GLOBAL RESEARCH ANALYSIS

ISSN No 2277 - 8160

Listed & Indexed with

ISSN Directory, Paris



Multi-Subject Journal

Volume : 1 | Issue : 1 | June 2012 | ₹ 250/-

GLOBAL RESEARCH ANALYSIS

ISSN No 2277 - 8160

GLOBAL RESEARCH ANALYSIS

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Cell : +91 98247 02127, 8866 00 3636

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Volume : 1 | Issue : 1 | June 2012 • ISSN No 2277 - 8160

Research Paper | Commerce

Financial Inclusion in India: A Real Effort for Growth

Dr. Jyotindra M. Jani Assistant Professor, Lt. Shree M. J. Kundaliya English Medium Mahila Com. & B.B.A. College, Rajkot

Manish B. Raval Assistant Professor, Lt. Shree M. J. Kundaliya English Medium Mahila Com. & B.B.A. College, Rajkot

ABSTRACT

Every economy in the world strives to achieve socio-economic growth. This growth can be realized only when all the people of the nation have improved standard of living. This is possible only if, the people get the basic financial facilities. During the course of economic development, some sectors of the society have been ignored in terms of financial services so the economic growth has not realized fully. The government has undertaken an initiative to include the ignored people in the financial services. This is popularly known as "Financial Inclusion Plan". Here we have presented the steps taken by the government for financial inclusion and the approach of the government for the future.

KEYWORDS: Financial facilities, Financial inclusion, Socio-economic growth, Standard of living

Introduction:

The 21st Century has witnessed radical changes in most of the sectors of the economy. Banking sector is not an exception to it. In the age of the globalization, privatization and liberalization, the entire banking sector has been passing through the radical changes in the provisions related to establishment, management and maintenance of banking business. These changes in the financial sector and banking sector has benefited the upper and middle class of the society but the most vulnerable class of the society that actually needed financial services rather help, has remained untouched. Till date, the financial sector reforms and banking sector reforms have not been much successful to uplift the vulnerable of the society. So, these reforms have been incapable to give the desired fruits of growth and development.

In this situation a need has aroused to create such a system that provides easy access to financial services timely and adequate credit needed by the vulnerable groups such as weaker sections and low-income groups at an affordable cost. The process of establishing such system is known as 'Financial Inclusion' (FI).

'Financial Inclusion' Defined:

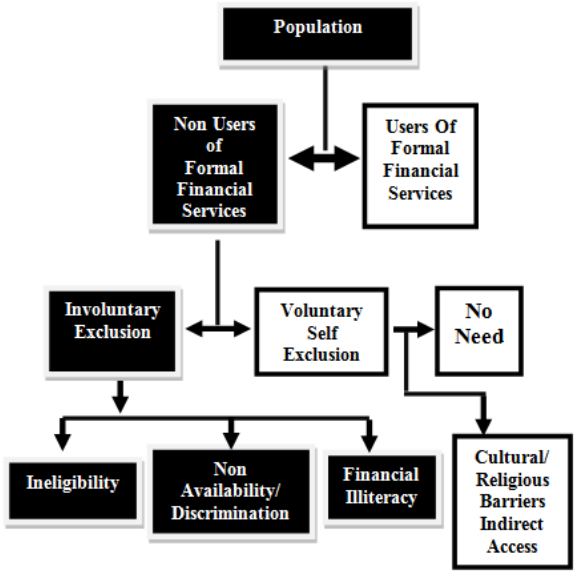
The term 'Financial Inclusion' can be defined in the following manner:

According to Rangrajan Committee (2008), "Financial Inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost."

According to World Bank Report, "Financial Inclusion or broad access to financial services is defined as an absence of price or non-price barriers in the use of financial services."

In short, Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The following figure clearly explains the concept of Financial Inclusion.

Chart – 1
A Chart Showing Financial Exclusion*



*Source: Finance for All? Policies and Pitfalls in Expanding Access, World Bank Report, 2008

Financially Included

Financially Excluded

Financial Inclusion in India:
A Statistical Review

India, as a developing economy, is trying to make the economic growth rate faster. In order to make the growth, every economy requires finance. This finance is provided by the banking system. But it has happened in India that the banking system is not properly developed. There is a great imbalance in the establishment of bank branches in India. Most of the banks have established their branches in urban areas and they are serving the population of urban area to a great extent. In this development process the rural and semi-urban area has been ignored. The number of bank branches is quite low in these areas. In this scenario the rural and semi-urban areas are excluded from the banking services. According to the study conducted by Elaine Kempson and Claire Whyley (1999), around one and half million households in Britain do not avail the most basic financial services such as bank accounts or insurance coverage whereas in India, the situation is quite worst. In India, around 40% of population is not availing the basic financial amenities. It means that this population is excluded from the financial services. Because of such financial exclusion the growth rate of Indian economy cannot be accelerated.

Analysis of Scheduled Commercial Banks Offices:
Table – 1*

A Table Showing Classification of Scheduled Commercial Banks office in India

Year	Rural Area I	Semi-Urban Area II	Urban Area III
Mar. 04	32227	15288	11806
Mar. 05	30790	15325	12419

Mar. 06	30251	15991	13232
Mar. 07	30409	16770	14202
Mar. 08	30927	18027	15566
Mar. 09	31598	19337	16726
Mar. 10	32529	21022	18288
Mar. 11	33602	23048	19156
Year	Metro Area IV	Total (I+II+III+IV)	
Mar. 04	9750	69171	
Mar. 05	11839	70373	
Mar. 06	12598	72072	
Mar. 07	13272	74653	
Mar. 08	14267	78787	
Mar. 09	15236	82897	
Mar. 10	16364	88203	
Mar. 11	17274	93080	

*Source: Compiled from RBI website

Table – 2

A Table Showing % of Total Scheduled Commercial Banks Offices in Rural and Semi-Urban Areas of India

Year	Rural	Semi-Urban
Mar. 04	46.59	22.10
Mar. 05	43.75	21.78
Mar. 06	41.97	22.19
Mar. 07	40.73	22.46
Mar. 08	39.25	22.88
Mar. 09	38.12	23.33
Mar. 10	36.88	23.83
Mar. 11	36.10	24.76

From the above table it is clearly seen that the percentages of Rural area and Sub-Urban area offices to the total offices are continuously decreasing in last eight years i.e. from March, 2004 to March, 2011. For the purpose of serving the main objectives of FI, the number of offices in Rural area and Sub-Urban area should be increased to reach to financially excluded people to fulfill the objectives of FI. The data released by RBI and different organizations reveals that only 33,602 rural branches are working in around 5,60,000 villages of India. Around 70% population lives in rural or semi-urban area and 30% population lives in urban area. And the fact is that this 70% population is served by 36% bank branches only. And the rest 30% population is served by 64% bank branches.

Progress of Financial Inclusion Plan: Statistical Facts

It was necessary to reach to the financially excluded people for the growth of the nation. For this it was compulsory to include the rural and semi-urban areas under various financial schemes of the government. The government has taken various steps during 2009-10 and 2010-1 to include the financially ignored people. These steps are classified as 15 different parameters, which are listed as follows:

Table – 3*

A Table Showing Progress towards Financial Inclusion Plan by Scheduled Commercial Banks

No	Parameter	As at end March 2010	As at end March 2011
1	Total Number of villages covered	54,757	99,840
2	Villages covered through branches	21,499	22,684
3	Villages covered through Business Correspondents (BCs)	33,158	76,801
4	Other modes like Rural ATMs, Mobile Vans etc.	100	355
5	Number of villages > 2000 population covered	27,743	53,397
6	Number of villages < 2000 population covered	27,014	46,443
7	No. of BCs employed by banks	33,042	58,351
8	Number of No-Frills Accounts (NFAs) opened (in millions)	49.55	74.39
9	Amount in NFAs (Rs. in millions)	48952	65657
10	Number of NFAs with Overdraft facility (in millions)	0.14	4.2
11	NFAs with OD- Amount outstanding (Rs. millions)	91	1987
12	Number of Kisan Credit Cards issued (in millions)	19.5	22.49
13	Amount outstanding in KCCs (Rs. millions)	10,75,187	14,38,622
14	Number of General Credit Cards (GCCs) issued (in millions)	0.67	0.95
15	Amount outstanding in GCCs (Rs. millions)	8,398	13,077

*Source: Compiled from presentation made by Shri Chakrabarty, K.C. (2011) at 26th SKOCH Summit, Mumbai

Financial Inclusion Plan: The Approach for Future

From the table no. 3, it is quite clear that the government is serious for including the financially excluded people under various financial schemes. The steps undertaken by the government during 2009-2011 are not enough, so the government has prepared a future plan for the year 2012-13. The government has targeted to cover more and more number of villages under the FI plan. The government has targeted to cover the remotest area with the basic financial services. The following table shows the positive approach of the government for the FI.

Table – 4*

A Table Showing Financial Inclusion Plan Target by Scheduled Commercial Banks

No.	Parameter	As at end March 2013
1	Total Number of villages to be covered	3,48,283
2	Villages to be covered through branches	25,694
3	Villages to be covered through Business Correspondents (BCs)	3,20,412
4	Other modes like Rural ATMs, Mobile Vans etc.	2177
5	Number of villages > 2000 population covered	93,630
6	Number of villages < 2000 population covered	2,54,653
7	No. of BCs to be employed by banks	1,87,972
8	Number of No-Frills Accounts (NFAs) to be opened (in millions)	153.3
9	Amount in NFAs (Rs. in millions)	113,233
10	Number of NFAs with Overdraft facility (in millions)	53.3
11	NFAs with OD- Amount outstanding (Rs. millions)	22,282
12	Number of Kisan Credit Cards to be issued (in millions)	40.7
13	Amount to be outstanding in KCCs (Rs. millions)	17,92,548
14	Number of General Credit Cards (GCCs) to be issued (in millions)	8.11
15	Amount to be outstanding in GCCs (Rs. millions)	56,697

*Source: Compiled from presentation made by Shri Chakrabarty, K.C. (2011) at 26th SKOCH Summit, Mumbai

Conclusion:

For the economic growth, it is necessary to make finance available to all the sectors of the society. It has happened in India that during the course of economic growth and development, some sectors of the society have been ignored. Because of this ignorance, the economic growth could not be realized in terms of social growth. To make this growth possible, financial inclusion is necessary. Financial inclusion is a positive effort for the achievement of overall growth of the society by providing easy access to the financial services for the vulnerable groups of the society. This will ensure easy availability of finance to the low-income groups and weaker sections for their requirements. This will improve their social standard and the overall growth objective will be achieved.

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Multi-Subject Journal

Editor,
GLOBAL RESEARCH ANALYSIS
3, SUHANA, Nr. Ruby Apartment,
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Printed at Unique Offset, Novatsing Rupam Estate, Opp. Abhay Estate, Tavdipura, Shahibaug, Ahmedabad

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