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FINANCIAL INCLUSION AND RURAL GUJARAT: A STUDY

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ABSTRACT

Recognising the significance of providing individuals with financial services that are both adequate and cost-effective in order to promote economic growth, relieve poverty, and enhance overall well-being is becoming more acknowledged on a worldwide scale. This was done in order to alleviate poverty and increase general well-being. An increase in access to formal financing may lead to an increase in investments in human capital, a reduction in susceptibility to economic shocks, and an increase in the number of jobs that are created. It is feasible to encourage economic growth that is both sustainable and equitable by expanding the availability of financial services on a larger scale. This strategy has the potential to be successful. Both the eradication of poverty and the accumulation of wealth are made feasible via the implementation of financial inclusion principles. People who are less fortunate and more vulnerable can get assistance in breaking the cycle of poverty and obtaining the capacity to empower themselves and their family via the provision of core financial services. This assistance can be provided to individuals who are less fortunate and more vulnerable. Increasing access to financial services is vital for the development of communities that are more resilient and for the promotion of economic growth that is fair for all persons. This is because these communities benefit from increased economic growth. Individuals and businesses are able to access loans, insurance, and payment options that are not only

affordable but also responsible for the environment in a society that offers financial inclusion. Buying, selling, and conserving money are all possible outcomes that might be caused by these choices. The convenience of payments through a transaction account is regarded to be of utmost importance when it comes to the promotion of greater financial inclusion.

KEY WORDS: Financial Inclusion, Implementation, Business, Communities, Economic Growth.

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INTRODUCTION

When families and companies have access to formal financial products and services, they are better equipped to prepare for the future and seize opportunities that may otherwise be unattainable. This is because they are able to better prepare for the future. The ability to make investments in healthcare or education, to start or develop a business, to manage risks, and to deal with financial crises are just some of the benefits that can result from individuals having an account. Individuals who have an account are more likely to make use of other financial services, such as credit and insurance, which can result in a variety of advantages. However, despite the fact that there is an increasing tendency towards financial inclusion, there are still deficiencies that persist. There are 3.8 billion individuals all over the globe who have either a bank account or a mobile money account. This is due to the fact that having access to financial services is vital for conquering poverty. 69 percent of the total population of the entire planet is comprised of this specific group. The proportion had a significant rise, going from 51% in 2011 to 62% in 2014. This is a significant increase. "Global Findex Database estimates that more than 1.2 billion people have created accounts since the year 2011, with 515 million of those accounts being created between the years 2014 and 2017". The number of individuals who possess accounts has significantly risen in certain nations, while in others it has stayed largely stable. This is the case in certain countries. This is typically the outcome of significant disparities in terms of both economic status and gender. During the year 2017, 63 percent of adults living in countries that were considered to be undeveloped had an account, but 94 percent of those living in nations with high incomes had established an account. Even in the most impoverished nations, there are still disparities in the supply of financial services. This is the case even in the least developed nations. Since the year 2014, the percentage of individuals who have accounts has been relatively unchanged in countries like as South Africa, Brazil, China, and Malaysia. The percentage of people in India who have a bank account has climbed from twenty percent in 2011 to eighty percent in 2018. This represents a significant growth. There is a possibility that a sizeable piece of this can be ascribed to a government project that was initiated in 2014 with the intention of expanding the number of individuals who have bank accounts and bringing a bigger percentage of the population into formal banking.

REASONS OF BEING UNBANKED

There have been tremendous efforts made to enhance access to formal financial services, which has resulted in 69% of individuals currently having bank accounts. Every year, there are 1.7 billion people who do not have a bank account. This population is distributed over seven nations, including Mexico, Bangladesh, India, Pakistan, and Indonesia, where it makes about 46% of the total. Among the more than 980 million people around the world who do not have a bank account, women make up a much larger proportion, accounting for 56% of the total. Women account for approximately half of adult customers who do not have bank accounts, with the majority of these customers coming from low-income rural homes or being unemployed at the present time. Women's financial autonomy is hindered by the fact that developing nations continue to display a gender discrepancy in account ownership that is nine percentage points higher than the average. According to the Global Findex Report, the lowest twenty percent of income earners account for twenty-five percent of the population that does not have a bank account. Although there are countries in which at least two-thirds of adults have accounts, there is still a sizeable minority of persons with low incomes who do not have bank accounts. Adults who do not have bank accounts are often younger than the general population. Between the ages of 15 and 24, thirty percent of the adult population around the world that does not have access to banking services is comprised of individuals. In economies where there are a low percentage of adults who do not have bank accounts, the population that does not have bank accounts is typically younger. Among the adults in Kenya, Brazil, and India who do not have bank accounts, more than forty percent are between the ages of fifteen and twenty-four. When it comes to knowledge, people who do not have bank accounts often have a limited amount of information, sixty-two percent of the world's population that does not have access to banking services does not have any formal education, while over fifty percent of adults in developing nations have only completed basic school. Furthermore, just 38 percent of the world's population who does not have a bank account holds a bachelor's degree or above. The lack of sufficient capital or inadequate funding was a significant barrier to the inclusion of financial services in 2017. More than 63 percent of people around the world do not have sufficient financial resources to open a bank account. The Global Findex Report from 2017 found that thirty percent of people who did not have bank accounts claimed that they did not consider it necessary to become bank account holders. This underlines both the relevance of financial education as well as the widespread lack of those who have completed it. Those individuals whose day-to-day activities do not change as a result of this matter either do not recognise the importance of participating in the formal banking system or are unable to afford the financial options that are available to them. In poor nations, the cost of financial inclusion is a substantial obstacle that must be overcome. The lack of clarity surrounding bank costs contributes to the users' loss of confidence, which is already inadequate. As a result of poor infrastructure, consumers and financial institutions face challenges in locations that are not yet thoroughly developed. Inadequacy in infrastructure can be measured in a number of ways, one of which is proximity to an authorised financial facility. According to the Global Findex database, twenty-two percent of people who do not have a bank account cited the fact that they are located in a remote location as the reason they do not have access to financial services.

INDIA: BANKED & UNBANKED

Over the course of its 29 states and 9 union territories, India is home to around 1,300,000 people who live in 600,000 villages. These villages are dispersed across 640 districts. There are more than 850 million people living in rural parts of India, which constitutes the majority of the country's population. When it comes to the availability of financial services, this particular group suffers from a significant lack of accessibility. One of the driving forces for the expansion of financial inclusion across the country is the availability of reasonably priced financial services. The primary goal of financial inclusion is to make banking services more accessible and affordable for all persons, regardless of their socioeconomic situation. This is the primary objective of financial inclusion. The Reserve Bank of India (RBI) is making a concerted effort to encourage the growth of the banking sector by pushing the establishment of physical branches, business correspondents, automated teller machines, and WLAs. Over the course of more than a decade, the government has taken a number of initiatives, one of which is the establishment of a zero balance. The initiatives that are currently being implemented by the government include Jan Dhan accounts, Direct Benefit Transfer (DBT) schemes, distribution of RuPay cards, distribution of Kisan Credit Cards, schemes that are enabled with Aadhaar, and a uniform payment interface. In 2017, the World Bank reported that the percentage of Indians aged 15 and older who had an account at a financial institution or with a mobile-money service provider had significantly increased from 35% in 2011 to over 80%. This represents a statistically significant gain. 62% of Indian males have an account in 2014; however by 2017 that number has increased to 83% of Indian men. Between 2014 and 2017, the percentage of females climbed from 43 percent to more than 76 percent.

KEY CHALLANGES IN GUJARAT

A link between the growth of the population and the GDP per capita Eighty percent of those who had bank accounts in 2017 made use of financial services. This represents a significant increase in the number of people who had bank accounts. As a result of India's vast geographical extent and massive population, financial institutions confront significant challenges in their efforts to contact each and every citizen in the country. Consequently, there are three significant obstacles: First and foremost, the provision of core banking services must to be accorded priority treatment. Our goal is to ensure that every single person continues to be connected to the financial system by providing them with incentives to actively participate in transactions on a consistent basis.

LACK OF KNOWLEDGE ON FINANCES

A significant number of Gujarati people do not have an understanding of the significance of the many financial services and products which are available. The development of financial literacy enables individuals to achieve self-sufficiency and financial stability in their economic lives. On the other side, a lack of fundamental financial awareness is the root cause of poor choices about investments and finances.

AFFECTING FACTORS TO FINANCIAL SERVICES

One of the most important aspects of development is the expansion of financial services to households with low incomes. The following are some of the variables that can make it more difficult to receive a financial service:

- The majority of commercial banks are located in densely populated urban regions, and they purposefully locate their branches in wealthy neighbourhoods in order to maximize their earnings. People who live in more rural places have a more difficult time gaining access to traditional banking services.
- Populations living in semi-urban and rural areas do not contain adequate infrastructure. Both customers and financial organizations are confronted with significant challenges in terms of the closeness and accessibility of physical bank branches. There are a number of challenges that banks and other financial institutions must overcome, including inadequate electricity, internet, and infrastructure. Individual bank branches, on the other hand, are seen by many as an alternative that cannot be implemented due to the huge expenses involved. At their neighbourhood branch, customers are unable to obtain the appropriate banking services they require.
- Individuals' access to financial services is highly impacted by their financial condition, which is a crucial factor in the decline of incomes and the rise in unemployment. In Gujarat, the restricted consumption of financial services is a direct effect of the state's low income and substantial unemployment rate.
- There is a correlation between high service costs and a decrease in trust in financial services and banks, which might lead to discouragement.

It is estimated that around 80 percent of Gujaratis have bank accounts; yet, nearly 45 percent of these accounts are inactive for a variety of reasons. In light of this, it is imperative that real steps be made in order to ensure that financial services are accessible, affordable, and transparent. There is a strong dependence on the solid foundations of the state's financial institutions for the growth, development, and advancement of Gujarat's economy. An increase in the accessibility of financial services has been achieved via the collaborative efforts of a number of different organizations in Gujarat:

- Regional rural banks
- Scheduled commercial banks
- Payment banks
- Business correspondents (Bank Mitra)
- Micro-finance institutions
- Small finance banks

TIMELINE OF FINANCIAL INCLUSION

The “Reserve Bank of India (RBI)” issued a directive in 2005 to encourage financial institutions to broaden access to banking services by offering basic checking and savings accounts to customers with low incomes. In 2006, financial institutions made it possible for “business correspondents (BCs) and business facilitators (BFs)” to offer financial services to “non-governmental organizations (NGOs), microfinance institutions (MFIs), and self-help groups (SHGs)”. In order to streamline the process of making payments at retail establishments, the “National Payment Corporation of India (NPCI) established the National Automated Clearing House (NACH) and the National Financial Switch (NFS) in 2008–2009”. Mobile wallets and other “prepaid payment instruments (PPIs)” were subject to restrictions that were implemented by the “Reserve Bank of India (RBI)” in the year 2009. The “Unique Identity Development Authority of India (UIDAI)” is in charge of managing the “Aadhaar project”, which was initiated in 2010 with the intention of developing an identification system for the purpose of addressing the issue of financial inclusion. Following the introduction of IMPS by the NPCI, which enabled electronic payment transfers around the clock, the “Reserve Bank of India (RBI)” granted permission to for-profit businesses to function as Business Correspondents later that same year. Through the “Swabhimaan Scheme”, which was launched by the government in 2011, banking services were made available to over 2,000 persons throughout 74,000 localities. More than one hundred million new bank accounts were opened during the years 2011 and 2013.The payment system that is enabled with “Aadhaar, known as AePs” is currently functioning. In the latter part of that year, the “Reserve Bank of India (RBI)” made it possible for non-banking companies in India to establish WLAs in order to broaden access to banking services. “RuPay cards” were initially released in 2012 by NPCI, which is a local payment network. It was in 2013 when the “DBT program” was first implemented with the intention of facilitating a faster and more efficient transmission of both payment and data. In the expectation that this move will eradicate misappropriation of public funds and promote openness, the government of India has taken this action. With the intention of providing every family with access to financial services, the “PMJDY”, which is an uncommon and one-of-a-kind program, was established in the year 2014. The exceptional success of the first phase of the “PMJDY”, which began in 2014, brought to the beginning of the second phase of the program in 2015, which was centred on increasing access to financial services. In 2015, the “Reserve Bank of India (RBI)” granted licenses to payment banks and small finance banks in order to facilitate access to banking services for individuals with low incomes, small businesses, marginal farmers, and other individuals. The process of demonetization was initiated in India toward the season's conclusion. The objective was to promote digitalization, eliminate tax evasion, and make India's economy shift to one that does not rely on cash transactions. “Bharat Interface for Money (BHIM)”, a mobile payment platform that enables dependable, quick, and secure digital transactions, was later introduced by the “National Payments Corporation of India (NPCI)”. As a result of the loosened regulations that were introduced by the “Reserve Bank of India in 2019”, businesses who manage “White Label ATMs” are now able to “accept deposits, provide non-bank services such as bill payments, engage in advertising, and get access to cash directly from the banking institution”. As a consequence of this, they became more self-sufficient.

STATUS OF FINANCIAL INCLUSION IN RURAL GUJARAT

Out of Gujarat's total population of 6.04 crore, 42.6% of the population lives in urban areas, while 57.4% of the population lives in rural areas, as reported by the Census in 2011. Within the state, there are a total of 33 districts. It is possible for all inhabitants to be incorporated into the financial system thanks to the enormous client base and network that banks possess, which is why they play such an important part in the process of financial inclusion. In Gujarat, rural areas account for 42% of bank branches, whereas metropolitan areas account for 15%, urban areas account for 16%, and semi-urban areas account for 25%. According to the data, the government is making a greater effort to guarantee that individuals in areas where banks are present have access to the fundamental financial services they require. Furthermore, between March 2016 and June 2016, 71 branches were opened in various locations across the country, with 33 of those branches being located in major cities scattered among the states. According to the SLBC Agenda note, there were 10,952 automated teller machines (ATMs) that were operational in the state of Gujarat in India in the month of June 2016. There is a compelling need to expand the presence of automated teller machines (ATMs) in rural areas in order to give access to important financial services. This is despite the fact that ATMs are prevalent in large cities and metropolitan regions.

BC (BUSINESS CORRESPONDENT) / BANK MITRA

The “Reserve Bank of India (RBI)” has created a new business correspondent model known as Bank Mitra in order to provide banking services to rural communities who do not have access to traditional banking services because there are no physical bank branches in those locations. The completion of a screening test is required for anyone over the age of 18 to become a Bank Mitra, which ultimately results in the creation of jobs through the process of financial inclusion. For the purpose of delivering financial services to specific demographics, institutional business correspondents, in addition to individual business correspondents, collaborate with banks to provide these services. According to the 151 SLBC Agenda Note from 2016, only 4,860 of the 5,860 BCs in banks were operational and equipped with micro ATMs. This information was gathered from the state of Gujarat. Immediately following the demonetization of the currency, the BC model needs to undergo a complete makeover in order to facilitate digital transactions.

PMJDY

More than half of the people who will receive benefits from the “Pradhan Mantri Jan Dhan Yojana”, which was announced by the “Government of India”, effects to the millions people that live in rural and rural areas. Although PMJDY has been accused for placing a greater emphasis on the establishment of accounts rather than the utilisation of accounts, it has developed the most comprehensive platform for financial inclusion.

FINANCIAL LITERACY

For rural populations with low incomes to be eligible for participation, they need to have understanding of financial matters. Financial literacy is necessary for inclusion in the financial system. According to the “151 SLBC Agenda Note (Gujarat, 2016)”, the main banks and RRBs in Gujarat have established 49 “Financial Literacy Centres (FLCs)” in each and every district of the state. There is just one FLC that is located in the metropolitan region, 33 FLCs that are located in semi-urban areas, and 15 FLCs that are located in urban areas. There is nothing that is formed in rural areas. The duty of “Financial Literacy Centres” is to educate individuals on how to handle their finances through the organisation of camps and seminars.

CONCLUSION

Improvements to the BC model that take into account the effects of demonetization and digitization are absolutely necessary in order to make financial inclusion more widespread. The development of a specialised training programme to improve skills in using micro-ATMs, the provision of compensation to ground-level functionaries and BCs, the establishment of a failsafe operational system, the resolution of the issue of underutilised bank accounts, and the guarantee that bank employees are fluent in regional languages are all ways in which this objective can be accomplished. At certain levels, there is an insufficient emphasis placed on financial literacy, which is vital for decreasing gender bias in financial inclusion and improving access to financial services in rural areas. As a result, it is of the utmost need to devise a strategy for operations that is both effective and foolproof. This may be accomplished by using newly formed accounts, creative products, and unconventional service models that have the ability to alter the course of the existing financial plans.

FUTURE SCOPE

This article took a look at a number of different contexts and pieces of literature concerning financial inclusion from an Indian point of view. It is possible that the subsequent stages will consist of selecting a district or state for a practical survey, conducting comparative research, and carrying out a field survey across the entire nation. The “Pradhan Mantri Jan Dhan Yojana, the BC/BF model, and financial literacy” are the only programmes that are currently included in the scope of this initiative; however, it is possible to expand the scope to include other such programmes and initiatives.

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