CHAPTER 4

Financial Inclusion and Empowerment of People from Khed

The term of “Financial Inclusion” is related rural poor people. India is the country of rural area, larger section of population living in rural area and most of them living in below poverty line, they are not assured about earned fixed income for day to day living and to maintain basic standard of living. So this chapter basically focuses on Financial Inclusion of poor and vulnerable people from Khed.

Khed or Rajgurunagar a town in Maharashtra, India, is famous as the birth place of the Indian revolutionary Rajguru. Rajgurunagar is located at the end of northern block of the Pune district in Maharashtra state of India. Its old name was Khed, which was changed to Rajgurunagar around 28 years ago in honour of the great revolutionary Hutatma Rajguru. Rajgurunagar is located on the bank of the Bhima River and 40 km (25 miles) away from Pune. The Pune-Nashik Highway(NH-50) connects Rajgurunagar with Pune and Nashik.

There are 186 villages in Khed Taluka of Pune District. Khed Tahsil is located in northern part of Pune District. Khed Taluka having 11.94 % house hold of tribes in this region. Major tribe is Hindu Mahadev Koli, Thakar and Katkari. The languages of communication of these tribes are thakari and katkari. Comparing to all other talukas of Pune, Khed the working class is lowest in Khed. It is mostly agrarian and tribal segment. Collection of Honey, Wax, Gum and other Medicinal Herbs are some of occupations carried out in this area. The farmers here basically grow the crops like Bajara and Jawar and Vegetables like Tomato, Potato, Onion is also grown. The other activities like cattle grazing, which is usual practiced in peripheral hilly tract and
Tasubai depressions. Oil refineries are also found in this area. The Southern-Eastern region of Khed Taluka is now days became auto-mobile hub and industrial zone.

The land area of Khed is 2973190 sq km and water Area: 314400 sq km. As of 2001 India census (Khed) had a population of 17,636. Males constitute 52% of the population and females 48%. Rajgurunagar (Khed) has an average literacy rate of 78%, higher than the national average of 59.5%: male literacy is 82%, and female literacy is 74%. In Rajgurunagar (Khed), 12% of the population is under 6 years of age.

Geographical Location Map of Khed

Taluka Name : Khed

District : Pune

State : Maharashtra
Poor households in Khed have clear financial needs and they borrow from multiple sources at the same time. These loans are primarily taken for consumption purposes; once the loan amount is exhausted; there is an urgent need for another loan. The poor in Khed have many informal means to save—they save by leaving cash at home, many also save in non-financial means by purchasing jewellery and other valuables, equipment, land, or farm animals. While saving cash at home is convenient, it is vulnerable to theft. Most such forms of savings, however, cannot be used in emergencies or to mitigate risk. Savings can either be compulsory savings and voluntary savings (Laureti, 2009). While MFIs have opted for compulsory savings to help the poor manage and save their money, it is important to provide them with opportunities for voluntary savings such as demand deposits (which help in times of emergencies) and contractual savings products (that help them accrue significant amounts of money over a long period of time).
From the demand side, there are several reasons for the poor from Khed remaining excluded from the formal banking sector, such as:

(a) high transaction costs at the estimated number of rural households

(b) documentation,

(c) lack of awareness,

(d) lack of social capital,

(e) nonavailability of ideal products,

(f) very small volumes / size of transactions which are not encouraged by formal banking institutions,

(g) hassles related to documentation and procedures in the formal system,

(h) easy availability of timely and doorstep services from money lenders/informal sources and

(i) prior experience of rejection by/indifference of the formal banking system.

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country.

According to Smt. Usha Thorat, Deputy Governor, Reserve Bank of India, the Indian economy is growing at a steady rate of 8.5% to 9% in the last five years or so. Most of the growth is from industry and services sector. Agriculture is growing at a little over 2%. The potential for growth
in the primary and SME sector is enormous. Limited access to affordable financial services such
as savings, loan, remittance and insurance services by the vast majority of the population in the
rural areas and unorganised sector is believed to be acting as a constraint to the growth impetus
in these sectors. Access to affordable financial services - especially credit and insurance -
enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such
empowerment aids social and political stability. Apart from these benefits, FI imparts formal
identity, provides access to the payments system and to savings safety net like deposit insurance.
Hence financial inclusion is considered to be critical for achieving inclusive growth; which itself
is required for ensuring overall sustainable overall growth in the country.

People living in rural areas of Khed are underprivileged and disadvantaged to get necessary
financial services almost in all the countries. Those living in rural areas of countries still find it
difficult to avail appropriate financial services in time. The infrastructure facilities in rural part
are not as good as it is in urban part of countries. Inclusive growth is the key of overall economic
development for any economy. In any part of world supplying financial services to this
disadvantaged segment of society is a challenging task.

Recent data released by the Reserve Bank of India shows the proportion of rural branches to the
total number of branches has fallen to 38.5% as on March, 2014, down from 44% in March
2006. Though the data is a year old, there is no reason to believe that things have changed
dramatically in that time.

According to RBI data, rural branches, that is, branches in centres with population of less 10,000,
grew at a compounded annual growth rate (CAGR) of 5% in the eight-year period (2006-2014)
for which data has been released. That is less than the 6.76% average growth rate of total
branches. The CAGR for semi-urban (population 10,000 and above but less than 1 lakh) and urban branches (1 lakh and above but less than 10 lakh) was 9% and 7.5% respectively, while metropolitan branches (population above 10 lakh) grew by 6.86%. The clamour for opening branches in centres which already have a large branch presence defies all business logic.

As per the Global Findex, in India, only 35% of adults have a formal account, and 8% a formal loan. Given the significant proportion of exclusion, the Government of India, in the last one decade, has taken several policy initiatives. While in 2006, it set up the Rangarajan Committee on Financial Inclusion; subsequently in 2008, Raghuram Rajan Committee on Financial Sector Reforms also emphasized financial inclusion as a third policy objective along with growth and price stability. In 2011, the Government of India launched the Swabhiman campaign under which banks were advised to open branches in all habitations of 5000 or more population in under-banked districts. Banking facilities were provided to more than 74,194 such villages, more than 62,468 Banking Correspondent Agents (BCAs) were appointed and about 3.16 Mn FI accounts opened by end of March 2012. While there is apparent progress, almost half the No Frills Accounts remain dormant, BCs are not viable and banks are skeptical of this drive impacting their bottom line. The Government of India further has also begun passing subsidies and entitlements under the Direct Benefit Transfer programme, leveraging the AADHAR platform. Several efforts outside Swabhiman are also being tried out by private sector players’, bilateral / multilateral agencies, payment gateways, and telecom companies to advance the financial inclusion agenda. More recently, while one MFI was awarded a bank license, the Government of India established the niche Bhartiya Mahila Bank to serve financial needs of women, the Nachiket Mor Committee has recommended for differentiated banking architecture to
support financial inclusion. Given the overwhelming challenge of financial inclusion; more holistic, systemic and convergent strategies need to be designed to establish an eco-system that will understand the needs and aspirations of the unbanked, specially the poor, leverage technology, engage with private sector and deliver responsive products and processes to create beneficial outcomes.

In a recent interaction with Business Standard, C VR Rajendran, former chairman and managing director of Andhra Bank, explained why urban branches are not profitable. According to Rajendran – who spoke to this newspaper just before superannuating on April 30, 2015 – the bank’s share of current and savings account deposits (Casa), which are low-cost deposits hence margin accretive, in Andhra Pradesh (except Hyderabad) is 40% while in Telengana it is 50%. Contrast this with branches in metropolitan cities like Hyderabad and Mumbai, where the Casa ratio is 11-12%.

“We have focussed opening more branches in rural and semi-urban areas as they are profitable than urban and metropolitan branches,” Rajendran said. He added that Andhra Bank has actually not opened branches in metro areas, allowed the eligibility to lapse. If a bank opens 25 branches in rural and unbanked areas, it can open 75 branches in other centres.

Timely and appropriate financial services in rural areas are always a matter of concern worldwide. Financial institutions find it difficult to supply appropriate Financial Inclusion in Rural Oman: A Demand and Supply Analysis 287 financial services to disadvantaged section of society living in rural part of the countries. This is mainly because of remote geographical
location, thick & thin population density, poor infrastructure, financial illiteracy and many more problems in rural areas. Financial inclusion of this section of society in main stream is a challenge for all economies.

The need to bring in the lower sections of society into formal, safer credit circles has long been felt in India. The Reserve Bank of India (RBI) has been pursuing its goal of financial inclusion since the 1950s with the building of rural cooperative structures, the popularisation of social banking, the spread of self-help groups (SHGs) in the 1970s, and the rapid expansion of bank branch networks in the most recent decades. While these measures have helped in building a strong banking network across the country, studies show that 40% of the country’s population still does not have any access to formal means of credit (Basu and Srivastava, 2005). The Indian economy has done well in recent years. The average rate of growth of the economy in the last five years has been 8.5 per cent. During the three year period 2005-06 to 2007-08, the annual growth rate exceeded 9 per cent. However, the growth rate slowed down to 6.7 per cent in 2008-09 primarily due to external factors. The growth rate in the current year (2009-10) is likely to remain more or less at the same level. The process of growth has to be such that all sections of society benefit from the growth process and that is the essence of inclusive growth.

Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. In the short run, governments could use income distribution schemes to attenuate negative impacts on the poor of
policies intended to jump start growth, but transfer schemes cannot be an answer in the long run and can be problematic also in the short run.

Therefore one aspect of inclusive growth is financial inclusion. The process of financial inclusion is an attempt to bring within the ambit of the organised financial system the weaker and vulnerable sections of society. Financial inclusion can be defined as the delivery of credit and other financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. The various financial services include savings, credit, insurance and payments and remittance facilities. It will be wrong to classify all those who are not borrowing from the organised financial system as excluded. What is relevant is that whether those who need credit and who want credit from the organised system are included in the ambit of the financial system or not. The criterion for being bankable should not be interpreted narrowly to exclude the vast majority. The objective of financial inclusion is to extend the scope of activities of the organised financial system to include within its ambit people with low incomes. Through graduated credit, attempts must be made to lift the poor from one level to another so that they come out of poverty. Financial inclusion may, therefore, be defined as the process of enabling access to timely and adequate credit and other financial services by vulnerable groups, such as weaker sections and low income groups at affordable cost.

Financial inclusion, according to the Finance Minister’s 2006-07 budget speech, was defined as “the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost” (Union Budget, 2007-2008).
The Committee on Financial Inclusion defines financial inclusion as “…the process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost,” (Report of the Committee for Financial Inclusion, 2008).

Financial exclusion, on the other hand, is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship. There is a large overlap between poverty and permanent financial exclusion. Both poverty and financial exclusion result in a reduction of choices which affects social interaction and leads to reduced participation in society. Full financial inclusion, therefore, is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, and rural populations. Poor households in Khed suffer from irregular and volatile income.

The RBI has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account.

In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K C Chakraborty, the chairman of Indian Bank. Mangalam
Village became the first village in India where all households were provided banking facilities. In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India, being a mostly agrarian economy, hardly has schemes which lend for agriculture.

Financial Inclusion can be defined as timely delivery of financial services viz. Credit, Savings, micro insurance, remittances & payments facilities at an affordable cost at the doorsteps of the disadvantaged & low income groups of population with the view to bring about social upliftment in these social strata. While talking about products for the poor, the planning commission report (2009) brought out the importance of those products that help reduce vulnerability; these include avenues for savings, remittances, insurance, and pension needs. The prime reason for people
remaining in poverty is the lack of savings, contingency planning, and risk mitigation. As a result, in times of a disease or crop failure, with almost non-existent savings in the form of liquid cash, the poor have had to resort to taking loans from MFIs and money lenders, who charge interest rates ranging from 24% to as much as 100%.

In the context of initiatives taken for extending banking services to the small man, the mode of financial sector development until 1980’s was characterized by

- a hugely expanded bank branch and cooperative network and new organizational forms like RRBs;
- a greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities;
- lending targets directed at a range of ‘priority sectors’ such as agriculture, weaker sections of the population, etc;
- interest rate ceilings;
- significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes;
- a dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.

Despite making significant improvements in all 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.

Among the key issues related to financial inclusion, the following needs proper attention:

1. low income level,
2. lack of financial literacy,
3. Low penetration of financial services,
4. factors responsible for less efficiency of the BCs,
5. lack of innovation in the banking technology,
6. lack of trust in BCs
7. prospective alternatives like using post offices and fair price shops for bank related work,
8. hesitation in using mobile phones for availing financial services
9. low income level,
10. lack of financial literacy,
11. Low penetration of financial services: The penetration of financial services in the rural areas of India like Khed is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply. The reasons for low demand for financial services could be
   a. no bank branch in the vicinity,
   b. lack of suitable products meeting the needs of the poor people,
   c. complex processes
   d. language barriers.
The scope of financial inclusion can be expanded in two ways.

(a) through state-driven intervention by way of statutory enactments (for instance the US example, the Community Reinvestment Act and making it a statutory right to have bank account in France).

(b) through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society.

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion.

Financial education, financial inclusion, and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

i. Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

ii. RBI had issued guidelines on the financial literacy Centre’s (FLC) on in June 2012 for setting up FLCs. It was advised that the rural branches of scheduled commercial banks should increase efforts through conduct of outdoor Financial Literacy Camps at least once a month. Accordingly, 718 FLCs had been set up as at end of March 2013.
A total of 2.2 million people had been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

Importance of financial inclusion: Easy access to financial services will allow the population leaving in lower strata, to save money safely and help in preventing concentration of economic power with a few individuals, thus mitigating the risks that the poor could face as a result of economic shocks.

Therefore, providing access to financial services is becoming an area of concern for the policymakers as it has far reaching economic and social implications. In India, The single most frequently used source of loan for medium Indian household is still moneylender. Large parts of our financial system are still hampered by political intervention and bureaucratic constraints, limiting their potential contribution. India’s poor, many of who work as agricultural and unskilled semi skilled wage laborers 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 40% of India working population earn but have no saving. Financial inclusion provides protection to poor from the control of the spurious money lenders.

Factors Affecting Access To Financial Services Some of the major factors affecting access to financial services are:-

Psychological and cultural barriers-Many people willingly excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs which is the most convenient form of banking today.
Legal identity-Lack of legal identity like voter Id, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

Level of income -Low income people generally have the attitude of thinking that banks are only for the rich people. Various terms and conditions-Since banks are profit making organizations they discourage the nonprofitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services. Structural procedural formalities-It is very difficult for people to read terms and conditions and account filling forms due to lack of basic education.

Limited literacy- Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non-Profit Organizations), MFIs and Business Correspondents etc. People do not know the importance of various financial products like insurance, finance bank accounts, cheque facility etc.

Place of living-Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in under-developed areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

Social security payments-In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

Types of occupation-Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan
requests. Attractiveness of the product—Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. So, financial inclusion is the concept related to financial services for rural or low income group people or vulnerable group of people of the society to improve their standard of living and to brought them in to flow of banking services through financial education and with providing basic banking facilities like saving, withdrawing, deposits, short term lending or credit facilities, money transfer, etc. Basically these facilities provide to unbanked people, who covered in the vulnerable group or people living below poverty line. India is the country of poor people, most of these people are illiterate or low educated and therefore they are not aware about to banking services or banking facilities. So, the main objectives of this concept is to inculcate the concept of banking in this group and made them financial empowered.

Conclusion:

Poverty and income inequality remain a stubborn challenge in Khed despite the Pune region’s rapid economic expansion in previous decades, which lifted millions out of poverty. Financial inclusion is often considered as a critical element that makes growth inclusive as access to finance can enable economic agents to make longer-term consumption and investment decisions, participate in productive activities, and cope with unexpected short-term shocks. Understanding the link between financial inclusion, poverty, and income inequality at the country level will help policymakers design and implement programs that will broaden access to financial services, leading to reduction of poverty incidence and income equality.