BIHAR SHODH SAMAAGAM, VOL. 2, ISSUE 1, p.p 52-54 (2024)

FINANCIAL INCLUSION AND SUSTAINED GROWTH – A STUDY

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Introduction :

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination in the prime objective of the public policy. It is widely accepted fact that an accessible and well developed financial system is one of the most important prerequisites for enhancing economic growth. If this development is more wide spread, it promotes broad based inclusive growth process. This had been corroborated in many theoretical and empirical literature (like King and Levin, 2003, Rajan and Zingales 2005). The importance of wider financial development and the access of the poor to financial services produce more favourable impact on both economic growth is pro-poor. Thus, inclusive finance, including safe savings, appropriately designed loans for poor and low income households and for Micro-small and medium-sized enterprises and appropriate insurance and payment services can help people to enhance income, acquire capital and come out of poverty. This paper examines the need of greater financial inclusion for higher and sustained growth of Indian economy.

Key Words : Financial Inclusion low income group, economic growth, inclusive finance sustained growth, poverty.

Financial inclusion process is not now to Indian setting. There were several policy directions and conscious actions on enhancing financial inclusion in india like bank's nationalization 1969, establishment of Regional Rural Bank (RRBS) in mid-1970, support to cooperative banking system, Mandated priority sector lending, liberal branch licensing in rural, under-banked and unbanked areas. The penetration of the formal source of finance has been rapid, particularly after banks nationalization in 1969, as evident from the number of reporting offices of Scheduled commercial banks(SCBs) rising from just 8,562 in 1969 to 74,326 as at march 2008, Most importantly, number of reporting offices of SCBs particularly in the rural locations have gone up from 1,833 (22.19%) in 1969 to 30,732(41.35%) as at March 2008. Population of per office of SCBs, which was 64,000 in 1969, has improved significantly to 16,000 as at financial year ended March 2008. All these indicators show positive developments in the institutional banking system.

Despite all improvements, even decades after banks nationalization in India, the extent, nature and degree of financial exclusion are still very large today, with wide spread regional variations. Among many other challenges, catering to the hitherto excluded and vulnerable segment of the population with easy accessibility and also at an affordable cost of providing basic banking services is emerging as the most important challenge for SCBs in India. If India needs to sustain its high growth trajectory, as stressed in India's 11th, 12th Five year plan, there is an urgent need to connect more and more people with the formal banking institutions. It is highly essential that commercial banking institutions in india should widen their coverage and access to each and every Indian household, focusing on especially those in the 'Bottom of the Pyramid'. As rightly pointed by the former Hon'ble governor of RBI, Dr. Y.V. Reddy, "the process of financial inclusion consists of seeking each household and offering their inclusion in the banking system" (Reddy, 2007)

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Thus, inclusive finance, including safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sixed enterprises, and appropriate insurance and payments services can help people to enhance incomes, acquire capital, manage risk, and come out of poverty (United Nations, 2006). Owing to difficulties in accessing formal sources of credit the poor individuals and small and micro enterprises usually rely on their personal savings or internal resources to invest in housing, health and education, and entrepreneurial activities to make use of growth opportunities (World Bank, 2008).

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Nature and dimensions of the financial exclusions are varied and mostly Nature and dimensions of the financial exclusions are varied and mostly linked to supply side factors like physical access, high cost/pricing, risk, products unsuitability, collateral requirements, procedural and stringent documentations and socio-cultural factors. On the other side, demand for financial products may be low because of the higher proportion of population living below poverty line leading to low savings, low investments and low economic activities. Therefore, a deeper understanding of the supply and demand sides of the financial exclusion in India and across regions may pave the way for financial innovation that will ultimately lead to development of cost effective affordable products/services, expansion of delivery channels and use of low cost and simple technology. Across countries, in the composite index, covering number of bank accounts per thousand adults, number of ATMs and bank banch per million people and amount of bank credit and deposit, india has been ranked at 50th place, even below African countries like Kenya and Morocco (Sarma, 2008). Notwithstanding low density of bank branches, the usage of banking system in terms of volume of credit and deposit is moderately high. Number of bank branches per one lakh adults in india was 9.4 compared to 14.6 in Malaysisa indicating further scope of expansion of banking services in the country. Doing more of the same, by refining the solutions – developmental aid, subsidies, governmental support, localized non-governmental organization (NGO)-based solutions, exclusive reliance on deregulation and privatization of public assets-is important and has a role to play, but has nor redressed the problem of poverty (Prahalad, 2006). Therefore, there is a need for change in the very understanding, thinking and approach to the root problem of financial exclusion.

Policy Interventions

The need for a higher financial inclusion in india came into sharper focus in the Annual policy statement (2005-06) by the RBI, which expressed legitimate concerns with regard to the banking practices that tended to exclude vast sections of population, in particular pensioners, self-employed and those employed in the unorganized sector. The statement also made a very important observation that while commercial considerations were important, the banks had been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and therefore, should be obliged to provide banking-services to all segments of the population on an equitable basis. As responsive corporate social entities, banks in India now need to play a far greater role in fulfilling this social responsibility of providing basic banking services to vast segments of financially excluded population. Several policy directions have been issued by the RBI since then that broadly encompass the following:-

- No Frill-Savings bank accounts with either nil on minimum balances as well as charges so as to provide banking services to the poorest of the society.
- Simplified know your customers (KUC) norms for opening accounts with maximum limit of deposits Rs. 1,00,000 and credits in the account not exceeding Rs. 1,00000 in a year.
- Overdraft facility with 'no frill 'account and without collateral.
- General Credit Card (GCC) in rural areas with a revolving credit facility upto Rs. 25,000.
- In an important policy development to provide alternative delivery channels and promote financial inclusion the RBI has allowed banks to utilize the services of non-governmental organisazation (NGOs), Self-Help Groups(SHGs), Micro-finance institutions(MFIs) and other civil society organizations as intermediaries under business facilitator and business correspondent(BC) models. In April 2008, the RBI has permitted banks to engage retired bank employees, ex-servicemen and government employees as BC. The BC model allows banks to do 'cash out' transactions at the location of BC, encouraging branchless banking.
- The Union Budget 2007-08 proposed creation of two funds-Financial inclusion Fund and Financial inclusion Technology Fund with an overall corpus of Rs. 500 crore each with NABARD.For meeting the costs of development, as also promotional and technology interventions. The contribution would be Rs. 25 crore each in the two funds by the Central Government, Reserve Bank and NABARD in the ratio of 40:40:20.
- Bank acting as convenors of the state Level/ Union Territory Level Banker's Committees in all States/ Union Territories have also been advised by the RBI to identify at least one suitable district in each State/Union Territory achieving 100% financial inclusion by providing no-frill account and issue of GCC.

Conclusion

Greater financial inclusion presents a win-win situation for all- the excluded masses, banks, the corporate, the Government, for the economy and its sustenance of the growth process. The major factors, which hundred commercial banks to reach out to large excluded masses, are the high costs-high transaction cost, high operating cost and high risk element. With technological evolution and alternative delivery channels becoming largely handy. If promises to bring down cost to affordable level and increasingly accessible. With enabling policy support from both the regulator and government, banks are now more proactive, especially PSBs, to extend their support to unserved and the under-served population. If by financial inclusion Indian corporate. Especially FMCG and other companies, are seen to gain by way of increased demand s for their products, they too should come forward and join hands with commercial banks to make this process an all-inclusive and mutually benefiting.

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