An Empirical Analysis of Community Empowerment through Financial inclusion- A study

Dr. Shashikala

Assistant professor of Economics, Maharanis Arts College for Women Mysore

Abstract: Financial inclusion is an attempt to bring hitherto excluded poor, marginalized deprived sections of people into the mainstream economic growth path. This is through opening of account in organized financial institution and avail the benefits from them. Financial inclusion is the pathway to achieve community empowerment which increases the living condition and confidence of people. The present study intends to assert the role of financial inclusion in empowerment of the economically weaker section people. Empowerment of the people is possible through access and use of formal bank services. This is an attempt to assess the growth of financial inclusion through the parameters of branch expansion, deposit mobilization and credit penetration. t test is used to test whether positive growth of all these variables had taken place under financial inclusion period. To check the difference before and after financial inclusion, two periods were considered i.e. pre inclusion period (1997 to 2004) and inclusion period (2005 to 2013). This is because from the year 2005 effective financial inclusion attempts were started with opening of No Frill Basic savings Deposit Bank account.

Keywords: Community empowerment, financial inclusion, Branch expansion.

INTRODUCTION

Though Indian economy is developing on promising note, it is challenged by disproportionate distribution of income, regional disparity, poverty and unemployment. India under post reform period is exposed to tremendous changes. Privatization, opening up the economy to foreign competition helps the economy to gear the growth rate. But most of the growth is from industrial and service sectors. The potential for growth is enormous in primary and small and medium scale enterprises sectors. Less access to formal credit, inadequate collaterals, low competitive efficiency are the impediments in the path of development of these sectors. Under the new era of growth, relative poverty, economic and regional disparities are significantly increasing. According to the planning commission statistics (2013) in the year ending 2012 there were 269.3 million people living below the poverty line. The findings of the 68th Round of National Sample Survey Office (NSSO) data revealed that unemployment rate has increased to 10.8 million. More than half the country's wealth is shared by only 10 percent of the population. This situation necessitates inclusion of all sections of people to participate in growth activities and reap the benefits from them.

Financial inclusion is an attempt of social justice, which intends to bring marginalized people, is to the mainstream economy. Financial inclusion refers to the provision of affordable financial services including access to payment and remittance facilities, savings, loans, overdraft facility, financial advice and insurance services to vast sections of low income groups and disadvantaged. It leads to participatory development. It encourages self reliance and self development of excluded section of people. Financial inclusion provides safe custody to small savings and marginal income householders can protect themselves against risks and shocks. By using micro finance facility they may escape from poverty. Micro insurance provides social security. Income earning opportunities will increase. Many studies on bank led financial inclusion model are available. But the present study intends to know whether financial inclusion enhanced banking access and use through branch expansion, deposit mobilization and credit penetration. On the other hand as a measure of community empowerment, it attempts to assess the changes in economic, social and general condition of financially included people.

OBJECTIVES OF THE STUDY

1. To check the enhanced financial inclusion through increased access and use of banking services.

METHODOLOGY

The study is based on secondary data. The secondary data were collected from Reserve Bank of India (RBI) publication. To test the efficacy of financial inclusion, comparative study has been undertaken for pre financial inclusion period (1997-2004) and inclusion period (2005-2013). Financial inclusion indicators used in the study are branch expansion, deposit mobilization and credit penetration. To test the significance of the study t test is used.

Table-1 Financial inclusion at National Level (Deposit and credit in' billion)

SL No	Year	Number of offices	Deposit Mobilization	Credit Mobilization
1	1997	63550	5055.99	2844
2	1998	64218	5984.85	3299
3	1999	64939	7140.25	3824
4	2000	65412	8133.45	4601
5	2001	65919	9626.18	5384
6	2002	66190	11033.60	6561
7	2003	66535	12808.53	7560
8	2004	67188	15044.16	8804
	CGR (%)	0.80	15.40	16.50
9	2005	68365	17001.88	11525
10	2006	69866	21090.49	15139
11	2007	72261	26199.33	19470
12	2008	76256	31969.39	24170
13	2009	80217	38341.10	28477
14	2010	85518	44928.26	33452
15	2011	91156	52079.69	40756
16	2012	98597	59090.82	46119
17	2013	105753	67504.54	52605
	CGR (%)	5.60	17.20	18.70

Source: Reserve Bank of India (2014): Hand book of statistics on the Indian Economy

Compound growth rate is calculated to check the growth rate of all the above three indicators. This reveals the difference in growth rate between pre financial inclusion and financial inclusion period.

The compound growth rate percentage for branch expansion for the period-1 i.e., from 1997 to 2004 is 0.80. However, for the same period, the growth rates for deposit mobilization and credit penetration are estimated to be 15.40 and 16.50 respectively. With regard to branch expansion, extensive growth can be noticed in the period-II as compound growth rate percentage enhanced to 5.60. Similarly, the other two important financial inclusion parameters such as deposit mobilization (17.20%) and credit penetration (18.70%) also indicate higher growth rates. This is perhaps due to improved reach of financial services to the poor and marginalized people at a faster rate. Comparing period I and II, the data clearly demonstrates that there has been a tremendous branch expansion in the period II. With regard to deposit mobilization and credit penetration, the growth rates for the period II is marginally higher than the period I, indicating an increasing horizontal growth in the financial inclusion. This has called for banking authorities to evolve suitable policy measures to expand the vertical growth in order to reach the benefits to account holders.

RESULT AND DISCUSSION

Table-2 comparison of Financial inclusion parameters-pre and Inclusion period

parameters	periods	N	Mean	Std.Error Mean	F	Sig	t	sig
Offices	Pre inclusion period	8	65494	429.7096	17.918***	0.001	3.992***	0.004
	Inclusion period	9	83109	4392.1573				
Deposits	Pre inclusion period	8	6051	557.4468	9.233***	0.008	6.272***	0.000
	Inclusion period	9	15869	1462.8331				
Credit	Pre inclusion period	8	3458	353.3772	10.442***	0.006	6.619***	0.000
	Inclusion period	9	11975	1237.3715				

Source: Reserve Bank of India

Table computed by Researcher

Note: *** Significant at one percent level

The above table presents comparison of parameters for financial inclusion between pre and inclusion period. Before testing the deposit and credit parameters, deflated values were obtained by using 1993-94 as base year to neutralize inflationary impact.

Regarding branch expansion, the average numbers of bank branches before implementation of financial inclusion policy were 65494 and it has been increased to 83109 during the inclusion period. It is found from the F test that the variance between the two is significant. Therefore, equal variance is not assumed. It is found from t- test that the mean difference between the two is significant. Therefore, financial inclusion period performance is significantly more compared to pre- inclusion period in terms of bank branch expansion.

The average amount of bank deposits before implementation of financial inclusion policy was 6051 and it has been increased to 15869 during the inclusion period. It is found from the F test that the variance between the two is significant and t- test results show the mean difference between the two is significant. Therefore, under financial inclusion period significant increase in deposit mobilization has taken place.

The average amount of credit distribution before implementation of financial inclusion policy was 3458 and it has been increased to 11975 during the inclusion period. It is found from the F test that the variance between the two is significant. Therefore, equal variance is not assumed. Here also t- test results reveal that the mean difference between the two is significant. Therefore, inclusion period performance related to credit penetration is significantly high, compared to pre- inclusion period in terms of credit penetration.

Hence, financial inclusion enhanced the bank reach to common people through branch expansion, deposit mobilization and credit penetration. This show now people can secure their savings, accumulate for future needs, access credit in needy situations, undertake small business. The financial security will change the attitude of people.

CONCLUSION AND POLICY IMPLICATION

Financial inclusion is an attempt to improve living standard of hither to exclude mass of people. Easy access and prudent use of banking services definitely empower the community as a whole. The government policy on social justice is not only providing equality in social and economic front but also empower the rural households, particularly for the marginalized groups as branches, deposits and credit. The present study has proved significant improvement in reach and access of bank services under financial inclusion period compared to pre inclusion period. With that the greater percentage of affirmative opinion confirm positive improvement in social, economic and general condition which intern empower community. Therefore, considering the positive changes due to financial inclusion at the gross root level, Government of India and RBI may continue the financial inclusion attempts as a gate way to community empowerment.

REFERENCE

[1] *Alberto chaia., Robert Schiff., and Esteban silva.(2010). A new idea in banking for the poor. Retrieved from 28-7-2013*

[2] *Andrianaivo., Mihasonirina., Kpodar, kangni.(2011). ICT, Financial inclusion, and Growth Evidence from African countries, publication of international Monetary Fund Retrieved from 28-7-2013*

[3] *Asli Demirguc- kunt., Thorsten Beck., and Patrick Honohan.(2009). FINANCE FOR ALL? POLICIES AND PITFALLS IN EXPANDING ACCESS World Bank publications, Washington,DC.*

[4] *Burgess, Robin. And pande Rohini.(2005). Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment. Retrieved from, http://econ.ise.ac.uk/staff/rburgess/wp/aer.pdf.*

[5] *Chandan, kumar, and srijit Mishra.(2011). Banking outreach and Household level Access: Analysing Financial inclusion in India. Presented in 13th Annual Conference on Money and Finance in the Indian Economy to be held during 25-26 February.*

[6] *Reserve Bank of India (2014): Hand book of statistics on the Indian Economy*