

Drivers of Financial Inclusion to reach out the Poor

¹K. Dhanalakshmi & ^{*2}B.Harinisree

¹Assistant Professor, Department Of Corporate Secretaryship With CA And PA Kongu Arts And Science College (Autonomous) Nanjanapuram, Erode (India)

²III - B.Com (Professional Accounting) Kongu Arts And Science College (Autonomous) Nanjanapuram, Erode (India)

ARTICLE DETAILS

Article History

Published Online: 05 October 2018

Keywords

Financial Inclusion, Financial Literacy, Financial Inclusion Strategy, Financial Inclusion Strategy Evaluation & Economic Development.

Corresponding Author

Email: harinisreeofficial[at]gmail.com

ABSTRACT

Financial inclusion is globally considered as a critical indicator of development and well-being of society. While inclusive banking began, in spirit, with the nationalisation of banks in 1969 and 1980 in India, the real thrust on financial inclusion (FI) came in 2005 when the Reserve Bank of India (RBI) highlighted its significance in its annual policy statement of 2005-06. One of the broader objectives of FI is to pull the poor community out of the net of exploitative moneylenders. FI Plans broadly included self-set targets in terms of bricks-and-mortar branches in rural areas, clearly indicating coverage of unbanked villages with population above 2,000 and those with population below 2,000; The progress of implementation of FI has to be measured to decide on future policy framework. It is believed that when banks embarked on the formal journey of FI, hardly 40% of Indian adults had savings accounts, with only a small fraction receiving credit from the banking system. FI has been a cherished policy objective pursued with the intent of reaching out to the masses. The vision for FI as envisaged by the Committee on Medium-term Path is that over 90% of the hitherto underserved sections of society would become part of formal banking by 2021.

1. Introduction

A Strong and sturdy financial system is a pillar of economic growth, development and progress of economy. The term financial inclusion has gained importance since the early 2000s, a result of identifying financial exclusion and it is a direct correlation to poverty. Financial inclusion is where individuals and businesses have access to useful affordable financial products and service that meet their needs that are delivered in a responsible and sustainable way. Financial inclusion is defined as the availability and equality of opportunities to access financial service. Those that promote FI argue that service can be viewed as having significant positive externalities when more people and firms participate. One of its aims is to get the unbanked and under banked to have better access to financial service. The availability of financial service that meet the specific needs of users without discrimination is a key objective of FI. FI is defined as delivery of financial service to the poor at affordable cost. So here this study discusses about the various innovative delivery channels used to reach the rural people and a conceptual model is developed to find out the factors that drives the financial inclusion.

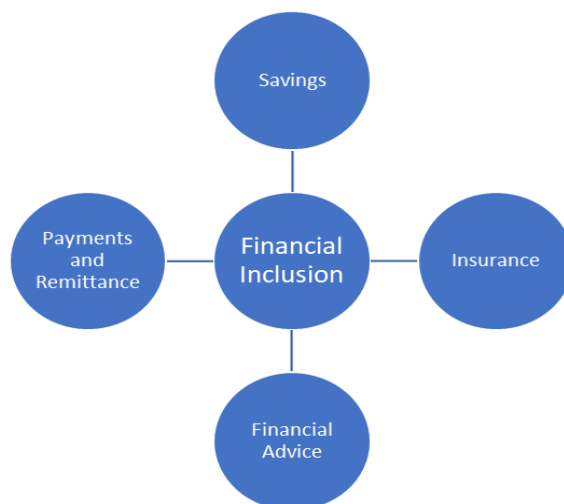
2. Objectives

- FI intends to help people secure financial services and products at economical prices
- It aims to establish proper financial institutions to cater the needs of the poor people
- FI aims to build and maintain financial sustainability so that the less fortunate people have a certainty of funds which they struggle to have
- FI intend to improve financial literacy and financial awareness in nation

- FI also intends to bring in mobile banking or financial service in order to reach the poorest people living in extremely remote areas of the country

3. Need for FI

FI strengthens the availability of economic sources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of FI, this serious and hazardous situation can be changed. FI engages in including poor people in the formal banking industry with the intention of securing their minimal finance for future purposes. There are many households with people who are farmers or artisans who do not have proper facilities to save the money that they earn after putting in so much effort.



4. Importance of FI

- Creating a platform for inculcating the habit to save money
- Providing formal credit avenues
- Plug gaps and leaks in public subsidies and welfare programs

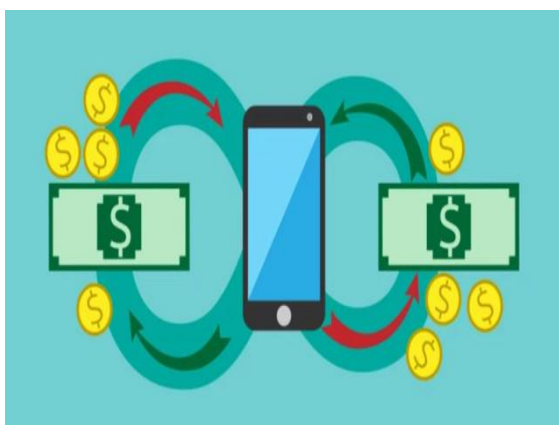
5. Financial Inclusion in India

- In the Indian subcontinent, the concept of FI was first familiarised in the year 2005 by the RBI by releasing Annual Policy Statement. Soon, the concept started to spread in every part of the nation
- In the year 2005, the Khan Committee Report was released which mainly discussed rural credit and microfinance. It spoke about how many people in the nation are missing out on the benefits of a professional and licensed banking system
- The Khan Committee report laid an emphasis on providing access to essential financial service by helping them to open a bank account that does not come any frills or complicated elements.
- The Indian government also initiated the “PRANDHAN MANTRI JAN YOJNA” with the sole purpose of motivating and encouraging poor individuals to open bank accounts. This program targeted at least 75 MILLION INDIVIDUALS to open bank accounts by the year 2015

6. FI Through Microfinance

MF is a very effective way of offering funds to the economically underprivileged sections of the society. MF refers to giving micro loans or micro credit to the less fortune entrepreneurs and small-scale business enterprises. This mode of financing has helped India extensively in achieving FI in a cost-effective manner. It has impacted the lives of the poorest people in the nation.

There are several impoverished people in the nation who do not have access to financial sources and who have no idea how to get out of their hopeless financial condition. With the basic MF, they will be given opportunities to start some form of business or get a better job and improve their life style. MF is a great boon to them as it gives them a chance to borrow money, utilise it for lucrative purposes, and repay it conveniently over a fixed period of time.



7. New Scheme Launched in 2018

The Union Government launched “Gram Swaraj Abhiyan-special interventions”, an high intensity outreach program to deliver welfare schemes to select villages which need particular attention. It was launched on occasion of Dr.BabasahebAmbedkarJayanthi (14th April, 2018)

The Abhiyan launched on the lines of rural development schemes like Antyodaya based on the principle of convergence and saturation. The objective of Abhiyan is to promote social harmony, to reach out poor rural households. Government has appointed dozens of directors and deputy secretaries to push its flagship programs to “100% of saturation” in rural areas. It will benefit 17,000 poor villages. So this study about financial inclusion to reach out the poor

8. Measures Taken by Government

Narendra Modi hopes the rapid development of infrastructure, as well as reforms, will expedite the growth of India’s economy, not only through the creation of more jobs and wealth within the country, but also by attracting more foreign investment.

DELHI – In a major overhaul of its guaranteed employment scheme, India’s Ministry of Rural Development is pushing to make it mandatory for states to spend 60 percent or more of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) funds on the creation of agricultural infrastructure.

The ILO’s report estimates that over 36% of the developing world lives in poverty—on a daily income of less than \$3.10 in purchasing power parity terms. The report calls on all nations to spend some \$600 billion a year—or nearly \$10 trillion over 15 years—for eradicating extreme and moderate poverty.

‘The stark reality is that more poor people in the world still lack access to sustainable financial service. 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 ppl improve their lives’- Former UN Secretary (General Kofi Annan).

The Reserve bank navigating the path to financial inclusion by means of regulations and guidance. It has initiated several measures to help bank the unbanked.

9. Measures to Reduce Poverty in India:

The nine important measures which should be taken to reduce poverty in India are as follows:

- Accelerating Economic Growth
- Agricultural Growth and Poverty Alleviation
- Speedy Development of Infrastructure
- Accelerating Human Resources Development
- Growth of Non-Farm Employment
- Access to Assets & Access to Credit

- Public Distribution System (PDS)
- Direct Attack on Poverty: Special Employment Schemes for the Poor
- Massive Investments in Public Sector
- Tackle the problem of black money and income disparity

10. Comparative Perspectives on Poverty Reduction:

A 2011 World Bank research report, "A Comparative Perspective on Poverty Reduction in Brazil, China and India," looked at the nations' strategies and their relative challenges and successes. The report used a common poverty line of \$1.25 per person, per day, at purchasing parity power for consumption in 2005.

All three countries had a drop in the percentage of their populations living below the poverty line in the period between 1981 and 2005. China dropped from 84% to 16%; India from 60% to 42%; and Brazil from 17% to 8%. Over that period, the

rise in inequality, as measured by the Gini index, was far greater in China than in India; however, inequality fell in Brazil.

Figure 1. Formal Account Penetration, by Country Income Group

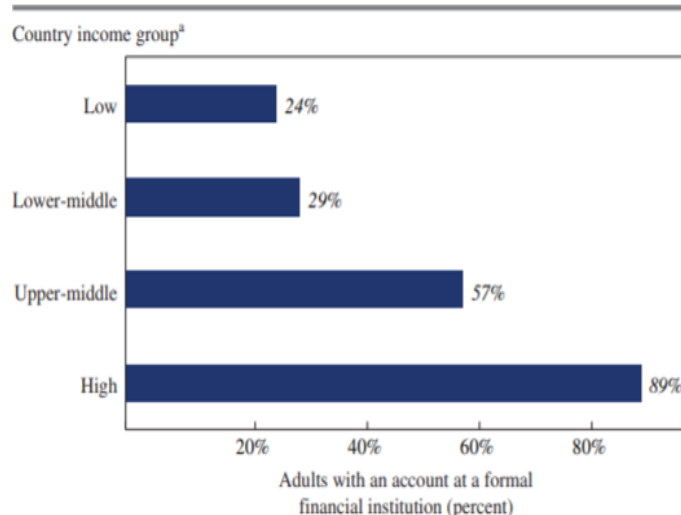


Table 1. Country-Level Regressions Explaining Financial Inclusion^a

Independent variable	Dependent variable					
	Percent of adults reporting having an account at a formal financial institution				Percent reporting formal saving ^b	Percent reporting use of formal credit ^c
	1-1	1-2	1-3	1-4	1-5	1-6
Logarithm of GDP per capita ^d	0.105*** (0.014)		0.122*** (0.014)	0.157*** (0.012)		
Low-income country (1) ^e		-0.436*** (0.106)			-0.316*** (0.027)	-0.063*** (0.014)
Lower-middle-income country (2) ^e		-0.442*** (0.079)			-0.313*** (0.025)	-0.052*** (0.013)
Upper-middle-income country (3) ^e		-0.325*** (0.053)			-0.276*** (0.024)	-0.039*** (0.013)
Domestic credit to the private sector (percent of GDP) ^d			0.185*** (0.037)			
Gini index ^d				-0.488** (0.190)		
Constant		0.203 (0.241)	-0.606*** (0.093)	-0.582*** (0.126)	0.407*** (0.017)	0.135*** (0.009)
No. of observations (countries)	134	134	123	110	139	139
R ²	0.772	0.783	0.747	0.662	0.622	0.160
p value of F statistic						
H ₀ : (1) = (2)		0.904			0.931	0.443
H ₀ : (2) = (3)		0.015			0.127	0.310

11. Conclusion

The rural population in India is subjected to great deal of indebtedness and is subject to exploitation in the credit market. Financial Literacy and Financial Inclusion do matter not only for individual choices, but also for collective public choices,

indirectly affecting Individuals wellbeing and the society. Since cash flows and savings in rural areas are not sizeable to fit into the consumption needs, the rural people need to rely upon credit.

References

1. Nanda, Kajole; Kaur, Mandeep. "Financial inclusion and human development: A Cross Evidence". *Management and Labour Studies*. 41(2): 127-153
2. Geoffrey Muzigiti, Oliver Schmidt (January 2013). "Moving forward". D+C Development and Cooperation/ dandc.eu.
3. "Financial service for the poor – Aid" Australian Agency for international Development (AusAID), March 2010
4. Financial inclusion (2009-2012) | UNDP in INDIA
5. "DhanYojna" Economic Times. October 25,2005
6. MIX MARKET. "India Financial Inclusion Map" MIX Market
7. CNN News Nov 2016
8. "PM's email to all bank officers". Press Information Bureau, Govt. of India.25 August 2014. Retrived 28 August 2014
9. DR. Anurag,B.Singh and PriyankaTandon, "Financial Inclusion in India – An analysis", *International Journal Of Marketing, Financial Services & Management Research*, vol.1 no.6,June.
10. Equity Bank Group Annual Report, 2010
11. Subbarao, "Financial Inclusion: Challenges and Opportunities, Remarks at the Bankers Club", Kolkata, December 9,2009.
12. Oya Pinar ArdicMaximilienHeimannNataliyaMylenko, "Access to Financial Services and the Financial Inclusion Around the World", The World Bank,pp1-17,2007
13. Srikanth.R "A Study on - Financial inclusion – Role of Indian Banks in Reaching Out to the Unbanked and Backward Areas", *International Journal of Applied Research and Studies*, Volume 2, issue 9, Sep.2013.
14. Nalik P (2013) Financial Inclusion-Key to Economic & Social Development. CSR Mandate.
15. Rani M (2015) Conceptual Framework to Investigate the Accessibility and Impact of Financial Inclusion. *International Journal of Science Technology & Management*
16. Mukherjee A, ChakrabortyS (2012) Financial Inclusion of the poor and Marginalized in Jharkhand : Analysis of the Existing Model. *International journal of Research and development – A Management Review*1: 02-06
17. Chakrabarthy K.C (2011), " Financial Inclusion and Banks: Issues and Perspectives", *RBI Bulletin*, November,2011
18. Mira Mendoza (2009), " Addressing Financial Exclusion through Microfinance: Lessons from the State of Madhya Pradesh, India", *The journal of International Policy Solutions*, Vol 11,pp 25-35
19. ArunGS (2013) Understanding Financial Inclusion in India and Role of ICT in ICT. *International Journal of Innovative Research and Development* 2: 12-20
20. Damodaran A (2013) Financial Inclusion: Issues and Challenges, Department of Management Studies, Indian Institute of Technology, India