FINANCIAL INCLUSION FOR INCLUSIVE GROWTH AND SUSTAINABLE DEVELOPMENT

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Abstract

The inclusive financial system is an important component for economic and social progress on the development agenda. The Government of India has also been embracing financial inclusion as an important development priority. However, a significant percentage of households in India are still found to be financially excluded. The purpose of this piece is to focus on the persistence of financial exclusion which is a serious obstacle to economic and social development in India. It calls for an inclusive growth with financial inclusion.

KEY WORDS: Financial Inclusion, Financial Exclusion, Inclusive Growth.

I

Introduction

There is no denying the fact that Okay; we are the fastest growing economy in the world outstripping China. What is the reality? India now faces a serious challenge of dealing with financial exclusion despite statistically being the world's fastest growing economy. The main argument of this piece is that India, despite of the current hype about its economic growth, face rather economic problems at present especially with respect to the financial inclusion. The benefits of growth are unequally and regressively distributed. The period of high growth era has been financially less inclusive. The high rates of overall economic growth have not rally trickled down to the marginalized section. On August 15, 2014, Modi announced his new mission of PradhanMantri Jan DhanYojana (PMJDY) as a unique scheme of financial inclusion. The main objective of the scheme is to make banking facilities available to all households in India.ThePradhanMantri Jan DhanYojana scheme has been hailed as a huge success, having already covered almost 100 percent of households. In fact, PMJDY has entered the Guinness Records for opening the highest number of bank accounts in the shortest time anywhere in the world. The Prime Minister NarendraModi deserves praise for the speed at which these accounts have been opened — and the scheme has already found its place in the global records. However, the twin issues that come up repeatedly are those of account duplication and account dormancy. The account duplication and dormancy have seriously affected the JDY's mission. The growing number of account duplication, dormancy and unclaimed saving accounts call for a sweep change in the policy towards financial inclusion. Moreover, a single panacea for financial inclusion such as opening 'no-frill accounts' is unlikely to deliver desired outcomes. So, when we are talking of financial inclusion, a serious effort should be initiated to correct the policy distortions. I strongly argue for a truly inclusive growth and financial inclusion. The financially inclusive policy must be the central concern of the policy maker. No amount of repairing with

the system will solve the problem unless there is a basic change in policies. The paper is an attempt to explore this critical issue.

II

We first look at the notion of "financial exclusion". The term "financial exclusion" has a broad range of both implicit and explicit definitions. The term was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). The term financial exclusion has been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999). Quite a large number of critics have also added their thoughts of how financial exclusion should be defined. These include both academics (for example, Anderloni, 2003; Anderloni and Carluccio, 2006; Carbo et al, 2004; Devlin, 2005; Gloukoviezoff, 2004; Kempson et al, 2000; Sinclair, 2001); and policy makers (Treasury Committee, 2006a, 2006b; HM Treasury, 2004). Research carried out and discourses held among experts in European Commission (2008), leads to the following definition: "Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong". Thus, Financial Exclusion in short means "No Savings, No Insurance, No access to money advice, No affordable credit, No Bank account and No assets". It is, however, important to acknowledge that financial exclusion is not an absolute concept (excluded or not) but a relative one, rather like poverty, with degrees of exclusion (European Commission, 2008). People vary in their extent of engagement with specific services (e.g. transaction banking where we have both the unbanked and the marginally banked). And they also vary in the number of types of financial products to which they can gain access. Today, 2 billion adults are excluded from the formal financial system. Financial exclusion is greatest among poor people and in emerging and developing countries, including the rural households that account for more than 70% of global poverty. This hampers people's ability to earn, protect themselves in times of crisis, and to build for the future. In addition, more than 200 million small- and medium-sized enterprises in emerging markets alone lack access to finance, limiting their ability to grow and thrive.

In summary, the evidence supports that inclusive financial systems is an important component for economic and social progress on the development agenda. The G20 made the topic one of its pillars at the 2009 Pittsburgh Summit (G20 2009). By fall 2013, more than 50 national-level policy-making and regulatory bodies had publicly committed to financial inclusion strategies for their countries (World Bank 2013a, AFI 2013). And the World Bank Group in October 2013 postulated the global goal of universal access to basic transaction services as an important milestone toward full financial inclusion—a world where everyone has access and can use the financial services he or she needs to capture opportunities and reduce vulnerability (World Bank 2013b).

The debate on financial exclusion also begins to be active in India. The experience in India is, however, more complex. The banking industry has shown tremendous growth in volume and

complexity during the last few decades. Despite making significant improvements in the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services (NABARD, 2016). This is characterized as "financial exclusion" in India. Those people, particularly, persons living on low incomes, cannot access mainstream financial products such as bank accounts, low cost credit, remittances and payment services, financial advisory services, insurance facilities, etc. A recent study which analyzes income related inequality in financial inclusion in India using a representative household level survey data, linked to State-level factors shows that financial exclusion is disproportionately higher among the relatively poor households compared to their richer counterparts. Nonetheless, a significant percentage of rich households in India are also found to be financially excluded.(Pal,R and Rupayan Pal,2012).In countries with a large rural population like India, financial exclusion has also a geographic dimension as well. Inaccessibility, distances and lack of proper infrastructure hinder financial inclusion. Vast majorities of population living in rural areas of the country have serious issues in accessing formal financial services.

III

Financial inclusion, thus, has become an issue of serious concern in India in recent years. By financial inclusion, we mean delivery of banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups. However, the term financial inclusion is perceived in different ways under different contexts. There is a view that only access to credit is treated as financial inclusion whereas the other view includes all the services extended by the financial institutions. There is substantial evidence that financial inclusion promotes growth. In country like India, inclusive financial development can play a crucial role in moving households out of poverty – indirectly by stimulating growth and directly by providing savings and credit services to the poor. It is well documented that the direct effect of inclusive financial development on poverty reduction is stronger than its indirect effect through accelerating growth, and the benefit of financial development for the poor is greater than the associated cost (Dollar and Karray (2002, Jalilian and Kirkpatrick (2005), Honohan (2004), Beck et al. (2007), Odhiambo (2009, 2009b) and Littlefield et al (2003).

Financial Inclusion has been an important policy concern of the Government of India. The objective of Financial Inclusion in India is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular Several measures were taken in the past, such as mandating banks to lend to small-scale industries, agriculture sector and to small borrowers; opening of bank branches in rural areas; introduction of Lead Bank Scheme; the 20- Point Economic Programme and the Integrated Rural Development Programme. While over the years the government has taken several steps to tackle financial

exclusion, none of the above measures, however, have had much impact. As per the findings of RBI's 2009 High Level Committee, the Lead Bank Scheme has been a failure since a large section of the rural population and the urban poor do not have access to banking facilities. Public sector banks routinely fail to achieve their targets of loans to the agriculture sector. In the name of reforms, banks have been allowed to close rural branches.

In August, 2014, Indian Prime Minister Narendra Modi launched an ambitious financial inclusion program, Pradhan Mantri Jan Dhan Yojana, or PMJDY. The core objective of the program is to ensure that every citizen has a bank account and a debit card. It has been hailed as a huge success, having already covered almost 100 percent of households. In fact, PMJDY has entered the Guinness Records for opening the highest number of bank accounts in the shortest time anywhere in the world. Though this bank account coverage is impressive, only a small portion of account holders are transacting with banks or using debit cards. The Modi Government has been projecting the PMJDY as a unique scheme of financial inclusion. The PMJDY hype too unravels when we see the enormous percentage of zero-balance accounts. As on 31st March, 2016, of the accounts opened at public sector banks (PSBs) under the Jan DhanYojana, nearly 28 per cent are zero-balance, against 40.34 per cent for private banks.(GOI,2016). Among the key structural bottlenecks that come in the way of transaction and card use is the lack of banking and ATM infrastructure. Most villages do not have ATMs. In case of North east region, as of 4 May 2016, 94.66 lakh new accounts have been opened, with a balance of Rs. 2042.63 cr. Of this, 25.96 lakh accounts have zero balance. It means that they are lying dormant. They are not going to get the promised insurance cover & overdraft facility. Various estimates put the cost of maintaining a zero-balance account at anywhere between Rs. 100 to Rs. 150 per year. With 25.96 lakh JDY bank accounts being dormant in North east , maintaining these zero-balance accounts may cost the banks that signed them up anywhere between Rs. 26 – 38 cr. per annum.

TABLE 1: PRADHAN MANTRI JAN - DHAN YOJANA
(Accounts Opened as on 30.03.2016)

(All Figures in Crores)

Bank Name	**Rural**	**Urban**	**Total**	**No Of Rupay Cards**	**Aadhaar Seeded**	**Balance In Accounts**	**% Of Zero-Balance-Accounts**
Public Sector Bank	9.43	7.42	16.85	14.32	8.04	28139.17	27.74

Bank Name	Rural	Urban	Total	No Of Rupay Cards	Aadhaar Seeded	Balance In Accounts	% Of Zero-Balance-Accounts
Regional Rural Bank	3.26	0.54	3.79	2.69	1.16	6178.12	23.15
Private Banks	0.48	0.30	0.79	0.74	0.30	1354.72	40.34
Total	13.17	8.26	21.43	17.75	9.50	35672.01	27.39

Source: GOI(2016)

TABLE 2: PRADHAN MANTRI JAN - DHAN YOJANA: NER

(Accounts Opened as on 4.5.16)

PMJDY: STATEWISE ACCOUNT OPENING AS ON MAY 4, 2016				
States	**Account**	**Deposits**	**Zero Balance**	**Adhar seeded**
Manipur	**606816**	**93.64**	**152746**	**184438**
Assam	**7341553**	**1460.22**	**2083773**	**316331**
Arunachal	**131376**	**29.35**	**38661**	**15996**
Meghalaya	**262588**	**72.2**	**69117**	**4389**
Mizoram	**171211**	**11.31**	**62422**	**3010**
Nagaland	**160514**	**31.74**	**59106**	**37251**
Sikkim	**76183**	**19.26**	**20846**	**57509**
Tripura	**715531**	**324.91**	**109480**	**511254**
NE	**9465772**	**2042.63**	**2596151**	**1130178**
India	**217407386**	**37,445.07**	**5,73,02573**	**97259690**

Source: Same as Table 1

IV

India has a huge challenge on its hands, in terms of designing and putting in place, a healthy agenda that facilitates mechanisms for inclusive growth and financial inclusion. Problem of inclusive growth and financial inclusion has a sharp regional dimension. There is no denying the fact that the process of socio-economic transformation has already started in the country. However, the process has been too slow particularly in peripheral region. The period of high growth era has been less inclusive for these regions. The high rates of overall economic growth have not rally trickled down to the peripheral areas. When the problem of regional disparities and financial exclusion are combined, the problem assumes yet another dimension. The worst sufferers are common people.

The penetration of bank branches in rural India is low, too. Reserve Bank of India, the nation's central banking institution, continues to push public and private sector banks to open more branches in rural areas. The **accompanying figures** capture the picture of financial sector exclusion. It is seen that the share of bank branches in rural areas was declined from 58 per cent in 1990 to 37.83 per cent in 2016(Table 2).

TABLE 2: BANK BRANCHES IN INDIA (1990-2015)

Year	Rural	Total	Rural share (%)
1990	34791	59752	58
1995	33004	62367	53
2000	32734	65412	50
2005	32082	68355	47
2010	32554	88441	37
2011	33813	93799	36
2012	35653	99884	36
2013	37953	102343	37
2014*	45293	117630	38.50
2015*	48557	125857	38.58
2016 *	49902	132587	37.63

*** As on 31st March**

Source: RBI (2012;2015; 2016)

As per Census 2011, 58.7% households (67.8% urban & 54.4% rural) are availing banking services in the country. Thus, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system. This situation is further intensified by the problem of financial exclusion in the form of outright crash of rural credit-deposit ratio, plunge in the number of small borrowers' accounts of less than Rs 25,000, closure of rural bank branches, increasing concentration of banking business in the top 100 deposit centers of the country etc. All these banking developments show the slow progress of banking and resultant low level of financial outreach in rural and peripheral areas. Given the low penetration of bank branches and bank's reluctance to open branches in unbanked and under banked areas citing high costs and low returns, RBI in 2011 mandated that banks will have to open 25 percent of new branches proposed to be open in a year in unbanked rural areas. In the same year, the central bank asked banks to develop a roadmap for financial inclusion and get a board approved plan for the same. In current year Reserve of India has announce a big plans to reform India's financial sector as chief bank of India. Financial Inclusion: One of recent development in India banks is increase to use of technology, banks has taken a steps to use technology increasingly to bring financial services to millions of un-banked people in smaller and rural areas. Dealing with financial distress: few have been already taken and working further to accelerate the working of debt recovery tribunals and asset reconstruction companies so that bad loans sitting on Indian banks are processed quickly. This will help to banks lend more money to financially healthy companies that need money. Indian's First Woman Bank "Bahrtiya Mahila Bank (BMB)" was inaugurated on 19th Nov, 2013. This bank is completely managed by women. This bank has focused on lending predominantly to woman and companies that focus on woman's activities/product but there is no restriction on deposits by men.

Recently Reserve bank of India has taken application to issue a license for set up new private banks in India. The RBI is likely to issue more than ten new banking licenses by 2016. RBI expects new banks to take the lead in achieving a greater financial inclusion, enhancing rural banking facilities, reaching priority sector lending targets and ushering in technology innovations in banking industry. The Reserve Bank of India has asked the Scheduled Commercial Banks to open brick and mortar branches in villages with a population of more than 5000, which currently have no banking facilities. The Central Bank has asked banks to submit a roadmap on the number of branches they will be opening by 31 March 2017. Banks will have to submit the roadmap by end of January 2016. Opening of the branches in such villages will enable banks to provide quality financial services and timely support to Banking Correspondent (BC). It has been observed that coverage of banking services in unbanked villages is skewed towards the BC model and the ratio of branches to BC is very low. For increasing banking penetration and financial inclusion, brick and mortar branches are an integral component (RBI, 2016).

V

Conclusion

In sum, the major challenge faced by the Indian Banking and Financial sector is that the level of financial exclusion in India is alarming and there is an urgent need to find a plausible solution to

the same. It is true that financial inclusion is an important policy pillar of the NarendraModi government to ensure inclusive development (sabkasaath, sabkavikas). What it means, in brief, is to mainstream financial services for the masses, especially credit at affordable costs from institutional sources. Realising the importance of financial inclusion, the government took a bold step by introducing the Jan DhanYojana (JDY). The government deserves praise for the speed at which these accounts have been opened — and the scheme has already found its place in the Guinness Book. So far, 21.43 crore bank accounts have been opened, and more than Rs35,672crore deposits received under JDY. However, the real challenge is to prevent these accounts from remaining dormant.The growing number of dormant and unclaimed saving accounts call for a sweep change in the policy towards financial inclusion where the programmes aiming at empowering the people to raise their capability to increase the demand for financial services should also be incorporated. Moreover, a single panacea for financial inclusion such as opening 'no-frill accounts' is unlikely to deliver desired outcomes. Like today's financial inclusion strategy centered on one principal tool of opening no-frill accounts, the main lacunae of the earlier policies was also the one-size-fits-all approach of expansion of institutions geographically and functionally (Mukherji, 2010).So, when we are talking of financial inclusion, a serious effort should be initiated to correct the distortions that have already crept in weakening the concept of financial inclusion and priority sector lending (Maisnam,C.,2016). I strongly argue for a truly inclusive growth and financial inclusion so that inequality in the distribution of banking organization is lessened. The financially inclusive policy must be the central concern of the policy maker of the country. The long term objective should be the financial inclusion of all persons through the banking system.

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