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FINANCIAL INCORPORATION AND ITS IMPACT: A COMPARATIVE STUDY ON RURAL ECONOMY OF INDIAN STATES

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ABSTRACT

Recently India has taken numerous steps towards financial inclusion for achieving closer inclusive growth. This study seeks to examine the achievement of the Indian states regarding the financial inclusion in Jharkhand and Chhattisgarh. For this examination ten indicators of financial Inclusion have been deliberated. This study has used the data published by the Reserve Bank of India (RBI) and the Government of India. The study broadly analyses the role of financial inclusion on rural economic growth of Jharkhand and Chhattisgarh. Ranks of the states in accordance with the Composite score show that although the state of Jharkhand is the best, most of the state Chhattisgarh in eastern region has performed better in terms of financial inclusion. However, the stages of financial inclusion of the states in India have a lower the mean and higher the disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the state Jharkhand and Chhattisgarh in India.

***KEYWORDS**: Financial Inclusion, Principal Component Analysis, Rural Economic Growth.*

Introduction

Finance is the bond that keeps all the bits of our lives together and ideal financial societies are those which provide safe and convenient ways of managing monetary affairs. This philosophy is known as financial inclusion. It provides financial products and services (Moin Qazi,2018). The three key financial inclusion aspects that provide the basis for data collection: - access, usage and quality (Thouraya Triki & Isa Faye,2013). Financial services are the backbone of every developing country. Therefore, to ensure sustainable development, the emphasis must be on the growth and stability of the financial position of all the people of the country.

Financial inclusion means that financial services are provided at a reasonable rate to broad portions of vulnerable and low-income communities. Unrestrained access to public goods and services is essential for an open, inclusive and effective society. Banking services are in the essence of public services. As such, it is important that the provision of banking and payment services to the entire population without discrimination is taken as one of the primary objectives of public policy. Since 1793 attempts have been made to provide financial services, especially banking facilities and credit, to the rural people (Towards Financial Inclusion in India – K.G.Karmakar)

According to Chakraborty (2011), financial inclusion is the process of ensuring access to appropriate financial products and services needed by all the sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players(Central, 2011). Financial inclusion not only involves banking services but also many other financial services such as insurance, equity securities, and pension plans. "Financial inclusion is also not simply about opening a bank account in an unbanked area with a branch." Regarding social benefits, financial inclusion increases the amount of savings available, improves the efficiency of financial intermediation, and enables new market possibilities to be explored. The government has saved more than 57,000 crores and assured that the value of the subsidy directly reaches the real beneficiary."

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JAM,Jan Dhan, Aadhar & Smartphone is one of the most important of the major steps this government takes. In order to provide social security system for all citizens and especially to the poor and under-privileged people, the government launched Pradhan Mantri Suraksha BimaYojna and Pradhan Mantri Jeevan Jyoti BimaYojna. Besides there is also Atal Pension Yojna, Varishita Pension Bima Yojana, Pradhan Mantri Mudra Yojna. Other Schemes includes Jeevan Suraksha Bandhan Yojana, Sukanya Samriddhi Yojana: Kisan Credit Cards (KCC) and General Credit Cards (GCC), BHIM App. The Minister has also elaborated on various other schemes and programs initiated by the government**.**

Financial Inclusion in India

Indeed, the history of financial inclusion in India is far older than structured aim adoption. The nationalization of banks, the Lead Bank System, the incorporation of Regional Rural Banks, the Service Area Strategy, and the creation of Self-Help Groups-all of these were measures aimed at bringing banking services to the people. Across the country, just about 40 % of the population has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is too low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards are only a marginal 2 per cent of the population(Dr. K. C. Chakraborty, Deputy Governor, Reserve Bank of India).

The Irving Fisher Committee is engaged in statistical issues of interest to the worldwide central banks. Irving Fisher, as we all know, was not just a celebrated economist who gave us the Fisher money equation and the theory of real interest rates, he was also a pioneer in the development of index number theory (Erwin Diewert, 2012).

A more oriented and systematic approach to financial inclusion has been followed since 2005 when Reserve Bank of India started to introduce financial inclusion policies and urged the banking system to focus on this goal. Our focus has, specifically, been on providing banking services to all the 60000 villages and meeting their financial needs through basic financial products like savings, credit and remittance. Financial inclusion aims were pursued through a multidisciplinary approach in the broader context of the inclusive growth agenda. In 2006, the Government of India constituted a Committee on Financial Inclusion, which made a wide range of recommendations on the strategies for building an inclusive financial sector and gave a rural financial inclusion plan. Government of India has set up the Financial Stability and Development Council (FSDC), which is mandated, inter alia, to focus on Financial Inclusion and Financial Literacy issues (Financial Inclusion Report: Chairman Dr. C Rangarajan: Former Governor of RBI).

Banking system in India is an important segment of the financial system and it has made available a variety of saving, credit and other financial products and services to the people. They allocate resources to different sectors of the economy for asset creation, capital formation, income and purchasing power distribution (Towards Financial Inclusion in India – K.G.Karmakar, G.D. Banerjee, pg. 90). Generally, the following financial products and services are provided by the banking system:

- Deposits
- Credit
- Insurance
- Funds transfer
- Pension/retirement benefit scheme
- Public provident fund
- Merchant banking
- Investment

The financial products for the rural vulnerable clients should have the following features:

Deposit Products	Credit products	Insurance Products
• Liquidity • Safety • Return • Easy accessibility	• Timely • Adequate • assurance of repeat loans • Reasonable Interest Rates • Simple documentations	• Life (Group) • Health (Group) • Non-life Integrated cover combining life and non-life insurance

Financial Inclusion in Jharkhand

Jharkhand is a state in eastern India, formed in 15 November 2000, from what was previously the southern half of Bihar. Its Literacy rate is 66.41% of which male literacy is 76.84% and female literacy 55.42%.Financial Literacy of this state is also low. To realize the full potential of Jharkhand's growing economy, we must ensure that every citizen have access to the tools they need to protect their money, increase their capital and grow their businesses and livelihoods. At its core, the state government believes that financial inclusion is about promoting Jharkhand's economic growth by providing a range of financial services to those who currently have limited or no access to them. The total (Bank Saving and Bank Deposit) number of accounts opened under PMJDY till 30th September, 2017 was 109, 44,624. The no. of accounts opened in the rural areas was much more than those of the urban locations. In the urban areas a total of 28, 34,694accounts were opened, whereas in rural area around81, 09,934 accounts were opened. Total number of Rupay debit card issued under PMJDY was 8123305(Economic Survey of Jharkhand: 2017-18).

In scheduled area especially Ranchi, Khunti, Chatra, Gharwa, West Singhbhum, East Singhbhum, merely opening physical accounts as flag posts of financial identity won't help unless they are actively used by people for managing their money. This skill is known as financial literacy. According to direction given by the Reserve Bank of India it is mandatory for banks to open their brick and mortar branches in all the villages having a population of more than 5000 and are without a branch of any scheduled commercial bank. Garib Kalyan Mela was organized on 16.09.2017 (except 6 six districts of Santhal Pargana) and on 22.09.2017 (6 six districts of Santhal Pargana) in which the target of distributing loans worth Rs 250crore in 10000 accounts (SHG/SUI/PMMY) was given to the Banks. Loan amounting to Rs 254.43crore was distributed to 29301 beneficiaries in the State with the cumulative efforts of all the banks(A. Lusardi,2019).

In Jharkhand, FLCs have been set-up in all the 24 districts. They are being run all over Jharkhand by different banks. 24 RSETI are being running the 24 districts of Jharkhand (Economic Survey of Jharkhand: 2017-18). As per MUDRA Portal, Micro Finance Institutions have sanctioned Rs. 808.10 crores against an approximate of 294468 accounts in the state and Rs. 718.59 crores have already been disbursed to them. So, under the MUDRA Scheme a total of Rs. 1331.69 crores have been disbursed in 336619 accounts till June 2018(Jharkhand Economic Survey 2018-19). The scheme is fixed by the Department of Financial Services (DFS), Ministry of Finance, and government of India. In Jharkhand under this program, banks have extended credit to 571 beneficiaries out of which68belong to the SC/ST category whereas 503 are women beneficiaries. It is also noticeable that more than88% of the beneficiaries are women as portrayed in Annexure-3(Jharkhand Economic Survey 2018-19).

Financial Inclusion in Chhattisgarh

Chhattisgarh is a state in Central India, created on 1 November 2000, from what was previously the half of Madhya Pradesh. Financial inclusion has been recognized as key building blocks which will forms the foundation for achieving several of UN's Sustainable Development Goals. As a construct, it provides much more than simply access to financial services. In Chhattisgarh, Financial Inclusion Plan, villages with population above 1000-1999 were to be covered. SBI was allotted with 741 villages out of 4122 villages in Chhattisgarh. All the villages were financially included on March 2013.Working at Bharat financial inclusion in Raipur, Chhattisgarh. The total number of accounts opened for NREGA beneficiaries by the Post Offices and Banks in Chhattisgarh has increased from 41.97 lacs as at the end of March 2009 to 56.73 lacs as at the end of March, 2010 representing a growth of 14.76 lacs accounts. The key initiatives taken by the Banks in the State to ensure effective implementation of the scheme are as under:

- Introduction of the Revised Cheque Collection Process to ensure early payment of wages to NREGA beneficiaries
- Launching the Mobile Banking concept with the objective to provide wage payments to NREGA beneficiaries at a place near their residence
- Sensitizing the operating bank branch functionaries to extend the best customer services to the NREGA beneficiaries frequenting the branches for opening of accounts/ doing transactions in their accounts.
- Opening the accounts of and making wage payments to the NREGA beneficiaries by the IT based Business Correspondent (BC) Model.

Literature Review

Eton, Marus Uwonda, Gilbert Mwosi, Fabian Barigye, Godfrey Ogwel, Patrick Bernard (2019): Studied the role in economic growth, financial inclusion upholds equitable distribution of growth benefits, transforming people's way of life, improving wealth development and encouraging people to go for financial services customized to their needs.A cross-sectional survey design and both quantitative and qualitative approaches were used in data collection and analysis.

Neethu Mol Jacob, et al., (2019): Studied the financial inclusion assumes greater importance in India as access to finance by the poor and vulnerable groups is a pre-requisite for poverty reduction, social cohesion and inclusive growth.

Vaishali Waikar, Dr. Yamini Karmarkar (2018): Studied the financial inclusion services provided by the banks and its awareness of the selected sample of Indore district. Their study focuses on the effect of gender and occupation on awareness level of people.

(Greeshmadas M H, 2018): Studied the awareness level of weaker sections of society. The study found that majority of Indians living in the villages with limited social and economic infrastructure is excluded from India's growth story.

(Rangarajan, 2017): Focused on the awareness of the selected sample about no frills account and the financial services offered by the banks including the steps taken by the banks in the area of financial inclusion.

(Harley Tega Williams1, Adetoso J. Adegoke2, 2017) studied the role of financial inclusion in poverty reduction and economic growth in a developing economy.

Thirumagal. J. Pillai (2016) studied the responsiveness and practice of Jan Dhan Yojana Scheme executed in the first phase (15th August, 2014 to 14th August, 2015) among the farmers.

Babar(2016) showed that socio-economic status of financially included and excluded is important to understand with perspectives like caste, age, assets, income, and household which act as a barrier for the expansion of financial inclusion.

Dixit and Ghosh (2013) Studied "Inclusive growth attainment depends upon equitable distribution of growth opportunities and benefits. The percentage of financial inclusion in different states varies differently. Some states like Kerala, Maharashtra and Karnataka have high rate of financial inclusion and some states like Gujarat, Manipur, Assam, Bihar, etc. have low financial inclusion. Financial literacy and its awareness is still an issue with regards to financial products and services. The efforts should be taken by banks, government, NGOs, etc. to achieve the objective of financial inclusion"

Methodology and Data

Different studies have considered different sets of the indicators of financial inclusion in accordance with their objectives. Majority of the indicators are common in all sets. This study has tries to include most of the indicators found in literature for assessing the performance of the states in financial inclusion. The indicators considered in this study have been listed in table-1.

Table 1: List of the Indicators of Financial Inclusion

Indicators
Number of bank branches per lakh population aged 7+ year
Number of banks per thousand square kilometer
Number of Self-Help Groups per hundred poor population
Number of deposit accounts per hundred population aged 7+year
Number of credit accounts per hundred population aged 7+ year
Percentage of savings to net state domestic product
Percentage of credit outstanding to net state domestic product
Per capita Domestic Savings (₹ '000)
Per capita Loan Outstanding (₹ '000)
Credit deposit ratio (percentage)

Source: Authors' own consideration

Research Gap

On the basis of literature review conducted on the respective topic following gaps have been found out which are given as follows:

- Financial indexing for district is not done so an indexing will be done for districts.
- No comparative studies between Jharkhand and Chhattisgarh have been conducted on the basis of financial inclusion and financial literacy.

Objectives of the Study

The study broadly analyses the role of financial inclusion on rural economic growth of Jharkhand and Chhattisgarh. The general objectives are:

- To assess the awareness of rural people regarding the Government's financial inclusion Schemes.
- To access the impact of financial inclusion on economic status of rural poor.
- To study the role of financial inclusion in rural area for economic growth & development.
- District wise indexing will be done.

Data Analysis

- In first objective correlation will be used to establish the relation between awareness of financial inclusion among rural people and government's scheme.
- Multiple regressions will be used to measure the impact of financial inclusion on economic condition of the people of two states taken for the study.
- For third objective regression will be used to find out the effect of financial inclusion on economic growth respectively in the two states.
- For fourth objective district wise indexing.

Scope of the Study

The scope of this study - Financial inclusion on economic status of rural poor of Deoghar, West Singhbhum, Ranchi, Palamu Districts from Jharkhand and Raipur, Dhamtari, Jashpur, Raigarh Districts from Chhattisgarh.

Limitations of the Study

- Out of 24 districts of Jharkhand, the study has covered four districts only, which is a representative sample.
- Out of 27 districts of Chhattisgarh, the study has covered four districts only, which is a representative sample.
- The study is limited to the economic growth with respect to their financial inclusive growth and performance.
- Out of 29 states of India, the study has covered 2 states only; the number of observations is too small which is a major constraint to generalize the observations in the study.

Challenges for the Future

- The Need to Improve Financial Literacy
- Lack of Formal Identification Documents
- The Rural Poor and Gender Inequality
- Promoting the Use of the Transaction Account

Conclusion

This study has constructed a composite index of financial inclusion for each state using a wide range of indicators. It would be useful to the governments or financial regulators or other bodies of policy-makers in near future to enhance financial inclusion. In our society generally the marginalized groups of population are financially excluded. In most of the cases their livelihoods are not monetized and they are deprived of the financial inclusion. Besides, they are not well aware of the available banking services; on the other hand, banking officials are not also well aware of the needs and capacity of the people under this section. As a result, banks cannot bring them under the parasol of financial inclusion. Therefore, the mass financial literacy and awareness among the marginalized sections of people are absolutely necessary to achieve financial inclusion. The heritage state Jharkhand and Chhattisgarh is abundant with rapidly penetrating slums and an ever growing of population of the Rural Poor. The Rural Poor are not only financially excluded but also socially and legislatively excluded which is nevertheless an outcome of financial exclusion. Financial inclusion of these vast population will go a long way in strengthening the economy of the state and thus in the overall well-being of the State.

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