FINANCIAL INCLUSION

INTRODUCTION

- Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

- Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.

- Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

INCLUSIVE GROWTH: A KEY OBJECTIVE

- The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. The Plan document notes that the economic growth has failed to be sufficiently inclusive particularly after the mid-1990s. The Indian economy, though achieved a high growth momentum during 2003-04 to 2007-08, could not bring down unemployment and poverty to tolerable levels. Further, a vast majority of the population remained outside the ambit of basic health and education facilities. Thus, the Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society. It clearly stated that '*The development of rural India is an imperative for inclusive and equitable growth and to unlock huge potential of the population that is presently trapped in poverty with its associated deprivations*' (GoI, 2007). Huge investments in education and health, and rural infrastructure were the key elements of the inclusive growth strategy as envisaged.

- Broadly, the policies aim at increasing the income and employment opportunities on the one hand and on the other; it tries to finance programmes which are capable of making the growth more inclusive.

INCLUSIVE GROWTH: SUPPLY SIDE

- There are supply side and demand side factors driving Inclusive Growth. Banks largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth.

INCLUSIVE GROWTH: DEMAND SIDE

- Apart from the supply side factors, demand side factors, such as lower income and /or asset holdings also have a significant bearing on financial inclusion. Owing to difficulties in accessing formal sources of credit, poor individuals and **small and macro** enterprises usually rely on their personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities.

- **Agriculture** not only plays the central role for achieving high growth but also inclusive growth for the economy as a whole (generates about 20 per cent of India's GDP and provides employment to nearly two-third of its population).
- The Ground Level Credit requirements for the agricultural sector has been worked out at Rs.16,40,000 crore for the Eleventh Five Year Plan, indicating an annual compounded growth of 17.0 per cent as compared to Rs.6,39,330 crore of expected GLC during the Tenth Plan period.

- The role of state governments is of high importance in achieving the target especially in providing suitable infrastructure/extension support for facilitating enhanced credit flow to agriculture.

- The draft 11th Plan recognizes the importance of **small-scale industries** (SSI). It has a share of over 40 per cent of the gross industrial value added in the economy. About 44.0 per cent of the total manufactured exports of the country are directly accounted for by the SSI sector. In terms of employment generation, this sector is next to agriculture sector, employing approximately 295 lakh people.

- The incremental flow of term loan to the SME sector is estimated at Rs.1,48,720 crore, which translates into a growth rate of an average 24.1 per cent per annum for the Plan period (GoI, 2006)..

CONSTRAINTS:

- The banks are faced with high operating cost in extending the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also adding to the problem.
- Reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode.

  The challenge also lies in offering a single loan product which is not based on or linked to the purpose of the loan, the collateral or assets held or income earned by the household but is purely based on cash flow and credit record of the household (Thorat, 2008).

WAY FORWARD

- With the arrival of banking technology and realization that poor are bankable with good business prospects, financial inclusion initiatives will strengthen financial deepening further and provide resources to the banks to expand credit delivery. The banking technology initiatives meant for financial inclusion should be collaborative and innovative with an objective to reduce the transaction costs. Thus, financial inclusion along with the Governmental developmental programmes will lead to an overall financial and economic development in our country and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.