"Financial Inclusion Strategy in India - A Critical Review"

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-Abstract-
Financial inclusion plays a major role in inclusive growth of the country. The availability of quality financial services in rural areas is extremely important for the growth of the economy, as this will enable the large number of rural households to fund the growth of their livelihoods. The growth of the economy is dependent on the growth of the rural market in the country. Since 2005, many concerted measures and strategy are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact of these did not yield satisfactory results. The paper aims to focus on Financial Inclusion Strategies in India
Key Words: Financial Inclusion, Economic Growth, financial liberalization, Equitable Growth, Economic Empowerment

Introduction:
Financial inclusion is increasingly being recognized as a key driver of economic growth and poverty alleviation across the globe. India is not exception too. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. Without adequate access to formal financial services, individuals and firms need to rely on their own limited resources or rely on costly informal sources of finance to meet their financial needs and pursue growth opportunities. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all. There has been growing evidence on how financial inclusion has a multiplier effect in boosting overall economic output, reducing poverty and income inequality at the national level. Financial inclusion of women is particularly important for gender equality and women's economic empowerment. With greater control over their financial lives, women can help themselves and their families to come out of poverty; reduce their risk of falling into poverty; eliminate their exploitation from the informal sector; and increase their ability to engage in measurable and productive economic activities. An inclusive financial system supports stability, integrity and equitable growth.
It is a globally recognized fact that establishment of social and economic justice, poverty alleviation etc. are not possible without financial inclusion of all sections of people irrespective of their income size. Financial inclusion, in the form financial access works as a multiplier in boosting output and driving economic growth.
Broadly, speaking, financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. Services include not only banking products, but also other financial services such as insurance and equity products (Rajan, 2014).
In the Indian context, the explanation of the term can be extend incorporating the financial products and services from credit; remittance; savings; government supported insurance and pension products to farmers and increased access to formal finance by small and medium enterprises.

Objective of the Study and Scope of the Study:
The present study is a critical review of the various strategies adopted for financial inclusion in India. The present study is confined only to the critical examination of the strategies associated with the financial inclusion in India. The objectives framed for the present study are-
a) To assess the financial inclusion strategies in India
b) Critical review of the financial inclusion strategies

Research Methods and Methodology of the Study:

The present study is a comprehensive and exploratory in nature. The study is purely based on secondary sources of data. The prime sources of the study are internet, journals, magazines, newspaper etc. Information are gathered, studied and critically examined in order to frame a strong glimpse of the financial inclusion's strategy in India. Furthermore, the study is being concluded though a review discussion considering the mentioned objectives.

Conceptual framework:

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all section of society in general and vulnerable groups such as weaker sections and low-income groups in particular, at an affordable cost and in a fair and transparent manner by regulated mainstream institutional players. The financial inclusion emphasizes on conversion of unbanked area into banked one. However, having a bank account does not mean financial inclusion.

"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" (Rangarajan Committee, 2008). Rangarajan's committee on financial inclusion defines it 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.

The Discussion:

Nationalization of banks: Equitable distribution of financial resources is important to achieve financial inclusion. The contribution of the banking sector towards reducing poverty and increasing economic well-being of people is unquestionable. It is historical fact that private banks had a strong tendency to lend money only to big business. This is exactly what happened prior to the nationalization of banks. However, after nationalization, the process of disseminating banking services to the common Indian began. The bank scheme, priority sector lending policy, branch expansion policy together with the formation of regional rural bank in 1975 were measures taken by RBI and government of India to transform village economy. The impact of nationalization was such that in the process, the number of bank branches increased from 8187 in 1969 to 59,752 in 1990 and to 1, 41,756 in March 2019. Nevertheless, this immense performance ultimately felt victim to excessive social commitment. Poor customer service and inefficiency took its toll in competitiveness. Profitability took a back seat due to the mandatory expansion of branches in backward and unbanked centers. Huge non- performing assets (NPAs) added to the woes of public sector banks. Today the PSBs hold 90% of stock of bad loans. The banking sector reforms could not do much good due to continued balance between social obligation and business. Liberalization of financial markets has some adverse impact on the accomplishment of bank nationalization. In 2005, in the name of branch rationalization, 757 branches of rural bank were closed between 1995 and 2004. As a result, a large chunk of rural population was shut out from the banking system, driving them back to the clutches of village moneylenders.

Inclusion Through Regional Rural Bank: Looking at the fact that the commercial banks had a clear urban bias, the banking commission (1972) recommended the establishment of some alternative institutions to promote rural credit. The regional rural banks were mandated to take banking to the doorsteps of the rural masses where banking services were unavailable, to avail cheaper credit to weaker section and mobilize rural savings. As per the census of 2011, RRBs covered total 246692667 households (both rural and urban). The total contribution of RRBs in financial inclusion was 58.7%. In the initial years, the RRBs did commendable job in advancing various types of loans to the weaker and under privileged section of rural society. However, from the early nineties, the RRBs began to show signs of un-sustainability. They failed to achieve their targets of adequate branch expansion. One of the prime objectives of RRBs was to mobilize rural savings, which they could not do. The dual factors of difficulties and constraints in deposit mobilization added to their un-sustainability. Due to their low earning capacity, the RRBs have been reporting losses year after year. According to data published by NABARD, RRBs as a group reported net loss of Rs 2,206 cores in the fiscal year ended March 31, 2020.

Financial inclusion policy under the UPA: In 2005, in a first of its kind, the RBI announced its financial inclusion initiatives. The RBI called for a revision of banking practices and urged commercial banks to align with the objective of financial inclusion. In 2008, the concept of financial inclusion was further expanded by RBIs Rangarajan committee. The committee in its report in2011 recommended the National Mission on Financial Inclusion to prioritize inclusion. The UPA government's financial inclusion policy differed on many accounts from the policy of bank nationalization. The shift in policy was needed to suit financial liberalization.

Inclusion through Microfinance: Microfinance originated in Bangladesh in 1970s and within a period of 20 years, by 1990's it become the most heavily- funded poverty alleviation programme in developing countries. Until Oct4 2017, India had some 223 microfinance institutions regulated by the RBI. MFI's are financial companies that provide small loans to people who do not have any access to banking facilities and products. In India, any loan below one lakh is considered as micro loans or microfinance. The private microfinance companies were encouraged to expand financial inclusion, but inclusion as business year 2009-10 witnessed a dramatic rise in the number of borrowers from MFIs. The social task of poverty alleviation became business opportunity. After 200, the average lending rates by private MFIs rose between 24 to 36 percent per annum. The MFI s did not lower their interest rates to continue with high profitability.

Inclusion through BC Model: The UPA govt. relied considerably on the BC Model to push through its mission on financial inclusion. The BC Model is branchless banking. It is a cost-effective method of financial inclusion. Business correspondents (BC) are retail agents engaged by banks to provide banking securities to locations other than bank branch. They identify borrowers collect small value deposits; disburse small value credit, sale micro-insurance, mutual fund products. BCs were appointed as intermediaries between bank and customers and were paid salary/ commission for their service. In an interview to the economic times, on april19, 2017, the MD of National Payment Corporation of India (NPCI) said that business correspondents are vital for driving financial inclusion. According to finance minister, there are 1.3 lakh BCs and 5 lakh facilitators. This network is extremely vital as far as financial inclusion is concerned. However, in spite of eye-catching frame of the BC Model, it has not delivered effectively because of many shortcomings; in comparison to the workload, salary was low, less than 2000 in a month. Allegations of corruption against the BCs were pervasive.

Inclusion through Employment Schemes: Programmes for self- employment of the poor has been an important component of anti- poverty programmes Of late, these programmes has also been seen as an extension of financial inclusion policy of government of India. Two such important rural employment generating programmes must find special mention in this regard- the Swarnajyanti Gram Swarozgar Yojana (SGSY) and the mahatma Gandhi national rural employment guarantee act (MGNREGA), launched in 1999. The Swarnajyanti Gram Swarozgar Yojana envisaged greater involvement of the banks. Banks were involved closely from the planning and preparation of project reports to post- credit monitoring including loan recovery. The NREGA was launched in2005 as a guarantee of 100 days wage employment in a financial year. One of the desirable goals of MNREGA is financial inclusion. Infect, MNREGA has given a large coverage to rural people in terms of financial inclusion. Even in a backward state like Chhattisgarh, it has been found through studies that 85% of beneficiaries did not have bank account before MNREGA. The study also found improvements regarding insurance.

Aadhar Linked DBT Scheme: The UPA Govt. in 2012 gave a new dimension to its financial inclusion policy by introducing the Aadhar-linked direct benefit transfer scheme. The scheme was meant to rout all cash benefits through banks, which would force the beneficiaries to open aadhar-linked bank accounts. This scheme also used the service of the business correspondents. In village where there are no bank branches, the beneficiaries were supposed to withdraw cash through the BCs. The DBT scheme of the UPA did not see much progress. From 2012, its launching year to 2014, the direct benefit transfer scheme remained as non-starter.

Financial inclusion policy under the NDA: The financial inclusion policy and scheme of the NDA Govt., which came to power in2014, is largely a continuation of the policy of the UPA Govt. co-authored by the UPA and the Reserve Bank of India. The NDA govt. under the leadership of Prime Minister Narendra Modi began its financial inclusion campaign with its flagship program the Pradhan Manti Jan Dhan Yojana. The campaign was launched by the Prime Minister on28 Aug 2014. He announced this scheme on his first Independence Day speech on 15 August 2014. Some economist called the PMJDY, a historical move and a big bang reform run by the department of financial services, ministry of finance. Under this scheme, 15 million bank accounts were opened on the inaugural day by June 2018. The number of bank accounts rose to over 318 million with deposit of over Rs 792 billion. The scheme aims at providing access to financial services, like banking/ savings and deposit accounts, remittance, credit insurance and pension. The NDA govt. decided to continue with the DBT scheme as part of PMJDY to transfer cash benefits to the Jan Dhan account holders. Initially, the Jan Dhan account holders were eligible for direct benefit transfer from four schemes- Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantrisuraksha Bima Yojana, Atal Pension Yojana and MUDRA Yojana.

The Pandemic, Lockdown and PMJDY: Some business journalists condemned the PMJDY and termed it as 'loan mela' while some termed it as a big bang reform. While the UPA ministers called the DBT a game changer in 2012, the ministers of Modi cabinet have been calling PMJDY, NDAs' game changer. The unprecedented situation created by the COVID - 19 pandemic put the DBT and PMJDY to real test. Putting aside the claims and counter-claims, merits and demerits, the DBT can be treated as a one –size-fits all policy solution at least for the time being. During the three-month long lockdown, the DBT provided the mainstay mechanism for relief packages declared by the government. The last six /seven months, the whole country faced extraordinary situation with no other way in sight, the government had to fall back upon DBT system. The DBT system has been employed to help people not only to tide over the economic crisis, but also the ongoing health crisis. On the 26th of March, the finance minister Nirmala Sitaraman, announced a Rs 1.70 lakh crore relief package through direct benefit transfer for 800 million beneficiaries under the Garib Kalyan Yojana (PMGKY). The DBT package includes both cash and kind. The cash component also includes the increased wage under the MNREGA. The support in kind was initially for three months (later extended up to November), through the public distribution system. According to a report by the state bank of India, since April 2020, about three crore new accounts were opened with a total increase in deposits of Rs 11,060 crore in PMJDY. Ex-gratia of Rs 500 was paid to women having Jan Dhan account from April to June under the Pradhan Mantri Garib Kalyan Yojana (PMGKY). The DBT scheme since its initiation on 1 January 2013 has covered quite a distance, originally it aimed at transfer of subsidies and cash benefits directly to people holding Aadhaar seeded bank accounts, hoping that direct cash transfer will reduce leakages and delays. However, with the outbreak of the pandemic covid-19, the imposition of the lock down and social distance norms, the DBT really proved a game changer and a boon in providing relief to millions of Indians reeling under the pain of loss of livelihood. Its role in sustaining life of the under-privilege Indians and tide over the immense crisis is undeniable. DBT may not be the one-size-fits all policy solution for all times but in the present crisis, this mechanism is providing support to India's teeming millions who are crisis ridden.

Conclusion and suggestions:

For decades, inclusive growth of Indian economy remained a distant dream for the poor, both rural and urban. Data from 2011 census shows the extent of financial exclusion in India. Successive government has attempted financial inclusion of the poor, through poverty alleviation schemes and rural employment generation programs. The rural sector remained the focus area of all financial inclusion policies, because 64% of Indian economy is generated from rural areas. Except one or two employment programmes like NREGA, the other poverty alleviation schemes could not make much progress. On the other hand, too much stress on the supply of credit to the rural sector has put the banking system under pressure. Recapitalization of banks and increased supply of credit cannot be a permanent measure of inclusive strategy. It is important for the banking sector to maintain a minimum profitability. After financial liberalization, there has been a decline in credit delivery to rural India and small-scale industry. Therefore, objectives should be set to mobilize the rural financial markets. Variety of organizational and institutional device should be identified to decentralized rural credit provision system. Along with the supply side of rural credit, taking into account the demand side of it is also equally important. There is a misconception that effective demand for rural financial services is essential to farmers for agricultural production purposes. However, agriculture may not be the only perceived need of poor rural households. Surveys and studies on demand for rural financial service reveal that even poor household is willing and able to service loans, if they are allowed to borrow for their perceived needs. Mahindra & Mahindra in its annual report in 2018 stated that its financial services limited would focus on rural India. It listed automobile and rural housing are the segments that offer tremendous scope for growth.

For a long time, the financial inclusion, strategy of government of India centered on poverty alleviation of the rural poor. Nevertheless, rapid urbanization in India demands attention to providing financial services to meet savings, credit and other financial requirements of the urban poor and lower middle class. At least 30-40 % of adult urban poor does not have a bank account. In slums of big cities around 50% of migrated people, do not have access to any financial service. Another major concern is the absence of financial literacy programmes to spread awareness about financial services. In 2012 late Pranab Mukherjee, the then finance minister announced 'swabhimaan' a multimedia campaign to inform, educate and motivate people to open bank accounts. The PMJDY also promised the expansion of financial literacy programmes by August 2015. However, nothing concrete in this regard is in sight. The non-operational bank accounts are also a major concern. For a sustainable and reliable inclusive strategy, the insurance sector is also equally important. The Pradhan Mantri Jeevan Bima Yojana, Pradhan Mantra Suraksha Bima Yojana under the PMJDY is encouraging steps. In our countries, corruption and systematic infirmities are common. Switching over to technology- based delivery system like the DBT will certainly minimize these maladies. In rural and unbanked are as the business correspondents and facilitators can still prove assets, if their grievances are properly addressed.

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