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FINANCIAL INCLUSION: ISSUES AND CHALLENGES IN INDIA

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ABSTRACT:

Financial inclusion is important for improving the living conditions of poor formers, rural non-farm enterprises and other vulnerable groups. Financial exclusion, in terms lack of access to credit from formal institution, is high for small and marginal farmers and some social groups. For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of vulnerable and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if its weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes

KEY WORDS: *Financial inclusion, financial exclusion, NABARD, financial instruments.*

INTRODUCTION:

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups, in the case of credit the proper definition of financially excluded would include house holds that are denied credit in spite of their demand. Financial inclusion covers various other financial services such as savings, insurance payments and remittance facilities by the formal financial system to those who tend to excluded. It is important to the Government and Banking sector to give service to these untapped people. Special measures have to be taken to solve the financial problems of these groups who are unable to give any security for the amount they need to full fill the requirements. Unorganized financial institutions, individuals and unregistered chit fund companies are exploiting by charging high interest rates.

Definition of 'Financial Inclusion':

Financial services include among other things, a range of products such as savings, suitably designed loans, insurance, credit, payments, etc. The efficacy of the financial system depends on its ability to source funds from surplus units and finance deficit units. This challenge becomes more pronounced when the units that experience the deficit do not have access to the formal sources of finance. Financial inclusion initiatives highlight the concerted efforts undertaken by the financial system or any constituent thereof to bring into its fold sections of the economy that have been excluded from access to affordable credit and other financial services. "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives." Kofi Annan (2003). Claessens (2006) has defined financial inclusion as the "availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs."To quote the Committee on Financial Inclusion chaired by Rangarajan, (2008) "Financial inclusion maybe defined as the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost".

Access to finance has been defined by Demirguc-Kunt and Levine (2008) as the 'absence of price and non-price barriers. Many authors in the past have been able to establish the impact of availability and access to formal sources of finance on poverty alleviation. Banerjee and Newman (1993) have observed that a critical factor that enables people to exit poverty by enhancing productivity is access to finance. Binswanger and Khandker (1995) have established that Indian Rural expansion programme significantly lowered rural poverty and significantly increased non-agricultural employment. Eastwood and Kohli (1999) in their study have found that branch expansion programmes and directed lending programmes have enhanced small scale industrial output. An inclusive financial system can help in reducing the growth of informal sources of credit namely the money lenders which are often found to be exploitative. Bell and Rousseau (2001) have empirically established that financial intermediaries have influenced India's economic performance. Beck et al (2009) observed that a well-developed financial system accessible to all reduces information and transaction costs, influences savings rates, investment decisions, technological innovations and long run growth rates.

The importance of Financial Inclusion to national economies is evident from the support extended by individual governments and international bodies around the world.(Frost & Sullivan Report, 2009) Banking services are being viewed increasingly as a public good that needs to be made available to the entire population without discrimination. The degree of 'publican's' in financial inclusion may be different from a typical public good like 'defense'. But being as important as access to water or basic education, it does qualify to be termed as 'quasi-public good' (Mehtrotra et.al2009). This recognition has made financial inclusion a policy objective for policy makers and others engaged in developmental activities. It is estimated that globally about 2.9 billion people are excluded from access to financial services,(World Bank, United Nations 2006). According to the National Sample Survey Organization, (2003, 59thround) 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million house holds do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. The report of the Committee on Financial Inclusion constituted by Government of India (Rangarajan, 2008) reports that 73% of farmer households have no access to formal sources of credit. India alone has 560 million people who are excluded from formal source of finance and this is in strong correlation with the 41.6percent of the population (457 million) that still lives below the poverty line i.e.US $ 1.25/day (NCR Whitepaper on Financial Inclusion, 2009). The recognition that financial inclusion is a powerful tool to not just alleviate poverty but also fuel economic growth has brought this concept to the limelight since early 2000 and is seen as a policy priority in many countries. To quote C. Rangarajan, Ex- Governor RBI and Chairman, Committee on Financial Inclusion, Government of India "The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of the population in the process of economic growth. Financial inclusion of hitherto excluded segments of the population is a critical part of this process of inclusion". Inclusive growth as a strategy for economic development received attention because of the rising concern that the benefits of economic growth have not been equitably shared (Chakra borty, 2010).According to the United Nations the main goals of Inclusive Finance are as follows (2003):

a. Access at a reasonable cost for all households and enterprises to the range of financial services which are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances

b. Sound institutions, guided by appropriate internal management systems, industry performance

Standards, and performance monitoring by the market, as well as by sound prudential regulation where required

c. Financial and institutional sustainability as a means of providing access to financial services over time

d. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).Improving access to financial services would help overcome a host of constraints that have hampered growth both at the level of the individual and that of the country. Constraints identified that need intervention may either be specific to the individuals or may be triggered by systemic or institutional in adequacies and/or shortcomings.

Some of the constraints that are specific to individuals are low literacy levels, low level of income, psychological and cultural barriers, place of living, and lack of awareness. Even as government's have been exploring innovative methods to help overcome these barriers, the process of transformation is generally long drawn and depends as much on the individual's level of motivation to overcome these barriers. However, the same is not true of constraints triggered by systemic or institutional inadequacies. These are constraints that arise due to the inadequacies and/or shortcomings of the system which result in the inability to provide easy access to financial services. These constraints may be effectively overcome by making available legal identity cards, simplifying complicated procedures for availing services or relaxing stringent terms and conditions attached to financial products and services and making them available at affordable costs. Financial inclusion initiatives are generally multi-pronged and are designed predominantly to address all the systemic and institutional inadequacies, at the same time urging individuals to overcome barriers at their personal level. Solutions to combat financial exclusion are either initiatives - such as a charter of codes of practice developed by the banks themselves, (Elaine Kempson etal, 2004) - or are directives given by the central bank of the country or are part of the vision statements of the country and hence driven by special legislations enacted by the governments. Initiatives for financial inclusion are being announced at regular intervals by Governments, Central Banks of countries and developmental organizations like the United Nations. For example the German Bankers' Association introduced a voluntary code in 1996 providing for an 'everyman' current banking account that facilitates basic banking transactions. In the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods In France; the law on exclusion (1998) emphasizes the right to have a bank account. In South Africa, allow cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, the Financial Inclusion Task Force had been constituted by the government in 2005 in order to monitor the development of financial inclusion. The British government has set up a fund of Sterling pound 120 million Pound Sterling for addressing issues of financial inclusion. Brazil has urged the state banks to reach out to the rural areas and the poor. Out of the 45% sight deposits that a bank is mandated to hold with the central bank, it is encourage using 2% for micro loans at an interest of 24 to 48%. This has helped them gain eight million new customers within as pan of three and half years. Kenya has passed a Micro Finance Act in 2006 to provide an impetus to financial inclusion. The central bank of China has also promoted micro lending since 2006 and seven domestic micro credit corporations were established. In India, the government has established the National Rural Financial Inclusion Plan to achieve complete financial inclusion by the year 2015.Towards this, in 2005, the Reserve Bank of India advised Indian Banks to facilitate basic 'no frills' accounts with low or minimum stipulated balance and in 2006, banks were encouraged to set up bank linkages with micro-finance and self-help groups (Sarma 2008, Frost & Sullivan, 2009).

Objective of the Study:

1. To explore the need and significance of financial inclusion for economic and social development of society.
2. To analyze the current status of financial inclusion in Indian economy.
3. To study the access of rural people to bank branches..
4. To study the progress of State Cooperative Banks in financial inclusion plan.

Research 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, opinions of eminent personalities.

Need of Financial Inclusion:

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required

3. Financial and institutional sustainability as a means of providing access to financial services over time

4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

There has been a many objectives related to the need for financial Inclusion such as

1. **ECONOMIC OBJECTIVES:**

For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.

2. **MOBILIZATION OF SAVINGS:**

If the weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.

3. **LARGER MARKET FOR THE FINANCIAL SYSTEM:**

To serve the requirements and need of the large section of society there is a surgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.

4. **SOCIAL OBJECTIVES:**

Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.

5. **SUSTAINABLE LIVELIHOOD:**

Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.

6. **POLITICAL OBJECTIVES:**

There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

Initiation of Financial Inclusion Concept in India:

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents 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 like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. 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 Information Technology. 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.

SCOPE OF FINANCIAL INCLUSION:

(a) Through state-driven intervention by way of statutory enactment

(b) Through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion. In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills-to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account or savings account on its own is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the super-included, i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers

Major Three Aspects of Financial Inclusion make people to access and develop are

1. Access financial markets
2. Access credit markets
3. Learn financial matters (financial education)

Financial Inclusion includes Accessing of Financial Products and Services such as

- Savings facility
- Credit and debit cards access
- Electronic fund transfer
- All kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services
- Insurance (Medical Insurance)
- Financial advice
- Pension for old age and investment schemes
- Access to financial markets
- Micro credit during emergency
- Entrepreneurial credit.

To access above products and services by the people the bankers has to start their branches at various locations which easy accessible to the all financial inclusive groups, individuals. The Reserve Bank of India is taking necessary steps to overcome the hurdles. The following table shows the establishment of scheduled commercial bank offices across India during the period 20011-2015.

Tab.1. No. of scheduled commercial bank (SCB) offices across India

	2011		2012		2013		2014		2015	
	Number	%	Number	%	Number	%	Number	%	Number	%
Rural	33602	36	36503	36	39439	36	45171	39	48498	39
Semi-urban	23048	25	26144	25	28691	26	31442	27	33703	27
Urban	19156	21	20650	20	21720	20	21448	18	22997	18
Metropolitan	17274	19	19080	19	19961	18	19213	16	20474	16
Total	93080	100	102377	100	109811	100	117280	100	125672	100

NABARD

The number of scheduled commercial bank offices in rural India increased from 31598 to 39439 i.e. 24% increase for the half decade. Semi-urban, Urban, Metropolitan areas have also show nearly same level of growth during the half decade period. This development of offices helps to access the financially excluded people like Marginal farmers, landless labor, Self-employed and unorganized sector enterprises, urban slum-dwellers, Migrants, senior citizens and women.

BENEFITS OF INCLUSIVE FINANCIAL GROWTH:

Growth with equity: In the path of superpower we the Indians will need to achieve the growth of our country with equality. It is provided by inclusive finance.

Get rid of poverty: To remove poverty from the Indian context everybody will be given access to formal financial services. If they take loans for business, education or any other purpose they get the loan, to pave way for their development.

Financial Transactions Made Easy: Inclusive finance will provide banking related financial Transactions in an easy and speedy way.

Safe savings along with financial services: People will have safe savings along with other allied services like insurance cover, entrepreneurial loans, payment and settlement facility, etc.

Inflating National Income Increasing business opportunities will definitely increase GDP; this will be reflected in our national income growth.

Becoming Global Player: Financial access will attract global market players to our country that will result in increasing employment and business opportunities. Relationship between Financial Inclusion and Development Indicators

Economic growth follows financial inclusion. In order to achieve the objective of growth with equity, it is imperative that infrastructure is developed with financial inclusion: Savings. Increase in per capita income, infrastructure development will indicate the development.

THE WAY FORWARD:

The banks should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically, banking services need to be marketed to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty:

In the context of India becoming one of the largest micro finance markets in the world, especially in the growth of women is savings and credit groups and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.

It may be useful for banks to consider franchising with other segments of financial sector such as cooperatives, Regional Rural Banks etc. so as to extend the scoops of financial inclusion with minimal intermediation cost. Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, simple to use cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi-urban and rural populace

CONCLUSION:

The main reason for financial exclusion is the lack of a regular or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor. "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders". 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. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side. It is important that banks should make the people learn the various financial products offered by them, how they have to make use of them. The financial inclusive have to take initiative make all the people are part utilize the finance for their wellbeing and development it helps to financial sustainability and economic growth of the individual. Individual development leads the nation growth. the financial inclusive play pivotal role in economic development of the country.

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