



Role of P.A.C.S in financial inclusion and controlling price inflation of commodities

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Abstract

Access to the financial services with income, education, health and home is desirable for nation's wellbeing. Also the stable or strong financial system of an economy result of the inclusion of the each citizens of that country. Our economy is known to be the fastest growing emerging economies in the world. One of the biggest challenge our financial system facing is the financial inclusion. Many policies and initiatives has been taken over a period of time by RBI, banks etc., but net result is not impressive. Still more than 40 % of the household does not have a bank account. The main challenge is that the Indian population is present in a segment. To include these segments to our financial system Primary agricultural credit societies (P.A.C.S) can play a significant role. Further the research result suggesting that this P.A.C.S is helpful to control commodity prices inflation also.

Keywords: Branch less banking, financial education, financial inclusion, Payment banks, Primary agricultural credit societies..

Introduction

India is one of the fastest growing economies in the world¹. A strong and stable financial system is needed along with the inclusion of its human capital. Presently in India 58.7%² of the total population is financially included and rest population is excluded. The figure below shows the total number of population availing bank services.

The contribution of urban population is higher which 67.8 %² is more than the rural population which is 58.7%² as per the 2011 census report. It is also clear from the above figure that the significant increase of 65%² in the total number of house hold availing bank services increases from 2001 to 2011.

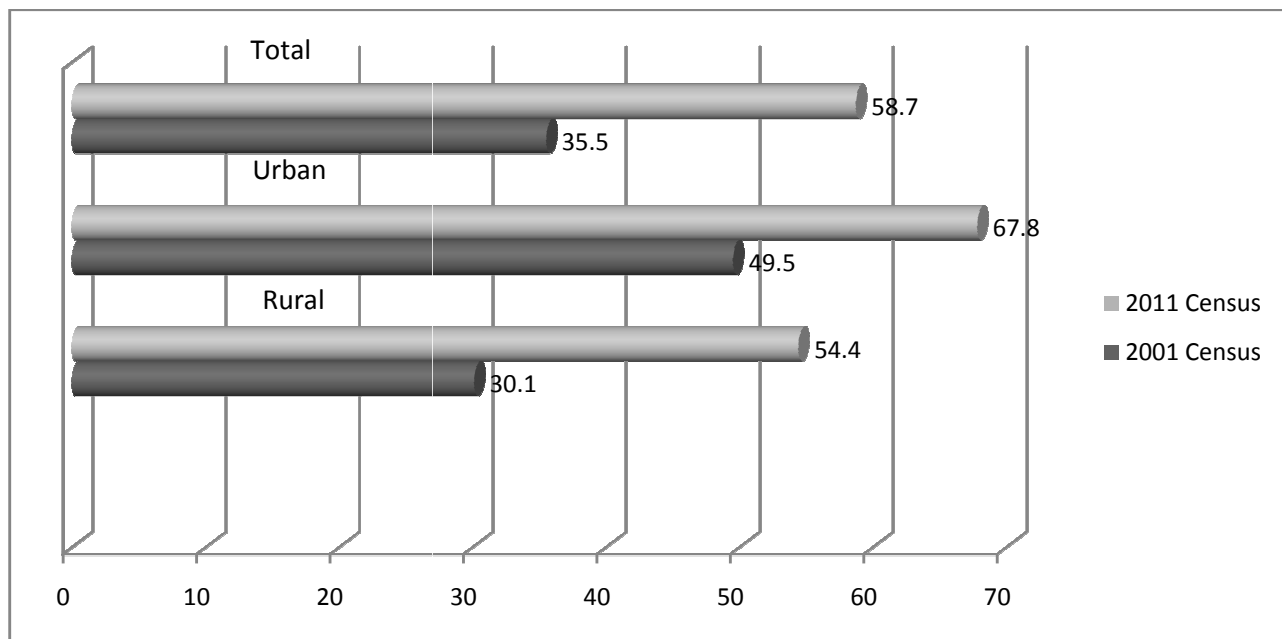


Figure-1

Graph showing the house hold availing bank services in rural, urban and total (Source: Census 2001 and Census 2011 report)

The RBI has introduced many schemes from time to time to available this bank services to the majority people. But still majority of the population in India is excluded from Indian financial system. This is the main concern of our present RBI governor. To counter attack it, it is facing several problems. First the majority of the people are living below the poverty line. This is the biggest challenge to include this people in the financial system. Secondly the critical problem with our Indian population is that the financially excluded people are not present homogeneously. Majority of the people excluded are from the rural India. The population that are excluded are particular group of peoples like potters, artisans; cobblers, blacksmith, agricultural labourers, landless labourers, labourers etc. Finally the high illiteracy rate is also the one of the prime reasons to tackle financial exclusion.

The government of India and RBI have implemented many measures to overcome this situation but overall outcomes are less as expected? The RBI involves private and public sectors banks, NBFC's, Post offices, Cooperative societies, RRBs to achieve inclusive growth through several schemes. In these situations Primary agricultural credit societies is one of the alternatives available with Indian government and RBI. Primary agricultural credit societies are the pillar of the cooperative societies. They contribute more than 97%³ of the total cooperative societies operating in India. They operate at the ground level or seed level. They mainly target this segment of people who are financially excluded. The present study result reflects from the few selected P.A.C.S under the West Bengal State Co-operative Bank Ltd., in West Bengal.

Objective of the study: i. Role of P.A.C.S in financial inclusion, ii. Role of P.A.C.S in controlling price inflation of commodities

Different Initiatives taken by different Institution as of now to achieve financial Inclusion

RBI: No frill accounts: RBI recognises that it is difficult for the below poverty level to avail the services provided by the bank. To involve such categories, it introduces the no frill accounts. So as these people can avail the bank services at no cost.

Language barrier: India is a country of different languages, mainly English and Hindi is used throughout the country. It instructs banks to provide the information in regional languages where the banks are operating to overcome the language barriers.

Easing of KYC norms: KYC norms have liberalised up to a Rs. of 50,000 on case to case basis and small saving account was introduced to facilitate the financial inclusion. The account operation process was also simplified for these accounts.

Rural intermediaries: From 2006 onwards banks were permitted to involve intermediaries in their operations. Majorly NGOs, SHGs, MFIs and other civil society organisations were appointed as the business correspondence for the banks. These business correspondence works on behalf of the bank to promote bank schemes, lending and collecting deposits and accounts etc.

ICT development: Major ICT development occurs after Rangarajan committee recommendation. Introducing varieties of the payment system leads to reduce the overall cost of the operations and also increases the overall efficiency in the system. Use of the ICT makes the credit distribution more hassle free through General credit cards, Kishan credit cards etc. It reduces the overall operation costs.

Branch less banking: Through mobile vehicle banking made possible in the remote places. Microfinance institution like SKS microfinance use to collect money through shops using advanced payment system.

Financial education: Introduces many financial education programmes through its intermediaries. That helps to promote awareness about the different banking products and services. The education related to the importance of the savings and investment etc. This was very successful in achieving the financial inclusion goal.

More simplified branch authorisation: Banks were given more liberated norms for opening in the branches in the rural India especially in the tier 3 and tier 4 cities. This helps in to include the isolated areas and specially the north east part of India.

Three year plan for financial Inclusion: Banks were asked to prepare the exclusive report on how they are going to include the financial excluded portion by their products and services. It includes basically the blue print of number of branches going to locate in the rural India, KCC issuances and using of ICT infrastructure to promote financial inclusion.

Recent measures and policies: To facilitates the process of the financial inclusion banking license to the microfinance institution like Bandhan financial services and IDFC for infrastructures development. In future it is expected that more license will be given to the ground level institutions like post offices etc. The contemporary research on payment system at IDRBT is going to be principle vehicle in achieving financial inclusion in future.

Government

Central government: The general budget steps will boost financial inclusion like more MSME means more employment more involvement of banks. Also increasing the limit of FDI in insurance from 26% to 49 % will boost financial inclusion.

Apart from this major government runs programme that is boosting financial inclusions as follows: i. Swarnjayanti Gram Swarajgar Yojana (SGSY), ii. National rural livelihood Mission (NRLM), iii. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), iv. Aadhaar- Unique Identification Authority of India (UIDAI), v. Shyama Prasad Mukherji Rurban Mission, vi. Jan Dhan scheme to promote financial Inclusion.

State Government: Along with the central government, state government also introduced many schemes with the help of development banks like World Bank etc. runs many schemes in the states like Bihar, Madhya Pradesh etc. Few of them are as described below

Jeevika: A major landmark in sustainable financial inclusion efforts, this program is jointly supported by the World Bank and Government of Bihar .The project has facilitated social mobilization of poor households into community managed institutions, encouraged thrift and savings, and provided financial literacy and counselling services. Eventually, the commercial banks perceive the poor as reliable clients and 14 commercial banks have partnered with the project. With support from this project, More than 850,000 women have been mobilized into 69,561 self-help groups (SHGs) for better service delivery and access to finance. Since 2007, bank accounts have been opened for 46,201 SHGs and credit linkages worth ₹2.26 billion have been facilitated and more than 400,000 households have accessed credit multiple times.

E Shakti projects: This is one of the largest financial inclusion projects in the country .It was started by Glodyne Techno serve Limited in partnership with the Government of Bihar.

Banks and RRBs: Different banks and RRBs introduced many credit linked schemes to promote financial inclusion. Different services and product designed to involve the each kind of people in the banking system.

Role of Cooperative societies and P.A.C.S: Cooperative societies⁴ are running for the benefits of the society and promoting social banking. Cooperative banks not only providing the traditional products but now days more specialised and sophisticated products and services they are providing. Basically this cooperative system operates in the three tier level. Each tier has its own significance.

Primary agricultural societies are the bottom of the cooperative societies but are forming the pillar for the cooperatives. This constitutes more than the 97% of the total cooperative credit societies in operations. P.A.C.Sis operating in the ground or seed levels and targeting the weaker section of the economies,

specially the segment like landless labourers, agricultural labourers, potters, fisherman, cobblers etc. The various services offered by this P.A.C.S^{5,6} are as follows:

No frill accounts: Similar to that no minimum balances required to opening a savings bank account. By this even weaker to the weakest section are availing the banking services.

Agricultural loans: More than 95% of the agricultural loans are disbursed through this P.A.C.S. They provide agricultural loans at a very affordable price.

Loan against NSC, KVPs etc: Generally commercial banks do not give loans against KVPs or NSCs. This weaker section people get easy loans against this for the emergency purposes etc.

Kishan Credit cards: On behalf of district cooperative banks, it also gives KCCs to the farmers etc.

Agricultural education: With collaborations with national level institute like IITs, Jadavpur University etc. promotes agricultural education for better production of crops. Presently P.A.C.S is associated with these above mentioned activities. The next section will cover how this P.A.C.S can play a major role in promoting financial inclusion.

How P.A.C.S are playing a major role in achieving financial inclusion and controlling commodity price inflation: These are the following major suggested way, by which P.A.C.S are helping in greater extent to achieve the financial inclusion and controlling commodity price inflation:

Ware housing and distribution of the following commodities

Baby foods: Baby foods are sold in the black prices in the rural India. Usually it is costly, difficult for poorer to buy. This P.A.C.S are providing these baby foods at cheap rates and at the same time it will ensures that it available only to the weaker section people.

Potato: Potato is the much demanded product in the West Bengal specially. Usually twice in a year, due to hoarding the potato prices shoot up. In this situation the P.A.C.S are play very vital roles by supplying the potatoes from their warehouses to poorer. This will not only to achieve the financial inclusion but at the same time it will help to control price inflation.

Similar kind of activities in case of tomatoes, onion etc. also can be done on to control price inflation of food commodities in other part of the country.

Payment banks: P.A.C.S can be acts as the payment banks in large scale in the future. All government subsidies or government run schemes can be distributed by the P.A.C.S. As

our new Prime Minister Mr. Narendra Singh Modi announces many financial inclusion schemes, these schemes can be disbursed through this P.A.C.S.

Conclusion

The RBI, Banks, cooperative credit societies etc., has contributed significantly to achieve the financial inclusion. The problem of segmented population is the main concern associated with the financial inclusion. Through P.A.C.S this isolated segment can be included in the financial system. Research finding says that the P.A.C.S is not only the vehicle for financial inclusion but at the same time can be a commodity price inflation controller.

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