhand and Gujarat are an example of glaring disparity in our country which can only be bridged through initiatives from the banks and the community as well. Banks should move beyond traditional products as deposits and credits and rather introduce insurance, mutual funds and introduce better schemes for financially secluded people and have better risk managements. Also establishment of a rural infrastructure is a prerequisite for financial inclusion. There should be programs to initiate more of community participation by starting vocational training for the rural youth and have an improved workforce. Commercial banks have to draw a clear line between sound and unsound practices and chalk out a financial inclusion strategy so that it does not give rise to subprime crisis like situation. But we know that commercial banks always work with a profit motive. Thus the aim should be to enable the poor to get out of impoverished situations and in the process simultaneously enhance their own profitability. The dream of Inclusive Growth will not be complete until millions of micro-entrepreneurs are created across the country. All budding entrepreneurs have to face these challenges and find solutions. People working in the social sector should work for filling up the deficit existing in the economic and social arena.

To sum up, Financial Inclusion is the road that India needs to travel toward becoming a global player. Financial access will attract global market players in India and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

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