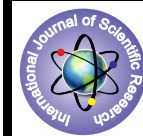


## Financial Inclusion in Gujarat: A Study on Banker's Initiatives



### Commerce

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### ABSTRACT

*The World economic order witnessed dramatic changes Post World War II and India being a newly Independent Country was faced with more complex issues of illiteracy, poverty, malnutrition, sustainability and underdevelopment; and the prime focus of Government remained Development for Sustainability and Inclusive Growth. In order to combat poverty and to achieve uniform growth all over, various measures have been taken from time to time which include building and strengthening rural cooperative sector, nationalization and privatization and expansion of financial sector.*

### INTRODUCTION:

Access to Finance is being considered as one of the major tools of development and poverty alleviation. Realizing this causality of Access to Financial Services on Inclusive growth, nations throughout the world have been trying hard to achieve the objective of financial inclusion. Similarly Financial Sector reforms in India is driven by the objective of Inclusive growth and unrestrained access to Finance. Various initiatives and reforms have taken place in this direction since Independence. A network of Cooperative Banks to provide credit for agriculture was developed immediately after Independence which was followed by nationalization of banks and targeted priority sector lending in 1969 and thereafter. With the changing paradigm of the Indian Economy from agrarian to Industrial and subsequently to Services Economy, the focus shifted from subsidized credit and priority sector lending to enterprise driven.

However, care was taken that the poor and disadvantaged are not ignored in this journey to economic stability and excellence. Postliberalisation India (1991 onwards) saw numerous structural changes in the financial sector; interest rate deregulation, de-licensing, privatization and entry of new entrants changed the financial milieu of the country. Keeping its socialist objectives in mind various steps have been taken by the Government of India post liberalization to ensure that the growth in the economy is not unilateral and that the poor get their due share. With subsidized credit and priority sector lending included in the menu, various other initiatives were taken like NABARD's Self Help Group (SHG) - Bank Linkage programmer in 1992 which was followed by provision for unsecured credit to farmers via Kisan Credit Card (KCC) Scheme in 1998-99.

Moreover on the recommendations of the Internal Group of RBI on Rural Credit and Microfinance (popularly known as Khan Committee recommendations, most of which were incorporated in the mid-term review of Reserve Bank of India Annual Policy - 2006-06), guidelines were issued to expand the reach of banking sector with support from Information and Communication Technology (ICT) for spearheading financial inclusion in the country.

Financial Inclusion was declared as a top priority and the Banks were exhorted upon to devise strategies to achieve the objective of Financial Inclusion. Banks were asked to scale up their initiatives which include State Level Bankers' Committee (SLBC) allocation of the villages without Bank branches, opening of no-frills account etc. Also the Committee on Financial Inclusion under the chairmanship of Dr. C. Rangarajan (popularly known as Rangarajan Committee - 2008) was set up by the Government of India to look into the issues of financial exclusion. The Committee recognized that the developments in the technology and increasingly sophisticated customer segmentation technology have led to restricted access to financial services for some groups. This divide has grown so wide that 73% of farmer households in the country lack access to finance either from institutional or formal sources of credit. The Committee came

out with 179 Point strategy to fill the divide of exclusion and it was suggested that in order to build inclusive financial sector effective improvements within the credit delivery mechanism is needed.

Besides, the Committee suggested for improving absorption capacity among the excluded, evolving new models to increase outreach and leveraging on technology for the achievement of twin objectives of inclusive growth and poverty alleviation. The report suggested certain specific measures like opening of no-frills accounts, routing National Rural Employment Guarantee Programmer (NREGP) payments through banks, product innovation, issue of general purpose credit card, granting overdraft facilities to Saving Bank (SB) accounts, providing services through bio-metric smart cards, leveraging technology, developing Business Facilitator/Business Correspondents as Intermediaries in delivering financial services, etc.

### OBJECTIVES OF THE STUDY:

This study has been aimed with following objectives in mind:

1. To briefly examine the various financial inclusion initiatives taken by the banking fraternity in the State.
2. To evaluate the progress and current status of Financial Inclusion in the State.

### METHODOLOGY:

The data for the present study has been collected primarily from secondary sources. The secondary data was obtained from reports, journals, NABARD Supplementary Statements, State Level Banker's Committee Reports, Census 2011, Economic Surveys and websites.

The Primary data required for the study was collected from unstructured discussions with various Bank Executives, NABARD Officials, Business Correspondents, etc. The discussions regarding various strategies have been done in Srinagar only. Relevant banking functionaries from top and middle level management were consulted during these discussions.

### RESULTS AND DISCUSSIONS:

#### PROFILE OF GUJARAT STATE:

The State has a population of 6, 25, and 48,926 with a population density of 56 and literacy rate 68.74. The State has been divided into three divisions; with 29 districts, (Census 2011).

The State has 2 Lead Banks; GUJARAT Bank for all the districts of STATE division and district Retour and district Division and State Bank of India for 29 remaining districts of Gujarat division and 2 districts Division. The State has 21.63% of its population living Below Poverty Line (Economic Survey 2007-08). In such a scenario, the Banking Profile of the State (exhibited in Table 1) consists of 20 Public Sector Banks having 344 branches, 4 Private Sector Banks with 483 branches, 2 Regional Rural Banks having 289 branches and 8 Cooperative Banks having 241 branches. In total there are 34 banks operating in the State with 1357 branches.

**Table 1:**  
Banking/Financial Sector Profile of Gujarat State

Banking Profile of The State		Public Sector	Private Sector	RRBs	Cooperative Bank	Total
	Banks	20	4	2	8	34
	Branches	344	483	289	241	1357
Branch Network		Rural	Semi Urban	Urban	Total	
		736	277	344	1357	
Banking Parameters (Amount in Rs. Crores)	Total Deposits	Total Advances	C.D. Ratio	Advances to Priority Sector	Percentage of Priority Sector advances to total advances	
	48,394.49	17,280.51	35.71*	10,825.35	62.64%	
		Advances to Weaker sections	Share in total Advances (%)	Agriculture Advances	Share in Total Advances (%)	
		2500	14.47**	2167	12.54***	

**FINANCIAL INCLUSION INITIATIVES:**

Bankers throughout the Country have been thriving to achieve the allocated targets towards Financial Inclusion and so have been the bankers' of the State of Gujarat.

Financial Inclusion Programmer was taken on pilot basis for 100% Inclusion initially in the district 2005. Subsequently, 100% Inclusion of the remaining 29 districts in the state has been assigned to the banks in 2008. Banking Community of the State has been working in line with the various strategies pursued elsewhere in the country. Some of the major initiatives in this direction and the progress made in the same are discussed as under:

**NO FRILLS ACCOUNTS:**

Pursuant to the RBI guidelines, banks in the state are offering no-frills accounts to its vast majority of excluded population. The basic banking 'no frills' account is offered with zero minimum balances, relaxed Know Your Customer (KYC) norms and minimum charges to the low income population to expand the outreach of financial access. The position of No-Frills Accounts in the State is exhibited in Table 2.

**Table 2:**  
Position of No-Frills A/C's in Gujarat.

	No. of Branches	No. of no-frills A/Cs opened during quarter	Amount (000's)	Total No. of no frills A/C's opened since inception	Amount (000's)
Private Sector Banks	488	65486	71511	787171	1965701
Public Sector Banks	399	4938	29793	83193	251137
Co-Operative Banks	241	1413	1972	38320	14046
Regional Rural Banks					
Grameen Bank	176		2527	124406	6448
Ellaquai Dehati Bank	113	12235	n. a.	116379	n. a.
Total	1357	84072*	105803**	1149469***	2237332***

**MICRO-CREDIT AND ADVANCES TO WEAKER SECTIONS:**

Micro-credit and advances to weaker sections form a significant portion of Priority Sector lending. As against the annual target of Rs.476.41 Crore in favor of 26,005 beneficiaries, banks have disbursed total amount of Rs.108.41 Crore in favor of 6,576 beneficiaries which works out to be 22.75% achievement in Financial and 25.28% in physical terms. The

total advances outstanding against micro-credit are Rs.353.65 Cr. with total of 41397 Micro-Credit accounts which accounts for approximately 3.2% and 2% of Priority Sector advances and Total advances respectively. Advances to weaker sections form a major portion of priority sector advances; the total amount towards advances to weaker sections is Rs.2500 Cr. outstanding in 239373 accounts. The advances to weaker sections forms approximately 23% of the priority sector advances and 14.46% of the total advances (data as on 30th September, 2011). Table 3 below shows the sector-wise distribution of advances outstanding under micro-credit and advances to weaker sections.

**OTHER INITIATIVES:**

The new Branch Authorization Policy of Reserve Bank of India encourages banks to open branches in under banked states and the under banked areas of other states (Agawam - 2008). Bankers in the State of Gujarat have been working vigorously in bringing the unbanked areas within the formal banking reach. In this regard, a comprehensive plan has been developed in respect of unbanked blocks and under banked areas of Gujarat State declared by Reserve Bank of India. As per the State Consolidated Branch Action Plan, 209 new bank branches are to be opened in these identified areas. Also in terms of bringing the villages having a population more than 1000 and less than 2000 into the fold of banking system, a comprehensive action plan has been framed and all the 1273 such villages have been allocated to the respective banks. Gujarat Bank is taking a lead in this as well, taking 1030 villages out of 1273 allocated villages.

**MAJOR FINDINGS:**

1. Under the State Financial Inclusion Plan, 622 villages from 795 villages have been covered by ending Q2 of 2011.
2. The banks operating in the state have adopted the BC model for delivery of financial services to uncovered villages, 614 out of a total of 622 covered villages have been covered through BC model.
3. The bank credit has been sluggish as represented by the Credit-Deposit Ratio of 35.71 against the benchmark of 60.
4. Advances to Priority Sector and Advances to Weaker Sections are 62.64% and 14.47% respectively, thus showing that banks are keen in furthering credit disbursement to priority sector
5. Micro-Credit and advances to weaker sections comprise of almost 3.2% and 23% of the priority sector respectively.
6. Significant progress has been made in making available no-frills accounts to the excluded sections of the State; 84072 no-frills accounts have been opened in the state during Q2 of 2011
7. Kisan Credit Card Scheme has witnessed a very low achievement of approximately 7% of the targeted Rs.416.69 Crore for 64,286 beneficiaries.
8. SHG-Bank Linkage Programmer and other Government Scheme have also seen a tremendous progress in the State.
9. The State banking community has developed a time bound comprehensive action plan for achieving the objective of 100% Financial Inclusion in the State.

**CONCLUSION:**

Various efforts by the RBI to further Financial Inclusion aim at 'connecting people' and not just opening accounts. No doubt, a significant progress has already been achieved in the State of Gujarat to achieve the wider objective of Inclusive growth through financial inclusion; even the bankers and the government agencies have shown earnestness in implementing the Financial Inclusion Plan in a coordinated manner.

But it is also important to keep in mind that the objective behind all such efforts doesn't get diluted and that Banks operating in the State don't resort to camouflaging tactics. A lot has already been done but a lot is yet to be achieved, so bankers need to keep reforming their plans and ensure that the poor are not left to the clutches of informal sources of finance.

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