A Study on Financial Inclusion in the Rural Households of Assam

Robiul Awal
Asst. Professor
Dept. of Commerce & Economics, USTM
Email: robiulawalamu@gmail.com

Abstract

Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries like India. Large parts of our financial system are still retarded by political intervention and bureaucratic constraints, limiting their potential contribution. Population of Assam, many of who work as agricultural and unskilled semi-skilled wage labourers and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Financial inclusiou provides protectiou to poor from the control of the spurious money lenders and offers platform to save some amount of money out of total earned money for further unseen and contingent uses. Financial literacy is required for the overall achievement of the objective of financial inclusion. The present study aims to identify the implications/consequences of financial exclusion in the rural areas of Assam and to study the initiatives taken by Financial Institutions for inclusive finance.
Key Words:*Financial inclusion, Sources of Finance and Financial Literacy*

Introduction

Even after 70 years of independence, a large section of Indian population still remains unbanked. The process of economic growth, especially when it is on high growth line,must attempt to take participation from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries like India.

Given the fact that most of the banking parameters show dismal condition of Assam, it is important to examine the extent and nature of financial inclusion/exclusion in the state. However, as in the recent times the focus of policy makers is to use the intermediaries for promoting financial inclusion, especially in rural areas, the question whether various new forms of financial service providers or institutions have helped in promoting/enhancing financial inclusion also becomes relevant.

Concept of Financial Inclusion

The term 'Financial Inclusion' was first used by British lexicon when it was found that nearly 7.5 million persons did not have a bank account. However, financial inclusion concept is not a new one in Indian economy. Bank Nationalization in 1969, establishment of RRBs and introduction of SHG-bank linkage programs were initiatives taken by RBI to provide financial accessibility to the unbanked and underprivileged groups.

According to committee on Financial inclusion headed by Dr. C. Rangarajan defined financial inclusion as *"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."* Financial inclusion does not stand for delivery of financial services for all at over and all cost. But it means that the delivery of financial services and products at affordable costs to excluded sections of population and low income groups. It plays a crucial role to eradicate the poverty from the country. Financial inclusion is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, better living and better income. It provides path for inclusive growth to the deprived society.

Objectives of the study

Followings are the main objectives of the study:

1. To know the present scenario of Financial Inclusion in Assam in the national context.
2. To identify the implications/consequences of financial exclusion in the rural areas of Assam.
3. To study the initiatives taken by Financial Institutions for inclusive finance.
4. To identify the problems and obstacles in implementation of Financial Inclusion schemes.

Literature Review

A number of studies have been made so far on financial inclusion in India and in Assam, yet some gaps still persist. Just to open an account in the bank is not the only solution of the problem. Financial literacy is required for the overall achievement of the objective of financial inclusion.

The present study is an attempt to know the present status of financial inclusion/exclusion in Assam and to study the initiatives taken by Financial Institutions for inclusive finance.

Sharma and Pais (2008) analysed the Indian history with the concept of financial inclusion started in the year of 1904 as cooperative movement, and then it gained momentum in 1969, when 14 major commercial banks of the countries were nationalized and lead bank scheme was introduced shortly thereafter from that year the majority of bank branches were opened in large number across the country and even in the areas which were hitherto being neglected. However, there was severe gap in financial assessment which needed special attention. Many studies have proved that lack of inclusion was rather exclusion from the banking system which resulted in a loss of 1 percent to the GDP. Thus, the Reserve Bank of India concluded that the financial inclusion was not just a socio-political imperative but also an economic one and realized the gravity of the problem. Finally, the Reserve Bank of India made the Mid Term Review of Monetary Policy (2005-06), urged the banks to make financial inclusion as one of their prime objectives.

Reserve Bank of India (2008) emphasized that the Financial Exclusion was broadly defined as the lack of access by certain segments of the society (SC, ST, OBC, and women) to suitable, low-cost, fair, and safe financial products and services from the mainstream service providers. Thus the essence of financial inclusion was to insure that a range of appropriate financial services was available at affordable price to every individual and access those services.

Roy (2012) emphasized that out of 6,00,000 habitations in the country; only about 5 percent had a commercial bank branch. Also only about 57 percent of the population across the country had bank account (savings), and this ratio was much lower in the North-Eastern states. Further, 13 percent of the population had debit cards and 2 percent had credit cards.

Goyal (2008) noted that in the context of North East region including Assam, the need for proper linkage between the formal institutions and community based organizations is quite high as this is expected to reduce the basic problem faced by the formal institutions, i.e., asymmetric information and associated ills significantly .

Sharma (2011) pointed that one of the possible areas of intervention may be the linking of traditional community based organizations like *Xonchois* with the formal system. The places where *Xonchois* are found to be active, chit fund companies have not been able to spread much. Flexibility, adaptability (to the various demands of the rural households), high returns on savings, easy and flexible liquidity and close proximity are some of the attributes which makes these one of the most inclusive financial institutions in the state, more particularly in lower Assam covering caste, class and gender etc.

Research Methodology

The present study is mainly based on secondary sources.

Research Design: Research design adopted here is prescriptive in nature.

Data collection: Only Secondary data has been collected from Research papers, journals, Books, Government offices, Bulletin, Publication/ Report of RBI, GoI, NABARD, Ministry of Finance, Websites etc.

Tools of Data Analysis: Analysis of the study is based on some Qualititative and quantitative parameter.

Importance of the Study

Poor people Born in debt, Live in debt and Die in debt. In Assam, the single most frequently used source of loan for medium and poor household is still money lender. Large parts of our financial system are still retarded by political intervention and bureaucratic constraints, limiting their potential contribution. Population of Assam, many of who work as agricultural and unskilled semi-skilled wage labourers and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Over 65% working population of Assam earn but have no saving at all. Financial inclusion provides protection to poor from the control of the spurious money lenders and offers platform to save some amount of money out of total earned money for further unseen and contingent uses.

Various Initiatives adopted by RBI, different Regulatory Bodies and Government of India to achieve the objectives of Financial Inclusion:

1. No Frills Accounts(NFAs)
2. General Purpose Credit Cards(GCCs)
3. Kisan Credit Cards(KCCs)
4. SHG-Bank Led Initiatives.
5. Simplified KYC norms
6. Bank branch authorization
7. Mobile Banking
8. Women SHG Development Fund
9. Swarnjayanti Gram SwarazgarYojna(SGSY)
10. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).
11. Prime Minister Jan DhanYojna(PMJDY).

Analysis and Findings

Although the Government of India and Reserve bank of India are giving ample emphasis on increasing the level of financial inclusion and especially rural financial inclusion, Assam witnessed a fall in the number of its rural bank branches during the last 20 years, which is a major setback in the entire operation of financial inclusion drive in Assam. Studies of NFAs (No Frills Accounts) show that the poor always prefer to transact with banks only if banks provide overdraft facilities to meet emergency needs. Lack of overdraft facility is one of the important reasons for the limited success of NFAs in Assam. Just to open an account in the bank is not the only solution of the problem. Financial literacy is required for the overall achievement of the objective of financial inclusion. Only about 57 percent of the population across the country had bank account (savings), and this ratio was much lower in the North-Eastern states. Further, 13 percent of the population had debit cards and 2 percent had credit cards.(based on review of paper). In 2011, Rural APPBO (Average population per branch office) and total APPBO in Assam was 33392 and 20724 as against all India figures of 24999 and 13581 respectively. Still in rural areas only 15% farmer households take loans from formal sources and other 85% farmer households from informal sources. Only 15% rural peoples availing banking services while 53.3 % urban peoples could avail the services.(Based on research paper reviews).

Conclusion

The Regulators and policy makers must ensure that whatsoever product/service is devised, it should have some additional features to cater the needs of the ultimate beneficiaries and those features should be made more easily available and reachable to the beneficiaries. Opening of new branches would attract more new customers under the fold of banks in the region. Lack of overdraft facility is one of the important reasons for the limited success of NFAs in Assam. There should be a separate regulatory body for financial inclusion in India and should provide access to financial services through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

References

Ahuja, Ram. (2001):Research Methods, Rawat Publications, New Delhi.

Goyal, C. (2014), an investigation into financial inclusion among the rural households in Assam. (Shodhganga)

Ministry of Finance, GoI (2013). Annual Report 2012-13, New Delhi. https://finmin.nic.inaccessed on 17.08.2015

NABARD (2012). Annual Report 2011-12. NABARD, Mumbai. www.nabard.org.in

Rangarajan, C (2008), Report of the committee on Financial Inclusion. Accessed from Rangarajan Committee Report.

Report on Trend and progress of banking in India 2012-13, Reserve Bank of India, 2013www.rbi.org.in

Reserve Bank of India (2013). Bulletin. RBI, Mumbai, https://www.rbi.org.inaccessed as on 11.08.2015

Sinha, J.K, (2014). Financial inclusion initiatives of SBI.

State Bank of India Report (2008, 2012 and 2014), https://www.sbi.co.inas on 22.08.2015.