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RESULTS OF A BIG-TIME INITIATIVE FOR FINANCIAL INCLUSION

Sibin.K
Research Scholar, Bharathidasan University, Trichy.

Abstract
The beginning of the millennium has witnessed a transformation in the economies across the developing nations. However, reaching this to the poor people is still a difficult task in India and nurturing them over a long period to improve their economic status and capabilities is again a difficult task. The benefits of economic growth seldom reach the grass root level and this results in the emergence of a marginalized section deprived of basic financial services.

Financial Inclusion in simple words may be defined as the process of ensuring access to financial services and timely adequate credit to the most disadvantaged sections of the community at an affordable cost. According to recent RBI estimates, there are over 450 million 'Unbanked People' in India, most of whom live in rural areas. The term 'Unbanked People' refers to the people who have no access to formal financial services, but rather must rely on either family or informal providers of finance such as village money lenders. There is a close relationship between financial inclusion and economic stability and it is undisputed that access to finance is critical for enabling individuals to get rid of poverty. It is also agreed that relying on the limited resources of village money lenders exposes to the poor lending practices, personal risk and unaffordable high interest rates. Therefore the Indian government and the RBI have introduced a policy of "Financial Inclusion". As part of this policy, the government requires Indian banks to lend to priority sectors, one of which is the rural poor. The banks have welcomed this policy of the government and the central bank.

Key Words: Financial Inclusion, Inclusive Growth, Poverty, Employment, Development Indicators, Pradhan Mantri Dhan Yojana, Financial Literacy.

Introduction

"We have believed - and we do believe now - that freedom is indivisible,

that peace is indivisible, that economic prosperity is indivisible"

-Smt. Indira Gandhi

Financial inclusion is meant to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financial services available to the poor in particular. Financial inclusion is the need of the hour. To meet this urgent need the prime minister shri. Narendra Modi launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) which is a big time initiative to link the hitherto excluded poor with the banks with the aim of bringing them into the economic main stream. The ambitious financial inclusion programme, PMJDY was launched by the Prime Minister Mr. Modi on 28th August 2014. The programme is said to go on mission mode now and the three pillars of this programme are network expansion, creating awareness and extensive monitoring. At the outset the main details of this PMJDY sounds impressive.

Financial inclusion is important for development and poverty reduction. Considerable evidence indicates that the poor benefit enormously from basic payments, savings, and insurance services. For firms, particularly the small and young ones that are subject to greater constraints, access to finance is associated with innovation, job creation, and growth. Financial inclusion has moved up as a topic of great interest for policy makers, regulators, researchers, market practitioners, and other stakeholders since the adoption of inclusive growth oriented strategy as a key objective in five year plans. Financial inclusion represents a core topic, given its implications for reducing poverty and boosting shared prosperity. The increased emphasis on financial inclusion reflects a growing realization of its potentially transformative power to accelerate development gains. Inclusive financial systems provide individuals and firms with greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks.

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Objectives

- To know the extent of financial inclusion, current status and progress.
- To assess the working of Pradhan Mantri Jan Dhan Yojana (PMJDY) towards the aim of financial inclusion.

Methodology

The current study has been interpreted primarilywith the help of primary data. It is mainly an analysis of the determinants of financial inclusion on the basis of the field survey. Secondary data for the present study were collected from books, journals, project reports, magazines and internet sources etc. and also reports published by World Bank, Reserve Bank of India, NABARD, IBA, NIBM and other various published sources such as working papers, have been looked in to.

What is Financial Inclusion?

"Financial Inclusion is the process of ensuring access to financial services and timely adequate credit where needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost**''**

-Rangarajan Committee Report (2008)

The major initiative in taking banking services to the masses cutting across the various demographical and geographical areas by the government of India are the nationalization of banks, lead bank scheme, incorporation of regional rural banks, service area approach and formation of self-help groups(SHGs). The nexus between economic growth, financial deepening and financial inclusion has been recognized in India's developmental strategy, particularly the reforms from the early 1990s, when the financial and economic reform processes were initiated. However, a more focused and structured approach toward financial inclusion has been followed since 2005 when the RBI decided to implement policies to promote financial inclusion in order to urge the banking system to focus on the goal the broad framework and parameters of inclusive finance, access to a wide range of financial services like savings, credit, insurance, remittance and other banking payment services to all bankable households and enterprises at reasonable cost. In simple words, financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society.

The 11^{th} Five Year Plan (2007-12) of the government of India has further emphasized the initiatives on financial inclusion with its greater focus on inclusive growth, including formulation of a broad approved Financial Inclusion Policy (FIP) by banks, which attempts to strike a balance between the requirements of financial inclusion and that of soundness of financial institutions cum the stability of the financial system.

Background of Financial Inclusion

Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas. Thus development of rural India is a key step towards economic development for a country like ours. Even after 60 years of independence a large section of Indian population still remains unbanked. An estimated 2.5 billion working age adults globally have no access to the types of financial services delivered by the regulated financial institutions. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion policy.

Financial inclusion plays a major role in driving away poverty from the country. The main focus of financial inclusion in India is to promote sustainable development and generate employment in rural areas. According to recent RBI estimates, there are over 450 million 'Unbanked People' in India i.e. 40% of people in India lack access to even basic financial services like savings,credit,insurance facilities. So an inclusive should not only serve the bankable clients, but also integrate the non-bankable clients by making them more bankable Out of 19.9 crore household in India, only 6.82 crore households have access to banking serves. As far as rural areas are concerned, out of 13.83 crore rural households in India only 4.16 crore rural households have access to basic banking services. In respect of urban areas only 49.52 % of households have access to banking services.

Why Financial Inclusion?

There is a close relationship between financial inclusion and economic stability. First of all, financial inclusion can improve the efficiency of the process of intermediation between savings and investments through facilitating change in the composition of the financial systems with regard to the transactions that takes place, the clients that use the various services, and the new risks created or expanded by markets. Second, for financial institutions, especially banks, financial inclusion help providing a more stable retail base of deposits. Third, financial inclusion facilitates greater participation by different segments of the economy in the formal financial system. Fourth, to the extent that financial inclusion help people move from the cash economy to bank accounts which can be monitored, it helps facilitate implementation of anti- money laundering and combating the financial flow of terrorism. Fifth, the financial inclusion can contribute to enhanced financial stability through

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contributing to the improved health of the household sector, of small business and, to some extent, that of the corporate sector. Last, but not least , financial inclusion can improve the access to finance and the social quality and cost of the service that small business receive from banks.

Our policy makers have been focusing on financial of Indian rural and semi-rural areas primarily for three reasons:

- Creating a platform for inculcating the habit of saving money
- Providing formal credit avenues
- Plug gaps and leaks in public subsidies and welfare programmes.

Pradhan Mantri Jan Dhan Yojana (PMJDY) – A Bold Step

Pradhan Mantri Jan Dhan Yojana is a big-time initiative for promoting financial inclusion launched on 28th August 2014 by Hon. Prime Minister Shri. Narendra Modi. It's an ambitious programme of the current NDA government. The scheme aims to ensure that every household has at least two bank accounts. Its main focus is to open millions of accounts and targeted to bring 7.5 crore households under the banking fold by 2017-18. Under the scheme, the account openers will get a Rupay Debit card with an inbuilt accident insurance cover of Rs.1 lack and additional Rs.30, 000 life insurance cover will be offered for those opening the accounts before January 26th of 2015. It also offered an overdraft facility up to Rs.5, 000 to Aadhar enabled accounts after satisfactory transactions in the accounts for six months.

Econometric Results of Financial Inclusion and its Determinants

To prove the relationship between financial inclusion and its determinants, here used the logistic regression model. Econometric model for the dependent variable ***financial inclusion*** can be written as follows.

$$FI = \alpha + \beta_1 CS + \beta_2 SH + \beta_3 ML + \beta_4 NFA + \beta_5 BV + \Omega$$

Where,
FI: - Financial inclusion
CS: - credit source
SH:-Saving Habit
ML:-Dependence on money lenders
NFA: - No Frill Accounts
BV: - Frequency of Bank visit.Ω: -Error term

Logistic Regression Results of Financial Inclusion

Financial Inclusion	Coefficient	Odds Ratio
Credit source	0.027**	1.347**
Saving Habit (SH)	0.072**	1.43**
Dependence on money lenders (ML)	-0.038**	0.91**
Awareness on No frill accounts (NFA)	0.044**	1.41**
Frequency of Bank Visit (BV)	0.093**	1.9**

Source: Computed from primary data.
** Indicates Significance at 5 percent level.

Hypothesis Tested

H_0: No relation between dependent variable and its determinants.
H_1: There is relation between dependent variable and its determinants.
After testing at 5% level of significance, it is concluded that null hypothesis is rejected (because the P value of five explanatory variables is less than 5%) and that it can be concluded that there is stronger relation between financial inclusion and its determinants or financial inclusion is strongly influenced by its determinants.

Findings

- After doing multi variate analysis, it can be concluded that financial inclusion is the most powerful factor which is strongly determined by factors such as awareness on opening no frill accounts, bank visits,saving habit, credit source, and dependence on money lenders.
- The scheme of PMJDY has so far contributed greatly towards the aim of financial inclusion.

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Measures for Promoting Financial Inclusion

Here are some suggestive measures for promoting financial inclusion. If we could implement the following points in letter and spirit, the objective of financial inclusion can be attained to a great extent.

- Financial literacy.
- No frill accounts
- Introduction of GCC(General Credit Card)
- OTS(one time Settlement) for overdue loans up to Rs.25,000/-
- Linkage of SHGs with bank
- KCC(Kisan Credit card)
- KYC norms simplified
- Business facilitators and correspondence model.

Conclusion

Financial inclusion is meant to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. PMJDY which is a big time initiative to link the hitherto excluded poor with the banks with the aim of bringing them into the economic main stream. If implemented in letter and spirit in India, PMJDY can go a long way to reach the unreached and touch the untouched particularly the poor brackets of the society.

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