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Abstract

Financial inclusion plays a major role in inclusive growth of the country. It is estimated that globally over 2.5 billion people are excluded from access to financial services of which one third is in India. The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking/payment services to all ‘bankable’ households and enterprises at a reasonable cost. In India, financial inclusion first featured in 2005, when it was introduced by Dr. K.C. Chakrabarty, the Chairman of Indian Bank. Mangalam Village becomes the first village in India where all households were provided banking facilities.

The availability of quality financial services in rural areas is extremely important for the growth of the economy as this will enable the large number of rural households to fund the growth of their livelihoods. The growth of the economy is dependent on the growth of the rural market in the country. Therefore greater financial inclusion in these segments is imperative. The main objective of this study is to review various papers on the how financial inclusion serves as a means of inclusive growth and to study the initiatives taken by Government and Reserve Bank of India for strengthening financial inclusion in the country. The study is based on secondary data collection.

Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts. The government should encourage the banks to adopt financial inclusion by means of financial assistance, financial literacy, advertisement, awareness program, etc. to achieve the aim of 11th plan of Inclusive Growth.

1. Introduction

Since the introduction of the economic liberalization, India has seen an average growth of 6-7%. The main contribution for the economic liberalization is the globalization of India. PricewaterhouseCoopers have stated in its report by 2020, India is expected to become the third largest economy after the US and China. But by the 21st century, rural India has turned out to be disconnected from the main stream of development. A large section of Rural Population today still remains outside the coverage of the formal Banking System. The Eleventh Plan (2007-12) document was divided into three volumes viz., (i) Inclusive Growth (ii) Social Sector and (iii) Agriculture, Rural Development, Industry, Services and Physical Infrastructure. It addresses on sustained growth and investment aiming at improvement in the quality of life.

The Eleventh Five Year Plan (2007-12) envisioned inclusive growth as a key policy objective. The Plan document noted that economic growth had failed to be sufficiently inclusive, particularly after the mid-1990s.

*Author for correspondence
Though the Indian economy achieved high growth rates between 2003-04 and 2007-08, it did not result in unemployment and poverty reducing to tolerable levels. Thus, the Eleventh Plan Document tried to restructure the policies in order to make the growth faster, broad-based and inclusive. Huge investments in education, health and rural infrastructure were the key elements of the inclusive growth strategy as envisaged.

1.1 Financial Inclusion: Introduction
The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic “no-frills” banking account. In India, Financial Inclusion first featured in 2005, when it was introduced from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

The Committee on Financial Inclusion (Chairman: C. Rangarajan) defines financial inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.” Mrs. Usha Thorat, Deputy Governor, RBI in her speech on financial inclusion said “financial exclusion, broadly, is construed as the inability to access necessary financial services in the appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion.”

2. Scope of Financial Inclusion
In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. ‘Financial Inclusion’ efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc and all this at a reasonable cost.

3. Importance of Financial Inclusion
The importance of Financial Inclusion can be revealed from the following:
1. It is a necessary condition for sustaining equitable growth.
2. It protects the poor people from the clutches of usurious moneylenders.
3. It will make possible for the governments to make payments under the social security schemes like National Rural Employment Guarantee Program (NREGA) through bank accounts of the beneficiaries, by Electronic transfers. This will minimize transaction costs including leakages.
4. It provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channel them into investment.
5. The large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposits and help them to better manage both liquidity risks and asset liability mismatches.

4. Measures by RBI and GOI towards Financial Inclusion
The Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase banking penetration in the country. Some of these measures are:
- Growth of Cooperative Bank’s
- Setting up of State Bank of India
- Nationalization of banks
- Lead Bank Scheme
- RRBs
- Service Area Approach
- Self Help Groups

Based on the recommendations of the Interim Report of the Committee on Financial Inclusion, headed by Dr. C. Rangarajan, Government of India has taken following initiatives:

i. Government of India has constituted two funds viz., Financial Inclusion Fund (FIF) for meeting the cost of developmental and promotional
interventions of financial inclusion and Financial Inclusion Technology Fund (FITF) to meet the cost of technology adoption. Each Fund consists of an overall corpus of Rs.500 crore, to be contributed by the GOI, RBI and NABARD in the ratio of 40:40:20 in a phased manner over five years, depending upon utilisation of funds. Financial inclusion fund was set up for meeting the cost of development and promotional interventions.

ii. Aadhar card – The government initiative of providing Unique Identification Number through Aadhar card will go long way to support financial institutions for meeting KYC norms and smoothen the business processes.

iii. Swabhiman is path-breaking initiative by Gov. of India and banks in state to cover the economic distance between rural and urban India. It promises to bring basic banking services to all unbanked villages in the country with population above 2000.

The Swabhiman movement facilitate opening of bank accounts, provide need based credit, remittance facilities and help to promote financial literacy in rural India using various models and technologies including branchless banking models through Business correspondents. RBI on the basis of recommendations of High Level Committee on Lead Bank Scheme directed lead banks to draw a road map by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2012 and further stated that such banking services may not necessarily be through a brick and mortar branch but can be provided through any of the various forms of ICT-based models with the help of hand held machines, smart card & Business Correspondents.

5. Rationale of the Study

- As per census 2011, only 58.7% of households are availing banking services in the country. In India, almost half the country is unbanked.
- Only 55 per cent of the population has deposit accounts and 9 per cent have credit accounts with banks.
- India has the highest number of households (145 million) excluded from Banking.
- 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495.
- Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.
- Just 18% had debit cards and less than 2% had credit cards.

6. Inclusive Growth: Role of Finance Sector

There are supply side and demand side factors driving Inclusive Growth. Banks and other financial services play an important role from supply side by providing access to basic financial services to the poor and disadvantage social group. Access to financial products is constrained by several factors which include: lack of awareness about the financial products, unaffordable products, high transactions costs, and products which are not convenient, inflexible, not customized and of low quality. Apart from the supply side factors, demand side factors, such as lower income, lower asset holdings also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals and small and microenterprises usually rely on their personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities.

Financial Inclusion promotes thrift and develops culture of saving. It also enables efficient payment mechanism. It is not possible to achieve financial stability, economic stability and inclusive growth without financial inclusion.

7. Review papers

7.1 Financial Inclusion International Perspective

The World Bank database, known as the Global Financial Inclusion database (Global Findex), provides survey based data as part of the annual Gallup World Poll. The survey conducted in 2011 covered at least 1,000 adults each in 148 economies using randomly selected, nationally representative samples. The focus of the Global...
Findex Database encompasses a set of indicators that measure how adults save, borrow, make payment and manage risk.\(^5\)

### 7.2 Following Points are Concluded from the Research Paper

50 per cent of adult population worldwide report owning an account with a formal financial institution, but actual operation and use of these accounts for transactions varies widely across regions and economies. Financially excluded populace is predominant in developing countries, where only 41 per cent adults have a formal account, with only 37 per cent of women having formal account against 46 per cent of men; the gender gap widens further because of varying degrees of income inequalities observed among the developing countries. The cross country comparison would reveal that bank account penetration, measured as a per cent of adult population, varies widely across the countries. In high-income economies, account based financial inclusiveness is much higher with 89 per cent adults having accounts with formal financial entities. For India, account penetration is reported to be 35 per cent (43.7 per cent for men and 26.5 per cent for women).

### 7.3 Limitation of the Global Findex Database

Data is less authentic as:
- Interviewed only 1000 respondents per country

### 7.4 International Monetary Fund’s Financial Access Survey (FAS)

The FAS is the sole source of global supply-side data on financial inclusion, encompassing internationally-comparable basic indicators of financial access and usage. In addition to providing policy makers and researchers with annual geographic and demographic data on access to basic consumer financial services worldwide, the FAS is the data source for the G-20 Basic Set of Financial Inclusion. The FAS database currently contains annual data for 189 jurisdictions, including all G20 economies, covering a nine-year period (2004-2012), totaling more than 40,000 time series. Highlights of the 2011 FAS round are as under:\(^6\)

FAS collects data on access to and usage of financial services from central banks and other financial regulators around the world on an annual basis. The key FAS indicators help to:
- Identify knowledge gaps and set priorities for policies on broadening financial access;
- Monitor the effectiveness of these policies over time;
- Advance research and analysis to strengthen understanding of the determinants and implications of financial access and usage.

### Key statistics on Financial Inclusion in India: A survey Figures in %

<table>
<thead>
<tr>
<th>Share with an account at a formal financial institution</th>
<th>Adults using mobile money in the past year</th>
<th>Adults saving in the past year</th>
<th>Adults originating a new loan in the past year</th>
<th>Adults with a credit card</th>
<th>Adults with an outstanding mortgage</th>
<th>Adults paying personally for health insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>Adults using a formal account</td>
<td>Adults using a community based method</td>
<td>Form a formal financial institution</td>
<td>From family or friends</td>
<td>India 35 21 26 4 12 3 8 20 2 2 7</td>
<td></td>
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<tr>
<td>Poorest income quintile</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>World 50 38 47 22 5 9 23 15 7 17 7</td>
<td></td>
</tr>
</tbody>
</table>

Main conclusions and policy implications of the National Household Survey (ENAHO) in Peru. (2012)

- Correspondent banking and mobile banking, the latter used by 1.8% of adults, are considered among the best opportunities for fostering FI. Thus access to banking services through correspondent banking is significantly greater than the sum of all traditional banking: bank branches and ATMs.
- The factors with the biggest impact on the probability of using banking services include living in a rural environment, literacy and income.
- The substitution effect between the number of people receiving income in the household and the use of financial products also affects financial inclusion.
- Women living in a rural area or having a low income and educational level may reduce the likelihood of being included in formal financial system.
- Households with cash flow problems are more prone to use banking services than those with savings. More than 50% of the unbanked perceive the lack of money and the high cost of financial services as the main obstacles for FI.
- In 2012, the government approved the e-Money regulatory framework that aims to promote FI by enhancing access to the financial system without a prohibitively expensive infrastructural investment. This kind of regulation, together with the improvement in technologies and the high penetration of mobile phones, would make mobile banking a more efficient alternative to traditional branch banking, especially in terms of the cost of product delivery.

7 In United States (US) Federal Deposit Insurance Corporation (FDIC) regularly conducts National survey of Unbanked and Underbanked households.

It also conducts the survey of Bank’s efforts to serve the Unbanked and Underbanked to analyse the needs of the underserved consumers. The FDIC survey results of its 2011 National Survey of Unbanked and Underbanked Households indicates that more than one in four U.S. households (28.3%) are either unbanked or underbanked, a slight increase from the findings of the FDIC’s 2009 inaugural survey. Review on the survey


The Author has given reference to the work of Dr. Muhammad Yunus, NOBLE PEACE PRIZE 2006, in rural Bangladesh in 1974 which is now expanding to reach over 100 million people worldwide. The author is follower of Grameen Bank model whereby he has talked about the 16 decisions that Grameen bank borrowers follows to apply to Green microfinance.

Green microfinance has the potential to address pervasive poverty, financial exclusion and energy inequality in the United States. In addition, it can also allay the view among minorities that environmental organizations are predominantly white, middle class, and out of

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Key Indicators for Country India for the Time period 2012

| Access to & Use of Financial Services |  |
|--------------------------------------|--
| Commercial bank branches per 1,000 km² | 33.17 |
| Commercial bank branches per 100,000 adults | 11.38 |
| ATMs per 1,000 km² | 32.67 |
| ATMs per 100,000 adults | 11.21 |
| Outstanding deposits with commercial banks (% of GDP) | 68.64 |
| Outstanding loans from commercial banks (% of GDP) | 54.24 |
| Deposit accounts with commercial banks per 1,000 adults | 1042.48 |
| Loan accounts with commercial banks per 1,000 adults | 151.06 |
| Household deposit accounts with commercial banks per 1,000 adults | 892.49 |
| Household loan accounts with commercial banks per 1,000 adults | 23.54 |
touch with their concerns. In so doing, it can bridge the divide between those that are arguing for environmental improvements and those that are suffering most from environmental degradation. Lastly, green microfinance can create green collar jobs, reduce greenhouse gas emissions, save ratepayers money and spur a revolution in small-scale businesses that create a more livable community and environment through market-based solutions.

This paper argues that an effective means of achieving an inclusive green economy in the United States is through the use of green microfinance, defined as loans of less than $35,000 that have benefits to both the borrower and the environment.


The principal objective of the study is to contribute to a consistent and relevant funding policy for ICCO and Cordaid. It seeks to achieve an understanding of “best practice” in SHG development in India and to help direct donor funds for microfinance (MF). The study addresses three main issues:

- **Efficiency:** What can be said about the average cost of SHG promotion both with and without emphasis on social and political empowerment? What difference does the credit plus approach make to average SHG promotion costs?
- **Effectiveness:** What is known through results of assessment studies of the effects and impact of SHG promotion? What is known about the results of monitoring indicators of impact?
- **Sustainability:** What kind of sustainability or phase out strategy is employed by NGOs?

### 7.5 Financial Inclusion – Indian Perspective


The author has highlighted in his paper the Governments initiative for the poverty elevation through Integrated Rural Development Programme (IRDP). It involves commercial banks giving loans of less than Rs 15,000 to poor people and in nearly 20 years, it resulted in financial assistance of around Rs 250 billion to roughly 55 million families. But the problem with IRDP was that its design incorporated a substantial element of subsidy (25-50% of each family’s project cost) and this resulted in extensive malpractice and misutilisation of funds, the net result was that estimates of the repayment rates in the IRDP ranged from 25-33%. The two decades of IRDP experience – in the 1980s and 1990s – affected the credibility of micro-borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services.

With this drawback the different ways of delivering microfinance gradually evolved through Self Help Groups (SHGs) and NGOs.


A panel of financial experts, academics, activists, bankers and policy makers who have long been working in

The author in this research papers have emphasized the constraints face by the banking system. The structure of bank asset portfolios has changed over the past ten years. Priority-sector lending rose from 12½ per cent of interest-bearing assets in March 2003 to a peak of nearly 21% by March 2008. As a result the bank debt of the priority sectors rose by close to 6% of GDP, almost doubled in five years. Facing of the above constraints, the government initiated establishment of rural cooperative credit societies, regional rural banks and microfinance institutions to provide micro finance, micro credit to the farmers and the poor.

The above paper reviews the importance of micro finance, micro credit. Although the banks, under pressure from the government, have been trying to develop “no-frills” accounts for low income customers and, indeed, had three times as many such accounts as MFIs. However, only 10% of the accounts are actually used – most are dormant and serve merely to demonstrate compliance with government objectives.

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<th>Type of survey</th>
<th>Definition</th>
<th>Survey objective</th>
<th>Examples</th>
</tr>
</thead>
</table>
| One time cross section | Cross section of population is randomly selected and interviewed once | Snapshot of current level of financial access | • Finscope – All countries except for south Africa  
• World Bank Access to Finance - 10 countries in total |
| Repeated cross section | Cross section of the population is randomly selected and interviewed once. In the next time period cross section of pop is interviewed | Monitor progress of financial access across time | • Finscope  
• GFAS- Global demand side indicators to be collected every two years  
• Survey of consumer finances U.S.A multiyear approach used by U.S. Federal Reserve to assess consumer finance patterns. |
| Panel | The same households/ individuals are interviewed multiple times at regular intervals | Can be used to show a casual impact of changes in policy if combine with other factors. | • Financial Diaries- Household level survey conducted in 3 countries which studies the use of financial products and flow of financial services; conducted at the high frequency of every fortnight for one year  
• ENNViH(family life survey)- Mexico: Conducted regularly; collects information on household income and expenditure; has some financial access questions, particularly credit. |

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* Different types of survey conducted worldwide to measure the financial access

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the field, debated these questions among others, with R Srinivasan and M S Sriram. The discussion surrounded around the following points:

i. Microfinance as an attractive business opportunity.
ii. Role of NGO as an social intermediary & can NGOs perform the role of a microfinance Institution
iii. Effectiveness of alternative delivery model such as grameen bank, bank linkage program etc.
iv. The success rate of Government policy and the regulatory framework in providing an integrated set of microfinance services, including savings, credit and insurance products, to the poor.
v. Role of NABARD in promoting commercial banks to lend to SHG‘s &NGO’s.
vi. The Grameenmodel whether it can be replicated widely and is the best model for poorest (TheGrameen model pioneered by Prof MuhammedYunus of Grameen Bank follows a fairly regimented routine. It is cost intensive rather than meeting intensive. The greatness of the model is in the simplicity of design of products and delivery. The focus on the poorest has also made the model a favorite among the donor community.)

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*PurnimaKanther, SurekhaNagabhushan “Workshop on Measuring Financial Inclusion from Demand Side: a Background Paper” June 8, 2012
"The future lies with those companies who see the poor as their customers" C.K.Pralad.

The author in his book has aptly introduce the concept of financial inclusion through the evolution of Banking sector vs. a vs. measures taken by RBI and GOI. He has emphasized on the major roadblocks to financial inclusion and to overcome the same has suggested model for financial inclusion. This includes creating awareness and promotion of Financial literacy, ii) Basic Banking where by banks should inculcate attractive USPs that can lure the people at large.iii) Banking services should be supported by innovative strategies, in order to improve the reach and reduce the operating cost of the banks.

Kochhar Sameer, President of Skoch Development Foundation written a book on “Speeding Financial Inclusion”, Academic Foundation, 2009

Scaling-up access to finance for India’s rural poor presents a formidable developmental challenge in a country as vast and varied as India. It was in this context that Skoch Development Foundation undertook the first-ever nationwide multi-stakeholder study entitled “National Study on Speeding Financial Inclusion”. This study sought to collate primary research based on their grassroots experiences from several project sites and field visits; and, views from all stakeholders so as to arrive at key interventions and intermediations to speed up the process of financial inclusion, and thereby poverty alleviation. Apart from providing key recommendations in the form of a roadmap to speed up the process of financial inclusion, the study also sought to determine the viability and cost-effectiveness of the Business Correspondent (BC) model and has identified several options to make the model viable.


The author has analyzed the number of no frill accounts opened and account usage behavior, analysis of account balances and the cost and breakeven of opening a no frill account. He has further analyzed the account opening cost, account maintenance cost and breakeven level.

Dr. Rajagopala Nair, Dept. of Commerce, St. Albert’s College, Ernakulam “Financial Exclusion to Financial Inclusion”

According to K.C.Chakrabarty, RBI “Financial Exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from main stream providers.” There are three types of exclusions: (a) people who do not have any access to a regulated financial system; (b) people who have limited access to banks and other financial services; and (3) individuals who have inappropriate products. Mostly low income, unemployed and illiterate people, women and disabled are excluded from the formal financial services. Lack of Banking habits, high transaction cost, and lack of banking knowledge and insufficiency of knowledge on banking products prevents the unbanked people from knocking the door steps of banks. Financial exclusion means: No Savings, No Insurance, No access to money advice, No affordable credit, No Bank account and No assets. There are people who desire the use of financial services, but are denied access to the same.


It is observed from the study that although there has been an improvement in outreach activity in the banking sector, the achievement is not significant. An index of financial inclusion (IFI) has been developed in the study using data on three dimensions of financial inclusion. In order to get a comparable picture, state-wise IFI has also been computed and it is found that Kerala tops the list in financial inclusion followed by Maharashtra and Karnataka. Apart from this computation, a survey has also been conducted in West Bengal in order to gauge the financial inclusion in rural Bengal and the results reveal that around 38 percent of the respondents feel that they do not have sufficient income to open an account in the bank. It is also revealed that moneylenders are still a dominant source of rural finance despite widespread presence of banks in rural areas. In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be considerable. However, only supply side factor is not responsible for the financial exclusion. Demand side factors are also equally responsible for this exclusion. Thus there is a need to solve both these problems with the help of appropriate policies.

Status before the research in 2007

Gulbarga district which is one of the most backward districts in Karnataka and was declared 100 per cent financially included in January 2007.

Findings of the study in January 2009:
- Only 10 per cent of the respondents were aware that banks were opening no frills accounts.
- 91 per-cent of the respondents who opened accounts cited receiving payments from government schemes as the reason for opening accounts rather than savings.


The author has made an effort to collect the indicators of financial inclusion from the supply providers of financial inclusion (supply side) as well as from the users (demand side aspect) they are as follows:

- The supply side barriers are i) outreach, ii) regulation, iii) business models, iv) services, v) age factor, vi) bank charges and others.
- Households demand for financial services comprises of i) use of bank /post offices, ii) payments, iii) credit, iv) savings, v) insurance. Further the demand side barriers for financial inclusion are low literacy levels, lack of awareness and understanding of financial products, irregular income, frequent micro transactions, lack of trust in formal banking institutions, cultural obstacles(e.g., gender and cultural values.

L.M. Ganesan, Member of Faculty, College of Agricultural Banking, Pune research paper on “Study on ICT Based Financial Inclusion through BC–Impediments & Corrective Actions” October 20, 2011.

Study conducted in 2 villages Khopi village in Pune and Lingmoorkalpahsi village in Kolhapur in August 2011. The author gave some valuable suggestions which will be useful in my research study:

- Publishing a consolidated booklet of policies and instructions on implementation of financial inclusion
- Fixing a place for BC to provide CSP and issuing a uniform to the BC For easy identification of Bank.
- A proper system may be developed to ensure proper reporting to SLBC at the State Level and DCC at the District Level.

S.M. Roy, Business Line Article on “Aadhar Based Integration”, Nov. 4, 2012

The article says development of a system where in bank details and demat account are reflected in a single account. This concept can be extended to cover spectrum of financial assets namely bank details, mutual fund, insurance, provident fund, pension fund account, demat account. The author suggests consolidation of all financial assets of an individual into one such account that will be linked with the aadhar card number. Thus having one such account number that is the aadhar card number for all financial assets in different banks or financial institutions will enable the customer to know his financial details at a glance.

Implementation of the above system requires cooperation and co-ordination between regulators, state

<table>
<thead>
<tr>
<th>Positive Feedback</th>
<th>Negative Feedback</th>
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<tbody>
<tr>
<td>• Customers faith and trust in CSP</td>
<td>• Technical Deficiencies</td>
</tr>
<tr>
<td>• villagers appreciation of the ICT Based BC Model</td>
<td>• delay in supply of POS / HHD and smart cards by TSP</td>
</tr>
<tr>
<td>• flexible timings of CSP</td>
<td>• slow functioning of HHD machines</td>
</tr>
<tr>
<td>• good digital connectivity</td>
<td>• difficulties faced by CSPs due to non-availability of online system</td>
</tr>
<tr>
<td>• on-going enrolment of customers,</td>
<td>• non-linking of FI server with CBS</td>
</tr>
<tr>
<td>• hope of higher savings in future,</td>
<td>• non-availability of camera in HHD machine</td>
</tr>
<tr>
<td>• simple account opening form in the local language</td>
<td>• leading to operational difficulties in taking customers” photos,</td>
</tr>
<tr>
<td>• non-collection of charges by CSP for his services</td>
<td>sharing of one laptop by three CSPs</td>
</tr>
<tr>
<td>• active NGO and Farmers Club helping the CSP for enrolment.</td>
<td>• non-availability of Xerox machines</td>
</tr>
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<td></td>
<td>• system related problems relating to slow</td>
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<td></td>
<td>authorisation and uploading of account slow</td>
</tr>
<tr>
<td></td>
<td>enrolment and distribution of smart cards.</td>
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</tbody>
</table>
government and information technology (IT) service providers.

0Revving up the Growth Engine through Financial Inclusion- K.C. Chakrabarty.

- In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centers over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centers.
- After successful achievement of the target of ensuring provision of banking services through a banking outlet in every village with population above 2000 by March 2012, SLBCs were advised to prepare a road map for provision of banking services in all unbanked villages with population below 2000 in a time bound manner. Under the road map, SLBCs have identified about 485000 unbanked villages with population less than 2000 and the same have been allotted to banks.

8. India’s most comprehensive Financial Inclusion Index (CRISIL’s INCLUSIX)

CRISIL Inclusix is a comprehensive index for measuring the progress of financial inclusion in the country, down to the district-level. The objective of this Index is to analyse and measure inclusion which will enable CRISIL in taking financial services to the bottom of the pyramid. CRISIL Inclusix, whose methodology is similar to other global indices, such as UNDP’s Human Development Index, measures financial inclusion on the three critical parameters of basic banking services - branch penetration, deposit penetration, and credit penetration. The index uses parameters that focus only on the ‘number of people’ whose lives have been touched by various financial services, rather than on the ‘amounts’ deposited or loaned.

The Key finding of this index presents financial inclusion metrics in 632 districts of the country over a three year time frame 2009-2011. 11Crisil’s Financial Inclusion Index (Inclusix) combines the above three parameters into a figure between 0 and 100, where 100 indicates perfect inclusion.

9. Constraints in Financial Inclusion /Policy Issues: Gap in the Study

Policies are the broad framework which provides direction and shape to society and its Initiatives. There have been various approaches to policy formulation. The top-down approach, bottom-up approach, Optimal Approach and others. The 21st century approach to policy formulation calls for more participative and decentralized approach to policy formulation because in absence of such initiative

<table>
<thead>
<tr>
<th>Progress in Financial Inclusion10</th>
<th>March 2010</th>
<th>March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking outlets in villages</td>
<td>67,694</td>
<td>2,68,454</td>
</tr>
<tr>
<td>BCs increased</td>
<td>34,174</td>
<td>2,21,341</td>
</tr>
<tr>
<td>BSBD Accounts Opened</td>
<td>73.45 million</td>
<td>182.06 million</td>
</tr>
<tr>
<td>Small Overdraft in BSBD</td>
<td>0.18 million accounts acquired</td>
<td>3.95 million accounts acquired</td>
</tr>
<tr>
<td>Number of Kisan Credit card issued</td>
<td>24.31 million</td>
<td>33.79 million</td>
</tr>
<tr>
<td>Number of General Credit Card</td>
<td>1.4 million</td>
<td>3.6 million</td>
</tr>
<tr>
<td>Number of ICT based transactions having CBS facility -through BCs</td>
<td>26.52 million</td>
<td>250.46 million</td>
</tr>
<tr>
<td>ATMs in rural India</td>
<td>5196</td>
<td>11,564</td>
</tr>
</tbody>
</table>

10http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/MFI101213FS.pdf
policies meant for development becomes hindrance to development.


In this paper the author has analyzed some of the policies which acted as a hindrance to financial inclusion. The first and the foremost was The Banking Regulation Act (1949) which led to red tapism in the process of opening more banks and branches. It’s only in 2011 that an amendment was introduced which have relaxed the norms for entry of new banks and branches. Another policy where 1000 population was the criteria to select villages for financial inclusion initiatives. The north east region is sparsely populated and hence most of the villages would be out in this case. Thus there needs to have more context based policies specifically targeted for a region or state for financial inclusion to spread equitably. The review will help to identify the gap in Policy framework and initiatives to be taken to bridge the Gap.

10. Conclusion

It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions, NGO’s and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English.

Thus banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. It may appear in the first instance that taking banking to the sections constituting “the bottom of the pyramid”, may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box!

11. References


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31. The Micro Finance Institutions, 2011, Development And Regulation Bill.


