

## **Indian model for reaching the banking services to rural areas through social welfare protection schemes.**

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UN had promoted various initiatives for social protection and one of them is the Social Protection Floor Initiatives (SPFI). A SPF aims to ensure a minimum essential level of social protection rights that are embodied in human rights treaties. India has implemented many Social Protection Floor Initiative programmes. An analysis is made in this paper of social protection schemes introduced by the Indian Government that have helped extend banking services to rural areas which in turn helped to alleviate poverty.

Providing access to financial services to low income groups in rural areas is a major contributor to the alleviation of poverty. Inclusive financial services help marginal farmers, agricultural workers and casual labourers to get access to banking service and savings for their livelihood.

India introduced many strategies over the last few decades to develop financial services accessible to people in India's urban and rural areas. However, it is a sad reality that 40% of household in rural India do not have a bank account which thus excludes them from the benefits derived from banking services provided by the Government.

India's Government introduced many banking instruments to improve banking service from 1969 onwards. These improvements were expanded in 1980. The banking network has grown tenfold from 8000 branches to 80,000. The number of rural branches has increased phenomenally from 1443 to 32,000. The first step taken by the Government to provide financial facilities to the rural poor was the regulation of Reserve Bank (Central Bank). All commercial banks are expected to open rural branches and sponsor regional rural banks. Every bank is required to advance 40% of its lending portfolio to specified sectors categorised as "Priority Sectors". Included is agriculture sector which should have a lending portfolio of at least 18%. This stipulation enables farmers to borrow to buy to increase productivity. The other significant innovation was the provision of a refinancing facility by NABARD (National Bank of Agriculture and Rural Development) by which more money was made available for providing loans to rural sectors for agriculture and rural development.

This was followed by introduction of various social protection schemes to help the poor to get access to financial services. The important schemes are:

1. Integrated Rural Development Programme (IRDP)
2. SWARNA JAYANTHI SWARAZGAR YOJANA (SJSY)
3. Creation of Self Help Groups (SHG)
4. National Rural Employment Scheme (NRES)

The first two schemes, IRDP and SJSY that were launched as part of the poverty alleviation endeavour. They resulted in considerable attitudinal change by bankers towards lending to low income households.

Poorer sections of the community had difficulty accessing bank credit as their levels of savings were too low to provide collateral security for their borrowing. This barrier was overcome in the 1990s by the creation of the institution SHG (Self Help Groups). The banks lend money to SHGs to help their members start small business activities by providing them refundable small loans. The SHG idea caught on and gained wider acceptability from the banks. NGOs played an important part in forming women SHGs by providing collateral securities and acting as sponsors. This taught the poor savings habits and made them more credit worthy. Loans made through Self Help Groups were repaid promptly.

The micro credit system implemented was on the lines of the micro credit initiatives introduced in Bangladesh by Mohammed Yunus reputed founder of Bangladesh Grameen Bank movement. Under the Micro Credit Scheme, bankers advance revolving credit to a group of people who have joined together to undertake a commercial activity to generate profit. The profit is used to repay the loan in instalments and to maintain a savings bank account. This has become very popular among women in rural areas in India and repayment of loans has been almost 100%.

The last welfare scheme now existing in India to help rural people to get financial service access is National Rural Employment Guarantee Act (NREGA), under which wages payable to workers are routed through banks, which render “inclusive” banking.

Another innovation is the introduction of “Smart Cards” by banks in villages to carry out simple banking transactions. This increases the villagers’ awareness of the need to start banking.

The Financial Literacy among rural population and “Financial Inclusion” through implementation of various welfare schemes referred to above that reaches the financial services to the poor in the rural areas, will stimulate the banking services among excluded communities in rural areas of India.

*Source: Book on the Financial Inclusion – Imperative and Sustainable Approaches by Deepali Pant Joshi and book review in Hindu newspaper dated 09.08.2011*

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