Financial Inclusion- A Driver for Poverty Alleviations

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Abstract

Financial sector has witnessed many changes over the last few decades. The economic development of the country is co related with the Financial Sector. At the threshold of the new millennium, 872.3 million people are below poverty line of which 179.6 million people live in India. Out of which 29.5% of people are from rural India. Such high incidence of poverty is a matter of concern in view of the fact that poverty alleviation has one of the major objectives in the 21st century. Financial Inclusion serves the purpose to a greater extent. This study is explanatory in nature covering the need for financial Inclusion in India. The secondary data have been used. This study depicts that Financial Inclusion plays a major role in reduction of Poverty.

Keywords: *Financial Inclusion, Financial Sector, Poverty Line, Poverty Alleviation, Economic Development.*

Introduction

Financial Inclusion & Financial Literacy are the effective ways for poverty reduction. Before going for further discussions, we need to know what Poverty Line is. It denotes a minimum income level used as an official standard for determining the proportion of a population living in poverty. In other words "those who spend Rs. 32 a day in rural areas and Rs. 47 in town & cities cannot be considered as poor". Below Poverty Line (BPL) is an economics benchmark used by the Government of India to indicate the economic disadvantage and to identify the individual families which require Government assistance. To eradicate is poverty alleviation. The role of Financial Inclusion is imminence. Financial Inclusion has the potential to enhance the socio- economic condition of the lowest decile.

2. Literature Review

Mandira Sharma Jesim Pais, (2008) Financial Inclusion & Development across country analysis, pointed out that level of human development and that of the Financial Inclusion are strongly positively correlated. They also found out that Income Inequality, Adult Literacy and Urbanization play an important factor. P. Lakshmi & S. Visalakshmi in their paper "Impact of Cooperatives in Financial Inclusion and Comprehensive Development" pointed out that active participation of cooperative has promoted Financial Inclusion in rural India. Atul Raman, (2012) in his paper has pointed out that Financial Inclusion plays a major role in driving away Poverty in India. Dr. Joji Chandran, (2008) states that Inclusive Financial System significantly raised growth, alleviates poverty and expands economic opportunity. Usha Tharot, (2007) reported that banks are entering into an agreement with the Indian post for using Post Offices as agents for branchless banking and to promote Financial Inclusion in rural India.

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Objectives of the study:

- To study about the Indian Economic Growth & Development
- To examine the need of Financial Inclusion in poverty reduction.
- To study about the effectiveness of RBI measures for Financial Inclusion.

Research Methodology:

This study is mainly based on Secondary Data. These data are collected from various websites, journals, e-books, magazine, and articles. This paper is mainly theoretical in nature covering the entire aspect of the effect of Financial Inclusion for poverty reduction in India.

Causes of Poverty in India:

The major causes of poverty among India's rural people both individuals & communities are as follows:

- Lack of access to Productive Assets & Financial Resources.
- High Level of Financial Illiteracy.
- Inadequate Health Care.
- Limited access to Social Services.

On the map of poverty in India, the most affected and poorest areas are part of Rajasthan, Madhya Pradesh, UttarPradesh, Bihar, Jharkhand, Orissa, Chhattisgarh & West Bengal.

Economic Growth & Economic Development:

There are significant differences between Economic Growth and Economic Development. The term 'Economic Growth' refers to the increase of a specific measure such as real national income, GDP as per capita income. When the GDP of a nation rises, economists refer to Economic Growth. On the other hand,'Economic Development' implies improvement in a variety of indicators such as Literacy Rate, Life Expectancy and Poverty Rates.

Financial Inclusion& Economic Development:

Financial Inclusion is one of the biggest challenges in the world of economists. It is enabling the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Banking services are essential for the welfare of public. Financial Inclusion has positive externalities. It leads to increase in savings, investment & thereby spurs the process of Economic Growth. Financial Inclusion is co-related with Economic Growth and provision of services. Banks provide finance to Entrepreneurs and enterprises for investment. They seek deposits from public to mop up liquidity and lend to the Government. As economy grows, it generates additional new demand for these services. This will help in the growth of Financial System. The evolutionary development of the Financial System is in response to the process of Economic Development.

Financial Inclusion as a driver for Poverty Alleviations:

Financial Inclusion is not something that is to be done in the future. It has to be done now. Information & Communication Technologies (ICTs) play a critical role in ensuring last time delivery of financial services. The Government initiated the Common Services Centers (CSC) scheme to set up over 100000 telecenters as the front end delivery vehicles for mainstreaming the rural citizen. The services of CSC can easily be used by the financial services industry, including insurance players, like Life Insurance Corporation (LIC) and the banking industry to foster Financial Inclusion. The major objective of Financial Inclusion is to extend the scope of activities of the organized financial system to the needy people of low income. Financial Inclusion is aimed at providing banking/ financial services to all people in a fair, transparent and equitable manner at an affordable cost.

Services Fall under Financial Inclusion:

Financial product and services provided to the people through Financial Inclusion are:

- Service Facility
- Overdraft Facility
- Payment & Remittance Services
- Low Cost Financial Services
- Cheque Facility.
- All kinds of Commercial Loans.
- Electronic Fund Transfer(EFT)
- Credit & Debit Card users
- Entrepreneurial Credit.
- Financial Advice.
- Micro Credit
- Insurance(Health Insurance)

Figure: I Financial inclusion

Source: www.nabard.org

Need for Financial Inclusion for Poverty Reduction

Financial Inclusion can be a key driver of economic growth & development and poverty alleviation as access to finance can boast job creation, reduce vulnerabilities to stocks and increase in human capital. Half of the world adult's population does not have an account at formal financial institutions. Extreme disparities in access to and usage of formal financial services have paved the way for growth of financial inclusion in India.

By providing suitable cost effective financial products to low income families will transform informal unbanked sectors into formal financial sector. Due to lack of Financial Literacy and practically no access to financial services, the substantially weaker section of the society is unaware of financial services and has to depend upon informal sector. To eradicate this problem the growth of Financial Inclusion started.

RBI Policy Initiative & Recent Measures

1. Opening of BSBD (Basic Savings Bank Deposit) with minimum ordinary facilities such as zero balance account deposit, withdrawal of cash at bank branches & ATMS credit of money through electronic payment channels.
2. Use of simplified KYC norms for opening of account.
3. RBI has simplified branch authorization to tackle the issue of uneven spread bank branches, schedule commercial bank are permitted to freely open branches in the Tier 2 to Tier 6 centers with population of less than 1 lakh.
4. Banks are directed to allocate at least 25% of total number of branches to be opened during the year in unbanked rural sector.
5. Redress of customer grievances and close supervision of BC operations
6. All rural branches of schedule commercial banks should scale up Financial Literacy efforts through conduct of Financial Literacy Camp at least once a month to facilitate Financial Inclusion.

Conclusion

Financial Inclusion becomes a major pre-requisite to poverty alleviation. RBI's vision for 2020 is to open nearly 600 million new customer accounts and services by then through variety of channels. Hence, the biggest challenge the world is facing is to ensure the financial services reach the unreached sections to provide an impetus to the process of inclusive economic growth. The Government should encourage the banking system of India to adopt Financial Inclusion by means of financial assistance, advertisement, and various programs to achieve inclusive growth in the coming years. The role of banking should be imminent to bring a large number of people in a single umbrella of Financial Inclusion. This will also result in Poverty Reduction.

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