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FINANCIAL INCLUSION: A KEY TO UNLOCK RURAL DEVELOPEMENT

PUSHPA KUMARI, Ph.D. SCHOLAR

UNIVERSITY DEPARTMENT OF HISTORY

T.M.B.U. BHAGALPUR - 812007

ABSTRACT :

Financial Inclusion is defined as the process of proper access of financial services and timely and adequate facilities required by needy sections of the society at the minimum cost in a effective and transparent manner and eradication of rural social and individual financial exclusion. The objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in agriculture, business opportunities, education, health, insurance against risks, use of technology etc. by the rural individuals. There have been many formidable challenges in financial inclusion area such as bridging the gap between the sections of society that are financially excluded and the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. The major activities include formulation of schemes for financial literacy, knowledge dissemination, creation of infrastructure, facilitating technology adoption by banks and policy advocacy. For this reason, government and financial institutions like banks etc. play the vital role in the developments of rural sector of Indian economy. As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. In rural areas revolutionary steps have been taking place by the government through welfare and developemental schemes.

KEYWORDS : FINANCIAL INCLUSION, FINANCIAL EXCLUSION, TECHNOLOGY, RURAL INDIVIDUALS, GOVERNMENT, BANKS, RURAL DEVELOPEMENT

INTRODUCTION :

Financial Inclusion is defined as the process of proper access of financial services and timely and adequate facilities required by needy sections of the society at the minimum cost in a effective and transparent manner. It defines also as the eradication of rural social and individual financial exclusion and to ensure every individual financial participation in economic growth for the country. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. Thus financial inclusion not only mean that opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. Rural Development is defined as balancing the rural and urban areas with the healthy competition among those which are results in nation's development. The necessity of Rural Development arises due to the gap between urban and rural areas in terms of infrastructural facility, standard of living and their income. Rural

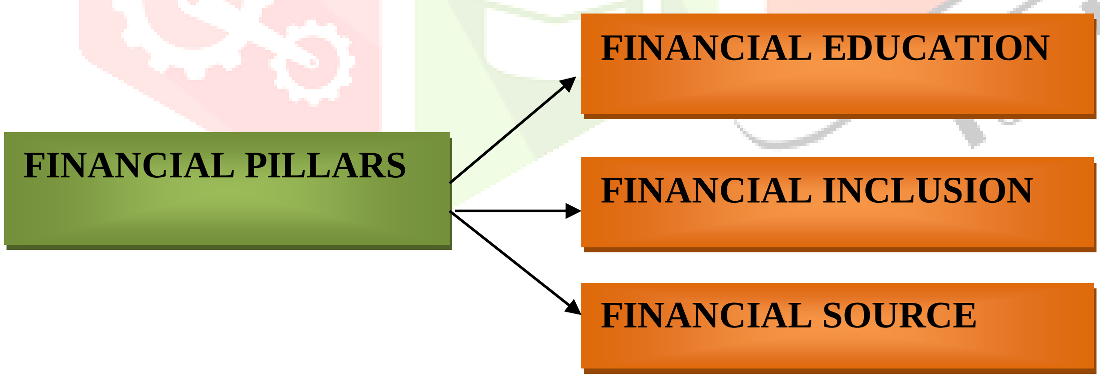
Development is the proper utilization, protection and intensifying the natural, physical and human resources requires making long term improvement in rural life. Rural development which much more implies on small farmers agricultural progress, encompasses efforts to raise both farm and non-farm rural real incomes through job creation, rural industrialization, and the increased provision of education, health and nutrition, social and welfare services. Financial inclusion does not mean only financial assistance directly but also indirectly in the form of various govt. schemes at central level to sync rural system into main stream of developement. In the country's revenue larger share is contributed by rural sector, which provides food to whole population and raw material to agro-based industries. But at the same time the rural sector has shortage of finance and out of developement. There have been many formidable challenges in financial inclusion area such as bridging the gap between the sections of society that are financially excluded and the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. For this reason, rural finance plays vital role in the developments of rural sector. In the developing countries like India with regional imbalance's exists. So Govt. and other financial institutions schemes like Micro-credit, SHG, PMJDY etc. play a great significance role in this context.

BACKGROUND :

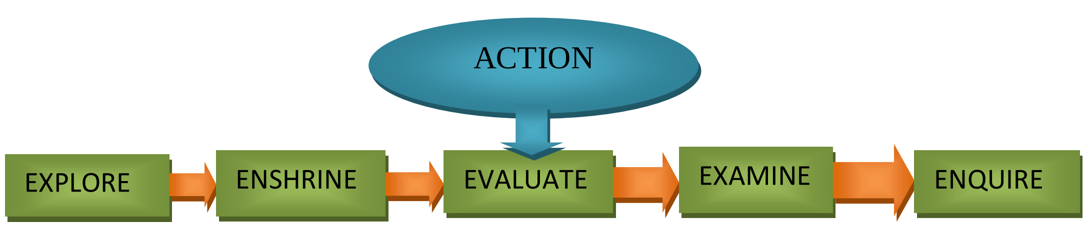
The nexus between a sound financial system, economic growth and development has been researched for a long time and numerous theoretical and empirical studies show a positive relationship. In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y. Venugopal Reddy, then the Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion. The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborthy, the chairman of Indian Bank. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of SHGs, micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure. However, rural communities are highly underserved by financial services. People living in rural areas need access to financial services for a range of productive purpose like asset building, working capital and protective purpose like mitigating risk exposure, including health issues etc. to purchase stock, equipment, agricultural inputs; to maintain infrastructure; to contract labour for planting and harvesting; to transport goods to markets; to make and receive payments; to manage peak season incomes to cover expenses in the low season; to invest in education,shelter and health; or to deal with emergencies. Traditionally, formal financial institutions e.g. commercial banks, rural or agricultural development banks have avoided or failed to offer sustainable services in rural areas. This financial exclusion restrains rural communities from unleashing their potential. Transaction costs in rural areas, especially in remote areas, are high due to low population density, lack of infrastructure like communications, electricity, transport and small average transaction amounts. This makes financial services expensive. Prohibitive transaction costs also discourage people from depositing savings, thereby depriving households of an opportunity to build financial assets. Legal systems that do not ensure marketable property rights contribute to weak collateral and contract enforcement mechanisms that further limit access to finance. As a consequence, products such as long-term financing hardly reach rural areas. Levels of financial literacy are often low in rural communities. This prevents households and businesses alike from building effective risk management strategies. Climate change is impacting the rural economy most severely. Rural communities cannot cope with and adapt to growing incidences of drought, flooding or storms without access to insurance or emergency loans to deal with these sudden shocks or to long-term finance for venturing into less risk-exposed businesses. In light of these problems, many developments have taken place in rural areas bringing about new opportunities for financial service provision. The emerging trends in financial inclusion have gained growing attention among developing countries Policymakers and central bankers from around the world. The Emerging economies enhanced interest towards economic growth with specific interest on the factors that lead to higher savings and investments, which have been viewed as important determinants of economic growth .The present pattern for savings and investment, has been developed with the objective to address the hypothetical and empirical issues and to steer the design of enhanced policies and improvisations of methodologies in practice. Although India has made improvement in financial inclusion in the past few years, but IMF Financial survey shows that India lags behind with other emerging nations in financial inclusion by a significant margin. However India incessantly is opening the new chapters of rural developement.

OBJECTIVE :

The fundamental objective of all is to reach the large sections of the hitherto financially excluded Indian population. Therefore Financial education, financial inclusion and financial source are three pillars of an effective strategy, as shown in the diagram below**.**



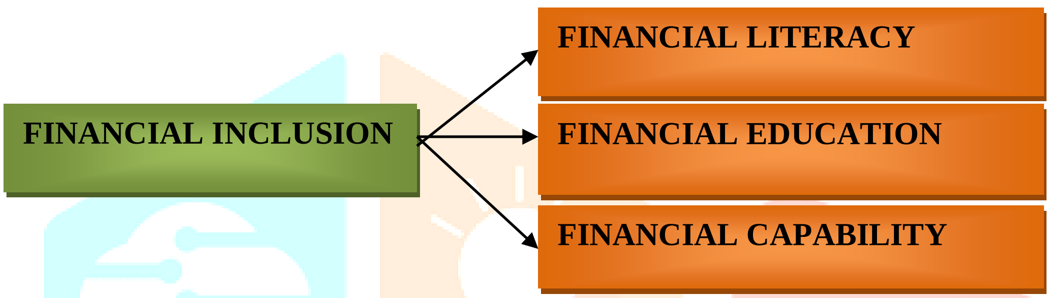
There are the 5Es' action to accomplish Inclusive Developement (SABKA SATH SABKA VIKAS) to achieve Financial Inclusion in India. In order to achieve this objective, the following issues have been considered.



1. To explore the need and significance of financial inclusion for economic and social development of rural areas.
2. To enshrine proper and effective planning and programmes on the basis of de-facto analysed data.
3. To evaluate the role of different govt. Financial schemes and Institutions towards Financial Inclusion.
4. To examine the extent of financial exclusion in rural India
5. To enquire into the role of microfinance, SHG, PMJDY etc. like financial schemes and institutions in helping the rural population in the case of financial inclusion.

LITERATURE REVIEW :

Financial inclusion uses three terms – financial literacy, financial education and financial capability.



Financial literacy is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates five knowledge, skills and attitudes. The definition for financial literacy as: "The ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices.

Financial education is a key tool to reach this multidimensional goal. Financial education is the process of building knowledge, skills and attitudes to become financially literate. It introduces people to good money management practices with respect to earning, spending, saving, borrowing, and investing. The role of financial education is to enable people to shift from reactive to proactive decision-making and work towards fulfilling their financial goals. By broadening people's understanding of financial options and principles, financial education builds skills to use financial products and services and promotes attitudes and behaviours that support more effective use of scarce financial resources. Thus, financial education is a tool to achieve financial literacy and more, financial literacy is essential to both effective consumer protection and to our final definition, financial capability.

Financial capability includes the ability and opportunity to use the knowledge and skills implied in financial literacy. Financial Inclusion is an inclusive development and Poverty Reduction strategy. Financial capability engages the financial services sector in its responsibility to offer the right products to its various target markets.

METHODOLOGY :

Research methodology is partly descriptive, partly exploratory and partly casual .For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD (National Bank For Agriculture & Rural Developement) etc. This study tries to embrace most of the indicators found in literature for evaluating the performance of the states in financial inclusion. This study seeks to examine the success of the Indian states regarding the financial inclusion. Rotated Principal Component Analysis has been used to calculate a comprehensive measure of financial inclusion for each state.

ANALYSIS & DISCUSSION :

Financial inclusion is the participation of financial services at accessible costs to sections of untouched and low income arena of society. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance, etc. In fact, the main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. The policy makers have been focusing on financial inclusion of Indian rural and semirural areas primarily for important pressing needs:

1. Opening of no-frills accounts**:** Basic banking no-frills accounts with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population.

2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the microfinance sector.

3. Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties.

4. Use of technology**:** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of ICT (Information And Communications Technology), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

5. Adoption of EBT**:** Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged

persuasion by RBI and Government. Prime Minister's People Money scheme PMJDY (Pradhan Mantri Jan Dhan Yojna) is India's National Mission for Financial Inclusion is boosting up and ensuring access to financial services namely banking savings & deposit accounts specially for rural sector. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. It is expected to unleash the hugely untapped potential of the bottom of pyramid section of Indian economy. Perhaps, financial inclusion can begin the next revolution of growth and prosperity. The government and RBI have been driving financial inclusion through the banking system and banks are required to submit a financial inclusion plan, duly approved by board. RBI has relaxed the branch authorisation policy and banks do not require prior permission to open branches in rural centres. To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches. The financial inclusion programme can become meaningful if parallel work is done on both the demand and supply side. Excluded population should be prepared to avail of financial services from formal financial institutions and creating effective financial literacy can play a very important role in bringing in the desired results. Of course, it will be too much for banks to play this role of preparing people for availing financial services or converting need into demand. Thus, a parallel financial literacy movement should be encouraged, may be through the media, even as they may build a cadre of financial counselors at the grassroots level to educate people by building financial awareness. Even micro financing agencies like Microfinance, SHG can be involved in this process. The Bank-SHG linkage scheme is of extreme importance in establishing a strong relationship between the organized financial system, like commercial banks and those people who need credit. Self-Help groups have become a fairly established institution in India. There is need for up scaling to cover productive loans while ensuring that the process of group formation and capacity building is given sufficient time to create transparency in accounting and book keeping, and financial education of members should be part of due diligence undertaken by banks. As far as Indian economy is concerned, financial illiteracy in rural India is one of the major reasons for the underdevelopment of Banking and Financial Industry. Therefore, initiatives can be undertaken by private banking institution like, identifying Self Help groups to utilize the banking facilities and financial products and services provided by them. Then educating rural area customers with financial inclusion benefits by conducting financial literacy programmes and encouraging people to participate in financial inclusion.

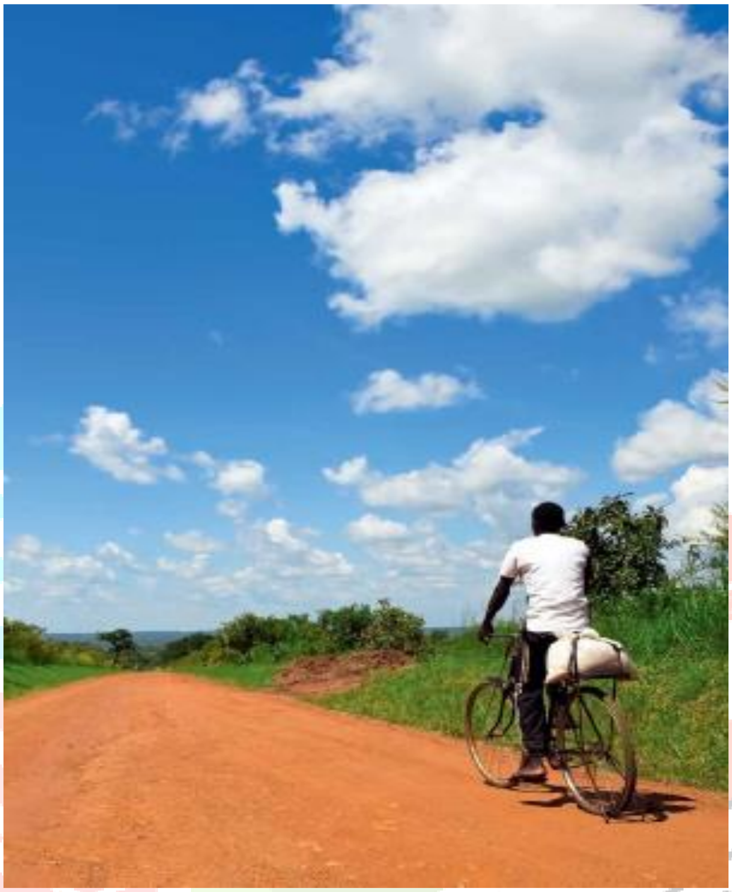
CONCLUSION :

There is a long way to go for the financial inclusion to reach to the core poor. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Government policies and regulations need to be more friendly, transparent and widely publicised. Steps should be taken to reduce the administrative hurdles. Higher education incentives with special impetus on vocational training, skill development and entrepreneurial knowledge should be the key thrust areas. Ventures should be encouraged in new and innovative areas taking examples from successful projects of other states apart from the traditional areas of engagements. Income levels in the rural areas could be improved through land reforms like consolidation of fragmented landholdings, which in turn can support modern harvesting methods, and training the rural people for undertaking non-farm activities. Efforts to enhance the credit absorption capacity must be supplemented through financial literacy, vocational training initiatives and an efficient crop insurance framework. 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 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. 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 section of society remains ignored from the financial services. Other benefits through EBT (Electronic Benefit Transfer) 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.

LIMITATIONS AND RECOMMENDATIONS :

Banking technology has progressed fast enough and more importantly the realization that the rural people is bankable has arrived. Various immediate measures which government of India should implement or which are under implementations but should be executed in a more effective manner . Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Our very old post offices will be an ideal channel to pursue the future long term goals of agency banking especially in rural India. Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications. The government should include financial literacy in the curriculum of schools and colleges. The government should also raise the Financial Inclusion Fund and a Financial Inclusion Technology Fund to reach banking services to the unbanked areas. The government should pay all the social security payments through the bank account of the beneficiary. The banks should offer all forms in the regional language of the customers. The banks must create awareness among the people concerning the significance of banking services by advertisement and financial inclusion campaign. ATMs are one of the most cost effective ways of reaching the rural poor. Thus, new biometric ATMs have to be established to assist the customers who are unable to memorize PIN. The banks should constitute Grievance Redressal Machinery to redress the customer's discontent promptly. And also it should offer no frills account in order to turn unbankable into bankable. The banks should appoint a business correspondent to disseminate its service to the unreached area. Technology can play a major role in reducing the cost of availing financial services. Thus, banks should adopt advanced technology to open up new avenues for service delivery. The Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts. For credible monitoring, the committee has laid down certain norms even at the district level such as deposits and advances as a percentage of GDP (Gross Domestic Product). A state level regulatory commission will consolidate supervision of all non-governmental, organisations and money service businesses. RBI has for long been focused on inclusive growth through policies like selective credit control, priority sector lending norms, lending to weaker sections of the society, service area approach and through the financial inclusion drive in recent past; details of which are well too known to this audience. RBI's policies on expansion of branch network in rural and semi-urban centers have also been part of this initiative. There is a need now to leverage upon these efforts to channelize savings and deploy them for productive asset creation. Finally the financial inclusion plays as a economic weapon to empower and enhance the unseen future of rural developement. No doubt some efforts are being made for the financial inclusion in the rural economy of India but the expected and desirable success we did not get is a well known but unsatisfactory fact Still long miles to go for the financial inclusion of rural India and overall and inclusion growth of the rural as well as over all Indian economy.



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