A Study on the Effectiveness of the Financial Inclusion Program in Jammu and Kashmir: Initiatives by the Major Banks

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Abstract

Easy access to sources of finance i.e., Financial Inclusion is believed to be an important tool to poverty alleviation and inclusive growth. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. Following the recommendation of Khan Commission-2004, various reformatory measures have been taken by Reserve Bank of India and Government of India to promote the extent of Financial Inclusion in India. To achieve maximum financial inclusion, banks throughout the country scaled up their initiatives to achieve their targets for Financial Inclusion and have succeeded in doing so to a large extent. However, in Jammu and Kashmir the results are not up to the mark. The credit-deposit ratio is far below the national benchmark. Jammu and Kashmir figures among the states where financial inclusion is below average. It has a CRISIL Inclusix score of 36.9 compared to the national score of 42.8. It is in this direction that the present study has been carried out in order to look into the various initiatives taken up by Bankers in the State of Jammu and Kashmir. The present paper also attempts to look into the progress of financial inclusion in the State. It further attempts to reveal the current status of financial inclusion in India and achievements made so far.

Keywords: Financial Inclusion, J&K bank, Microfinance, Inclusive growth
Introduction
The size of the financially excluded population in the world is enormous: according to the United Nations, approximately 2.5 billion people around the globe lack access to formal financial services – such as a bank account, credit, insurance, a safe place to keep savings and a secure and efficient means to receive social benefit payments – through a registered financial institution (UN, 2007; Chhibba, 2008). Although this problem is universal, the extent of financial exclusion has assumed more horrific dimensions in developing countries like in India. In India almost half of the country is unbanked. India has the highest number of households (145 million) excluded from Banking. There is only one bank branch per 14,000 people. Just 18 per cent have debit cards and less than 2 per cent have credit cards (Source: KC Chakrabarty - 2011). So, to cope up with the issue of inclusive growth, the Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population. In response to the initiatives put in by Govt. of India and RBI, CRISIL Inclusix score, for India, rose from 35.4 in 2009 to 42.8 in 2013 (up by 7.4). In Jammu and Kashmir, however, the situation is still grim in spite of the various initiatives put up by both the govt. and the bankers’ community in the state. The present study is an attempt to look into the various strategies that banks in the state have employed to reach the disadvantaged set of population in the State and to briefly analyse the progress made so far.

Literature Review:
Levine (1997) empirically tested the neo-classical view and finds that countries with larger banks and more active stock markets grow faster over subsequent decades even after controlling for many other factors underlying economic growth. Equally important is access to finance by all segments of the society (Levine 1997, Pande and Burgess 2003). Finance can also play a positive role in poverty reduction. A well-developed financial system accessible to all reduces information and transaction costs, influence saving rates, investment decisions, technological innovation, and long-run growth rates (Beck et al. 2009). Evidences from Binswanger and Khandker (1995) and Pande and Burgess (2003) suggest that Indian rural branch expansion program significantly lowered rural poverty, and increased non-agricultural employment.

Access to finance has been seen as a critical factor in enabling people to transform their production and employment activities and to exit poverty (Aghion and Bolton 1997, Banerjee 2001, Banerjee and Newman 1993, Pande and Burgess 2003, Yunus 1999).
Raghuram Rajan Committee – 2007, views Financial Inclusion, broadly, “as universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products”.

Financial Inclusion, or broad access to finance, is defined as the absence of price or non-price barriers in the use of financial services (World Bank-2008).

In the state of Jammu and Kashmir, banking institutes are working towards the goal of financial inclusion, with J&K Bank taking the lead (Sangmi and Kamili – 2010).

Objectives of the Paper
This study has been aimed with following objectives in mind:
1. To briefly examine the various financial inclusion initiatives taken by the banking fraternity in Jammu and Kashmir.
2. To evaluate the progress and current status of Financial Inclusion in the State.

Research Methodology
The data for the present study has been collected primarily from secondary sources. The secondary data was obtained from reports, journals, RBI publications, State Level Banker’s Committee Reports, Census 2011, Economic Surveys and websites.

Jammu and Kashmir Profile
Jammu & Kashmir (J&K) is the northern most state in India. J&K covers an area of 222,236 sq km (85,805 sq mi) and has a population of 12548,926. The State is divided into three divisions; Jammu with 10 districts, Kashmir with 10 districts and Ladakh with 2 districts (Census 2011). The State has 2 Lead Banks: J & K Bank for all the 10 districts of Kashmir division and district Rajouri and district Poonch of Jammu Division , and State Bank of India for 8 remaining districts of Jammu division and 2 districts of Ladakh Division (91st JKSLBC Report). The Banking Profile of the State consists of 22 Public Sector Banks having 392 branches, 7 Private Sector Banks with 663 branches, 2 Regional Rural Banks having 325 branches and 10 Cooperative Banks having 253 branches. In total there are 42 banks operating in the State with 1656 branches. The Credit Deposit ratio in case of public sector banks is 29.30, 42.34 in case of private sector, 43.16 in RR Banks and 34.39 in case of cooperative banks against the benchmark of 60. [Data as on June 2013, Source: (JKSLBC)]

Financial Inclusion Initiatives
The aftermath of Khan Commission (2004) levied heavy responsibilities on banks across the country to beef up their initiatives towards Financial Inclusion. Since then, banks throughout the country are striving hard to achieve the allocated targets of Financial Inclusion and banks in the state of Jammu and Kashmir are no exception.
Banking Community of the State have been working in line with the various strategies pursued elsewhere in the country. Some of the major initiatives in this direction and the progress made in the same are discussed as under:

**Financial Inclusion Plan**

**FIP phase-1:**
In the phase-I of Financial Inclusion Plan (FIP) of J&K State, 795 identified unbanked villages (having population over 2000) were allocated among 5 major banks for providing banking services through various ICT-based banking outlets. On reviewing the progress in 91st J&K SLBC meeting held on 16th December 2013 it was observed that in the first phase of Financial Inclusion Campaign in J&K State out of the 795 identified unbanked villages having population over 2000, 789 villages had been already covered for providing banking services through various ICT-based banking outlets including BCs etc. Source: 92nd JKSLBC Report

**FIP phase-2:**
In the phase-II of Financial Inclusion Plan (FIP), in compliance with Reserve Bank of India guidelines conveyed vide Circular RBI/2011-12/606 dated June 19, 2012; a total of 5582 villages (having population less than 2000) were identified in J&K State, which were allocated among the existing 5 participating banks, with the objective of providing a bank account to every household throughout the State for facilitating transfer of all Govt. benefits including MGNREGA and various other cash benefits to the accounts of the beneficiaries directly. Out of the total 5582 villages identified, banks in the state have already covered 2331 villages upto the end of December, 2013, which is just 41% of the target.

**Kisan Credit Card Scheme:**
Upto the end of December 2013, banks have sanctioned a total number of 7, 22,212 KCCs in J&K State, against which 5, 55,512 KCCs have been disbursed credit amounting to Rs. 3,101.52 Crore. This includes 6,06,694 KCC cases sponsored by Agriculture Department, J&K Govt. to various banks operating in the State and 2,66,086 KCC cases taken up by the banks directly. As per the data received 125345 cases have been rejected while 25,223 cases are pending for sanction with banks. Total No. of KCC cases sanctioned works out to an achievement of about 71% of the revised target of 10.17 lakh farm-operating families in the State. Major contributors are J&K Bank (52%) followed by JKGB (14%) and SBI (9%) (Source: J&K Bank press release)

**Financial Literacy Centres (FLCs):**
Financial Literacy Centres (FLCs) will impart financial literacy among the people of J & K. J&K Bank has already operationalized FLCs in all the 12 allocated districts. Similarly, SBI has operationalized FLCs in all its allocated 10 allocated districts. A total of 27,432 persons have been provided indoor and outdoor services by 22 FLCs during the quarter ended December 2013. J&K Bank has provided indoor services to
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3,617 persons during the quarter under review. SBI has provided indoor services to 1140 persons during the quarter under review. J&K Bank has provided outdoor services to 17,914 persons in 207 outdoor awareness camps conducted by it during the quarter under review. SBI has provided outdoor services to 4,761 persons in 76 outdoor awareness camps conducted by it during the quarter under review. The activities undertaken by all the 22 FLCs (both indoor and outdoor) during the quarter under review have facilitated credit linkage to 2565 entrepreneurs out of which 2269 entrepreneurs have established their business ventures.

**Setting up of Rural Self-Employment Training Institutes (RSETIs):**

RSETIs are to impart training and skill upgradation of rural youth geared towards entrepreneurship development. A total of 4,778 persons were trained in all the 22 RSETIs during first three quarters of 2013-14. J&K Bank has provided training to 3,586 persons in its 12 RSETIs while as SBI has provided training to 1,192 persons in its 10 RSETIs

**Other Initiatives:**

Under the Annual Credit Plan, by the end of December 2013 banks in J&K have extended total credit of Rs 7,672.06 Crore in favour of 3, 22,615 beneficiaries (both under Priority as well as Non-priority Sector) against a target of Rs 16,322.68 Crore for 7,81,234 beneficiaries, thereby registering achievement of 47% in financial terms and 41% in physical terms. Under priority sector lending, banks in the state are disbursing credit to Agricultural Sector, micro and small enterprises sector, education and housing. Also, banks in the state are scaling up efforts to open branches in the unbanked areas under Branch Expansion Plan. In this regard out of total 227 branches to be opened, the banks in state have opened 85 branches till 31 Dec., 2013. Further more banks in the state are actively engaged in various other FI initiatives like Electronic Benefit Transfer (EBT) scheme, Common Service Centres, opening No Frills account etc.

**Major Findings:**

1. CRISIL Inclusix score of the state is 36.9 compared to the national score of 42.8.
2. In the first phase of FIP, out of 795 identified unbanked villages (having population over 2000), 789 had been already covered which is 99% of the target.
3. In the phase-2 of FIP, out of total 5582 villages (having population less than 2000) to be covered, 2331 villages have already been covered, which is just 41% of the target.
4. Upto the end of December 2013, banks have sanctioned a total number of 7, 22,212 KCCs in J&K State, against which 5, 55,512 KCCs have been disbursed credit amounting to Rs.3,101.52 Crore. Total No. of KCC cases sanctioned works out to an achievement of about 71%.
5. Under the Annual Credit Plan, by the end of December 2013 banks in the state have extended total credit of Rs 7,672.06 Crore in favour of 3, 22,615 beneficiaries (both under Priority as well as Non-priority Sector) which is only 47% of the target.
6. Out of total 227 branches to be opened, the banks in state have opened only 85 branches till 31 Dec., 2013.

Conclusion
The study concluded that though the banks in the state are complying with RBI norms in terms of opening new bank branches, offering no frills account, Kisan credit card, simplifying KYC norms, but still a lot of effort is required to be put in for financial inclusion progress. A lot has already been done but a lot is yet to be achieved, so bankers need to keep reforming their plans and ensure that the poor are not left to the clutches of informal sources of finance. Banks in the state need to open more branches within rural areas and creating more awareness about banking services among rural people by telling them about the benefits of the banking services. Financial inclusion requires efforts on the parts of three parties- RBI, all the banks as well as general public for its better progress.

Franklin D. Roosevelt remarks, “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

References


