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Financial Inclusion: A Step towards Eradicate Poverty

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Abstract: This study seeks to search out the relationship between Financial Inclusion & Poverty and how Financial Inclusion can help to reduce poverty in India. For this study, data have been collected from secondary sources and simple average methods have been applied. Result shows Financial Inclusion to be offering incremental and complementary solutions to tackle poverty which can promote the inclusive development. This study finds that since 2005 i.e., after launching of Financial Inclusion in India, the rate of poverty had been declining at 3 fold rate.

Keywords: Financial Inclusion, Poverty Eradication, Social Inclusion, Economic Development

1. Introduction

India's economy is one of the largest and one of the fastest economies in the world but 22% of the total populations of India are living Below Poverty Line (BPL) which is much poorer than the world average, 18%. Although the chosen and conventional approaches to tackle poverty are being useful and necessary, they are not up-to the mark to tackle the challenges. Financial Inclusion offers incremental and complementary solutions to tackle poverty and to promote inclusive development. Financial Inclusion, therefore, may be the only way to make financial facility available to the rural poor at all levels of income. Government of India has been launching various schemes for the poor people like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Indira Aawas Yojana (IAY), Indira Gandhi National Old age Pension Scheme (IGNOAPS), National Family Benefit Scheme (NFBS), etc. But these schemes will not be successful if all poor people are not well acquainted with the schemes and hold a Bank account for Direct Benefit Transfer (DBT). So, Financial Inclusion and Financial Literacy can solve this problem. The new financial products and various schemes of our Government which are especially targeted to the rural poor will be able to remove poverty in the rural areas and can play crucial roles in socio economic development in rural society that facilitates Social Inclusion.

In India, five year planning was launched in the year 1951. Now the main theme of 12th five year plan is "faster, sustainable and more inclusive growth". Inclusive Growth is possible by the way of Financial Inclusion i.e., delivery of financial services at affordable costs to vast sections of disadvantaged people and low income groups of people. A 2006 UN report on building inclusive financial sectors for development defined an 'inclusive financial system' as one that provides credit to all "bankable" individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone.

More than 50% of Indian population depends upon agriculture but it earns only 20% of the Gross National Income. Its growth rate is very low, which is around 2 to 3 percent but growth rate of Industry and Service Sector is around 8 to 9 percent. Income of most of the people of India is very low and they haven't found any excess money to save. Naturally they have no relation with the banks. So it is required to up-lift the lower sections of people by raising their income. Now the question is how the income may be raised? – Answer is initially they must be provided with various assistance, grants, opportunities etc. Government of India had launched various programmes like MGNREGA, Annadaya Anna Yojana (AAY), Indira Aawas Yojana (IAY), Indira Gandhi National Old age Pension Scheme (IGNOAPS), National Family Benefit Scheme (NFBS), LPG subsidy and other subsidies through Rationing System. Now the question is how Financial Inclusion can facilitate this situation? – Answer is if all people have a Bank Account, all the grants/subsidies can be credited to their bank account directly which is called Direct Benefit Transfer (DBT) scheme. To facilitate this scheme, Government of India has launched ADHAAR card which bears unique identification number to each and every citizen. Secondly, poor people's income may be raised by providing some loans to them from financial institutions at a low rate of interest and after increasing their income they must save money for their uncertain future and the excess money will be deposited into bank. Recently Government of India has launched Jana Dhan Jojana. Under this scheme every household must have a Bank Account which can be opened with zero balance. So, development of rural as well as urban people of India is possible through Financial Inclusion.

2. Review of Literature

A number of studies have been made by different authors regarding Financial Inclusion. Review of some of those studies is presented bellow-

Marshall (2004) had made a study on- “Financial Institutions in Disadvantaged Areas: A Comparative Analysis of Policies Encouraging Financial Inclusion in Britain and the United States” and he concluded that there are multiple causes of financial exclusion, economic and socio cultural differences to both individual users and the regulatory framework for financial institutions. Only one single policy can’t provide solution to financial exclusion.

There are significant differences in policy towards Financial Exclusion in Britain and the USA that reflect important differences in financial sector regulation and supervision between the two countries.

Chibba (2009) examined on “Financial Inclusion, Poverty Reduction and Millennium Development Goals” and finds five models, viz., a) Formal financial sector consensus, b) Public sector leadership, c) Private sector development, d) Civil Society/NGOs and e) the catalytic model. Though one or two of the models play a leading role in countries such as India, South Africa and Mexico, Financial Inclusion is a dynamic and multi dimensional process and as such, all of these models play simultaneously, to varying degrees, in most of the developing countries.

Pal and Pal (2012-13) examined on “Income Related Inequality in Financial Inclusion and Role of Banks: Evidence of Financial Exclusion in India” in their research work and found that the gender of household heads and social groups do not have significant effect on the use of formal financial services by urban households. However, in rural areas of India, the probability to use formal financial services by a female household is significantly lower than a male handed household.

Alexandre and Eisenhart (2013) examined on “Mobile Money as an Engine of Financial Inclusion and Lynchpin of Financial Integrity” and concluded that there is no trade off between financial inclusion and financial integrity. On the contrary, they reinforce each other and mobile money strengthens that relationship.

Shankar (2013) examined “Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers?” and she found that Micro Finance Institutions (MFIs) do break down many barriers to Financial Inclusion but MFIs needs to have more flexible operating models and should offer portability of accounts.

Singh and Tandon (2013) discussed on “Financial Inclusion in India: An Analysis” and they concluded that in order to achieve the goal of total financial inclusion, policy makers, banks, MFIs, NGOs, and regulators have to work together.

Sharma and Kukreja (2013) researched on “An Aalytical Study: Relevance of Financial Inclusion for Developing Nations”, and concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Thaper (2013) wrote on “A study on the Effectiveness of the Financial Inclusion Progress in India” in her research work and found that though the banks are complying with RBI norms in terms of opening branches within areas of population of at least 2000, offering no frills account, Kisan Credit Card, simplifying KYC norms, but still a lot of effort is required for the progress of Financial Inclusion.

Memdani & Rajyalakshmi (2013) researched on the topic “Financial Inclusion in India” and found that the progress of Financial Inclusion is too small in comparison to the vastness of our country and so, banks and financial institutions need to synchronize all their energies towards Financial Inclusion.

Hameedu (2014) analyzed on “Financial Inclusion - Issues in Measurement and Analysis” based on secondary data and suggested that the banks would have to evolve specific strategies to expand the outreach of their services in order to promote Financial Inclusion. The policy for achieving total Financial Inclusion keeps changing to adopt the needs of the environment.

Avais (2014) examined the topic “Financial Inclusion and Poverty Reduction” in his research work and suggested to make people aware of the financial services and financial innovations available to them. There is a need for more financial services that must be compatible according to need of rural people.

3. Research Gap

None of the studies has been made showing the effect of financial inclusion on poverty ratio in India after launching of Financial Inclusion programme since the year 2005, and so the present study has been undertaken.

4. Objectives of the Study

1) To observe the burning problem of poverty in India;
2) To study how financial inclusion can help to reduce or eradicate poverty.

5. Historical Background of Financial Inclusion in India

Before bank nationalization, banks acted for their self interest and most of the branches were centralized in urban areas. In order to remove the inequality by spreading the banking productivity to the lower sections of people, banks were nationalized in 1969 and again in1980. In the Annual Policy Statement of 2005-06, RBI urged banks to review their existing practices to achieve the objective of Financial Inclusion. Financial Inclusion was introduced by K. C. Chakraborty, Chairman, Indian Bank, in 2005. Mangalam in Tamil Nadu became the first village in India where all households were provided with banking facilities. The following initiatives were taken by RBI to promote Financial Inclusion:

1) 'No frills' bank accounts;
2) Use of local language in the application forms;
3) Simplifying KYC norms for the small accounts (balance not exceeding Rs.50000);
4) Appointment of Rural Intermediaries;
5) Adoption of Information and Communication Technology (ITC);
6) Adoption of Electronic Benefit Transfer (EBT);

Banks have been mandated to allocate at least 25% of the total number of new branches to rural areas, with population up to 9999 each.

Recently Government has launched Jana Dhan Joyana where customers can open Bank Account with zero balance. The Reserve Bank of India has undertaken a project entitled "Project Financial Literacy". The objective of the project is to disseminate information regarding the Central Bank and general banking concepts to various target groups including school and college going students, women, rural and urban poor, defence personnel and senior citizens. The Reserve Bank of India asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As an outcome of the campaign Pondicherry, Tamil Nadu, Himachal Pradesh and Kerala were declared 100% financial inclusion in all their districts. Reserve Bank of India's visualization for 2020 is to open nearly 600 million new customers' accounts and service them through a diversity of channels by leveraging on information technology.

6. Scenario of Financial Inclusion in Different Countries

Now let us have brief overviews of Financial Inclusion in different countries like Brazil, UK, South Africa, etc.

Brazil has implemented Branchless Banking model to achieve financial inclusion and Business Correspondents (BCs) had existed in Brazil since the 1970s. This model has grown rapidly as world's largest such network having1, 50,000 BCs accounting for about 62 percent of the total number of points of service in the financial system.

"Now let's talk money" is a UK government's campaign to support low income groups of people on money management. This campaign is funded from the UK Government's Financial Inclusion Fund. It gives advice on how to manage money better. To tackle the financial exclusion UK government has initiated this 'now let's talk money' campaign which is a great way of engaging people with banking, affordable credit and advice services.

California is one of the states of the USA where highest number of migrants take shelter. To have inclusive system which takes care of immigrants also, California has launched a pay card which provides financial services to people without bank accounts.

Since Financial Inclusion means availability of financial services to all in an economy, Mexico has identified and adopted MFI driven model which is considered as the most effective model throughout the world.

A pilot project of issuing debit cards to some clients without bank accounts has proved to be such a success that the Canada will make this option permanent. It will be the first programme of its type in Canada.

7. Methodology of the Study

The data have been collected from the website of Planning Commission, Ministry of Rural Development, Government of India, reputed journals, etc. So the data are secondary in nature and the time period is taken from the year 1993-94 to 2011-12 for this analysis. The data collected from the website are presented in tabular form as bellow:

Table A. *Statistics of Progress of Scheduled Commercial Banks in India.*

Sl No.	Particulars	March-2005	March-2012
1	Number of bank offices in India	70373	102377
2	Population per office (in thousand)	16	13
3	Deposit of scheduled commercial bank per office (Rs. in Million)	257	643
4	Credit of scheduled commercial bank per office (Rs. in Million)	170	498
5	Scheduled commercial banks' advances to priority sectors. (Rs. in billion)	3706.03	14710.5
6	Banks credits of scheduled commercial banks of India (Rs. in billion)	11004.28	46118.52

Source: Statistical tables relating to banks in India 2012-13, published by RBI.

Table B. *National Level Percentage and Number of Poor Estimated by Tendulkar Method Using Mixed Reference Period (MRP).*

Year	Poverty Ratio (%)			Number of Poors (million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1

Year	Poverty Ratio (%)			Number of Poors (million)		
	Rural	Urban	Total	Rural	Urban	Total
2011-12	25.7	13.7	21.9	216.5	52.8	269.3
Annual Average Decline: 1993-94 to 2004-05 (Percentage points per annum)	0.75	0.55	0.74			
Annual Average Decline: 2004-05 to 2011-12 (Percentage points per annum)	2.32	1.69	2.18			

Source: Press Notes of Poverty Estimates, 2011-12 by Planning Commission, Government of India.

Table C. *Percentage of Persons Below the Poverty Line (Tendulkar Method).*

Year	Rural	Urban	Total (Whole Country)
1993-94	50.1	31.8	45.3
2004-05	41.8	25.7	37.2
2011-12	25.7	13.7	21.9

Source: Press Notes of Poverty Estimates, 2011-12 by Planning Commission, Government of India.

Table D. *Number and Percentage of Population Below Poverty Line by States: 2011-12.*

Sl. No.	States	Rural		Urban		Total	
		%age of persons	No. of persons (in lakh)	%age of persons	No. of persons (in lakh)	%age of persons	No. of persons (in lakh)
1.	Andhra Pradesh	10.96	61.80	5.81	16.98	9.20	78.78
2.	Arunachal Pradesh	38.93	4.25	20.33	0.66	34.67	4.91
3.	Assam	33.89	92.06	20.49	9.21	31.98	101.27
4.	Bihar	34.06	320.40	31.23	37.75	33.74	358.15
5.	Chhattisgarh	44.61	88.90	24.75	15.22	39.93	104.11
6.	Delhi	12.92	0.50	9.84	16.46	9.91	16.96
7.	Goa	6.81	0.37	4.09	0.38	5.09	0.75
8.	Gujarat	21.54	75.35	10.14	26.88	16.63	102.23
9.	Haryana	11.64	19.42	10.28	9.41	11.16	28.83
10.	Himachal Pradesh	8.48	5.29	4.33	0.30	8.06	5.59
11.	Jammu & Kashmir	11.54	10.73	7.20	2.53	10.35	13.27
12.	Jharkhand	40.84	104.09	24.83	20.24	36.96	124.33
13.	Karnataka	24.53	92.80	15.25	36.96	20.91	129.76
14.	Kerala	9.14	15.48	4.97	8.46	7.05	23.95
15.	Madhya Pradesh	35.74	190.95	21.00	43.10	31.65	234.06
16.	Maharashtra	24.22	150.56	9.12	47.36	17.35	197.92
17.	Manipur	38.80	7.45	32.59	2.78	36.89	10.22
18.	Meghalaya	12.53	3.04	9.26	0.57	11.87	3.61
19.	Mizoram	35.43	1.91	6.36	0.37	20.40	2.27
20.	Nagaland	19.93	2.76	16.48	1.00	18.88	3.76
21.	Odisha	35.69	126.14	17.29	12.39	32.59	138.53
22.	Punjab	7.66	13.35	9.24	9.82	8.26	23.18
23.	Rajasthan	16.05	84.19	10.69	18.73	14.71	102.92
24.	Sikkim	9.85	0.45	3.66	0.06	8.19	0.51
25.	Tamil Nadu	15.83	59.23	6.54	23.40	11.28	82.63
26.	Tripura	16.53	4.49	7.42	0.75	14.05	5.24
27.	Uttarakhand	11.62	8.25	10.48	3.35	11.26	11.60
28.	Uttar Pradesh	30.40	479.35	26.06	118.84	29.43	598.19
29.	West Bengal	22.52	141.14	14.66	43.83	19.98	184.98
30.	Puducherry	17.06	0.69	6.30	0.55	9.69	1.24
31.	Andaman & Nicobar Islands	1.57	0.04	0.00	0.00	1.00	0.04
32.	Chandigarh	1.64	0.004	22.31	2.34	21.81	2.35
33.	Dadra & Nagar Haveli	62.59	1.15	15.38	0.28	39.31	1.43
34.	Daman & Diu	0.00	0.00	12.62	0.26	9.86	0.26
35.	Lakshadweep	0.00	0.00	3.44	0.02	2.77	0.02
	All India	25.70	2166.58	13.70	531.25	21.92	2697.83

Source: Press Notes of Poverty Estimates, 2011-12 by Planning Commission, Government of India.

Notes:

1. Population as on 1st March 2012 has been used for estimating number of persons Below Poverty Line. (2011 Census population extrapolated)
2. Poverty line of Tamil Nadu has been used for Andaman and Nicobar Island.
3. Urban Poverty Line of Punjab has been used for both rural and urban areas of Chandigarh.
4. Poverty Line of Maharashtra has been used for Dadra & Nagar Haveli.
5. Poverty line of Goa has been used for Daman & Diu.
6. Poverty Line of Kerala has been used for Lakshadweep.

8. Analysis and Interpretation

From Table- A it can be easily realized that the overall picture of banking industry has progressed during the period from March-2005 to March-2012 due to introduction of financial inclusion. The effect can be observed from Table B or C, where it is seen that during the 11 year time period from 1993-94 to 2004-05, the average decline in the poverty ratio was 0.74 percentage points per year. It accelerated to 2.18 percentage points per year during the 7 year period from 2004-05 to 2011-12. So it is easily observed that the rate of decline in the poverty ratio during the 7 year period from 2004-05 to 2011-12 was about 3 times than that of the 11 year period from 1993-94 to 2004-05. On the other hand in 2011-12, India had almost 270 million persons below Tendulkar Poverty Line as compared to almost 404 million in 2004-05 i.e., a reduction of 134 million persons over the 7 year period.

But from Table D it is seen that the percentage rate of persons below poverty line in rural as well as urban areas in many states of India are much worse than the all India rate. Dadra & Nagar Haveli bears the highest rate of rural poverty which is 62.59% and Manipur has the highest rate of urban poverty of 32.59%. It is also seen that the rate of Below Poverty Line population in rural areas of different states of India are much poorer than that in urban areas of different states of India.

9. Concluding Remarks

India is still suffering from the fever of poverty. Even today, 22% of the total populations of India are living below poverty line (BPL) which is much poorer than the world average of 18%. Most of the people of India have no relationship with the bank and post office. Financial Literacy campaign must be started more effectively to overcome this burning problem. In this regard it can be stated that India Post i.e., Department of Post has the largest network system in the world. It has 154822 branches all over India. So like bank it has been playing a vital role in Financial Inclusion. Some people say that poverty in our county has been declining since 1991 due to new economic policy and reform measures adopted by the Government of India. But in this study it is observed that the poverty had been declining at about 3 fold rate after launching “Financial Inclusion” in the Indian economy since 2005. So, it can be concluded that Financial Inclusion also plays a great role in eradicating poverty in India.

10. Suggestions

The suggestions are as follows-

a) Financial Literacy programme to be started more effectively;
b) Banks or other financial institutions have to provide financial as well as mental assistance to the poor people;
c) Opening a Bank Account should be mandatory to all people;
d) All grants, subsidies of Government must be transferred through Bank Account.

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