INCLUSIVE GROWTH-A NEW PARADIGM: WITH SPECIAL REFERENCE TO BANKING SECTOR IN INDIA

Abstract: Indian Banking sector is growing very fast after globalization. The sector was one of the foremost contributions to help the country to overcome the global economic recession. Amartya Sen (2000) stated that poverty is not merely in sufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. Financial inclusion is intended to connect people to banks with consequential benefits, ensuring that the financial system plays its due role in promoting inclusive growth in one of the biggest challenges facing the emerging economies. This paper is an attempt to comprehend and distinguish the significance of financial inclusion in the context of India wherein a large population deprived of the financial services which are very much essential for overall economic growth of a country.

INTRODUCTION

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. The Governor of RBI has announced that we need to achieve financial inclusion through the mainstream financial institutions whether by mobile or card. We have reposed our faith in mainstream financial institutions to achieve financial inclusion. But, he has also made it clear that we cannot wait indefinitely for banks to come forward and exploit this opportunity of financial inclusion, otherwise we may have to look for other models of furthering financial inclusion. Amartya Sen (2000) convincingly argued that poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. Today the term ‘bottom of the pyramid’ refers to the global poor most of whom live in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty. Accordingly, there is felt a need for policy support in channeling the financial resources towards the economic upliftment of resource poor in any developing economy. This paper is an attempt to comprehend and distinguish the significance of Financial Inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are very much essential for overall economic growth of a country. In the Indian context, Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008)) defines it as: “Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.” The financial services include the entire gamut -savings, loans, insurance, credit, payments etc. By providing these services, the aim is to help them come out of poverty. It is well established fact that developed and inclusive financial systems are associated with more rapid growth and better income distribution. Finance helps the rural poor to catch up with the rest of the economy as it grows. It also extends the range of Individuals, households, firms that can get a foothold in the modern economy and thus reduce damaging concentrations of economic power. There is now a greater sense of appreciation of “Empowerment” dimension of finance to the extent it can give to rural people an access to opportunity and ability to escape conservative social structure.
Purpose of study---

- To know about the vicious circle of financial inclusion.
- To know about access of financial products and services to lower income group.
- For removing the barriers to adoption of weaker class of society by financial institutions.
- To explore different problems present in achieving financial inclusion in India.
- To investigate the future aspects of financial inclusion with regards to proposed xii th five year plan in India.

Design/methodology/approach – Research methodology is a way to systematically solve the research problems. This research paper is descriptive and analytical in nature. The research paper is mainly based on secondary sources which include books journals and various sites of Internet.

Initiatives for financial inclusion in India

The broad strategy for financial inclusion in India in recent years comprises the following elements:

(i) encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as NGOs, MFIs, CSOs and business correspondents (BCs);
(ii) focusing on a decentralised strategy by using existing arrangements such as State Level Bankers’ Committee (SLBC) and district consultative committee (DCC) and strengthening local institutions such as cooperatives and RRBs;
(iii) using technology for furthering financial inclusion;
(iv) advising banks to open a basic banking ‘no frills’ account; (vi) emphasis on financial literacy and credit counseling; and
(vii) creating synergies between the formal and informal segments.

III. FINANCIAL INCLUSION AND INCLUSIVE GROWTH IN INDIA

From an annual average growth rate of 3.5 per cent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 per cent in the 1980s and 1990s. In the last four years (2003-04 to 2006-07), the Indian economy grew by 8.8 per cent. In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 per cent, respectively. Reflecting the high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. Despite the impressive numbers, growth has failed to be sufficiently inclusive, particularly after the mid-1990s. Agricultural sector which provides employment to around 60 per cent of the population lost its growth momentum from that point, though there has been a reversal of this trend since 2005-06. The percentage of India’s population below the poverty line has declined from 36 per cent in 1993-94 to 26 per cent in 1999-2000. While India has witnessed unprecedented economic growth in recent past, its development has been lopsided with the country trailing on essential social and environmental parameters of development. The approach paper to the Eleventh Plan indicated that the absolute number of poor is estimated to be approximately 300 million in 2004-05. Accordingly, the 11th Five Year Plan has adopted “faster and more Inclusive growth” as the key development paradigm.

- In India, almost half the country is unbanked.
- Of the 6 lakh villages in India, only approximately 50,000 have access to finance.
- India has the highest number of households (145 million) excluded from Banking.
- Only 10% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.
Table 1. Getting Finance Indicators for India, 2001-08

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Benchmark (OECD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches per 1,00,000 people</td>
<td>6.42</td>
<td>6.33</td>
<td>6.25</td>
<td>6.26</td>
<td>6.33</td>
<td>6.37</td>
<td>6.35</td>
<td>6.6</td>
<td>10-69</td>
</tr>
<tr>
<td>ATMs per 1,00,000 people</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.63</td>
<td>1.93</td>
<td>2.4</td>
<td>3.28</td>
<td>47-167</td>
</tr>
<tr>
<td>Deposit accounts per 1000 people</td>
<td>416.77</td>
<td>421</td>
<td>418.7</td>
<td>426.1</td>
<td>432.1</td>
<td>443</td>
<td>459.5</td>
<td>467.4</td>
<td>976-1671</td>
</tr>
<tr>
<td>Loan accounts per 1000 people</td>
<td>50.99</td>
<td>53.9</td>
<td>55.84</td>
<td>61.88</td>
<td>71.42</td>
<td>78</td>
<td>83.59</td>
<td>89.03</td>
<td>248-513</td>
</tr>
<tr>
<td>Branches per 1000 km2</td>
<td>22.18</td>
<td>22.3</td>
<td>22.41</td>
<td>22.57</td>
<td>22.99</td>
<td>23.5</td>
<td>24.13</td>
<td>25.49</td>
<td>1-159</td>
</tr>
<tr>
<td>ATMs per 1000 km2</td>
<td></td>
<td>5.93</td>
<td>7.11</td>
<td>9.11</td>
<td>12.68</td>
<td></td>
<td></td>
<td></td>
<td>1-437</td>
</tr>
</tbody>
</table>

(Source: Getting Finance in South Asia 2010, Kiatchai Sophastienphong, Anoma Kulathunga, The World Bank)

Note: The Benchmark Indicator ranges are for selected high-income OECD member countries (Australia, Canada, France, Germany, Italy, Japan, the republic of Korea, New Zealand and the United States)

It is clear from above table that, the bulk of India’s population lacks access to financial products and services, such as savings accounts, loans, insurance, pension schemes, payments, etc. Banking penetration is estimated to be only about 5% among the lower income classes, and even among the middle- and high-income classes the penetration is about 45%. Most of the population belonging to the lower income groups does not have access to formal banking and credit. This leads to a vicious cycle in which the vulnerable are forced to resort to borrowing from informal sources (such as moneylenders) at usurious rates of interest. This not only hampers their ability to pay back and get drawn into further debt, but also takes away a substantial portion of their already meager earnings. This debt trap worsens poverty levels and cases where the debtor has committed suicide fearing an inability to pay debts are not unheard of.

PRESENT SCENARIO OF BANKING BRANCH DISTRIBUTION FOR FINANCIAL INCLUSION

<table>
<thead>
<tr>
<th>S.N</th>
<th>Particulars</th>
<th>Mar 10-Actual</th>
<th>Mar 11-Actual</th>
<th>June 11-Actual</th>
<th>Mar 12-Target</th>
<th>Mar 13-Target</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Villages Covered - Grand Total (2+3+4 = 5+6)</td>
<td>54258</td>
<td>100183</td>
<td>107604</td>
<td>218574</td>
<td>352269</td>
</tr>
<tr>
<td>2</td>
<td>Villages Covered - Total Branches</td>
<td>21475</td>
<td>22662</td>
<td>22870</td>
<td>24995</td>
<td>26440</td>
</tr>
<tr>
<td>3</td>
<td>Villages Covered - Total BCs</td>
<td>32684</td>
<td>77138</td>
<td>84274</td>
<td>192249</td>
<td>323699</td>
</tr>
<tr>
<td>4</td>
<td>Villages Covered - Total Other Modes</td>
<td>99</td>
<td>383</td>
<td>460</td>
<td>1330</td>
<td>2130</td>
</tr>
<tr>
<td>5</td>
<td>Villages Covered &gt;2000</td>
<td>27353</td>
<td>54246</td>
<td>59640</td>
<td>86806</td>
<td>91440</td>
</tr>
</tbody>
</table>
Problem of Inclusive Financial Growth in India

Lack of access to adequate funds on reasonable terms to India's rural poor may be attributed to.

1. Uncertainty about the repaying capacity of the rural borrowers due to their irregular and volatile Income streams and unexpected expenditure patterns
2. Transaction costs of rural lending in India are high due to small size of loans, high frequency of transactions and wide spread illiteracy
3. Govt. policy of waiver of rural debts has lead to a financial environment which is not conducive from the banker's perspective to lending in general and rural lending in particular
4. High SLR and CRR imposed on banks also leads to curtailing of available scarce resources for private sector lending

Also rural poor find opening an account with a Bank unattractive because of cumbersome procedure they have to follow for availing a Bank loan. In a Government study, it is observed that on average it takes about 33 weeks for a rural poor to avail a loan from a Bank. Also Banks demand collateral which rural borrowers lack.

SUGGESTATIONS

i. **Relaxation on KYC norms:** Know Your Customer (KYC) requirements for opening bank accounts were earlier relaxed for small accounts in August 2005, simplifying procedure by stipulating that introduction by an account holder who has been subjected to full KYC drill would suffice for opening such accounts or the bank can take any evidence as to the identity and address of the customer to the satisfaction of the bank. During the year, it has been further relaxed to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

ii. **Simplified branch authorisation:** To address the issue of uneven spread of Bank branches, since December 2009, domestic scheduled commercial banks are permitted to freely open branches in Tier 3 to Tier 6 centres
with population of less than 50,000 under general permission, subject to reporting. In the North Eastern States and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi urban and urban centres without the need to take permission from Reserve Bank in each case, subject to reporting.

iii. **Pricing has been made free:** Banks have been given the freedom to price their advances.

iv. **Liberalisation of Business Correspondents Model:** In January 2006, the Reserve Bank permitted banks to engage business facilitator and business correspondent (BC) as intermediaries for providing financial and banking services. The BC model allows banks to provide door step delivery of services especially ‘cash in - cash out’ transactions at a location much closer to the rural population, thus addressing the last mile problem. The list of eligible individuals/entities who can be engaged as BCs is being enlarged from time to time. For-profit companies have also been allowed to be engaged as BCs. You would be happy to know that as on March 31, 2011, domestic commercial banks have reported deploying 58,361 BCs, providing banking services in 76,081 villages.

v. **Opening of branches in unbanked rural centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for opening of more brick and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the Monetary Policy Statement – April 2011, to allocate at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centres.

vi. **Financial Inclusion Plan for Banks:** In our effort to achieve sustained, planned and structured financial inclusion, in January 2010, all public and private sector banks were advised to put in place a Board approved three year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013. These plans broadly include self determined targets in respect of rural brick and mortar branches to be opened; business correspondents (BC) to be employed; coverage of unbanked villages with population above 2000 as also other unbanked villages with population below 2000 through branches/BCs/other modes; no-frill accounts opened including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC); and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank.

vii. **Coverage of villages:** Banks have, up to June 2011, opened banking outlets in 1.07 lakh villages up from just 54,258 as on March 2010. Out of these, 22,870 villages have been covered through brick & mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans, etc.

viii. **Opening of No-frills accounts:** Basic banking 'no-frills' account, with 'nil' or very low minimum balance requirement as well as no charges for not maintaining such minimum balance, were introduced as per RBI directive in 2005. As on June 2011, 7.91 crore No-frills accounts have been opened by banks with outstanding balance of Rs.5,944.73 crore. These figures, respectively, were 4.93 crore and Rs 4257.07 crore in March 2010.

ix. **Small Overdrafts in No-frills accounts:** Banks have been advised to provide small ODs in such accounts. Up to June 2011, banks had provided 9.34 lakh ODs amounting to Rs.37.42 crore. The figures, respectively, were 1.31 lakh and Rs 8.34 crore in March 2010.

x. **General Credit Cards:** Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban braches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on June 2011, banks had provided credit aggregating Rs.2,356.25 crore in 10.70 lakh General Credit Card (GCC) accounts.

xi. **Kisan Credit Cards**: Kisan Credit Cards to small time farmers have been issued by banks. As on June 30, 2011, the total number of KCCs issued has been reported as 202.89 lakh with a total amount outstanding to the tune of 1,36,122.32 crore.

xii. **Formation of National Financial Inclusion Mission:** The authors recommend formation of National Financial Inclusion Mission on the lines of National Literacy Mission to carry out systematic and coordinated drive for financial inclusion.
Involvement of Education Sector for furthering Financial Inclusion: Involving educational institutions, particularly college students for financial inclusion drive would not only be cost effective but also would create wide public awareness.

Establishment of Financial Counseling Centres: Financial Inclusion drive should not be short-lived; instead a systematic effort should be structured by establishing FCCs (Financial Counseling Centres) on the lines of e-Seva centres in Andhra Pradesh for providing financial services.

Building Client Capacities: As the saying goes “teach him to fish instead of giving him fish”, it should be the effort of all the concerned (particularly the financial institutions) to develop these poor people as prospective customers. Building client capacities would definitely help all the stakeholders and would to a vibrant financial system.

Partnership with Dedicated NGOs and MFIs: Partnering with trustworthy and acclaimed people’s organisations would definitely accelerate the process of financial inclusion especially in the rural areas. Specific financial as well as non-financial incentives have to be designed for the spirited involvement of such organizations.

Financial Inclusion as a Part of Course Curriculum in High Schools: Financial Inclusion should be imbibed into the course curriculum in high schools so that the students would understand the importance of financial inclusion for inclusive growth in the economy which in turn would motivate them to use banking and financial system.

Extensive use of Co-operatives: PACS (Primary Agricultural Cooperative Societies) could provide valuable services to their members with a sense of belongingness. Accordingly, there is a need to revitalize these cooperatives as per the Vaidyanathan Committee recommendations and use them extensively for financial inclusion in the rural areas.

Undoubtedly a Greater Role for NABARD: 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.

Procedural / Documentation Changes: It is inevitable on the part of the regulators to find out an easy way of procuring the documents for opening of bank accounts and availing loans. The present guidelines are more tedious and result in huge costs for the poor in accessing the banks for any kind of services. Simplifying Mortgage Requirements, Exemption from Stamp Duty for Loans to Small and Marginal Farmers, Saral Documentation for Agricultural Loans. Proactive Role of Government State Governments should be asked by the Central Government to play a proactive role in facilitating Financial Inclusion. Issuing official identity documents for opening accounts, creating awareness and involving district and block level functionaries in the entire process, meeting cost of cards and other devices for pilots, undertaking financial literacy drives are some of the ways in which the State and district administration have involved themselves.

A Role for Rural Post Offices: Post Offices in rural areas can be asked to provide their services in accelerating the financial inclusion activity. In view of the postman’s intimate knowledge of the local population and the enormous trust reposed in him post offices can be good use in the process of financial inclusion.

Effective Use of Information Technology Solutions: The use of IT enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up. The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the Financial Inclusion initiatives.

Adequate Publicity for the Project of Financial Inclusion: In a huge country like India, there needs to be huge publicity for popularizing the concept and its benefits to the common man. In this direction, a comprehensive approach has to be developed involving all the concerned at all levels to impress upon the need for financial inclusion for accelerating the economic growth in the country.

Financial Inclusion as a Corporate Social Responsibility of all the Banks and Financial Institutions: It should be the endeavour 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.

Role of RBI: Reserve Bank needs to take a pro-active role in the accelerating financial inclusion by involving all the stake holders in the financial system by using its power of moral suasion as well as regulatory powers.
Political will: Political will is an all important aspect in any developmental effort. Political leadership should accord adequate importance for financial inclusion in order to motivate and mobilise all the weaker sections of the society in favour of financial inclusion for their economic upbringing.

The “school-based banking scheme: in Thailand The “school-based bank” is a model bank operated by students, with their teachers and the staff of The Government Savings Bank (GSB) of Thailand playing an advisory role. Students who behave well and have a sense of responsibility and thoughtfulness are selected to serve as the manager, finance officer, counter-service officer, and teller. Deposit and withdrawal services are provided before the morning class or during the lunch hour. The GSB branch that plays an advisory role performs audits and collects savings after the banking hours of the school-based bank. Support from GSB for the school-based bank includes training on banking operations and the provision of equipment. Passbooks and printed forms are specially designed for the purpose. It is important that the administrators of the participating schools are aware of the value of the scheme and give their full cooperation. GSB also provides the students who participate in the scheme with scholarships, educational material, and it organises study tours for them (WSBI, 2004, p. 17).

CONCLUSION
Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. With only 34% of population engaged in formal banking, India has, 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded. With the concerted efforts of all the stakeholders, our planned, sustained and structured Financial Inclusion efforts would bear fruits and we can take the country not only towards an even higher growth rate but a growth which is inclusive and all encompassing.

References:

5. Government of India (2008), The Committee on Financial Inclusion (Chairman: C. Rangarajan)

13. Different sites of Internet.