

Financial Systems is an important Component for Economic Rural Management – A Study

*Niranjan B Poojar

Abstract

This paper studies the period of high growth era has been financially less inclusive. The high rates of overall economic growth have not rally trickled down to the marginalized section. On August 15, 2014, Modi announced his new mission of PradhanMantri Jan DhanYojana (PMJDY) as a unique scheme of financial inclusion. The main objective of the scheme is to make banking facilities available to all households in India. So, when we are talking of financial inclusion, a serious effort should be initiated to correct the policy distortions. However, the term financial inclusion is perceived in different ways under different contexts. There is a view that only access to credit is treated as financial inclusion whereas the other view includes all the services extended by the financial institutions. There is substantial evidence that financial inclusion promotes growth. In country like India, inclusive financial development can play a crucial role in moving households out of poverty – indirectly by stimulating growth and directly by providing savings and credit services to the poor. Swarnajayanti Gram SwarozgarYojana (SGSY), a national level anti-poverty program of government of India with regard to poverty eradication and Financial inclusion. SGSY(Swarnjayanthi Gram Swarozgar Yojana) is being implemented since April 1999 as a major anti-poverty scheme for the rural poor, by organizing them into Self Help Groups (SHGs), providing them with skill development training and helping them to get credit linkage with financial institutions and providing infrastructure and marketing support for the products produced by them. Government of India and the State Government are sharing the costs in the ratio of 75:25. There is no denying the fact that Okay; we are the fastest growing economy in the world outstripping China. What is the reality? India now faces a serious challenge of dealing with financial exclusion despite statistically being the world's fastest growing economy. The main argument of this piece is that India, despite of the current hype about its economic growth, face rather economic problems at present especially with respect to the financial inclusion. The benefits of growth are unequally and regressively distributed. The inclusive financial system is an important component for economic and social progress on the development agenda. The Government of India has also been embracing financial inclusion as an important development priority. However, a significant percentage of households in India are still found to be financially excluded. The purpose of this piece is to focus on the persistence of financial exclusion which is a serious obstacle to economic and social development in India. It calls for an inclusive growth with financial inclusion

Key words: Financial Inclusion, Financial Exclusion, Inclusive Growth.

Introduction

SGSY has been designed to cover all aspects of self employment such as organisation of the poor into self-help groups, training, credit, technology, infrastructure and marketing. The objective of SGSY is to ensure that the assisted poor families have a monthly income of at least Rs. 2000 so that to bring those families above the poverty line in three years. The assisted families may be individuals (swarozgari) or groups (self-help groups). Emphasis will be on the group approach's will particularly focus on the most deprived groups among the rural poor. Accordingly, the SC/STs will account for at least 50% of the Swarozgaris, women for 40% and the disabled for 30%. At the Block level, at least half of the groups will be exclusively women groups.

Group activity will be given preference and progressively majority of the funds will be for self-help groups. The Panchayat Samity and the Zilla Parishad/ DRDC in association with the Banks will identify 4 -5 key activities based on the resources, occupational skills of the people and availability of markets. The lists of key activities identified in this district are given in next section below.

Subsidy under SGSY will be uniform at 30% of the project cost subject to the maximum of Rs. 7500. In respect of SC/STs, however, these will be 50% and Rs. 10,000 respectively. For groups of swarozgaris (SHGs), the subsidy would be at 50% of the cost of the scheme subject to a ceiling of Rs. 1.25 lakhs. Credit is the key component and Subsidy is only minor and enabling component of SGSY.

Self-help group may consist of 10 to 20 persons all from the BPL (now operational list). In the case of minor irrigation and in the case of disabled persons, this number may be a minimum of five (5). The group shall not consist of more than one member from the same family. A person should not be a member of more than one group. This group will function on the basis of particularly decision making process. The BDO and the Banker may visit the SHG as often as they can and explain to the members the opportunities for self-employment and the entire process of graduation based on participatory approach. Every SHG that is in existence at least for a period of six months and have qualified as a viable group will receive a revolving fund of Rs. 25,000 from banks as cash credit facility. Banks may charge interest only on the sum exceeding Rs. 10,000, which is given to the bank by the DRDC as subsidy grant but to the group it is a cash credit. Banks will take documents for Rs. 25,000.

Review of Performance of SGSY Revolving Fund Every SHG that is in existence at least for a period of six months and which has demonstrated the potential of a viable group will receive a revolving fund of Rs. 25,000 /- from banks as cash credit facility. Of this a sum of Rs. 10,000 /- will be given to the bank by the DRDA. Banks may charge interest only on the sum exceeding Rs. 10,000 /-. The revolving is provided to the groups to augment the group corpus so as to enable larger number of members to avail loans and also to facilitate increase in the per capita loan available to the members. The revolving fund imparts credit discipline and financial management skills to the members so that they become credit worthy. SHGs that have demonstrated their successful existence, will receive the assistance for economic activities under the scheme. Lending Norms The size of loan under the scheme would depend on the nature of project. There is no investment ceiling other than the unit cost i.e. investment requirement worked out for the

project. The Pradhan Mantri Jan Dhan Yojana scheme has been hailed as a huge success, having already covered almost 100 percent of households. In fact, PMJDY has entered the Guinness Records for opening the highest number of bank accounts in the shortest time anywhere in the world. The Prime Minister Narendra Modi deserves praise for the speed at which these accounts have been opened — and the scheme has already found its place in the global records. However, the twin issues that come up repeatedly are those of account duplication and account dormancy. The account duplication and dormancy have seriously affected the JDY's mission. The growing number of account duplication, dormancy and unclaimed saving accounts call for a sweep change in the policy towards financial inclusion. Moreover, a single panacea for financial inclusion such as opening 'no-frill accounts' is unlikely to deliver desired outcomes. The SGSY fund is used to provide subsidy for the Revolving fund and Economic assistance to Self Help Groups. Part of the Scheme component is also utilised for formation of groups and conduct of training for their basic orientation and skill upgradation. Upto 20% of the total allocation can also be spent on putting up of Infrastructure required for promotion of activities of SHGs. The SHGs, after the first grading, are provided with a revolving fund of Rs.50,000 for first linkages (bank loan of Rs.50,000 and Rs.10,000 as subsidy) Rs.1.00 lakhs for second linkages and Rs.1.5 lakhs for third and subsequent linkages. After the second grading, the successful groups are provided with economic assistance, the maximum eligible subsidy being 50% of the project cost with a ceiling of Rs.1.25 lakhs. We first look at the notion of "financial exclusion". The term "financial exclusion" has a broad range of both implicit and explicit definitions. The term was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). The term financial exclusion has been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999). Quite a large number of critics have also added their thoughts of how financial exclusion should be defined. These include both academics (for example, Anderloni, 2003; Anderloni and Carluccio, 2006; Carbo et al, 2004; Devlin, 2005; Gloukoviezoff, 2004; Kempson et al, 2000; Sinclair, 2001); and policy makers (Treasury Committee, 2006a, 2006b; HM Treasury, 2004).

Research carried out and discourses held among experts in European Commission (2008), leads to the following definition: "Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong". Thus, Financial Exclusion in short means "No Savings, No Insurance, No access to money advice, No affordable credit, No Bank account and No assets". It is, however, important to acknowledge that financial exclusion is not an absolute concept (excluded or not) but a relative one, rather like poverty, with degrees of exclusion (European Commission, 2008). People vary in their extent of engagement with specific services (e.g. transaction banking where we have both the unbanked and the marginally banked). And they also vary in the number of types of financial products to which they can gain access. Today, 2 billion adults are excluded from the formal financial system. Strongly argued for a truly inclusive growth and financial inclusion. The financially inclusive policy must be the central concern of the policy maker. No amount of repairing with Financial inclusion, thus, has become an issue of serious concern in India in recent years. By financial inclusion, we mean delivery of banking services and credit at an affordable cost to the vast sections of disadvantaged and low income

groups. Financial exclusion is greatest among poor people and in emerging and developing countries, including the rural households that account for more than 70% of global poverty. This hampers people's ability to earn, protect themselves in times of crisis, and to build for the future. In addition, more than 200 million small- and medium-sized enterprises in emerging markets alone lack access to finance, limiting their ability to grow and thrive.

Objective:

This paper intends to explore some policies and programs initiated by the Indian government which aimed at fostering financial inclusiveness, particularly Swarnajayanti Gram Swarozgar Yojana

Brief Past Performance of SGSY during 2000-2001 :~

From the report on sector wise disbursement of credit by the banks during the last three years (i.e. 1998-'99 to 2000-'01), it was seen that the disbursement of credits in the Agricultural and Services sectors increased but the credit flow in Industries sector deteriorated considerably during the same period under review. This is mainly due to the fact that

Self-help Groups

During the year 2000-2001, only 46 women self-help groups (SHG) were formed and 174 numbers of existing DWCRA groups were rejuvenated. Total 3169 women beneficiaries benefitted from this scheme. Rs. 16.71 lakhs were released as Revolving Fund to 127 SHGs after they qualified in Grading-I. Only six groups were seen eligible for Bank Loan, but the same could not be disbursed due to their failure to undergo skill development training.

the infrastructures needed for the development of industries are absent in this district and secondly the markets are also not available.

Coverage of SC/ST Women, etc. Swarozgaris

Out of 383 families assisted during 2000-'01, 199 families belong to Scheduled Caste (SC) & Scheduled Tribe (ST) communities. In other words, the coverage of SC & ST families during the year constitutes 52% of total number of families assisted against 52.36 of the actual percentage of total population in the district. During this period, 155 women beneficiaries were assisted out of the total number of 383 swarozgar families. In other words, DRDC achieved 40.5% in covering women beneficiaries against the target of 40%. However, it could not be achieved in covering handicapped persons against the norms of covering at least 3% of the total number of swarozgaris.

Conclusion

In summary, the evidence supports that inclusive financial systems is an important component for economic and social progress on the development agenda. The G20 made the topic one of its pillars at the 2009 Pittsburgh Summit (G20 2009). By fall 2013, more than 50 national-level policy-making and regulatory bodies had publicly committed to financial inclusion strategies for their countries (World Bank 2013a, AFI 2013). And the World Bank Group in October 2013 postulated the global goal of universal access to basic transaction services as an important milestone toward full

financial inclusion—a world where everyone has access and can use the financial services he or she needs to capture opportunities and reduce vulnerability (World Bank 2013b). The debate on financial exclusion also begins to be active in India. The experience in India is, however, more complex. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services (NABARD, 2016). This is characterized as “financial exclusion” in India. Those people, particularly, persons living on low incomes, cannot access mainstream financial products such as bank accounts, low cost credit, remittances and payment services, financial advisory services, insurance facilities, etc. A recent study which analyzes income related inequality in financial inclusion in India using a representative household level survey data, linked to State-level factors shows that financial exclusion is disproportionately higher among the relatively poor households compared to their richer counterparts. Nonetheless, a significant percentage of rich households in India are also found to be financially excluded. (Pal, R and Rupayan Pal, 2012). In countries with a large rural population like India, financial exclusion has also a geographic dimension as well. Inaccessibility, distances and lack of proper infrastructure hinder financial inclusion. Vast majorities of population living in rural areas of the country have serious issues in accessing formal financial services.

Salient Features of Swarnajayanti Gram Swarozgar Yojana (SGSY)

The loans under the scheme would be composite loan comprising of Term Loan and working capital. The loan component and the admissible subsidy together would be equal to total project cost. Banks may follow model project report set out in key activities of the districts for finalising the project cost of the Swarozgaris. Under any circumstance under financing is to be avoided. Swarozgaris will be given the full amount of loan and subsidy and they will have the freedom to procure the assets themselves. Disbursements up to Rs. 10,000 /- under ISB sector may be made in cash where a number items are to be bought. Emphasis is laid on multiple dose of assistance. This would mean assisting a Swarozgaris over a period of time with second and subsequent dose(s) of credit enabling him/her to cross the poverty line as also access higher amounts of credit. Subsidy entitlement for all doses taken together should not exceed the limit prescribed for that category. The second and subsequent doses may be granted by the same bank or any other bank during the currency of first/earlier loan provided the bank is satisfied about the financial discipline of the first/earlier dose. Loan under the Scheme will carry interest as per the directives on interest rates issued by Reserve Bank of India from time to time. All loan granted under the scheme are to be treated as advances under priority sector. Loan applications should be disposed of within 15 days and at any rate not later than one month. Branch Managers may be vested with adequate discretionary powers to sanction proposals under the scheme without reference to any higher authority.

PMJDY :unique scheme of financial inclusion

As per the findings of RBI's 2009 High Level Committee, the Lead Bank Scheme has been a failure since a large section of the rural population and the urban poor do not have access to banking facilities. Public sector banks routinely fail to achieve their targets of loans to the agriculture sector. In the name of reforms, banks have been allowed to close rural branches. In August, 2014, Indian Prime Minister Narendra Modi launched an ambitious financial inclusion program, Pradhan Mantri Jan Dhan Yojana, or PMJDY. The core objective of the program is to ensure that every citizen has a bank account and a debit card. It has been hailed as a huge success, having already covered almost 100 percent of households. In fact, PMJDY has entered the Guinness Records for opening the highest number of bank accounts in the shortest time anywhere in the world. Though this bank account coverage is impressive, only a small portion of account holders are transacting with banks or using debit cards. The Modi Government has been projecting the PMJDY as a unique scheme of financial inclusion. The PMJDY hype too unravels when we see the enormous percentage of zero-balance accounts. As on 31st March, 2016, of the accounts opened at public sector banks (PSBs) under the Jan Dhan Yojana, nearly 28 per cent are zero-balance, against 40.34 per cent for private banks. (GOI, 2016). Among the key structural bottlenecks that come in the way of transaction and card use is the lack of banking and ATM infrastructure. Most villages do not have ATMs. In case of North east region, as of 4 May 2016, 94.66 lakh new accounts have been opened, with a balance of Rs. 2042.63 cr. Of this, 25.96 lakh accounts have zero balance. It means that they are lying dormant. They are not going to get the promised insurance cover & overdraft facility. Various estimates put the cost of maintaining a zero-balance account at anywhere between Rs. 100 to Rs. 150 per year. With 25.96 lakh JDY bank accounts being dormant in North east, maintaining these zero-balance accounts may cost the banks that signed them up anywhere between Rs. 26 – 38 cr. per annum.

Skill Upgradation

SGSY aims at establishing a number of microenterprises in the rural areas involving the rural poor on the belief that they have competencies and if rightly supported can be successful producers of valuable goods / services. Based in this concept, the program proposes a number of measures for upgrading the capacity of Swarjgari both in individual as well as group oriented activities. Assessment of technical skill may be made by the line departments while that of the managerial skills may be made by the banker in the area of already identified key activities. Such an exercise along with the swarozgaris will

Investment per Family

SGSY primarily follow the group approach because of its getting better chance of back up support and marketing linkages for group activities. the group loan are entitled to 50% subsidy to a limit of Rs. 1.25 lakhs. The revolving fund for the viable SHG is Rs. 25,000 which the group will receive from the banks as cash credit facility. Of this a sum of Rs. 10,000 will be given to the bank by the DRDC. Banks may charge interest only on the sum exceeding Rs. 10,000. Individual swarozgari can avail the schemes from the identified key activities depending upon their skill and basic orientation. help in identifying those who have the minimum skill requirement and therefore need only basic

orientation and those who need skill training. Basic orientation program may be organised at the Block Head Quarters, not far from the place of residence of swarozgari. It may include familiarizing the swarozgaris with SGSY and its objectives, their responsibility, elements of book keeping, knowledge of market, identification and appraisal, familiarity with product costing and product pricing, acquaintance with project financing by banks as well as some basic skills in the key activity identified. It will be of very short duration covering two days only. BDOs, Bankers and Line Departments can act as resource persons for training. No stipend is admissible here; only cost of training, materials, honorarium to resource persons, travel and food expenses can be met by DRDC.

For the identified activities, swarozgaris who need skill development / up gradation of skills, government institutions like engineering colleges, i.e. Polytechnics, Universities and NGOs, may be approached to impart training. The objective is to ensure that the swarozgaris possess the Minimum Skill Requirement for successful completion of the schemes concerned, for that will decide the disbursement of loans. For this training swarozgaris will be entitled for financial assistance as a soft loan from the bank. Upto 10% of SGSY funds will be set aside as training fund and will be utilised to provide both orientation and training programs to the swarozgaris.

The technology identified for each key activity should be such that it can be managed comfortably by the swarozgari and at the same time leads to quality products either in terms of goods / services. The DRDC's function is to strive to gather the existing knowledge and channelise this not only into identification of key activities but also into immediate transfer of technical knowledge to entrepreneurs, so long as its commercial viability is not in question.

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