

ROLE OF FINANCIAL INCLUSION IN REDUCING POVERTY AND INEQUALITY IN RURAL AREAS

Shipra Sinha
Research Scholar,
Department of Economics,
Jammu University, Jammu, India.

Abstract : Rural indebtedness is one of the serious problems of India. The prime responsibility to meet the credit needs of the rural India was of cooperative sector and later to the commercial banks. In spite of several reforms in financial sector, the condition of rural credit could not change much. Despite different advancement in the banking sector like internet banking, online money transfers and mushrooming of ATM branches, financial exclusion is still a reality. Rural people do not have proper access to financial services and their need of rural credit has not been adequately served by them. Borrowing from the informal sources is common in rural areas. So, rural indebtedness is the indicator of poor financial inclusion and strong hold of money lenders over the rural economy. Like a hereditary disease it passes on from one generation to the next generation. Rural poor generally borrow loan for two purposes i.e. productive or unproductive. When they take loan for productive purposes, it might be possible for them to repay the loan out of their profit. On the other hand sometimes rural poor takes loan for unproductive purposes like for social obligation, it becomes difficult for them to repay the loan as well as pending interest on time and it gets converted into indebtedness. Because unproductive loan does not contribute to production but instead of waste consumption and gives rise to debt. To repay the old loans they incur new debts and get stuck in the circle of indebtedness, which passes from one generation to another generation. Present study will contribute an in-depth insight into credit delivery system and financial inclusion in India. This study will evaluate the existing lacunae in the present credit delivery system and financial inclusion. This study will also endeavor to furnish both analysis and suggestions towards:

- i. Increasing the accessibility of the credit institutions by simplifying the credit processes and procedures.
- ii. Improving the financial inclusion of the rural population.

I. Background

Poverty is attributed to socio-economic structure prevailing in the country. Urban poor are mostly the migrated population from the rural area. They migrate from rural areas in search of better opportunity of income, food and to save themselves from the clutches of money sharks i.e. Money lender. Poverty in rural area is due to high population growth. Rural poverty does not mean scarcity of food but they do not have enough purchasing power to get food and proper nutrition. They are devoid of three basic needs food, clothing and shelter. Financial inclusion can play a major role in reducing poverty and inequality in rural areas. Main idea behind financial inclusion is to empower poor people to participate effectively in all economic and social activities. Banks are important agencies for the generations of savings of the community.

II. Aim of Study. Aim of our study is to:-

- Contribute an in-depth insight into purpose of nationalisation of banks in early sixties.
- Ascertain the reasons for financial exclusion of rural and urban poor.
- Role which can be played by banks and financial institutions.

III. Purpose of Nationalisation of Banks

Banking industry in India has come a long way from the time when banks used to be mere deposit-taking and money-lending institutions. Aim of the bankers at that time was maximum profits with minimum risk. 'Class banking' and not 'mass banking' was the motto of the people managing the banks. With the nationalization of banks in 1969, the concept and attitude of the bankers got totally changed. Banks became institutions with social responsibility. Decided to go to weaker sections of the society and help them in achieving their aspirations. Rural areas which hitherto were untouched by banks became the special targets of the banks. More than 40% of the branches of nationalized banks are in rural areas.

IV. CAUSES OF FINANCIAL EXCLUSION

- **Distance from the Financial Institution.** In rural areas banks are always far in the cities. Rural poor generally avoid going there because of transportation cost. Local money lenders and relatives seems easy options for lending to them as they are easily available in their area.
- **Terms and Conditions and Collaterals** Poor rural households are always hand to mouth. In their time of adversity credit acts as life saver. But the requirement of the collateral for obtaining credit act as credit constraint. Small farmers and poor households are unable to present collaterals because small and fragmented land holdings. Due to lack of collaterals they do not opt formal institution to borrow loans for investment purpose and money lenders and relatives becomes easy option for lending.
- **Level of Income** Level of income is an important determinant in obtaining credit from bank. Very poor households find it difficult to obtain credit from financial institutions even though the service is meant for them. Financial institutions also see the repayment capacity of the borrowers and always try to minimize the risk of bad debt.
- Limited access to credit for women because in India they generally do not hold title to assets. They need male guarantor to borrow money for farming.
- **Lack of legal documents.** Financial Institution always requires legal identity of borrower for lending because of safety and security reasons. Women, minorities and refugees always lag behind because of lack of proper legal identity like birth certificates or written documents.
- **Illiteracy** Rural poor are not very literate to understand the paper work for lending. Most of them are unable to even write his or her name on papers and still give thumb impressions. Most of them are not able to calculate the interest over the amount taken by them. So, illiteracy is one of the main credit constraints in rural India because people are simply afraid of documentation and calculation.
- **Bank Charges** Bank charges are one of the main credit constraints for those hand to mouth and taking loan for their livelihood.
- **Type of Occupation like Unorganized Enterprise** Banks have not developed the evaluation system for the loan application of borrowers from unorganized sector and sometimes deny from lending. The unorganized sector consists of workers in manufacturing, constructions, household workers like cooks, maid, drivers, guards and agricultural workers. The informal sector still operates in cash and doesn't maintain bank account.
- **Psychological Constraints and Feeling that Banks are Working for their Own Profit** Poor and illiterate household has a feeling that it is better to keep cash in hand then in bank for rainy days. They consider it a difficult work to withdraw their own money from the bank.

V. Upliftment of Weaker Section

- Banks have contributed a lot in developing in rural India.
- Banks were entrusted with this Herculean task immediately after nationalism.
- Target was to provide at least one bank for every 1700 of population in rural and semi-urban areas,
- Thanks to the dedicated work under its apex organization for agriculture, NABARD, banks have already achieved this target.
- NABARD regulates the flow of credit, monitors growth of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts.
- Regional rural banks were also created to meet the credit requirements of only weaker sections and small entrepreneurs.
- Lot has been done by the banks for the above classes of people residing in rural India.

VI. Mentor of the Rural Poor

- Rural indebtedness had taken deep roots in the country.
- It constituted a serious economic, social and political problem.
- Banks came to the rescues of the rural population as a 'messiah' and gave them a new sense of dignity.
- The picture of rural India has changed in a big way during the last two decades.
- There has been no scheme or development project in which banks have not been directly involved.
- Banks, it can be claimed, have achieved almost all the targets for priority sector advances fixed for them in the last few years.
- Banks are not only giving loans for purchase of tractors, seeds or for digging of wells, but also becoming active participants in bringing new technology to the farmers and in educating them

VII. Main Distributor of small savings in the Weaker Section

In the under-developed countries, not only is the capital stock extremely small but, as pointed out above, the current rate of capital formation is also very low. The serious capital deficiency in under-developed countries is reflected in the small amount of capital equipment per worker and in limited knowledge, training and scientific advance. These are serious handicaps in economic development and here the banks can play a useful role. The role of banks in economic development is to remove the deficiency of capital by stimulating savings and investment.

VIII. Main Distributor of small savings in the Weaker Section

A sound banking system mobilizes the small and scattered savings of the community, and makes them available for investment in productive enterprises. In this connection, the banks perform two important functions:

- (a) They mobilize deposits by offering attractive rates of interest, thus converting savings, which otherwise would have remained inert, into active capital.
- (b) They distribute these savings through loans among enterprises which are connected with economic development. In this way, they promote the development of agriculture, trade and industry.

IX. Social Upliftment of Rural Poor through Dispersal of Agriculture Credit

Most of the poor and disadvantaged section depends on agriculture. Agriculture in India has a significant history and it is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of India. Finance in agriculture is an important as development of technologies. A dynamic and growing agricultural sector needs adequate finance through banks to accelerate overall growth. Most of the credit-related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector.

X. Banks at our Door steps in Rural Areas

In addition to the above traditional roles, banks also perform certain new age functions which could not be thought of a couple of decades ago. Today, the banking sector is one of the biggest service sectors in India. Availability of quality services is vital for the well-being of the economy. The focus of banks has shifted from customer acquisition to customer retention. With the stepping in of information technology in the banking sector, the working strategy of the banking sector has been revolutionary changes. Various customer-oriented products like internet banking, ATM services, telebanking and electronic payment have lessened the workload of customers. The facility of internet banking enables a consumer to access and operate his bank account without actually visiting the bank premises. The facility of ATMs and credit/debit cards has revolutionized the choices available with the customers. Banks also serve as alternative gateways for making payments on account of income-tax and online payment of various bills like the telephone, electricity and tax. In the modern-day economy where people have not time to make these payments by standing in queue, the services provided by banks are commendable.

XI. Conclusion

Banking system has come a long way as an agent of financial inclusion for the social upliftment of rural poor. It has endeavored a lot to ameliorate the problem of poverty and to mitigate inequality prevailing in the system by providing many facilities and most importantly credit at an affordable rate but it is important to get things implemented on ground proactively rather than mere rhetoric. Role of the banks in social upliftment is very much feasible by solid policy formulation by the specialized agencies.

