Spectrum Of Financial Inclusion Literacy And Its Prelude For Income Generation Activities

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Abstract

Most poor people rely on the unpredictable jobs or on the weather for their harvest and farming activities which often provide them with money only once or twice in a year. And the access to financial institutions and banks is not easy in the rural areas due to the higher locality, the consequence of which yield that the poor people do not have any saving habit because they do not have bank accounts either the means to borrow. The present paper is an attempt to study and understand the concept of financial inclusion in the Indian context and discussing how the financial inclusion plays an important role in income generating activities. Further, the paper tries to explore the correlation between financial inclusion and income generating activities. The paper has a descriptive approach in nature and has been generated through the data and facts collected from secondary sources. The study further can be taken to cover larger levels of rural society.

Keywords: Financial Inclusion, Income Generation, Rural Finance, Financial Literacy.

Introduction

In one of the fastest growing economy like India, the majority population, including both the urban and rural area still does not have access to fundamental amenities such as food and nutrition, health and hospitality, infrastructure and households, literacy and education. These all are mainly being depending on access to financial sources. The need of these amenities is a must for everyone and lack of the basic amenities leads to the unemployment of youth and migration of disadvantaged and financially backward people towards the urban areas. A better and static financial access can be a tool for overcoming all these obstacles. But the rural population of the country seems to miss the advantages of the growth. Around some 70-80 million families, India has the largest absolute number of the world’s poor as reported in Human Development Report (2006). Availability of financial services and products is not an easy job in a developing economy and the contextual realities are much different as compared to phenomenal assumptions about financial literacy.

In India, half of the poor are financially excluded from the country's mainstream of the banking sector. Still, the 22 percent of the people are living below the poverty line. Their monthly income is less than $1 per day and they are living in most non-living conditions. However, an accelerated effort through targeted interventions has been a more recent story. The eleventh five-year plan (2007-12) of the Government of India has further emphasized the initiatives of financial inclusion with its greater focus on "inclusive growth". The farming, micro, small and medium enterprises have immense potential to play a critical role in achieving the objective.

The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches in a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society. In India, half of the poor are financially excluded from the country's mainstream of the banking sector. There is a growing divide, with an increased range of personal finance options for a segment of the high and upper-middle income population and a significantly large section of the
population who lack access to even the most basic banking services. This is termed “financial exclusion”. These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc. (Committee on Financial Inclusion, NABARD, January 2008).

Financial Inclusion

Financial inclusion involves expanding their access to the financial system at an affordable cost. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by weaker sections and low-income groups at an affordable cost. Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products, but also other financial services such as insurance and equity products (Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

The concept of ‘financial inclusion’ has been fast evolving over the last few years. A well-functioning financial system empowers individuals, facilitates better integration with the economy and actively contributes to development. In India, the basic concept of financial inclusion is having a saving or current account with any bank. In reality, it includes loans, insurance services and much more.

The government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include—nationalization of banks, building up a branch network of scheduled commercial banks, cooperatives and regional rural banks, introduction of priority sector lending, lead bank scheme, formation of self-help groups, appointed of microcredit and thrifts agents by banks, zero balance accounts and the latest one Pradhan Mantra JanDhanYojna Scheme (PMJDY) etc.

The fundamental objective of all these initiatives is to reach the large sections of the disadvantaged society which is financially excluded, but the contextual reality is that all these problems cannot be solved by the government alone and we should also not expect the same. And when it comes to the urbanization, many obstacles occur due to the failure of governmental policies in order to the upliftment of the living standard of the people of the society and livelihood of migrated human resource in search of employment.

Objectives Of The Study

1. To study and discuss the phenomenon of financial inclusion practices.
2. To discuss the role of financial inclusion as a strategic precursor for income generation activities.

Research Methodology

The present research is a qualitative research which uses a descriptive and judgmental approach. The conceptual research method has also been adopted to get a detailed literature review and deeper understanding of the subject. The foundation of theories and concepts of financial inclusion and income generating activities has been reviewed from secondary data which have been sourced from different kinds of literature such as economists, various national and global agencies, journals, articles, books, websites, e-books and other reports. Further, we have gone through different websites to understand the concept and past efforts that have been done in the concerned field and also to assess the various theories, philosophies and principles available to the related subject and literature made available by past researchers.
One of the primary literature given by Christel Koehler (2009) about financial inclusion is the unconventional economic theory in which he talks about financial inclusion strategies. The unconventional economic theory talks in terms of financial exclusion in India, which is an important concern for excluded and disadvantaged groups in which discrimination has been seen, especially in accessing financial services, capital, resources, technology and markets. The primary aim is to use as far as possible neo-classical tools in the study of discrimination. The lack of financial products is concentrated in a small number of deprived people from social groups such as agricultural laborers, wage laborers, children, small and marginal farmers.

However, Prof. C.K. Prahalad predicted that the success of economic development of any nation would be able to offer those "at the Bottom of the Pyramid" facilities such as access to quality of the products, finance, capital, resources, technology and services they needed to fight poverty, according to an appropriate economic model, while creating new markets for companies. In the other words, said that giving them more breathing space in terms of economic opportunity, in terms of access to fiancé, capital, resources, technology, and market to overcome exclusion to inclusion which further reduces their vulnerability, increasing their autonomy and their ability to use services that provide opportunities to overcome poverty.

According to Federal Deposit Insurance Corporation, (2003), The unbanked are considered those without an account at a bank or other traditional financial institution, while the underbanked are considered those who have limited access or use of traditional banking services. In the present situation all the banks continue to change direction from rural to urban in India, The number of rural bank branches has been reduced in size even as urban branches grow, and then the government pays lip-service to financial deepening and economic inclusion (Punnathara, 2007).

Leyshon and Thrift (1995) define financial exclusion processes as those which serve to prevent certain social groups and individuals from gaining access to the formal financial system. More recently, financial inclusion has been defined by the World Bank (2008), as the absence of price and non-price barriers in the use of financial services.

In the words of Asli Demirguc-Kunt (Director of development policy and chief economist of the Finance and Private Sector Network at the World Bank) those who do not have a bank account often resort to risky measures, such as hording cash or holding their assets in things like gold.

From the World Bank, Demirguc-Kunt and Leora Klapper also highlighted the importance of inclusive financial systems:

"Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems—allowing broad access to financial services, without price or non-price barriers to their use—are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs—and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth."

(Demirguc-Kunt & Klapper, 2012, p. 1)

Indian Approaches to Financial Inclusion

Financial inclusion can be construed in two ways. One is countering the exclusion from the payment system that is, not have an access to a bank account. The second is countering the exclusion
from the formal financial services. The Indian approach in recent years has been to establish the basic right of every person to have access to a bank account. Reserve Bank of India adopted this approach based on the fundamental principle of 5A’s of ensuring Adequacy and Availability of financial services to all sections of the society through the formal financial system covering savings, credit, and remittance, insurance. And also an important strategy is increasing Awareness of such financial services and ensuring Affordability and Accessibility of the appropriate financial products. All these as sequence of network through a combination of conventional and alternative delivery channels and technology-enabled services and processes (Harun R Khan., 2012)

Figure 1 - Outcome Model on Financial Inclusion

The above model of financial inclusion flow is trying to explore and explain the process of financial practices and factors which are leading to consequences. Firstly, financial services, micro credit and entrepreneurship training and skills are leading to income generation. Further, it leads to a better and enhanced livelihood, sustainable economic growth and static employment opportunity.

Why Financial Inclusion

- We need to be sensible on poverty alleviation, equitable economic growth, decent employment opportunities, food security, health facilities and rural electrification.
- Financial Inclusive (FI) mobilizes savings that promote economic growth through productive investment. It promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.
- This helps the weaker sections to channelize their incomes into buying productive resources or assets.
- In the situations of economic crisis, the rural economy can be a support system to stabilize the financial system. Hence, it helps in ensuring a sustainable financial system.
- Financial inclusion support both economic efficiency and equity and self-reliance Unrestrained access to public goods and services is an essential condition of an open and efficient society.

Rural Income Generation and Its Linkage with Financial Inclusion

The Oxford dictionary defines the term ‘business’ as an act of buying and selling or trade or commercial work. The term trade or commerce means an exchange of goods as a means of livelihood
or profit. In this research, the term Rural Entrepreneurship and Agribusiness are being used synonymously. Rural entrepreneurship has emerged as an innovative term for the agribusiness. Agribusiness is emerging as a specialized branch of knowledge in the field of management sciences. In this context, agribusiness can be defined as the science and practice of activities, with backward and forward linkages, related to production, processing, marketing, trade, and distribution of raw and processed food, feed and fiber, including the supply of inputs and services for these activities. In the developed countries, agribusiness is defined as the total output arising from farm production and product processing at both pre and post-farm gate levels. In developing nations like India, the agribusiness sector includes four steps-agricultural inputs, agricultural production, agro-processing, and marketing. Over the years, while the agricultural marketing and trade scenario has undergone tremendous changes, it has not changed enough to meet the emerging demand for such services.

Figure 2 - Sustainable Financing Cycle

The above-designed model explains that financial inclusion is a continuous process which depends on the sustainable financing cycle. Firstly an entrepreneurial activity is started with the help of some financial inclusion scheme. Further, it leads to a static employment situation which again leads to savings and thrifts. The saving has to be deposited in the safety and this motivates to opening a bank account which is again a part of financial inclusion because access to banking services has been considered as a part of financial inclusion.

Findings

The literature reviews have come up with a consequence that there is a gap in the literature and there are not many studies found on the status of financial inclusion in rural households in Uttar

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Pradesh. The literature reviews presented in the past studies were very less at the micro level. The major studies have focused on the macro level, but not at the micro level with any empirical studies. Those studies focused on business strategies and technology aspects rather than focusing on mechanisms and monitoring. In this regard, the present study assumes importance and enumerating the need of the status of financial inclusion at rural households in Uttar Pradesh with special reference to the capital of the state i.e. Lucknow district and the density covered by Lucknow. The main thrust of the study is to examine the status of financial inclusion in Uttar Pradesh and the need to consider the economic strategies to enable the financially disabled population, irrespective of caste, class, status, language or any other negative factor.

There is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full-day programs for their clientele including farmers for counseling small borrowers for making aware of the implications of the loan, how interest is calculated, and so on so that they are totally aware of its features. There is a clearly a lot requires being done in this area.

Limitations And Scope

The first limitation is that this study has a geographical limitation because the present study focuses on the selected districts of the northern region. The second limitation is that the study focuses only on enterprises and businesses of the developing states of the north India, where the frequency of migration of youth is very high in the search of employment and business opportunities. A third limitation is that there is always a risk of personal mindset in research. Every researcher has their own opinions, experiences and motives, all of which may impact on the research. The researcher remained aware of his own bias throughout the research process and made every effort not to let his own views and opinions influence responses.

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