Inclusive Growth With Special Reference To Financial Inclusion

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ABSTRACT

‘Inclusive growth’ simply means all round growth of the masses. It refers to the ‘Broad based growth’ with a bias towards the poor and the bereft populace. It means providing equitable opportunities to all in accessing resources such that it benefits the society at large. Inclusive growth should ideally ensure the economic and financial progress permeating through the cross sections of the society resulting in balanced, democratically sustainable and optimal growth.

Financial Inclusion can be seen as a process whereby it is ensured that viable financial services and products are made available to the weaker sections of the society at affordable costs through a transparent and just mode. According to the United Nations the main goals of ‘inclusive finance’ refers to, in short ,the access at a reasonable cost of all households and enterprises to the range of financial services including savings, short and long-term credit, insurance etc, Sound institutions with good internal management systems and with proper regulations where required, and multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers . This will promote the growth of the underprivileged through financial literacy, savings, investment, employment and improved standards of living. This will undoubtedly make the poor feel that they are a part of the economic growth of the country, especially when things, as they stand today, only shows that the rich have become richer and the poor poorer.

Of the entire gamut of inclusive growth, this paper attempts to explore and emphasize on the ‘Financial Inclusion’ with special reference to the basic banking services, housing finance and micro finance.
**Inclusive growth** basically means an all round growth of the masses or growth with equity. It refers to the broad based or balanced growth which will benefit the poor and the underprivileged. It decreases the rapid growth rate of poverty in a country and increases the involvement of people into the growth process of the country. Inclusive growth by its very definition implies an equitable allocation of resources or providing equitable opportunities to all in accessing resources such that it benefits the society at large. Here we emphasize the idea of equality of opportunities in terms of access to markets and resources, an unbiased regulatory environment for, employment, standard of living etc. Inclusive growth should ideally ensure the economic and financial progress permeating through the cross sections of the society resulting in balanced, democratically sustainable and optimal growth.

Economic liberalization which began in the early 1990s has accelerated India’s growth rate to an average of 7% per year since 1997, up from 3.5% in the 1970s. During this period India transformed itself from an agricultural economy to a service economy which forms 55% of the Indian economy. But ‘Growth’ continues to bypass a large section of people. A large majority of Indians living in the villages with limited social and economic infrastructure are excluded from India’s growth story. The marginal farmer in the interiors of any state is struggling to feed his children who are uneducated and unemployed, with sisters whose marriage the farmer cannot afford. Trying to tell the farmer that the economy is growing at a handsome 9% per annum, is hardly any consolation for the empty stomachs his children go to bed with every night.

Today, economic power rests with a precious few. According to Credit Suisse, the top 1% of the population own 15.9% of India’s wealth, the top 5% own 38.3% and the top 10% have 52.9% of Indian’s wealth. What this really means is that 90% of Indian, the urban and rural poor has a very small stake in the pie. Growth must lead to the re-distribution of this ever growing pie to a situation where the bulk of the population is middle class and a smaller percentage of the population is either very rich or poor. The 11th Plan defines inclusive growth to be “a growth process which yields broad-based benefits and ensures equality of opportunity for all”, aimed at poverty reduction, human development, health and provides opportunity to work and be creative.

The inclusiveness involves four attributes, ie, Opportunity, capability, access and security. The Opportunity attribute focuses on generating more and more opportunities to the people and focuses on increasing their income. The Capability attribute concentrates on providing the means
for people to create or enhance their capabilities in order to exploit available opportunities. The Access attribute focuses on providing the means to bring opportunities and capabilities together. The Security attribute provides the means for people to protect themselves against a temporary or permanent loss of livelihood.

Since independence, significant improvement in India’s economic and social development made the nation to grow strongly in the 21st century. The following factors encouraged India to concentrate more on inclusive growth.

1. India is the 7th largest country by area and 2nd by population. Yet, India is far away from the development.
2. The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. are the problems for the nation.
3. Reducing of poverty and other disparities and rising of economic growth are the key objectives of the nation through inclusive growth.
4. Political leadership in the country plays a vital role in the overall development of the country. But, the study has found that politicians in India have a very low level of scientific literacy.
5. Studies estimated that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.
6. Although child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice, still, many children in India are devoid of education and forced to work.
7. Literacy levels have to rise to provide the skilled workforce required for higher growth.
8. Even at international level also, there is a concern about inequalities and exclusion, and now they are also talking about inclusive approach for development.

According to Prime Minister, Sri. Manmohan Singh, the key components of the inclusive growth strategy included a sharp increase in investment in rural areas, rural infrastructure and agriculture spurt in credit for farmers, increase in rural employment through a unique social safety net and a sharp increase in public spending on education and health care.
The following problems are the major concerns for developing countries like India to achieve the inclusive growth. They are:

1. Poverty
2. Employment
3. Agriculture
4. Problems in Social Development
5. Regional Disparities

**FINANCIAL INCLUSION**

Financial Inclusion is a part of the overall inclusive growth. This Paper proposes to taper down the focus to “Financial Inclusion”, especially with reference to the basic banking services, housing finance and microfinance.

According to Dr. C. Rangarajan, Chairman of the Committee on Financial inclusion, 2008:

“Financial Inclusion can be defined as the process whereby it is ensured that viable financial services & products are provided to the weaker sections at prices that are affordable, through a transparent and just Institution”.

**The need for Financial Inclusion**

- It mobilizes savings which helps the weaker sections to channelize their incomes into buying productive resources or assets and thus promote economic growth.
- It promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.
- It helps during difficult times when the rural economy can be a support system to stabilize the financial system.
Basic Banking Services

Appropriate financial products were taken up by many countries such as the US, France, Germany, UK etc. through legislative measures, where they stressed on the need and right for every individual to have a bank account.

India has recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution in this direction starting with the nationalization of banks, priority sector lending requirements for banks, establishment of regional rural banks (RRBs), self help group-bank linkage programme etc. Multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society.

RBI encouraged expansion of bank branches, especially in rural areas, resulting in multifold increase in branch network from around 8,000 in 1969 to around 1,00,000 today, spread across the length and breadth of the country. To achieve the ultimate objective of reaching banking services to all the 600,000 villages, financial inclusion has to become a viable business proposition for the banks. Delivery of banking services, at the minimum, included the following four products:

- A savings-cum-overdraft account, opening No Frills account with nil or very low minimum balance and relaxation in KYC norms. Banks have been advised to provide small overdrafts in such accounts.

- Electronic Benefits Transfer (EBT) to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

- A pure savings product, ideally a recurring deposit scheme.

- Credit in the form of kisan credit card (KCC) or General Credit Card (GCC). Banks have been asked to consider introduction of a general purpose credit card facility up to Rs.25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks’ customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.
RBI has advised banks to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC (Business Correspondent) model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

RBI pushed the commercial and public banks including RRBs to extend the Banking services. It suggested the Business Correspondent (BC) model wherein it permitted the banks to include the following as the BCs:

1. The medical and Kirana stores
2. PCO (Public Call Office) owners
3. Agents of Insurance schemes
4. Owners of petrol pumps
5. SHGs (Self Help Groups)
6. Retired persons like teachers

This was a substitute to banks for having “Branchless access” to the rural customers. As a part of the BC model, the RBI recommended that banks should own the BCs as agents providing services like micro-credit, small value savings, micro-insurance etc. Also, the BCs were permitted to charge pre-defined service cess from the customers. These BCs were provided with electronic hand devices that identified the customers through the biomark. This facilitated the deposit or withdrawal of money, without the need for the bank to have a formal building in the village. It was estimated that the number of potential customers at that time was estimated at around 480 million. It was targeted that by March 2012, the banking services would cover around 75,000 villages.

The Problems

Despite the efforts, the truth is that the performance was below what was expected. Let us see what went wrong.

1. No-Frill Account (NFA) : Villagers could not provide the minimum cash balance which was otherwise required to open a bank account. To address this bottleneck, the NFA provided for a minimum balance requirement of Rs.67 and also had a
provision for overdraft. The NFAs hurt the bottom line of the banks because of the costs involved in maintaining such accounts. Hence, the services provided by the banks were unsatisfactory. Moreover, only 20% of these accounts were actually in use while majority of them were inactive.

2. The BC Model: The low earnings by the BCs affected the services delivered by them. To keep their margins, the BCs reduced the employee force leading to infrequent services and the villagers refrained from keeping money with them. The Attrition rate of BCs is around 70-80% which meant that till a new agent is not appointed, the village loses the access to the financial services. This also had an adverse effect on the associated Government welfare programmes such as under NREGA, where the payments were supposed to reach the beneficiary within the stipulated period of 15 days but these were intentionally delayed by the BCs to earn interest on the payments. Many of the BCs started to outsource the activities to meet the workload, which in turn meant further cost elevation.

Despite the efforts, a significant proportion of the households, especially in rural areas, still remained outside the coverage of the formal banking system. It is estimated that about 40% of Indians lack access even to the simplest kind of formal financial services. The major barriers to serve the poor, apart from socioeconomic factors such as lack of regular income, poverty, illiteracy, etc., are the lack of reach, higher cost of transactions and time taken in providing those services. Products designed by the banks are not tailored to suit the needs of low-income families. Nevertheless, the efforts taken are continuing and encouraging and we need to keep our hopes alive. For instance, the BCs can be supported by physical banking facilities wherever possible and feasible. Since it is a national commitment, social objectives need to be weighed against the costs of delivery.

The RBI has appointed the ‘Working Group on Mobile Banking’ to study the feasibility of Mobile banking in India focusing on parameters like technology, regulation, supervision, security etc. This model simply removes the BC from the system and the role is implemented by the customer himself with the aid of the mobile phone. The biggest challenge is the
confidentiality, authenticity and integrity of the data. Thus, information Security would have to be ensured for the success of this model.

RBI advised banks that villages having population of above 2000 should have banking facilities through either proper physical facilities or through any of the various forms such as BC, ICT, KCC etc based models. Around 75,000 such unbanked villages were identified and allotted to various banks through state-level bankers’ committees.

The efforts taken so far to make basic banking facilities available to the last poor with all the social and bureaucratic hurdles are laudable but slow and a dream yet to be fulfilled.

(II) HOUSING FINANCE:

Housing is one of the three basic needs (food, shelter and clothing). Studies have shown that people having houses are more law abiding, social, healthy and have grown intellectually and economically. Housing also provides the impetus to the economy to grow and even kick start a stagnant economy, since housing sector has forward and backward linkages with around 250 industries. In this direction the Union budgets have also provided fiscal benefits. This is the reason that Investment in housing sector to GDP is 54% in USA, 57% in UK, 34% Malaysia, though in India the figure is quite low.

Housing Finance is preferred by bankers since it is safe as it is backed by mortgage of property. Housing finance disbursements are increasing by the day. Poor people play an important role in urban economy. They are the real participants in the building of the urban housing and infrastructure, but their own lives are endangered with poor facilities they live in. Here the majority of live in unauthorized colonies and slums.

Problems for the poor in urban and rural areas in getting housing finance:

1. High property prices, tendency of developers towards high end projects.
2. Lack of attractive housing financing schemes makes people in low income groups incapable of taking loans.
3. High credit risk, uncertainty of recovery and lower margins due to smaller transaction size discourages lenders to service lower income groups.
4. Difficulty in credit assessment due to no pay slips, no tax returns etc.
5. Lack of collateral security.
6. The RRBs and banks in rural areas are also not enthusiastic in lending due to limited sanctions, NPAs and lack of staff.

The government of India through 20 point Programme and later through the National Housing Policy scheme, that is, the subsidy cum loan scheme (‘valmiki ambedkar awas yojna’) have enabled the poor and slum dwellers to construct housing units.

As per the RBI guidelines, commercial banks have financed home loans through NGOs/SHGs. According to rough estimates over 11 lac NGOs/SHGs of the poor, mainly rural poor, have been formed and financing of over 4000 crores have been provided through them with good recovery rate of over 98%. In fact, poor borrowers have proved to be better pay-masters which is also the experience of many countries. Micro financing in housing has also been seen as solution.

All said and done, what has been achieved is miniscule. What about the housing needs of millions living across the length and breadth of the country in huts with negligible living means, the large agricultural and industrial labour force finding their earnings, if any, dissipate in satisfying hunger. (‘Ghar’ tho door ki baat hai- House is a distant dream). Lot needs to be done in the inclusion story.

(III) MICROFINANCE:

Economic independence of the lower sections of the population is the key driver towards eradicating inequality and establishing an inclusive growth model. In a country like India with a large rural, agro-dependant population, microfinance has emerged as a viable means of economic upliftment. A large majority of the Asian population still lives under $2 a day and in extremely poor conditions. Using the $2-a-day poverty line, the level of poverty has only declined from around 85% in 1990 to around 70% between 1990 and 2010, suggesting that more
than half of developing India still lives in very poor conditions, is vulnerable to shocks, and may easily slip into extreme poverty.

The road ahead, towards inclusive financing is a big challenge for the financial system. At the all India level, less than 5% of poor rural households have access to microfinance as compared to 60% in Bangladesh. The southern states account for almost 75% of funds flowing under microfinance programmes. By far the most successful model of microfinance in India in terms of outreach is SHG Bank Linkage.

**Micro finance** started with Informal financial service providers like the money lenders, pawn brokers etc. Because they know each other well and live in the same community and understand each other’s financial circumstances, these micro financiers offer flexible, convenient and fast service, though these services become costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky and many people even lose their money.

**Microfinance** is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. Microfinance is a broad category of services, which includes microcredit. The two main mechanisms for the delivery of financial services to such clients are (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

The modern use of the expression "microfinancing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. This microcredit movement brought financial services to the doorsteps of poor people. While the success of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world, it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging.
One of the principal challenges of microfinance is providing small loans at an affordable cost. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some markets. The reason for the high interest rates is the high transaction cost of traditional microfinance operations relative to loan size. There has been much criticism of the high interest rates charged to borrowers and in his latest book Muhammad Yunus argues that microfinance institutions that charge more than 15% above their long-term operating costs should face penalties. Microcredit has been blamed for many suicides in India. Aggressive lending by microcredit companies in Andhra Pradesh is said to have resulted in over 80 deaths in 2010.

Even for addressing the housing problem, microfinance is suggested as an effective approach. The urban poor is estimated to represent more than 90% of the workforce but has almost no financial institution catering to its housing finance needs. National Housing Bank is giving permission to establish Micro Housing finance companies to provide long-term housing finance to the urban lower income families particularly the informal sector people who cannot provide documentary evidence of their income and hence cannot access the mainstream banks and other housing finance companies. Loans given are usually around 5 lacs for a period not exceeding 15 years. Recently MHFC (Micro Housing Finance Corporation) based in Mumbai with focus on lower income groups tied up with Tata Housing on its ‘Shuba Griha’ project at Boisar, a project with 1500 flats costing between 3.90 to 6.80 lacs. MHFC is also interested to tie up with State Housing Boards and provide loans to the weaker sections.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. “Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

6. "The job of government is to enable financial services, not to provide them.

7. "Donor funds should complement private capital, not compete with it.

8. "The key bottleneck is the shortage of strong institutions and managers. Donors should focus on capacity building.

9. Interest rate ceilings would also hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

10. Microfinance institutions should measure and disclose their performance – both financially and socially.

Microfinance is definitely considered as a tool for socio-economic development.

_Recent views of the RBI top notch:_

"Banks should ensure qualitative coverage of financial inclusion through proper functioning of banking correspondents," **RBI Governor D Subbarao** said in a specially convened meeting of State Level Banking Committee (SLBC) after its central board meeting in Mar’12. He said, "SLBC should complete allocation of villages of population of less than 2,000 for the purpose of coverage of financial inclusion by September 15, 2012". He also said four lead banks in the state should organise convention of all banking correspondents in their respective districts in collaboration with the district administration to assess the issues affecting the smooth operation of BC-ICT ((Business Correspondent - Information and Communication Technology) model in the villages. Along with the five districts identified in the Union Budget for electronic payment in the state, in eight previously selected blocks, banks should ensure that accounts opened for beneficiaries are linked for payment of social and subsidy benefits under various government schemes, he added further.

In the meeting to discuss state-specific issues, Subbarao said banks should properly publicise that no-frill account are not scheme-specific and should be used for all type of banking transactions.
Reserve Bank of India **Deputy Governor KC Chakrabarty** has said the work on financial inclusion to make available basic amenities for the poor is still lacking in some parts of the country and efforts should be made to broad base the achievements.

“While excellent work (on financial inclusion) is being done in some pockets, in many other areas the progress is not satisfactory and there is a need to broad base the achievements,” Chakrabarty recently said in a panel discussion in Washington.

He observed that between March 2010 to March 2012, more than 50 million basic banking accounts have been opened to take the total number of such accounts to more than 100 million. “Financial Inclusion programmes should be implemented on commercial lines and not on a charity basis. It is important that banking with the poor is perceived and pursued as a sustainable and viable business model,” he said.

He said though these figures in isolation seem very impressive, yet, if one considers the task ahead, to provide access to 1.2 billion people in the country and to reach 6 lakh villages, it is a long way forward.

**Conclusion**

Financial inclusion can bring into the balanced growth fold the needy and weaker sections. It has to be realized by the RBI and other bodies working for this cause that unless the issue is addressed at the grass root level, the performance of these initiatives cannot be optimized. So, the need of the hour is to ponder on these basic issues before building the edifice. In a country like India with low literacy levels, poverty, unemployment, heavily uneven distribution of income and wealth and opportunities, the government has the aesthetic responsibility to put systems in place for reaching the Bottom of Pyramid.

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