



Combating poverty as well as spurring economic growth-the financial inclusion way

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Abstract

Financial inclusion is a great weapon to overcome the financial backwardness as well as the establishment of good governance. It broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays an essential role in the process of economic development and furthermore, by bringing low-income groups within the parameter of formal banking system, it protects their financial wealth and other resources in difficult circumstances. Although the efforts to include the financially excluded segments of the society into formal financial system in India are not new but still the agenda is unfinished. There are lots of challenges in implementing the financial inclusion strategy which includes from both demand and supply side factors.

Keywords: bottom of the pyramid, financial inclusion, Indian financial system, national strategy for financial inclusion, rangarajan committee

Introduction

The real development of any economy lies only when all people are included from different walks of life in the process of economic development. In this context, the inclusive growth is one of primary objective of five-year plans in India. This inclusive growth is a process which yields broad based benefits and ensure equality of opportunity for all. The one way of achieving the inclusive growth is through the financial inclusion. Rangarajan Committee (2008) ^[6] viewed financial inclusion as the process of ensuring access to financial services and timely and adequate credit whenever needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost.

The economy of Bihar still continues to suffer from the problems of poverty, sectoral divergences in growth and employment opportunities and a poor progress of various socio-economic indicators, despite of higher economic growth in recent past. The primary focus of Indian banking system is attaining hundred per cent financial inclusion. The effort for achieving this inclusive growth has been initiated from the beginning of eleventh plan itself. There are various literatures which support the relationship between financial inclusion and economic growth and considered financial inclusion as a major determinant to economic growth. In fact there exists a two way relationship between financial inclusion and economic growth.

Financial exclusion has been the basic cause for the exclusive growth. The empirical findings strengthen the argument that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanization and poor connectivity appear to be less financially inclusive. The financial illiteracy and lack of expert advice on financial products have been the basic cause for costlier credit and higher indebtedness.

There are lots of challenges in implementing the financial inclusion strategy which includes from both demand and supply side factors. On the demand side, the big barriers are the lack of awareness about financial services and products, limited literacy, especially financial literacy of the population, and social exclusion. The unfriendly and unempathetic attitude of the banks to the customers also plays an important role in determining the demand for financial services. Above all, the excessive and non-transparent fees, combined with burdensome terms and conditions attached to the financial products, also dampens the demand. From the supply side, the main barrier is the transaction costs. Furthermore, lack of communication, lack of infrastructure, language barriers and low literacy levels all raise the cost of providing services and inhibit bankers from taking initiative from the supply side. The three big challenges here are cost, lack of robust technology and lack of awareness. It is being accepted that financial inclusion has the immense advantage of ensuring sustained economic and banking growth without putting undue pressure on real interest rates and impacting the overall stability of the financial system.

Financial Inclusion: Sine qua non

As India is a vast and diverse country, there is a disparity in income and education levels across various sections of the society that leads to varied levels of exposure to financial services and products; hence there are certain

sections who lack awareness/are unaware of various financial products. As per the National Strategy for Financial Inclusion 2019-24, other factors causing financial exclusion are lack of surplus income, high transaction cost, lack of required documents to avail the services and products as well remoteness of the unserved population.

Through financial inclusion, the government aims to develop a culture of savings and investments among the rural population; this in turn can boost the country's economy. According to the government, bringing the vulnerable and underprivileged sections of the society under a formal financial system will help protect their financial wealth and other resources during exigencies. Moreover, with access to formal banking credit facilities, the risk of this group being exploited by usurious lenders can be mitigated. Also, the availability of timely credit from formal lending systems will encourage the entrepreneurial spirit of lower income groups, who are otherwise dependent on family, friends and money lenders for loans. Hence, providing access to formal finance to the unserved, can help lower their dependency on costly informal sources of finance, reduce their vulnerability to economic shocks and create jobs for them.

Poonam and Chaudhary (2016) tried to measure financial inclusion level in India by constructing a composite index. The comparative study of Financial Inclusion Index of 2001 and 2014 revealed that there were changes in the case of financial inclusion levels of the states. But, only Goa has shown high financial inclusion in 2014. Jammu Kashmir in 2001 and Chandigarh and Delhi in 2014 have shown medium financial inclusion. All other states are having low inclusion level. So, India needs to take steps to develop financial inclusion since economic development is based on financial inclusion.

Garg (2014) conducted a study to analyse the effectiveness of the measure adopted by RBI and commercial banks for increasing financial inclusion. The study revealed that the policies like opening rural branches, relaxed KYC norms, opening no frill accounts etc. Were helpful in promoting financial inclusion and also for increasing the GDP. Gupta & Chotia (2014) conducted a study on the level of financial inclusion in 28 states and 6 union territories of India. The study revealed a positive relationship between GDP, Human Developmental Index (HDI) and financial inclusion i.e. the states with high financial inclusion is also having high GDP and HDI.

Choithrani (2013) identified the reasons for low financial inclusion in India. Even though banks are opening branches, they are not doing the same willingly. Hence, many accounts remain inoperative. This is a real barrier in the financial inclusion drive. Sahu (2013) studied financial inclusion level of the states in India and also on the relation between financial inclusion and socio-economic variables. He found that only Chandigarh and Delhi was having medium level of financial inclusion. All other states in India are categorised under low financial inclusion states. India for the development of financial inclusion, financial education is to be improved and banks should take banking as an opportunity for increasing the financial inclusion rather than a business prospective. Das (2012) observed that financial inclusion among the poor in India is low. For better financial inclusion, financial services should be available to poor at low cost. Then only financial inclusion will increase and poverty will have eliminated.

Financial Inclusion Schemes

The policy makers in India have always been aware of the importance of financial inclusion for economic growth. The government commenced the financial inclusion process way back in the 1950s by nationalising life insurance companies and banks. Subsequently, it undertook a host of initiatives and launched numerous programmes such as the National Strategy for Financial Inclusion (NSFI), in June 2017, that is backed by the Financial Inclusion Advisory Committee (FIAC). The Government also introduced the following programmes:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

Launched in 2014, the PMJDY is one of the flagship schemes of the government with an objective to ensure financial inclusion of those individuals who do not have a bank account. The scheme offers various financial services, including basic savings & deposit accounts, insurance, pension, remittance and credit, in an affordable manner. Through this scheme, an individual can open a basic savings bank deposit (BSBD) account in any bank branch or a business correspondent (Bank Mitra) outlet.

Following that, the account holder is offered a 'RuPay' debit card and has no prerequisites to maintain any minimum balance in his/her account. The account holder is eligible for other benefits including accidental insurance cover of Rs. 1 lakh (US\$ 1370), which was increased to Rs.2 lakhs (US\$ 2740) for new accounts that were opened after August 28, 2018; and overdraft facility (OD) up to Rs. 10000 (US\$ 137). In addition, the account holder can avail other schemes such as Atal Pension Yojana (APY), Direct Benefit Transfer (DBT), Micro Units Development & Refinance Agency Bank (MUDRA) and others.

As of September 01, 2021, under the scheme, the government opened accounts for 43.2 crore beneficiaries- with deposits amounting to Rs. 144870.1 crore (US \$ 19.8 billion) and issued 31.3 crore RuPay cards. Of this, 55.4% account holders were women and 66% accounts were in rural or semi-urban areas.

- **Pradhan Mantri Mudra Yojana (PMMY)**

Launched in 2015, the scheme aims to provide term loans and working capital loans with a corpus of Rs. 3000 crores (US\$ 411 million) to small businesses dealing in manufacturing, trading and services, including the agriculture sector (poultry, beekeeping, dairy, etc.). The scheme offers loans in three categories-Shishu (up to Rs. 50000 or US\$ 680), Kishore (up to Rs. 5 lakhs or US\$6800) and Tarun (up to Rs. 10 lakhs or US\$ 13700).

A MUDRA card (RuPay) is issued by Member Lending Institutions (MLIs) to the borrowers for drawing working capital loan from any ATM or make purchases.

Barring 2020-21, each year the MLIs have been successful in achieving the annual targets set by government. For 2021-22, the target of Rs. 3 lakhs crores (US\$ 41 billion) has been set, of which 20% has already been achieved as of July 30, 2021.

- **Stand-Up India**

Launched in 2016, the scheme aims to promote entrepreneurship among scheduled castes/scheduled tribes and women by offering bank loans worth between Rs. 10 lakhs (US\$ 13700) and Rs. 1 crore (US\$ 137000) to at least one SC/ST borrower and one-woman borrower per bank branch of Scheduled Commercial Banks. In this scheme, loans are specifically offered for setting up Greenfield enterprises in manufacturing, trading and services sectors.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

Launched in 2015, the scheme aims to insure the uninsured, especially the underprivileged class, by providing cover for death due to any reasons. The scheme offers a renewable one-year term life cover of Rs. 2 lakhs (US\$ 2740) to all subscribing bank holders (aged 18-50). With an annual premium of only Rs. 330 (US\$ 4.5), the scheme is administered by LIC and other insurance companies that offer life insurance on similar terms.

As of July 2021, under the scheme, the cumulative enrolments stood at 10.6 crore, including 45.4% women, with the total claim amounting to Rs. 5154.8 crore (US\$ 706 million).

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**

Launched in 2015, like the PMJJBY scheme, the PMSBY scheme offers a renewable one-year accidental death-cum-disability cover to all subscribing bank holders (aged 18-70). With an annual premium of only Rs. 12 (US\$ 0.16), a subscriber is eligible for a claim of Rs. 2 lakhs (US\$ 2740) in case of death or complete disability and a claim of Rs. 1 lakh (US\$ 1370) in case of partial disability.

This scheme is offered by Public Sector General Insurance Companies (PSGICs) and other insurance companies that plan to offer the product on similar terms. As of July 2021, under PMSBY scheme, cumulative enrolments stood at 24 crores, including 45.8% women, with the total claim amounting to Rs. 972.6 crore (US\$ 133 million).

In addition to the above-mentioned schemes, the government has launched Atal Pension Yojana (providing monthly pension to eligible subscribers not covered under any organised pension scheme) and Pradhan Mantri Vaya Vandana Yojana (providing protection to senior citizens from future interest rate shocks due to market uncertainties).

- **Jan Dhan-Aadhar-Mobile (JAM): A Digital Initiative**

Under this initiative, by linking Jan Dhan bank accounts with Aadhar and mobile numbers, the government aimed to create a digital infrastructure that can be leveraged for various purposes including transferring direct benefits, adopting pension schemes, supporting credit flows and promoting digital payments through 'RuPay' cards. This initiative has enabled DBT from the government under various schemes to 8 crore accounts.

- **Aadhar-based Biometric Authentication and Digital Payment Solutions**

As more and more bank accounts are linked with Aadhar numbers, executing online financial transactions becomes easy at various banking touchpoints. More than 125 crore digital identities have been generated under Aadhar, enabling them to authenticate and carry out transactions. Using biometric ID, cost-effective payment solutions have been implemented including Immediate Payment Service (IMPS), RuPay Debit card, Unified Payment Interface (UPI), etc.

- **Jan Dhan Darshak**

Through this 'Jan Dhan Darshak' mobile application, the government aims to help citizens locate and view banking touchpoints such as ATMs, bank branches, bank mitras, post offices and common services centres (CSCs). The service is also being used by authorities to identify unbanked locations/villages that do not have any banking touchpoints. The app will act as a guide for citizens to locate financial service touchpoints at a given location in the country. According to the government, the app has mapped >8 lakh financial service touchpoints.

- **The Agenda is still Unfinished**

Financial inclusion level of India is very low when compared to many other countries of the globe. But, when analyzing the state level financial inclusion level, some states are having very good financial inclusion level while some are very poor. The table given below will be a great help in identifying the financial inclusion level of Indian states.

Table 1: Overall Financial Inclusion Rank of States & Union Territories

S.I. No.	State /Union Territories	Rank
1	Andaman & Nicobar Islands	15
2	Andhra Pradesh	7
3	Arunachal Pradesh	32
4	Assam	27
5	Bihar	33
6	Chandigarh	5
7	Chhattisgarh	31
8	Dadra & Nagar Haveli	22
9	Daman & Diu	23
10	Delhi	8
11	Goa	4
12	Gujarat	20
13	Haryana	16
14	Himachal Pradesh	11
15	Jammu & Kashmir	21
16	Jharkhand	28
17	Karnataka	6
18	Kerala	2
19	Lakshadweep	9
20	Madhya Pradesh	25
21	Maharashtra	17
22	Manipur	35
23	Meghalaya	30
24	Mizoram	24
25	Nagaland	34
26	Orissa	14
27	Puducherry	1
28	Punjab	12
29	Rajasthan	29
30	Sikkim	18
31	Tamil Nadu	3
32	Tripura	10
33	Uttarakhand	13
34	Uttar Pradesh	26
35	West Bengal	19

Based on CRISIL, Inclusix Score

Puducherry, Kerala, Tamil Nadu, Goa etc. are having high financial inclusion level whereas Manipur, Nagaland, Bihar etc. are having low financial inclusion. Orissa, Haryana, Maharashtra etc. are having medium level of financial inclusion. Variation in literacy level, branch penetration level. Deposit level, loan dispersion level etc. are the main reasons for financial inclusion level variation among Indian states. So, we can't negate with the fact that the agenda to attain financial inclusion level is still unfinished.

The Way Ahead

To provide universal financial services, it is important to have a digital infrastructure for various touchpoints including co-operative banks, payment banks and small finance banks, office of local government bodies and common service centres (CSCs). In addition, customising products and services (such as using vernacular languages in mobile apps) to suit the targeted population can help in efficient delivery of basic bouquet of financial services.

Also, the government plans to expand the reach of 'Centre for Financial Literacy' (CFL) programme across the country at the block level by March 2024 to boost financial literacy among citizens. Moreover, under the National Strategy for Financial Education 2020-2025 (NSFE), it aims to introduce financial literacy subjects in school curriculums, wherein 15 school boards have included financial subjects into their courses as of July 2021. Going forward, the government plans to support and enhance the financial inclusion process through the RBI's Financial Inclusion Index (FI-Index), which will be published each year going forward. This index will help gauge improvement on a yearly basis and understand gaps in the process.

Conclusion

By targeting bottom of the pyramid, financial inclusion will not only help promote financial stability but also broaden the country's socioeconomic growth. This will also enable the participating institutions such as banks, NBFCs and insurance companies to improve their customer base and expand into the rural sector. By leveraging technology and support through proper grievance redressal systems, financial inclusion can reduce income inequality and serve the underprivileged and the underserved.

Owing to 24 percent improvement in financial inclusion (from FY17 to FY21) and sharp focus of the policy makers, the system is likely to become more efficient going forward. Based on this, financial inclusion can be a lethal weapon in combatting poverty as well as spurring economic growth across the country. Therefore, the improvement in financial inclusion is an important step towards a better India, an inclusive India.

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