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ORIGINAL ARTICLE

FINANCIAL EXCLUSION- A TRAGEDY OF COMMONS

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Abstract:

After the independence of India, government has adopted planning in order to push up the economy which was stagnant during the British era. The government and planners were succeeded in the achievement of desired economic growth through the weapons of planning. However the levels of standard of living of the vast section of the society remained almost unchanged. This implied that something was very wrong with the narrow definition of development in which GNP growth rate was highly emphasized and therefore during the 1970's, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality and unemployment within the context of growing economy.

KEY WORDS:

Financial Exclusion , Tragedy of Commons , adopted planning , economic development .

INTRODUCTION:

India, being a very big democratic republic; it must ensure the equitable growth of all sections of society. The modern view of development is much more emphasizes on the inclusive growth. The term inclusive growth refers to the equal opportunity to all for participation in the processes growth and systems. The growth process should not be restricted to certain selected sections of the society, but it must include all the sections of the society. Inclusive growth has multi dimension i.e social inclusion, economic inclusion, political inclusion, cultural inclusion and financial inclusion. In brief, inclusive growth is a function of these dimensions and it becomes realized when there is exclusion.

Out of these dimensions of inclusive growth, financial inclusion is one of the big issues in modern times in all over the world. In this connection present research paper humbly tries to design a model for financial inclusion.

The concept of Financial Inclusion

The "Financial Inclusion" is defined by many experts time to time in several contexts. In the Indian contest Rangarajan Committee (2008) defines it 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 loans, Insurance, credit, savings, payments etc." By Financial Inclusion we mean the delivery of banking and credit services at an affordable cost.

OBJECTIVES OF THE STUDY

To study theoretical aspects of financial inclusion,
To observe the obstacles in the attainment of inclusive growth in general and financial inclusion in particular,
To design and present the model for achieving financial inclusion.
Modern View of Development

After 1980 when several developing nations did realize their achievement in economic growth target in terms of GNP in one hand and on the other hand there was widened gap between rich and poor. Therefore recently the concept of economic development has been further widened so that it now involves not only reduction in poverty, inequality and unemployment but also requires increase in the access of the opportunities and the improvements in the capabilities of the citizens. Therefore the green GDP, Human Development Index (HDI) Gender Development Index (GDI) , Human Poverty Index (HPI1and HPI2), World Hunger Index(WHI) Financial Inclusion Index (FII) these parameters have been considering for the measurement of growth in all over the world. In short the modern view has given high priority for inclusiveness within the process of growth.

By considering above outlook of the development following model can be framed for inclusive growth.

As already pointed out, inclusive growth has several dimensions that can be mathematically expressed as below

$$Qtn = f(Rt1+Rt2+Rt3+Rt4+Rt5\ldots\ldots\ldots+Rt\,n) \qquad (1)$$

Where 'Qt_n' stands for level of inclusive growth, of the country 'n' at time't'.$R_t1$is stand for social inclusion andR_t2 represents the economic inclusion. Whereas R_t3,R_t4 and R_t5, represents the financial inclusion, political inclusion and cultural inclusion respectively.

In this paper focus has been given on financial inclusion i.e R_t3 and how the level of inclusive growth changes with respect to change in the level of financial inclusion by assuming that other factors (dimensions) are remaining the same.

Inclusive Growth

Financial Inclusion and Inclusive Growth

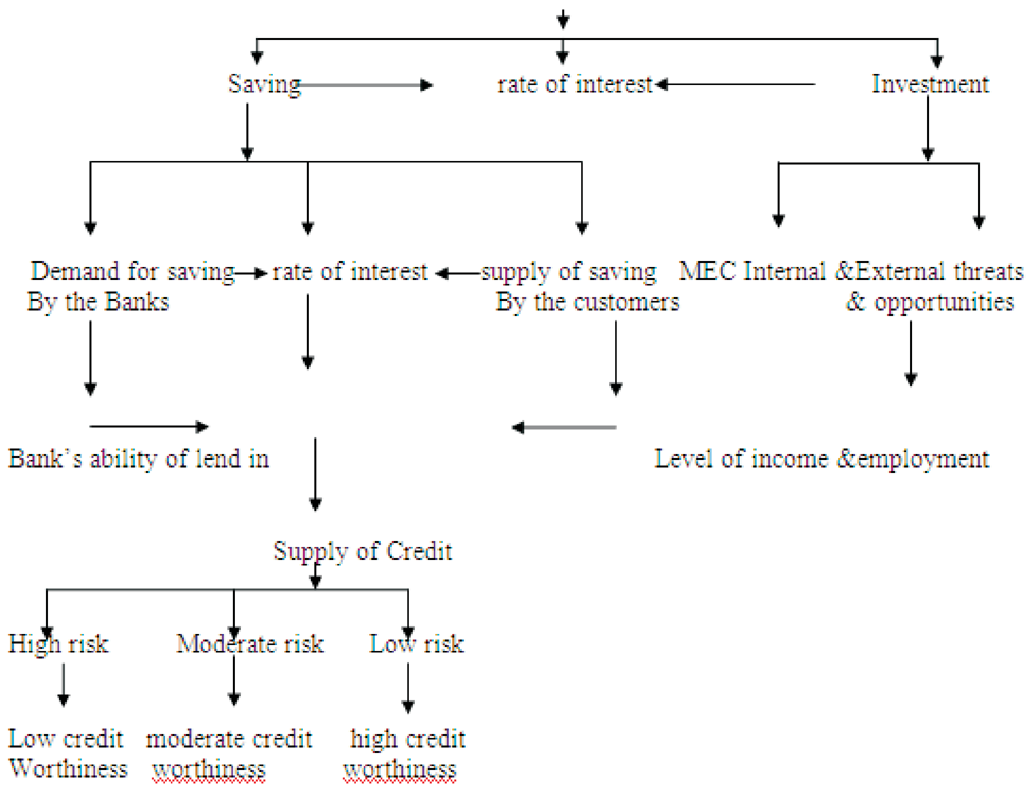
The relationship between financial inclusion and inclusive growth is positive. That can be expressed as below.

$$\Delta Qtn=a+bRt\ldots\ldots \qquad (2)$$

Where ΔQtn is stand for change in the level of inclusive growth of the country n at time t, a is stochastic error term, b is constant term and Rt1stand for level of financial inclusion of country at time t.

Now let's try to explore this relation which is depicted in equation (2).

Chart no.1
Banks & supply of credit

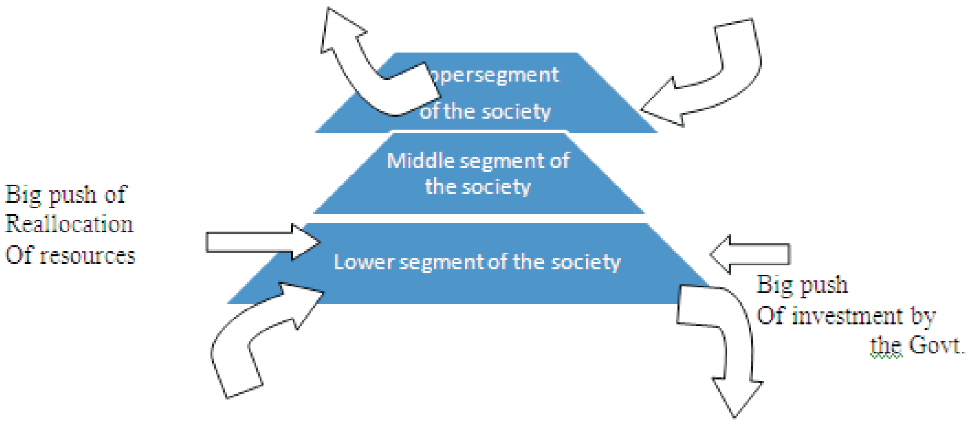


There are two markets in any economy namely financial market and good market. The overall development of the country is depending on the working of these two markets and proper coordination within them. Here we are just considering the Banks which is core part of the financial market and specially the supply of credit.

Before presenting model for financial inclusion it would be better to explain the logical linking in the model that can present with the help of bottom of pyramid hypothesis

Bottom of Pyramid Hypothesis of Financial Inclusion (Chart no.2)

High investment →	High income
High credit	High saving
High Security → Principle of lending works out	High Security → Principle of lending works out
High capital formation	High credit
High saving	High investment
High income	High income



Low income	Low income
Low investment	Low saving
Low access of credit	Low capital formation
Low security ⟶ Principle of lending works out	Low security ⟶ Principle of lending works out
Low capital formation	Low access of credit
Low saving	Low investment
Low income ⟵	Low income

Principle of lending = (Risk and credit worthiness inverse relationship)
i.e 1. High risk- low credit supply (low assets hoarder section of the society)
2. Moderate risk- moderate credit supply (medium assets hoarder section of the society)
3. Low risk- high credit supply (High security or asset hoarder section of the society)

Before presenting model for financial inclusion it would be better to explain the logical linking in the model that can present with the help of bottom of pyramid hypothesis

Why financial exclusion prevails in bottom of pyramid?

It is clear from above pyramid that the poor section which is very large in nature do not have the formal access of credit because they do not possess any real assets. The income is epicenter of this tragedy. They do not have sufficient income and sources to generate income and create assets. This tragedy starts from income and again ends to income. So it is nothing but vicious circle of exclusion.

Only opening no-frill accounts is not enough to bring this excluded population in to main banking stream. Along with that bank should ready to offer credit to those people who are not hoarded any assets. In present banking system loan is issued only those people who have some permanent income or sufficient security. Unless and until changing this basic principal of lending we will not be able to break vicious circle of exclusion.

Public investment plays very significant role in income generation. Therefore government has to invest in infrastructure, industry and agriculture sector. Foreign aid, FDI and foreign portfolio investment are also needed. To attract these external incomes generative financial forces government has to ensure stability, security with growth and conducive environment. No doubt that in this regard the Modi-Government is marching very satisfactorily. The scheme like “Make in India” and 100 percent FDI permission in Indian railway will definitely give good results in future in terms of employment generation and GDP growth. However, government should be very careful about our sovereignty while taking such a decision.

V. CONCLUSION

By considering the fact which is depicted in chart no.2 government has to adopt some income generation based policies. Since there is heterogeneity in the country, government has to implement different policies to the different sections of the society by considering the regional requirements so that they can able to generate income and possess some assets. The injection of the investment should be given to the bottom population. This big investment push will lead to achieve financial inclusion and consequently inclusive growth. The second big push of reallocation of the resources is urgently required. It is possible with the proper implementation of land holding act and ceiling on land holding. But it requires strong political will power which is not found in country like India. Therefore unless and until resources are not reallocated the dream of inclusive growth cannot be come to reality.

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