Developing Human Resources for the Financial Inclusion Model for India

Dr. Rakesh Kumar

Assistant Professor, K.C.B.College, Bero, Distt. Ranchi (Jharkhand)

Abstract: ***Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.***

Keywords: Poverty Reduction, Financial Inclusion, Economic Imperative.

1. Introduction

The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology – allowing, for example, more accurate targeting of sections of the market – have led to restricted access to financial services for some groups. 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. This is termed "financial exclusion". These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc.

The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these services, the objective of "Comprehensive Financial Inclusion" would be to provide a holistic set
of services encompassing all of the above.

A well functioning financial system empowers individuals, facilitates better integration with the economy, actively contributes to development and affords protection against economic shocks. Inclusive finance - through secure savings, appropriately priced credit and insurance products, and payment services – helps vulnerable groups such as low income groups, weaker sections, etc., to increase incomes, acquire capital, manage risk and work their way out of poverty. Notwithstanding the efforts made so far, a sizeable majority of the population, particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector. Financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the under-developed, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few.[1]

Experience has shown that in the initial phase of real and financial sector reforms, there is a need to build in adequate provisions ensuring that the economically weak segment of population have increased participation in the process of economic growth and social development. Reforms in financial systems, therefore, need to be complemented by measures that encourage the institutions, instruments, relationships and financing arrangements to be properly geared for providing sound, responsive financial services to the majority of the people who do not have such access. Inclusive finance does not require that everyone who is eligible uses each of these services, but they should be able to choose to use them, if they so desired. To this end, strategies for building inclusive financial sectors have to be creative, flexible, and appropriate to the national situation and if necessary, nationally owned.

For promoting financial inclusion, we have to address the issue of exclusion – of people who desire the use of financial services, but are denied access to the same. In countries with a large rural population like India, financial exclusion has 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.

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. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling / advisory services by the formal financial system. An open and efficient society is always characterized by the unrestrained access to public goods and services. As banking services are in the nature of public goods, financial inclusion should therefore be viewed as availability of banking and payment services to the entire population without discrimination of any type.

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. That apart, financial inclusion by banks and other institutions must target, apart from personal / private investment requirements of individuals and groups, the universal public investment requirements necessary for development of infrastructure, social sector services, public utilities and productive forces / capacity building efforts, etc. Thus, financial inclusion may well be all about money and finance, but with the ultimate objective of directly abolishing the state of social exclusion in the economy.

While financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is also important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. In order to improve their level of inclusion, demand side efforts need to be undertaken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages.

2. Result and Discussion

NSSO data reveal that 43.2 million farmer households in the country (50.2%), out of a total of 86.5 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm households' not accessing credit from formal sources as a proportion to total farm households is especially high at 83.28%, 79.34% and 73.34% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies.

A National Rural Financial Inclusion Plan (NRFIP) was launched with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households through rural/semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households, with such shifts as may occur in the rural/urban population have also been covered with the aid of National Five Year Plans.

There is a cost involved in this massive exercise of extending financial services to hitherto excluded segments of population. Such costs may come down over a period of time with the resultant business expansion. However, in the initial stages some funding support is required for promotional and developmental initiatives that will lead to better credit absorption capacity among the poor and vulnerable sections and for application of technology for facilitating the mandated levels of inclusion.

Extending outreach on a scale envisaged under NRFIP would be possible only by leveraging technology to open up channels beyond branch network. Adoption of appropriate technology would enable the branches to go where the customer is present instead of the other way round. This, however, is in addition to extending traditional mode of banking by targeted branch expansion in identified districts. The Business Facilitator/Business Correspondent (BF/BC) models riding on appropriate technology can deliver this outreach and should form the core of the strategy for extending financial inclusion. The Committee has made some recommendations for relaxation of norms for expanding the coverage of BF/BC. Ultimately, banks should endeavour to have a BC touch point in each of the 6,00,000 villages in the country. Procedural Changes like simplifying mortgage requirements, exemption from Stamp Duty for loans to small and marginal farmers and providing agricultural / business development services in the farm and non-farm sectors respectively, will help in extending financial inclusion.

Regional Rural Banks (RRBs), post-merger, represent a powerful instrument for financial inclusion. Their outreach vis-à-vis other scheduled commercial banks particularly in regions and across population groups facing the brunt of financial exclusion is impressive. RRBs account for 33% of total rural offices of all scheduled commercial banks and 84% of their workforce is posted in rural and semi-urban areas. They account for 33% of deposit accounts and 46% of loan accounts in rural areas. RRB's have a large presence in regions marked by financial exclusion of a high order. They account for 36% of all branches in North-Eastern, 28% in Eastern and 32% in Central regions. Out of the total 23.47 lakh SHGs credit linked by the banking industry as on 31st March 2012, 36% of the linkages were by RRBs which is quite impressive to say the least. Significantly the more backward the region the greater is the share of RRBs which is amply demonstrated by their 59% share in the North-Eastern, 43% in Central and 38% in Eastern region.

RRBs are, thus, the best suited vehicles to widen and deepen the process of financial inclusion. However, there has to be a firm reinforcement of the rural orientation of these institutions with a specific mandate on financial inclusion. RRBs have the potential and capability to emerge as niche operators in microfinance. They are playing a major role in the SHG - Bank Linkage Programme especially also as SHPIs. Their dual role has special meaning in areas which face severe financial exclusion and which do not have a sufficient presence of well performing NGOs. However, to upscale the programme to a level where it can really make a visible impact, RRBs need handholding particularly in the areas of training, promotion and development. NABARD may provide required assistance.

RRBs should adopt the BF and BC models as a major strategy of financial inclusion. NABARD should extend the required support including running pilots in selected banks. The proposal for a technology based intervention under the BC model would be equally relevant for RRBs. However, RRBs would require some handholding in implementing the proposal. NABARD may identify 12 RRBs across the country, giving greater weightage to regions manifesting higher levels of financial exclusion and work in strategic alliance with these RRBs and their sponsor banks in implementing the proposal. The RRBs identified by NABARD for the project will require developing a core banking software for proper integration of the technology model proposed. NABARD should enter into a MoU with identified sponsor banks and RRBs and provide initial funding and technology support. The RRBs operating in predominantly tribal areas and having high levels of exclusion may prepare annual credit plans having a separate component for excluded groups, which would integrate credit provision with promotional assistance. Refinance and promotional support may be provided by NABARD to RRBs on a large scale for implementation of these credit plans.

The SHG - Bank Linkage Programme can be regarded as the most potent initiative since Independence for delivering financial services to the poor in a sustainable manner. The programme has been growing rapidly and the number of SHGs financed increased to 31.35 lakhs on 31 March 2012. The spread of the SHG - Bank Linkage Programme in different regions has been uneven with Southern States accounting for the major chunk of credit linkage. Many States with high incidence of poverty have shown poor performance under the programme. NABARD has identified 15 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus. The State Governments and NABARD may set aside specific funds out of the budgetary support and the Micro Finance Development and Equity Fund (MFDEF) respectively for the purpose of promoting SHGs in regions with high levels of exclusion.

NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas. The SHG - Bank Linkage Programme is now more than 15 years old. There are a large number of SHGs in the country which are well established in their savings and credit operations. The members of such groups want to expand and diversify their activities with a view to attain economies of scale. Many of the groups are organizing themselves into federations and other higher level structures. To achieve this effectively, resource centers can play a vital role. Federations of SHGs at village and taluk levels have certain advantages. Federations, if they emerge voluntarily from amongst SHGs, can be encouraged. However, the Committee feels that they cannot be entrusted with the financial intermediation function. There are no clear estimates of the number of people in urban areas with no access to organized financial services. This may be attributed, in part at least, to the migratory nature of the urban poor, comprising mostly of migrants from the rural areas. Even money lenders often shy away from lending to urban poor.

SHG-bank linkage has emerged as an effective credit delivery channel to the poor clients. owever, there are segments within the poor such as share croppers/oral lessees/tenant farmers, whose loan requirements are much larger but who have no collaterals to fit into the traditional financing approaches of the banking system. To service such clients, Joint Liability Groups (JLGs), an up-gradation of SHG model, could be an effective way. NABARD had piloted a project for formation and linking of JLGs during 2011-12 in 7 States of the country through 16 RRBs. Based on the encouraging response from the project, a scheme for financing JLGs of tenant farmers and oral lessees has also been evolved.

Micro Finance Institutions (MFIs) could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. The Committee set up for financial inclusion for the Indian economy has also recommended that greater legitimacy, accountability and transparency will not only enable MFIs to source adequate debt and equity funds, but also eventually enable them to take and use savings as a low cost source for on-lending. There is a need to recognize a separate category of Micro finance – Non Banking Finance Companies (MF–NBFCs), without any relaxation on start-up capital and subject to the regulatory prescriptions applicable for NBFCs. Such MF-NBFCs could provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. Such MF-NBFCs may also be recognized as Business Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.

Though the network of commercial banks and RRBs has spread rapidly and they now have nearly 50,000 rural/semi-urban branches, their reach in the countryside both in terms of the number of clients and accessibility to the small and marginal farmers and other poorer segments is far less than that of cooperatives. In terms of number of agricultural credit accounts, the Short Term Cooperative Credit System (STCCS) has 50% more accounts than the commercial banks and RRBs put together. On an average, there is one PACS for every 6 villages; these societies have a total membership of more than 120 million rural people making it one of the largest rural financial systems in the world. However, the health of a very large proportion of these rural credit cooperatives has deteriorated significantly. For the revival of the STCCS, the Vaidyanathan Committee Report has suggested an implementable Action Plan with substantial financial assistance. The implementation of the Revival Package would result in the emergence of strong and robust cooperatives with conducive legal and institutional environment for it to prosper. A financially sound cooperative structure can do wonders for financial inclusion given its extensive outreach.

Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well off. It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. The Committee concurs with the view that offering micro credit without micro-insurance is self-defeating. There is, therefore, a need to emphasize linking of micro credit with micro-insurance.

Rural credit cooperatives in India, have a very long history. Democratic in features, the cooperative movement was envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. In the backdrop of the reform process underway for cooperative banks, they have a very significant role to play in facilitating greater inclusion.

3. Conclusion

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of population in the process of economic growth. Financial inclusion of hitherto excluded segments of population is a critical part of this process of inclusion.

References

[1] 'Global Financial Inclusion' McKinsey & Company Industry Publications, PP 4-39
[2] 'New Vistas in Financial Services, Lessons from International Experiences', 'International Conference on Banking and Financial Services 2008, PP 46-56.
[3] Dr. Ranee Jayamaya, Deputy Governor, Central Bank of Sri Lanka, Speech on Access to Finance and Financial Inclusion for Women
[4] Dr. Reena Agrawal, 100 % Financial Inclusion : A Challenging Task Ahead.
[5] Peer Stein, World Bank Group, Towards Universal Access: Addressing the Global Challenge of Financial Inclusion, Vol.1, Inclusive Finance, p.6.
[6] R. Devaprakash, Tackling Financial Exclusion – Operational and strategic choices, The Indian Banker, Sept. 2010 Volume V No.9, PP 51-56.
[7] Reserve bank of India Bulletin, May 2011,Volume LXV, No.5, Financial Inclusion Plan for Banks, Page 587
[8] Salim A Shamsher, Financial Inclusiveness- The Literacy Perspective, Articles and Case Studies: Inclusive & Sustainable Growth Conference, Vol 1, No. 2 (2012) p. 4
[9] Udit Misra, Financial Inclusion Models from Around the World, Business.in.com, Nov 20, 2010
[10] Workshop on 'Open Standards for financial Inclusion, The Indian Banker, March 2009, Volume IV No.3, pp. 51-53.