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Inclusive Development – Role Played by Public and Private Sector Banks

Udaya Pratap Seethamsetty

Research Scholar, Department of Sociology, S. V. University, Tirupathi, India

***Abstract*: The article dwells into the aspect of what constitutes the development and the role of Banking sector in India and its impact on financial inclusion. No frills account provides the opportunity for a common man to open bank account. These accounts have no minimum balance requirement. Banks were advised to provide small overdraft in these accounts. RBI as a part of measures to include hitherto excluded sections of society, concept of no frills accounts introduced in 2005 later it became "Jandhan accounts" and RBI has taken necessary steps to develop the new bank branches in all rural areas. Post demonetization these accounts are carrying good balances. This article is composed on the basis of secondary data available in public domain.**

Keywords: inclusive development.

I. Introduction

A. Development

In the earlier times the development was considered to be only economic growth in gross terms of an economy. Presently it is clear that development is comprehensive and multifaceted. Development has been quantified using various indices including that of Human Development Index (HDI), Gender Development Index (GDI) which is not holistic. As the parameters of development are many and broad, I will be limiting this paper to economic development aspect of the society in general and banking sectors role in poverty alleviation programmes in particular. Improved economic activities of the, hitherto, deprived sections of the social strata will largely contribute to economic development, a gateway to comprehensive development at large. The availability of financial services, including access to credit at an affordable cost forms part of "Inclusive development" prospect for hitherto neglected sections of the society.

B. Inclusive Development

Inclusive development and Inclusive growth are synonymous in nature and convey broadly the same meaning. According to Wikipedia "Inclusive Growth" is a concept that advances equitable opportunities for economic growth with benefits incurred by every section of the society. The concept expands upon traditional economic growth models to include focus on the equity of health, human capital, environmental quality, social protection and food security. "Inclusive Development" is a pro-poor approach that equally values and incorporates the contributions of all stake holders including marginalized groups, in addressing development issues. It promotes transparency and accountability and enhances development cooperation outcomes through collaboration between civil society, governments and private sector actors. The inclusive development can only be understood both by quantitative and qualitative methods. The goal of inclusive development is to achieve an inclusive society, able to accommodate differences and to value diversity. It is simply "ensuring benefits for all".

II. Purpose of Study and Methodology

The study is based on the secondary data which collected from RBI website, UN website and other national and international newspapers and journals. The data available till as late as August 2018 is also utilized for examining the role of Banking sector‘s contribution to financial inclusion at large. The purpose this study is understand the various concepts of inclusive development and to know the role of private public sector and RBI in pushing financial inclusion to all excluded sections of the society in Metropolitan, Urban, Semi- urban and Rural areas. It also aimed at understanding the challenges that are being encountered in the process.

III. Financial Inclusion

A majority of the world population in the lower strata of the society, either socially or financially remain excluded from most of the basic financial services by formal financial sector. Inclusive growth is not just distributing the benefits evenly and equitably but also participation of all sections and regions of society in growth story of a nation and reaping fruits of growth by all stake participants. A savings bank account, a timely small loan, access to affordable nutrition, education for their children and an insurance (Health/ Life) policy can make a world of difference to a poor family.

Financial Inclusion has been defined by United Nations/ Asian Development Bank as under.

United Nations: "A financial sector that provides access for credit for all bankable people and firms and savings and payment services to everyone. Inclusive finance does not require that everyone is eligible to use each of the services but they should be able to choose them if desired."

Asian Development Bank: "Provision of broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income house-holds and their micro enterprises."

Indian definition: The committee on Financial Inclusion headed by Dr. C. Rangarajan has provided a working definition for "Financial Inclusion" as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

The state (GOI) has taken initiatives in order to develop the economy since independence and has given further thrust in tune with world order as well as to become a developed and strong economy.

Being a federal structure, all the state governments are also actively participating in the process of development and in effective ground level implementation through their designated agencies such as DRDA, various Welfare committees etc.

A. Initiatives Taken by the Government

The government has on its part formulated many schemes/ programmes to uplift the people at the bottom of the pyramid, from absolute poverty and deprivation of access to many economic activities. Most of the important schemes/ initiatives are listed below.

1. Community development Programme – (CDP)1952
2. Intensive Agriculture Development Programme - (IADP)1960-61
3. Green revolution – Increase in food grain production -1968
4. Nationalization of 14 banks – 1969 and 6 banks in 1980
5. White revolution- Increase in milk production – 1970
6. Drought Prone Area Programme – (DPAP) 1973
7. Integrated Rural Development Programme – 1980
8. SEEUY Scheme – For urban youth – 1983-84
9. SEPUP Scheme – Foe urban poor – 1986
10. Scheme for Urban Micro Enterprises (SUME) – 1990
11. PMRY Scheme for youth and women – 1993
12. Group life Insurance Scheme for rural areas – 1996
13. Swarna Jayanthi Rojgar Yojna and SHG – 1999
14. Jan shree Bima yojna – 2000
15. Universal Health Insurance Plan (Health Insurance for Rural People) – 2003
16. MSME Act – 2006
17. Rashtriya Swastha Bima Yojna (Health Insurance for Workers in Unorganised Sector) – 2007
18. Insurance Cover to the head of the family of Rural landless labour – 2007
19. No frills accounts by Banks in 2012 & Jan dhan yojna in 2014
20. MUDRA Scheme – Micro Enterprises – 2014-15
21. Vajpayee Health Insurance cover in 2014 and latest Health cover programme for almost all poor people.
22. Ayushman Bharat 2018

In addition to the above certain employment guarantee schemes to rural poor, affordable credit schemes have also been formulated and implemented. They are, a) National Rural Employment Programme (NREP),Rural Landless Employment Guarantee Programme (RLEGP), and Training of Rural Youth for Self-employment(TRYSEM), Jawahar Rojgar Yojna (JRY) and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Notable among them is National Rural Employment Guarantee Scheme and came into force in all districts from April 2008. It is popularly known as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

B. Role of Reserve Bank of India

Reserve bank of India being a central bank and regulator has been acting in tandem with Government of India in implementation of various schemes through commercial banks, both public and private sector, for speedy and effective ground level implementation effectively. Regional Rural Banks have been established to penetrate into remote rural areas.

Reserve Bank is regulating and monitoring the role of banks in implementation of government schemes and financial inclusion objectives on a real time basis. It has set targets for all the banks in tune with government policies. Certain segments of loans are termed as priority sector advances and Banks are required to lend 40% of their Adjusted Net Bank Credit to priority sector. Defaulting banks are subjected to penalties or investing in Priority Sector Lending Certificates (PSLCs) for short fall in achievement, as punitive measure.

Priority sector advances are:

1. Agricultural Finance (both direct & indirect)
2. Micro, Small and Medium Enterprises (MSME)
3. Export Credit
4. Education Loans
5. Housing Loans
6. Social Infrastructure
7. Renewable Energy
8. Others

Reserve Bank reviewed the progress in achievement of set goals in financial inclusion and set up a committee on "Medium-Term Path on Financial Inclusion" which has given its recommendations in December 2015. The report opined that "The task of financial inclusion is onerous, but is, by no means, insurmountable. It is hoped that the report will provide inputs and ideas for policy makers to drive forward the financial inclusion agenda, and make us a more efficiently financially included society."

Hon'ble Prime Minister's in his address at Delhi "Economics Conclave, 6 November 2015" inter-alia, expressed that "Financial inclusion, broadly understood as access to the formal financial sector for the marginalized and formal finance deprived sections of society, has increasingly come to the fore-front of public discourse in recent years. Policymakers all over the world are exploring ways and means to ensure greater inclusion of the financially excluded segments of society. There has been renewed global impetus to financial inclusion, particularly following the global financial crisis in 2008. It is believed that financial inclusion could be welfare-enhancing and, as a result, there is greater political support for the entire process.

In India, providing access to formal financial services and products has been a thrust of banking policy for several decades. The current thinking at the global level has also had its echo in India, with policymakers at various levels undertaking a wide range of measures to include the excluded or the under-served within the fold of formal finance. Accordingly, the Government and the Reserve Bank have undertaken a whole host of innovative and dedicated measures

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to drive forward the financial inclusion agenda."

C. Role of Banking Sector in Economic Development

Department of Financial Service, Ministry of Finance, GOI in its letter dated 19.12.2015, inter-alia opined that, RBI has responded to the letter of Government to state that in so far as participation of PSBs and private sector banks in the priority sectors / sub-sector lending is concerned, the comparison of last two years shows (on the ground of achievement of Priority sector lending targets) that the overall performance of the private sector banks is in no way better or worse than the PSBs. Therefore, it would not be appropriate to differentiate between public and private sector banks for appointment of these banks as agency banks on the social sector lending criteria. RBI has, therefore, mentioned that postponing the revised dispensation granted to the private sector banks may not be appropriate in the context of the equity, fair play and convenience for the banks.

Banking sector has a pivotal role in any country for its economic growth and sustenance and also for smooth financial transactions. India is no exception in the matter more so after nationalization private sector banks in 1969 and 1980 covering lion's share of banking operations. As a result of nationalization and oriented thrust given, bank branches have been opened in remote areas of the country there by providing banking services to large sections of the population. As per the Mint's, a financial newspaper, report dated 14.12.2016, India has 42.54 branches per 1000 sq. km which is very by any standards. It is same in many other vital banking parameters when compared to other countries.

The position of banking presence is produced in the table below,

TABLE I
GEOGRAPHIC AND DEMOGRAPHIC PENETRATION OF BANK SERVICES IN "BRICS" COUNTRIES

Country	Geographic Penetration		Demographic Penetration	
	No. of bank branches or 1000 sq.km	No. of ATMs per 1000 sq. km	No. of bank branches per 1lakh people	No. of bank ATMs per 1lakh people
Brazil	3.10	21.82	20.67	114
Russia	2.80	12.67	32.88	173
India	42.54	61.88	13.55	18*
China	9.30	92.32	8.45	76
S.Africa	2.80	22.21	10.50	69

Source: world Bank/ IMF latest available survey results & Mint news paper

India is second most populous country and largest successful democracy in the world. It is a 6th largest economy emerging economic force. Our banking sector has played a great role since independence in general and after nationalization in particular. It will be appropriate to discuss a few flagship programmes which made impact on the larger section of deprived sections. They are a) Integrated Rural Development Programme, popularly known as IRDP and Prime Minister's Rojgar Yojna, known as PMRY. Also certain other schemes viz. Self- Employment Programme for Urban Youth (SEPUP), Self- Employment for Educated Unemployed Youth (SEEUY) made some impact.

D. Integrated Rural Development Programme (IRDP)

The programme was launched by government of India in 1978 and implemented in 1980 throughout the country. It is intended to provide self- employment opportunities to the rural poor / landless labour/Artisans and economically backward classes whose household income is below Rs.11,000/- p.a. The scheme also designed to improve the skill set of the poor so as to improve their living standards/ conditions. The programme is embedded with necessary subsidies to the people below poverty line (BPL) with associated self-employment opportunities. This scheme is funded 50:50 by central and state governments. State government agencies involved in implementation are District Rural Development Authority, State Level Consultative Committee and Ministry of Rural areas and employment. Beneficiaries of the scheme are a) Rural artisans b) Labourers c) Marginal farmers d) Scheduled castes & Scheduled tribes and e) Economically backward classes Subsidies, subject to ceilings, provided under the scheme

- Small farmers – 25%
- Marginal farmers & landless labourers – 33.33%
- SC/ST families and differently abled people – 50%

Process of Identification of beneficiary will be done by the State government and subsidy quantum and percentage will be given to the Bank. There after the bank will conduct inspection as well as ascertain the suitability of the beneficiary for activity chosen before according necessary sanction. The grounding of the loan will be done by banks once stipulated conditions are fulfilled by the beneficiary. Thus many poor people under below poverty line, have been benefitted by the scheme. The success of the scheme was directly proportional to political will of that area and proper identification of the beneficiary by government authorities.

None the less the scheme touched many lives and uplifted them from the clutches of money lenders/Zamindars. The scheme was a socially successful one.

E. Prime Minister's Rozgar Yojna (PMRY)

The programme was introduced in the year 1993 by central government. The scheme targets the educated youth and women by providing them a financial boost to help get them into the self-employment arena. The implementation of the scheme is carried out by District Industries Centre (DIC) the directorates of Industries and the financing is being done by commercial banks. The programme was very popular and made notable impact on the youth and women who were small scale entrepreneurs.

There are certain eligibility norms set out in the scheme for beneficiaries.

- All educated youth who are unemployed, aged between 18 yr-35yr, can apply. For north-eastern region upper age limit is 40 yr. For SC/ST beneficiaries' also upper age limit is 40 yr.
- Must be a resident of the area for 3 years
- Applicant should have passed minimum 8th standard
- Income of parents should not exceed Rs.1.00 lakh p.a.

All activities are covered under the scheme and sector wise

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maximum finance varies from Rs. 2.00 lakh to Rs.10.00 lakh. Subsidy of 15% is also available.

Banks have participated proactively in implementation of the scheme despite certain practical difficulties encountered in the process. In addition to participating in lending to beneficiaries of government sponsored schemes the banks have extensively lent to all priority sector segments as well as commercial sector that fuels growth. Further, branch penetration and opening of various deposit accounts including no-frill accounts as well as 'PM Jandhan' accounts. The banks also facilitate implementation government driven mass insurance schemes. Thus the banking industry in India has played and playing an unparalleled role in the growth story.

As per Business Line news item dated 10.08.2018, "As on August 1, 2018 the total balance in Jan dhan accounts stood at Rs. 80675 cr.of which public sector banks have deposits worth Rs. 64388 cr. With them. More than 32 crore people opened bank accounts. Basic bank accounts for poor under the scheme had also become vital for the implementation of low- cost insurance schemes under Pradhan Mantri Jeevan Jyothi Bima Yojna (PMJJY) and Pradhan MantriSuraksha Bima Yojna (PMSBY).

F. Financing to Self-Help groups (SHGs)

Banks are successful in lending to credit groups as intermediaries for micro-Credit. SHGs are prominent among credit groups. Normally a self- help group consists 15-20 homogeneous members. Mostly these groups are women centric. They address common issues and contribute thrift and lend interest bearing loans among themselves. Group maintains books of account for receipts and payments. Once the group stabilizes, it approaches the Bank for a loan to lend among themselves on a need based approach. Internal management of funds will be managed by their leader and group as a whole is responsible for repayment to the Bank. This model is successful in sense that defaults to the Bank are very minimum. The model has also acted as women empowerment tool.

TABLE I
GROWTH OF SAVINGS ACCOUNT

	Number of Individual Saving Bank Deposits Accounts(million)			CAGR (%)	Individual Saving Bank Deposits' Amount Outstanding (₹. billion)			CAGR (%)
	2006	2010	2015		2006	2010	2015	
Rural	104	167	384	15.6	962	1703	3601	15.8
Semi-urban	85	136	320	15.9	1124	2155	4470	16.6
Urban	68	97	186	11.8	1246	2381	4541	15.5
Metropolitan	71	100	180	10.9	1838	3731	6476	15
All India	329	500	1070	14	5170	9970	19088	15.6

CAGR is for all scheduled commercial banks (SCBs) including regional rural banks (RRBs) during 2006-15.

TABLE II
CREDIT GROWTH OF SCHEDULED

	Commercial Banks Credit Accounts(million)			CAGR (%)	Credit Outstanding (₹. billion)			CAGR (%)
	2006	2010	2015		2006	2010	2015	
Rural	29	36	50	6.4	1,261	2,493	5,982	18.9
Semi-urban	21	27	41	7.4	1,514	3,200	7,600	19.6
Urban	13	16	21	5.8	2,458	5,585	11,039	18.2
Metropolitan	23	40	33	4.1	9,905	22,174	44,170	18.1
All India	86	119	145	6	15,138	33,452	68,791	18.3

CAGR is for all scheduled commercial banks (SCBs) including regional rural banks (RRBs) during 2006-15.

G. Financial Literacy Programmes

Apart from performing the banker's basic role, the banking industry is also conducting financial literacy programmes to educate the excluded and deprived sections of society. RBI is also proactive providing policy decisions and guidance in such matters. The literacy programmes mainly include credit counselling, imparting awareness of various banking products. This helps the participant to understand and chose the right product by taking into account all relevant factors involved. Notable among them is RSETI-Rural self -employment Training Institutes run by banks.

H. Branch Expansion

RBI has given impetus to opening of Bank branches in unbanked areas in the entire country right from rural areas to Metropolitan centres. In the process RBI has liberalised the branch opening policy to achieve better performance by Banks and speedy opening of the branches.

1. Participation of private sector banks

Department of Financial Service, Ministry of Finance, GOI in its letter dated 19.12.2015, inter-alia opined that, RBI has responded to the letter of Government to state that in so far as participation of PSBs and private sector banks in the priority sectors / sub-sector lending is concerned, the comparison of last two years shows (on the ground of achievement of Priority sector lending targets) that the overall performance of the private sector banks is in no way better or worse than the PSBs. Therefore, it would not be appropriate to differentiate between public and private sector banks for appointment of these banks as agency banks on the social sector lending criteria. RBI has, therefore, mentioned that postponing the revised dispensation granted to the private sector banks may not be appropriate in the context of the equity, fair play and convenience for the banks.

There was a change of thought process in the new age private sector banks. Of late the private bankers are providing their services in all population groups. They have increased presence in semi urban and rural areas. This is a good sign for ensuring financial inclusion and better quality of service in these areas. The information and communication technology offers the opportunity for the private commercial bankers to improve financial imparting banking services to the unbanked people.

2. Business Facilitators (BFs) and Business Correspondents (BCs):

To achieve effective financial inclusion and increase the penetration of the banking sector, the RBI has proposed that banks use the services of NGOs/SHGs, MFIs and other civil societies (excluding NBFCs) as intermediaries in providing financial and banking services through the usage of Business Facilitators and Business Correspondents . The Business Correspondents are permitted to carry out transactions on behalf of the banks as agents. The Business Facilitators can refer clients, pursue the clients" proposals and facilitate banks to carry out their transactions. The Business Correspondents can offer savings, credit, insurance and remittance services depending on the location and infrastructure. It is reported that a number of organizations linked millions of accounts and millions of customers respectively with the banking system.

"CMF-IFMR conducted a study to understand if the Business Correspondents model is financially viable at the level of each stakeholder, and found that the agents are struggling to make their business profitable and financially sustainable as the current commission structure is not adequate to cover agents" costs. In addition, the study reports that agents are facing sand banks. The study concludes that the BC model has an immense potential in promoting financial inclusion in India, and thus more efforts have been made to promote the model among the agents and prospective clients."

IV. Conclusion

Inclusive Development and Inclusive Growth are used in same context, though growth colloquially denotes economic progress only, whereas development is a more comprehensive term in nature. Financial Inclusion is an integral part of development process and the same is addressed emphatically by all stake holders i.e. Government of India, State governments, Reserve Bank of India, NABARD, commercial banks (both private and public sector) and Gramin banks in equal measure and vigour with in their respected domains concertedly, to make inclusive development a success in India. Availability of credit to needed people and businesses triggers economic activity and growth in GDP. Credit fuels growth and paves way for overall development. By achieving this we will be reaching "Sustainable Development Goals" (SDGs) set by United Nations Development Programme as well as becoming an inclusively developed society. In India, Public Sector Banks as well as Private sector Banks have contributed to the Development process in an impactful way. The process of inclusion and inclusive development is an ongoing one.

Abbreviations

GOI – Government of India
RBI – Reserve Bank of India
NABARD – National Bank for Agriculture and Rural Development
UN – United Nations
UNDP – United nations Development Programme
MDG – Millennium Development Goals,
SDG – Sustainable Development Goals
HDI – Human Development Index,
GDI – Gender Development Index
PSLCs – Priority Sector Lending Certificates
IRDP – Integrated Rural Development Programme
PMRY – Prime Minister's Rojgar Yojna
MGNREGS – Mahatma Gandhi National Rural Employment Guarantee scheme
MSME – Micro, Small & Medium enterprises
SEEUY – Self Employment for Educated Urban Youth
SEPUP – Self Employment Programme for Urban Poor
BPL – Below poverty line
SHG – Self-Help groups
PMJJY – Prime Minister's Jeevan Jyothi Bima Yojna
PMSBY – Prime Minister's Suraksha Bima Yojna
DIC – District Industries Centre
DRDA – District Rural Development Agency
SLBC – State Level Bankers Committee
RSETI- Rural Self Employment Training Institute
BRICS – Brazil, Russia, India, China and South Africa

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