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FINANCIAL INCLUSION: AN IMMINENT CHOICE IN RURAL INDIA

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Abstract:-It is true that resources are scarce in nature and a regime which optimizes these resources to the fullest will achieve supremacy in this ever shrinking globe. The developing nations which showed tremendous speed and recovery in their growth processes have gone flat in last three years indicating the saturation level of the demand and market size. The markets in urban areas have been pushed to the limits and it is the rural market which holds a key for unlocking the growth potential of major economies of the world. The rural market which now achieves a fore is completely rudimentary in their tastes, needs and preferences. Hence, Financial Inclusion seems to be the most powerful and handy tool with most political regimes in their efforts to streamline respective economies. This paper is divided into two sections. The first section compares India with respect to other developing nations on the question of financial inclusion. The second section compares Indian states on parameters shaping up the index of financial inclusion.

Keywords: Financial Inclusion, Rural Market, Inclusive growth, Index of Financial Inclusion .

INTRODUCTION

Most countries have a major chunk of their population heavily rooted in poverty or live just around poverty line. Poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. The large numbers from Rural and semi-Urban are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty. Accordingly, there is a need for policy shift in channelizing the financial resources towards the economic upliftment of poor in any developing economy.

LITERATURE REVIEW:

Financial Inclusion and Development policy

A World Bank Report defines financial inclusion as a “Broad access to financial services, which is further defined as an absence of price or non-price barriers in the use of financial services.” Rangarajan Committee (2008) on financial Inclusion states that it is 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 a range of services like savings, loans, insurance, credit, payments, etc.

There are enough evidences to prove and justify that a sound and well established financial system can act as major poverty alleviating tool. A poorly developed financial system means huge

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costs, lesser economies to the common man, investor and a budding entrepreneur. These burdens include informational asymmetries, transaction costs, and contract enforcement costs, compounded by lack of collateral, credit histories, and contacts.

Roshny Unnikrishnan et. al (2012), analyzed in their study "Enabling Financial Inclusion at the bottom of the Economic Pyramid", the importance of financial inclusion in economic empowerment. The study stated the importance of social inclusion in relation to financial inclusion and also by reinforcing the importance of self sustenance at the bottom of the economic pyramid.

OBJECTIVES OF THE STUDY:

1. To compare India with other nations with respect to financial inclusion
2. To gauge the extent of financial inclusion in India

RESEARCH METHODOLOGY:

The Research Design is descriptive in nature and secondary data has been used to arrive at conclusion. The secondary data has been availed from the World Bank, IMF, RBI sources. The sampling collection procedure has been non probability sampling technique combining a mix of judgmental and convenience sampling.

Section 1: India and the World

The status of financial exclusion in India is still very high as compared to many developed and some of the major emerging economies . The extent of financial exclusion can be summed up by considering the parameters which usually provide an index of financial inclusion.

Considering the developed nations with India, one can clearly say that no matter whatever has been done in this realm, still a lot has to be achieved keeping in mind the ever rising importance of a new middle class. India is mostly rural in its very essence. The needs of India vary from the needs of the people in developed nations. What hurts Indian people most are the stringent conditions in the use of credit. The credit turnover is low which slows up the rate of growth and development. People in India however still see the banks as a place where they could save.

Table 1: Parameters of Financial Inclusion

Country	Geographic Penetration		Demographic Penetration	
	No of bank branches per 1000 sq km	No of ATMs per 1000 sq km	No of branches per 100,000 people	No of ATMs per 100,000 people
Korea	65.02	436.88	13.40	40.03
U.K	45.16	104.46	18.35	42.45
India	22.57	-	6.30	-
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.80
Russia	0.19	0.53	2.24	6.28

Source: World Bank, Financial Access Survey (2010).

India lacks with respect to geographic and demographic penetration. On the other hand countries like Norway, Sweden and Denmark , UK ,USA have done exceedingly well in the field of financial inclusion and hence there is a strong case of further growth. People in any part of the world should have an access to at least a basic savings product and a bank branch.

Table 2: Parameters of Financial Inclusion

		(Per 0.1 Million Adults)		(As per cent of GDP)	
Sl. No.	Country	Number of Branches	Number of ATMs	Bank Credit	Bank Deposits
1	India	10.91	5.44	43.62	60.11
2	Austria	11.81	48.16	35.26	32.57
3	Brazil	13.76	120.62	29.04	47.51
4	France	43.11	110.07	56.03	39.15
5	Mexico	15.22	47.28	16.19	20.91
6	UK	25.51	64.58	467.97	427.49
7	US	35.74	173.75	46.04	53.14
8	Korea	18.63	250.29	84.17	74.51
9	Philippines	7.69	14.88	27.57	53.02

Source: World Bank, Financial Access Survey (2010).

Some of the basic indicators making up the index of financial inclusion are the number of branches per 0.1 million adults, number of ATMs per 0.1 million adults, bank credit as a percent of GDP, Bank credit as a percent of GDP. India stands nowhere when compared to countries like France, USA, UK seems a remote possibility as the common access to a basic bank account and credit product is still missing in rural areas. The bank credit turnover as percent of GDP still lags behind the benchmark countries and hence slow and sluggish rate of growth doesn't seem to be a surprising feature in India.

Section 2: Extent of Financial Inclusion in India

Even a lot of disparity exists among the different states and regions with respect to financial inclusion. A possible reason is the difference in levels of income and financial literacy. Also political ideologies and geographical patterns necessitate a different blueprint altogether for achieving inclusive growth.

Table 3: Growth in branches state wise

States	2002		2009	
	Rural	All branches	Rural	All branches
Andhra Pradesh	2,434	5,152	2,393	6,536
Arunachal Pradesh	56	68	50	76
Assam	816	1,229	786	1,377
Bihar	2,503	3,546	2,350	3,825
Chhattisgarh	715	1,043	654	1,217
Goa	158	326	161	407
Gujarat	1,550	3,666	1,487	4,339
Haryana	700	1,519	690	2,149
Himachal Pradesh	657	779	729	950
Jammu & Kashmir	576	816	547	973
Jharkhand	983	1,445	973	1,705
Karnataka	2,199	4,737	2,166	5,768
Kerala	346	3,297	331	4,053
Madhya Pradesh	1,940	3,445	1,756	3,958
Maharashtra	2,306	6,281	2,148	7,555
Manipur	43	78	35	80
Meghalaya	130	179	125	201
Mizoram	61	78	55	93
Nagaland	37	70	36	86
Odessa	1,613	2,223	1,653	2,689
Punjab	1,115	2,534	1,123	3,255
Rajasthan	1,886	3,310	1,756	3,900
Sikkim	36	47	46	71
Tamil Nadu	1,809	4,740	1,708	5,890
Tripura	120	179	110	213
Uttar Pradesh	4,874	8,121	4,807	9,658
Uttarakhand	526	837	571	1,083
West Bengal	2,277	4,415	2,311	5,023
All-India	**32,588**	**65,906**	**31,695**	**79,779**

Note: All-India includes figures for UTs.
Source: Branch Banking Statistics, vols 2 and 4, Reserve Bank of India (2002 and 2009), website (http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Branch Banking Statistics, accessed on 6 September 2013).

The above figure points out that north eastern states haven't made a lot of progress. Hence speeding up the banking of these regions should be a policy priority in case of most governments. It becomes necessary to open up more branches and services in these areas because a large part of the area is still inaccessible and needs to be connected to avail and achieve the benefits of inclusive policy.

Table 4: Status of Financial Inclusion

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13	Progress April 10 - March 13
1	Banking Outlets – Rural Branches	33378	34811	37471	40845	7467
2	Banking Outlets – BCs	34174	80802	141136	221341	187167
3	Banking Outlets - Other Modes	142	595	3146	8424	8282
4	Banking Outlets –TOTAL	67694	116208	181753	270610	202916
5	Urban Locations covered through BCs	447	3771	5891	27124	26677
6	BSBD Accounts (No. in lakh)	734.53	1047.59	1385.04	1833.30	1098.77
7	OD facility availed in BSBD Accounts (No. in lakh)	1.83	6.06	27.05	39.42	37.59
8	KCCs (No. in lakh)	243.07	271.12	302.35	337.87	82.43
9	GCC (No. in lakh)	13.87	16.99	21.08	36.29	22.28
10	BC-ICT Accounts (No. in lakh)	132.65	316.30	573.01	810.38	677.73
11	ICT Accounts-BC-Total Transactions (No. in lakh)	265.15	841.64	1410.93	2546.51	4799.08

Source : RBI Annual Report 2013

The above table points out that much of the progress in India in case of financial inclusion has been made in last three years and a steady progress is on the offering keeping in mind the current trend.

CONCLUSION

Financial inclusion has tangible consequences which can help resource crunch people to access the formal financial services in order to pull themselves out of abject poverty. The focus on the common man is particularly imperative in India as he is the more often the ignored one in the process of economic development. Indeed, with the process of financial inclusion, the attempt should be to lift the resource poor from poverty through coordinated action amongst the banks, the government and other related institutions in order to facilitate access to bank accounts and other related services.

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