FINANCIAL INCLUSION: A BOON TO DEVELOPING ECONOMIES

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Abstract

The growth and development of a country largely depends largely on the level of development of the financial sector. In a country of over 121 Crore people, the availability of financial services and products to all is a challenge that cannot be met in one day. Also, financial inclusion is a less known and less discussed dimension of the economy. Hence, highlighting those efforts which have been made in this direction are important and noteworthy.

Keywords: Financial Inclusion, financial exclusion, inclusive growth.

Introduction

CRISIL defines financial inclusion as "The extent of access by all sections of society to formal financial services, such as credit, deposit, insurance and pension services". A committee on financial inclusion headed by Dr. C Rangarajan in 2008 defined financial inclusion 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." Chakrabarty, K.C. (2011) "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. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development."

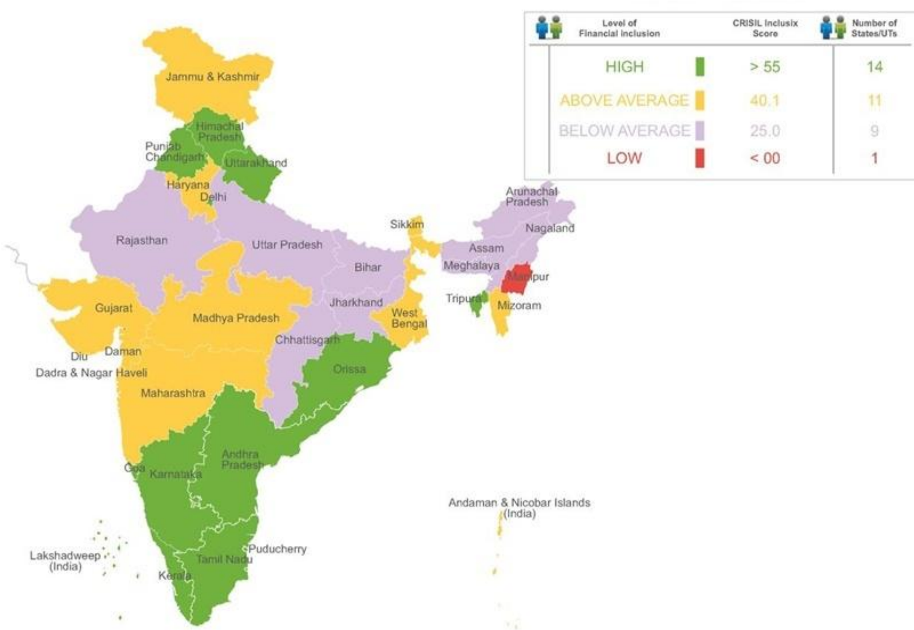
According to the *UK Financial Inclusion Taskforce*, there are three main concerns in financial inclusion; access to banking, access to affordable credit and access to free face-to-face financial advice. The term *'Financial Inclusion' is defined as an extension of banking and financial services at an affordable cost to unbanked people of the community*. Unlike financial inclusion, 'Financial Exclusion' signifies the lack of access (by the economically poor and unbanked people of society) to appropriate, low-cost, fair and safe financial products and services.India, a fastest growing economy with focus on inclusive growth recognizes the need of financial inclusion and has accordingly started preparing strategies to cater to all sections of the population in the country. The Reserve bank of India (RBI) and Government has been actively participating in the field of eradicating poverty and achieving financial inclusion.

Literature Review

- Chakrabarty, K.C. (2011) propounds the need of financial inclusion. The access to finance is now perceived as a public good in most of the developing countries. It is considered as an important and basic requirement. Greater financial inclusion is considered as an essential for entire national financial systems. The concept of financial inclusion has a greater significance for developing economy like India. Financial inclusion enables the country to bring the large segment of the productive sectors of the economy under formal financial network. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings rates at one end and expansion in credit and investment by banks on the other end.
- Friedline, T., (2012) owning a saving accounts by children will enhance the likelihood of children maintaining relationship with financial institutions at their later stage of life. However gaining access to savings accounts depends on socio-economic status of their parents. The author makes an attempt to explore the case for extending financial inclusion to children by improving access to basic financial services. This approach may offer a numerous economic benefits, especially among those children whose parents have limited financial resources. Policy innovations that open savings accounts for children may be a valuable strategy to trigger increased savings behavior that can continue in later stages of life and lead to improved financial outcomes over the long-term."

- Mehta, S., & Shah, P., (2014), Modi government have hit upon a curious idea to offer an overdraft (OD) facility of Rs 5,000 by the bank with which the unbanked people open an account. The government has agreed to provide credit guarantee to the lender for providing OD facility and has set up a Rs 1,000-crore credit guarantee fund that would be 'budget neutral' on the exchequer and funded by NABARD. The OD offer is part of 'Sampoorn Viteeyea Samveshan' (SVS), which is a comprehensive scheme for financial inclusion. SVS will mainly cover six broad areas — ensuring every district with 1,000-5,000 households has access to banking services within 5 km by March 2016; provide financial literacy; provide basic banking for all beneficiaries of government schemes by March 2016; an overdraft of Rs 5,000; micro insurance and pension scheme for the unorganized sector.
- Gandhi, R., (2015) economic growth, universal education and financial inclusion are the biggest priority of India since Independence. Even after many efforts in the past 60 years, progress on the aspect of financial inclusion has not been satisfactory. According to RBI "financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players." RBI, Deputy Governor, S S Mundra in a speech reveals that, "according to census 2011, out of 24.67 crore households in the country, only about 14.48 crore or 58.70 % households had access to banking services. Further, of the 16.78 crore rural households, only about 9.14 crore or 54.46 % households were availing of banking services." Further, "The World Bank Findex Survey (2012) points out that only about 35% of Indian adults had access to a formal bank account and a meager 8% borrowed formally in the last 12 months." The author expresses the need of new method ensuring financial inclusion. He describes financial literacy as the biggest component of finical inclusion. Financial inclusion without financial literacy has no meaning as the stakeholders cannot grasp the benefits/ risks associated. India is a young country and its large young population is more groomed to technology like the mobile, computer and the Internet and hence effective use of technology is very much essential for creating financial literacy.

The below map clearly depicts the level of financial inclusion in the various states of India. The southern region is more financially inclusive, the central being average and the northern region depicting below average financial inclusion.



Map: 1 State-wise financial inclusion in India

Source: CRISIL Inclusix - An index to measure India's progress on financial inclusion Volume - III | June 2015

Objectives of the Study:

- To understand the concept of financial inclusion.
- To list the various government initiatives with respect to financial inclusion.
- To analyse the government initiatives with respect to financial inclusion.

Research Design and Methodology

The objective of the paper is to understand the concept of financial inclusion and to analyse recent government initiatives towards financial inclusion. The secondary data has been used from various sources to achieve the proposed objectives.

Analysis of Recent Initiatives by Government to Promote Financial:

1. **MUDRA Bank:** It was launched formally on April 8, 2015 but was initially announced in the union budget of February 2015. MUDRA stands for Micro Units Development and Refinance Agency Bank. It is a public sector financial institution set up to provide low interest loans to Small manufacturing unit, Shopkeepers, Fruit and vegetable vendors , Artisans etc. the loans given under this scheme are categorized as:

   - **Shishu :**loans up to Rs. 50,000
   - **Kishore:** loans up to Rs. 5 lakh
   - **Tarun:** loans up to Rs. 10 lakh

   In his Budget speech on February 29, 2016, Arun Jaitley happily announced the success of ongoing scheme , an amount of Rs 1 lakh crore was sanctioned to 2.5 crore borrowers by February 2016 under the PM Mudra scheme and has proposed an increased allocation of Rs 1.80 lakh crore for the same.

2. **Pradhan Mantri Suraksha Bima Yojna:** It was launched on May 9, 2015. It is one amongst the many insurance schemes launched by the Modi Government. It is available to people of age 18 – 70years. Under this scheme a lump sum of Rs. 2 Lakh will be given for accidental death and that of Rs. 1 Lakh in case of partial disability of person.
   The response under (personal accident) has been very strong. More than 9.2 crore people have enrolled for the scheme. Until two years back, just 17 crore people were covered under personal accident insurance.

3. **Pradhan Mantri Jeevan Jyoti Bima Yojana:** It was also launched on May 9, 2015. It is a term insurance which gives a cover of Rs. 2 lakh to the dependent in case of death of the policy holder. The premium amount is Rs. 330 per month.Over the past year, about 3 crore policies have been issued under PMJJBY scheme (life insurance). This is more than the 2.6-odd crore new life policies issued in whole of 2014-15.

4. **Atal Pension Yojana:** As the name suggests, it is a pension scheme providing a pension ranging between Rs. 1000 to 5000 per month. The investment will range from Rs. 42 to Rs. 291, depending on the age of the investor which must be between 18-40 years and he must invest upto 60 years of age. Around 15.85 lakh people have registered for the Atal Pension Yojana so far.

5. **Pradhan Mantri Jan Dhan Yojana:** Having achieved the coveted title of the Guinness World Records for the most number of bank accounts opened in a week (1.5 crore on the inauguration day) under a financial inclusion scheme. Under this scheme a bank account can be opened with no minimum balance. (Statistics as on **9 March 2016**) A total of **21.22** Crore bank accounts have been opened with a total deposit of a huge **Rs. 34260.07 crores** with only a meager 28.02% being zero balance accounts.

6. **Gold Monetization Scheme:** It was launched on November 5, 2015 to lure gold from individual households into the banking system. The minimum quantity of gold to be deposited is 30 grams with will earn an interest between 2.25% to 2.50% the tenure of the gold deposit is minimum one year. "Under the scheme 1,131 kilograms of gold valuing Rs 3,014 crore have been deposited by 71 depositors so far," Minister of State for Finance Jayant Sinha said in a written reply to Lok Sabha, as on February 26, 2016.

Conclusion:

The paper shows the current statistics of financial inclusion in India and highlights the schemes of the Modi government to bring about a raise in the level of financial inclusion. The schemes range from insurance to opening of no minimum balance bank accounts. The paper also outlines the various different approaches and ideas related to financial inclusion. One of the most prominent one being from the paper Asset Building Program -The Case for Extending Financial Inclusion to Children by Terri Friedline, University of Kansas School of Social Welfare, which explains how extending the habit of saving and using financial products must be inculcated in children at a very early age. This should be irrespective of the socio-economic conditions of the parents to increase the total level of financial inclusion in the country. The paper also highlights the importance of financial inclusion and how financial inclusion is necessary for public good and specifically in developing countries.

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