ROLE OF 'FINANCIAL INCLUSION' IN ENSURING ECONOMIC UPLIFTMENT OF THE SOCIETY

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ABSTRACT:

The presence of extreme poverty has been a major factor that decelerates the developmental scenario in India. Massive population, increase in demands, inadequate food supply, lack of job opportunities, lack of education, and so on are the prime reasons of poverty. Low income, lack of access to financial system, ignorance towards benefits of savings and investment further aggravates the evil of poverty in our country. Poverty alleviation has been a goal of developmental policies in India. Economic upliftment is possible only when poverty diminishes. In order to achieve this, many programmes have been initiated since pre independence era to the present day. One such recent move is Financial Inclusion- an effort to make financial system accessible and affordable to the masses. Financial inclusion encourages inclusive growth thereby accelerating economic development. This paper attempts to study the role played by financial inclusion in enhancing the economic development of India.

KEYWORDS*: poverty, financial inclusion, initiatives, challenges, economic development*

INTRODUCTION :

The attempt to involve the financially excluded segments of the society into the formal structure of financial system is the basic idea of 'financial inclusion'

Financial inclusion is defined as "the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost". (Committee on Financial Inclusion - Chairman: Dr C Rangarajan, RBI, 2008). Again, the Committee on Medium-Term Path to Financial Inclusion (Chairman: Shri Deepak Mohanty, RBI, 2015) has stated the vision for financial inclusion as, "convenient access to a basket of basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low income households at reasonable cost with adequate protection progressively supplemented by social cash transfers, besides increasing the access of small and marginal enterprises to formal finance with a greater reliance on technology to cut costs and improve service delivery, ….”

In a developing country like India, poverty has been one of the most severe parameter that disrupts the process of economic development. The large chunk of population, inadequate funds, illiteracy, further pushes the masses into the realm of poverty. In addition to this, lack of financial literacy, no understandings about the importance of savings and investment, inadequate access to institutional credit, presence of informal sources of credit are some primary reasons that multiply the state of poverty and underdevelopment among the people. In an attempt to diminish the intensity of poverty, the goal of ‘financial inclusion’ was adopted to include the unbanked and under banked section of the society into the formal banking sector. It is a means to achieve ‘inclusive growth’ by channelizing financial services towards the under-privileged sections of the society.

OBJECTIVES:

- To study how poverty plays a major challenge in the economic development of India.
- To study the importance of financial inclusion in reducing poverty and ensuring economic development.
- To study the initiatives implemented in India to initiate the goal of financial inclusion.

METHODOLOGY:

The study is descriptive in nature. It is primarily based on secondary data collected from Government websites, books, magazines, newspapers, journal articles and internet.

DISCUSSION:

An attempt has been made to study the impact of financial inclusion on poverty reduction through the following sections-

<u>Background of financial inclusion-</u> The goal of ‘financial inclusion’ initiated long back in India with the introduction of Nationalisation of banks (1969). It was coupled with the inclusion of ‘priority sector’ norms where the Commercial banks have to prioritize on extending credit towards the priority areas which included agriculture, micro industries and such other essential sectors. This helped the weaker sections of the country to get involved in the formal credit

system. Introduction of Lead Bank Scheme (1969), Regional Rural Banks (1975) too had a major role to play in extending banking services amidst the unbanked and ignorant population.

Impact of financial exclusion in aggravating poverty- the inability to access the formal banking services or the ignorance towards formal banking practices and the dependence on informal credit sources can be termed as financial exclusion. A large section of the population in India is still left out from the formal banking structure. Financial exclusion means no any access to bank accounts, no savings, no insurance, no pensions, no assets and no credits and so on. With lack of income, the economically weaker section is compelled to rely on informal credit sources which in the long run lead to exploitation of the innocent borrowers. The lack of financial literacy worsens the scenario because people have no idea regarding the benefits of saving income for the future. They have a tendency to earn and spend, without keeping any resources for the future as a precautionary measure. Thus, financial exclusion is a major factor that intensifies the level of poverty of the already vulnerable sections of the society. Geographical location, socio-cultural believes also restricts certain sections from getting involved in the formal banking arena. Financial exclusion increases the state of underdevelopment among the people.

Importance of financial inclusion in solving poverty- as an initiative to counter the disadvantages of exclusion from accessing the mainstream financial services, the goal of 'financial inclusion' was introduced. Its motive is to make financial or banking services affordable and accessible by all at a lower cost. By involving every strata of the society into the realm of formal banking settings, efforts have been made to lessen the dependence on informal credit sources, thereby diminishing the state of poverty. Hence we can say financial inclusion to be a great initiative in alleviating the poverty existing in the society.

Government initiatives towards financial inclusion- some of the popular initiatives undertaken by the Government of India to promote financial inclusion are as follows-

- Swabhiman Campaign- its main aim is to extend banking services to the rural areas by enabling small and marginal farmers to obtain credit from banks and other financial institutions. Under this plan, Banks will select business corporate who would act as the linkage between the rural people and the banks.
- Business correspondents Model, where commission agents are appointed by financial institutions that provide financial services at the doorstep of the public from remote areas where opening of bank branches is not possible. This model is also known as the cost-efficient model. These correspondents extend banking activities to the remote areas and help people access the banking facilities by opening bank accounts.
- Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) has taken initiatives to promote financial inclusion in rural areas, which include the

opening of bank branches in remote areas, issuing Kisan Credit Cards (KCC), linking of self-help groups (SHGs) with banks, Increasing the number of automated teller machines (ATMs), etc.

- Pradhan Mantri Jan Dhan Yojana(PMJDY) – the 6 pillar mission of this programme is shown below-

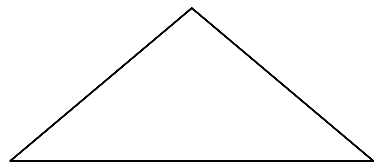
Launched in the year 2014, the objective of 'Pradhan Mantri Jan-Dhan Yojana (PMJDY)' is "ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology." PMJDY has a pivotal role to play in achieving inclusive growth under the slogan 'sabka sath, sab ka vikas'. Every household would have a bank account without requiring any minimum balance. There would also be the provisions for life insurance cover, accidental insurance, access to pensions, etc. It also puts forward all Government benefits to the beneficiaries' accounts through the Direct Benefits Transfer (DBT) scheme of the Union Government.

- In terms of insurance, three Social Security Schemes, Pradhan Mantri Jeewan Jyoti Bima Yojana (PMJJBY) is a life insurance scheme, Pradhan Mantri Suraksha Bima Yojana (PMSBY) caters to the accidental insurance and Atal Pension Yojana (APY) were introduced to serve the goal of financial inclusion.
- Pradhan Mantri MUDRA Yojana ensures low rate of interest for loans to be provided by Microfinance Institutions (MFIs), Non-banking financial companies (NBFCs), Commercial banks, Co-operative banks, etc. This initiative encourages the masses to engage in productive activities taking the initial financial capital from the formal units. The working of SHGs, rural entrepreneurs depend upon such loans. The prime motive of this scheme is to benefit the poorer section of the society unable to afford institutional credit for their businesses.
- Financial Literacy and Credit Counseling (FLCC) – The ultimate aim here is to establish adequate number of Financial Literacy Centres (FLC) & Mechanism to increase financial literacy among the financially excluded sections of the society. This would help people to understand the importance of banking services. This would positively affect their financial

planning and would encourage them to approach the banks for any financial assistance, instead of approaching any unorganized source of credit.

Financial education tripod

Financial education



Financial inclusion financial stability

The above diagram shows, financial education, financial inclusion and financial stability to be the three main elements of an integral strategy. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

Financial literacy is essential to ensure that financial services reach the unreached and under-reached sections of the society. For instance, financial markets offer complex choices to consumers, but literacy is necessary for the consumers to decide on their choices. This would also help the consumers in fixing their demands for financial services. Financial literacy is an utmost necessity in developing countries like India where people are mostly unaware about the importance of efficient financial decisions. Financial literacy would help our people in allocating their income and managing their financial decisions. This in the long run would revive the economic condition of the masses. Hence, elimination of poverty is directly related to financial literacy.

Challenges in achieving the goal of financial inclusion

Geographical isolation implies some places in India are so remote in location that expanding banking services to each and every household of the country seems to be impossible. The Bank correspondents cannot reach these places. The aim of financial inclusion brings the demand for digital technology, but in countries like India availability of skills and resources to handle digital services is still inadequate. Due to traditional beliefs, the women population still remains ignorant to the aspect of financial inclusion; as such bank accounts are more in number for the males than females. Again, inefficiency in implementing the schemes resulted in opening of accounts which have been dormant without ant transactions. Lack of credit worthiness of the weaker sections of the society at times results in loss of the credit lenders.

FINDINGS:

India has progressed a lot in achieving its dream of financial inclusion and reducing poverty. The insurance schemes, subsidy schemes, zero-balance schemes, digitalizing banking system and others that have been introduced to cater to the financial needs of the poverty stricken population have been successful in majority terms. However, India still has a long way to go to achieve the target of financial inclusion in order to combat poverty. With the increase in awareness regarding financial services, people would inculcate the habit of saving and investing their income. The direct cash transfers to the beneficiaries' accounts would reduce the existence of middlemen. This would reduce the exploitation faced by the underprivileged sections of the society. Availability of institutional credit would encourage the entrepreneurs to take up productive business initiatives. All these would ultimately help in uplifting the economic condition of the masses. 'Inclusive growth' definitely demands the sustainability of 'Financial inclusion'. Hence, through a proper administrative system, the goal of financial inclusion should be implemented. The banking sector too has a prime role to play in making financial inclusion a grand success.

SUGGESTIONS AND CONCLUSION

Inorder to ensure the maximum success of financial inclusion, the banking system needs to be simplified. Arrangement of awareness camps should be taken up to help the poor people understand the goal and meaning of financial inclusion. Poverty and unemployment are the major reasons that affect the developmental scenario in India. Hence, attention must be given to combat these evils of the society through financial inclusion. The female population should be encouraged to participate in the financial system through the SHGs and entrepreneurship activities. Thus, we see that to accelerate the pace of development, it is important to prioritize the role of financial inclusion in promoting economic wellbeing, prosperity and sustainability of the society.

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