



FINANCIAL INCLUSION AND POVERTY ERADICATION; A THEORETICAL PERSPECTIVE

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ABSTRACT

India is a developing country, the aim of the government is to make sure that the basic infrastructure of the country, be it physical or financial, is strong and the benefits are available across all sections of the population. The millennium development goals were set in order to achieve a sustainable and balanced growth, through eradication of poverty, hunger, removal of inequalities, provision of health services etc. For achievement of the goals it is important to strengthen the economic structures of the country. Banks have acted as a catalyst in fortifying the financial system of the country. The idea of financial inclusion has been promoted in order to include the entire population in the ambit of financial services and provide benefits of such services even to the rural and backward areas. After the recession, it is all the more important for the developing countries, like India, to gain economic strength and self-reliance, so that no external downturn affects their development. The major proportion of India's population is still residing in the rural areas. For the development of these areas, it is very important to develop self-employment and entrepreneurship. This can be enabled by a large network of micro finance institutions, which can provide financial assistance to the enterprises. This will increase the level of employment, thus leading to eradication of poverty which is one of the important millennium development goals. The paper attempts to highlight the role of banks and financial institutions in promoting microfinance facilities in the country, which can provide services that enable people to uplift their quality of life. The focus will be on the challenges and opportunities of microfinance in India. The paper will also include suggestions to strengthen the structure of microfinance, so that it can be instrumental in promotion and attainment of developmental goals and ensure economic stability in the country.

Keywords: Eradication of poverty, financial inclusion, Economic structures

INTRODUCTION

The economic development of any country will depend upon the balanced growth of all the sections of population. The benefits of all the policies and schemes should reach out to all the areas of the country, be it backward or rural. This will ensure provision of better facilities and infrastructure to all the people, thus helping them in following their aspirations and living a better quality life. Unfortunately, India still has around 22 % population below poverty line, About 70 % of the population belong to the rural areas, many of them face the problem of underemployment and unemployment. For many years, the unorganized financial system has been functioning in the rural and backward areas which restrict the access of the rural population to the formal financial services, which can change the quality of life and give them financial security and riskless investment. As per a report of the United Nations, about 3 billion people in the world are not able to access the financial services (UN, 2007a; Chibba, 2008a, c). In developing countries, the number of financially excluded is extremely high. Financial Inclusion is defined by the RBI

groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions."

Since the nationalization of the banks in 1969, there has been a constant effort from the side of the government to establish more and more branches to increase the network of banks. Even after spreading the branches all across the country, there were certain class of people who were not able to take the advantage of the formal financial system. Apart from the banks there are many Non Banking finance company like Swadhaar which is a micro finance institution for the urban poor. It is providing small loans to about 90,000 clients in 2 states of India. Many people have benefited by taking small loans and using this money to start off a small venture which can provide them self employment and a better life. There is a very large market of the poor and low income community, A city may have many banks, ATMs, but in the same city there can be a population, which is still surviving on cash economy, since it is not included in the formal banking system. There are many women, especially those who are not well resourced to carry out their own work neither can they go out and work. Such inclusion gives them a new hope of earning and making a life for themselves. The idea is to

"as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable

build a self-supported India by making every individual whether, belonging to the middle or upper middle class or even the poor sections of society self-reliant and involved in income generating activities.

There is a need to develop the financial institutions not only for the people who are already using the services, but to introduce it to the huge numbers who are still not able to derive any benefit and are depending on the unorganized financial sector, which does not offer much to them. The relationship of the borrower in the unorganized sector, be it with the money lenders, or relatives is generally abusive and does not lead to any productive outcome, rather there is a lot of exploitation which is faced by the deprived class.

RangDe is India's first social investing platform, which distributes low-interest loans to micro entrepreneurs across the country. Most of the people don't even have a bank account who are seeking financial help. This organization here, is connecting social investment and micro credit to provide higher inclusion. A small sum of money as less as 1000 can be loaned out. There are about 300 million people who are poor; they don't have access to credit. So the idea of micro finance would be to supply micro credit to communities who don't have access to it. They can make money by starting some small business. The loans are provided at lower rates at around 9.5%, although the RBI has suggested rates of interest at around 26%. The country has been growing at a fairly high rate of growth in the past five years say roughly 8%, and a major share of this growth is attributed to the agriculture and service sector. There is an immense potential for growth, if the SME and the rural areas are given a chance to develop along with the developed part of the country, and are introduced to the formal system of banking, credit and other financial services like insurance, remittances etc.

OBJECTIVES OF STUDY

- To highlight the importance of financial inclusion in Indian economy with respect to poverty eradication.
- To highlight the opportunities of microfinance in India, which can help the people get the advantage of financial services
- To understand the challenges, which are a hurdle in the spread of financial inclusion
- To suggest the measures, that can be taken to make the process of financial inclusion more comprehensive and effective.

FINANCIAL INCLUSION IN INDIA

In 1947, RBI conducted a survey on Rural Credit, wherein it was found that the share of banks in the total rural credit was only about 1%, the major proportion being bagged by the money lenders. As per the reports available, around 139 districts in the country are financially excluded. The poorer the group, the greater is the exclusion (Rangarajan, 2007). The efforts of the government to increase financial inclusion has been immense. To ensure the participation of large number of people, especially the poor, the scheme of the cash transfer

subsidy was launched, which requires the beneficiary to hold a bank account if he wants to avail the benefits of the scheme. The account holders will also be required to hold the Aadhar card. In order to promote the banking services and make it more popular, the RBI has made many amendments in the procedure to be followed in opening a bank account. To have more people in to the banking regime, the rules of KYC (Know your Customer) have been relaxed by the banks for small deposits. The facility of nil balance or low minimum balances have been allowed to people for low income groups. The banks also have to print materials which give full information about the facilities to the people in the local language. There was a proposition to install Micro ATMs, The Unique Identification Authority of India (UIDAI) has launched a micro ATM device that would enable beneficiaries like MG-NREGA workers with Aadhaar to withdraw money near their doors through core banking system. This was to ensure that the poor or low income wage earners also get to use the banking service without going much distance; also it was seen as a big step towards financial inclusion.

Apart from the above measures, the services of NGO and Business correspondents (BC), were taken in order to spread the network of financial services. The services of the BC can enable the banks to spread their network without establishment of formal branches at each location. Apart from this the (GCC), General Purpose credit card facility was also introduced in order to provide the holder with the drawing limit of 25,000 from the banks, i.e. a financial assistance was provided through these cards. The banks have also used the services of their agents, NGOs and village volunteers to promote the advantages of bank accounts to each household, to create an awareness and spread financial literacy. The information to the people are provided through websites and other modes of advertisement also. A multilingual website in 13 Indian languages on all matters concerning banking and the common person has been launched by the Reserve Bank on 18 June 2007. The following table shows the coverage of the banking network across various regions of the country.

The data clearly shows that still a lot needs to be done in order to enhance the coverage of financial services across all sections of the population. In the monetary policy statement of 2013-14, there had been special provision for credit delivery to MSME and financial inclusion. The banks are advised to open up bank accounts based on Aadhar numbers for the beneficiaries of direct benefit transfer. Along with this, a plan has been formulated for 2016. The implementation of the Financial Inclusion Plan (FIP) 2010-13, introduced for the first time in April 2010, has led to the establishment of banking outlets in more than 2 lakh villages. In order to take financial inclusion to the next stage of providing universal coverage and facilitating Electronic Benefit Transfer (EBT), banks have been advised to draw up the next FIP for the period 2013-16. Thus now IT intervention is also planned for the future of financial inclusion, like bio metric recognition, smart cards, etc.

Table 1: Coverage of Banking Services across Various Regions of India
(Ratio of Demand Deposit Accounts to the adult Population)

Region	Current Account	Saving Account	Total Population	Adult Population (Above 19 years)	Total No. of accounts	No. of acc. per 100 of population	No. of acc. per 100 of adult population
Northern	4215701	52416125	132676462	67822312	56631826	43	84
North-Eastern	476603	6891081	38495089	19708982	7367684	19	37
Eastern	1814219	47876140	227613073	122136133	49690359	22	41
Central	2202217	64254189	255713495	129316677	66456406	26	51
Western	3178102	49525101	149071747	86182206	52703203	35	61
Southern	4666014	83386898	223445381	135574225	88052912	39	65
All-India	16552856	304349534	1027015247	541031553	320902390	31	59

Source K Mohammad & Sridhran P. *Microfinance: The Challenges and Opportunities in Rural India*, December 2012, <http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/67557.pdf> accessed on 24th Oct.'2012

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FINANCIAL EXCLUSION IN INDIA

There are a few sections of the Indian population that are excluded from the financial services and organized financial system. The major composition of such excluded population are marginal and landless farmers, people residing in hilly or geographically distant areas, urban slum dwellers, socially down trodden and senior citizens, who do not have a formal income source. The rural areas specifically, face the problems of exclusion especially the women. The reason for such exclusion can be as follows:

- It is a challenge to set up bank branches in areas which are difficult to access and geographically difficult to tap, like the hilly and distant areas of the north east. Although the intervention of tourism has made a lot of difference,

but still there are many regions which are away from such facilities.

- The procedures and formalities which have to be followed in the formal financial system always are a matter of concern for those who are illiterates, or those who do not have enough documents related to their identity and residence with them. This causes most of the people to drift from the formal system and move towards unorganized financiers like money lenders who are more familiar and provide loans with less formalities and documentation.
- The low income and asset holding of people also make it difficult for them to access the formal system of financing.

Microfinance is a very important part of financial inclusion. It is through the help of micro credit that many people who do not have any source of livelihood can start off with some small self employment venture, which can help them in earning a livelihood. There are many micro finance institutions which are either set up by the banks or the NGOs which give financial assistance to those who need a small amount of money.

MICROFINANCE AS A TOOL TO ERADICATE POVERTY

The first Millennium Goal is that the number of people living in extreme poverty (defined as those living on less than \$1 per day) will be reduced by half between 1990 and 2015. The term micro finance include bank accounts, micro credit, insurance and other essential financial services which can enable the improvement in quality of life and access to the financial system. The developing countries have a huge population

which is financially excluded. In India, 22 % population is below poverty line, which means they are poor, not only in terms of money, but also in terms of education, health and social security. This becomes a vicious circle which must be broken down. Micro finance has come up as a very important tool which can eradicate poverty. About 80 million households in India are below poverty line and it has been found as per the world bank report that around 80% of them do not have access to formal credit. The commercial banks, regional rural banks and the NGOs together have tried to increase the number of people, by encouraging formation of SHGs to get in a habit of saving their money in a formal way, even if it is a small amount. The corpus of fund so created, can be used to give loan to the members of the SHGs for meeting their small requirements.

Many instances can be cited where the provision of such micro financial services have given livelihood to people who were below poverty line and not able to even get one square meal a day. Swayam Krishi Sangam (SKS) is a microfinance institution that operates in rural India, designed based on the Grameen Bank model. To quote a case, a widow in Gangapur was finding it difficult to carry out her household expenses, the main occupation being that of making woolen blankets. Later, she took a loan of Rs. 2,000 from the SKS and got more sheep wool to make more blankets. This increased her household income. This made her life better and got more money in the family. Similar story was of a lady who had taken a small loan, though which she purchased a generator, this generator was rented out for marriages and other purposes, which fetched her enough income to pay back the loan. The borrower is generally able to generate more income and is also able to pay back, and then take additional loan in order to increment the already increased household income. This way he eventually comes out of his financially distressed situation.

These and many more stories are there, where the exposure to micro credit has helped the poor especially women to get assets like sewing machine, fishing nets domestic animals like hen and buffalos, which can give them some source of livelihood and improve their monetary condition. The main role of micro financial institution is of providing services like deposit, remittances, credit and insurance, which has added to the welfare of the people. The shift of savings from unorganized to formal sector like banks have allowed greater returns and flexibility of their funds. The outreach of the SHG-Bank Linkage program has enabled more than 41 million poor household to gain access to micro finance from the formal banking system, registering a 24-per cent growth over 2005-06 (The Hindu Business Line, 28 Nov., 2007).

The success of the micro finance scheme will fill the gap between the demand and supply of credit amongst the weaker sections of the society who have no access to any financial system, apart from the zamindars or chit fund. The increase in the household income also ensures exposure to education and better health and nutrition in those areas, where the dominance is of poverty and destitution. Micro finance schemes empowers those who have some idea of what they

have to do and make them self reliant, especially women by providing them loans and formal payment systems.

CHALLENGES IN THE SPREAD OF MICRO FINANCE

In India poverty is a great challenge in itself. The measures to remove poverty have never been 100% effective, since there are many policy related as well as geography related flaws. The poor regions can be identified and focused attention can be put to these areas. Micro finance is one such strategy which can be applied in a tailor made form in different regions of the country. Yet there are many bottlenecks which make financial inclusion through micro finance a challenge.

1. The availability of the micro finance institution in the backward and rural areas is a major challenge. The banks have to take the services of NGOs and people from the village or local areas because, they can connect with the local people more effectively. The institutions have to face many obstacles before they can establish themselves as full-fledged micro finance institutions or banks which can provide the financial services without any infrastructural bottlenecks.
2. The financial illiteracy amongst the people is also a matter of concern for the government. There are many villages and rural areas where people are still not aware of advantages of a bank account, financial service or formal financial set up. They find the unorganized money lenders to be more approachable and understandable. This also creates an obstacle in the popularity of the micro financial institutions.
3. The dominance of illiteracy causes the rural people to drift from more of documentation. Almost all the financial institutions which are set up by banks demand basic identity proofs and documentation which may or may not be available with the people of rural areas. The banks have already adopted the bio metric system in many cases, yet the procedures or formalities that they have to carry out is a major obstacle in attracting more people towards them.
4. The cost of financing in the micro finance institutions is high as per the RBI guidelines i.e 24 – 30 %, so instead of borrowing funds from the institutions the people find the local sources more cost effective, since they are not very stringent about the mode of payment. For them it is easy to get a loan from a local zamindar or money lender. This is another bottleneck. Although organization like Rang de have reduced the interest rates to a huge extent through their innovative financial strategy.
5. The downtrodden and poor people do not have much to offer as collateral, neither do they have much income to service the interest and other charges of the banks. The faith on the banks reduces, since it requires a lot of formalities and procedures. The flexibility is provided to them by the unorganized sector, since they get loans in exchange for work or may be some piece of land without much paper work or documentation. So although they end up in a vicious circle of debt and abuse they still find

flexibility in the loans taken from these units which are more scattered and unorganized.

OPPORTUNITIES FOR MICRO FINANCE IN INDIA

Indian economy is developing at a fast rate. About 70% of the population is residing in the rural areas, where the main occupation is agriculture. Unfortunately agriculture is now a sector which is not growing at a fast rate. The contribution of agriculture towards the GDP is going down. This is because there is a dominance of landless and marginal farmer. The problem of segmented and divided land has given rise to lower productivity and income. The rural areas do have a lot of potential that must be tapped so that there is comprehensive growth in the economy. Micro finance institutions can use this as a stepping stone and try to establish their units in areas which are having high potential for development. The promotion of SME in the areas can totally change the situation. The access of small loans in these areas can help the farmers in fetching basic raw materials for better crop. Although there are many schemes under which the farmers can be aided. Micro financial institutions can also help in empowering the situation of women in these areas. The provision of bank account insurance and remittances can be a huge market for the banks since most of the people in the rural areas do not have any idea how to save and invest in a productive channel. The establishment of banking units can enable them to save and contribute towards the capital formation by channelizing these small savings. The household income can be diverted towards development of economy as well as their own security.

The banks can also hire agencies, NGOs and other media in order to promote their purpose of making formal sector of finance more popular. The NGOs can connect at the grass root level and convince the people about the relevance and importance of adopting a more trusted source of finance, along with other social messages. The NGOs can act as facilitators to form and support the SHG. It is also a fact that the NPA level of the SHGs is also very low. The on time recovery touches to almost 90% in case of micro credit given to SHG. Hence, there is a very huge population still waiting to be included in the ambit of financial services. There is a huge market potential which has to be tapped, which can not only develop the financial system but also make economy more strong.

SUGGESTIONS

The government has always tried to intervene and encourage the spread of the financial inclusion in the country, since there is a dire need to include the people from all walks of life and economic status to become a part of the formal financial system, not only for the sake of their growth and development but also for the comprehensive and stable development of the country. There are certain suggestions which can promote the spread of and strengthen micro finance:

- I. There is a need to spread education amongst the excluded population in order to make them believe that the use of financial services and banking facilities can make the life more easy and financially sound. Through

advertisements and promotional campaign they should be encouraged to open bank accounts and depend more on the formal financial systems.

- II. The cost of loans must be reduced, since that is the major bottleneck. The cost can be controlled by employing various strategies like calling for financial assistance from people online who can contribute towards a loan or sponsor a particular venture by just contributing as low an amount as say Rs. 100. This way large number of people can become a part of the micro finance. This can be done by linking social investment and micro entrepreneurs.
- III. The banking staff and the correspondents have to be very understanding and at the same time very patient with the rural and illiterate customers. They should convince these people since they connect at the grass root level, and try to bridge gap between the people and the bank, they would be able to service better and attract more people towards microfinance facility.
- IV. The involvement of IT tools and techniques can also enable the spread of financial services across the population. Already there is an effort to make biometric devices and smart cards to enable low income groups to open the bank accounts, which is helping them to benefit from the financial services, even when they fail to have any identity proof or document with them.
- V. In the case of rural India, most of the poverty is because of landless farmers and underemployment. The idea of micro finance will be a success only when there is adequate opportunity with the people to start a new small venture or develop a self-employment idea. The campaigns which are promoting micro finance, financial inclusion and literacy must also enhance the knowledge of the people regarding the alternative employment opportunities or small business ideas, so that the rural population can think beyond their current engagement, and access loans for productive purposes.

The State governments as well as the NGOs are working towards promotion of micro finance, they have achieved huge success also. The amount of savings of the SHG with the commercial banks as well as the Regional rural banks is increasing, such trust on the formal financial system is not only giving the people a sense of security but also providing them with immense liquidity. In other words they are exposed to more disciplined financial infrastructure which will help them to grow out from the clutches of unorganized exploitative sources of finance like money lenders etc.

CONCLUSION

To conclude, it is evident from the instances given above, that money, if used in the right direction can always help in improving the life of people, even if it is small in amount. Micro finance has a positive impact on the first millennium development goal of eradicating poverty. It has been not only a case of India but many other developing countries where financial inclusion has led to the rise in the avenues of self-employment which can lead to increase in the income of the

household .The main beneficiaries are the women who can now, start their own small self-employed venture which can make them self-reliant and generate income ,with which they can get over from the problem of mal nutrition and provide education to their children . This fundamental development will enable such low income groups to bring up their status of living eventually .Thus the provision of adequate formal financial services to the poor sections of the society will enable the people to grow out of their viscous circle of poverty. It can also encourage those individuals who are not able to showcase their entrepreneurial abilities due to non-availability of finance .The balanced and comprehensive economic growth can only be ensured when the development is inclusive, and encircles the entire population in the growth story.

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