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Financial Inclusion and Rural Development

Dr. Nagaraja. S Assistant Professor, Department of Studies & Research in Sociology, Tumkur University, Tumkur-572103, Karnataka

Dr. Pallavi. S. Kusugal Assistant Professor, Department of Studies & Research in Economics, Tumkur University, Tumkur-572103, Karnataka.

ABSTRACT

The financial inclusion is meant for to ensure a range of appropriate financial services is available to every individual and enable them to understand and access those services. Financial inclusion not only mean that opening of saving bank account but imply creation of awareness about the financial products, education and guidance on money management, offering debt counseling, etc. by banks. In rural areas revolutionary step taken place by the government through introducing the micro credit facility in two ways those are 'Self Help Groups-bank linkage' and 'Microfinance institutions'. Rural development requires this type of provision that is formation of Self help groups. In the rural areas it has created remarkable change. In the recent phase of globalization, self help groups have given answer to the poverty. This has created self-reliance, self-respect, entrepreneurship among poor rural people, not only in India but also in all developing countries.

KEYWORDS: Financial Inclusion, Micro-Credit, NABARD, Rural Development, SHGs

INTRODUCTION:

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable 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, etc. In fact, the main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. Thus financial inclusion not only mean that opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. (Sadhan Kumar Chattopadhyay: 2011).

The necessity of Rural Development arises due to the gap between urban and rural areas in terms of infrastructural facility, standard of living and their income. Rural Development is the proper utilization, protection and intensifying the natural, physical and human resources requires making long term improvement in rural life. Rural development which much more implies on small farmers agricultural progress, encompasses efforts to raise both farm and non-farm rural real incomes through job creation, rural industrialization, and the increased provision of education, health and nutrition, social and welfare services. Rural Development is defined as balancing the rural and urban areas with the healthy competition among those which are results in nation's development. In the country's revenue larger share is contributed by rural sector, which provides food to whole population and raw material to agro-based industries. For this reason, rural finance plays vital role in the developments of rural sector. It started with lending money from informal sector through money lenders, landlords, relatives, traders and institutional credit facilities, then through the agencies like Co-operatives, commercial banks, land development banks and government. In the developing countries like India with 'regional imbalance's existing. So 'Micro-credit' assumes a great significance in this context.

CONCEPT OF MICRO CREDIT:

"Indian public policy for rural finance from 1950s to till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high, starting from late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as "Social banking phase". (Alok Mishra,2006). The credit requirements of Indian farmers are met by the moneylenders, traders, commission agents, landlords, relatives and the organized institutional agencies like Co-operatives, Commercial Banks, Land Development Banks and Government. Co-operatives have been a major source of rural Credit since a very long time. The All India Credit Survey Committee in 1951-52 observed that it felt short of the right quality was not of the right people. After nationalisation of 14 Major commercial Banks, In 1969 Commercial Banks have also entered into the field and a part of rural credit is met by the different Commercial Banks.

Basically, the main objective of microfinance is to uplift the poor through providing credit facilities at easy accessible way. As per the NABARD and the RBI definitions, microfinance means "provision of thrift, credit and other financial services and products of very Small amounts to the poor enabling them to raise their income levels and improve living Standards" (NABARD 2000; RBI 1999).

"The remarkable success of the Grameen Bank in Bangladesh is a good example that visionary micro credit movement, led by Muhammad Yunus, has consistently aimed at removing the disadvantage from which women suffer, because of discriminatory treatment in the rural credit market, by making a special effort to provide credit to women borrowers. The result has been a very high proportion of women among the customers of the Grameen Bank. The remarkable record of that bank in having a very high rate of repayment (reported to be close to 98 percent) is not unrelated to the way women have responded to the opportunities offered to them and to the prospects of ensuring the continuation of such arrangements. Also in Bangladesh, similar emphasis has been placed on women's participation by BRAC, led by another visionary leader, Fazle Hasan Abed". (Sen, Amarthya, 2006)

The Formal sector of rural is the sector in which loan transactions are regulated by legislation and other public policy requirements. The institutions in this sector include commercial Banks, cooperatives banks and credit societies and other registered financial institutions. The informal sector of credit is not regulated by public authorities and the terms and conditions attached to each loan are personalized, and therefore vary according to the bargaining power of borrowers and leaders in each case.

SHG- BANK LINKAGE PROGRAMME:

In developing countries 'Micro credit' has been coined as banking for poor people. In rural areas revolutionary step taken place by the government through introducing the micro credit facility in two ways those are 'Self Help Groups-bank linkage' and 'Microfinance institutions'. That has proved that a small thing makes a lot of difference. It has become in India too. SHG-Bank Linkage Programme, since its project in 1992, has emerged as the leading micro-finance programme in the country. It is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by state government as a major poverty alleviation strategy. It has also led to the emergence of Micro Finance Institutions (MFIs) as a bridge between the banking sector and the rural poor (NABARD: 2008-2009). Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country. The SHG – Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non Governmental Organizations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011 . Of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. The overall progress under microfinance from the period 2006-07 to 2010-11, it is represent that, though savings of number of SHGs with the bank is increasing over the years the growth rate of SHGs in percentage terms is declining from 22.21 in 2009 to 7.3 in 2011.Regarding the amount of savings it has a significant growth during 2008 to 2009 (46.5 per cent) but after that it declines. Regarding bank loan disbursement to SHGs it shows a declining trend and in terms of number of SHGs became negative in 2011.

The pattern of funds flow during 2006-10, to self-help groups and microfinance institutions – the two competing institutional arrangements of micro finance delivery in India – reveals that the commercial banking system had steadily shifted its patronage to large MFIs from the mid-2000s.Increased access to equity capital helped these MFIs improve their capital adequacy, which, in turn, helped them leverage the domestic debt market. They also resorted to newer ways of raising capital through product structuring and introduction of innovative debt instruments. MFIs thus played a significant role in linking the processes of neo-liberal restructuring and financialisation with the daily lives of local communities (Nair T.S., EPW: 2012).

CONCLUSION:

The financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enables them to understand and access those services. In rural areas revolutionary step taken place by the government through introducing the micro credit facility in two ways those are 'Self Help Groups-bank linkage' and 'Microfinance institutions'. In the rural areas it has created remarkable change. In the recent phase of globalization, self help groups have given answer to the poverty. This has created self-reliance, self-respect, entrepreneurship among poor rural people, not only in India but also in all developing countries. Hence, there is still a need of strengthening the Micro credit System on top priority in India which alone will boost up the Rural development on which the Development of the country heavily relied in India.

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