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An understanding towards Financial Inclusion: A case study focused on Rajasthan

Sushant Mukharji[1]*, Dr. Kshipra Jain[2]

[1] Researcher, University of Rajasthan

E-Mail :sushant.919@gmail.com

Mobile No: 9785409306

[2] Assistant Professor, University of Rajasthan

E-Mail:-kshipraaa@googlemail.com

Abstract - In a country that aspires for sustainable and equitable growth, financial inclusion is nothing less than a prerequisite condition. Financial Inclusion is recognized as an important tool when it comes to policy framing for the underprivileged and vulnerable section of society.It is about delivering banking and financial services at an affordable cost to the underprivileged sections of disadvantaged people. This paper-based on thorough review of the existing literature is an attempt to study the current status of financial inclusion in Rajasthan. Hostile climate conditions, arid terrain, weak infrastructure, and frequent droughts are a few of the factors that have impeded the state's efforts toward its development which further entails financial inclusion as an important tool in ensuring the state overcomes a few of its challenges.

Keywords - Financial Inclusion, Sustainable & equitable growth, Rajasthan

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INTRODUCTION

India has achieved substantial growth rates in recent years; the dualistic nature of the Indian economy has become more evident. Gaps are growing across different sections of society, particularly in focal states (Arunachalam, 2008). It can be barely unnoticed that these gaps have been manifested and that the economy is failing to adjust and secure a fair distribution of richness and profit, especially concerning risks. An economy cannot prosper with a little fraction of its citizens while excluding the others. Economic growth in many developing countries is concentrated in a few wealthy people and specific regions, with a wider population and regions being excluded. With nearly 70 percent of the rural population, financial inclusion is needed for the rural and degraded masses that are the future growth driving force of the economy (Agarwal 2010). Kempson and Whyley (1999) articulated that a new complex world is now experiencing more serious consequences for those who do not have access to key financial services. It shows the immediate need to get them into the ambit of financial services. To achieve sustainable economic growth, full participation by all parts of society must be ensured. Financial inclusion has a multiplier effect in boosting overall economic output and reducing poverty and income inequality at the national level (Sethi 2018). An inclusive financial system supports stability, integrity, and equitable growth(National Strategy for Financial Inclusion 2019-2024). The process of using a variety of the required financial services at a reasonable and affordable price at the right place, right form, and right time without any kind of discrimination for all members of society can be described as financial inclusion. Financial inclusion would be targeted at helping the vast majority of those who do not use formal financial services. People in favor of financial inclusion say that financial exclusion leads to a loss of opportunities for growth, a slowdown in growth in the country, and an increase in poverty. Financial inclusion, also known as inclusive financing, ensures that marginalized, disadvantaged, and low-income segments of society have access to a wide range of finance-related services and options at a low cost, as opposed to financial exclusion, which takes place when people are being denied access to financial services; hence, an innovative concept which enables the alternative techniques to promote banking habits and acts as an enabler in reducing the poverty (Singh, 2014). Because a transaction account allows individuals to maintain money and send and receive payments, having access to one is the first step toward broader financial inclusion. Because a transaction account serves as a doorway to other financial services, the World Bank Group's Universal Financial Access 2020 effort is focused on ensuring that everyone in the world has access to one(Group's Universal Financial Access 2020). Financial access makes daily life easier and assists families and businesses in planning for everything from long-term goals to unexpected emergencies. People who have bank accounts are more likely to use other financial services like credit and insurance to start and expand enterprises, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives (World Bank, 2019). The phrase 'financial inclusion' was first used in the Indian context in April 2005, in the Annual Policy Statement made by Y.Venugopal Reddy, the Reserve Bank of India's then Governor. Following the publishing of a series of reports exposing the absence of financial inclusion and its direct correlation to poverty in India in the early 2000s, the agenda for financial inclusion was ignited. Varied studies have proved that exclusion from the banking system results in a loss of 1 percent of the country’s gross domestic product (CRISIL 2015).

India began its journey of financial inclusion with the nationalization of Life Insurance companies as early as 1956. This was followed in 1969 and 1980 by the nationalization of banks. In 1972 the general insurance companies became nationalized.

Table 1: Major Initiatives taken by Government for Financial Inclusion in India:

1969	Nationalisation of Banks
1975	Establishment of Regional Rural Banks(RRBs)
1982	Establishment of NABARD
1992	Launching of Self Help Group(SHG) Bank Linkage Programme
1998	NABARD sets goals for linkage One million Self Help Group by 2008
2000	2000 Establishment of SIDBI for micro credit
2005	2005 Committee on Financial Inclusion
2007	Proposed bill on Micro Finance regulation introduced in Parliament
2011	Swabhimaan campaign
2012	Micro finance institutions(Development and Regulations) bill by Finance Department, Government of India
2014	Pradhan Mantri Jan Dhan Yojana

Source: Sabhana 2014

As a very first step toward improving financial literacy and inclusion in India, a nationwide baseline survey i.e. -Financial Literacy and Inclusion Survey (FLIS) is being carried out by National Centre for Financial Education for assessing the state of financial inclusion and financial literacy (2015). For this study, the country was divided into 5 zones which is North, South, East, West, and Central and Rajasthan comes into the North zone along with Jammu & Kashmir, Himachal Pradesh, Punjab, Chandigarh, Haryana, and Delhi; from Rajasthan 3552 respondents took part in this survey from 7 districts.

The report shows that in the North zone overall 21% of total respondents were financially literate. Further urban respondents were more financially included than rural respondents. It can be seen that education and income level has a direct relationship with financial literacy. Additionally, there are significant variations in the rate of financial literacy across the country, which explains the key reason for disparities in the rates of financial inclusion in different parts of the country. The report also highlights the differences in the level of financial literacy by gender and place of residence for almost all zones of the country. Kumar (2014) explored India's current status in financial inclusion and the challenges in Financial Inclusion's direction with possible approaches to resolving them. The findings of this study show that the majority of the Indian population still faces a financial exclusion problem owing to the factors such as unemployment, lack of financial education, and unavailability of banking services at the local level. With the purpose of exploring important factors which are responsible for financial inclusion in geographically remote areas, Bhanot D.et al. (2012) conducted a study based on primary data. They concluded that in northeast India the level of financial inclusion remains very low. Levels of earning, and financial literacy are the influential factors that lead to inclusion. The availability of bank branches along with post offices increases the likelihood of inclusion.

FINANCIAL INCLUSION IN RAJASTHAN

Marginal sections of our society are still excluded from formal finance which forces them to remain dependent on informal sources. Reserve Bank of India took many steps to address this issue. In 2004, it set up a Khan Commission for bringing the unbanked population to formal channels. Some important recommendations of this committee are no-frills accounts and minimum KYC. RBI acknowledged the importance of the recommendations of the Khan Committee and implemented the same in 2005. The central government is also taking steps to bring the excluded population into mainstream finances by taking numerous steps such as Micro Finance- Self Help Group Model (1992), Kisan Credit Card (1998), No Frill Accounts (2004), Business Correspondents and Business Facilitators (2006, 2009) Swabhimaan (2011) opening customer service centers, credit counselingcenters, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme and Pradhan Mantri Jan Dhan Yojana (PMJDY). Apart from RBI and the central government, the state government has also identified financial inclusion as an important catalyst in sustainable and equitable growth. Rajasthan, being the largest geographical state in the country, its challenges for economic growth that are also much larger. Hostile climatic conditions, arid land, poor infrastructure, and severe drought all impeded growth effortsRajasthan is the country's largest state, accounting for 10.4% of the country's land area and 5.7 percent of its population. Rajasthan is located in the northwestern portion of India and is bordered by five Indian states: Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, and Gujarat. Pakistan shares a long international border with it. Rajasthan was primarily an agro-based economy, with agriculture and related industries accounting for about half of the state's Gross State Domestic Product. Most the poor people are still excluded from the formal banking network and therefore rely on informal sources, which are unpredictable and risky. In this context, Financial Inclusion initiatives in the state of Rajasthan are being taken up by the Department of Women and Child Welfare, Department of Rural Development, Bank of Baroda as convener of State Level Bankers Committee (SLBC), State Bank of India, and several others in addition to Reserve Bank of India and National Bank For Agriculture & Rural Development (NABARD) National Agriculture Bank And Rural Development. Also, services of various Non-Government Organizations have been taken to train Self Help Group members on financial inclusion and financial literacy.

A brief discussion on the works done by various departments is given below:-

Centre for microfinance

Centre for microfinance is an autonomous organization registered under the Rajasthan Societies Act, 1958. Centre for microfinance came into existence in 2005 in response to the need for an agency to guide the growth of microfinance and particularly, community-based microfinance in Rajasthan.
State Level Bankers Committee- Bank of Baroda is convenor of State Level Bankers Committee (SLBC) in Rajasthan. The basic philosophy of the Committee is to secure co-ordination amongst the Banks, Government and other development agencies. The SLBC is pioneer forum in ensuring timely and adequate credit to Agriculture, non-farm sector and other priority in Rajasthan in a co-ordinated manner.

Government initiatives on Financial Inclusion

Following are the various schemes being implemented in Rajasthan in order to promote financial inclusion.

- **Bhamashah Yojana (Jan Aadhar card):**

Bhamashah Yojana which in now Jan Aadhar card from 1st April 2020, was first launched in 2008, and again it was re-launched in 15th August 2014 with an investment of Rs 600 crore. The government of Rajasthan began Bhamashah Yojana with the objective of financial inclusion, women empowerment and effective service delivery by direct transfer of funds in the bank accounts in response to the central government's financial inclusion programs. (Financial inclusion survey report, 2017).

- **Pradhan Mantri Jan Dhan Yojana**

In the state of Rajasthan, Pradhan Mantri Jan Dhan Yojana has been linked with Bhamashah scheme and hence co branded cards has been issued. As on 8th July 2020, 2.77 million accounts have been opened and having total balance of Rs 10182.2 crore.

Table 2: Progress of Pradhan Mantri Jan Dhan Account in Rajasthan as on 8th July 2020

Beneficiaries at rural/semi-urban centre bank branches	Beneficiaries at urban/metro centre bank branches	Total Beneficiaries	Balance in beneficiary accounts (in crore)	No. of RuPay cards issued to beneficiaries
18070128	9637651	27707779	10182.2	22220424

Source: Ministry of Statistics & Programme Implementation, GoI 2020

BANKING NETWORK IN RAJASTHAN

Rajasthan recorded a compound annual growth rate (CAGR) of 5.44% in its banking network for the period March 2006 to March 2020 which is very close national CAGR. The number of bank branches in the state increased from 3464 in March 2006 to 7271 in the year March 2020. Taking into consideration of Nationalised banks, Rajasthan's CAGR is higher than the national average. Private sector banks registered the highest growth with a CAGR of 11.44%.

Table 3: Growth of banking network in Rajasthan

S. No.	Banks	Number of Bank Branches in Rajasthan			Number of Bank Branches in India		
		Mar-06	Mar-20	CAGR	Mar-06	Mar-20	% Growth
1	Nationalized Banks	1239	2872	6.19%	34198	65771	4.78%
2	State Bank of India & its Associates	884	1349	3.07%	13796	22128	3.43%
3	Regional Rural Bank	1011	1553	3.11%	14354	21850	3.05%
4	Private Sectors Banks	327	1490	11.44%	6549	34795	12.67%
5	Foreign Banks	3	7	6.24%	250	308	1.50%
	Total	3464	7271	5.44%	69147	144852	5.42%

Source: Compiled by researcher from https://dbie.rbi.org.in/

SIGNIFICANCE OF THE STUDY

Financial inclusion is an effective tool to resolve the bottleneck of financial services and to create a stable as well as sustainable financial system. This expands the financial system resource base by making the savings habit a large segment of the population. In the phase of economic growth, this can also play a major role. Moreover, financial inclusion protects financial wealth and other resources in difficult circumstances by bringing low revenue groups within the perimeter of formal banking. It is a well-known fact that larger parts of the Rajasthan population still do not have much schooling, economic prosperity, and social upliftment. In view of the above, this study investigates the awareness and access to financial services, the State of Rajasthan's financial inclusion compared with other states of our country and also looks at the impact on Rajasthan of RBI, GOI, and state government policies and plans in promoting financial inclusion and financial literacy.

OBJECTIVE

The study makes an attempt to understand financial inclusion in the state of Rajasthan. It also compares its position with respect to an all-India

RESEARCH METHODOLOGY

The purpose of the analysis in this paper is descriptive, as this type of work explains the actual situation. This research was completed with secondary data and a concise review of government policies to improve financial inclusion and financial literacy. Data have been collected from the bank's records, publications by the government publications, journals, magazines, articles, and the official website of relevant government institutions for research purposes.

FINDINGS

A few years ago, Policymakers realized the importance of Finance inclusion, but as Lord Kelvin said, "If you cannot measure, you cannot improve it". So a credible tool to measure inclusion is required for policy framing. A reliable instrument for measuring inclusion would help policymakers to assess progress effectively and coordinate policies to promote financial inclusion. In order to meet this need, CRISIL's expertise and understanding of the entire financial services industry put them in an ideal position to provide society with something unique and significant.

CRISIL Inclusix measures the extent of financial inclusion at the geographical level. CRISIL Inclusix is measured on a scale of 0 to 100, where 100 is the maximum score achievable. For constructing the index, CRISIL identified four critical parameters of basic banking services namely branch penetration, deposit penetration, credit penetration, and insurance penetration. The first edition of CRISIL Inclusix was published in June 2013. Subsequently, the second and third editions were published in January 2014 and June 2015, respectively. In the 2016 edition, CRISIL has incorporated the contribution of insurance for the first time, based on data provided by the Insurance Information Bureau of India, promoted by the Insurance Regulatory Development Authority of India.

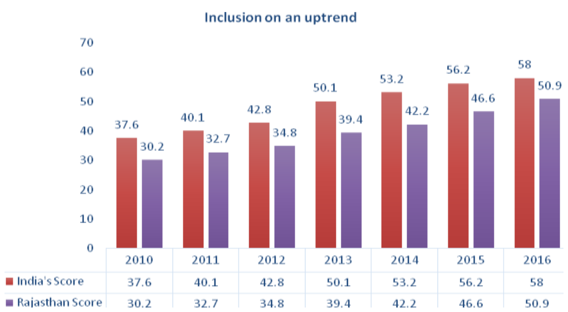

Chart 1: CRISIL Score comparison of India and Rajasthan

Source: Compiled by researcher from CRISIL Report, 2018

The fourth edition of CRISIL Inclusix measures the progress of financial inclusion across 666 districts of India. The all-India CRISIL Inclusix registered a score of 58.0 at the end of 2016, propelled by two major factors: largely because of the Jan-Dhan initiative & Sharp increase in the number of credit accounts across regions. For the first time, Rajasthan moved to 'above average' from 'below average' by reaching a CRISIL Inclusix score of 50.9 in fiscal 2016 versus 39.4 in fiscal 2013.

Above mention bar diagram shows the progress of Rajasthan on CRISIL Inclusix. It shows that Rajasthan has made significant progress in financial inclusion. The first time, it scored 'Above Average' with a score of 50.9 in 2016. An increase in Pradhan Mantri Jan Dhan Account along with an increase in credit and deposit penetration improved the state's position this time. In 2016, Kerala top the chart with a score of 90.9, and Rajasthan's rank was 24 with a score of 50.9. Rajasthan's score, as well as rank, are far behind Kerala which shows that it needs to accelerate its efforts towards achieving a good level of financial inclusion. On the district level, Out of 33 districts of the state, only 6 districts have scores above the national average and 18 districts have scores below 50. This shows that schemes of financial inclusion have very limited effects on the ground. This data shows that it has been effective in only a few districts that have been run for financial inclusion. The gaps among the districts are very wide. The grassroots implementation of schemes is an area of concern for the state.

Ambarkhane et al. (2014) have developed an index for 21 major Indian states based on the indicators of three dimensions namely demand, supply, and infrastructure. In addition, they have also considered a drag factor for each state which is the impact of negative factors, on financial inclusion. The indices for demand, supply, and infrastructure are combined to obtain Financial Inclusion Index (FII). The impact of the drag factor is applied to FII and the comprehensive financial inclusion index (CFII) is arrived at.

Table 4: Financial inclusion index value of Rajasthan

	FII Score	FII Rank	CFII Score	CFII Rank
Rajasthan	0.174	17	0.767	16

Source: Ambarkhane et al. 2014

According to Ambarkhane et al., Rajasthan ranked 17 among 21 major states on the financial inclusion index and when the drag factor was applied to this FII and arrived at a comprehensive financial inclusion index (CFII), Rajasthan's rank improved slightly from 17 to 16. In both the ranks, it is evident that Rajasthan's performance on the financial inclusion front is not very encouraging. If we compare this result with CRISIL Inclusix, the result of the Ambarkhane et al. Index is similar to the CRISIL Inclusix. Both the index shows that Rajasthan is lagging among other states of the country and need to give more emphasis on ground root implementation of financial inclusion schemes.

CONCLUSION

The study attempted to present an overview of financial inclusion in Rajasthan. The disadvantaged people of our community are typically excluded financially; this is the situation in Rajasthan as well. In most situations, the means of survival are not monetized and financial inclusion is not availed. Therefore, they are not aware of the banking services, but at the same time banking officials are also not well aware of the need and abilities of these sections of people. That makes banking officials an important link to this chain. Banking officials along with ground-level workers are the key to delivering financial services to vast sections of the population. The overall conclusion that emerges from the present analysis is that Rajasthan Government needs to do more on the financial inclusion front so that it came to the national average financial inclusion scale. The level of variations is very high between the districts of Rajasthan, which shows the ground-level implementation of financial inclusion is not taking place in an efficient manner. These differences also lie between the male and female populations and urban and rural populations. Enhanced financial literacy would further boost financial inclusion in line with the link between the two.

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Corresponding Author

Sushant Mukharji*

Researcher, University of Rajasthan