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FINANCIAL INCLUSION AND RURAL DEVELOPMENT: INDIAN CONTEXT

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INTRODUCTION

India is on the verge of becoming the youngest nation, largest market, hub of skilled human resource and IT driven service economy by the year 2030. The two decades of growth is attributed to the burgeoning services sector pushed up by economic reforms and has been mainly urban-centric, but the trends of urbanization, shifting of rural population to urban areas, changing patterns of consumption, increasing number of educated middle class and ICT enabled technology advances in rural economy are also important factors in writing the growth story. Until now the agriculture based rural sector has witnessed sluggish growth and lesser investment, there seems a ray of hope in recent years as far as inclusive growth of rural India is concerned. Among other types of inclusion like educational inclusion, digital inclusion, social inclusion and technological inclusion, financial inclusion is most crucial as it creates a base for any kind of inclusion. Unfortunately, rural India despite every possible plan efforts. As per the **Mackinsey report (2011)**, only 41 per cent of the rural households have saving bank accounts and 79 per cent rural households do not have access to credit facilities from formal sources. The dependence on unorganized form of credit also poses a big challenge to the financial inclusion efforts by the government, as about 80 per cent of the people still go for open unregulated channels of financing including money lenders and brokers at higher rates of interest. This paper focuses on how the rural economy can grow with the financial inclusion plans of the present government and up to what extent the potential strength of rural India can be unleashed in future with the support of financial inclusion initiatives.

Financial inclusion becomes more relevant for rural economy because of its population size, potential market and charging income levels and consumption pattern.

FINANCIAL EXCLUSION: A SAD REALITY

Almost 47 years have passed since the introduction of the concept of Social Banking in India. Even in the contemporary reforms era, priority sector lending is an integral part of the Indian banking system. Concrete efforts have been made by the Government of India to evenly increase the flow of credit particularly in the direction of agriculture and small and medium enterprises operating in the rural areas. Ironically, despite all the integrated efforts of the Indian Government, financial inclusion and an even and uniform financial access is a distant dream. **National Sample Survey Organisation (NSSO)** portrays a dismal picture relating to the overall financial inclusion in India. Even after six decades of independence, 45.9 million (51.4 percent) farm households in the country do not have access to credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 percent of the farm households are indebted to institutional sources. The concept of financial exclusion is of complex nature and it also varies widely across regions, Social Banking, Priority Sector Lending and Rural Penetration of Bank Branches were designed to spread financial activities and services through the country but even after special targeted approach and financial schemes the concept of Financial Inclusion and broader access to finance is still a myth in India.

Financial exclusion is a prominent factor which has crippled the rural economy of India. It is related with the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing and self-exclusion. **Rangarajan Committee on Financial Inclusion** has defined it as the process of ensuring access to financial services and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. **Thorat, (2008)** opines that the working or operational definitions of financial exclusion generally focus on the ownership or access to particular financial products and services. The financial service is a broad concept and it includes savings, loans, insurance, credit, payments etc. The financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes and poor background. By providing these services, the basic aim is to help them come out of poverty. **Sharma, Purti (2009)** relates financial inclusion with easy, safe and affordable credit and other financial services to socially and economically weaker sections of the society. **Dasgupta (2009)** points out the following fundamental factors as the potent reasons for the financial exclusion in India:

- **I.** Geographical, i.e. non-existence of branches in the area,
- **II.** Access exclusion, i.e. restricted access because of bank risk assessment process,
- **III.** Condition exclusion, i.e. the condition relating to the products failing to meet the needs,
- **IV.** Price exclusion, i.e. charges associated with the products or services are very high,
- **V.** Marketing exclusion, i.e. strategic exclusion of certain markets, and
- **VI.** Self-exclusion, i.e. some section of the population refuse to approach banks believing that any request would be turned down.

FINANCIAL INCLUSION: INDIAN SCENARIO

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 **(Planning Commission, 2009)**. 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 saving and investment based on household's level of financial literacy and risk perception.

Financial inclusion is 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 cost **(Government of India, 2008)**. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players **(Chakrabaroty, 2011)**. This issue started gaining importance recently in the news media. However, as is the case with several issues in India. Financial inclusion has remained a pipe dream with a majority of Indians continuing to lack access to banking services.

DIMENSIONS OF FINANCIAL INCLUSION

The level of financial inclusion in India can be measured based on three tangible and critical dimensions. These dimensions can be broadly discussed under the following heads:

I. Branch Penetration

Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

II. Credit Penetration

Credit Penetration takes the average of the three measures: number of loan account per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

III. Deposit Penetration

Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed.

Among the three dimensions of financial inclusion, credit penetration is the key problem in the country as the all India average ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply. An attempt has been made to study the problem by examining the progress of financial inclusion over the years and efforts made by the government for reducing the low penetration of credit.

The progress in the development of financial inclusion in India can be examined by understanding the stages involved in it. The concept of examining financial access became important immediately after the All-India Rural Credit Survey that was completed in the

1950s. The results of the survey revealed that farmers relied heavily on money-lenders in the year 1951-52. Only the urban areas had large number of bank branches compared to rural areas. Such a condition continued in the country until RBI started financial inclusion growth model in the 2000s. Because the urban areas were fully concentrated with numerous bank branches, this resulted in the higher absorption of bank credit in the urban areas. Thus, the growth of the private business credit was seen in the year 1957-61 from 44 percent to 60 percent in the year 1970.

Therefore, for increasing the level of financial inclusion, the GOI and RBI have taken few actions which include the following:

- Nationalization of banks (1969, 1980)
- Priority Sector Lending requirements
- Establishment of Regional Rural Banks (RRBs) (1975, 1976)
- Service area approach (1989)
- Self-help group-bank linkage program (1989, 1990)

The other measures taken by GOI, RBI and National Bank for Agriculture and Rural Development (NABARD) are shown in Table 1:

Table 1: Measures taken by GOI, RBI and NABARD

Customer Service Centres Credit Counselling Centres Adhaar Scheme Agricultural Insurance Scheme No-frill Account Know Your Customer	Role of NGOs, SHGs and MFIs BF and BC models Micro Pension Model Nationwide Electronic Financial Inclusion System Project Financial Literacy	Financial Inclusion Technology Fund Separate Plan for Urban Electronic Benefit Transfer Scheme Financial Literacy through Audio Visual medium-Doordarshan Support to Cooperative

General Credit Card Project on Processor Cards Micro Finance Development Fund	National Rural Financial Inclusion Plan Financial Inclusion Fund Project on "e-Grama" SHG-Post Office Linkage	Banks and RRBs for setting up of Financial Literacy Centres Farmers' Club Program Rural Volunteers as Book Writers

Source: RBI, Economic Survey, Government of India, Various Issues.

Though a number of measures have been initiated by the GOI, RBI and NABARD, the status of financial inclusion in the country still needs more support. The condition of financial inclusion in the different states of India in 2002 was not encouraging (Table 2). It shows that the all India percentage of the level of non-indebtedness after years of measures was a matter of concern.

Table 2 : Financial Inclusion in India-2002

State/Region	**Non-indebted Farmer Households**		**State/Region**	**Non-indebted Farmer Households**	
	Lakh	**%**		**Lakh**	**%**
Northen	**53.21**	**48.7**	Jharkhand	22.34	79.1
Haryana	9.11	46.9	Orissa	22.09	52.2
Himachal Pradesh	6.03	66.6	West Bengal	34.53	49.9
Jammu & Kashmir	6.43	68.2	**Central**	**158.29**	**58.4**
Panjab	6.38	34.6	Chhattigarh	16.50	59.8
Rajasthan	25.26	47.6	Madhya Pradesh	31.09	49.2
North Eastern	**28.36**	**80.4**	Uttar Pradesh	102.38	59.7
Arunachal Pradesh	1.15	94.1	Uttaranchal	8.32	92.8
Assam	20.51	81.9	**Western**	**47.92**	**46.3**
Manipur	1.61	75.2	Gujarat	18.20	48.1
Meghalaya	2.44	95.9	Maharashtra	29.72	45.2
Mizoram	0.60	76.4	**Southern**	**44.11**	**27.3**
Nagaland	0.51	63.5	Andhra Pradesh	10.84	18.0
Tripura	1.19	50.8	Karnataka	15.52	38.4
Sikkim	0.36	61.2	Kerala	7.82	35.6

Eastern	**126.39**	**60.0**	Tamil Nadu	9.93	25.5
Bihar	47.42	67.0	**All India**	**459.26**	**25.5**

Source : GOI (2008), Committee on Financial Inclusion under chairmanship of Dr. C. Rangarajan

In recent years, the CRISIL inclusix index for 2009 and 2010 also shows a dismal situation (Table 3), although, 2011 shows some progress in the development of financial inclusion in India. Table 2.6 shows the further progress of all banks that are associated with financial inclusion including RRBs.

Table 3 : Financial Inclusion at Regional Level

Region	**Inclusix 2011**	**Inclusix 2010**	**Inclusix 2009**
India	40.1	37.6	35.4
Southern Region	62.2	58.8	54.9
Western Region	38.2	35.8	33.9
Northern Region	37.1	34.8	33.3
Eastern Region	28.6	26.3	24.3
North-Eastern Region	28.5	26.5	23.8

Source : CRISIL (2013), Inclusix Financial Inclusion Index

Table 4 : Progress Of Financial Inclusion by Bank and RRBS

	Year ended March 2010	**Year ended March 2014**
Banking Outlets in Villages-Branches	33,378	46,126
Banking Outlets in Village-Branchless Mode	34,316	3,37,678
Banking Outlets in Village-Total	67,694	3,83,804
Urban Locations covered through BCs	447	60,730
Basic Saving Bank Deposit A/c through branches (No. in million)	60.2	126.0
Basic Saving Bank Deposit A/c through branches (Amt. in billion)	44.3	273.3

Basic Saving Bank Deposit A/c through BCs (No. in million)	13.3	116.9
Basic Saving Bank Deposit A/c through BCs (Amt. in billion)	10.7	39.0
Basic Saving Bank Deposit Accounts Total (No. in million)	73.5	243.0
Basic Saving Bank Deposit Accounts Total (Amt. in billion)	55.0	312.3
Overdraft facility availed in Basic Saving Bank Deposit Accounts (No. in million)	0.2	5.9
Overdraft facility availed in Basic Saving Bank Deposit Accounts (Amt. in billion)	0.1	16.0
KCCs –(No. in million)	24.3	39.9
KCCs –(Amt. in billion)	1,240.1	3,684.5
GCC – (No. in million)	1.4	7.4
GCC – (Amt. in billion)	35.1	1,096.9
Information and Communication Technology A/Cs-BC- Transaction- (No. in million) (During the year)	26.5	328.6
Information and Communication Technology A/Cs-BC- Transaction- (Amt. in billion) (During the year)	6.9	524.4

Source : RBI Annual Report, 2013-14

CONCLUSION

It can be concluded that the Government of India and the Reserve Bank of India have been taking efforts to promote financial inclusion with the fundamental objective of providing financial services to the financially excluded Indian population. Despite the measures adopted and improved financial access, the studies indicate that addressing financial exclusion requires the bank's all-inclusive approach in creating more awareness about financial products, money management, debt counseling, saving and affordable credit by designing and organizing aggressive education cum promotion campaigns in unbanked parts of any region.

There is also a need for harmonized action between the banks, the Government and others to make possible access to bank accounts amongst the financially excluded.

It can also be observed from the review that considerable progress has been made in implementing the reforms. Reserve Bank of India is committed to its mission and is encouraging other banks to adopt a structured and planned approach. The performances of the banks are also measured under their financial inclusion initiatives. The banks can further simplify the registration process for customers to seed their mobile number for alerts as well as financial services considering the wide spread availability of mobile phones. The deposit accounts of beneficiaries of government social payments, preferably all deposits accounts across banks can also be directly linked to Aadhaar. The Reserve Bank can also conduct surveys across states to identify the gaps and ascertain the extent of financial literacy. The finding will give a better understanding to the policy-makers of the demand-side challenges. Region specific issues can be identified by the rural branches and schemes can be devised for inclusion of different groups with varied income levels. A more robust set of quantitative and qualitative indicators can be developed covering the access and usage dimensions of financial inclusion. Efforts can also be made to align the indicators with the international standards.

The policy of 'Financial Inclusion' has been more or less successful due to the efforts on the part of the Central Government, State Government, Financial bodies including scheduled commercial banks as well as the stakeholders. Opening of accounts automatically increase deposits and also the demand for credit increases. To meet the growing credit demand, the banks need to extend credit to the activities until now not financed by banks. The gap between the demand and supply need to be narrowed. The RRBs and cooperative banks should come forward. However, the Financial Inclusion policy of the government has been criticized on the ground that, in this country where average monthly consumer expenditure of a family of five is about ₹ 7,000 in rural areas and ₹ 13,000 in urban areas according to the latest NSSO report, and where an agricultural worker earns about ₹ 6,000 per month for only 6 months in a year or a woman earns just ₹ 5,000 per months sowing and transplanting for four months a years, it is a cruel joke to ask them to save money, take insurance policies and use the mobile phone to transact funds. Only opening of accounts can never better the economic condition of the rural people or poor or women.

Let's hope for that period of time when every citizen become capable of opening saving account, maintain sufficient balance in the account and get easy credit at lower interest rates and become economically self-sufficient.

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