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Financial Inclusion

Financial Literacy For Farmers In India

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INDEMNITY = PROTECTION AGAINST LEGAL RESPONSIBILITY, LOSS (OR) FINANCIAL BURDEN ………………………..**SHRI NARENDRA MODI, PRIMEMINISTER OF INDIA.**

ABSTRACT:

The Financial Literacy Week is an initiative of RBI to promote awareness on key topics every year through a focused campaign. Financial Literacy Week 2019 will be observed from June 3-7 on the theme of "Farmers" and how they benefit by being a part of the formal banking system. Growth in agriculture is necessary for the overall economic growth & finance is an essential enabler for the same.

RBI is actively involved in formulating policies that enhance the flow of credit to the farming community. In recent years, the Bank has undertaken several initiatives to strengthen credit delivery mechanism and financial inclusion. In order to build awareness and disseminate financial literacy messages to the farming community, focused content in the form of posters and leaflets have been prepared for dissemination.

Banks have been advised to display the posters and content in their rural bank branches, Financial Literacy Centers, ATMs and websites. Further, RBI will undertake a centralized mass media campaign during the month of June on Doordarshan and All India Radio to disseminate essential financial awareness messages to farmers. It is RBI's endeavour to reach out to the farming community and all stakeholders are requested to co-ordinate and make this financial literacy campaign a success.

My main thesis is that central banks and financial authorities can support and promote financial inclusion, first and foremost, by pursuing their core objectives. By watching over price stability, they ensure that money keeps its value. By ensuring financial stability, they prevent financial institutions from failing, and taking people's savings with them.

KeyWords: Farming Community, Credits, Awareness, Economy, Insurance.

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INTRODUCTION:

Financial inclusion provides access to financial services that are the key to participating in a modern economy. These include payments, credit, insurance and savings. Without access to efficient payment systems, business grinds to a halt. A modern economy cannot work without efficient, reliable and cost-effective payments.

Credit allows resources to be used more optimally over time. Credit from within the formal financial sector is typically cheaper and has better terms than informal credit, with all the problems arising from lender oligopolies and doubts about creditworthiness. In credit markets that are subject to such problems, market power can become entrenched.

Black market lenders often run as monopolies and charge exorbitant interest rates. Informal markets are also incapable of providing insurance products, which can serve as a cushion against shocks such as bad harvests, illness, or the death of the main wage earner.

Formal savings facilities can help generate low-risk interest income. Combined with formal credit facilities, they can help reduce fluctuations in consumer spending driven by income shocks. The poor stand to gain most from increased income stability and access to credit.

While financial access does not guarantee financial engagement, it acts as an incentive. A basic deposit account opens the door to trying out other banking services, such as payments and credit.

Furthermore, financial inclusion fosters ‘social inclusion’. For example, by depositing savings in a current account, individuals are protected by property rights. If they put their savings into jewellery or just stash money under the mattress, they may fall victim to theft or devaluations.

Moreover, financial inclusion can make the transfer of welfare benefits faster, cheaper, and less prone to leakage. This benefits the state as well as the recipients. Overall, inclusion can help reduce poverty.While financial access does not guarantee financial engagement, it acts as an incentive. A basic deposit account opens the door to trying out other banking services, such as payments and credit.

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HISTORY OF FINANCIAL LITERACY:

Everybody learns to manage money but not everybody manages it well. Some live hand to mouth focused only on making ends meet on a day-to-day basis. Others look ahead trying to prepare for unforeseen events or irregular demands such as school fees by setting some income aside as savings. Entrepreneurs have to ensure they can purchase inputs and meet other business expenses from their incomes in addition to meeting family demands.

So learning to manage money well is an important skill. It often involves changing behaviour, shifting from reactive to proactive decision-making and learning ways to plan, analyse and control household and business finances. Limitations in literacy and numeracy, coupled with a lack of access to financial services, can make acquiring these skills difficult for small scale farmers in developing countries, but they are vitally important.

This series of booklets has been specifically designed for use with farmer discussion groups, study circles or field schools. The idea is to promote a philosophy of "Talking about Money" as opposed to the traditional assumption that all small farmers need to improve their lives is credit. Taking a loan without understanding your cash flow, evaluating your risks and being able to monitor your progress is a recipe for failure in terms of money management.

A more holistic approach is needed particularly now that more and more financial service providers are reaching down to the low income market and new technology is creating unprecedented opportunities for rural communities to access financial services.

"Talking about Money" is about financial education; helping people to recognise the importance of regular saving and thoughtful expenditure; showing them how to calculate costs and profit margins and work out cash flow plans; ensuring that they understand the role and potential of financial service providers and the products they have on offer; and ensuring that they have the confidence to use these services and ask the right questions, for example, with regard to insurance, bank accounts or interest rates.

Each of these booklets has been written in a style which should enable agricultural field workers to use them without any special training (provided they are in a language which can be read by the user). They are small enough to be carried in the field and are divided into short sections with questions or exercises at the end of each section to promote involvement and discussion.

Some activities can be carried out with non-literate participants but, in the end, you cannot go far with money management unless you can write numbers and make simple arithmetic calculations. It is recommended that farmers are shown how to use simple calculators which can be bought cheaply and also will become increasingly available on mobile phones.

The figures used in the books are largely fictitious and should not be taken as representative of any particular currency at any given point in time. The $ symbol is used simply as a generic money symbol. If the book is being translated for a specific local context, the figures

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can be replaced with appropriate amounts in the local currency as long as the arithmetic remains simple.

OBJECTIVE OF FINANCIAL LITERACY:

The Kisan Credit Card Scheme aims at providing timely and adequate credit to farmers to meet their needs at the time of crop production (cultivation expenses), besides meeting contingency expenses. It also covers expenses related to ancillary activities through simplified procedures in obtaining loans as and when needed.

If you feel you are not getting a fair price, store your produce in warehouses against warehouse receipts. You will get financing from the bank for your immediate cash needs-the benefit of interest subvention will be available to small and marginal farmers having a Kisan Credit Card (KCC). This will be for a further period of up to six months post-harvest and at a rate of 7 per cent against negotiable warehouse receipts for keeping their produce in warehouses.

Comprehensive insurance cover : PMFBY provides a comprehensive insurance cover against crop failure, thus helping in stabilising the income of farmers and encouraging them to adopt innovative practices.Do not lose hope even if you lose your crop due to Natural Calamities. Inform your Bank of the Extent of Crop Loss and Seek Assistance from the Bank

Once the central/state Government has declared your area as affected by a natural calamity (e.g., cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave/frost), and if the crop loss is assessed to be 33 per cent or more, it is imperative that you approach the branch of your bank that has provided you the loan, as your repaying capacity gets impaired due to the damage caused by the natural calamity.

Convert the principal and interest on your short-term loan into a term loan.In all cases of restructuring, a moratorium period of at least one year will be considered. Further, the banks will not insist on additional collateral security for such restructured loans.Short-term loans (crop loans) : A maximum period of repayment of up to two years (including the moratorium period of one year) will be allowed if the loss is between 33 per cent and 50 per cent. And if the crop loss is 50 per cent or more, the restructured period for repayment may be extended to a maximum of five years.

Agriculture Loans - Long-term (Investment) Credit: The existing term loan instalments will be rescheduled keeping in view your repaying capacity and the nature and extent of the natural calamity.Hence, financial education is aimed at enabling individuals to make savvy financial decisions and to seek appropriate advice. The measures range from traditional classroom trainings, through interactive lessons with role plays and games, to financial literacy brochures.

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AFC has implemented various projects with focus in increasing the financial literacy among marginalized target groups. We developed financial literacy curricula for public schools in Ghana, Kenya, Nigeria, Tanzania, Tajikistan and Uganda.

We designed different financial education trainings adjusted to the realities of the target groups like farmers or rural population in Ghana and Nigeria. While financial literacy trainings initially focused mostly on money management, loans, and savings, the importance of trainings on topics such as insurance and digital finance increased steadily

SCOPE OF THE FINANCIAL LITERACY:

Each person‟s borrowing needs are likely to be different. Studies by a microfinanceorganisation called SafeSave have found that women need longer-term credit to build assetssuch as houses, to buy land and lease land, either under their own names or at least jointly.They also need credit to purchase „female assets‟ such as jewellery, or redeem them frompawnbrokers and moneylenders.

They also need access to credit for investment in their smallbusiness ventures, which may not be farm related.Similarly, they found that agricultural workers and farmers need consumption loans to avoidturning to moneylenders in slack and „hungry‟ seasons. Farmers also need loans during theproduction season.

If they can get loans from formal financial services, it would help to freeup significant amounts of money, which would otherwise go towards paying high-interestrates to moneylenders for investment in production.Lastly, they found that in the category of special needs, households need loans to pay forchildren‟s education and to meet social obligations that are essential in maintaining socialcapital and the wellbeing of children, particularly daughters after marriage.Banks and micro finance institutions offer loans for all these purposes and more.

Banks offeragriculture loans, mortgage loans, car loans, education loans, gold loans, loans for purchaseof land, home loans, personal loans, business development loans and govt sponsored subsidy/ low interest loans. Authorized Business Correspondents (BC), sometimes called KioskBanks, have been set up in the rural areas to meet the needs of the local people. These offeragriculture and personal loans, amongst others. Microfinance Institutions, Self Help Groups

(SHGs) and Federations, Farmers Clubs, Mutally Aided Co-operative Societies, CooperativeBanks, Primary Agriculture Cooperative Societies (PACS) and Local Area Banks also offerloans to meet specific consumption, income generation and business needs of people in therural areas. Most of them also offer government sponsored subsidies and low interest rateloans.

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RESEARCH METHODOLOGY:

There is an ever increasing need to invest in agriculture due to a drastic rise in global population and changing dietary preferences of the growing middle class in emerging markets towards higher value agricultural products. In addition, climate risks increase the need for investments to make agriculture more resilient to such risks.

Estimates suggest that demand for food will increase by 70% by 2050 and at least $80 billion annual investments will be needed to meet this demand, most of which needs to come from the private sector. Financial sector institutions in developing countries lend a disproportionately lower share of their loan portfolios to agriculture compared to agriculture sector's share of GDP.

On the other side, the growth and deepening of agriculture finance markets is constrained by a variety of factors which include: i) inadequate or ineffective policies, ii) high transaction costs to reach remote rural populations, iii) covariance of production, market, and price risks, and iv) absence of adequate instruments to manage risks, v) low levels of demand due to fragmentation and incipient development of value chains, and vi) lack of expertise of financial institutions in managing agricultural loan portfolios.

The development of agriculture requires financial services that can support: larger agriculture investments and agriculture-related infrastructure that require long-term funding (given that currently transportation and logistics costs are too high, especially for landlocked countries), a greater inclusion of youth and women in the sector,

And advancements in technology (both in terms of mechanizing the agricultural processes and leveraging mobile phones and electronic payment platforms to enhance access and reduce transaction costs). An important challenge is to address systemic risks through

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insurance and other risk management mechanisms and lower operating costs in dealing with smallholder farmers.

Agriculture finance and agricultural insurance are strategically important for eradicating extreme poverty and boosting shared prosperity. Globally, there are an estimated 500 million smallholder farming households – representing 2.5 billion people – relying, to varying degrees, on agricultural production for their livelihoods.

CONCLUSION:

Financial inclusion is the gateway to increased prosperity. Central banks play a key role simply by fulfilling their price and financial stability objectives. At the same time, innovation and technology are needed too.

Because financial innovation can have adverse effects too, it must be guided as well as supported. Policymakers can help by providing adequate infrastructure. This takes the form of both hard infrastructure such as payment systems or clearing houses, and soft infrastructure consisting of rules, regulations and standards.

Policy initiatives should be coordinated across borders, especially in the case of innovations that matter for financial inclusion. Coordination is needed because both innovation and data flow across borders. Remittance services that take advantage of new distribution channels are a highly relevant example.

Remittances are an important source of income, especially in emerging market economies. Moreover, as formal remittances are cheaper than informal ones, they provide a compelling reason for individuals to be financially included. A joint study on how digital technology can enhance cross-border payments was recently published by the Bank of England, the Bank of Canada, and the Monetary Authority of Singapore.[10] Economies of scale are just one advantage of such applications.

The BIS is determined to contribute substantially in this area. Our new medium-term strategy, Innovation BIS 2025, embraces several initiatives that we hope will deliver insights

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into technological developments for the financial system and help policymakers use them effectively.

For example, we plan to establish a multidisciplinary Innovation Hub to foster collaboration in innovation-related work. A new unit will do policy analysis and research on how innovation and increased data availability could shape the response of central banks.

The challenges posed by financial innovation show that we need to broaden our collective efforts and integrate data into policy considerations. Defining standards and deciding who should have access to data and how best to manage them are important aspects to consider.

Getting the answers right could lessen the scope for regulatory arbitrage and adverse spillovers, keep markets competitive, and channel more of the benefits of innovation towards financial inclusion. International cooperation is vital to ensure that technology reshapes financial intermediation for the better.

Since those pioneering efforts by Governor Deshmukh and the RBI, India has made huge advances in the field of financial inclusion. The role of central bank and government policies in driving this progress cannot be overemphasised. Yes, there is more to be done. As an old proverb has it: “We can't change the wind’s direction, but we can always trim the sails”.

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