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Financial Exclusion and Its Impact on Financial Deepening

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Abstract
Indian economy is a rural economy. The growth and development of the economy depends on the growth and development of agriculture. The role of credit in the development of agriculture assumes greater importance. It should be made available to the farmers at the right time, required quantity and in the required institutional form. The cause of concern is that despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services. In India financially excluded constitute a significant share of the population especially amongst the low income groups in India. It also showed that lower the asset class or income, higher the degree of exclusion. Hence, it is the need of the hour to analyze the situation holistically to identify the causes of financial exclusion, the extent of the problem, region wise, sector wise and social group wise, and evaluate the ongoing schemes for reducing financial exclusion and bring out an implementable strategies for all the agencies involved in this process - Government, CBOs, RBI, IBA, Research Institutions, Technology and Service Providers, and the public.

Keywords: Financial exclusion, financial deepening, rural economy, agricultural credit, poverty alleviation, low-income households, access to finance, institutional credit, regional disparities, inclusive finance strategies

Introduction
Indian economy is a rural economy. The growth and development of the economy depends on the growth and development of agriculture. The role of credit in the development of agriculture assumes greater importance. Credit has becomes crucial factor to agricultural production. It should be made available to the farmers at the right time, required quantity and in the required institutional form. The success of credit oriented development project is significantly depended upon the soundness of the credit institution and the credit system. It is not a panacea but one tool, albeit an important one in the whole process of rural development.

By the beginning of the 20th Century, the colonial government realized the Indian farmers' dependence on usurious moneylenders as a major cause of their indebtedness and poverty. Convinced that the cooperative movement could offer the best means of liberating the Indian farmers from the crushing burden of debt and the tyranny of moneylenders, the colonial government began to take active interest in promoting credit cooperatives in the country. The Cooperative Credit Societies Act was enacted on 25th March 1904 with the objective of relieving the poor farmers from the clutches of moneylenders and providing cheap and facile means of credit.

The planned development of cooperatives, in general, and cooperative banks in particular, started with the recommendations of All India Rural Credit Survey Committee 1954 (AIRCSC). The Committee observed that 'Cooperation has failed but it must succeed' and recommended State Partnership for the development of cooperatives in the country. As a result of these recommendations, the cooperative banks received substantial support from the Reserve Bank of India, Government of India and State Governments. Over the period, number of Committees and Commissions were appointed and the recommendations of these Committees and Commissions were used to tune the functioning of the cooperative banks. The important such Committees were All India Rural Credit Review Committee 1969 (AIRCRC), Study Team on Overdue 1974, Committee on Integration of Cooperative

Credit Institutions 1977, Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development 1980 (CRAFICARD), Agricultural Credit Review Committee 1989 (ACRC), and Task Force on Revival of Cooperative Credit Institutions 2004. Based on the recommendations of these Committees and Commissions, the cooperative banking network for agricultural credit have been developed as an important institutional support for agriculture and rural development in India. The shift towards internet banking is needed and it was fuelled by the changing dynamics in India. By 2020 the average age of India was 29 years and this young consumer base is internet savvy and wants real time online information. Indian banks therefore need to aspire high and move toward implementing a world class internet banking capability.

The Structure of Cooperative Credit in India in general consisted of two main wings *viz*., (i) agricultural credit and (ii) non-agricultural credit. In the case of agricultural credit, two separate structures exist - one for short - term and medium term credit and the other for long - term credit - referred here as Cooperative Credit Structure or Cooperative Credit Delivery System (CCDS). The CCDS for short and medium - term credit is a three tier and federal one with a State Cooperative Bank at the apex level in each State, the Central Cooperative Bank at the District level and Primary Agricultural Credit Societies (PACS) / Primary Agricultural Cooperative Banks (PACB) / Large Sized Agricultural Multi-Purpose Societies (LAMPS)/ Farmers Service Societies (FSS) at the base level. However, the system is not uniform across the country.

A separate institutional structure for providing long-term credit in the cooperative sector owes its origin to the report of the Meclagan Committee (1915). The present structure for long-term credit in some States is unitary; in others, constituting the majority, the structure comprises two-tier *viz*., the Primary Agriculture and Rural Development Banks (PCARDB) at primary level and State Agriculture and Rural Development Banks (SCARDB) at State level. At present the CCDS system consists of 95670 PACS, 3621 LAMPs, and 2477 FSS at primary level, 367 DCCBs and 30 SCBs in the short-term credit structure. There are 1785 PCARDBs and 20 SCARDBs functioning in the long-term credit structure during the year 2024-25. This network covered cent percent of Indian villages and more than 90 percent of the rural households. Nationalization of banks in 1969 and 1980 was intended to shift the focus from class banking to mass banking. The share of all these institutional arrangements in rural credit brings two important results, via.

1) The share of institutional credit in the total credit has been increased, and
2) The share of cooperatives in total institutional credit has been decreased.

On the other side, the World Bank/NCAER survey showed that only 24 per cent of households in Andhra Pradesh and 19 per cent in Uttar Pradesh had access to formal credit, while 56 per cent and 51 per cent of households in the two States, respectively, depended on private credit. The proportion of small and marginal farmers accessing formal credit was lower than that of medium and large farmers in both States. Thus, access to formal credit was poor and skewed in favour of large landholdings. It is evident that the financially excluded constitute a significant share of the population, particularly among low-income groups in India. The AIDIS 2022 survey reported that 111.5 million households had no access to formal credit, and 17 million households were indebted to moneylenders. The recent Arjun Sengupta Report on financing enterprises in the unorganized sector highlighted that only 2.4 million out of 58 million units (with an investment of less than Rs. 25,000) had received credit from commercial banks. The AIDIS 2022 survey also showed that the lower the asset class or income level, the higher the degree of financial exclusion. This raises important questions: Why are the poor excluded, and what strategies are needed to promote their financial inclusion?

Financial Exclusion

The network of banking system including insurance companies can be taken for granted by those with easy access to this network. But for those without access to the services of this network, there is financial pain caused by informal credit market. Financial exclusion leads to social exclusion and particular sections of population, such as small and marginal farmers, tenants, share croppers, labourers, daily coolies, and other workers in unorganized sector defend on informal credit markets for their financial requirements. Some research studies found that those who have never made use of financial services fall into following main groups:

- Householders who have never had a secure job
- Elderly people (aged over 70) who are part of a cash-only generation
- Young householders who have not yet made use of financial services, but may do so in the future.
- Women who became single mothers at an early age

Financial exclusion is not just an individual problem it is the problem of the country. No universally accepted definition of financial exclusion is available. It is generally termed as ‘banking practices and traditions that exclude disadvantaged people from financial services including access to low price loans. Broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion. The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services. The reduction of financial exclusion should be the priority for any government because it could lead to social exclusion.

Importance of Reduction in Financial Exclusion

Financial Exclusion and Financial Inclusion as a topic of interest has attracted global attention in the recent past. It is noteworthy that in India the need for financial inclusion and covering more and more of the excluded population by the formal financial system has always been emphasized. What has come to the fore, however, is that even after decades of such emphasis, there are large segments of the society outside the financial system. A benchmark often used for estimating the degree of reach of financial services to the population of the country is the quantum of deposits accounts (current and savings) held as a ratio to the adult population. In India the ratio was 59 per cent as on March 31, 2024. Within the country, there is a wide variation

across the states. The ratio for Kerala was 89 per cent, while it was only 33 per cent for Bihar. Compared to the developed world, the coverage of our financial services is quite low, For instance, as per a recent survey commissioned by the British Bankers' Association, 92 to 94 per cent of the population of UK has either current or savings bank accounts.

Reasons for Financial Exclusion

Financial exclusion is a multi-dimensional problem, which both the developed as well as the developing countries strive to overcome. Financial exclusion can result from lack of banking facility in the locality i.e., geographical exclusion, including a rural-urban divide. There could be social exclusion, wherein a section of population may not feel comfortable in visiting a bank branch. Lack of awareness and initial inhibitions in approaching a formal institution may lead to financial exclusion. There could be very high cost of transaction, requirements for paperwork, proof of identity and title, thus excluding certain disadvantaged sections of population. Such impediments may be real or perceived. Therefore, financial exclusion results from a combination of economic and social factors. Reduction of financial exclusion should be seen as an important part of wider drive towards social inclusion.

Initiatives in Developed Societies

The need to eliminate financial exclusion has attracted great attention even in developed countries. The thrust on empowerment of common person can be observed in the initiatives undertaken by these countries. UK has established a Financial Inclusion Fund to promote this objective. Responsibility has been assigned to banks and credit unions in removing financial exclusion. In France, the right to a banking account is enshrined in law. In the USA, a civil rights law, namely Community Reinvestment Act prohibits discrimination by banks against low and moderate-income neighborhoods.

Initiatives in India

In India, the Governments and Reserve Bank of India have attached greater importance to expand the outreach of banking facilities.

1) The Know Your Customer (KYC) procedure for opening accounts has been simplified so that people from the low-income group do not face problems in opening new accounts.
2) Guidelines have been issued to banks to enhance their outreach by utilizing the services of Community Based Organizations, Farmers' Clubs, NGOs, Post Offices etc. as business facilitators and business correspondents.
3) A National Pilot Project for Financial Inclusion (NPPFI) has been launched in the Union Territory of Pondicherry for a period of one year.
4) One-Time Settlement (OTS) Scheme to bring in existing defaulted borrowers to the pilot project after their dues are settled
5) Strengthening SHGs by giving general line of credit based on the past records; provide social security through insurance products
6) IT connectivity at branch level and facilities like overdraft to all eligible individuals in the rural and semi urban areas, preferably at the lower segment, based on income earned and repaying capacity
7) Waiving of farm loans so as to make the farmers eligible for new loans
8) Reserve Bank has advised IBA to circulate among its members a scheme to enable banks in Maharashtra to purvey rural credit in association with Post Offices.
9) Government of India appointed a Committee on Financial Inclusion under the Chairmanship of Dr. C Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister.
10) NABARD's initiatives in SHG-Bank linkage programme empowered the downtrodden.
11) NABARD's new initiatives in the formation of JLGs have attracted the attention of bankers, corporates and the farmers.

Conclusion

The Expert Group on Agricultural Indebtedness recommends that the main focus of the programme of 'financial inclusion' should be on the basis of credit needs of all small borrower households. Institutional credit should be extended to those excluded farmer households who do not have access to any source of credit. This coverage should be placed on a mission mode for the farm community as a part of the strategy of financial inclusion and as a part of the goal of mitigating distress amongst the farming community.

The cause of concern is that despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services. Hence, it is the need of the hour to analyze the situation holistically to identify the causes of financial exclusion, the extent of the problem, region wise, sector wise and social group wise, and evaluate the ongoing schemes for reducing financial exclusion and bring out an implementable strategies for all the agencies involved in this process - Government, CBOs, RBI, IBA, Research Institutions, Technology and Service Providers, and the public.

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