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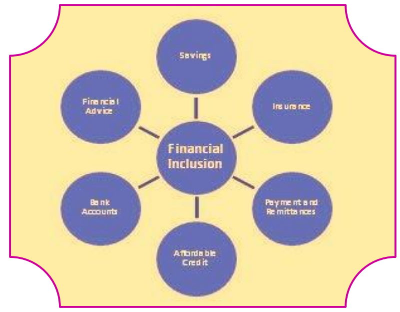
FINANCIAL INCLUSION IN INDIA FOR THE GROWTH OF INCLUSIVE PEOPLE



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ABSTRACT

Saving & credit form two very vital inputs for development. Bank & financial institution including insurance companies & mutual funds must adopt & implement policies aimed at bringing in to their told all individuals & all section of people. Who are outside at present? Indira Gandhi nationalized bank in 1969 in order to involve them in the efforts of the state at economic development. She desired banks to adopt inclusive undoing policies to ensure that all productive & developmental efforts of people: including those of the poorest of the poor were funded by banks. Indira Gandhi had the objective of achieving economic empowerment of all sections of people including the weaker sections. The launching of 20 point economic programme. DIR scheme & implemented during her time were in fact clear expression of her resolve to mate wending & financing efforts of banks more & more inclusive. The poorest of the poor should also be enabled to save something however small such saving may be. The poor & weaker sections of people should also be enabled to own some financial assets however small they may be a savings bank account, a small RD (Recurring Deposit) an insurance policy for a small amount, a small go some way in a mutual fund etc. will surely go some way in empowering a poor family. There is also urgent need to adopt & implement more & more inclusiveness in the matter of extension of housing finance to ensure inclusive housing programmes in the country for realizing the goal of housing for all.

KEYWORDS: *Financial inclusion, inclusive growth.*

INTRODUCTION

Financial inclusion of all individuals & all sections of population is very vital from the point of view of ensuring inclusive growth of national economy. Adoption & implementation of inclusive practices by all banks & financial institution & also by insurance companies & mutual funds will go a long way in bringing about financial inclusion of all those who presently stand financially excluded.

Financial inclusion refers to the process of bringing in to the financial & banking fold all those who are outside & giving them opportunities to utilize various banking & financial services at affordable cost. According to United Nations an inclusive financial sector is a financial sector that provides access for credit for all bankable people & forms & saving & payment services to everyone. According to Asian Development Bank Financial inclusion refers to provision of broad range of financial services. Such as deposit, loans ,payment services, money transfer, and insurance to the poor &low income households & their micro enterprises To facilitate the use of various banking & financial products & services by all it is necessary that they must be made available at affordable cost.

RESEARCH METHODOLOGY:-

This study is based on a review of key literature and descriptive analysis of secondary data.

OBJECTIVES:-

1) To highlight the important financial inclusion initiatives of RBI.
2) To highlight various effort of financial inclusion in India for the growth of inclusive people.

HYPOTHESIS:-

1) Financial inclusion a need for the growth of inclusive people.

- **Financial Exclusion Reason:-**

The existing financial exclusion of large number of individuals & various sections of society is due to a variety of reasons. Some of the important reasons are the following:-

1) Non-availability of a bank branch in the area.
2) Risk aversion on the part of bank staff. Many staff members are scared to allow the poor & weaker section people to open account & become customers because of the fear that they many poor people do not that they may later on demand loans
3) Another reason for exclusion is that many poor people do not perceive any advantage or benefit for them by opening an account at the bank branch
4) Some people avoid opening account with a bank for fear of high charges
5) The last reason is strategic exclusion of specific sections people by banks. As a matter of strategy. Some banks want to exclusive some sections of people Because of the above reasons; we find the existing financial exclusion.

- **Financial inclusion initiatives of RBI:-**

Several measures have been taken by both the Reserve bank of India & the government to bring the financially excluded people to the fold of the formal banking services. The important financial inclusion initiatives of RBI are given below:

- Introduction of 'No frills' account.
- Relaxing Know your customer (KYC) Scheme.
- General purpose credit card (GCC) Schemes.
- Role NGOs, SHGs, & MFIs.
- Business facilitator (BF) & Business correspondent (BC) Models.
- Nationwide Electronic Financial Inclusion system (NEFIS)
- Project financial Literacy.
- Financial Literacy &credit counseling (FLCC) centers.
- National Rural Financial Inclusion Plan (NRFIP).
- Financial inclusion found (FIP).
- Financial Inclusion Technology Fund (FITF).

The status of financial inclusion in India has been assessed by different committee interms access to basic banking services by poor & weaker sections.

The Eleventh five year plan (2007-12) envisions inclusive growth as a key objective. The inclusive growth implies an equitable allocation of resources with accruing to very section of society it is aimed at poverty reduction, human development health & provides opportunity to work & be creative Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India in to the mainstream. One of the best ways to achieve inclusive growth in through financial inclusion

The RBI & NABARD have supported the propagation of micro finance considerably through the SHG Bank linkage programme (SBLP)& have designed incentives to support micro finance institution in forming Joint liability Groups (JLGs). Commercial Banks are incentivized to land to micro finance institutions (MFIs) by placing MFIs under pobrity sector lending (PSL)& PSL requirements mandate banks to ensure that 40% of their aggregate net banking credit goes to stipulated sectors that considered important to faster financial inclusion.

Self Help Group Bank Linkage programme (SBLP):

Designed & developed by the NABARD to promote & link Self Help Groups (SHGs) to banks in 1992. As on March 2011 NABARD has provided Rs. 25.45 billion to banks covering their lending to SHGs. around 4.82 million SHGs received loans from banks with an outstanding amount Rs 306.27 billion while 7.54 million SHGs have been linkage to the banking system(6). Deposit this growth in the number of SHGs being linked with banks it is reported that there is almost no growth in loans in rural terms as the average disbursed loan per SHG has declined in real terms from Rs 84.500 in 2010 to Rs 8,000 in 2011. In addition, it also reported that compared to that previous year, the SBLP had underperformed during the year 2011-1012. (8)

Women SHGs Development Fund:

The union Budget 2011 -2012 has proposed to set up a women's SHGs Development Fund with a corpus of Rs 500 crore. The GOI created this fund to empower women & promote their SHGs 11& it is operated by NABARD through its two major microfinance funds – Financial Inclusion Fund (FIF) & the Financial Inclusion Technology Fund.

The FIP primarily supports capacity building inputs to services providers, resource centers, training institutions. Financial institutions as well as promoting & nurturing SHGs. This fund will also support pilot projects for development of innovative products, processed &prototypes for financial inclusion. Likewise FITF promotes technology innovation & solutions as well as research relating to technological intervention for financial inclusion.

Table: - 1

State	% of Indebted farming Households In total Rural Households.		% of Indebted d farmer Household by sources of Loan		% of Distribution Outstanding loan sources.
	All Source	Formal	In Formal	Formal	In Formal
1.	2.	3.	4.	5.	6.
Andhra Pradesh	82	54	77	31.4	68.5
Arunachal Pradesh	6	14	103	26.9	73.1
Assam	18	15	88	37.5	62.6
Bihar	33	23	84	41.7	58.5
Chhattisgarh	40	66	56	72.4	27.7
Gujarat	52	63	49	69.5	30.5
Haryana	53	76	50	67.6	32.5
Himachal Pradesh	33	57	65	65.3	34.7
Jammu & Kashmir	32	9	94	67.6	32.3
Jharkhand	21	44	60	64.1	35.9
Karnataka	62	57	55	68.9	31.2
Kerala	64	96	40	82.3	17.6
Madhya Pradesh	51	64	66	56.9	43.0
Maharashtra	55	92	30	83.8	16.2
Manipur	25	6	99	18.2	81.9
Meghalaya	4	2	97	6.0	94.0
Mizoram	24	33	67	77.3	22.6

Nagaland	37	20	79	68.8	31.1
Orisa	48	68	46	74.8	25.1
Punjab	65	58	70	47.9	52.1
Rajasthan	52	38	81	34.2	65.8
Sikkim	39	18	89	57.8	42.2
Tamil Nadu	75	59	67	53.4	46.5
Tripura	49	46	55	79.7	20.3
Uttar Pradesh	40	47	70	60.3	39.7
Uttaranchal	7	65	44	76.1	23.9
West Bengal	50	51	73	58.0	42.1
Group of UTs	51	42	71	59.0	41.0
All India	49	56	64	57.7	42.4

Note: Formal & informal is more than 100 percent because borrow from multiple sources.
Sources: - Calculated from NSSO (2005).

Table: 2

	Size Class of land owned							
State	<0.01	0.01-0.40	0.40-1.00	1.01-2.00	2.01-4.00	4.01-10.00	10.00+	All Sizes
Formal Sources								
Andhra Pradesh	16.9	19.3	25.1	26.6	41.5	48.6	49.5	31.4
Bihar	36.5	20.8	47.0	66.1	63.4	19.6	70.1	39.2
Maharashtra	58.3	83.2	80.2	78.8	83.8	88.7	91.1	**83.8**
Orissa	64.7	62.4	77.1	72.1	88.4	96.9	13.2	**74.8**
Punjab	24.8	29.2	65.6	49.1	61.2	47.5	30.1	**47.9**
Tamil Nadu	19.1	37.4	46.0	61.5	65.2	74.3	82.9	53.4
All India	22.6	43.3	52.8	57.6	65.1	68.8	67.6	57.7
Informal Sources								
Andhra Pradesh	83.2	80.9	75.0	73.4	58.4	51.4	50.5	68.5
Bihar	63.5	79.2	53.0	33.8	36.6	80.4	29.9	58.5
Maharashtra	41.6	16.8	19.8	21.1	16.2	11.3	8.9	16.2
Orissa	35.4	37.5	22.8	27.9	11.7	3.2	86.8	25.1
Punjab	75.2	71.0	34.5	50.9	38.8	52.4	70.0	52.1
Tamil Nadu	80.9	62.5	53.9	38.6	34.7	25.7	17.2	46.5
All India	77.4	56.7	47.2	42.4	34.0	31.2	32.8	42.3

Sources Calculated from NSSO (2005).

Table 1 also gives another distribution by formal & informal sources (col 5 & 6). This gives distribution of outstanding loans by sources. The table indicates that if a farmer's outstanding loan is Rs 100, around Rs. 57.7 is from formal sources & Rs 42.4 is from informal sources. These percentages provide interesting information at the state level. For example, the percentage of loans from formal sources in Chhattisgarh, Jharkhand, Orissa & utter Pradesh is more than 60 percent & higher than that of all India. On the other hand, only 31 percent of loan is obtained from formal sources in Andhra Pradesh. Therefore, the source of loan is important for examining the extent of financial inclusion.

Another issue is the inclusion of credit for small & marginal farmers. Table 2 shows that the share of formal loan sources increase with the share of formal loan sources increase with the size of land. At the all India level, the share of loans formal source varies from 22.6 percent to 58 percent for small & Marginal farmers, while it varies from 65 to 68 percent for medium to large farmers. Dependence of small & marginal farmers on informal sources is high even in states like Andhra Pradesh, Punjab & Tamil Nadu. For example, small & marginal farmers of AP obtain 73 percent to 83 percent of their loans from informal sources. This indicates very low financial inclusion for Andra Pradesh. The NSS data also show that across social groups. Indebtedness through formal source is lower for scheduled tribes as compared to others.

Similarly, there are many financially excluded households such as unorganized workers, self-employed. Artisans & other vulnerable groups in both rural & urban areas.2 finance for housing is another area where many poor are excluded.

It is being increasingly recognized that addressing financial inclusion requires a holistic approach addressing both supply and demand side aspects. Although there has been significant expansion in banking in the last few decades. There are many supply side problems. For commercial banks RRBs & cooperative Bank. Some of the criticisms on the trends in rural credit in the 1990s are

a) Narrowing of the branch network in rural areas.
b) Fall in credit deposit rations in rural areas.
c) Disproportionate decline in agriculture credit to small & marginal farmers.
d) Worsending of regional inequalities in rural banking steepest decline in credit deposit ratio in eastern & northern state.

CONCLUSION:-

This achieving inclusive growth is a priority for Indian current government India possesses excellent resource, but its economic and inclusive growth can only continue if leaders from the public and private sectors rise to the challenge of putting these resources in the hand of those who need them while some level of growth is obviously a necessary condition for sustained poverty reduction, and strong average growth been accompanied by a sharp reduction in poverty. The evidence is clear that growth by itself is not a sufficient condition. Growth does not guarantee that all persons will benefit equally growth can bypass the poor or marginalized groups, resulting in increasing inequality high and rising level of income inequality can lower the impact on poverty reduction of a given rate of growth, and can reduce the growth rate itself.

High inequality also has implications for partial stability and social cohesion needed for sustainable growth;hence, reducing inequality has become a major concern of development policy, a concern that has generated interest in inclusive growth developing social safety part of policies for inclusive growth. The nets to prevent extreme poverty should also be an important inclusive growth area is the core public services, where many improvements yet to done and credit better condition for private investment to crowd in so that challenge posed by the economic slowdown can be better tackled in term of increased, inclusive and job oriented growth.

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