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Financial Inclusion and Need for Agricultural Development: an Analysis

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ABSTRACT

Strong and vigorous financial institutions are the pillars of economic growth, progress and success of modern economies. Around 62% of India's population depends on agriculture for a living. Agriculture sector also provides employment to nearly 52 per cent of the work force. In contrast to this the contribution of agriculture to the national GDP is 14.6% in 2011 against 15.7 % in 2008-09. The average productivity of major crops i.e., cereals has remained 1600-1800 kgs/ha since 1995. The stagnation in agricultural productivity, increase in cost of production, distortion in the market and poor infrastructure have made the livelihood of farming population more difficult. A large number of poverty ridden farming households especially marginal and small farmers, tenant farmers, oral lessees, share croppers and agricultural laborers etc. eke out living from a mix of subsistence activities like animal husbandry especially of small ruminants, wage labour, horticulture, foresting, plantation, logging etc.. The reasons of pervasive rural poverty are low growth rate in agriculture, low productivity, failed crops, unemployment and inadequate command over resources due to low income level, low adoption of agricultural technology, in access to credit and even inequitable access to credit. Agricultural growth is the panacea for rural poverty alleviation and social transformation.

KEYWORDS : Financial Inclusion, poverty Alleviation and Agricultural Development.

INTRODUCTION:
Around 62% of India's population depends on agriculture for a living. Agriculture sector also provides employment to nearly 52 per cent of the work force. In contrast to this the contribution of agriculture to the national GDP is 14.6% in 2011 against 15.7 % in 2008-09. The average productivity of major crops i.e., cereals has remained 1600-1800 kgs/ha since 1995. The stagnation in agricultural productivity, increase in cost of production, distortion in the market and poor infrastructure have made the livelihood of farming population more difficult. A large number of poverty ridden farming households especially marginal and small farmers, tenant farmers, oral lessees, share croppers and agricultural labourers etc. eke out living from a mix of subsistence activities like animal husbandry especially of small ruminants, wage labour, horticulture, foresting, plantation, logging etc..

Meaning of Financial Exclusion:
Financial inclusion is the delivery of banking facilities to all people in a fair, transparent and equitable manner at an affordable cost. The Indian micro finance industry is a boon to a greater extent in achieving financial inclusion by offering small quantum of finance structured with low rate of interest with easy repayment options, to the individual or any origination. It also enables the poor people to be thrifty. Further, these micro finances are also offered for the development of people in the semi-urban and urban areas in improving their income and living standards. Micro-finance programs have been implemented by many banks at government behest. It is in this context that micro credits has emerged as the most suitable and practical alternative to the conventional banking in reaching the unreached poor population.

OBJECTIVES OF THE STUDY:
- To study present scenario of financial inclusion in India.
- To study the major factors affecting access to financial services.
- To analyses the different approaches of financial inclusion and agricultural development.
- To suggest the future prospects of financial inclusion

METHODOLOGY:
The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India.

Rural finance consists of following main sectors:
Informal sector (not regulated by banking sector) - this includes moneylenders, rotating or accumulating savings and credit associations. Semi-formal institutions - not regulated by banks but licensed and supervised by another govt. agency such as self help groups (SHG), NGOs involved in provision of financial services.

Issues and concerns with distribution in rural markets:
- Scale of investment in rural areas is very low. People have low incomes and are risk averse. Income levels in urban households are 85% higher.
- Rural Infrastructure is in a poor state with no roads, electricity, telecommunication and Internet networks creating operational hurdles.
- Irregularities in payments
- There have always been problems in obtaining relevant documents for verification such as PAN, ration card, birth certificate, etc.
- Promotion of financial products is difficult as the sales and marketing personnel are required to understand the local customs, culture and language.

Expectations of Poor People from Financial System:
Inclusion report (2012) gave the insights that the bankers can only provide the financial services for their customers such as finances, products, money transition, and other business services. Therefore, to recognize that efforts can never be one sided, but also need to converge of these items which can ultimately result in a real increase in production and that bank has not only given credit but whether banks are going to have any increase in agriculture productivity?" While questions previously have focused on the broad spectrum of operations ranging from issues regarding banks to those regarding productivity, it is important to look back at the question focused an essential element of the system, "How many families or how many people are we able to connect with the bank on the one hand and what banking solutions are we able to extend to people?" Other than this, there is also the issue of safety and security

Agricultural Productivity:
An attempt is made to compare the productivity of major crops like Bajra, Sugarcane, Paddy, Wheat, Mustard and Potato between financially included farms and excluded farms. The overall per hectare productivity of Bajra, Sugarcane, Wheat and Potato of financially included farms are higher than the financially excluded farms. The only exception is that the per hectare productivity of Paddy and Mustard of financially excluded farms are higher than the included farms. Sugarcane, Wheat and Potato are the input-intensive crops. The financially included farms were able to achieve the higher yield in comparison to financially excluded farms due to adoption of better package of practices including inputs. This is also verified from the comparison of paid-out costs. The achieving of higher yield by the financially included farm households was possible due to unrestricted access to credit from the formal financial institutions.

FINDINGS AND IMPLICATIONS:

The paper found that a large no. of population and rural households of India do not have access to banking and other financial services. Therefore, to provide access to these services to them RBI and GoI has taken various initiatives. The target of RBI and GoI is to achieve 100% financial inclusion. Many obstacles are there in the path of promoting and achieving financial inclusion. It should not be taken as an obligation by banks and financial institutions but should be seen as a future prospect and opportunity for growth and for tapping and targeting untapped and unorganized market. For building customer awareness E-banking and mobile banking training and education programmes should be conducted.

SUGGESTIONS:

The financially included farmers are in a advantageous position due to higher agricultural productivity and use of yield-raising inputs like chemical fertilizers, adequate and timely application of irrigation water etc. due to easy access to institutional credit at a cheaper rate of interest. Despite the higher cropping intensity of financially excluded farmers their per hectare agricultural income is lower than the financially included farmers. The financially included farming households are in favorable position as they have grown yield-raising, input-intensive high value crops. Due to in-access to institutional sources of credit the financially excluded farmers were unable to use the adequate quantity of yield-raising inputs and failed to achieve the desired agricultural productivity. The most sufferers of financial exclusion are marginal farmers. In order to achieve the inclusive and equitable growth in the agricultural sector the strategic efforts are required urgently to bring all the categories of financially excluded farmers especially marginal farmers under financial inclusion net. It is no doubt that financial inclusion of farm households will accelerate the agricultural productivity and development.

CONCLUSION:

India's challenges are multifarious: a geographically diverse growing population, corruption, an of apathetic general populace, lack of proper infrastructure, rapid urbanization, inaccessibility of health care facilities and unavailability of basic financial services. Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by commercial banks, financial institutions and capital markets. In many developing countries, capital markets are at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs disproportionate to the amount of lending. There is a need to cover more people under financial inclusion who deserve and extremely in need of finance. The challenges In particular are, to introduce innovations in identifying such people, re-engineering of financial products as per the requirements, risk assessment, reduce transaction costs, devise new credit delivery channels and use information technology to make financial inclusion a viable model.

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