

Bottlenecks and Problems Related to Financial Inclusion in Madhya Pradesh.

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Abstract.

The present work of the research paper is to identify the problems and bottlenecks in relation to financial inclusion using the case of Madhya Pradesh, one of the poorest states in India. India does not appear to be successful in promoting financial inclusion in Madhya Pradesh the main reason for this is the lack of functional autonomy. In the state of Madhya Pradesh lack of awareness, income and asset constraints, limited literacy and social exclusion act as major barriers to financial inclusion. Cumbersome documentation procedure, unavailability of diversified products and services, high transactions costs, and easy availability of informal credits are other major barriers to financial inclusion. Banks require collateral to make loans and 90% of banks and RRB borrowers get up collateral. Given that land is the most important form of collateral in rural areas and poor household's legal documentation issues and sizeable proportion of poor is excluded.

Key words: Financial inclusion, Finance, Bottlenecks, Problems.

1. Introduction

Financial inclusion herein refers to the timely delivery of financial services to disadvantaged sections of society. Research in the last decade leads us to believe that a well functioning and inclusive financial system is linked to faster and equitable growth (Honohan, Patrick 2004). Financial inclusion is an easy access to safe savings, appropriately designs loans for poor and low income households and for micro, small and medium sized enterprises, and suitable insurance and payment services (United Nations 2006).

1.1. *Financial inclusion and its related problems.*

From demand side lack of awareness, income and asset constraints, limited literacy especially financial literacy and social exclusion act as major barriers. From supply side cumbersome documentation procedure, unavailability of diversified products and services, high transaction costs, and easy availability of informal credits are major barriers to achieve financial inclusion (Throat, 2007). Other factors like gender issues, nature of occupation, social security payment systems are also playing vital roles in influencing access to financial services. (World Bank, 2008)

Empirical evidence suggests that access to financial services helps the poor and has positive impact on the nutrition and health outcomes, demand for education and the status of women within a household (Littlefield, 2003). Madhya Pradesh is one of the India's largest states, in which 74% of the population lives in rural areas. Over all, farming supports about 44% of the population in BIMARU states (Arunahalam 2008). Lack of accessibility is one of the biggest bottlenecks for MFIs and NGOs that provide services in remote areas of Madhya Pradesh. Most crops are highly dependent upon weather, which increases the risk for farmers who borrow to invest in agriculture through financial inclusion (Empowerpoor, 2007). Although Madhya Pradesh occupies 9.7% of the country's total land area, it comprises only 5.8% of India's population. Lower population density deters many banks and MFIs from opening branches in sparsely inhabited regions of the state (Srinivasn, 2007)

According to the interim report of the committee on financial inclusion, at least 4.26 million farmer households in Madhya Pradesh are financially excluded. Efforts of financial service providers and government are not fully coordinated. This means that finance does not accompany government programmes. On the other hand, government programmes are frequently not available where finance is being provided. Furthermore, many of the poor are left out of coverage by both sectors (Srinivasan, 2007). Many SHGs were formed and promoted under programmes in Madhya Pradesh. Regional office of the National Bank for Agriculture and Rural Development (NBARD) in Bhopal has estimated that about 250,000 previously formed SHGs remain unlinked to any banks despite that fact some of these groups are several years old.

Banks do not understand how micro finance works and create tedious and complicated procedures for loaning to the organizations. In many areas banks do not cooperate with MFIs. Many women hesitate to start saving in accounts because they do not trust an institution to keep their money safe. SKS is very successful at scaling up financial inclusion in Madhya Pradesh but it also deals with significant bottlenecks and problems. Banks have "for profit only" attitudes and expect to make returns immediately on all clients. Such expectations

are not realistic; the poor cannot be profitable for banks until they get out of poverty. Based on the first hand research and the case study of Madhya Pradesh we found that there are many other bottlenecks to financial inclusion besides historical backwardness, low population density, and understaffed rural financial institutions. Some of the other bottlenecks include resistance of bank branch managers to cooperate with MFIs and NGOs, poor market linkage and no regular source of income, little availability of loan funds from banks and financial institutions and capacity building support for MFIs and NGOs, disconnect in efforts between state government and central government, low level of literacy (financial and literacy).

Interaction with the NGOs and the SHGs brought to light underpinning problems of financial inclusion, which are briefly stated as under:

- Poverty: being on low income, especially out of work and benefits.
- Ignorance: low levels of awareness and understanding of products caused by lack of appropriate marketing or low levels of financial literacy.
- Environment: lack of access to financial services caused by several factors, including geographic access to bank branches or remote banking facilities affordability of products such as insurance, where premiums often price out those living in the most deprived and risky areas suitability of products like current accounts which offer overdraft and an easy route to debt.
- Cultural and psychological barriers such as language, perceived/actual racism and suspicion or fear of financial institutions.

2. Methodology and Data.

Keeping in view the nature of problem the present work of the research paper is based on both primary and secondary data. The secondary data has been obtained from government publications, government official records, banks and other related agencies and valid records of the state government. Financial inclusion can be measured both from saving as well as the credit aspects of the financial inclusion. Regarding collection of primary data a survey was conducted to know the progress of financial inclusion and the progress under financial inclusion is given in the table no.1.

Progress under financial inclusion in Madhya Pradesh at the end of March, 2011 is given below.

Table 1:

S. No	Particulars	Number	Amount (Rs.crs)
01	No. of villages covered under ICT based FI	1020	Nil
02	No. of No frills accounts	7288402	Nil
03	General purpose credit cards	35366	27.29
04	Kisan credit cards	6595554	39016
05	Business correspondents	942	Nil
06	Business facilitators	Nil	Nil
07	FLCCs	28	Nil
08	Smart cards issued (No. in Lakhs)	3.43	Nil
09	Smart card transactions-Number and volume	negligible	Nil

Source: RBI

Financial support by GoMP For financial inclusion in Madhya Pradesh at the end of March 2011.

During the tenure of research work data was obtained which shows the financial support provided by government of Madhya Pradesh for financial inclusion which is given in the table no. 2.

Table 2.

Name of the Bank	No. of cards	Fund given by State Govt.	No. of HHD	Fund given by state Govt.	Total fund given by state Govt.
1	2	3	4	5	(3+5) 6
State Bank of Indore	29429	0	32	320000	320000
ICICI Bank	2581	154860	1	10000	164860
Union Bank of India	10166	525492	120	1200000	1725492
Central Bank of India	582	5820	11	110000	115820
Total	42758	6861172	164	1640000	2326172

Source: RBI

Position of 2736 villages covered during 2010-2011 and to be covered in 2011-12 is as under:

Commercial Banks have covered 56% of their target and percentage coverage of villages by Apex Bank and Private sector Banks and RRBs is 0%, 48%, and 6% respectively.

Table 3.

Institution	Total no. of villages allotted	% share of total no. of villages	No. of villages covered during 2010-11	Left over villages for 2011-12	% of total target to be covered by Banks
Commercial Banks	1683	62%	941 (56%)	742	44%
Primary secondary Banks	31	1.0%	15 (48%)	16	52%
RRBs	1007	37%	64 (6%)	943	94%
Cooperatives	15	Less than 1%	0%	15	100%
Total	2736	100%	1020 (37%)	1716	63

Source: RBI

However, the present study attempts to measure by collective decision making. In spite of the increased spread of formal banking in the recent past, access to basic financial services are still beyond the reach of large sections of society.

3. Results and Discussions.

Poor individuals, especially women and other marginalized groups, rarely have proof of identity, address, and employment. This renders formal credit even more onerous. A survey of bank managers in Madhya Pradesh revealed a perception that women borrowers were most trust worthy and less of a default risk. In Madhya Pradesh there is good availability of banks that is the number of deposit and credit accounts, but these services are mostly confined to smaller set of people, who use them more, while rest of the population has to rely on informal sources. Average time taken to process a loan application is almost 33 weeks in a commercial bank; such cumbersome and costly procedures make it unattractive to rely on formal finance. Banks have also been unable to open savings accounts for bulk of the people. In Madhya Pradesh the progress of financial inclusion was not so well, the volume and number of smart cards transactions was negligible at the end of march 2011, number of villages covered under ICT based FI was 1020 and the amount of rupees in cores belonged to this was nil. Percentage coverage of villages by Apex Bank and private Sector Banks and RRBs is 0% ,48% and 6% respectively while Commercials Banks have covered 56% of their target. People do not have access to Bank accounts and formal credit markets; they are forced to approach informal and often exploitative financial markets. Household access to financial services is impeded by geographic isolation in rural areas due to bad or absent roads; low population density; law and justice problems; high poverty; over dependence on agriculture; unwillingness of the banks to serve the poor and cooperate with MFIs; financial literacy; and gender inequality. Importantly, the demand for financial services is huge, but the demand is inadequate.

4. Conclusion.

Madhya Pradesh, like several other central and northeastern states, continues to lag behind in the ability to extend financial services to its people. Proponents of financial inclusion in Madhya Pradesh offer explanations such as historical backwardness, low population density, bad infrastructure, understaffed rural financial institutions, unwillingness of the banks to open branches in rural areas (not economically viable), lack of cooperation between commercial banking sector and MFIs/NGOs financial literacy, corrupt local governments. Unfortunately, financial inclusion using only credit does not always result in significant poverty alleviation. The measurement aspect of financial inclusion has, so far, not extensively been covered, being a diversified economy and society, it is imperative to give adequate attention to measurement of financial inclusion by policy makers and researchers.

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