



# Impact of Financial Inclusion on the Socio-Economic Condition of Bihar – A Study of Patna Centre

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**Abstract :** *There has been a sea change in the economic condition of India in the recent decades. This research is a blend of the study of the change in economic condition of BPL people vis-à-vis impact of Financial Inclusion – an effective economic programme of the Union Government. The study report also reveals the level of satisfaction at all levels i.e. the beneficiaries, Banks, and State Govt. It emphasizes the need of bringing a positive change in the thought process of beneficiaries, Bank and Government Officials so that desired level of success rate can be achieved.*

**Key words:** *Financial Inclusion, Reserve Bank of India, Commercial Banks and Beneficiaries.*

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### Introduction :

Financial inclusion or inclusive financing is the delivery of financial services at affordable cost to sections of disadvantaged and low income segments of society

### Origin of Financial Inclusion :

On 29 December 2003, former UN Secretary-General Kofi Annan said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives" (rbi.org and RBI circular).

### Financial Inclusion in India :

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. After

several years of sustained growth, Indian Economy has been experiencing a slowdown in various sectors. The first quarter of the current year has seen the country's Gross Domestic Product grow at 5.5% over the corresponding period of 2011-12. This is significantly lower than the rate of 8% achieved in the first quarter of 2011-12. Manufacturing and Agriculture remain areas of concern. Financial Inclusion can facilitate, to a great extent, overcoming of these problems by providing more job opportunities both in urban and rural areas specially for artisans, labourers, farmers, which will have positive effect on GDP.

**1. Source: Reserve Bank of India circular bearing no.RBI/2012-13/164 dated 10<sup>th</sup> August 2012**

#### **Impact of Financial Inclusion in India :**

We can meet our objectives of integrating talent management framework through individual's strength and dedication for accelerated growth of rural sector, specially agriculture, with the help of successful implementation of Financial Inclusion.

Hence, it was also emphasized in Planning Commission Report published in "The Hindu Daily" newspaper on 20<sup>th</sup> March 2012 that the Rural poverty has declined by eight percentage points, from 41.8 per cent to 33.8 per cent, and urban poverty by 4.8 per cent, from 25.7 per cent to 20.9 per cent during 2010-11.

The total number of people below the poverty line in the country is 35.46 crore as against 40.72 crore in 2004-05. In rural areas, the number has come down from 32.58 crore five years ago to 27.82 crore and the urban BPL number stands at 7.64 crore as against 8.14 crore five years ago.

States with high incidence of poverty are Bihar at (53.5 per cent), Chhattisgarh (48.7 per cent), Manipur (47.1 per cent), Jharkhand (39.1), Assam (37.9 per cent) and Uttar Pradesh (37.7 per cent).

In rural Bihar and Chhattisgarh, nearly two-third of the SCs and the STs are poor where as in

States like Manipur, Orissa and Uttar Pradesh it is more than 50 per cent.

In urban areas, 34.1 per cent of SCs, 30.4 of STs and 24.3 per cent OBCs fall under this category against 20.9 per cent for all classes. Sensing the gravity of situation and also its importance in gearing up our economy Reserve Bank of India has stated in its vision for 2020 "to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT" and by opening Banks in unbanked areas (rbi.org and RBI circular).

**2. Source: Tendulkar Committee, Report, 2008**

#### **Objectives of the Research :**

- To conduct a survey to know the extent of financial inclusion implemented by Banks in the locality of Gardanibagh, Danapur and Rajbanshi Nagar and few villages namely- Nawada, Dariyapur, Isanagar, Sahari, etc.
- To study how far beneficiaries of concerned locality are utilizing the facilities provided in Financial Inclusion scheme,
- To know the impact and benefits of financial inclusion on socio-economic condition of economically backward people.
- To conduct a study for understanding the perception of the people regarding the services and benefits of financial inclusion.
- To conduct a study of the success rate of Financial Inclusion and its impact on socio-economic condition of beneficiaries.

#### **Hypotheses of the Research :**

- Our research is based on the hypothesis that socio economic development of people living below poverty line plays a vital role in economic development of our country especially in Bihar where percentage of BPL is 53.50%.
- Financial Inclusion can be one of the best available tools for improving socio-economic

condition of people living below poverty line both in towns and villages.

**Methodology of the Research :**

**Primary Data Sources :** It was gathered on the basis of;

- a) Personal interview with the beneficiaries i.e. BPL people;
- b) Questionnaires seeking information from BPL people;
- c) Questionnaires seeking information from implementing agencies i.e. Banks;
- d) Questionnaires seeking information from the controller of the Banks;
- e) Stratified random sampling was done.

**Secondary Data Source :** Some information was gathered from different newspapers and websites of Reserve Bank of India, books, magazines, and internet sites. Different brochures and pamphlets were also taken into consideration.

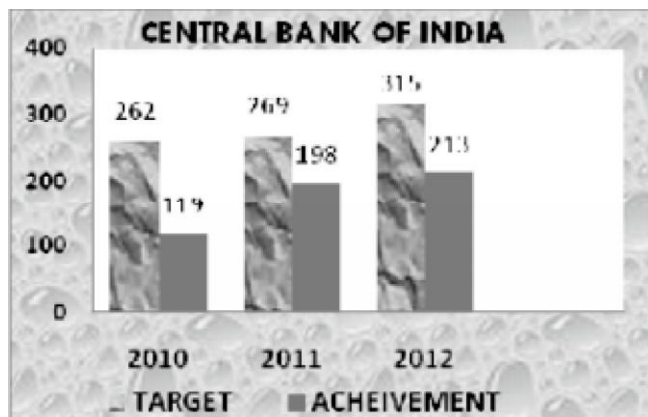
**Major Observations of the Research :**

These observations have been extracted from the survey conducted amongst the BPL people and implementing Bank Branches Officials and their respective controller. However, our group members faced some constraints which are listed below. These constraints clearly speak that we are still carrying negative attitude in implementing Financial Inclusion.

**Data Constraints :** It was a real difficult task to contact beneficiaries. Most of them were not available on their recorded address and it was brought to our notice that they have changed their home in search of their livelihood. Most amazing part was that Banks were also not aware of it and recovery of loan from these beneficiaries was meager in most of the accounts.

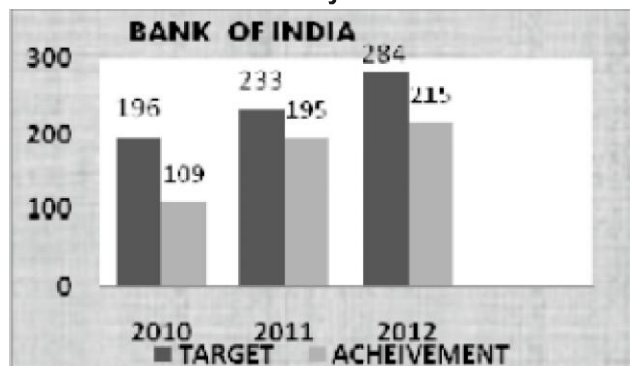
**Data Interpretation :**

**Contribution of Central Bank of India Branches and its Analysis**



The captioned graph depicts that Central Bank of India has not achieved even 75% of their target in any of the years. This shows that there has been some gap in linkage between financial institution and target group. Reasons may be various, but all concerned including state Government could make their best possible endeavour to ensure 100% achievement in forthcoming years.

**Contribution of Bank of India Branches and its Analysis**



The performance of one of India's largest and leading banks is also not commendable and except up to the mid of 2012, the Bank has failed to achieve even 75% of its yearly target. The feedback received from the beneficiaries is also not very encouraging and almost all of them have opined that disposal of their application takes usually more than 2 months time and they do not get guidance or advice after disbursal of loan. The beneficiaries have categorically stated that they are not very satisfied with the Financial Inclusion

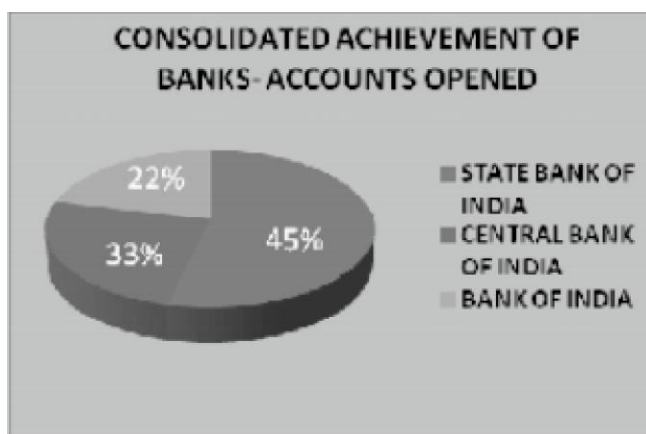
programme of the Government.

**Contribution of State Bank of India Branches and its Analysis**



The performance of India’s largest and leading bank is also not commendable and except up to the mid of 2012, the Bank has failed to achieve even 75% of its yearly target. The feedback received from the beneficiaries is also not very encouraging and almost all of them have opined that disposal of their application takes usually more than 2 months time and they do not get guidance or advice after disbursement of loan. The beneficiaries have categorically stated that they are not very satisfied with the Financial Inclusion programme of the Government.

**Consolidated Target and Achievement of SBI, CBI and BOI**



If cumulative achievement percentage of these three Banks is taken into consideration, none of the Banks have achieved even 75% of their target, which clearly establishes that there are gaps in linkage between Banks. It also speaks that

either there is a lack of interest in implementing Financial Inclusion successfully or there is a lack of financial literacy amongst the beneficiaries.

**Findings of the Research :**

- Because of large number of branches target allotted to State Bank of India is more than that of Bank of India and Central Bank of India and SBI has achieved around 50% of the target.
- After availing the benefits of FI there has been an increase in the monthly income of the beneficiaries and most of them have shifted from the income group of 2000/-3000/- to 3000/- 5000/- \* A SIGN OF SUSTAINABLE SOCIO- ECONOMIC GROWTH IN BIHAR\*

**Recommendations / Suggestions :**

Best possible Endeavour should be made by Government and Banks both for:

- (a) Financial Literacy Programme for Proposed Beneficiaries;
- (b) Effective Surveillance is required at every stage to ensure successful implementation of Financial Inclusion in Bihar;
- (c) Close monitoring by Banks to ensure proper end use of Bank’s Money;
- (d) There appears a necessity to hold a workshop with all the Banks in Bihar on assessing their preparedness to work on FI and initiate necessary measures to bridge the gap between the supply-side and demand-side with reference to the financial services in Bihar for the target population. Similar initiative may be necessary to hold interactions with other financial services providers like Insurance companies, Micro pension service providers and such others from financial services sector other than banks.

- (e) It is now time, both for banks and Government Officials, to act seriously for implementation of financial inclusion realistically so that percentage of people below poverty line may be reduced from **53.5 % to 50.00 %** in financial year ending 31/03/2013.



**A VIEW OF FINANCIAL LITERACY PROGRAMME ORGANISED IN PATNA DISTRICT**

**Conclusion :**

1. Financial Inclusion has a significant contribution in bringing positive change in the socio-economic condition of people belonging to BPL in Patna district.
2. Financial Inclusion helped in increasing the income of beneficiaries.
3. Whole hearted efforts are required by the government, banks and the business correspondents for effective implementation of financial inclusion scheme in Patna.

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