Knowledge Consortium of Gujarat
Department of Higher Education - Government of Gujarat
Journal of Commerce and Management
ISSN: 2279 - 225X

Continuous issue-14 | May - August 2015

ROLE OF GOVERNMENT IN FINANCIAL INCLUSION

INTRODUCTION:

Providing financial access to the poor by connecting them with banks has always been an important priority for the Government of India (GOI). The process of economic growth especially when it is on high growth line, must attempt to take participation from all sections of society. Lack of access to financial services for small/marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries.

India's commitment to financial inclusion goes back several decades and has been led by the Reserve Bank of India (RBI) and the Indian government. In the last decade, the RBI and the Indian government have introduced several policies that seek aggressively expand access to formal financial services, mainly banking services for low-income, rural residents. Though a variety of entities such as mobile phone companies, retailers and cooperatives have entered the financial services market in India. The government and the RBI have primarily directed financial inclusion through policies and directives to private and public banks. India's financial markets have been historically bank-led.

The Government of India and the Reserve Bank of India have been making intensive efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting Business Correspondents and Business Facilitators to be appointed by banks to provide door step delivery of banking services, zero balance Bank saving and Bank Deposit accounts etc. The fundamental objective of all these initiatives is to reach the large sections of the previously financially excluded Indian population.

Financial inclusion may be defined 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 Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

REVIEW OF LITERATURE:

Naveen Kumar H, S.J. Manjunath, Arun Kumar G (2012), conducted a study to know the measures taken by the banks for financial inclusion, to examine the difficulties involved in the adoption of financial inclusion and also to enhance the extent of financial inclusion. The data required for the study was collected from both primary and secondary sources. The total number of samples was 50. The study was conducted among the banks in Chamarajanagar District. Major findings of the study were that financial inclusion becomes a major prerequisite to poverty alleviation. And for that the Reserve Bank of India's vision for 2020 was to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. However, the improper repayment needs for an additional workforce, time consumption, high cost and illiteracy were continuing to be a road block to financial inclusion in many areas. Consequently, many banks were not adopting full-fledge financial inclusion plan. The banks should step up to overcome all these problems and to spread its service to remote areas. The banks should encourage the people to access banking services by ways of no-frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the aim of the 11th plan of Inclusive Growth. However, the researcher feels that unless the benefits of inclusion in formal financial economy are made understood to the people, complete financial inclusion is very difficult.

(RBI 2012 – 2013) The Reserve Bank has taken steps to strengthen the credit delivery mechanism and financial inclusion by changing the guidelines for priority sector lending and trying to bring excluded people, both rural and urban, under the coverage of institutional finance. It is now an established fact that without access to formal finance at an affordable cost, inclusive growth is not possible. In order to provide credit to the productive sector, which has the potential for employment generation, the Reserve Bank has taken a host of measures including revising the priority sector lending guidelines, which have been in existence since the 1970s. Apart from providing credit under this scheme, the Reserve Bank has adopted a policy of providing credit through multiple channels, *viz.*, involving self-help groups (SHGs) and microfinance institutions (MFIs), expanding the scope of the business correspondence (BC) model, simplifying procedures and processes for micro and small enterprises (MSEs) and adopting information and communication technology (ICT) solutions for greater outreach and lower transaction costs.

(RBI 2013 - 2014) As per RBI's annual report 2013-2014, The Reserve Bank in pursuit of its commitment to financial inclusion had taken several initiatives to expand the reach of formal banking facilities to all. The roadmap to provide banking outlets in unbanked villages with less than 2,000 populations had been drawn and allotted to banks. Acknowledging the problem of financial exclusion in metropolitan cities, the Lead Bank Scheme was extended to 16 metropolitan districts. Having created a robust infrastructure for promoting access, the focus of the next stage of the financial inclusion plans was on stepping up usage of bank accounts. RBI policies had already enhanced financial inclusion by addressing imperfection in the supply of financial services and increasing demand for financial services through financial literacy initiatives that raised awareness and lead to the more responsible use of finance. The Reserve Bank had taken various steps to improve a flow of credit to all the productive sectors of the economy. The main challenge was to bring those sections of society that were financially excluded into the scope of the formal financial system. Various initiatives had been taken in this area including the rollout of financial inclusion plans (FIPs), enhancing the scope of the business correspondent (BC) model, improving credit delivery procedures with respect to the micro and small enterprises (MSE) sector and encouraging the adoption of information and communication technology (ICT) solutions**.**

OBJECTIVES OF THE STUDY:

- To study the measures steps taken by the government for financial inclusion in India.
- To understand the approaches adopted by the government, and various government initiatives to achieve financial inclusion.

METHODOLOGY:

The secondary data has been used from various sources to understand the role of Government and Reserve Bank of India in promoting Financial Inclusion. The descriptive and empirical studies are used to understand the role of RBI in achieving full financial inclusion in India.

INITIATIVES FOR FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India has developed a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. The Government of India has made the strategies to use the banking system as an important agent of change for the economic development of the country. However, the most policies were formulated after Independence. The Reserve Bank of India recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. Finally, RBI with cooperation of government played a critical role to recognise and modify applicable the policy framework from time to time to and ensure that the financial services needs of various segments of the society were met satisfactorily (RBI, 2008)

PROGRESS TILL 1990

The government of India had taken several initiatives even before 1990. The main initiatives were nationalization of private sector banks, an introduction of priority sector lending norms, the Lead Bank Scheme, branch licensing norms with a focus on rural/semi-urban branches. There were special interest rate ceilings for credit to the weaker sections and creation of specialized financial institutions to cater to the requirement of the agriculture and the rural sectors have a bulk of the poor population. In 1967, the Government of India had announced that the policy of social control over banks with a view to securing a better alignment of the banking system with the needs of economic policy. Then 1968 the National Credit Council was set up in February with the main objective of assess periodically the demand for bank credit from various sectors of the economy and to determine the priorities for grant of loans and advances. However, the social control of banking policy was soon implemented by the nationalization of major Indian banks. After successful implementation of social control policy, the immediate tasks set for the nationalized banks were a mobilization of deposits on a massive scale and lending of funds for all productive activities. Finally, government and RBI had emphasized on providing credit facilities to the weaker sections of the economy.

In the year of 1982 the National Bank for Agriculture and Rural Development (NABARD) was set up with the goal to provide refinance to the banks extending credit to agriculture including for Regional rural bank, to provide the credit requirements of the rural poor (RBI, 2008)

GOVERNMENT INITIATIVES: FINANCIAL INCLUSION BEING ONE OF THE COMPONENTS

Swarnjayanti Gram Swarozgar Yojana (SGSY): It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

Since the inception of this program in 1999, approximately 3.13 million groups have been formed. However, only 0.92 million groups are reported to be having outstanding loans from banks in March 2008. The loan size in the SGSY is reported to be higher than normal SHGs, but SGSY groups have been faring poorly in repayment rates. It has been reported that non-performing assets (NPAs) in SGSY loans are at 5.72 % compared to NPAs of all groups of SHGs of 2.9 %. Even though some improvements were seen during the year 2010-2011, Banks are still reluctant to lend to SGSY groups due to issues with group quality and in certain cases, faulty selection of livelihood activities such as cottage industries set up without ensuring a market linkage to sell the products.

National Rural Livelihood Mission (NRLM): Established in June 2010 by the Ministry of Rural Development (MoRD), GoI, it is modelled on the current poverty alleviation program being implemented in Andhra Pradesh under the name Indira Kranti Patham (IKP).

The key strategies of NRLM are to:

• Implement the program with greater emphasis on federations of SHGs
• Provide flexibilities to states for designing specific action plans for poverty alleviation,
• Introduce interest subsidy for encouraging repayments of loans and provide multiple doses of credit
• Improve training and capacity building efforts by setting up skill training institutes in each district
• Facilitate market linkages and
• Improve monitoring and evaluation process.

Even though NRLM indicates that there will be an emphasis on the creation of federations of SHGs, the clear role for the federations of SHGs as financial intermediaries has not been indicated.

The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS): This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. As the payments are made through the bank/post office accounts, in 2010-11, nearly 10 crore bank/post office accounts have been opened.

Aadhaar- Unique Identification Authority of India (UIDAI): The GoI has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the GoI. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhaar number will also enable people to have access to services such as banking, mobile phone connections and other government and nongovernment services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrolment with Aadhaar without going to a bank. The individual will be able to access such bank accounts through a micro-ATM network with large geographic reach.

Swabhimaan: A financial security programme was launched by the Central Government to ensure banking facilities in habitation with a population in excess of 2000 by March 2012. This nationwide programme on financial inclusion was launched in February, 2011 with its focus on bringing the deprived sections of the society in the banking network to ensure that the benefits of economic growth reach everyone at all levels.

This campaign ensures to provide the following services to the Rural India:

- Promises to bring basic banking services to unbanked villages with a population of 2000 and above.
- The movement facilitates opening of banks accounts, provide need-based credit and remittance facilities besides helping in promoting financial literacy in rural India.
- The program is aimed at increasing the demand for credit among the millions of small and marginal farmers and rural artisans who will benefit by having access to banking facilities.
- This financial inclusion campaign aims at providing branchless banking services through the use of technology.
- Banks provide basic services like deposits, withdrawals and remittances using the services of Business Correspondents (BCs) also known as Bank Saathi.
- The initiative also enables Government subsidies and social security benefits to now be directly credited to the accounts of the beneficiaries so that they could draw the money from the Business Correspondents (BCs) in their village itself.
- The Government hopes that the benefits of micro insurance and micro pension products reach the masses through this banking linkage.
- This programme now makes it possible for the large number of migrant workers in urban areas to remit money to their relatives in distant villages quickly and safely.
- The facilities provided through banking outlets will enhance social security by facilitating the availability of allied services in course of time like micro insurance, access to mutual funds, pensions, etc.
- Banking facilities like Savings Bank, recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques will be provided.

- The Banks are also working together with the Unique Identification Authority of India (UIDAI) for enrolment, opening bank accounts and also to facilitate transfer of government subsidies and other payments.

Pradhan Mantri Jan-Dhan Yojana:

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is national mission for financial inclusion to ensure access to financial services, namely, banking/savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner.

Comprehensive financial inclusion based on two phases has proposed to be achieved, phase I (15 August, 2014 - 14 August, 2015), government want to provide universal access to banking facilities, providing basic banking accounts for saving, payment and RuPay debit card with inbuilt accident insurance cover of Rs 1 lakh and RuPay card, financial literacy programme. Phase II (15 August, 2015 - 15 August, 2018) , government want to take imitative for Overdraft facility of up to Rs 5000/- after six months of satisfactory performance of saving/credit history, creation of credit guarantee fund for coverage of defaults in overdraft accounts, micro-insurance and unorganized sector pension schemes like Swavalamban.

As on 31st, January 2015, 12.54 crore accounts have been opened out of which 7.50 crore accounts are in rural areas and 5.04 crore in urban areas. 11.07 crore Rupay debit cards have been issued till 31, January 2015.

CONCLUSION:

There is a significant national as well as global focus on inclusive growth. The Financial Stability and Development Council (FSDC) headed by the Finance Minister mandated to focus on financial inclusion and financial literacy. All financial sector regulators including the Reserve Bank of India are committed to the mission and directing the banking sector and other financial sector entities. If government is advocating any kind of sustained development and stability whether financial, economic, political or social and inclusive growth with stability, it is not possible to attain these goals without achieving financial inclusion.

Overall, Government has taken several initiatives to include the unbanked part of the population. As Dr. K.C. Chakrabarty, Deputy Governor of RBI rightly puts it, “financial inclusion is the road that India needs to travel towards becoming a global player.” While there is no perfect model for financial inclusion, the government programmes have been evolving and measures are being actively carried out with anticipation that these initiatives are moving towards the right direction.

REFERENCES:

1. Reserve Bank of India annual report 2013-14.
2. Reserve Bank of India annual report 2012- 13.
3. Kumar, N., Manjunath, S., & Kumar, A. (2012). Role of banks in achieving financial inclusion. *VSRD International Journal of Business and Management Research, 2*(10), 518-520.
4. Dixit, R., & Ghosh, M. (2013). Financial Inclusion for Inclusive Growth of India – A Study. *International Journal of Business Management & Research, 3*(1), 147-156.
5. Shafi, M., & HawiMedabesh, A. (2012). Financial Inclusion in developing Countries: Evidences from an Indian State. *Canadian Center of Science and Education, International Business Research, 5*(8), 116-122.
6. Dhar, D. (2012). Banking Reforms for Financial Inclusion: Performance of Selected Indian Banks. *Amity Management Review, 2*(2), 34-39.
7. Ramaratnam, M., & Jayaraman, R. (2013). A Study on - Financial Inclusion - Role of Indian Banks in Reaching Out to the Unbanked and Backward Areas. *International Journal of Applied Research and Studies, 2*(9), 1-20.
8. Dept. of Financial Services. Retrieved July 23, 2015, from http://www.financialservices.gov.in/banking/financialinclusion.asp
9. http://pmjdy.gov.in/ scheme_detail.aspx

****

Nilesh M Patel
Assistant Professor
Sal Institute of Management, Ahmedabaad.

Dr. Akash Patel
Assistant Professor
Pandit Deendayal Petroleum University, Gandhinagar