FINANCIAL INCLUSION: AN OVERVIEW IN RURAL ECONOMY OF ASSAM

Dr. Bedabrat Saikia*

Ms. Farah Hussain**

Ms. Tilottama Bora***

Ms. Parijat Bora

Abstract

Financial sector in India has made a commendable progress over the years and more specifically in the post independence period and after nationalisation of the banking structure. The progress can be acknowledged in areas of financial viability, profitability and competitiveness. It is however a matter of great concern that the financial development process has failed to reach the underprivileged sections of the society. The rural people are the worst sufferers of the phenomenon of financially exclusion. More specifically, the financial exclusion has increased in rural areas over the last 10-15 years; the period during which the Indian banking system witnessed substantial growth. By leaving out this vast section of the society outside its ambit, the financial development process has added to high incidence of poverty; poverty an ever growing problem of the nation. It is however increasingly been recognised that in India every citizen has a right to have access to banking and financial services. With this recognition there have been serious efforts of the country's financial sector to make available the banking services to the entire population without any discrimination. This paper tries to present an overview of the financial inclusion in India with a picture of the magnitude of financial exclusion in rural areas. Besides, it discusses the strategies for achieving financial inclusion with respect of Assam.

Keywords: Financial inclusion, Financial exclusion, Inclusive growth, Financial services, Self Help Group, Kisan Credit Cards, Micro credit, Bank account.

* Assistant Professor, Deptt. of Economics, Handique Girls' College, Guwahati-1, Assam, India

** Research Scholar, Department of Economics, Dibrugarh University, Dibrugarh, Assam.

*** Researcher

INTRODUCTION:

The concept of financial inclusion originates from the Millennium Development Goals. The term Financial Inclusion may jingle a new phenomenon, yet it conveys the same older notion of making financial services available to the masses. Financial Inclusion refers to the delivery of banking or financial services at an affordable cost to the vast section of disadvantaged and low income groups. These financial services include savings (inclusive of insurance facilities) and deposits, loans and borrowing, payment and settlement and remittance facilities. Financial Development in India has made a commendable progress over the years and more specifically in the post independence period and after nationalisation of banks. These developments can be acknowledged in areas of financial viability, profitability and competitiveness. It is however a matter of great concern that the financial development process has failed to reach the underprivileged sections of the society. By leaving out this vast section of the society outside its ambit, the financial development process has added to higher incidence of poverty. It is an acknowledged fact that the financial and banking sector reforms will remain incomplete if the system fails to take care of the basic banking requirements of the vulnerable sections of the society. The reason of the failure of the financial process may vary from country to country and within the different regions of the same country. With a holistic approach to rectify this slip-up, the financial sector is making continuous effort for financial coverage of this section of the society to improve the standards of life of those deprived people.

The developed and developing countries like India are making continuous effort for financial inclusion in order to improve the financial condition and standards of lives of the poor and disadvantaged In India the causes of financial exclusion varies widely across different regions of the country. The poor physical and communication infrastructure is the main obstacle in remote hilly and sparsely populated area. Illiteracy, low income, pre-owned assets, long distance of branches from the residence, complicated banking procedure, unsuitable products and staff attitude are among the others in this context. The financially excluded section in the rural areas mainly comprises of marginal farmers, landless labourers, some SC and ST families, ethnic minorities, socially excluded groups, migrants, senior citizens, women and self employed persons. They are the underprivileged sections of the rural society. Women in rural areas of the country are the worst sufferers due to inadequate access to agricultural credit in comparison to men (Barik). It is however increasingly been recognised that in India every citizen has a right to have access to banking and financial services. With this recognition there have been serious efforts of the country's financial sector to make available the banking services to the entire population without any discrimination.

In India the focus of Financial Inclusion at present is confined to ensuring bare minimum access to a savings bank account without frills to all. But it is not an accurate indicator of financial inclusion. With a view to enhance Financial Inclusion, the RBI in its Annual Policy Statement for the year 2005-06, while recognising the concerns in this regard, urged banks to review their existing practices to align them with the objective of Financial Inclusion. With this backdrop, the study aspires to highlight the issues like magnitude of financial exclusion in rural area and policies aimed towards attaining financial inclusion in the economy of India in general and rural economy of Assam in particular.

Magnitude of Financial Exclusion in Rural Areas:

Financial exclusion in simple terms can be defined as the denial of access to the citizens of a country to basic financial services. If a person's bank account is dead or inactive due to absence of transaction for a considerable stipulated period, then under these circumstances also it is considered as a financially exclusion of the person concerned. Even the non-issuance of the pass books to the small customers of saving banks account by the bank can directly lead to their financial exclusion (RBI 2006). In present times a significant proportion of the society is subjected to financial exclusion, though there has been commendable progress of the financial and banking services over the years. "Out of 600,000 villages in the country, only about 30,000 have a commercial bank branch. Just about 40 percent of the population across the country has bank accounts, and the ratio is much lower in the north-east of the country. The proportion of the people having any kind of life insurance is as low as 10 percent and proportion having non-life insurance is an abysmally low 0.6 percent. People having debit cards comprise only 13 percent and those having credit cards only a marginal 2 percent" (Subbarao D, 2009).

A widely accepted measure of financial exclusion is the percent of adult population having bank account. For instance, in the United States 87 percent of the adult population has a bank account. But in India taking only saving banks' accounts, around 60 percent of adult population has bank accounts which implies that 40 percent of the population remains unbanked in the urban areas. In rural areas of India, the proportion is a mere of 39% as against 60% of adult population in urban areas as on 31st March, 2004. There is a wide variation of this un-banked proportion of population across the different states of the country. For instance, in Kerala the ratio is high at 89% while in Bihar it is only 33%. The proportion of unbanked people in different regions of the country shown in the figure 1 depicts clearly the picture of wide variation in the coverage of banking services among the regions. Moreover, among the

North eastern states, the ratio is very low at 21% in Nagaland, 17% in Manipur, though comparatively better for Arunachal Pradesh and Assam at 40% and 39% respectively (Table 1).

Fig 1. Coverage of banking Services in different regions of India

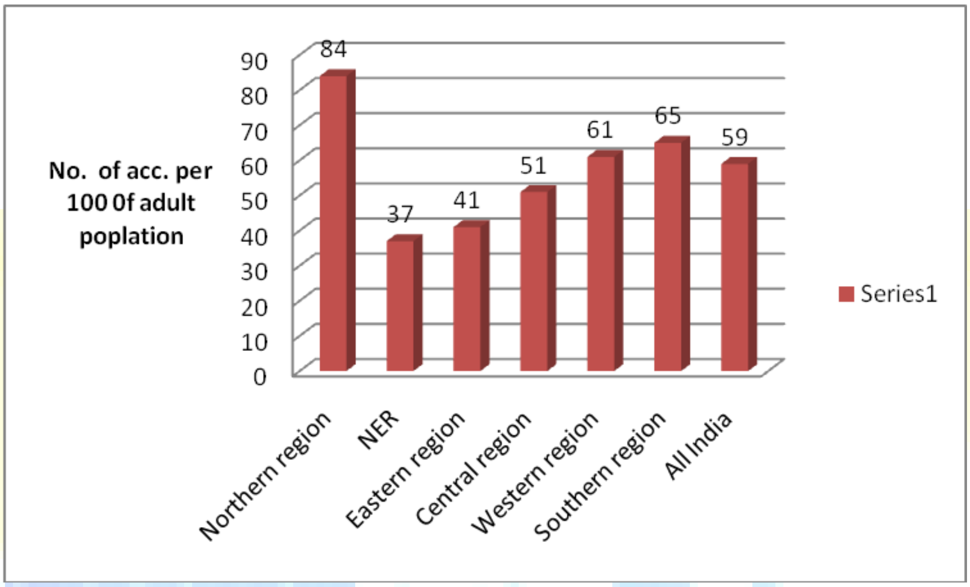

Table- 1

Coverage of Banking Services

NE states	Current accounts	Savings account	Total population	Adult population	Total no. of accounts	No. of acc. Per 100 0f pop.	No. of acc. Per 100 0f adult pop.
Arunachal Pradesh	10538	209073	1091117	544582	219611	20	40
Assam	378729	5071058	26638407	14074393	5449787	20	39
Manipur	12514	200593	2388634	1222107	213107	9	17
Meghalaya	24305	458779	2306069	1088165	483084	21	44
Mizoram	3441	117885	891058	476205	121326	14	25
Nagaland	13819	195452	1988636	995523	209271	11	21
Tripura	33257	638241	3191168	1784212	671498	21	38
Sikkim	4097	125365	540493	288500	129462	24	45

Source: http://www.bis.org/review/r051214e.pdf.

The exclusion in the rural areas is a matter of great concern as the excluded rural people are forced to rely on the informal sector comprising of village money lenders and others who charge an exorbitant high rate of interest and thereby exploit the poor ignorant rural people. This engulfs the rural masses in the vicious circle of poverty. "The share of institutional credit agencies in the outstanding amount of rural households declined by about 7 percentage points between 1991 and 2002 and was 57 percent in 2002. The share had increased from 29 percent in 1971 to 61 percent in 1981 and then, the pace of increase has slowed down and it was 64 percent in 1991. On the other hand, the share of institutional agencies in the amount of debt for urban households increases progressively from 60 percent in 1981 to 72 percent in 1991 and 75 percent in 2002. Among non institutional agencies, professional money lenders were of prime importance in 2002. They accounted for about 20 percent and 13 percent of the debt in the rural and urban areas respectively" (NSSO, 2003). Thus, the share of institutional agencies in total rural indebtedness has gone down from 64% in 1991 to 57% in 2002 while that of moneylenders has shot up from 17.5% to 29.6%. Thus, about 48 percent of all rural households, 51 percent of farm households and 78 percent of rural non-farm households do not have access to banking services (EPW Research Foundation, 2007).

The huge variation and the high degree of exclusion in rural areas of North Eastern region and in general is attributed to a number of factors but the basic one can be regarded as the complicated process of opening a bank account in most cases. The requirements of documentary proof of identity and residential address are true barriers to open a bank account for the poor ignorant people as also to avail post office financial services. Women in rural areas are largely excluded from the financial services due to lack of property rights. They are the worst sufferers in comparison to rural men. Women cultivators received only 6% of the direct agricultural credit in the year 2003-04 who compromised 33% of the total cultivators as against 67% of men cultivators availing 94% of agricultural credit (RBI, Bank Statistical Returns).

The financial exclusion causes a series of problems such as difficulties in gaining access to credit or getting credit from informal sources at exorbitant rate, decline in saving and investment capacities, causes increased travel requirements, increased unemployment, higher incidence of crime etc. According to certain researches, financial exclusion may also lead to social exclusion. What is disturbing is that the financial exclusion has increased in rural areas over the last 10-15 years; the period during which the Indian banking system witnessed substantial growth (Mohan, 2006). This brings up an important question as to whether reforms in financial sector are inclusive in nature or does it give rise to financial exclusion. Hence, it is now an acknowledged fact that building inclusive financial sector is an integral and core pillar of financial sector reforms (Akhtar, 2008).

Financial Inclusion in India with Reference to Assam-Policy Perspective:

Financial Inclusion has been practiced in India for quite some time now. The policy perspectives of financial inclusion in India have changed at different phases of the economy. In earlier times and before nationalisation, it focussed on channelizing credit to the neglected sectors of the economy. But in more recent times and with the realisation of growing extent of financial exclusion the thrust has shifted on strengthening of the financial institutions and providing safe facility of savings deposits though 'no frills' account. With a view to strengthen the financial institutions, Self-Help Group (SHG)-bank linkage programme and Kisan Credit Cards (KCC) were introduced in the early 1990s for providing credit to farmers. The SHG-Bank linkage programme was introduced by NABARD in the year 1992. SHG or the main micro-finance model and institutional finance mechanism piloted by NABARD attempts to provide financial credit support to the micro entrepreneurs including farmers in the country as a whole. It has been proved to be the most cost effective credit delivery system in India and has also emerged as one of the largest programme in the world for unrestricted access to micro-credit and micro insurance. The programme has helped in providing credit to the unbanked rural people.

The programme had been a slow beginner in Assam as compared to some other states of the country. It is however, gained momentum from 2001-02 onwards. The number of SHGs credit linked was 209 in the end of March 2001 which increased to 1,23,021 at the end of November 2006 and till 2010, a total of 1,63,855 SHGs were credit linked (Economic Survey of Assam, 2010-11). But the number of SHGs credit linked in the state did not increase proportionately in the state over the years. For instance, at the end of November 2006, cumulative number of SHGs provided with bank loan in the state was 63,901 which are around 50 percent of the total SHGs promoted in the state. The cumulative bank loan provided to this 63,901 SHGs credit linked in the state up to November 2006 was Rs. 160 crore.

Table - 2

Self-Help Group Financed by Banks

Year	Total bank linked SHGs		Deposits linked		Credit linked	
	No	Amount	No	Amount	No	Amount
2004-05	122304	20975.75	79592	3409.05	42712	17566.70
2005-06	269917	48239.13	175565	9846.77	94352	38392.36
2006-07	230902	58040.52	121474	5261.61	109428	52778.91
2007-08	257863	57417.70	142147	6044.72	115716	51372.98
2008-09	305132	77365.49	166740	7485.51	138392	69879.98
2009-10	374745	92724.79	210890	9123.46	163855	83601.33

Source: Economic survey of Assam, 2010-11

A number of empirical studies reveal that SHGs have created a greater impact on rural women. It has enabled the women members to increase their disposable income, self/wage employment opportunities, standard of living through enhanced consumption expenditure and health care, saving potential and decision making power (Barik). In this way it has enhances the capabilities of rural women and acts as a major support in their empowerment in the society. A number of institutions in the state are actively participating in promoting and fostering the growth of SHGs. The commercial banks, the RRBs, co-operative banks, NGOs and the District Rural Development Agencies (DRDAs) are the important agencies involved in this area with a broader perspective of financial coverage of the unbanked sections of the society.

NABARD has made continuous efforts towards financial inclusion. In August 1998, it introduced the Kisan Credit Card scheme as an innovative product for financial inclusion. This scheme is implemented throughout the country by public sector commercial banks, RRBs and cooperative banks. This scheme attempts to cater adequate, timely, cost effective and hassle free credit support to the farmers. Besides, term loans for agriculture and allied activities of KCC holders are also granted under this scheme. Under loan facilities of KCC, 20 percent of the total loan is earmarked for contingent expenditures like consumption expenditures, medical expenses and educational expense for their children etc. It has covered the excluded section of rural farmers by providing them with unhindered credit facilities. In Assam, during the year 2009-10, 1498822 numbers of KCCs were issued and Rs.430.56 crore was sanctioned by the bank as against 103361 numbers of KCCs and Rs.375.89 crore during the year 2008-09. During 2007-08, the number of KCCs issued by the bans was 62132 and the amount sanctioned was Rs.163.66 crore. Since inception of the scheme, cumulatively about 6.30 lakh KCCs have been issued in the state upto March 2010. The scheme thus covered around 23 percent of the total farmer family of around 27.50 lakh (Agricultural Census, 2005-06) of the state (Economic Survey, Assam 2010-11).

Table- 3

Advances under KCC scheme

Year	Annual Achievement		Cumulative Achievement	
	No	Amount	No	Amount
2003-04	94377	9728.64	---	---
2004-05	86822	9382.86	172965	22202.28

2005-06	70238	9677.79	339750	38839.94
2006-07	50067	7662.03	359395	40580.52
2007-08	62132	16365.83	329932	67908.97
2008-09	103361	37589.23	480393	104682.06
2009-10	149822	43055.94	630070	158372.04

Source: Economic survey of Assam, 2010-11

A number of studies carried out on the performance of the KCC scheme showed that there was greater impact on production, productivity, income and employment of farmers through easy access to timely and hassle free credit (Barik). The study on Sultanpur district of Uttar Pradesh shows that the economic condition and living status of rural entrepreneurs have changed positively from pre-banking services to post-banking services Jha(2008).

No-Frill account or a savings account with no or negligible balance was introduced by RBI in November 2005. No-Frill account of the banks enables the excluded people to open a savings account with a very minimum balance. It is provided without any other facilities which lead to a lower cost for both the individual and the bank. It was a directive of the RBI to all commercial banks to open No-Frills accounts if a prospective customer fails to fulfil Know Your Scheme (KYC) norms i.e., at least identity proof and residential proof. Such a customer can open a No-frill account with a self-certification of his/her residence and two photographs for identity. Further in order to ensure that the persons belonging to low income group in both rural and urban areas do not face difficulties in opening bank accounts with the procedural hassles; the KYC procedure for opening accounts has been simplified for those persons who intend to keep balance not exceeding Rs.50, 000 in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh in a year. R.B.I also emphasizes for availing facilities like National Electronic Fund Transfer (NEFT), ATM, Credit Card and other such modern facilities to the rural people for the coverage of this large segment of rural people in the country.

Case study: In the present era of growing alarm for financial inclusion, an unremarkably village named Rangati Michamora in North Lakhimpur distict of Assam, has earned the unique distinction of being the country's first village to come under cent micro insurance cover and thus attains the financial inclusion. This was possible with the sincere efforts of the Assam Gramin Vikash Bank (AGVB) to enhance its inhabitants' access to banking services, in consonance with RBI's directive to boost banking facilities in rural areas of the country and bringing all villages with a population of 2,000 and above under banking services by 2012. The

AGVB entered into a tie-up with Bajaj Allianz to bring all the 302 families of the village under a group insurance. The village now has 406 policy holders in the 18-65 age group population, effectively providing full insurance to every family. It was made possible with sustained campaigning by the branch officials to make them aware of the benefits of savings and insurance and it was after five months of continuous efforts that they reached this altitude. (The Assam Tribune, January, 2012).

Final Comments:

Financial Inclusion is an essential condition for the economic well being of the vast section of unbanked people in the state of Assam and in the country as well. The access to basic banking services would at least enable these people to maintain regular savings of their own and also to avail credit in needy times. Such activities would increase the saving and investment position of the economy and also benefit these people in uplifting their economic position. An easy access to credit facilities enlarges livelihood opportunities through adoption of different economic activities for rural households. Besides, it also creates different scope for self-employment of the rural people. It serves as the key to empowerment of the rural and underprivileged people.

Financial Inclusion is important and branchless banking in villages can go a long way to serve the purpose. The existing technology and regulations may not be friendly to the prospective rural savers. User friendly technology and more flexible regulations are one of the essential conditions for the mobilization of small savings of the rural people. The new rule implemented from April 1, 2010 for payment of interest on every day's balance will add to their savings.

An important aspect worth noting here is financial education of the people. Lack of literacy in general and lack of financial literacy in particular acts as a major constraint towards financial inclusion. It leads to financial exclusion of these people even in situations where they can avail or afford the financial services. With proper financial literacy the rural people can also use modern banking technology like ATMs, Mobile Banking etc. RBI has taken a number of measures to increase financial literacy. It has set up multilingual website in 13 languages explaining about banking money etc. It has also published some comic strips to explain various difficult subjects like importance of savings, RBI's functions etc. But in case of rural areas the efforts would be more fruitful if the financial education and credit counselling is provided by a rural savings mobiliser or Business facilitator to the customers. It is more conducive in the rural environment if the task is undertaken by a single individual who earns respect and confidence from the village people.

In respect of Assam, out of all the strategies adopted for financial inclusion SHG or the microfinance programme has proved itself over time to be a viable way of banking with the poor. In many ways it is a unique. For the success of microfinance however, continuous interventions from both formal and informal agencies is a must (Sarma, 2011). It succeeds to serve an important purpose of extending financial coverage to the rural women who are acknowledged to be the worst sufferers of financial exclusion and thereby helping in the growth of women's savings.

Financial Inclusion is indispensable when the whole country aims at attaining inclusive growth. Financial inclusion and inclusion growth move together hand in hand. Inclusive growth aims at bringing all the sections of the society to reap the benefits of the growth process and financial inclusion aims at extending banking and financial services to the vast sections of disadvantaged sections of the society and to the rural unbanked areas. The banking sector must therefore give due thrust on financial inclusion. It is acknowledged that the banking sector has realised the need of the hour and moving towards it. Such efforts should be sustain so that the broader objective of financial inclusion and inclusive growth can be achieved soon. As an incentive, the banking sector must recognise the huge business potential that will flow from meeting the unmet demand for financial services from these unbanked sections of the society.

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