Research Paper
Impact Factor - **2.262**
Peer Reviewed Journal

IJMDRR
E- ISSN –2395-1885
ISSN -2395-1877

FINANCIAL INCLUSION FOR INCLUSIVE GROWTH

Dr.Sunanda Narayan Bhat
I/c Principal ,Ghanshyamdas Jalan College of Science and Commerce.

Abstract
Financial inclusion as access to financial services means much more than access to a bank account and transfer facilities, the private sector in institutionally unable to provide solutions. It means that forcing private player's entry into the rural market is not likely to help the situation much, moreover granting them too much power would be to the detriment of the poor. India is one of the largest and fastest growing economies of the world, but what has been the most disturbing fact about its growth is that its growth has not only been uneven but also discrete. However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and mobilization financial inclusion is required. Access to finance, especially by the poor and vulnerable groups, is an essential requisite for employment, economic growth, poverty alleviation and social upliftment. Here lies the importance of financial inclusion. This paper is an attempt to discuss the overview of financial inclusion in India along with the role of banking sector in extending the scope of financial inclusion to the unreached low income segments of the society.

Key Words: Financial Inclusion, Inclusive Growth, Financial Services.

Introduction

Financial inclusion, the key determinant of sustainable and inclusive growth is capable of unlocking the potential of savings, consumptions and investment propensities of the poor. The finance minister had announced in budget 2010-11 that all unbanked villages with the population of 2000 and above will be provided with basic banking services by March 2012.Banks should provide customer services either through opening branches or through BC mechanism which can facilitate branchless banking. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services."Access to financial services promotes social inclusion, and builds self-confidence and empowerment. In an address Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. Providing access to finance is a form of empowerment of the vulnerable groups. The central theme of the Millennium Development Goals (MDGs) is reduction of poverty in all its forms. Beginning with the nationalization of banks in 1969, efforts were made to take the banking system closer to the people. Despite the spread of banking facilities, there were concerns that banks had not been able to include vast segments of the population, especially the disadvantaged sections of the society, into the fold of basic banking services. Keeping in view of the interests of the poor people, the Government of India has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the banking services.

Much of rural India lies outside the reach of banking, because of the high cost of traditional banking. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI as it can unleash the hugely untapped potential of the bottom of pyramid section of Indian economy and can begin the next revolution of growth and prosperity.

Objective of the Study

- To understand the role played by Financial Inclusion on inclusive growth in India.
- To evaluate the role and services extended by banks in India towards Financial Inclusion.
- To assess the challenges involved in incorporating 'Financial Inclusion'.

Role of Financial Inclusion in Inclusive Growth

India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is important and is one of the biggest challenges for India. The challenge is to take the levels of growth to all section of the society and to all parts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms in education, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

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However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and Mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources.

The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its sphere people with low incomes. Nationalization of banks in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. Rationale for creating Regional Rural Banks was also to take the banking services to poor people. No-frills account encourages the savings habit of the masses. It helps bring a large section of the underprivileged people into the banking net. It encourages bringing un-banked customers into financial mainstream.

Importance of Financial Inclusion

- It is a necessary condition for sustaining equitable growth.
- It creates a platform for inculcating the habit to save money.
- Provides formal credit avenues.
- Plug gaps and leaks in public subsidies and welfare programs.

Role of Banking Sector in Financial Inclusion

Financial inclusion is a major agenda for the RBI. Without financial inclusion, banks cannot reach the unbanked. It is also a major step towards increasing savings and achieving balanced growth. In rural areas, where accessibility is a problem, banks are using the micro finance network and business correspondents and facilitators to bring more people under the ambit of banking services. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India's financial system.

Financial inclusion is now a common objective for many central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country.

The RBI set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K. C. Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

Measures adopted by banks towards Financial Inclusion.

- Kisan Credit Card (KCC) Scheme was launched in 1998-99 to provide insurance cover to the farmers.
- In November 2005, the RBI asked banks to start no frill accounts to bring unbanked people in to the system.
- As on 31st March 2009, there were 3.3 crore 'No Frill Accounts' opened by banks in India.
- Also General Purpose Credit Card scheme was started to ensure easier credit facility to the people without surplus.
- KYC Norms were simplified to give easy identification with the banking system.
- Credit innovations like micro finance credit were introduced to lend credit to large number of needy population.
- Self Help Group (SHG) Bank linkage programme was developed to provide requisite loan to the SHGs.
- Banks were started using Information Technology in a large way that is secure, amenable to audit and eventually inter operable.
- ATM Expansion Scheme was liberalized and Electronic Benefit Transfer (EBT) through Banks was introduced.
- In order to penetrate into rural areas schemes like Liberalized Branch Expansion, Business Correspondent (BC) Model, Expansion of Banks in the North-East and Financial Literacy and Credit Counseling were initiated.

Challenges to Financial Inclusion

The complex financial services market offers consumers a vast array of products and service providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. There is urgent need for financial education to make an informed

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choice from diverse options available to consumers and also refrain from financially destructive transactions. Unfortunately the level of financial literacy is very low in India. The robust financial inclusion model requires comprehensive participation of all stakeholders which is currently lacking in the country. The pricing of financial assets and services is delicate in rural areas and it should ensure the poor are able to afford them at these prices. Lack of financial literacy among the urban poor and lack of marketing of financial instruments to the urban poor has lead to limited awareness of financial portfolios. Sometimes there is a self exclusion by the poor from the formal system as they are heavily depended on the informal credit sources which cater according to their convenience.

Suggestions

1. Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Post offices also can be an ideal channel to pursue the future long term goals of agency banking especially in rural India.
2. 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.
3. Partnership with dedicated NGOs and MFIs can yield favorable results.
4. Keeping in view the dynamics of the changing economy, there is a strong need to restructure the financial system particularly the rural financial system.
5. NABARD has to play a pro-active role by partnering with the rural credit institutions in the field and identify new initiatives that will contribute to effectively improving the extent of financial inclusion involving SHGs, MFIs, etc.
6. It should be the endeavor of all the financial institutions to adopt financial inclusion as a corporate social responsibility and chalk out strategies in tune with the national policy on financial inclusion.

Conclusion

Financial inclusion is one of the methods through which Inclusive Growth can be achieved in India, especially where large sections are unable or incompetent to participate in the existing financial system. An inclusive financial system mobilizes more resources for productive purposes leading to higher economic growth, better opportunities and reduction of poverty. Keeping this in mind government, RBI, banks and other financial institutions are making policy interventions to accommodate the vulnerable into the financial system. The Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas and they remain excluded from the purview of the financial institutions even after independence. Reaching out to the unreached segment of population and providing basic financial services is the need of the hour. In order to bring a large segment of the society under the umbrella of financial inclusion, banks have set up their branches in remote corners of the country. The rules and regulations have been simplified. It goes without saying that the banking industry has shown tremendous growth in volume during the last few decades. Despite the laudable achievements in the field of rural banking, issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers from non institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before. For achieving the current policy stance of “inclusive growth” the focus on financial inclusion is not only essential but a prerequisite.

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