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Financial Inclusion, Policy Initiatives and Implications in India

Dayananda. K. C,
Assistant Professor, Dept Of Economics, Govt First Grade College, Madikeri, Kodagu District, Karnataka, India)

Abstract: *After 65 years of independence, large sections of Indian population still remain unbanked. This has led generation of financial instability and lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been introduced the concept and idea of financial inclusion.Financial inclusion is an important method of economic development of a nation. Financial sector inclusion is very important component of inclusive growth strategy. Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast section of the disadvantaged and low income groups. It plays very vital role in economic progress. Financial sector inclusion helps in eliminating poverty, reducing inequality, eliminating unequal access to opportunities, reducing inequalities of choice. This study tries to understand policy initiatives by the govt for financial inclusion, reasons for financial exclusion, steps taken by the government for financial inclusion and implications of financial inclusion. This study is mainly based on secondary data and collected information from books, journals and website.*
Key word: *Finance, Inclusion, Economy, Development.*

I. Financial Inclusion, Policy Initiatives And Implications

Introduction

India's commitment to planned economic development is a reflection of our society's determination to improve the economic conditions of our people and affirmation of the role of the government in bringing about this outcome through a variety of social economic and institution means. The eleventh five year (2007-2012) plan which was approved by National Development council (NDC) on 19th December 2007 reaffirms this commitment. It provides a comprehensive strategy for inclusive development. Main slogan of Eleventh Five Year Plan is **"Faster and More Inclusive Growth"**. It was heart of Indian plan philosophy. It emphasizes inclusive growth. Financial sector inclusion is very important component of inclusive growth. Poverty, unemployment , inequality, deprivation and other socio-economic problems due to Financial exclusion.

The strategy for inclusive growth in the 11th plan is not just a conventional strategy for the growth to which some elements aimed at inclusion have been added Inclusive strategy which aims at achieving a particular type of growth process which will meet the objectives of inclusiveness and sustainability. This strategy must be based on sound macro economics policies which establish the macroeconomic pre -condition for rapid growth.

Meaning

Inclusive growth is a participatory approach to economic development and key factor to economic development. According to **oxford dictionary"** Inclusive growth as growth that does not exclude any section of society"

According to **world bank report (2006)**revels that inclusive growth process should go towards the enhancement of quality of basic services including education, power, healthcare and water supply for every individual across, should be given not only to the distribution of economic gains but also an empowering people in enjoying their social life and at creating employment opportunities "

According to **C. Rangarajan committee On financial inclusion (2007)** defined as the process of ensuring access of financial services timely and adequately, and credits where needed by vulnerable groups such as weaker section and low income groups at an affordable cost"

According to **Raghuram Rajan committee report** defined financial inclusion refers to universal access to a whole range of financial resources at a reasonable cost. These include not only banking product but also other financial services such as insurance and equity product "

Financial inclusion refers to bring the financially excluded population within the formal & informal financial system. Financial inclusion which yield broad based benefits and ensures equality and opportunity for all. It attributes opportunity, capability, access and security. Simply we can say that inclusive growth is the distribution of income infavour of poor .Distribution of income infavour of vulnerable section of the society and elimination of all types of deprivation. Financial sector inclusion is very important component of inclusive growth strategy. Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast section of the disadvantaged and low income groups.

Objectives of the Study

1. To know the extent of financial exclusion in India.
2. To examine Policy initiatives for financial inclusion.
3. To analyze reasons of financial exclusion.
4. To study implications of financial inclusion.

Policy initiatives for financial inclusion

Many policy initiatives have been taken for financial inclusion such as:

1. Making Available basic banking "no frills" account either with 'nil' or very low minimum balance.
2. Issuing of general credit cards to eligible beneficiaries without insistence on security, purpose or end use of credit
3. Introduction of KCC (Kisan Credit Card
4. Allowing banks to utilize the services of NGOs, SHGs, MFIs and other civil society organization as intermediaries in providing financial services
5. Credit linking of SHGs, support to MFIs
6. Introduction of financial sector (regulation and development) bill 2007 to develop and regulate the MFIs
7. Constitution of financial inclusion fund and financial inclusion technology fund to strengthen the institutional and technological infrastructure for greater financial inclusion.
8. Finance literacy would help in using savings, credits and insurance services.
9. Stipulation of Priority sector lending. Priority sector comprises agriculture, SSIs, Small road and water transport operator, Small business, retail trader, self employed persons, housing loan, micro credit, artisan , village and tiny industries etc.

II. Extent Of Financial Exclusion:

Lack of access to financial services such as credit, savings, at an affordable cost not only result in exclusion but also act as a constrains to growth impetus in the rural and unorganized sectors. Even today a large number of households do not have access to formal financial services. Financial exclusion covers exclusion from any or all of the financial services necessary for participating in a modern market economy. Exclusion from credit provision has been looked at as being more significant than that from other services. Below table shows prevents the prevailing situation.

Savings and loan accounts:

Sl. No	Regions	No of Savings accounts to adult population in (2005)	No of loan accounts to adult Population in (2005)
1	North	80	12
2	North East	37	07
3	East	34	08
4	Central	52	09
5	West	60	13
6	South	66	25
7	All India	59	14
8	Rural	39	9.5
9	Urban	60	14

Sources: Speech of Usha Tharot , Dy Governor of RBI.

The NSSO situation Assessment Survey on Indebtedness of Farmer Households (2003) reveals that 51.4% of the farmer households do not access credit either from formal or informal sources. The region wise position of the level of indebtedness is indicates following table.

Credit Access of Farmer households:

Sl.No	Regions	Former households borrowing from both formal and non formal Sources (%)	Former households not accessing credit from both formal and Non formal Sources (%)
1	Northern	51.4	48.60
2	North Eastern	19.90	80.10
3	Eastern	40.40	60.00
4	Central	41.66	58.34
5	Western	53.77	46.23

6	Southern	72.70	27.30
7	Groups of UTs	33.10	66.90
8	All India	48.6	51.4

Sources: Speech of Usha Tharot , Dy Governor of RBI.

Reason for Financial Exclusion

There are several reasons for financial exclusion. They are

1. Lack of awareness
2. Low income and asset
3. Social exclusion
4. Illiteracy
5. Distance from branches
6. Branch timings
7. Cumbersome documentation and procedures
8. Unsuitable product
9. Language
10. Staff attitudes, etc

III. Different Steps Taken By The Govt For Financial Inclusion:

1) Banks nationalism (1969 and 1980): Rural branch network of commercial banks had steadily grown in the years following nationalism in 1969. Existing rural branch infrastructure can be more intensively used so as to service a larger customer base. A major recommendation of the Rangarajan committee is that banks be given targets to add at least 250 farmer accounts per year per branch.

2) Revitalization of co-operation: Attempt made to spread to increase co-operation organization such as co-operative societies, banks etc.co-operative have the largest nominal outreach amongst the rural Financial institution. On the basic of the recommendation of the Vaidynathan committee, Govt of India has formulated a revival package for restructuring and strengthening of the rural co-operatives credit institution.

3) Interest rate caps: Interest rates on loans made by the banks has been deregulated from 1994 Central Govt of state Govt central role in reducing the interest rate without introducing rate caps.

4) Priority sector lending: Small & marginal farmer, village industries, street traders, weaker section etc.

5) Zero balance account have to maintain

6) Differential interest rate: To attract the people to bank, usage of regional language in the bank transaction.

7) Self help groups linkage program (SBLP)

SBLP has registered an impressive growth during the last 5 to 7 years. At present 90%of the micro credit of being disbursed through SBLP model

8) MFI sector (Micro Finance Institution)

In the MFI model the MFI both form the groups provide credit to SHGs & individual. MFIs raise funds from banks & financial institution for on leading to SHGs & individuals. Khan committee report an rural credit and micro finance of RBI mention that timely availability and right quantity of credit and act at the interest rate are crucial to the success of micro finance programme.

9) Usage of regional language in the bank transaction.

10) New initiatives:

There are certain NGO, societies , trust & co-operative societies operating in the micro Financial sector that are engaged in providing credit & other Financial services to economically active low income people especially women , poor households and their micro enterpriser.

11) Simplification of documentation and procedures to reduce transaction costs.

12) Recent developments:

Aam Adhmi vima yozana, Rastriya Swasthi yozana,Yasasvini scheme, crop insurance, NREGP, Kisan Credit scheme.

13) Swabhimaan:

It is a special campaign for financial inclusion o bring banking services to the masses. Swabimaam is a movement that promises to bring basic banking services to all 73000"unbanked" villages with over 2000 population by mach 2012.It will facilitate opening of bank accounts, provide need based credit, remittance facilities and help to promote financial literacy in rural India. New technologies and business correspondents will drive the movement. Swabhimaan is a path breaking initiative by the Govt. of India and the India bank association to cover the economic distance between rural and urban India.

IV. Implications Of Financial Inclusion:

I. To eliminate socio- economic problem
II. To strengthen weaker section in the society
III. To empower active low income going
IV. To focus on capacity building
V. To create of opportunities
VI. To provide safety net to weaker section
VII. To break vicious circle of poverty.

V. Conclusion:

Financial sector include is very important component of inclusive growth. It plays very vital role in economic progress. Financial sector inclusion helps in eliminating poverty, reducing inequality, eliminating unequal access to opportunities, reducing inequalities of choice. Therefore planning commission in its 11^{th} Eleventh Five Year Plan emphasis financial inclusion. All activities mainly depend on financial. Financial sector is like blood in human body .All economic and social problems due to financial sector exclusion. We can solve all these problems and strengthen the weaker section only through financial inclusion.

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