FINANCIAL INCLUSION AND EMPOWERMENT OF POOR IN INDIA

Dr. Gangambika Savagaon

Assistant Professor, Department of Economics, Vidyavardhini's A.V.College of Arts, K.M. College of Commerce & E.S.A. College of Science, Vasai Road
Email: gcsavagaon@gmail.com

ABSTRACT

To sum up, there are several challenges that require concerted efforts from banks, the RBI and the Government to ensure convenient and cost effective delivery of financial services to the public at large. There is a need to cover more people under financial inclusion who deserve and extremely in need of finance. The challenges In particular are, to introduce innovations in identifying such people, re-engineering of financial products as per the requirements, risk assessment, reduce transaction costs, devise new credit delivery channels and use information technology to make financial inclusion a viable model. As a developing country, India faces constraint of resource for rapid socio-economic development. While there may be limitation of financial resources but available human resources are huge and yet to be fully exploited. Thus the issue is not only the availability of finance to the targeted class but also about the usage. Therefore there is a need of evolving appropriate strategy for mobilising and training human resources for optimising use of the available financial resources.

Keywords: Finance, Inclusion, Measures

INTRODUCTION

Our country has commitment towards the welfare of the poor and the weak, which is well reflected in the constitution of India. On account of various historical and social factors, poor people and persons belonging to various weaker communities especially scheduled castes scheduled tribes and other backward classes have limited access to assets and opportunities. This has affected the status of equality in the society and enhanced level of poverty endangering their economic position. With a view to overcome the constraints and to achieve the desired objectives, several specific provisions, special legislations and numbers of plans and programmes have been launched from time to time by the governments both at central and state level.

However, the achievements are not remarkable. In view of the large population and limited financial resources available with the developing country credit plays a critical role in economic empowerment of the poor. It is widely accepted that removal of financial repression enhances the efficiency and potential growth of the Indian economy. If the allocation of credit is judicious and socially equitable, it can help to achieve the twin objectives of growth and social justice. Inclusive development includes progress in economic and social inclusion. Despite more than six decades of planned economic development, large part of the population particularly segments like landless agricultural labourers, marginal farmers, SCs, STs, and OBCs, suffers social and financial exclusion. There is a close connection between social inclusion and financial inclusion. Accordingly, the Government has devised many schemes for financial inclusion of the socially excluded like, SCs, STs, and OBCs, and the disabled. The Reserve Bank of India (RBI) has also launched a comprehensive programme with financial inclusion as a goal of the banking system.

Realising the importance of credit in improving the economic conditions of the poor people, the study was planned with the following objectives.

1. To find out the meaning of financial inclusion.
2. To study the extent of financial exclusion.
3. To find out the amount of loan disbursed and number of beneficiaries covered by the special agencies of the poor people of different categories.
4. To study the government measures for promoting financial inclusion.

The paper was prepared collecting information from secondary data. Various books, journals, research reports of individual researchers and government have been referred.

The study analyses briefly the various aspects of financial inclusion and government efforts to promote the same especially for socially disadvantaged classes in India identifying various areas for further research studies in future course of time.

Meaning of Financial Exclusion

Financial inclusion is the delivery of banking facilities to all people in a fair, transparent and equitable manner at an affordable cost. The Indian micro finance industry is a boon to a greater extent in achieving financial inclusion by offering small quantum of finance structured with low rate of interest with easy repayment options, to the individual or any origination. It also enables the poor people to be thrifty. Further, these micro finances are also offered for the development of people in the semi-urban and urban areas in improving their income and living standards. Micro-finance programs have been implemented by many banks at government behest. It is in this context that micro credits has emerged as the most suitable and practical alternative to the conventional banking in reaching the unreached poor population.

The recent developments in banking technology have transformed banking from the traditional structure like staffed branches to a system supplemented by other channels like automated teller machines (ATMs), credit/debit cards, internet banking, online money transfers etc. However, the access to such technology is restricted only to certain segments of the society. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income people and a large section of the population without even the most basic banking services. This is termed financial exclusion. The people living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances, payment services, money transfer facilities, overdrafts for productive, financial advisory services, insurance facilities etc. Merely having a bank account may not be a good indicator of financial inclusion. In simple terms, if genuine claimants for credit and financial services are denied the same then that is the case of financial exclusion. It also includes what could be done to make the claimants of institutional credit bankable or creditworthy.

The Committee on Financial Inclusion 2008, defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable costs". The essence of financial inclusion is in trying to ensure that a full range of affordable financial services available to every individual and enabling them to understand and access those services. The objective of comprehensive inclusion would be to provide a holistic set of services encompassing all of the above. The RBI, while recognising the concerns in regard to the banking practices, has been urging the banks to review their existing practices to align them with the objective of achieving greater financial inclusion.

Extent of Exclusion

In most developing countries, a large segment of society, particularly low-income people, have very little access to financial services, both formal and semi-formal. As a consequence, many of them have to necessarily depend either on their own or high cost informal sources of finance such as money lenders. This is particularly true for the sporadic financing requirements of low income households for non-productive consumption purposes and other emergency requirements such as medial expenditure. Benefits of growth, therefore, tend to concentrate in the hands of those already served by the formal financial system. It is well known fact that poor potential entrepreneurs, small enterprises and others are excluded from the financial sector, which leads to their marginalisation and denial of opportunity for them to grow and prosper. There are also a large number of households with low income and small savings, which need to be mobilised. Apart from the rural areas, there is significant degree of financial exclusion in urban areas as well. Some of the studies on extent of financial exclusion are:

Estimate of World Bank: According to 1995 World Bank estimate, in most developing countries the formal financial system reaches only the top 25% of the economically active population- the bottom 75% have no access to financial services apart from moneylenders. In India too the formal financial institutions have not been able to reach the poor households, and people in the unorganised sector.

Estimate of NSSO Survey 59th Round:

In General:

1. 51.4% of farmer households are financially excluded from both formal/informal sources.
2. Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrows from non-formal sources of credit.
3. Overall 73% of farmer households have no access to formal sources of credit.

As per Region-Wise:

1. Exclusion is more acute in Central, Eastern and North Eastern regions having a concentration of 64% of all financially excluded farmer households in the country.
2. Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions.

As per Occupational Groups:

1. Marginal farmer households constitute 66% of total farm households. Only 45% of these households are indebted to either formal or non-formal sources of finance.
2. About 20% of indebted marginal farmer households have access to formal sources of credit.
3. Among non-cultivator households nearly 80% do not access credit from any source.

As per Social Groups:

1. Only 36% of ST farmers' households are indebted (SCs and Other Backward Classes-51%) mostly to informal sources.

Estimate of CMIE: As per CMIE March 2006, there are 11.56 crore land holdings. 5.91 Crore KCCs have been issued as at the end of March 2006, which translated in to credit coverage of more than 51% of land holdings by formal sources.

Estimate of RBI: According to RBI study, critical exclusion in terms of credit is manifest in 256 districts, spread across 17 states 1 union territory with a gap of 95% and above. Thus there are different estimates of the extent of financial exclusion by the formal sources. Though the reference period of the data is not uniform; it gives broader picture of the extent of levels of exclusion.

Special Agencies

Many government institutions like NABARD, Commercial banks, Regional rural Banks, Cooperatives, Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Semi government organisations like various corporations and NGOs and SHGs are providing micro finance for the empowerment of the poor. As part of the strategy to achieve inclusive development, the government is committed towards the economic and social empowerment and educational upliftment of socially disadvantaged groups and marginalised sections of society.

Table 1. Amount of Loan Disbursed (Rs. Crore) (2010-11)*

Corporation	Term Loan	Micro Finance	Others	Total
NSCFDC	79.94	41.12	--------------	121.06
NSKFDC	36.67	10.53	17.79	64.99
NBCFDC	62.27	44.50	-------------	106.77
NHFDC	17.63	2.15	0.08	19.86
Total	196.51	98.3	17.87	312.68

Table 2. Number of Beneficiaries (2010-11)*

Corporation	Term Loan	Micro Finance	Others	Total
NSCFDC	9,597	21,897	2,165	33,659
NSKFDC	3,525	4,525	7,371	15,421
NBCFDC	31,489	49,171	--------------	80,660
NHFDC	3,438	1,070	3	4,511
Total	**48,049**	**76,663**	**9,539**	**1,34,251**

Source: Economic Survey- 2011 *As on 31st Dec 2010.

1. NSCFDC- National Scheduled Caste Finance and Development Corporation
2. NSKFDC- National Safai Karamcharis Finance and Development Corporation
3. NBCFDC- National Backward Classes Finance and Development Corporation
4. NHFDC- National Handicapped Finance and Development Corporation

With a view to overcome the difficulties faced by the scheduled castes (SCs) and scheduled tribes (STs) in getting institutional finance, National Scheduled Caste and Scheduled Tribe Finance and Development Corporation (NSFDC) was set up in 1989 as a national level financing organisation under the Ministry of welfare to support income-generation activities through its financing schemes. Since the needs of the scheduled tribe population are quite distinct due to the special characteristics, to give focused attention to STs, in April 2001, the NSFDC was bifurcated and an exclusive National Scheduled Tribe Finance and Development Corporation (NSTFDC) was incorporated. This is an apex institution for financing schemes/projects for economic development of STs. Important mandate of these corporations was to provide adequate loan to the target group at a lower rate of interest than that charged by the banks.

Subsequently national level corporations were set up for providing similar facilities to persons belonging to other Backward Classes, Minorities and Safai Karamcharies. Those corporations are provided share capital by the government, which is used for giving loan to the target groups. Initially these corporations were providing loan indirectly through the State Level Channelising Agencies (SCA) to persons belonging to the target groups and having income below the poverty line for taking up economically viable activities. Based on the experience of NABARD and Rashtriya Mahila Kosh, these national corporations took up provision of micro finance with the help of Non-Governmental Organisations for meeting smaller loan requirements and covering larger number of beneficiaries.

Details of the Loan disbursed and beneficiaries covered under the NSCFDC, NSKFDC, NBCFDC and NHFDC are given in table-1 and table-2 respectively.

Government Measures for Promoting Financial Inclusion

Bringing the larger population within the structured and organised financial system is an important item on the development agenda of the government. With the objective of attracting the financially excluded population into the formalised financial system, given the socio-demographic complexities in India the RBI has introduced a multi-institutional and multi-instrument approach to comprehensively address the issue of financial inclusion. Some of the RBI measures taken in this direction are as follows.

1. No Frills Account: Banks were advised in November 2005 to make available a basic banking no frills account either with 'nil' or very low minimum balances and charges that would make such accounts accessible to vast sections of population. All the public and the private sector banks as well as the foreign banks, except some, are reported to have introduced the basic banking 'no-frills' account.
2. General Credit Card (GCC): With the objective of providing hassle-free credit in rural and semi urban areas, the banks were advised in December 2005, to consider introduction of a General Credit Card (GCC) to such constituents. The card with nature of revolving credit was to have a credit limit of up to Rs.25000, with reasonable interest rate based on the assessment of income and cash flows of the household without insistence on security or purpose or end-use of credit.
3. Business Facilitator (BF) and Business Correspondent (BC) Models: In January 2006, banks were permitted to utilise the services of NGOs/SHGs micro-finance institutions and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models.
4. Passbook Facility: Pass books provide ready information to the account holders, of the transactions in their accounts. This document cannot be substituted by bank account statements. Since non-issuance of the pass books to the small customers could indirectly lead to their financial exclusion, the RBI had advised the banks in October 2006 to invariably offer the pass book facility to all its savings bank account holders without any charge on the customers.
5. Simplified KYC Procedure: with a view to facilitate the opening of bank accounts by the common man through a simplified KYC procedure, RBI in 2006-07, announced that the "bank could open accounts of low balance /turnover (where the balance does not exceed Rs. 50,000/ in all the accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rs. 2 lakh in a year) only with self-certification of address by the customers and self-photograph.
6. Credit Counselling and Financial Education: The banks were also advised by the RBI to make available all printed material used by retail customers in the concerned regional language. RBI itself has launched in 2007, a multilingual website in 13 Indian languages on all matters concerning banking and the common person.

RECOMMENDATIONS OF THE COMMITTEE ON FINANCIAL INCLUSION

Keeping in view the enormity of the task involved, the committee recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50% (55.77million) of the excluded rural households by 2012 and the remaining by 2015. This would require semi-urban and rural branches of commercial banks and RRBs to cover a minimum of 250 new cultivator and non-cultivator households per branch per annum. The committee also recommended that the government should constitute a National Mission on Financial

Inclusion comprising representatives of all stakeholders for suggesting the overall policy changes required, and in undertaking promotional initiatives.

The Major Recommendations to Commercial Banks are:

- Target for providing access to credit to at least 250 excluded rural households per annum in each rural/ semi-urban branch.
- Targeted branch expansion in identified districts in the next three years.
- Provision of customised savings, credit and insurance products.
- Incentivising human resources for providing inclusive financial services.
- Simplification of procedures for agricultural loans.

The Major Recommendations to Regional Rural Banks are:

- Extending their services to unbanked areas and increasing their credit-deposit ratios.
- No further merger of RRBs.
- Recapitalisation of RRBs with negative net worth.
- Widening of network and expanding coverage in a time-bound manner.
- Strategic microfinance plan with NABARD support.
- Separate credit plans for excluded regions
- Pilot testing of B/F B/C Model.
- Computerisation
- Strengthening Boards of Management
- Tax Incentives
- NABARD to support HR Developments in RRBs
- The Major Recommendations to Co-operative Banks are:
- Early implementation of Vaidyanathan Committee Revival Package.
- Use of Primary Agricultural Credit Societies (PACS) and other primary co-operatives as business correspondents.
- Co-operatives to adopt group approach for financing excluded groups.

CONCLUSION

The study reveals that despite the measures undertaken by the government and corporations like simplification of procedures, liberalisation of rate of interest, support for capacity building measures, assistance in marketing the products and etc., problems of beneficiaries continued to exist. Like, inadequate credit, poor marketing by the institutions for their products, absence of training and follows up, absence of necessary guidance etc. These problems need immediate redressal by financing institutions. To sum up, there are several challenges that require concerted efforts from banks, the RBI and the Government to ensure convenient and cost effective delivery of financial services to the public at large. There is a need to cover more people under financial inclusion who deserve and extremely in need of finance. The challenges In particular are, to introduce innovations in identifying such people, re-engineering of financial products as per the requirements, risk assessment, reduce transaction costs, devise new credit delivery channels and use information technology to make financial inclusion a viable model. As a developing country, India faces constraint of resource for rapid socio-economic development. While there may be limitation of financial resources but available human resources are huge and yet to be fully exploited. Thus it is not only the availability of finance to the targeted class but also about the usage. Therefore there is a need of evolving appropriate strategy for mobilising and training human resources for optimising use of the available financial resources.

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