FINANCIAL INCLUSION PREREQUISITE FOR POVERTY REDUCTION AND SUSTAINABLE ECONOMIC DEVELOPMENT

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Abstract :

Since last three decades the major objective of policy makers is to remove poverty from India. Many programmes and policies were started at the grass root level. But results were not very encouraging. After liberalization India's GDP growth witnessed an encouraging change. It was hoped that it will be a solution for the problem. But due to some basic reasons at grass root level, results were not very overwhelming. It has also been realized by the policymakers that increase in GDP alone is not the solution of the deep rooted problem of poverty. Growth is necessary but not sufficient for the poverty eradication All the efforts of government – in agricultural and rural development, in industry and urban development, in infrastructure and services, in education and health care – sought to promote „inclusive growth. In India the benefits of economic growth have not equitably reached different parts of our society. Inclusive growth can be a solution for poverty removal.

Key Word : MFIs-Multi Financial Institutions, FI-Financial Inclusion, SHG - Self Help Group, GDP – Grosss Domestic Growth, HDI-Human Development Index

Introduction :

In the1990s government of India started many programmes which were specially made for enhancing the income level of the poor masses. Consequently, all the major initiatives of government – in agricultural and rural development, in industry and urban development, in infrastructure and services, in education and health care – sought to promote….inclusive growth.

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. The success of poverty alleviation programmes can be achieved in real sense, when common man is also a part of growth.

Access to finance by the poor is a prerequisite for poverty reduction and sustainable economic development. Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world(more than 65 per cent in India)

Theoretical Background :

The Forbes article reported (2008) that an estimated 750 million households worldwide do not have a bank account. In Mexico, cash transactions constitute 79 per cent of payments. In India 91 percent. In China, 82 percent. Even in the United States., 80 million people are in the category of the under banked. Most people around the world, however, own a mobile phone.

The international poverty line has been recalibrated at $1.25 a day, using new data on purchasing power parties; earlier it was merely $ 1 a day. As per the World Bank report the new data change our view of poverty in the world, there are more people- extremely poor people and the incidence of poverty reaches farther into middle-income countries. By the new measurements 1.4 billion people are living in extreme poverty- more than one quarter of the population of developing countries. Human Development Index (HDI) is probably the most widely recognized and used composite measure embodying other welfare dimensions (i.e., on health and education) apart from income. Starting in 1998, United Nation Development Programme (UNDP) also began releasing estimates of a Human Poverty Index, a measure closely related to the HDI.

India was the first country in the world to define poverty as the total per-capita expenditure of the lowest expenditure class, which consumed 2400 calories per day in rural and 2100 calories per day in urban areas and attempt to provide comprehensive package of essential goods and services to people below the poverty line. category. A recent World Bank study estimates that about 47 percent of children below three years in India are undernourished. Persisting malnutrition has a severally debilitating effect on human development and this has serious implications for economic growth in general.

Nearly one-fourth of India's population is below poverty line. In terms of incidence of poverty measured in India on the basis of consumption expenditure, there is a definite improvement over the years, both in rural and urban areas. There is about 7 to 8 percentage points decline in poverty ratio in 2004-05 over 1993-94 and improvement being more predominant in the rural areas. There are several factors affect the extent and depth of poverty and hunger; some of them have overwhelming impacts under the Indian setting. An effective water policy and institutional support is needed to ensure judicious and equitable allocation, distribution and exploitation of water and land resources i.e. in the increase of farm size poverty in rural areas decreases. Similarly, there is positive impact of rainwater on poverty alleviation. Because good farm size and good rain water ensures good production. Farmers those who are living in rural areas but have no land are suffering from hunger and poverty. Incidence of poverty and hunger is very severe in this segment of the society. Literacy has a very high impact on poverty alleviation as well as on hunger reduction. The illiterate people, whether urban or rural, are the most poor and malnourished. In urban areas the impact of literacy on poverty is the highest. Education, even above primary level, is extremely effective in reducing both poverty and hunger. Therefore, the education policy of the country must be geared to remove illiteracy as soon as possible.

Poverty reduction is one of the major objectives of economic growth. Economists recognize that even when there is robust economic growth poverty reduction may not always be fully achieved. Economic growth is necessary but not sufficient when it comes to poverty reduction. One cannot preclude the role of economic growth in creating necessary resources for social development, but, at the same time, complementary social and environmental policies are required, too. If poor people do not have access to basic education, how can they take advantage of employment and income opportunities created by economic growth? Poverty is thus a highly complex socio-economic problem that needs to be tackled concurrently in various sectors in order to untangle the Gordian knot of poverty. It is the synergy of combined efforts that produces the most sustainable results. The relationship between income growth and poverty reduction has been shown to be particularly stronger in developing Asia.

Research :

- Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world;
- In India, not more than 34 per cent of total population is access to banking and financial services.
- More than 65 per cent of total population in India is excluded from formal financial services
- A recent World Bank study estimates that about 47 percent of children below three years in India are undernourished
- More than 35 per cent of India's population is living poverty line
- Despite the robust economic growth, a large number of groups remain excluded from the opportunities and services provided by the financial sector. Such excluded groups include women, workers of unorganized sector, small and marginal farmers, the self-employed and senior citizens. Sustainable growth and development are not possible unless all the segments of the economy are included. This can be achieved through concerted action between the public and private sector.
- Government of India has recognized the importance of inclusive growth. Thus, the Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society. Now, our policies aim at increasing the income and employment opportunities on the one hand and on the other; it tries to finance programmes which are capable of making the growth more inclusive. Inclusive growth is driven by demand side and supply side factors.
- Banks are playing the role of supply side factors. Demand side factors, such as lower income and /or asset holdings also have a significant effect on financial inclusion.
- Indian Government and RBI have been focusing to increase the number of bank accounts so that saving habits in this segment of society could be increased.
- National Bank for Agriculture and Rural Development (NABARD) in 1992, launched the SHG-bank linkage programme with policy support from the Reserve Bank, to facilitate

- The Common Minimum Programme of the (UPA) Government in India has focused on inclusive growth, on making the benefits of growth and income improvements available to all citizens.
- Microfinance has also been accepted as a tool of economic growth and poverty alleviation which is a part of policy. During the last few years, an increasing number of microfinance investment funds have been set up with the goal of mobilizing funding for Multi Financial Institutions (MFIs) from foundations, individual and institutional investors and development agencies.
- With increasing acceptance of the Self Help Groups (SHGs) based developmental approach there is pressures set on village and block level administrators to achieve targets of forming a certain number of SHGs. Thus Panchayats are also promoting SHGs in many areas.
- Most importantly, in February 2006, Government of India implemented the NREGA (National Rural Employment Guarantee Act). This Act guarantees 100 days of unskilled jobs per rural household. The NREGA is being implemented in 200 most backward districts of 27 states in the country -- socio-economically, the most challenging areas in India. Act aims at eradication of extreme poverty and at making villages self-sustaining through productive assets creation. This is meant to regenerate the rural natural resource base, which in turn will result in sustainable livelihoods for residents
- The NREGA puts Panchayati Raj Institutions at the helm of affairs -- beginning with identifying the eligible households to planning the works to be undertaken. The government has referred to it as an “Act of the people, by the people, and for the people”.
- In the context of rural poverty, the NREGA should be seen more as a livelihood-generating programme than a wage-earning scheme. It offers a unique opportunity to turn around rural development and poverty alleviation. For the first time, communities have been given not just a development programme, but also a regime of rights.
- Financial inclusion is no doubt prerequisite for poverty reduction and sustainable economic development

Now question is that how effective are our delivery mechanisms and what are the weaknesses ?

Suggestions :

- All the payments made to unskilled workers should be made through bank accounts.
- Strict measures should be taken against corruption
- Awareness about the poverty reduction programme should be made through channels like newspapers,.T.V. Radio, telephones etc.
- Sincerity and dedication towards implementation of programme is must, the machinery for that purpose should be efficient and transparent**.**
- The sincerity of GOI,RBI,NABARD and other channels should be accountable
- The benefits of rapid economic growth have to percolate down to the lowest strata of society
- There also ought to be greater accountability for politicians and civil servants
- Growth is necessary for poverty alleviation but not sufficient. Growth has to be inclusive. Growth with equity is the only road to success.
- It has been globally recognized that high national income growth alone does not address the challenge of employment promotion, poverty reduction and balanced regional development. Nor does growth in itself improve human development.

Conclusion :

Inspite of 65 years of Independence and more than 40 years of banks nationalization, the banks and other channels have failed to wipe the tears of common person To be the global power in 21st century, high and sustainable growth are absolute requirements, but the fruits of development should reach the door steps of common persons.

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