Implementing the Aspects of Financial Inclusion in the Phase of Demonetisation – The Probable Pros and Cons in Indian Context

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***Abstract*: - The concept of 'financial inclusion' was introduced by the reserve bank of India in April 2005 with an objective of delivering financial services to the economically challenged and underdeveloped segment of the society at an affordable rate. RBI encouraged the formal banking sector as well as the microfinance sector to provide soft loans and savings facilities especially to the poor with a flexible documentation process to attract them under the umbrella of RBI. This will not only improve the financial stake of the low-income group of the country, but also ensure them a safe investment and will increase the portfolio size of the bank and NBFCs. In 2014, The Government of India announced 'Pradhan Mantri Jan Dhan Yojna" to expand the financial inclusion project by bringing more people under banking and banking spread sector. On 8th November 2016, Mr Narendra Modi, Prime minister of India ceased 500 and 1000 rupee notes as legal tender which can be termed as demonetization. Although the immediate mission was to eradicate black money, fake money and terror financing; it can be considered as a way forward to the 'Jan Dhan Yojna" and hence can be used as a strategy instrument of imposing financial inclusion across the country. This paper examines the advantages and disadvantages of demonetization in implementing financial inclusion in India. In spite of the fact that demonetization will force the people to make their transaction through bank and NBFCs , there are serious challenges like the liquidity crunch of the cash based segment of the economy, the bank and digital literacy issues etc. In this paper the challenging issues have been addressed as well as the bottleneck of financial inclusion in post-demonetization period has been discussed by identifying the crucial parameters like percentage of people having bank account, the percentage of people uses mobile and /or internet, the literacy percentage of the country, the policy of the banks, the documentation requirement of the bank and feasibility of the poor section etc.**

***Keywords:* financial inclusion, demonetization, liquidity crunch, digital literacy**

I. INTRODUCTION

Planning Commission (2009) defined Financial Inclusion as "*universal access to a wide range of financial services at a reasonable cost* (9)*."* Apart from banking products financial inclusion includes non-banking financial services which include micro finance, SHG, insurance, equity products etc. The major objective of financial inclusion as stated by United Nations was expanding the "bankable" financial services especially to the vulnerable section of the economy at a affordable rate and therefore ensuring financial and institutional sustainability. Considering the nature of inclusion, GOI (2008) explained 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* (5)*."*

Demonetisation can create a favorable environment to flourish financial inclusion. Demonetization is nothing but the withdrawal of legal tender of a specific currency denomination. This leads a lack of liquid cash flow in the economy if the withdrawn amount is not replaced by the central bank and therefore encourages monetary transactions through bank.

In spite of this fact, question comes whether the country has sufficient infrastructure to implement transaction through bank in grass root level and the case based segments. Also, the financial literacy of the common people is a major concern. Lack of these two may cause an imbalance in the economy by affecting demand for basic consumer goods which in turn may affect the GDP of the country in the long run. This paper tries to justify these two research question by studying the advantages and challenges of demonetization in the context of financial inclusion. In the next section the financial inclusion is discussed followed by the discussion of demonetization in section 3. In section 4 the positive effects of demonetization is identified, where as section 5 focuses on the challenges of same. Lastly, section 6 concludes the discussion of the paper.

II. FINANCIAL INCLUSION

In 2005 annual report RBI first introduced the term "Financial Inclusion" which clearly indicates the long term vision of poverty eradication and ensuring a better life to the economically weaker section of the country by make them "bankable". RBI encouraged all banking and other financial sector to penetrate in the remote places of the country to render financial services and create awareness for the same. **1.** To implement this, commercial banks fixed up their own target to expand the number of branches and ATMs in the rural part of the country to deliver quality financial service. Again, the banks focused on the increase of savings account, number of loan accounts and amount of agricultural advances (6).

Non-banking financial institutions especially the microfinance sector was encouraged by the government and RBI as it directly reaches the active poor section of the country by providing soft loans. Credit penetration was a critical issue for the country. RBI enforced commercial banks to lend MFIs to protect them from dry-fund problem. If more people link up with banks and NBFCs then the total portfolio volume of the banking sector will go up and the interest of the ordinary investors will be protected (8). Again, the economically backward section will be able to manage their fund needs for business livelihood, consumption, housing or any other emergency purposes. They can make some contingency planning by availing insurance and retirement savings facilities. In 2014, 'Pradhan Mantri Jan Dhan Yojna" was introduced as a movement for aggressive financial inclusion. This Yojna gives the facility of opening of savings bank account with a minimum account opening balance and documentation, the facility of mobile banking, Rupay debit card, the facility of credit, insurance, remittance and pension at a affordable rate. Additionally, the financial literacy programme was also a part of it where the printed material and videos in different regional languages were circulated among the rural people through the skilling centers. Under this yojna, 27.31 crores accounts were opened through public sector, regional rural and private banks till 25th January 2017, out of which 24.47 accounts are zero balance account (1).

III. DEMONETISATION

In January 1978, India Government demonetized Rs.1000, Rs. 5000 and Rs. 10,000 note and gave one week time to the holder of these particular currency denomination to exchange their cash amounts through bank. The volume of these denominations was bare in the circulation and therefore the common people could not feel the change. On 8th November 2016, Prime minister Mr. Narendra Modi announced the withdrawal of legal tender for Rs.1,000 and Rs.500 note. The basic objective of this announcement as stated by Mr. Modi was handling black money problem, reduce the cash circulation to control corruption, to eliminate fake currency and dodgy fund etc. 86% of cash in circulation was in terms of these withdrawn denominations, therefore all the banks faced a big thresh hold initially to face the huge demand of the customers for cash (2). The reduction of cash circulation is crucial as it enforces people to make more transaction through bank.

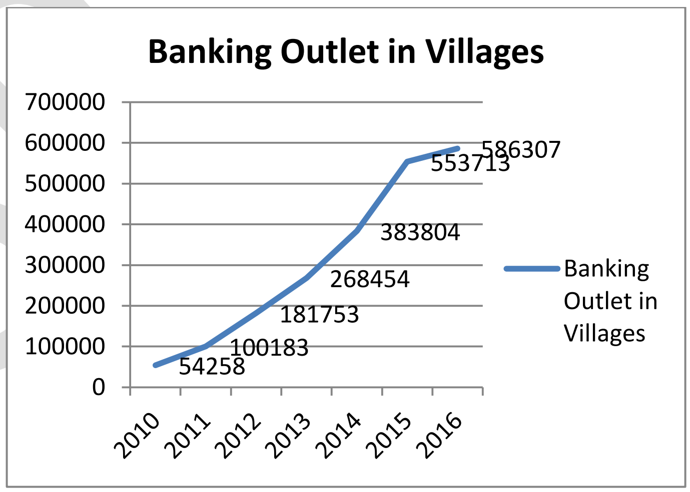
IV. THE POSITIVE SIDES

There are several advantages of demonetization especially in the context of financial inclusion.

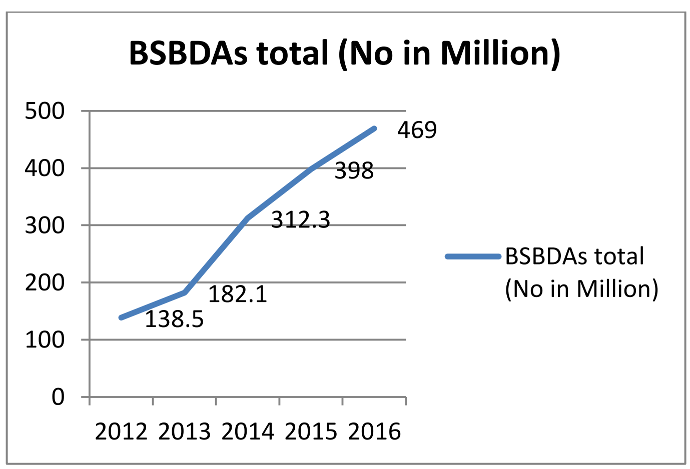
Firstly, it boosts up the process of financial inclusion as the people are bound to change their status from "unbankable" to "bankable" to make hassle free daily transactions; otherwise they have to bear the cash crunch.

Secondly, reduction of currency transaction will reduce Merchant Discount Rate (MDR) which can be accounted for 20% of India's GDP. Thus the GDP is expected to go up provided sufficient employment opportunities will be created (2).

Thirdly, as the ceiling of Rs.3 lakh for cash transaction has been introduced and the cost of non-cash payments have been rationalized, the non-cash transaction will be more beneficial and will attract the people without bank accounts to come under the umbrella of banking sector. Additionally, low-ticket home loans and infrastructure grants have been announced to gear up the construction activity and job creation thereafter (3).



Source: RBI Annual Report 2010 - 2016



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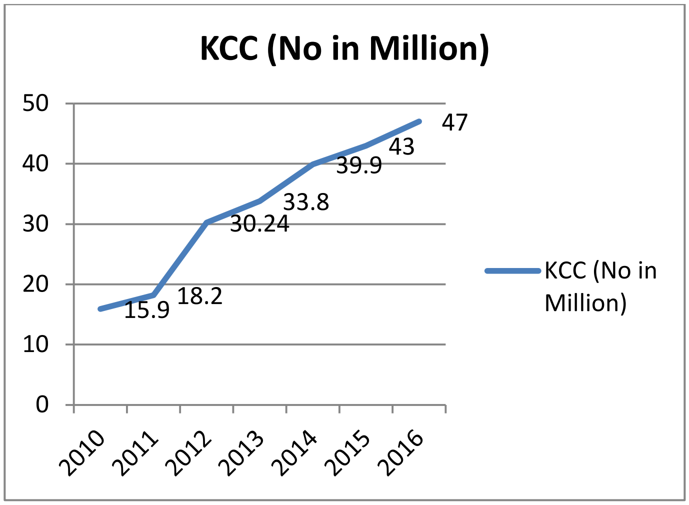

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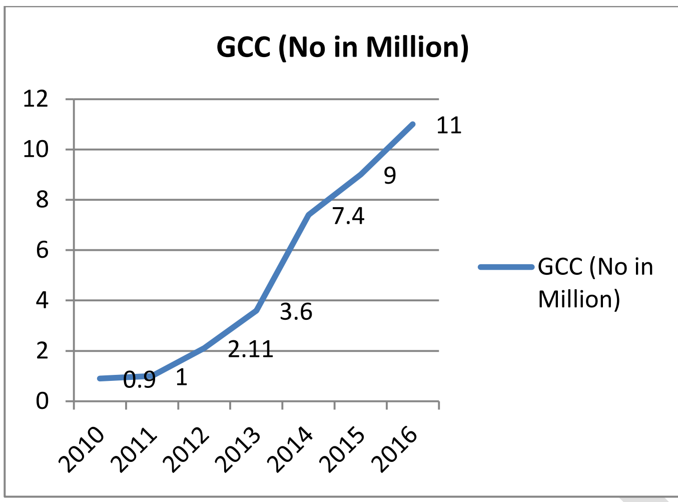

Source: RBI Annual Report 2010 - 2016

After studying RBI annual report from 2010 to 2016, it has been identified that the number of village banking outlet, number of Kissan Credit Card (KCC), number of General Credit Card (GCC) and the number of Basic Savings Bank Deposit Accounts (BSBDAs) have been increased sharply (7). All these parameters reflect financial inclusion is expanding. It is expected that the part of unexplored section will be included more and more especially after demonetization, as people are facing restriction in cash transaction.

V. CHALLENGES

Although statistical data is showing a positive growth in financial inclusion parameters, the unexplored part where financial inclusion has not reached is quite significant. Let us consider some data. The population in India in 2016 is 1,326,801,576. The percentage of population having BSBDA is 35.34%. On the other hand, the number of banking outlets is quite satisfactory. This implies that financial literacy is lagging. Although government has taken steps to increase the rate of financial literacy, still the recent scenario is not showing a healthy situation. It is essential to be literate before one gets the fundamental ideas of financial services e.g., numeracy, compound interest for savings and debt fund, risk diversification etc. The literacy rate in India in 2016 is 74.04%, which is not enough.

If richest 60% households are compared with the poorest 40% household, then it has been revealed that 26% of the richest people and 20% of the poorest people are financially literate. There is a gap of 11% between poor adults and richer adults in answering compound interest topic correctly. Survey found that 24% of Indian adults (considering all income groups and other demographic specifications) are financially literate. On the other hand, the level of financial literacy in UK, USA, Singapore, Japan, China and Hong Kong are 67%,57%,59%,43%,28% and 43% respectively (4). Therefore, it is evident that to take the advantage of demonetization to expand financial inclusion the basic education level as well as the financial literacy level has to be improved. Moreover, the quality service of the branch and ATM has to be ensured.

The cash based segments like retail market and agriculture sector have a daily requirement of liquid cash, unless they will get a set back from the market as inadequate supply of liquid cash will prevent people from purchasing retail products. The only solution is digital marketing where financial knowledge and technical knowhow are required. If these criteria cannot be fulfilled then there may be a temporary lack of demand in the retail market which will induce the producers to produce less and therefore the GDP of the country will get affected.

VI. CONCLUSION

2. Financial inclusion is a positive approach to take the country way forward. Again, demonetization will enhance the banking sector portfolio by enforcing people indirectly to make transactions through bank. Banking transaction will bring all idle money (including black money) into circulation and this injection in the circular flow of the economy will increase production and therefore generate further employment. From government point of view, increase in revenue will reduce the burden of public debt. Again, if demonetization fulfils the objective of bringing all black money in the main circulation fully or even partly, the tax burden on the individual resident may be reduced and the standard of living can be improved thereafter. Although, demonetization sound good , there are some bottleneck for the country like India where the financial literacy rate is miserably poor, infrastructure of the financial sector is suboptimal and improvement of employment is a question. If these bottleneck problems can be managed the demonetization will be an effective weapon for spreading financial inclusion across the country and stepping forward in the path of development.

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