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SOCIO-ECONOMIC IMPACT OF FINANCIAL INCLUSION INITIATIVE- AN APPRAISAL

Dr. Pratibha Kumari
M.Com., Ph.D ,
L. N. Mithila University, Darbhanga.

ABSTRACT—

Financial inclusion or inclusive financing is the delivery of financial services at affordable cost to socially deprived and low-income segments of society. Financial inclusion is a critical step that requires political will, bureaucratic support and determined persuasion by RBI. It is expected to unleash the hugely untapped potential of that section of Indian economy, which is at the bottom of pyramid. Financial inclusion implies that all adult members of the society are granted access to a range of proper financial services, designed based on their needs and provided at affordable costs. Formal financial inclusion begins with having a deposit or transaction account, at a bank or other financial service provider, for the purpose of making and receiving payments as well as storing or saving money. At a later stage, financial inclusion also involves access to appropriate credit from formal financial institutions, in addition to the use of insurance products that enable people to alleviate financial risks such as fire, flood or crop damage. Furthermore, access to accounts through financial inclusion increased savings among farmers, leading to greater agricultural output and household spending. This particularly matters for those people who live in the poorest households in rural areas. In this regard, financial inclusion helps reduce poverty and inequality. Financial inclusion is recognized as 'a process that marks improvement in quantity, quality, and efficiency of financial intermediary services', which helps improve lives, foster opportunities and strengthen economies. Local savings are promoted through financial inclusion, leading to increased productive investments in local businesses. This paper focuses upon socio-economic impact of financial inclusion.

KEY WORDS: *Financial Inclusion, Rural Development, Socio-Economic Impact* **.**

INTRODUCTION :

Financial inclusion is a process that enables improved and better sustainable economic and social development of the country. It focuses on raising the standard of living of the underprivileged people in the society with the objective of making them self-sufficient and well informed to make better financial decisions. Also, it acknowledges the participation of the low-income groups based on the extent of their access to financial services in economic growth.

The Committee on Financial Inclusion (Government of India, 2008) defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups at an affordable cost. The aim of financial inclusion is delivery of financial service to low-income groups with the provision of equal opportunities. The Committee suggested that financial inclusion must be taken up in a mission mode to achieve universal financial inclusion within a specific time frame and constitution of two dedicated funds focused on development and technology for better credit absorption by poor.

In fact, contrary to general belief, historically, India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to cooperative movement in India. The objective of cooperative banks was to extend banking facilities, mainly availability of credit on easy terms compared to money lenders who where well known to charge high rates of interest. In India, financial inclusion exercise explicitly started with the nationalization of State Bank of India in 1955. In 1967 there emerged a debate on social banking and consequently, 14 private sector banks were nationalized in 1969 to serve the unbanked population, mainly weaker sections of society as well as rural areas. The concept of priority sector lending became important by 1974 which implied directed lending to unbanked areas, and in 1980, eight more private banks were nationalized to extend banking in rural and remote areas. Since then, there has been a considerable reorientation of bank lending to accelerate to process of development, especially of the priority sector, which had not previously received sufficient attention.

Since 2005, Government of India along with the Reserve Bank of India (RBI) and National Bank of Agriculture and Rural Development (NABARD) has been initiating a number of concerted measures to enhance financial inclusion in India. These measures include Self Help Group-bank linkage programme, use of business facilitators and correspondents, easing of 'Know-Your-Customer' (KYC) norms, electronic benefit transfer, use of mobile technology, opening 'no-frill accounts and emphasis on financial literacy. Other measures initiated by the Government to support financial inclusion include opening customer service centres, credit counselling centers, Kisan Credit Card, National Pension Scheme-Like, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhaar Scheme. The banking penetration, despite concerted efforts, was low.

In this context, to ensure a banking account in every household, the Prime Minister, in his maiden speech from the Red Fort on August 15, particularly.

DETERMINANTS OF FINANCIAL INCLUSION

It is desirable to examine the determinants of financial inclusion so as to undertake appropriate policy measures for bringing about a more inclusive society in terms of the access to financial services. Several socio-economic factors simultaneously determine the potentiality of borrowers of formal financial institutions. Broadly, the process of financial inclusion is conditioned upon a number of factors: some are social, some are economic, some are demographic and some are institutional. In the section, an attempt has been made to examine the various socio-economic determinants in explaining low level of financial inclusion in Bihar. The study considered a sample of respondent households, who may or may not belong to banks or other formal financial service providers. The broad identified determinants of Financial Inclusion are:

- **Economic Status of the Households:** Economic status of the household is an important determinant of financial inclusion. In fact, economic inclusion is the pre-condition for financial inclusion. Economic status of the household is found to be positively and significantly correlated with the degree of financial inclusion. The probability of becoming a bank customer increases with higher degree of economic status of the households.
- **Level of Education:** Formation of human capital plays an important role in the process of financial inclusion. The level of education of the household, which is measured by the average years of schooling is found to be positively associated with the process of financial inclusion. The result is found statistically significant at 1 percent level of significance.
- **Asset Holdings:** The position of asset holding of the household plays a crucial role in the process of financial inclusion. The asset position of rural households, as approximated by the level of operated land , is found to be directly associated with the process of financial inclusion. A positive and significant

coefficient signifies that households with poor asset ownership fail to satisfy required collateral requirements and thus, find it difficult to be financially included with the formal financial institutions.

- **Non-Form Employment:** The development of non-farm sector needs to overcome the financial constraints for switching over from agricultural to non-agricultural employment. The co-efficient of non-farm employment, and the process of financial inclusion. The people working in the non-farm sector are found to be financially more include than those engaged in the agricultural sector.
- **Rural Development and Social Security Schemes:** The rural development and social security schemes of both the central and state government have significant bearings on the process of financial inclusion. Several social security schemes like MGNREGA, JRY, IAY, Old age Pension, Minimum wage Scheme have played an important role to include the excluded people in the financial network. As expected, the co-efficient of social security schemes is found to be positively associated with the process of financial inclusion. However, the result is not found to be statistically significant.
- **Information Asymmetry:** The existence of information asymmetry in rural credit transactions is captured by the variable aware, which denotes the knowledge of the respondents regarding the existence of formal banks in the study area. The positive and statistically significant co-efficient of the customers awareness of banking services supports the hypothesis that a customer having imperfect information on banking services is more likely to exclude form formal financial institutions for necessary financial assistance. Thus, a major source of imperfections in rural credit markets is the presence of information constraint as regards to the availability of financial institutions and financial services in the localities.
- **Household Characteristics:** Households characteristics also influence the process of financial inclusion. A household with larger dependent members to total family members is found to be financially more excluded than less number of dependent members. The co-efficient of the variable indicating dependency ratio is found to be negative and statistically significant. It supports the hypothesis that the process of financial exclusion is aggravated by the pressure of dependent members in the family.
- **Caste and Religion:** Caste and Religion are unlikely to influence the process of financial inclusion. This is evident from the fact the co-efficient of caste and religion, though positive, are statistically insignificant.

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The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three reasons:

- **Creating a platform for inculcating the habit of saving money:** The low income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aim to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialise as people move away from the traditional modes of parking their savings in land, building, bullion etc.
- **Providing formal credit avenues:** So far the unbanked population has been vulnerably dependent on informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.
- **Plug gaps and leaks in public subsidies and welfare programmes:** A considerable sum of money that is meant for the poorest of the poor does not actually reach them while the money meanders through large system of government bureaucracy, much of it is widely believed to leak and is unable to reach the intended parties. Government was therefore pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. The laudable effort is expected to reduce government’s subsidy bill and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

CONCLUSION

As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated by the Reserve Bank of India and Government of India is favour of financial inclusion but the impact of these did not yield satisfactory results. The need of the hour is to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby making it more efficient and user friendly for the interest of the rural population as well as formal sector.

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