IMPACT OF FINANCIAL INCLUSION TOWARDS SOCIOECONOMIC DEVELOPMENT OF RURAL INDIA

Prof. J.P. Yadav, *Professor and Head, Department of EAFM, University of Rajasthan,*

Abhishek Sharma, *(JRF) Research Scholar, Department of EAFM, University of Rajasthan, Jaipur,*

Meghna Meena, *(JRF) Research Scholar, Department of EAFM, University of Rajasthan, Jaipur*

Abstract

Financial inclusion is essential for improving the living conditions of rural masses, rural nonfarm enterprises and other vulnerable sectors. The basic objective is to provide financial services at affordable cost to the marginalized and disadvantaged segments of the society. While the rural people need it the most, rural communities remain the largest unserved market for financial services. Ensuring their financial inclusion can unlock the considerable economic potential of rural areas. Nationalization of banks and subsequent developments led to the expansion of commercial banks, RRBs and Co-operative credit institutions geographically all over India. Banks policy aimed at ***"social"*** *and* ***"development bonding"*** *by providing credit and financial facilities to agriculture and other priority sectors. Even after 68 years of independence, banking facilities has not reached many rural and unprivileged sectors of the society which led to a financial gap and instability among the rural people. Now Govt. and RBI are formulating various schemes and policies to build financial strength in Rural India through Financial Inclusion.*

Despite of vast expansion, a large number of group remain excluded from the "opportunities and services" provided by the financial sector. Such excluded groups consist of small and marginal farmers, women, unorganized sector workers including artisans, self-employed and pensioners. Against this background, the objective of this paper is to bring out issues and challenges for reducing financial exclusion. In this paper the researchers has attempted to highlight the factors, significance and tracing out challenges of financial inclusion with social and economic development of the rural India.

Keywords: *Financial Inclusion, Banks, Financial Exclusion, Social, Rural India.*

Introduction

According to the Planning Commission, Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

With the progress of the Indian economy, there must be an attempt to include maximum number of participation from all the sections of the society, especially when the focus is on the achievement of sustainable development. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, savings for retirement, insurance against risks, etc. by the rural individuals and firms.

The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply. The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers.

Objective of The Study

The purpose of the paper is to study the Financial Inclusion and its impact on socioeconomic development of Rural India. In order to achieve this objective the following issues have been examined:

- To study the concept of Financial Inclusion and find the level of its compliance with the RBI guidelines in rural sector particularly.
- To study about the recent schemes launched by Govt. of India regarding Financial Inclusion and socioeconomic development.
- To examine the extent of financial exclusion in rural India.

Status of Financial Inclusion in Rural India

Even after 68 years of independence, banking facilities has not reached to the entire rural and unprivileged sector of the society. This led to financial gap and instability among the rural people. Now a days Govt. and RBI are formulating various policies to build the financial strength in Rural India through Financial Inclusion. Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging ‘no-frill-accounts’ and emphasis on financial literacy have played a significant role for increasing the use of formal sources for availing loan/ credit. Measures initiated by the government include, opening customer service centers, credit counselling centers, Kisan Credit Card, MNREGA and Aadhar Scheme. These renewed efforts are more focused than the earlier measures which were more general in nature having a much wider scope. Though the measures were initiated earlier, their impact on the rural population needs to be analysed and reframed in order to understand the present scenario in the rural areas.

Need for Financial Inclusion in Rural India

Firstly, Due to absence of proper banking avenues, people in rural India are not able to channelize their savings. Through Financial Inclusion saving habit can be developed by educating people to utilize their funds in various Financial Instruments rather than investing in building, lands and bullion etc. Secondly, Absence of formal credit channels, farmers and deprived section of society are dependent mainly upon the private money lenders who charge exorbitant interest rates. This type of money lending does not result in increase in GDP in the country. By providing easy finance through formal channels like banks, micro-finance institutions and co-operative credit societies entrepreneurial spirit of the population can be developed that will bring prosperity in the society.

Role of Banks

Commercial Banks: CBs are the main contributor of Financial Inclusion because of their vast network. More than 50% of India’s overall consumption comes from rural India which account for about 70% of our population. There are 32,600 branches in rural area, 14,400 semi-urban branches as per report of 2014-15, 196 exclusive RRBs in the interior of Rural India. The number of saving accounts in rural and semi-urban branches are nearly about 62%. The average distribution cost of Banks at Rs 5.5 lacks per employee is prohibitive. Banks need to look at ways to leverage cost effective technological solutions, cutting down on human resource cost, building a low cost distribution network, setting up lean branch models, leveraging on the "Aadhar" platform, creating targeted products and services etc.

Cooperative banks: These are managed and organized by their own members who can easily provide the financial services in the rural areas that are not entertained by commercial banks.

Regional Rural Banks: RRBs are set up in rural area for providing finance to the marginal farmers. They should take help of Non-Government Organizations for the upliftment of poor and weaker section of the society by providing them easy credits.

Non-Banking Financial Companies: NBFC's can help both large and small organizations. They should also participate in the process of Financial Inclusion by providing Micro insurance, Micro credit and by spreading financial education among the weaker section of the society.

Micro Finance Institutions: The specific aim of constituting MFIs is to provide easy finance to poor and weaker section of the society. They should help unbanked section of the society which is neglected by other financial institutions.

Post-office: The Post offices are present even in the remotest area of the Rural India, can provide all kinds of small and micro-financial services in rural area by providing door to door services.

Efforts of RBI towards Financial Inclusion

RBI set up Khan Commission in 2004 to expand the reach of financial inclusion. The significant recommendations were implemented through midterm policy in 2005-06 which includes Opening of a basic "No Frill" bank account. It is a type of bank account, with low or zero balance with minimum formalities and relaxed KYC (Know Your Customer) norms. RBI came up with this concept because poor people cannot open regular bank account having requirement of minimum balance i.e. Rs 1000/- , Rs 5000/- etc. The Account can be opened and maintained with a minimum initial deposit of Rs. 5/- having no penalty charges in case the minimum balance reaches to zero. To avail easy credit General Credit Cards (GCC) should be issued to the poor section of the society. Commercial banks are advised to make use of intermediaries such as Non Govt. Organizations, Micro Finance Institutions and Self Help Groups to provide financial services to the unprivileged section of the society.

Enabling Regulation

Recently, RBI started to take action on the recommendations from its recent Financial Inclusion Committee report. It already dropped several of the last restrictions on the banking correspondent (BC) model. NBFCs, previously excluded, can now become correspondents and, most importantly, the requirement for any BC outlet to be within a 30-kilometer radius of a bank branch has been removed. That radius requirement heavily favored the incumbent state-owned banks, which have the relatively largest branch network. Now, a poor-focused start-up bank with a single branch in, can create BC presence in rural areas throughout India by partnering with a fast-moving consumer goods company, or other players with a deep presence in rural India.

RBI also issued draft regulations for the new concept of a payment bank. Such a license will allows a mobile telephone company to operate mobile money subsidiaries and prepaid card instrument issuers to overcome the cash-out restrictions that have prevented the rapid uptake of the mobile money services that have proven so successful in many other economies. Payments banks would be allowed to facilitate payment transactions and take deposits, but not extend credit. As a mirror image, the reform plans also envisage the concept of credit-only banks for rural areas. India's deep and sophisticated domestic capital market is expected to intermediate the deposit-taking and the credit-extension of these specialized players.

Supporting Infrastructure As witnessed throughout the developing world, mobile telephone penetration continues to deepen in India and reached 895 million by 2015. The unique biometric ID "Aadhaar" has enrolled over 900 million people, and RBI has allowed for the unique ID to be used as corner-stone in a digital compliance regime to meet the regulatory "Know-Your-Customer" requirements. This dramatically lowers the cost of opening a financial account for both consumers and providers alike.

Recently launched schemes regarding Financial Inclusion by Govt. of India:

- **MUDRA Yojana**

  The Prime Minister Narendra Modi launched the Micro Units Development and Refinance Agency Ltd (MUDRA) Bank on 8 April, 2015 with a corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore. As per NSSO Survey of 2013, there are close to 5.77 crore small-scale business units, mostly sole proprietorships, which undertake trading, manufacturing, retail and other small-scale activities. Compare this with the organised sector and larger companies that employ 1.25 crore individuals. Clearly, the potential to harness and nurture these micro businesses is vast and the government recognizes this. Today, this segment is unregulated and without financial support or cover from the organized financial banking system.

As per Department of Financial Services, Ministry of Finance, Govt. of India's letter No.27/01/2015-CP/RRB dated May 14, 2015 loans given to non-farm income generating enterprises in manufacturing, trading and services whose credit needs are below Rs.10 lakh by all the Public Sector Banks, Regional Rural Banks, State Cooperative Banks and Urban Co-operative Banks will be known as MUDRA loans under the Pradhan Mantri MUDRA Yojana (PMMY). All such loans can be covered under refinance and/or credit enhancement products of MUDRA. Scheduled Commercial Banks (Public / Private) Regional Rural Banks (RRBs) Scheduled Urban Co-operative Banks/ State Cooperative Banks Micro Financial Institutions viz., NBFCs, MFIs, Societies, Trusts, etc. MUDRA has enrolled 27 Public Sector¬ Banks, 17 Private Sector Banks, 27 Regional Rural Banks and 25 Micro Finance Institutions (MFIs - list as per Annexure I) as partner institutions for channelizing assistance to the ultimate borrower.

Under the aegis of Pradhan Mantri Mudra yojana, MUDRA has already created its initial products / schemes. The interventions have been named 'Shishu', 'kishor' and 'Tarun' to signify stage of development and funding needs of the beneficiary micro unit/ entrepreneur and also provide a reference point for the next phase of growth to look forward to:

1. SHISHU: covering loans upto 50,000 Rs;
2. KISHOR: covering loans above 50,000 and upto 5 lakh Rs;
3. TARUN: covering loans above 5 lakh to 10 lakh Rs.

- **Pradham mantri jan dhan yojana**

  Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Financial inclusion initiative Pradhan Mantri Jan Dhan Yojna has entered into the Guinness Book of World Records, by opening nearly 11.50 crore bank accounts in the shortest period of time. The Guinness Book of World Records has given a certificate stating that the most bank accounts opened in one week as part of the financial inclusion campaign is 1.8 crore.

(All Figures in Crores)

S.No		**No Of Accounts**			**No Of Rupay Debit Cards**	**Balance In Accounts**	**% of Zero Balance Accounts**
		Rural	**Urban**	**Total**			
1	Public Sector Banks	8.48	6.86	15.34	13.54	22016.41	33.40
2	Regional Rural Banks	3.02	0.50	3.53	2.55	4847.58	30.83
3	Private Banks	0.44	0.29	0.73	0.65	1148.39	40.83
	Total	**11.95**	7.66	19.60	**16.73**	**₹28012.38 crore(US$4.2 billion)**	33.21

Pradhan Mantri Jan - Dhan Yojana (As on December 2015)

Every person will be eligible to receive an **accident insurance cover** of up to **Rs. 1 Lakh. HDFC Ergo General Insurance** will provide the accident cover under the scheme. The scheme will provide **Rs 5,000 overdraft facility for Aadhar** – linked accounts, and Ru Pay Debit Card for all account holders**.**

- **Sukanya Samriddhi Account**
  Sukanya Samriddhi Account is another welcome step from Govt of India as part of "Beti Bachao – Beti Padhao" initiative. By Sukanya Samriddhi Account, Govt is trying to give a social message that Girl Child is not a financial burden if parents of a Girl child secure their future through proper financial planning. Highest Interest Rate among all Small Savings Schemes offered by Govt of India, Sukanya Samriddhi Account will offer interest rate of 9.1% for the financial year 2014-15. In order to encourage people to open Sukanya Samriddhi Account, Govt has exempted contribution to this account u/s 80C of the Income Tax Act, 1961. The maturity of account is 21 years from the date of opening of the account or Marriage of the Girl Child, whichever is earlier. For Marriage, Girl should be of 18 years at the time of marriage. As mentioned earlier, it is quite evident that Sukanya Samriddhi Account is launched with sole objective of financial planning for the marriage of Girl Child. Social Message is that Marriage or Education of a Girl Child is not a financial burden if parents plan well in advance. It gives financial independence to Girl child which is currently missing in India. Unlike other financial schemes where interest is not paid after maturity of the deposit/ investment scheme. Unique feature of Sukanya Samriddhi Account is that even after maturity, if the account is not closed by the account holder, Interest shall be payable in the account till final closure of the account.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**
  Bank account holders aged between 18 and 50 years are eligible to apply for this scheme. Less than Re. 1 a day or an annual premium of Rs. 330 is what you need to pay to get a life cover of Rs. 2 lakh. No matter what your age is, the premium is fixed at Rs. 330 for a life cover of Rs. 2 lakh. This annual premium of Rs. 330 has been fixed for the first three years from June 1, 2015 to May 31, 2018, after which it will again be reviewed based on the insurers' annual claims experience.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**
  The scheme offers to provide you or your family a cover of up to Rs. 2 lakh in case of any mis happening, resulting into death or disability of the insured. It costs you just Rs. 12 in annual premium for having an accidental death or disability cover of Rs. 2 lakh under this scheme. It works out to be just Re. 1 a month, which is extraordinarily low. The scheme would be offered / administered by many of the general insurance companies, both in the public sector as well as in the private sector. Participating banks will be free to engage any such general insurance company for implementing the scheme for their subscribers. National Insurance Company Limited, Oriental Insurance Company Limited and ICICI Lombard are some of the companies which would be offering this scheme.

- **ATAL PENSION SCHEME**
  The scheme will be launched on June.1.2015 and focus is on the unorganised sector. A pension provides people with a monthly income when they are no longer earning. A Subscriber receives pension based on accumulated contribution out of his current income. Under the Atal Pension Yojna Scheme (APY), the subscribers ,under the age of 40, would receive the fixed monthly pension of Rs. 1000 to Rs 5000 at the age of 60 years, depending on their contributions. To make the the pension scheme more attractive, government would co-contribute 50 per cent of a subscriber's contribution or Rs 1,000 per annum. The scheme will be administered by the Pension Fund Regulatory and Development Authority (PFRDA) and replace the previous government's Swavalamban Yojana NPS Lite.

- **PaHaL**
  The Direct Benefit Transfer for LPG (DBTL) program Pratyaksh Hastantrit Labh (PaHaL) is the first digitized DBT program under the new government.. Those with an Aadhaar number can link their Aadhaar number to their bank accounts and LPG consumer number to get the subsidy, those without can submit their bank details. There are close to 130 million PaHalL beneficiaries and over INR 122 billion (close to $ 2 billion) have been disbursed through the program. This can serve as an example on how the government can digitize cash transfers.

The Extent of Financial Exclusion in Rural India

It is widely known that there are pockets of poverty and financial exclusion in both urban and rural areas, particularly among slum-dwellers. Based on the All Indian Debt Investment Survey, 111.5 million households had no access to formal credit. It also showed that 17 million households were indebted to moneylenders. A Report on financing enterprises in the unorganized sector has pointed out that only 2.4 million out of 58 million units in this sector (with investment of less than Rs 25000) have got credit from commercial banks. The AIDIS also showed that lower the asset class or income, higher the degree of exclusion. These findings are corroborated by Invest India Incomes and Savings Survey (2007). The survey showed that 32.8% of households had borrowed from institutional sources and 67.2 % had borrowed from non institutional sources. The survey also found that 70 per cent of earners in the annual income bracket of more than Rs.400,000 borrowed from institutional sources as compared with only 27.5 per cent in the case of earners in the income bracket of less than Rs.50,000.

Of the underprivileged sections of the society - farmers, small venders, agriculture or industrial laborers, people engaged in unorganized sector, unemployed people, women, children, old people and the physically challenged - only 40 per cent of the people have a check in account, 20 per cent have taken life insurance products, 0.6 per cent have taken non-life insurance products, only 2 per cent have access to credit cards. Geographically, only 5.2 per cent of the country"s villages have a bank branch.

Despite the vast network of rural branches, only 27 per cent of the total farm households are indebted to formal sources; of them, one third also borrow from informal sources. There are parts of the country where more than 95 per cent of the farm households do not get any credit from institutional or non institutional sources. Apart from the fast that exclusion itself is large, it also varies widely across regions, social groups and assets holdings. The poorer the group, the greater is the exclusion. There is evidence that farm debt is increasing much faster than farm incomes and the larger issue of the overhanging debt stock, as distinct from credit flow, has not even been on the agenda except of a few State governments. According to NSSO data in the situation assessment survey on "Indebtedness of Farmer households", 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, only 27% of total farm households are indebted to formal sources.

Conclusion

It is beyond doubt that after nationalization of banks in 1969, the reach of CBs, RRBs, Co-operative credit institutions have remarkably increased in rural areas but a group of society remains ignored from the financial services. The progress in rural India and emerging developments are providing banks an immense opportunity to grow their business and bring prosperity to the aspiring poor through financial inclusion. Rising rural incomes, growing consumption, public policy focus on inclusive growth rollout of several Govt. schemes aimed at rural India. Payment of wages / social security payments / other benefits through EBT directly into bank Accounts creating several opportunities for banks to play an active role in rural India. To conclude banks should take a step forward to formulate specific plans to enhance Financial Inclusion of unbanked section of the society. At the same time they should device the strategies to reduce their transaction cost to actively participate in the process of Financial Inclusion treating it as Business Opportunity and Corporate Social Responsibility.

Expanding access to financial services seems to hold promise as a means for including the poor, reducing poverty, and spurring economic development. With the announcement of the SVS financial inclusion blueprint by the government under which the PMJDY was launched, and the new payment bank guidelines suggested by the RBI, there is hope that financial inclusion is a clearer and important mandate in the country. Both these measures emphasize the provision of bank accounts, which is an essential factor, but only a limited one towards achieving financial inclusion in India. In the past decades, state policies of financial inclusion have overwhelmingly relied on extending credit to low-income households through subsidized credit schemes like IRDP or expanding SHGs and providing no-frills bank accounts. Research has shown that unless financial instruments are designed for specific needs of the poor, they remain underutilized and costly for the providers, and therefore, non-sustainable. Broader financial needs of the poor have so far been met through informal means which are costly and risky and result in sub optimal outcomes for the most vulnerable sections of our society. Allowing and encouraging innovation in savings instruments for the poor by the formal financial sector is thus critical to achieving our goals of financial inclusion. To complement such innovation, indigenous financial institutions must find a place within the financial inclusion policies of the government. They have a far greater reach and acceptance amongst the people than most top-down policies of financial inclusion in the recent history of liberalized India. Government policies must recognize this and build on the strengths of indigenous financial institutions. For similar reasons, post offices must also be brought within the fold of national financial inclusion strategy due to their extensive network and greater accessibility. Raising awareness and imparting financial literacy are also critical to the utilization of financial instruments and for better financial decision-making. Educating people about financial risks can prevent them from investing in dubious schemes. Such schemes are particularly rampant amongst the poor and vulnerable sections of the Indian society, as recent scams have highlighted.

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