Chapter 1

Introduction
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1.1 Background of the Study

Over the years, the Indian Banking Industry has changed its economic and financial perspectives towards marginalised segments of the society along with its identified services and programs. Though it has a wider network and easy access to people belonging to different walks of life, a major proportion of the tribal community are not aware of the presence of the banking operation and its supportive services.

To reach the marginalised sections, the present banking industry has initiated the Financial Inclusion as its thrust area to include the tribal community and to achieve the objective of financial inclusion, namely ‘include the excluded’. The states and central governments have identified the banking industry as their vehicle to achieve the inclusive growth by framing policies and programs for the tribal and other downtrodden communities.

Reserve Bank of India being the apex bank operating through the larger network of Public Sector Banks (PSBs) aims at to enact the national plans along with its developmental schemes. Various studies have been conducted over the years to bring about the structural changes through banking reforms since 1991. Among them, the Committee on Financial Inclusion formed in 2008 under the chairmanship of Dr. C. Rangarajan needs a special mention on framing the policy initiatives to the rural and tribal community (Reserve Bank of India, 2013).

Subsequently in 2013 Mor’s Committee on comprehensive financial services for small business and low income households set up by the RBI was mandated with the task of framing a clear and detailed vision for financial inclusion and financial deepening in India. The committee’s vision statement is to provide specific benchmarks to regulators to assess the quality of financial inclusion and financial deepening in India (Mor, 2013).

Bill Gates has once said, “Banking is necessary but banks are not”. Of course, due to the information revolution, there have been more changes in the banking sector in the last
decades than in the preceding century. Fifteen years ago nobody imagined that Google would be one of the largest global brands and Facebook would be having a record of half the countries’ population of the world as their users. Thus Technological influence can be found in industry, commerce, banking sector and in other walks of life.

Though Indian banking industry has deployed the technology for its transaction process, it lags behind in the analytical and decision making process. It is because the current banking structure needs a strong infrastructure to implement and enact the technology effectively and efficiently. Due to such a reason, banking in the rural background finds hard to reach the deserving community and implement the governmental policies and programmes. More than half of the country’s population do not know the utility value of the banking sector. They do not enjoy the services of the banking sector even after six decades of post Independence.

Public sector banks have inducted technology more for regulatory policy compliance and to cope with the competition to serve customers better. It should also be oriented towards employee-friendly and customer-friendly environment (Chakrabarty K. C., 2010). Over the years, the concept of ‘inclusive growth’ has been widely discussed all over the world, as it is the foundation for uplifting the rural poor. Also, it lays a strong foundation for financial inclusion which is a thrust area in all the governmental plans and policies. There is no legitimacy in addressing the issue of rural poor without reference to the inclusive growth. Inclusive growth is desirable and achievable if every issues and concerns of the financially poor are taken into framing policies and norms (Subbarao, 2012).

One of the aims of nationalisation of the banks was ‘inclusive growth’ that embraces the rural poor and tribal communities into the banking fold so that the subsidies and social welfare benefits would reach them perennially. In reality the mission could not be proceeded with, due to the socio, economic and political factors that had given a grey image to the banking industry for no fault of it. There is a wrong notion that the sector only supports the educated and urban population and not the illiterate and village inhabitants. It is not true in the real sense.
Indeed, RBI, the central bank of India, understands that the vast proportion of the population was not benefited by the banking operation. It had urged the banks during November 2005 to review their existing practices. In particular more emphasis was given in the areas, to align with the objective of financial inclusion, to provide the customers with ‘no-frill’ account or to operate with minimum balance, thereby making vast sections of the population to access the benefits of banks (Thorat, 2007).

RBI, along with state and central governments has framed policies to regulate and improve the accessibility of banks by individual households who were financially excluded for long. It envisions ensuring the financial availability to the needy entrepreneurs by extending credit to all credit-worthy entrepreneurs. Still financial inclusion remains elusive. Infrastructure remains a major barrier to reach the unreached which stands as a dispensable factor is a qualitative concern of the apex bank (Chakrabarty K. C., 2013).

The Indian banking industry has come up with timely innovations, procedures, products and services to reach the ‘unbanked’ and ‘unreached’ of lower strata of the economic structure – the poor, the needy, the illiterate, the marginalized, so that they could became financially included of it. Scheduled tribes, living in remote areas with primitive way of life stand as a unique marginalized group of Indian society who are yet to be adequately reached by the banking system. It is so, due to socio-economic-cultural political and geographical reasons which kept them isolated from the majority of the Indian population.

The Indian banking industry has come a long way since 1991-92 with the initiation of the reforms in the financial sector which aims at improving the productivity and efficiency of the sector. On achieving the objectives earmarked in the first phase, crucial issues like management of risk and Non Performing Assets (NPAs) were addressed in the second phase. Comprehensive guidelines were framed on credit, market and “operational risks” to banks, along with implementation of several regulatory changes. In the next phase other structural reforms were planned, ranging from branch and manpower nationalisation to foreclosure and asset reconstruction legislation. It has been very effective in consolidating the process (Nitsure, 2007).
The key component of financial inclusion is building financial capability through financial literacy. It will enhance the individuals to identify and use appropriate financial products and services by building and preserving their assets. Indeed, this will make the people informed, educated and confident in shouldering responsibility to play active role in the financial service market (Joshi, 2013).

It is true that the Government of India with its apex financial institutions is venturing into inclusive growth along with increasing the gross domestic product (GDP) and per capita income irrespective of stratified social structures, growth oriented economic measurements and changing political set up. In this background, it is essential to highlight the issue on “Financial Inclusion of Public Sector Banks and its impact on the Santal tribes of Odisha.” Thus special importance has been given on the areas like - Financial inclusion, public sector banks, tribes of India and the Santal tribe of Odisha in particular.

1.1.1 Background of the Banking Industry

Banking sector stands not only as the backbone of the financial system but also forms the base for the growth and development of the economy. To suit the fast phase of globalisation in the financial sector, the Indian banking structure tried to fit itself to the changing situation and provide more products and services in their intermediation process along with traditional operations of borrowing and lending. In specific, the public sector banks have a vital role in the mobilisation and allocation of resources towards uplifting the deserving sections of the society and for which the nationalisation of banks were initiated in 1969.

As a primary regulator, RBI supports the governmental machinery in exercising control as conferred under the RBI Act, 1934 and Banking Regulations Act, 1949. By nationalising fourteen banks in 1969 and some more banks in 1980 subsequently, the Government initiated the attempt of balancing geographical growth of banks in rural areas and small towns to break the dominance of ownership and control posed by the dominant community (Dutta & Dutta, 2009). Even after sixty five years of Independence, about 50 percent of the country’s population has not been reached by the
banking network, which needs to be given the prime focus while framing the policies and action plans.

Around the world, technology has revolutionized every industry through its faster and cost-effective delivery of products and services to consumers, which could not be viable quickly at an affordable price. The banking industry also identifies technology as a prime vehicle to achieve its socio-economic objective by reaching the society at large. To achieve its objective, the banking industry has started adopting the Technology in its system to reach the mass population in the unbanked areas swiftly at a lesser cost.

The major technological innovation in banking was the introduction of Automatic Teller Machine (ATM) over 25 years ago. This was the only customer-facing technology that existed up until the early 1990s (Chaktrabarty, 2011). Being an agrarian society, half the population lives in the rural atmosphere that do not access the innovation, automation and adaptation that are happening in the banking industry which is by and large operational in the urban segment. Of late, India has been identified as a fast growing nation which needs to balance between the urban and rural population and also rich and poor. If equity is not possible the objective of Financial Inclusion will not be achievable.

It is observed that among the organised and unorganised segment of Indian Money Market, the rural population is more inclined towards the usage of unorganised for the reason of accessibility, adaptability and affordability compared to formal banking system (Dutta & Sundharam, 2009, pp. 6-31). Because of such a situation, the indigenous bankers who dominate the unorganised banking sector are being approached by the tribals and villagers for their savings and borrowings which in no way beneficial either to them or to the economy and it has become a major concern of the government.

Realizing the inability of the organized sector to pattern the deserving and excluded population, the RBI has inducted the concept of “Financial Inclusion” to ‘include the excluded ones’ in to the main stream of the banking system.

Thus the study focuses on the initiatives taken for the Financial Inclusion by the banks through evaluation and retrospection. The tribals with one-fifth of the population of the Odisha State have a dire need for the financial aid from the governments and support
from the banking sector. Even though bank branches are operational, still more than half of them are ignorant about the organised banking which is in their vicinity. Factors like lack of banking exposure, lack of knowledge in banking operation and inaccessibility of banks, make them bonded with indigenous bankers as the only remedy for their financial sustenance. It highlights the urgent need for the banks to focus towards adequacy of Financial Inclusion by the banks and to understand its impact on the respondents and find the remedy for the same.

1.1.2 Financial Inclusion

The concept of Financial Inclusion can be traced back to the year 1904 when co-operative movement took place in India by the British Government. It gained momentum in the year 1969 when 14 major commercial banks of the country were nationalized. In the same year Lead Bank Scheme (LBS) was introduced as an integrated mechanism to extend banking facilities to consumers, particularly economically weaker sections of the society. Its main thrust was to provide institutional mechanism coordinating with the government agencies and banks thereby facilitating doorstep banking to the urban poor and in transferring government schemes (The Economic Times, May 4, 2013).

Even after implementation of lead banking system, not even a meagre portion could be brought into the fold of banking system. It has led to an economic disparity in understanding the gravity of the problem. The RBI in its Mid Term Review of Monetary Policy (2005-06), urged the banks to make financial inclusion as one of their prime objectives (Chattopadhyay, 2011). This phenomenon provides universal access to a wide range of financial products and services at a reasonable cost (Mahajan & Laskar, 2009). It also strives to address the issue of financial exclusion in a holistic manner by ensuring financial services ranging from traditional banking operation to innovative financial support to the poor households (Sharma, 2011).

As an action plan, the Government of India constituted a “Committee on Financial Inclusion” under the chairmanship of Dr. C. Rangarajan, which defined Financial Inclusion as the process of ensuring access to financial services, timely and adequate credit which were needed by vulnerable groups such as weaker sections and low income
groups at an affordable cost (Sahal, 2011). Indeed, Reserve Bank of India had worked out clear cut schemes, norms, and guidelines to all other banks to move ahead in implementing the Financial Inclusion Plan and to carry out the process in various ways.

The concept of Financial Inclusion of any nation needs to address important issues like – ‘why cannot financial inclusion happen on its own? Why do we need policy to make it happen? Why cannot it find a market of its own? These issues are raised due to presence of unbanked areas, financial exclusion, unaffordable financial service, lack of identity of proof and behavioural aspects (Agarwal A., 2008).

Despite many decades of planned approach through five year plans in India, at macro level some region remain economically backward with poor infrastructure and in the same vein also so districts with in these regions indicate geographical exclusion. Exclusion also occurs in various development sectors like education, health, finance, power, water and sanitation etc as poor infrastructure in these excluded regions poses stumbling block for smooth inclusive growth (Rengarajan, 2013). The present study aims to identify the impact of Financial Inclusion in particular of Santal tribe in Odisha and the role of Public Sector Banks in the implementation of policy towards achieving the objectives of Financial Inclusion in fullness.

1.1.3 Need for Financial Inclusion among the Santal Tribe in Odisha

The State of Odisha is one of the poor states in the east coast of India with population around 419 million in 30 districts. Majority of them lives in rural and tribal areas mainly depending on agriculture who contribute half the state’s domestic product. This State is often prone to natural disaster like cyclone, drought, earthquake and floods. Since Independence, the State and Central Governments have initiated programs for developing infrastructure and providing healthcare service for the inhabitants (Rout, 2010). The state has the second highest percentage of tribal population in the country with 62 different tribal communities which have been identified as the target respondents. For the present study without planning the banking policies and programs for their development, the aim of Financial Inclusion cannot be achieved (Ota & Mohanty, 2010).
Among the Tribals of Odisha, Munda speaking tribes are predominant community of which numerically Santals are found more. They claim Ahiripiri as their birth place and Chaichampa as their fort located in Bihar, but they inhabited Odisha as their homeland for centuries (Debi, 2004). As per the Indian Constitution Article 366(25), Tribal communities should have specific criteria such as geographical isolation, backwardness, dependence on agriculture, low valued closed economy, with low technology, poverty, literacy, and health, distinctive culture language, and marginal contact with the civilized people, such entities are seen among the Santal tribes too.

Their simple and primitive way of occupation has left them in poverty without surplus and savings, leading to indebtedness and hence their per capita income is very meagre and lesser than the Indian average. The formal education has made very little impact on tribal groups due to poverty. The government formulates different planning and programmes like the Provision of Panchayat Extension to the Scheduled Area Act on 1996 in the Fifth Schedule of the Constitution for upgrading the reservation system in the politics and in decision making process. Still, the tribals are yet to get the benefit of egalitarian sustainability of democratic system (Subudhi & Nishanka, 2012).

Through the Financial Inclusion plan, the Government of India and RBI have aimed to involve the tribals in particular to achieve their socio-economic enhancement. Towards such an objective, the RBI has framed the policy guidelines and strategies for the scheduled commercial banks to reach the unbanked people as their prime objective for which the research study is planned for.

1.2 Importance of the Study

- Significant segment of the population which are in the rural area are still excluded from the formal financial system despite the extensive network of banking system over the years.
- There is an imperative need to bring the excluded population into the organised banking system by inducting them into the main stream which should be given priority in the governmental policies and programs.
• In particular, the tribal community which forms indispensable part of any society needs a special impetus and their importance should not be ignored the process of development otherwise becomes meaningless.

• Odisha being one of the few states with rich natural resources, still underutilised, needs to be taken care and can be achieved only then through the process of financial inclusion and financial deepening in isolated tribal belt.

• With the support of organised banking system, the objectives of Financial Inclusion tend to provide a concrete mechanism to make their survival better and promising.

• Their life pattern and work culture need a change in order to elevate them from poverty and make their effort productive and remunerative by practicing tribal oriented Financial Inclusion.

• In specific, Santal tribe of Odisha needs a special focus and should be approached by the governmental and banking agencies to meet their financial and economic needs.

• Factors that contribute towards their techno-economic backwardness, poverty and the degree of isolation which stand their way as hurdles for financial inclusion and to achieve the better standard of living should be given concrete solution.

• The study highlights the factors augmenting the issues and concerns faced by the Santal tribes and the need to implement the plan of Financial Inclusion and to suggest the remedial measures for the same.

1.3 Scope of the Study

• Based on the present study, essential factors could be traced to facilitate the governmental agencies in identifying the core needs of the targeted community.

• Financial Inclusion is the need of the hour as it is oriented towards inclusive growth and could be expanded in various ways to achieve the inclusive development objectives.
Over the years, despite the aspects of financial inclusion has been vividly discussed in all the public forums. There is an imperative need to explore the ultimate benefit to excluded section.

Analysis and interpretation based on the selected parameters on the issue strive to identify area of concerns and find the remedial measures and suggest plan of action.

The abundant natural resources available on the areas of the study remain unutilised due to either lack of fund or lack of financial assistance from the banking sector which also aggravates their poverty among others. Therefore this aspect is covered under the scope of the study.

The study also covers intensively literatures and document on tribals available with governmental and non-governmental agencies, but so far sufficient research has not been carried especially in the area of Financial Inclusion in the tribal area.

Even after six decades of planning for the tribal development by the state and central governments, there is no tangible desired outcome among the tribals for which the root causes need to be further probed.

Being one of the largest tribal communities of the county, the issues and problems faced by the Santal tribals are the same like others and so, the remedial measures suggested could be applied to other tribes also.

The scope of the study on the financial inclusion covers broadly the work done by the formal financial institutions and non formal institutions like MFI, SHG, and NGOs.

1.4 Objectives of the Study

- To understand the various dimensions of Financial Inclusion in general
- To study the role of Public Sector Banks towards Financial Inclusion
- To identify the impact of Financial Inclusion on Santal Tribe of Odisha
- To analyse and interpret their issues of Financial Inclusion Plan
- To suggest remedial actions based on the findings
1.5 Methodology

The present study is of exploratory in nature. The fact and figures were obtained from primary as well as secondary sources. More than one thousand respondents of targeted Santal community were personally met for collecting the primary data through structured questionnaires. Along with that, bank officials and Lead District Managers (LDMs) of the designated districts in the tribal belt were also met to get their response on the impact of financial inclusion on the respondents.

Of the two sets of questionnaires framed, the first one was administered to collect the primary data from Santal Tribal community in order to identify the issues pertaining financial inclusion and other areas of concern. The questionnaire consists of six parts covering - socio-demography of tribes, their banking exposure, banking operation, accessibility of banks to the respondents, its focus towards financial inclusion and the impact of financial inclusion on the respondents. The second questionnaire was framed for elucidating the opinion on the impact of financial inclusion by the bank officials and the LDMs’ of that area.

1.6 Justification

- The concept of Financial Inclusion has been implemented in 2006 with its first phase of operation starting from April 2010 till March 2013 and the second phase from April 2013 onwards. Evaluation need to be made to understand the impact on the financial conditions of the deserving community. 
- Banks are the most happening industry on which the government planners depend on to adopt the financial inclusion to reach the poor and rural population. Despite the effort made so far concrete result has not been achieved in terms of inclusion of all excluded people in tribal and backward areas even after eleven five year plans. It shows that there is a wider gap that needs to be concentrated without which the planning would go in vain.
- The tribal community is distinct from others due to their ignorance, poverty, illiteracy and living in a closed set up with unique cultural value system for centuries together. Development has taken place over the years due to initiative taken by governmental and non-governmental agencies, still efforts need to be
taken to bring them into the main stream, and if not the planning process will be incomplete.

- The State of Odisha has the second largest number of tribal population in the country of more than 81 lakhs. It has the unique distinction of having 62 different tribal communities living in 30 districts. Nearly 22 percent of tribes living in this State have made it as a significant place for research study. Planning process should consider their issues and problems as an important ingredient.

- Santal tribe is the one of the major tribal groups living in Odisha with their unique socio-cultural linguistic set up. They stand apart in their political involvement and financial aspects; they are not adequately approached by the state and central government machinery due to their life style. It requires urgent attention to make them part of the overall development.

1.7 Limitations

- This study is confined exclusively to those who are included in the financial inclusion plan. Hence the study does not deal with the issues and concerns of excluded population though there is some mentioning of it in the thesis.

- The period of the research is limited due to the fact that the process of intensive Financial Inclusion started during 2006 and the formal planning initiated since April 2010.

- Only the officials of public sector banks who are the principal players in the financial inclusion mission were interviewed and information collected from them due to the fact majority of the accounts of tribals are kept and operated only in those banks.

- The planning and implementation of the financial inclusion are conducted by the State and Central Governments only through public sector banks and so the study has not covered the private sector banks, post-offices, MFIs and NGOs.

- The study is limited with analysing only the financial aspect of the tribals with the banks due to the fact that - the public sector banks and governmental agencies consider it as primary rather than any other issues faced by them.

- Out of some 62 tribal communities which are inhabited in Odisha, the study is conducted only among the Santal tribal who are found more in number in the
selected areas of the study, as the data and information is not adequately available on other tribals for the study.

1.8 Style of the References

For all the references, the American Psychological Association (APA) sixth edition style has been followed. The APA citation format requires parenthetical citations within the text rather than endnotes or footnotes. Citations in the text provide brief information, usually the name of the author and the date of publication, to lead the reader to the source of information in the reference list at the end of the paper.

1.9 Chapterization

- Chapter One introduces the study and highlights its importance, scope, objectives, along with research design, justification and limitations.
- Chapter Two focuses on the Review of literature vividly to support the factors, issues and related matters of the subject.
- Chapter Three provides comprehensive understanding of the Indian banking system, the role played by the public sector banks and about the Financial Inclusion among the Santal tribal of Odisha;
- In Chapter Four, methodology of the study has been explained along with the information about the targeted respondents, parameters of the questionnaires and the statistical tools used for analyses and interpretation of the data
- Chapter Five concentrates on the analysis of the information on the financial inclusion by the banks collected through the filled-in questionnaires from the bank officials and the Santal tribals and interpreting the same by applying relevant statistical tools.
- Chapter Six gives the conclusion of the study with its findings, suggestions and recommendations to support the objectives, hypothesis and the data collected about Financial Inclusion of the Santal tribal community in Odisha.