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FINANCIAL INCLUSION FOR POVERTY ALLEVIATION

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Abstract
Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction. In India half of the poor are financially excluded from the country's mainstream of banking sector. Financial Inclusion 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 regulated, mainstream institutional players". Financial products include credit, savings, insurance, payments and remittance facilities etc. The paper discuss about the current status of Financial Inclusion in India and highlight the measures taken by the Government of India and RBI for promoting financial Inclusion and highlight the linter-linkages between Socio – Economic welfare and Financial Inclusion. In India, the apex body RBI takes various inclusive steps for implementing the Financial Inclusion program. These steps include Opening of No – Frill Accounts (NFA), Relaxation of KYC norms, Engaging Business Correspondents (BCs), opening of branches in unbanked rural centres, Financial Literacy Programmes etc. The study also deliberates about inter-linkages between socio economic welfare and financial inclusion. The socio-welfare programmes like the NREGA, Direct Cash transfer, National Old Age pension Scheme are focused on implementing financial inclusion.

Key Words: Poverty, Financial Inclusion, Financial Products, Business Correspondents, Frill Accounts, Financial Literacy.

Introduction

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. Further analysis shows that poverty is getting concentrated continuously in the poorer states.

In developing economies like ours, the banks, as mobilisers of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. At a minimum, all retail commercial banks also provide remittance facilities and other payment related products. Thus, inherently, the banking sector possesses a tremendous potential to act as an agent of change and ensure redistribution of wealth in the society.

However, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc. As Nobel Laureate Prof. Amartya Sen has also noted, "the thrust of developmental policy in India has undergone a paradigm shift from an exclusive focus on efficiency to one on equity; from the rate and pattern of growth, and on inequalities, distribution of income and wealth to the extent to which people are deprived of the requirements for leading a fulfilling life and suffer 'capability deprivation'. Over the past five years, Reserve Bank of India, as also other policy makers have resolutely pursed the agenda of financial inclusion and achieved discernible progress in improving access to financial services for the masses. However, the progress is far from satisfactory as evidenced by the World Bank Findex Survey (2012). According to the survey findings, only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government. The miniscule numbers suggest a crying need for a further push to the financial inclusion agenda to ensure that the people at the bottom of the pyramid join the formal financial system, reap benefits and improve their financial well-being.

Objectives of the Study

1. To examine the current status of Financial Inclusion in India.
2. To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion.
3. To highlight the linter-linkages between Socio – Economic welfare and Financial Inclusion.

Financial Inclusion: An Overview

What Is Financial Inclusion?

Financial Inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions." This would include:

1. Easy access to bank accounts for safe parking of savings.
2. Availability of cheap credit through appropriately designed loans for poor & low income households and small entrepreneurs.
3. Availability of basic financial products like insurance etc.

Why Is The Concept Gaining Currency In India?

It has been largely accepted that inclusive growth cannot happen without financial inclusion. With the UPA government stressing on inclusive growth, especially in its second stint in power, there is a lot of focus now on how to go about improving financial inclusion in the country.

How Do We Measure Financial Inclusion?

It can be measured in terms of access to institutions such as banks, in-surance companies and MFIs and the services that they provide such as payments services, savings or loans and credits. Some countries also look at details on the use of specific financial products such as debit cards, credit cards, life insurance and home mortgages.

How Has India Fared So Far In Ensuring Financial Inclusion?

Like most developing countries, India has a long way to go to ensure financial inclusion. About half of India's population does not have ac-cess to bank accounts while three fourths is not covered by any form of insurance.

Which Are The Financially Excluded Sections In India?

Sections which do not have much access to financial institutions or financial products are:

1. Marginal farmers and landless labour
2. Migrants, Urban slum dwellers
3. Self-employed, Unorganised industry
4. Women and old people.

What Is The Government Doing About It?

Finance minister Pranab Mukherjee has asked public sector banks to bring people living in the country's six lakh villages within the baking ambit. The RBI, too, has sought a roadmap for ensuring banking serv-ices in all villages by March 2012. The RBI is also looking at new licences to private banks, to bring in competition and improve coverage.

Financial Inclusion: India's Position Compared With Other Countries

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, credit and debit cards. The following table summarises India's performance in the area of financial inclusion as compared with other developing as well as developed countries (Table 1).

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Table 1: Select indicators of Financial Inclusion - Cross Country Analysis

Country	Number of Branches	Number of ATMs	Bank credit	Bank deposits
	(per 0.1 million adults)		(as per cent of GDP)	
India	10.91	5.44	43.62*	60.11*
Austria*	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK*	25.51	64.58	467.97	427.49
United States	35.74	173.75*	46.04	53.14
Korea	18.63	250.29*	84.17	74.51
Afghanistan	2.25	0.50	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Source: World Bank, Financial Access Survey
Note: Data pertains to 2010. For rows/cells indicated as '*' data pertains to 2009.

As at end of 2010-11, the number of ATMs per 0.1 million stood at 6.3, bank credit and bank deposit as a percentage of GDP stood at 50.10% and 66.10% respectively.

Measuring Financial Inclusion

One of the measures of the level of financial inclusion is the Financial Inclusion Index. This index is based on three basic dimensions of an inclusive financial system –banking penetration, availability of the banking services and usage of the banking system. Banking penetration is definitely the most critical parameter for measuring the depth financial inclusion and is measured as a ratio of bank accounts to the total population. The second parameter, availability of banking services provides an indication to the number of bank outlets available per 1000 people to deliver financial services. The bank outlets may include the brick and mortar branches, ATMs, business correspondents, etc. The third parameter seeks to determine the usage of banking services going beyond mere opening of accounts. Therefore, this is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension. According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. According to the empirical results, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion.

Table2: State-Wise Index of Financial Inclusion

The all-India level falls in the medium FI category		
High level of financial inclusion	**Medium level of financial inclusion**	**Low level of financial inclusion**
Kerala Maharashtra Karnataka	Tamilnadu Panjab Andhra Pradesh Sikkim Himachalpradesh Haryana	West-Bengal, Gujarath, UttarPradesh, Meghalaya , Tripura, Odisha, Rajasthan Arunachal Pradesh, Mizoram Madhya Pradesh, Bihar Assam, Nagaland Manipur

Source: RBI working paper on Financial Inclusion in India: A case study of West Bengal by Sandhan Kumar Chattopadyay

RBI's Policy Initiatives to Foster Financial Inclusion

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian

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Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.
In India, RBI has initiated several measures to achieve greater financial inclusion. Such as

Opening of No-Frills Accounts
Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Branch Expansion In Rural Areas
Branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres.

Agent Banking - Business Correspondent/ Business Facilitator Model
In January 2006, the Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

Combination of Branch And BC Structure To Deliver Financial Inclusion
The idea is to have a combination of physical branch network and BCs for extending financial inclusion, especially in geographically dispersed areas. To ensure increased banking penetration and control over operations of BCs, banks have been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometers.

Relaxed KYC Norms
1. Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.
2. RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

Roadmap for Banking Services in Unbanked Villages
1. In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target and have covered 74398 unbanked villages.
2. In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4,90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.

Bouquet of Financial Services
In order to ensure that all the financial needs of the customers are met, we have advised banks to offer a minimum of four basic products, viz.
1. A savings cum overdraft account.
2. A pure savings account, ideally a recurring or variable recurring deposit.
3. A remittance product to facilitate EBT and other remittances, and.
4. Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC).

Use of Technology
Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner,banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT
Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

Financial Literacy Initiatives
Financial Literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability. Financial inclusion and financial literacy need to go hand in hand to enable the common man to understand the need and benefits of the products and services offered by formal financial institutions. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population that are still out of the formal financial set-up. Financial literacy has assumed greater importance in recent years as financial markets have become increasingly complex and the common man finds it very difficult to make informed decisions Further, in view of higher percentage of household savings in our country, financial literacy can play a significant role in the efficient allocation of household savings and the ability of individuals to meet their financial goals. The outreach programmes by the Reserve Bank has helped in spreading awareness and improving financial literacy in recent years

Socio-Economic Welfare And Financial Inclusion
The socio-welfare programmes like the NREGA, Direct Cash transfer, National Old Age pension Scheme are focused on implementing financial inclusion. This is primarily because it helps to ensure electronic cash transfers.

The Advantages Involve
1. The payment process gets more simplified and convenient.
2. It reduces the cost of making the payments to the beneficiaries.
3. The process gets more transparent by checking the occurrence of fraud in the money or duplicate and fictitious beneficiaries.
4. It is because of this reason that Nandan Nilekani, head of the Unique Identification Authority (UIDAI) recently advised that the government make electronic payments for amount exceeding Rs. 1000.

Despite the efforts, the truth is that the performance was miniscule to what was expected. The predominant factors which affect the financial inclusion in the aspect of Socio – Economic welfare is.

No-Frill Accounts (NFA):
The major challenge for the banks was that the villagers could not provide the minimum cash balance which was otherwise required to open a bank account. To address this bottleneck, the NFA were provided which had a minimum balance requirement of Rs. 67 and also had a provision for overdraft.

The NFAs hurt the bottom-line of the banks because the profits they could earn by lending the deposits in the NFAs suffered due to
1. Miniscule minimum balance requirement which was far below the viable limit Rs.2000-3000
2. The 'overdraft provision'. It was estimated that the banks lost amount to the tune of Rs.13.4 for every transaction, Rs. 50.45 for opening the account. Thus, the services provided by the banks were unsatisfactory.
3. In 2011-12, the number of NFA accounts counted 50.6 million amounting Rs. 53,860 million. But only 20% of these accounts were actually in use while majority of them were inactive.

Electronic Benefit Transfer (EBT)
1. This was under the state Government's mandate as a part of the NREGA and Pension Scheme programme. This was also a measure to check the pilferage of the money. Under this, the EBT accounts were provided that were used by State Government to directly transfer the amount into the beneficiaries' account. The EBT, unlike NFA had just the function of cash withdrawal available for the account holders.

2. The issue here was that of "flat fee". The banks were not paid enough by the state government (only 2% of the amount transferred) and the effect was further cascaded with banks paying lesser to the BCs (generally 1.75%). So the margins left with the bankswere very small

The Business Correspondent (BC) Model

1. This model suffered from many loopholes which affected the overall economics of this sector.
2. The flat fee (or the revenue) for this segment was limited to 1.75% and also had no reasoning for the figure set forth. The low earnings showed upon the services delivered by them.
3. To keep their margins, the BC companies reduced the employee force which led to infrequent services as the beneficiaries per BC increased. Due to delayed showing up of the BCs, the villagers refrained to keep money with them as it became an unreliable source to park money.
4. The Attrition rate of BCs is around 70-80%. This simply means that till a new agent is not appointed, the village loses the access to the financial services.
5. This also had an adverse effect on the associated Government welfare programmes. For example: The payments under NREGA were supposed to reach the beneficiary within the stipulated period of 15 days but these were intentionally delayed by the BCs to earn interest on the payments.
6. To check these malpractices, the government ordered the payments of pensions within first 4 days of the month. That meant huge employee requirements in the beginning of the month. So many of the BCs started to outsource these activities to meet the workload, which in turn meant further cost elevation

Non BC model: Mobile Payments forums of India (MPFI)

The RBI has appointed the 'Working Group on Mobile Banking' to study the feasibility of Mobile banking in India focusing on parameters like technology, regulation, supervision, security etc. This model simply removes the BC from the system and the role is implemented by the customer himself with the aid of the mobile phone. In January 2011 the number of mobile phone users in India was nearly 771.18 million. Also, nearly 9 million mobile users are added annually. (Source: Telecom Regulatory Authority of India (TRAI). Leveraging this data, the Near Field Communication (NFC) technology enabled mobile phones can enable its users to carry out banking transactions. These include:

1. Transferring of the funds.
2. Money transfer.
3. Ticketing (IRCTC, bus, taxi, air etc).
4. Payments like insurance premiums, credit cards or utility bills.
5. Other transactions like mobile top ups, merchant payments, DTC recharge etc.

Conclusion

Access to financial services such as savings, insurance and remittances are extremely importance for poverty alleviation and development. In order to achieve the goal of total financial inclusion, policy makers, MFIs, NGOs and regulators have to work together. The issue of financial inclusion has received large importance in India during the recent years. India had invested considerable amount of resources in expanding its banking network with the objective of reaching to the people. During the last 40 years huge infrastructure has been created in the banking sector. However, this large infrastructure that has penetrated even remote rural areas has been able to serve only a small part of the potential customers. While India is on a very high growth path, majority of the people are out of the growth process. This is neither desirable nor sustainable for the nation. We also know that one of most important driving forces of growth is institutional finance. The concept of financial inclusion has a special significance for a growing economy like India as bringing the large segment of the productive sectors of the economy under formal financial network could unleash their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the Bottom of the pyramid (BoP) population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks. Deeper engagements of the BoP/under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks. Government also immensely benefits by way of efficient and leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged groups of population.

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