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Critical Review of Financial Inclusion in G20 Countries with Focus on India

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Preface

India has emerged as one of the fastest growing economies of the world and is widely regarded as one of the biggest beneficiaries of the Liberalisation, Privatisation and Globalisation (LPG) process. While India continues to enlarge its global footprint and assume a greater role in international affairs, the Indian voluntary sector has been criticized for being largely disengaged from policy concerns and decision making processes at an international level. The resultant insulation leads to a lack of awareness among many NGOs, especially those working at the grassroots, about various international commitments and developments which directly or indirectly affect them.

Also, due to the prevailing dissonance between the policies formulated at an international and national level and praxis, many positive experiences and good practices of domestic NGOs remain unacknowledged by policy makers.

For the past decade and a half, the international development agenda was shaped by the Millennium Development Goals (MDGs). However, the MDGs were widely criticized for being a process led by international governmental and non-governmental organisations, where the onus of meeting quantitative targets was placed solely on developing countries, with no or little regard for quality and sustainability.

Currently, the global community is discussing the framework and modalities of a new global development compact to succeed the MDGs in 2015. This process has so far been extremely inclusive, holding consultations with various stakeholders and emphasizing the need to develop sustainable goals which shall form the basis of action for both developed and developing countries.

In this scenario, the institutions of SSC such as BRICS, IBSA and G20 have assumed greater significance as they need to ensure that the specific issues and challenges of developing countries are adequately articulated and represented so that the agenda is comprehensive and dynamic and not based solely on parameters set by developed countries. With this in mind, VANI conducted research studies on four thematic issues namely Sustainable Development, Financial Inclusion, Inclusive Growth and Corruption and Governance. These themes were identified as central to the international development agenda as well as to the voluntary sector in India after widespread consultations with partner organisations and other stakeholders through various meetings. The objective of these studies is to establish linkages between global thematic campaigns and Indian grassroot movements and thereafter carry out advocacy at three levels: concerned line ministries, global thematic networks and multilateral forums.

As an outcome of the study, four reports were prepared namely "Bringing People in From the Cold-Ensuring Inclusive Growth in India", "Critical Review of Financial Inclusion-In G20 Countries with Focus on India", "Sustainable Development in India-Review and Way Forward" and "Corruption and Governance in India-Review and Way Forward". The research for each report was carried out by the leading thematic NGO in that field. In this regard, I would like to thank Confederation of Voluntary Associations (COVA), Development Alternatives, Society for Participatory Research in Asia (PRIA) and Wada Na Todo Abhiyan (WNTA) for their participation in the study and in particular Dr. Mazher Hussain, Mr. Roberto G Lescrauwaet, Mr. M. Murali Krishna, Mr. Manoj Rai and Mr. Rahul Banerjee for authoring the various reports.

I would also like to thank Dr. Mrs. Jyotsna Singh and Ms. Divita Shandilya of VANI for coordinating and finalising the study and Mr. Rajkumar Sharma for his help on the design and publication of the reports.

I would like to thank Dr. Axel Harneit-Sievers, Director, India Office, Heinrich Boll Foundation and Ms. Shalini Yog, Programme Coordinator, Heinrich Boll Foundation for their valuable inputs and continuing interest in the development of this project and the Heinrich Boll Foundation for supporting the project.

We hope that this study will not only help fill the lacunae that exist among Indian voluntary organisations about the policies and decision making processes at an international level but also act as a representative voice of the sector, domestically and globally.

Harsh Jaitli
Chief Executive Officer

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"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." - Franklin D. Roosevelt

Financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth.
- Dr. K.C. Chakrabarty, Deputy Governor, RBI-2010.

Acknowledgements

This study focuses on financial inclusion of the poor and marginalised in the formal banking sector in the G 20 Countries with focus on India, as a matter of entitlement and in terms of provisions, limitations and further requirements. Discussion of non banking financial institutions like the Self Help Groups, Micro Finance Institutions and NBFCs etc. (that are supposed to be designed for financial inclusion of the poor but charge much higher rates of interests from their disadvantaged clients) can form part of another study.

We gratefully acknowledge the comprehensive and excellent material available in the Presentation on the Topic of "Financial Inclusion in India – An Assessment" by Shri P. Vijaya Bhaskar, Executive Director, Reserve Bank of India on December 10, 2013 and AIBOA (All India Bank Officers Association) Report of 2013 that are used extensively in this Study.

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All the views expressed are personal.

Syed Mazher Hussain
Hyderabad, India

List of Abbreviations

AFI	—	Alliance for Financial Inclusion
ANBC	—	Adjusted Net Bank Credit
AP	—	Andhra Pradesh
APMAS	—	Andhra Pradesh Mahila Abhivruddhi Society
ATMs	—	Automated Teller Machines
BC	—	Banking Correspondent
BSBD	—	Basic Saving Bank Deposit Accounts
CAGR	—	Compound Annual Growth Rate
CBO	—	Community Based Organisation
CBS	—	Core Banking Solution
CCBs	—	Co-operative Central Banks
CGAP	—	Consultative Group to Assist the Poor
COVA	—	Confederation of Voluntary Associations
CSR	—	Corporate Social Responsibility
DCCs	—	District Consultative Committee
DRI	—	Differential Rate of Interest
FIEG	—	Financial Inclusion Experts Group
FIP	—	Financial Inclusion Plan
FLCs	—	Financial Literacy Centres
G 20 Countries	—	The members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.
GCC	—	General Credit Card
GoI	—	Government of India
GPFI	—	Global Partnership for Financial Inclusion
FI	—	Financial Inclusion
FIP	—	Financial Inclusion Plan
FLC	—	Financial Literacy Centre
ICT	—	Information Communication Technology
IFC	—	International Finance Corporation
KCC	—	Kisan Credit Card
KVIB	—	Khadi & Village Industries Board
KVIC	—	Khadi and Village Industries Commission
KYC Norms	—	Know Your Costumer Norms
LABs	—	Local Area Banks
LICs	—	Low Income Countries
MACTS	—	Mutually Aided Cooperative Societies

MFI	—	Micro Finance Institution
MSE	—	Micro and Small Enterprises
MSME	—	Micro, Small and Medium Enterprises
MSMED Act	—	Micro, Small and Medium Enterprises Development Act
NABARD	—	National Bank for Agriculture and Rural Development
NBFC	—	Non Banking Financial Institution
NHB	—	National Housing Bank
NGO	—	Non Government Organisation
NPA	—	Non Performing Asset
OD	—	Over Draft
PACs	—	Primary Agricultural Credit Societies
RBI	—	Reserve Bank of India
RIDF	—	Rural Infrastructure Development Fund
RRBs	—	Regional Rural Banks
SC	—	Scheduled Castes (marginalised communities)
SCBs	—	State Co-operative Banks
SHG	—	Self Help Group
SIDBI	—	Small Industries Development Bank of India
SLBCs	—	State Level Bankers Committee
SME	—	Small and Medium Enterprises
ST	—	Scheduled Tribes (marginalised communities of indigenous people)
UCBs	—	Urban Co-operative Banks
UEBA	—	Universal Electronic Bank Account
VANI	—	Voluntary Action Network India

3. Executive Summary

Financial Inclusion (FI) means ensuring delivery of financial services like bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc. for all citizens- especially the poor and marginalised. FI broadens the resource base of financial systems and history shows that countries became developed economies due to an inclusive and robust banking sector.

G20 recognizes the importance of enhancing the role of developing countries, including the low income countries (LICs), in the efforts to achieve balanced and sustainable economic growth and eradicate poverty through the process of universal financial inclusion.

A Comparative analysis of acute disparities in terms of Mean Percentages in Financial Inclusion in Developed and Developing economies of the G 20 Countries is given below:

G 20 Countries	Account at a formal financial institution (%)	Account at a formal financial institution, female (%)	Account at a formal financial institution, bottom 40% (%)
Developed Economies	92,78	92	90.56
Developing Economies	44,1	35,7	32,8

An overview of the Status of Financial Inclusion in all the G 20 Countries reveals that there are some Meta issues that are common to the member countries and it seems possible to address the issue of Financial Inclusion in all the G 20 countries through adoption of five strategies that include a) Introduction of Financial Education as part of all school, college and adult literacy programs b) OD facility to all citizens to tide over periods of financial stress c) Dedicated staff in banks for Financial Inclusion and subsidy from the governments for social banking initiatives (this could also be included as part of acceptable Corporate Social Responsibility (CSR) activities) d) Enlisting Para Banking entities like SHGs, Cooperatives, Post offices etc. for greater penetration into rural and remote areas and e) Enhanced use of technology, especially internet and mobile to overcome challenges of reaching large geographical areas.

Financial sector in India had a predominantly urban and industrial orientation even two decades after independence. Processes for Financial Inclusion started in mid 60s with Government of India and RBI formulating some far reaching policy initiatives including a "socially coercive" licensing policy in 1970 that required banks and other financial institutions to set up large number of branches in rural and remote areas with the result that during the decade of 2001 to 2011 an additional 24 percent of Indians (or one fourth of the population) were able to get bank accounts taking the total number of Indians with access to formal financial institutions in urban areas to 67.8 and in rural areas to 58.7.

Though banks were opening accounts in large numbers and collecting deposits, they were not adequately extending the required credit facilities to the poor and marginalised sections and hence defeating the core objective of the concept of Financial Inclusion. To address this issue, GoI and RBI introduced a Priority Sector lending scheme that set targets and sub targets for lending by banks and made it mandatory for all banks to extend 40 percent of all their credit to the Agriculture and MSME (Micro, Small and Medium Enterprises) Sectors and one percent of their total outstanding advances to people below poverty line as DRI Loans.

Despite all the initiatives so far, the process of FI in India has neither become universal nor is able to ensure credit facilities to all those who are eligible and in need- especially those from the poor, marginalised and even the middle classes.

Recommendations for effective Financial Inclusion in India include addressing issues like low credit share of rural areas; adequate coverage and credit for migrants; advances as per stipulations for DRI Loans, agriculture, MSME sectors and minorities; formulation of Policy Initiatives to facilitate adequate publicity of priority sector targets and entitlements; introduction of financial education in school and college curriculum; provide a human face for banking; offer tailor made services to different sections; decrease documentation requirements; weed out outdated and redundant conditionalities; provide dedicated bank staff for priority sector with defined accountability and secure subsidies from the government for the implementation of social banking (that could also be possible by making financial inclusion as part of acceptable CSR activities)..

Though India has already initiated a number of measures for bringing all excluded sections in the ambit of Financial Inclusion, a successful universal coverage would require further strengthening of some of the existing systems and processes to provide proper orientation to Banking Correspondents (BCs); enhancing the use of PACs, Cooperatives, Ultra Small Branches, SHGs, MFIs, Post-offices etc. as Banking Correspondents and application of latest technology and provision of appropriate infrastructure development to enable an outreach to all sections and areas including the most marginalised and remotest.

PART I
G 20 Countries and Financial Inclusion

4. Financial Inclusion and G 20 Countries: The Approach

The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Advantages of Financial Inclusion[1]

i) Broadens the resource base of the financial system by developing a culture of savings among a large segment of the population especially the poor and the marginalised.

ii) Enables a manifold increase in the capital that could be available to the banking system.

iii) Can play an important role in the process of overall economic development by including larger sections of the population who are otherwise excluded from access to resources of the formal banking sector.

iv) By bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances.

v) Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

History shows that countries became developed economies due to an inclusive and robust banking sector as agriculture; trade and industry depend on the Banking Sector for their growth. As on 2013, Australia has 31.8 bank branches per one lakh population, Belgium 42.4, Brazil 47.3, Bulgaria 61.2, Canada 24.4, Cyprus 97, France 38.8, Italy 64.4, Japan 33.9, New Zealand 33.3, Spain 85.1, Switzerland 48.8 and United States 35.3. India, on the other hand, has only 11.4 branches per one lakh population. Even after 67 years of Independence, India remains an under banked country- only 58% of the Indian Households and only 31% of the Indian population have bank accounts in 2013[2].

Financial Inclusion and G20 Countries: Objectives, Strategies and Institutions

The G20 is the premier forum for international economic development that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international cooperation, and international financial institutions, the G20 helps to support growth and development across the globe.

The G20 has developed an Action Plan for improving financial inclusion, which provides a set of six concrete and pragmatic action areas to advance financial

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1. *Presentation on "Financial Inclusion in India – An Assessment" by Shri P. Vijaya Bhaskar, Executive Director, Reserve Bank of India at the MFIN and Access-Assist Summit organised in New Delhi on December 10, 2013)*
2. *AIBOA Report- 2013*

inclusion for individuals, households and MSMEs and promote the application of the G20 Principles for Innovative Financial Inclusion[3].

Working with the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC), the G20 has launched a Global Partnership for Financial Inclusion (GPFI) to provide a systematic coordination and implementation structure for the Financial Inclusion Action Plan. The GPFI, which builds on the strength and the process of the current G20 Financial Inclusion Experts Group (FIEG), will provide an inclusive platform for all G20 countries, and non-G20 countries - in particular developing countries- and relevant stakeholders for peer learning, knowledge-sharing, policy advocacy and coordination on financial inclusion.

These efforts on financial inclusion will only be successful if they are supported by reliable data and common indicators, and the GPFI works to improve the quality and quantity of data needed to effectively design national policies and targets and monitor progress.

The G20 also commits to support the strengthening of member and non-member countries' capacities on financial inclusion, policy development and implementation.

Consistent with the G20 Development Framework for Strong and Balanced Growth, the G20 recognizes the importance of enhancing the role of developing countries, including the low income countries (LICs), in the efforts to achieve balanced and sustainable economic growth and eradicate poverty.

The G20 endeavours to build and strengthen a wide range of partnerships to advance financial inclusion. To this end, standard setting bodies are encouraged to strengthen synergies between financial inclusion and their own mandates. The private sector is also key to extending financial inclusion and the G20 will encourage further private sector activities to increase access to financial services.

Coordination of G20 actions with other national, regional and international initiatives on financial inclusion is also critical.

3. *G20 Financial Inclusion Action Plan: Financial Inclusion Experts Group: http://www.gpfi.org/sites/default/files/documents/G20%20Financial%20Inclusion%20Action%20Plan.docx.pdf*

5. Brief Overview of Financial Inclusion in G 20 Countries:

Status of Financial Inclusion, Initiatives and Programs, Successes and Challenges

A brief account of all the G 20 countries with respect to status of financial inclusion, success and challenges is provided below to understand the commonalities and diversities of issues and to also evolve collective initiatives across the G20 spectrum to ensure effective financial inclusion that is also all encompassing.

G 20 Countries: Comparative Analysis of Percentage of Financial Inclusion

Developing Economies	Account at a formal financial institution (%)	Account at a formal financial institution, female (%)	Account at a formal financial institution, bottom 40% (%)
Argentina	33	32	23
Brazil	56	51	40
China	64	60	47
India	35	26	27
Indonesia	20	19	10
Mexico	27	22	12
Russia	48	48	40
Saudi Arabia	46	15	37
South Africa	54	51	41
Turkey	58	33	51
Mean percentage	44,1	35,7	32,8

G 20 Countries: Comparative Analysis of Percentage of Financial Inclusion

Developed Economies	Account at a formal financial institution (%)	Account at a formal financial institution, female (%)	Account at a formal financial institution, bottom 40% (%)
Australia	99	99	98
Canada	96	97	93
France	97	97	96
Germany	98	99	98
Italy	71	64	68
Japan	96	97	95
Rep. of Korea	93	93	89
United Kingdom	97	98	96
United States	88	84	82
Mean percentage	92,78	92	90.56

a) Country Wise Financial Inclusion Profiles

1. Brazil:

Initiatives and programs:

- Correspondents – "Non financial firms hired by FIs to provide services in remote regions and more convenient access in metropolitan areas."[4]
- Credit Cooperatives – "Relevant for specific activities and social sectors."[5]
- Bank Services Outposts – "Bank satellite with smaller staff and infrastructure for unassisted municipalities."[6]

Successes:

- The Financial System serves all 5,565 municipalities.[7]
- Individuals with active relationship with FIs grew 31% to 121 million over the last five years.[8]

Challenges:

- Geography and size of Brazil makes it very hard to reach people in rural and secluded areas.
- Lack of financial literacy education. People are not aware of the importance and benefits of the financial system.

2. China:

Initiatives and programs:

- Micro financing: remove the upper limit of lending rates of commercial banks and to raise the upper limit of lending rates of the urban and rural credit cooperatives to 2.3 times the benchmark rate, which was 5.58%, at the beginning of 2005.[9]

Successes:

- NGOs: Two hundred and sixty firms who serve tens of thousands of people with loans amounting to a total of USD 30 million.[10]
- Government: Governmental microfinance schemes have a clientele of the order of magnitude of hundreds of thousands individuals or firms, and can avail of fiscal funds of about USD 1 billion.[11]
- RCCs: USD 17 billion through 15,000 branches in the form of loans and guarantees either to individual, pre-certified households or to groups of borrowers.[12]

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4. *Tombini, Alexandre. Financial Inclusion in Brazil. Publication. Banco Central Do Brasil, 20 Apr. 2012. Web. 7 July 2014. <http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/2012-04-20-G20_Brazil_Financial_Inclusion.pdf>.*
5. *IBID*
6. *IBID*
7. *IBID*
8. *IBID*
9. *Saladini, Marco. Access to Finance for Chinese Poor Households and Micro, Small and Medium Enterprises. Thesis. Johns Hopkins University, 2005. N.p.: n.p., n.d.School of Advanced International Studies. Web. 7 July 2014. <http://www.microfinancegateway.org/gm/document-1.9.24920/26898_file_050721_microfinance_in_China_final.pdf>.*
10. *IBID*
11. *IBID*
12. *IBID*

Challenges:

- Serious lack of financial literacy in rural parts and amongst low-income individuals.
- Geographic limitations, such as size and inaccessibility.

3. **Argentina:**

Initiatives and programs:

- Programme of Financial and Economic Literacy (PAEF) of the Central Bank:
  a) Courses on "economic didactics", oriented to high-school teachers.
  b) Project "Central Bank goes to school"
  c) Competitions
  d) Informal Education
  e) A web page to educate and inform the public

Successes:

- This project consists of half-day visits to schools by educators that develop knowledge, including through edutainment games. It has already reached 1.000 schools and 83.000 students.
- It has managed to greatly increase financial literacy among youth.

Challenges:

- Lack of financial education in more remote areas.
- Lack of trust from individuals in the financial system due to multiple economic and banking crises.

4. **Mexico:**

Initiatives and programs:

- Introduction of Banking Correspondents
- Development of Infrastructure

Successes:

- The presence of branches and banking agents per 10 thousand adults has increased from 1.7 to 5.1 in December 2009 to April 2013. 65% of the municipalities in the country where 96% of the adult population is concentrated, have an access point to make a deposit or to withdraw cash." [13]
- In the last ten years, there has been an increase of approximately 172% more bank branches, 226% more ATMs and 510% more point of sale card transaction machines.

Challenges:

- The divide between rural and urban banking accounts: urban accounts represent 36% and rural only 11%.
- 38% of all municipalities in Mexico still don't have points of access to formal financial services.[14]

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13. *Financial Education. Paris: OECD, 2008. Spring 2008. Web. 7 July 2014. <http://www.oecd.org/finance/financial-education/G20_OECD_NSFinancialEducation.pdf>.*
14. *World Bank. Financial Inclusion Database. World Bank, 1 Jan. 2014. Web. 7 July 2014.*

- The most important reason that affects the use of formal financial services is the lack of a proper financial education system and the lack of "confidence and understanding that people have regarding how financial services and financial services providers work, and how they can contribute to their wellbeing."

5. **Indonesia:**

Initiatives and programs:

- The creation of the "Tabunganku" banking program
- Introduction of Banking Co-operatives

Successes:

- Tabunganku has adopted lighter and more lenient requirements to open bank accounts in comparison to other banking programs. For example, the initial deposit is only Rps 20.000 (2 USD) and has no administrative fees. Moreover, the interest rate is determined by the customer's daily balances, rather than fixed rates.[15] It attracts 3.2 million customers each year
- There are approximately 192.443 banking cooperatives up to May 2012 in Indonesia, with a total of 33.68 million members or 14.14% of the population. Most of these cooperatives (70%) are located in rural areas.

Challenges:

- Loan Sharks who give short term loans at high interest rates
- Lack of financial literacy amongst the population

6. **Turkey:**

Initiatives and programs:

- Loans to MSMEs
- Emerging Companies Market

Successes:

- Loans: This system provides credit support to SMEs through low or zero interest rate loans provided by intermediary banks. From 2003 to May 2011, some 196,788 enterprises have benefited from the KOSGEB interest support programs."[16]
- Emerging Companies Market: Two main solutions: First, the company will become formalized and become part of the financial system. And second, because many small enterprises will get access to the financial system and private capital, the MSME sector will flourish and develop.

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15. *Gitaharie, Beta Y., Lana Soelistianingsih, and Triasih Djutaharta. Financial Inclusion: Household Access to Credit in Indonesia. Working Paper in Economics and Business. University of Indonesia, Jan. 2014. Web. 7 July 2014. <http://econ.fe.ui.ac.id/uploads/201401.pdf>.*
16. *IBID*

Challenges:

- The main issue with these policy proposals is the lack of financial education of the people and lack of information regarding the programs that are being offered currently.

7. **Russia:**

Initiatives and programs:

- Agent Banking
- Financial Education focused on youth
- E-money and universal IDs

Successes:

- Agent Banking: In Russia, there are 42,000 post offices out of which 29,500 are located in rural areas, and are required by law "to provide postal remittance service to individuals; they must accept, process, transmit, and deliver funds using postal and electronic communication networks."[17] This makes financial inclusion easier for people who live in rural areas.
- Financial Education: By engaging young people who are more receptive to new innovations and information, the government can introduce new banking methods such as e-money, mobile banking and universal payment cards by incorporating it into the school and university curricula.[18] After the youth has been taught, it is expected that they will teach older generation about the new information.[19]
- E-money and universal IDs: The card would look similar to a regular bank card, contain an electronic chip with the holder's personal information, including a photograph, and could be used to pay utilities, transportation, and medical bills. It could potentially be combined with drivers' licenses, medical insurance and school and university ID cards."[20]

Challenges:

- Geographic Obstacles: 27% of the population lives in rural and secluded areas
- Unequal Access: Small businesses and low-income customers are restricted in their access to financial services
- Reliance on Cash: Only 4% of the population uses credit cards to pay for transactions, which greatly increases the risk of mismanagement and loss. Because of these reasons, 45% of the population lacks access to basic financial services.

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17. IBID
18. IBID
19. IBID
20. IBID

8. **Republic of Korea:**

Initiatives and programs:

- Introduction of the government funded Sunshine Loans program
- MFIs
- Implementation of credit loans to SMEs through the Korea Technology Finance Corporation

Successes:

- Introduction of the government funded Sunshine Loans program: KW 10 trillion in the space of 5 years to low-income individuals. The program will be delivered through non-banking institutions in order to cap the interest rate to 10.6% in financial cooperatives and 13.1% in mutual savings accounts.[21]
- MFIs: "Smile Microcredit Bank" with KW 2.2 trillion set aside for micro financing in a period of 10 years. As of July 2011, the bank has made 47.000 basic livelihood assistance loans.[22]
- Implementation of credit loans to SMEs through the Korea Technology Finance Corporation: This policy allows SMEs to take out loans at concessional rates and during financial crises.

Challenges:

- Although financial inclusion is widespread in South Korea, there is need for further financial education in order to educate the population in the steps that are to be followed during an economic recession.

9. **United Kingdom:**

Initiatives and programs:

- Creation of the Financial Inclusion Taskforce
- Diversification of banking delivery channels

Successes:

- Financial Inclusion Taskforce: It served as a forum to bring together expertise in the field from a wide range of sectors, engage the formal financial sector and non-profit providers of financial services, and provide a strategic direction and evidence base to inform the development of policy. The Taskforce was an independent body with members acting in a voluntary capacity. Members were drawn from industry, the third sector, consumer advocacy, local government, and education.
- Diversification of banking delivery channels:
  - "From July 2006 to the end of September 2010, some 317,798 Growth Fund loans were made in deprived communities with a total value of over GB£137 million;"[23]

21.. IBID
22. IBID
23. IBID

- "An average of 30 percent of all successful loan applicants to these lenders reported having a recent record of borrowing from a high cost lender and 98 percent had borrowed from a high cost lender at some point in their lives"[24]

Challenges:

- Being financially excluded in the UK poses very high risks against the people who are unbanked.
- The low-income population needs more financial education.

10. South Africa:

Initiatives and programs:

- Financial Sector Charter (FSC)
- Mzansi Account

Successes:

- FSC: It was formalized in 2004 and was essentially a social pact between government, labor, organized civil society and the financial services sector to both transform the sector and for the sector to play a quantifiable and meaningful role in steering the use of financial services towards specific developmental objectives.
- Mzansi Account: No penalty for using different banks. No monthly management fees. And a steady increase in numbers of accounts reaching 4.5 million in 2010.

Challenges:

- The biggest challenge for financial inclusion in South Africa is the lack of trust from individuals towards banks.
- Another big challenge is the lack of financial education in many rural sides of the country, and even in some sectors of the urban areas.

11. Australia:

Initiatives and programs:

- Step Up Low Interest Loans:
- Saver Plus Account

Successes:

Step Up Low Interest Loans: It is a partnership scheme between Good Shepherd Microfinance and the National Australia Bank which provides loans to low income people through community providers. 56.2% of borrowers were women and 47.7% were aged between 25-44 years of age. Because of these loans, they got access to the following assets: Household Items including fridges, washing machines, and furniture, cars, computers, medical and dental expenses, house repairs, car repairs.[25]

24. IBID
25. http://www.goodshepherdmicrofinance.org.au/services/stepup-low-interest-loans

Saver Plus Account: "Saver Plus assists individuals and families on lower incomes to develop a savings habit, build assets and improve financial capability. Participants make regular deposits towards a savings goal over a 10-month period and attend workshops to build their financial management skills. When participants reach their savings goal, ANZ matches the amount - up to $500 - towards education costs including uniforms, text books, laptops, sports equipment, music tuition, TAFE or apprenticeship costs and much more."[26] 20.000 participants have saved more than 13.5 million with the program matching approximately 9 million for education expenses.

Challenges:

- Although financial inclusion has reached almost all the population, there still exists a problem with financial literacy, which deters and affects people from opening bank accounts and enjoying the benefits.

12. **United States:**

Initiatives and programs:

- Lifetime Savings Account
- Individual Development Accounts

Successes:

- Lifetime Savings Account: This law was passed by the US Senate in 2010 and under it, a savings account is opened for every child born after 31 December 2010. Through the fund created with the American Saving for Personal Investment, Retirement and Education Act, the government would contribute US$500 with an additional US$500 extra for children born in families living under the national median income. The scheme includes incentives for savings through tax concessions and financial education. Account holders can only access the account when they are 18 years old but can only spend money on education until they are 25. After that, they can only spend on home buying and retirement security.[27]
- Individual Development Accounts: "Individual Development Accounts (IDAs) were introduced in 13 localities. They were later embraced and extended by the federal government under the Assets for Independence Act. Currently IDAs can have different characteristics depending on the locality and partners involved, but overall, IDAs provide a 2:1 match for savings accumulated over two or three years. Resources can be used for education, home buying and start-up of a business."[28]

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26. http://www.bsl.org.au/Saver-Plus25. http://www.goodshepherdmicrofinance.org.au/services/stepup-low-interest-loans
27. Arashiro, Zuleika. "Financial Inclusion in Australia." The Centre for Public Policy (2010): n. pag. Aug. 2010. Web. 13 July 2014. <http://www.bsl.org.au/pdfs/Arashiro_Financial_inclusion_transformative_policy_2010.pdf>
28. Arashiro, Zuleika. "Financial Inclusion in Australia." The Centre for Public Policy (2010): n. pag. Aug. 2010. Web. 13 July 2014. <http://www.bsl.org.au/pdfs/Arashiro_Financial_inclusion_transformative_policy_2010.pdf>

Challenges:

- With the recent economic recession that the US has gone through, the population's trust in financial services has greatly decreased, with people opting for closing accounts.
- There is need for greater financial education targeting the people affected by the recession and in low-income families.

13. Canada:

Initiatives and programs:

- Registered Education Savings Plan
- Canada Education Savings Program

Successes:

- Registered Education Savings Plan: It offers tax-sheltered accounts for individuals and families that are saving for secondary education.
- Canada Education Savings Program: It provides a saving grant of C$7200 and a saving bond. "While the grant is offered to any child up to 17 years of age who is resident in Canada and has a RESP account opened in her name, eligibility for the savings bond is restricted to low income groups."

Challenges:

- Low-income individuals face great challenges with the lack of financial inclusion because most of the social welfare schemes provided by the government (employment insurance, pension plans, income supplement and financial assistance) can only be accessed through accounts at financial institutions.
- Lack of financial education hinders the ability of people to understand the benefits of government schemes because they are not included in the system.

14. Germany:

Initiatives and programs:

- German Microfinance Institute
- SME Bank

Successes:

- German Microfinance Institute: Funded in 2004, it now has 50 branches in all of the German regions. It has support from a federal fund, which has the primary aim to support 5 local initiatives and make 500 loans of less than 15.000 euros in two years. It has looked to create a national structure for micro-lenders in order to raise the profits.
- SME Bank: SME bank provided low interest loans to startups that were experiencing troubles because of the high levels of unemployment. It provided them with a wide range of loans under 50.000 euros. The focus of the loaning agencies was on startups

that were being created by people who were previously unemployed.

Challenges:

- "These are only available through recognised "house" banks, and despite a special programme of micro loans a high proportion fall within the upper range of 25-50,000 euros."
- Deficits within the small financing organization. Lack of demand has created a situation where it is not profitable for banks to give out micro-loans.

15. France:

Initiatives and programs:

- Social Cohesion Fund:
- Microfinance Observatory:

Successes:

- Social Cohesion Fund: It provides financial guarantees to banks and approved institutions. Its intervention in the field of microcredit has achieved a guarantee of 51.2 million euros.
- Microfinance Observatory: "Solidarity-based savings - results: In 2009, this sector recorded further spectacular growth. Outstanding reached almost EUR 2.4 billion, up 47% on the previous year. While all families of investments grew by close to 20%, employee savings schemes posted the most marked growth of 109%."

Challenges:

- France is facing major declines in financial services due to an increasing amount of distrust from the people towards banks. This was fueled by the economic crisis that the EU faced and it has made people distrust banks and turn away from them to using cash or saving money in other forms. More financial education is needed in order to increase trust towards banks amongst the people that were affected by the recession.

16. India:

Initiatives and programs:

- Bank Correspondents
- Electronic Benefits Transfer
- No-Frills Accounts

Successes:

- Bank Correspondents: The introduction to BCs has allowed bank branches to expand into areas where opening offices would not be cost-effective, which allows banks to expand their presence into rural and secluded areas.
- Electronic Benefits Transfer: In order to plug the leaks that are inherent in bureaucratic processes, such as mismanagements and

corruption, the government has started to transfer benefits directly into people's bank accounts. This solution improves government transfers and forces previously unbanked people to open bank accounts.

- No-Frills Accounts: Allows for basic facilities of deposit and withdrawals by cutting down on extra frills that are no use for the lower sections of society. It provides low cost access to bank accounts and since the easing up of KYC rules, migrants and people without permanent residences can open bank accounts with less difficulties.

Challenges:

- "The normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that the banks give adequate attention to financial inclusion, they must view this as a viable business proposition rather than as a corporate social responsibility or a regulatory obligation."[29]
- "Experience suggests that the banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in our journey towards universal financial inclusion."[30]

17. Japan:

Initiatives and programs:

- E-money

Successes:

- E-money: Japan has highly developed infrastructure that allows the use of e-money. "E-money can be in stored-value form on integrated circuit cards (widely known as smart cards), including pre-paid "contactless" cards like the stored-value transport smart card. A post-pay form of e-money, based on credit cards, is also available and is regarded as e-money. There are 80 million chip-based cards in Japan, with around 800 million transactions annually. A variety of bills can be paid using mobile phones or from bank counters or convenient stores, even for customers without bank accounts."

Challenges:

- A major problem in financial inclusion has been the lack of a young workforce to uphold the economy. Japan has a youth that is surpassed by old people who burden the financial system. Because

29. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=836
30. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=836

of this reason there has been an increase in migration, which has increased remittances services.

18. **Italy:**

Initiatives and programs:

- Banca di Credito Cooperativo Mediocrati (BCCM)

Successes:

- "In particular, this EIF will provide to BCCM long-term financing with a principal amount of EUR 3 million. BCCM will add further EUR 1.5 million, thus making available up to EUR 4.5 million of micro-loans to over 200 micro-enterprises or individuals from disadvantaged groups such as ethnic minorities, female and young self-employed entrepreneurs, thus contributing to employment creation and conservation."[31]

Challenges:

- The financial crisis of the EU hit Italy particularly hard, an event that created massive lack of trust towards financial institutions amongst the people, which in turn opened the possibility for people to stop using bank accounts and save on their own. This has created the need for financial education specifically targeting the people who suffered from the financial crisis.

19. **Saudi Arabia:**

Initiatives and programs:

- The Islamic Development Bank (IDB)

Successes:

- It fights poverty and promotes economic development in Islamic country members. It promotes microfinance and poverty alleviation programs through its Islamic Solidarity Fund for Development (ISFD), which recently committed US$500 million to microfinance development through its Microfinance Support Program (MFSP).[32]

Challenges:

- Lack of transparency has hit the financial sector in Saudi Arabia, forcing millions of people to distrust the use of financial services.
- The poor representation of women in financial services is a major problem that needs to be tackled with financial education. Men have to be taught the importance of women having access to the financial sector.

31. *http://www.eif.org/news_centre/events/2012_bccm.htm*
32. *https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Islamic-Microfinance-An-Emerging-Market-Niche-Aug-2008.pdf*

6. G 20 Countries: Meta Analysis and Recommendations

The overview of all the G 20 countries reveals that the following Meta issues are common to the member countries:

1. All countries, including the developed and with very high percentages of financial inclusion have low or inadequate levels of financial literacy among the population- especially the poor and in remote areas, thereby preventing people from benefiting from financial institutions.
2. Geographical spread of most countries makes it difficult for people in rural and remote areas to gain access to banking facilities
3. Low income groups, irrespective of their location are excluded from financial institutions
4. Due to financial crises and failures of banks, people in some countries are losing faith in the formal financial institutions and are withdrawing their money from banks and finding alternate avenues for saving. Six of the G 20 countries are facing this problem and they include three developing countries viz. Argentina, South Africa and Saudi Arabia and strangely three developed countries beginning with none less than America followed by Italy and France.

However. it seems possible to address the issue of Financial Inclusion in all the G 20 countries through adoption of the following five strategies:

a) Introduction of Financial Education as part of all school, college and adult literacy programs.

b) OD facility to all citizens to tide over periods of financial stress and there by eliminate necessity to approach informal finance and loan sharks.

c) Dedicated staff in banks for Financial Inclusion and subsidy from the governments for social banking initiatives.

d) Enlisting Para Banking entities like SHGs, Cooperatives, Post offices etc. for greater penetration into rural and remote areas.

e) Enhance use of technology, especially internet and mobile to overcome constraints of large geographical areas.

f) More transparency and greater regulatory control over financial institutions and the banking system to prevent financial crises, failures of banks and retain the trust of people in formal financial services.

PART II
Financial Inclusion and India

7. Financial Inclusion in India: A Critical Review

a) Definition and History[33]

The Indian peasant is born in debt, lives in debt and dies in debt.
— Malcom Darling – 1925

Dr. C. Rangarajan, Chairman, Committee on Financial Inclusion, defines Financial inclusion "as the process of ensuring access to financial services and timely and

33. *Excerpted from Banking Sector Reforms: Retrospect and Directions for Future- A I B O C Tamil Nadu State Unit- April 2014: http://www.scribd.com/doc/230818807/Banking-Sector-Reforms-Retrospect-and-Directions-for-Future*

adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". It is also true that universal financial inclusion can not only ensure the well being of the poor and marginalized but also contribute tremendously to the progress of the national economy.

Even decades after independence, the urban and industrial orientation of the banking system of India was blatantly obvious. At the end of June 1969, there were just about 1,832 (or 22.2 per cent) out of 8,262 bank branches located in rural areas. Even in urban areas, there was excessive concentration in some specific cities. The five metropolitan cities of Bombay (now Mumbai), Calcutta (now Kolkata), Delhi, Madras(now Chennai) and Ahmedabad accounted for as much as 46 per cent of total bank deposits and 65 per cent of total bank credit at the end of 1967. The 1961 Census showed that nearly 50 percent of India's towns and almost none of our villages had bank branches. As of April 1969, there were 617 towns without any commercial bank branch, of which 444 towns were not served by any bank at all and not even 1 percent of India's villages were served-by commercial banks.

The share of agriculture in total bank advances in 1951 was 2.1 per cent; and even this figure had declined to 0.2 per cent by 1965-66. After the move to impose social control, it edged up to 2.1 per cent in March 1967. In the case of industry, on the other hand, its share of bank credit rose from 30.4 per cent in 1949 to 52.7 per cent in 1961 and further to 62.7 per cent in March 1966. While industry accounted for a mere 15% of national income, its share in commercial bank credit was nearly 67%. On the other hand, agriculture that contributed 50% of GDP virtually got nothing from banks.

The historic All India Rural Credit Survey carried out in 1954 showed that formal credit institutions provided less than 9% of credit needs in India. Money lenders, traders and rich land lords handled more than 75% of rural credit. Between 1950's and 1960's the share of co-operative societies in rural credit was less than 5% but rose to 20% by 1971. Today India's co-operative structure has over 13 crore members including 6 crore borrowers and is one of the largest rural financial systems in the world. Around one lakh primary agriculture credit societies can be regarded as the bed rock of India's rural economy.

Between 1965 and 1969 social control over commercial banks was brought in by the Government. In 1970, the RBI made its first "socially coercive" licensing policy. For every new branch in an already banked area (with one or more branches), each bank would have to open at least 3 branches in unbanked rural or semi-urban areas. In 1976 Regional Rural Banks (RRBs) were created. RRBs were set up to develop the rural economy by providing "credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs". As a result of such policies, there was a good spread of the banking sector into rural areas and as on 31 March 2013, there were 1, 02,343 Bank branches of which 37,953 (37%) were in rural areas, 27,219 (26%) in semi urban areas, 19,327 in Urban centres and 17,844 in Metros. Still the average Bank Branch per one Lakh population in India is only 10.4.

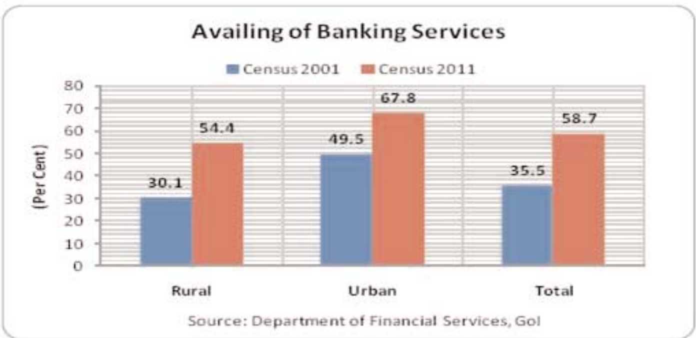
b) Commercial Banks, Co-operatives and Informal Finance[34]

Among the institutional credit agencies at an all India level, co- operative societies and commercial banks were the two most important agencies in the rural sector. These two agencies together shared 91 per cent of the entire amount of debt advanced by the institutional agencies, accounted for 52 per cent of the outstanding cash debt, with co- operative societies (27.3 per cent) accounting for a greater share than the Banks (24.5 per cent). Of the 20 major states in 2002, as many as 15 have shown a fall in the share of institutional agencies, notable among them are Bihar, Punjab, Haryana and West Bengal. The above facts indicate that the cooperatives, commercial banks, and other formal financial sector programs in rural areas have not displaced informal sources of credit altogether, as almost 43 per cent of rural households continued to rely on informal finance in 2002.

The most important reason for continuation of an informal rural credit market is that the existing financial institutions tend to restrict their lending amounts to agricultural activities as agriculture is considered a risky sector. Those in the rural credit market prefer to use informal sources of credit despite the fact that the interest rates are much higher. Informal sources do not insist on punctual repayment as banks or cooperative societies do. Usually, it is possible to obtain loans for such purposes as marriage. There are generally no intricate and complicated rules governing the granting of loans by the village moneylenders. And informal sources are willing to lend money more freely without collateral and on the borrower's mere promise to repay.

The following is the graphical representation of the percentage of population availing Banking services in India up to the year 2011:
It can be noticed from the chart above that during the decade between 2001

Chart 2: Availing of Banking Services



34. Presentation on "Financial Inclusion in India – An Assessment" by Shri P. Vijaya Bhaskar, Executive Director, Reserve Bank of India at the MFIN and Access-Assist Summit organised in New Delhi on December 10, 2013)

and 2011, there was a phenomenal addition of 23.2% of India's population who were able to access banking services. An important point to be noted is that the increase in access to banking services in rural areas was as much as 24.3% or an addition of almost a quarter of the country's population in just 10 years. In India, total Financial Inclusion of a village was achieved for the first time in 2005, through a pilot project introduced by Dr. K.C. Chakraborthy, the Chairman of Indian bank, in the Union Territory of Pondicherry. Mangalam Village, thus, became the first village in India where all households were provided banking facilities.

c) Financial Inclusion – RBI Policy Initiatives

Such phenomenal increase in access to banking services was facilitated by some innovative policy initiatives by the Government of India (GoI) and the Reserve Bank of India (RBI).

RBI has adopted a bank-led model and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

d) Focus on Access to Credit

The focus under the new Financial Inclusion Plan starting from 2013 is to ensure that the newly created banking network is utilised not just for offering deposit and remittance products, but also for extending other products viz., credit, which can help make the business more viable for banks. This would also ensure that not only the volume of transactions in the newly opened accounts increase but people also reap the benefits of getting linked to the formal financial system.

e) Introduction of Priority Sector Lending

Other than directing credit to hitherto unbanked geographical regions, the RBI also tried to influence the sector of bank lending. In 1972, certain "priority" sectors were identified. These included agriculture and related activities and small-scale and cottage industries. A target of 33% lending to the priority sector was set in 1975. In 1979, the target was raised to 40%. In 1980, sub-targets were set: 16% of lending was to go to agriculture and 10% had to be targeted to "weaker sections". The share of priority sector in total credit of commercial banks went up from 14% in 1969 to around 40% by the end of the 1980s. The share of agriculture had reached 19% by 1985 and remains around that figure since 1990. The number of agricultural loan accounts increased from around 1 million in the early 1970s to nearly 30 million by the early 1990s. Within agriculture, 42% of the credit went to small and marginal farmers. Ceiling on Interest Rates, perhaps the most important measure of social coercion used by the RBI was to fix ceilings for every size-class of loans for the various priority sectors.

The scheme for providing cheaper credit to weaker sections was started in 1974 under the title Differential Rate of Interest (DRI). Under this scheme a ceiling of 4 percent interest per annum was fixed. Banks had to provide 1 % of their total loans within the priority sector at this rate. In 1978, the RBI directed commercial banks and RRBs to charge a flat rate of 9% on all priority sector loans, irrespective of size. Immediate payments were not to be mandatory for small rural borrowers. It was clearly recognized that cost of credit, along with access, was the key constraint facing the rural poor.

8. Key initiatives for Financial Inclusion

Some of the Key initiatives and policies that facilitated increased financial inclusion are:

a) Relaxation in KYC Norms
b) Increased access to banking in rural areas
c) Basic Saving Bank Deposit (BSBD) Accounts
d) Business Correspondents (BCs)
e) ICT and ATMs
f) Financial Inclusion Plan (FIP) and Financial Literacy Centres (FLCs)
g) Licensing of New Banks:
h) Cooperative Banks, Urban Cooperative Banks, Regional Rural Banks, Local Area Banks
i) Non-Banking Financial Companies (NBFCs)
j) Micro Credit Mechanisms

a) Relaxation in KYC (Know Your Costumer) Norms (See annexure I)

KYC was started in order to stop money laundering but soon became a hindrance in opening bank accounts for poor individuals, as it requires the submission of proof of address. The problem was especially acute with respect to migrant workers and transferred employees. Hence RBI introduced relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. 1, 00,000 a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers and are allowed to use Aadhar Card as a proof of both identity and address.

The relaxed KYC norms enabled millions of poor and marginalized to open bank accounts and facilitated large scale financial inclusion[35].

35. *RBI simplifies KYC norms for opening of bank accounts --http://www.moneycontrol.com/-- Jun 09, 2014, 07.01 PM IST | Source: PTI*
Read more at: http://www.moneycontrol.com/news/economy/rbi-simplifies-kyc-norms-for-openingbank-accounts_1101525.html?utm_source=ref_article

b) Increased Access to Banking in Rural Areas (See Annexure II)

Compulsory Requirement of Opening Branches in Un-banked Villages: Banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers with populations of between 5,000 and 9,999 and less than 5000. (For details of Tier classification please see Annexure I.)

Further, RBI simplified Branch Authorization Policy, to address the issue of uneven spread of bank branches by considerably relaxing the branch opening norms for banks to the extent that banks do not require prior permission to open branches in centers with population less than 1 lakh, they only have to report having done so. Further, the types of outlets for banking were also expanded to include brick and mortar Branches for population above 5000, Financial Inclusion Branches and Ultra Small Branches with population between 2500 and 5000 and the institution of Banking Correspondents (BCs) to reach out to people in smaller population clusters also.

To facilitate systematic branch expansion into rural areas, a phase-wise approach was adopted wherein SLBCs (State Level Bankers Committee) /DCCs (District Consultative Committee) were advised to identify unbanked villages with population of more than 2000 and notionally allocate them amongst banks operating in the region. While the first phase saw coverage of almost 74,000 unbanked villages (having a population above 2000), in the second phase, the SLBCs/DCCs have identified approximately 4,90,000 remaining unbanked villages. These villages have also been notionally allotted to banks and the target is to provide each of these villages with a banking outlet by 2016.

These initiatives transformed spread of banking in India and the number of branches in rural areas increased from 30,572 in March 2006 to 37,953 by March 2013. Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013- an increase of around 4 times during the period of just three years.

c) Basic Saving Bank Deposit (BSBD) Accounts (See Annexure 3)

Banks have been advised to make available Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and provide facility of ATM card/Debit card. With this, the existing impediments of minimum balance maintenance, bank charges, etc. are removed and it has become a right for every eligible Indian citizen to open basic savings account with banks. Further, banks have also been advised to provide in-built overdrafts up to the extent of Rs. 1,000 in such basic savings accounts so as to meet the emergency credit needs of the customer and prevent them from having to approach money lenders in distress situation. Entrepreneurial credit has also been simplified in the form of KCC (Kisan Credit Card) for farm sector household and GCC (General Credit Card) for non-farm sector households.

The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013, and up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion. Similarly, total number of KCCs issued to farmers was 33.79 million with a total outstanding credit of Rs.2622.98 billion as of March 2013. As the banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches they, provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts up to March 2013.

Enhanced OD Facility: As part of its Annual Budget initiatives, the Government of India announced on 11th July 2014 that 15 crore new bank accounts would be opened as part of financial inclusion initiative that would provide an Over Draft facility of Rs. 5,000 to all these account holders. This will entail that the public sector banks will have to make available a whooping Rs.75,000 crores to cover all the poor and marginalised sections of the country. If this scheme is indeed introduced successfully, this will indeed open up a new chapter in the history of financial inclusion in India!

d) **Business Correspondents (BCs) (See Anexxure IV)**

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks are allowed to use the services of Non-Governmental Organisations (NGOs), Self Help Groups (SHGs), Micro Finance Institutions (MFIs), Farmers' Clubs, cooperatives, community based organisations (CBOs), IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units and other Civil Society Organisations (CSOs) as intermediaries in providing financial and banking services through the use of Business Facilitator and Correspondent models.

Individuals eligible to be enlisted as BCs are: Retired bank employees, retired teachers, functionaries of working Self Help Groups, ex-servicemen and retired government employees. Payment to the BC is based on commission that is determined by the Bank and BCs are prohibited from charging fees to customers.

Banks have also been permitted to engage companies registered under the Indian Companies Act, 1956, excluding Non Banking Financial Companies (NBFCs), as Business Correspondents, in addition to the individuals/entities permitted earlier, subject to compliance with the guidelines.

Services of BCs may include (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/ Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and (viii) follow-up for recovery, (ix) sale of micro insurance and (x) facilitating account opening formalities[36]

e) ICT and ATMs

In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT (Information Communication Technology) based banking services – through BCs. These ICT enabled banking services have CBS (Core Banking Solution) connectivity to provide all banking services, including deposit and withdrawal of money in the financially excluded regions. The ICT based solutions use Micro-ATM (POS machines) or mobile phone to facilitate the Banking transactions. The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013.

Financial inclusion through ATMs (Automated Teller Machines):

The total number of ATMs in rural India witnessed a CAGR (Compound Annual Growth Rate) of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013.

f) Financial Inclusion Plan (FIP) and Financial Literacy Centres (FLCs)

Public and private sector banks had been advised to submit Board approved three year Financial Inclusion Plans (FIP) starting from April 2010. These policies aim at keeping self-set targets set with respect to number of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and below 2000, BSBD accounts opened, KCCs, GCCs issued and other stipulations to facilitate financial inclusion. RBI has been monitoring these plans on a monthly basis.

Banks have been advised that their FIPs should be disaggregated and percolate down to the branch level to ensure the involvement of all stakeholders in the financial inclusion efforts.

In June 2012, revised guidelines on Financial Literacy Centres (FLCs) were issued with the advisory that all rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up by end of March 2013 and a total of

36. http://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=2718

2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

After completion of the first FIP period between 2010 - 2013, it was realised that although a large banking network had been created along with the opening of large number of bank accounts, simply creating the banking infrastructure and opening banking accounts would not fulfill the objectives of achieving meaningful financial inclusion.

g) Licensing of New Banks:

The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in India. Financial inclusion plan would be an important criterion for procuring new bank licenses. The banks have to comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, the bank will have to build its priority sector-lending portfolio from the time of commencement of its operations.

The new banks will have to open at least 25 per cent of their branches in unbanked rural centres (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which already have adequate banking presence.[37]

h) Cooperative Banks, Urban Cooperative Banks, Regional Rural Banks, Local Area Banks

Cooperative Banks, Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) are Small Finance Banks operating in the country.

Co-operative banks are set up to supplant indigenous sources of rural credit, particularly money lenders and they mostly serve the needs of agriculture and allied activities, rural-based industries and trade and industry in urban centers. Co-operative banks have a three tier structure — primary (agriculture or urban) credit societies, District Central Co-operative Banks (DCCB) and at the apex level, State Co-operative Banks (SCBs).

Regional Rural Banks (RRBs) were established in 1975 with a view to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' with a view to enlarge institutional credit for the rural and agriculture sector focusing on small and marginal farmers, agricultural laborers, rural artisans and other segments of priority sector.[38]

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37. Guidelines for Licensing of New Banks in the Private Sector: http://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2651
38. https://www.nabard.org/English/rrbs.aspx--NABARD

The Local Area Bank Scheme was introduced in August 1996 and referred to the setting up of new private local banks with jurisdiction over two or three contiguous districts. The Local Area Banks (LABs) were expected to bridge the gaps in credit availability and strengthen the institutional credit framework in the rural and semi-urban areas. Only four LABs are functioning at present in the entire country[39] .

The cooperative credit structure in India consists of 32 State Cooperative Banks (SCBs), 370 District Central Cooperative Banks (DCCBs) and 92,432 Primary Agricultural Credit Societies (PACS) as on 31 March 2013.[40] Further there are 1,606 UCBs, 64 RRBs and 4 LABS facilitating financial inclusion.[41]

i) Non Banking Financial Companies (NBFCs)

Furthermore, there are around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit /investment activities.

j) Micro Credit Mechanisms

- **Growth in SHG-Bank Linkage:** This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India). SHG model helps in poverty reduction & women empowerment as more than 60 per cent of SHGs consist of members belonging to Below Poverty Line families.

- **Growth of MFIs:** Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs. At present, the RBI has approved around 30 MFIs. Their asset size has progressively increased to reach Rs. 19,000 crore as of the end of September 2013.

Findings of a Study on Microcredit: Microcredit has spread extremely rapidly since its beginnings in the late 1970s, but whether and how much it helps the poor is the subject of intense debate. A Study titled "The miracle of microfinance? Evidence from a randomized evaluation" by Abhijit Banerjee, Esther Duoz, Rachel Glennersterx and Cynthia Kinnan, in Hyderabad, India,

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39. Local Area Banks (http://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=294)
40. (https://www.nabard.org/English/scbs.aspx)
41. (TNN May 13, 2002, 07.34am IST, The Economic Times)

May 30, 2009 reports that 15 to 18 months after the introduction of a Microfinance branch in an area, there was no effect of access to microcredit on average monthly expenditure per capita, but durable expenditure did increase. The effects were heterogeneous: Households with an existing business at the time of the program invest in durable goods, and their profits increase. Households with high propensity to become business owners see a decrease in nondurable consumption, consistent with the need to pay a fixed cost to enter entrepreneurship. Households with low propensity to become business owners see nondurable spending increase. Impact on measures of health, education, or women's decision-making could not be detected[42] .

9. Financial Inclusion: General Guidelines and Issues

a) The banks have been advised to prepare Financial Inclusion Plans (FIPs) containing self-determined targets on various parameters to be achieved during the FIP period, with the approval from their respective Boards. The Reserve Bank has used the FIPs to gauge the performance of banks under their FI initiatives. For this purpose, a structured and comprehensive monitoring mechanism has been put in place for evaluating banks' performance vis-à-vis their planned targets.

b) An integrated approach of promoting supply of financial services through improved financial access and ensuring greater demand for financial services has been adopted through financial literacy initiatives.

c) The RBI has advised banks to set up Financial Literacy Centres (FLCs) across the country. Banks have been further advised to scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps, at least once a month, both by the FLCs and also by the rural branches.

10. Financial Inclusion and Issues of Access to Credit

a) Access to Credit: Introduction of Priority Sector Categories and Targets (See Annexure V)

The Reserve Bank of India issues a Master Circular in July every year defining the categories to be included under the priority sector and the targets for credit for each of the categories.

Total target for Priority Sector: 40% of the Adjusted Net Bank Credit (ANBC) – or simply put total credit given by the banks in the preceding year. ANBC for all Indian Banks was Rs. 55,827,939 crores for the year 2012-13

42. *The miracle of microfinance? Evidence from a randomized evaluation": http://economics.mit.edu/files/4162*

The categories and credit targets as per the Master Circular of RBI issued on 1st July 2014 is as follows:

(i) Agriculture: 18% of all Priority Sector lending.
(ii) Micro and Small Enterprises: No overall target but 40% of all advances given to the MSME Sector should go to Micro (manufacturing).
(iii) DRI (Differential Rate of Interest)- 1% of the total outstanding of the banks (ANBC) for the previous year
(iv) Education
(v) Housing
(vi) Export Credit
(vii) Others

(For details of categories and sub categories, targets and sub targets and conditions please see RBI Master Circular Dated: 1 July 2014.[43])

b) MSME as Priority Sector MSME (See annexure VI)

India's shift in 1991 from a conservative and protectionist economy to a free market capitalist system created massive economic growth that has positioned the country as a rising economic super-power. A major driving force in India's economic growth is the vibrant micro, small and medium enterprise sector, which contributed with 39% of the total manufacturing output in the 2004-05 fiscal year.

The government observed that MSMEs across India were adapting well in the new free market economy, thanks to its low investment requirement, operational flexibility, location wise mobility, and import substitution and that they would be the primary engine of growth in years to come[44] . For this reason, the government of India decided to materialize the Micro, Small and Medium Enterprises Development (MSMED) Act of 2006, which comprehensively set out guidelines for the development, management and improvement of those three business sectors. With the passing of this act, the government looked to improve infrastructural support for companies, technological upgrading and preferential access to credit for micro, small and medium entrepreneurs in order to enhance their competitiveness in the market[45] .

Bank Credit to MSME: MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs

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43. RBI Master Circular Dated 1st July 2014
44. India. Ministry of MSME. Departments of Electronics and Information. Micro, Small and Medium Enterprises. N.p.: National Informatics Centre C, 2011. Web: http://business.gov.in/Industry_services/small_medium_enterprises.php
45. Ibid

primarily depend on bank credit for their operations. Bank credit to MSME sector witnessed a CAGR of 31.4% during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76%, while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 31, 2012.

Despite all this progress, the statistics based on 4th Census on MSME sector (2006-07) revealed that only 5.18% of the units (both registered and unregistered) had availed finance through institutional sources, 2.05% got finance from non-institutional sources. The majority of units i.e., 92.77% had no finance or depended on self-finance.

c) Differential Rate of Interest (DRI) Loans (See annexure VII)

The government of India started the Differential Rate of Interest (DRI) scheme in 1974 to extend financial assistance at affordable rates of interest to selected low-income groups in order to alleviate poverty. All those below poverty line are eligible to take loans under this scheme with a nominal interest of just 4 percent per annum. Banks have to provide 1 % of their total outstanding advances as loans to the poor under this scheme. However, banks have not done anything for the implementation of this scheme, which is so critical for poverty alleviation.

An analysis of the disbursement of DRI loan in the state of Andhra Pradesh for the year 2013-14 reveals that the total outstanding advances as on 31.03.2013 are Rs.4,71,623 Crores. This means that the target under DRI for 2013-14 is Rs. 4,716.23 Crores (i.e., 1% of the total outstanding advances of the previous year.) But the actual advances given under DRI till March 2013 were a measly Rs.102.75 Crores or just 2.17% of the target for the period. In fact the amounts given under DRI are steadily coming down every year despite an abysmal performance. While the advances given under DRI in the State of AP were 362.14 for March 2012, they came down to 203.15 by March 2013 and further dropped to 102.75 in March 2013.

An amount up to Rs. 15,000 is to be given under the DRI loans. Calculations will reveal that for an amount of Rs, 4,716.23 crores, DRI loans could have been given to at least 31,44,153 persons. But with disbursement of loans of just Rs. 203.13 Crores, only about 68,500 persons at the rate of Rs. 15,000 per head were covered. This means that another 30,75,653 poor persons are entitled to receive DRI loans as per RBI norms but were deprived of the facility. One of the standard excuses given by bankers is that the numbers for DRI and Micro sector loans are very large and they do not have the required staff to process these loans.

The total number of all branches of all banks in Andhra Pradesh by March 2014 is 10,534. If all the 30,75,653 persons are to be given loans as required, then each branch will have to process only 292 loan applications in a year or 5.5 per week or less than one loan application per day. Hence, it is not the paucity or over burdening of the staff but the attitudes of the officers at the field level that is the major hindrance and impediment to the poor being able to access credit that is entitled to them from the banking sector.

11. Non-achievement of Priority Sector Targets

All scheduled commercial banks having shortfall in lending to priority sector target have to allocate amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD/NHB/SIDBI/other Financial Institutions, as decided by the Reserve Bank from time to time. The achievement levels of priority sector lending as of March 31st is taken into account for the purpose of allocation of RIDF. The interest rates on banks' contribution to RIDF or any other Funds, periods of deposits, etc. is nominal and is fixed by Reserve Bank of India. Non-achievement of priority sector targets and sub-targets are taken into account while granting regulatory clearances/approvals for various purposes.

a) Key Reasons for failure to achieve Priority Sector Targets

Some banks still do not fulfill the Priority Sector targets primarily for four reasons:

i) Lack of awareness among the members of the public about their entitlement to bank credit under priority sector stipulations.

ii) Bank officers are not oriented and sensitised to the issues of poverty and the imperative for engagement in social banking apart from commercial banking.

iii) Unwillingness to put in extra effort required for processing Priority Sector loans that are mostly of very small volumes starting from a few thousands. Even in priority sector lending, the focus is more for loans of high amounts which enables easy achievement of targets and less documentation work.

iv) The Myth that the poor default on loan repayment while the business and corporate groups repay properly when the facts and NPA figures show the very contrary trends.

b) Corporates Dominate NPAs but Poor are Branded as Defaulters

One of the standard refrains of bank officers for not extending credit to the poor is that they do not pay back. But an analysis of the statistics of Impaired Assets and Non Performing Assets (NPAs) of Banks shows that it is Corporate and Industry (C&I) who are the biggest risks and defaulters and not the poor or the middle class borrowers.

Dr. K.C. Chakrabarty, former Deputy Governor, RBI has gone on record to say that all banks in India have together written off one lakh crore rupees in thirteen years from 2000 to 2013 and 95 percent of these write offs were for Corporate and Industry and only 5 per cent for all other segments including the Priority Sector[46].

Impaired Asset is a company's asset that is worth less on the market than the value listed on the company's balance sheet. This will result in a write-down of that same asset account to the stated market price.

Segment wise Impaired Asset Ratio (in percent)[47]

Agriculture	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
All Banks	5.4	5.7	6.6	7.6	8.2
PSBs	6.0	6.3	7.3	8.6	9.2
OPBs	3.6	3.2	3.5	4.0	4.2
NPBs	2.7	3.3	3.2	2.6	2.6
FBs	0.8	0.0	0.1	0.0	0.0
Industries	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
All Banks	10.2	11.8	10.0	12.5	16.0
PSBs	11.0	12.9	11.3	14.3	18.4
OPBs	10.5	12.2	9.5	10.9	12.4
NPBs	8.6	7.3	4.1	5.0	5.9
FBs	3.3	3.6	2.8	3.5	4.1
Services	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
All Banks	4.6	5.6	5.1	8.1	10.0
PSBs	5.0	6.2	5.9	9.6	11.9
OPBs	5.5	6.1	5.4	6.1	6.6
NPBs	3.6	3.4	2.3	3.0	3.1
FBs	2.7	2.8	2.5	3.0	3.0
Retail	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
All Banks	7.0	8.2	6.9	6.3	5.5
PSBs	5.7	5.3	4.5	4.6	4.1
OPBs	3.6	3.9	3.0	2.2	1.9
NPBs	8.0	11.5	10.5	9.1	7.7
FBs	13.0	23.7	22.4	19.3	16.7
Others	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
All Banks	8.2	12.9	13.0	12.6	9.2
PSBs	8.1	14.0	14.7	14.8	11.8
OPBs	7.9	6.9	6.2	5.7	3.4
NPBs	9.1	4.8	3.6	3.0	3.3
FBs	22.4	14.9	8.8	3.5	2.6

46. *Dr. K.C. Chakrabarty- Times of India –17 November 2013: http://timesofindia.indiatimes.com/business/india-business/Rs-1-lakh-crore-bad-loans-of-corporates-written-off-RBI/movie-review/25905990.cms*

47. *Address delivered by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at BANCON 2013 on November 16, 2013 in Mumbai http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=857#a7*

The deterioration in asset quality is driven by the medium and large enterprises. This is also reflected in the 'impaired assets ratio' which stands at 14.8 per cent for medium and large industries as compared to 10.6 per cent for micro and small enterprises as on March 2013. To summarise, the perception that agricultural advances or priority sector lending carry more credit risk than the non-priority sector is entirely misplaced and needs to undergo a change. The smaller borrowers are per se not a cause of stress to the banks; rather it is a bias against them that turns them into weak accounts.[48]

c) Waiver of Loans by Politicians and Impact on Financial Discipline of the Poor

If at all the poor default, it is at the behest and misguidance by the political parties who announce write off of loans before elections for petty electoral gains. With announcements of loan waivers by politicians becoming routine, poor people, especially farmers and SHGs have now fallen into the trap of not paying back loans with the expectation of loan waiver announcement. Consequences: Leads to wrecking of the financial discipline of the poor, enhances their adverse reputation with banks and financial institutions and causes unnecessary and avoidable stress on the financial resources of the country.

12. Reasons for non implementation of Financial Inclusion: Issues & Challenges

- Lack of effective governance has been one of the major reasons for slow progress in implementing Financial Inclusion initiatives.
- Regulatory Governance to Self Governance:
  The regulator should not be required to micro manage the principles on which Financial Inclusion model operates. This can be achieved in the following ways:
  i. Alignment of business plan with all micro policies
  ii. Self-regulation
  iii. Bottom up and participatory approach
  iv. Robust internal checks and control
  v. Knowledge sharing at industry level
- Lack of accountability and a problem of attitude of the staff- especially at the field level. There is a need to punish the non-performers and incentivize the performers in the system. The achievement of targets must be recorded in performance appraisal of the staff and staff working in rural areas should get additional incentives.
- The governance system has to be improved for ensuring buy-in from the Top Management and commitment and accountability from the rank and file of the bank.

48. *http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=857*

- The banks need to take ownership of the model and ensure continuous and full support to the Business Correspondents at the ground level.
- The number of transactions in many accounts opened by the BCs, remain unimpressive. This not only restricts the potential benefits that could accrue from increased financial access but also reduces the viability of Financial Inclusion activities for banks and BCs.
- Low or untimely remuneration paid to BCs/CSPs;

13. Steps for Proper Financial Inclusion: Recommendations of Nachiket Mor Committee

In its final report, the Committee appointed by the Reserve Bank of India (RBI) on Comprehensive Financial Services for Small Business and Low Income Households (known after its Chairman as Nachiket Mor Committee) has outlined vision statements for full financial inclusion and financial deepening in India:

- Universal Electronic Bank Account (UEBA): Each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
- Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges
- Sufficient Access to Affordable Formal Credit
- Universal Access to a Range of Deposit and Investment Products at Reasonable Charges
- Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges

The Committee also recommends that the extant Priority Sector Lending norms be modified in order to allow and incentivise providers to specialise in one or more sectors of the economy and regions of the country, rather than requiring each and every bank to enter all the segments. Finally, the Committee places greater onus on the financial services provider to provide suitable products and services.

Part III

India: Recommendations for Effective and Universal Financial Inclusion

For effective implementation of Financial Inclusion to ensure universal coverage in India, the following thirty one issues and challenges need to be addressed:

Issues

1. Low Credit Share of Rural Areas:

Although, in terms of number of branches, rural areas now account for nearly 30% of total branches of scheduled commercial banks, the share of rural credit accounts for less than 10% of total credit. Government and Banks should initiate steps to arrange for more access to credit for the poor and also increase the credit absorption capacity in rural areas by promoting employment and other opportunities.

2. **Adequate Coverage and Credit for Migrants:**

- Migrants are facing difficulties in opening bank accounts. RBI and Commercial banks need to take care of the needs of the migrant population in their financial inclusion plans. Revised KYC Norms are a help in opening bank accounts but much more needs to be done to ensure access to credit from banks for the migrants sector.
- Easy and cheap remittance facility for migrant population is of paramount importance and would be a good measure of the extent of financial inclusion achieved.

3. **Agriculture Advances:**

While the number of farmers' accounts with SCBs' increased from just 63 lakh in March 2006 to 176 lakh in March 2010; in terms of credit, farmers with land holdings 'above 5 acre' accounted for largest share of 44% of total bank credit. To achieve meaningful financial inclusion, banks should give priority for small farmers as compared to large farmers while sanctioning credit.

4. **MSME – Financial Exclusion:**

The statistics based on 4th Census on MSME sector (2006-07) revealed that only 5.18% of the units (both registered and unregistered) had availed finance through institutional sources, 2.05% got finance from non-institutional sources. The majority of units i.e., 92.77% had no finance or depended on self-finance. Specific targets, like in the case of agriculture, should also be fixed to ensure that at least 50% of the MSME Sector (specially micro and small) gain access to formal sources of credit within the next 5 years and all are covered with in 10 years.

5. **Differential Rate of Interest (DRI) Loans:**

As per RBI stipulations, all banks are to give at least 1% of their total outstanding advances to those below poverty line to carry out their petty businesses. This means that over 30 percent of the population of India that is estimated to be below poverty line could have access to just 1% of the total loans given. However it is extremely shameful that even this measly target is not being honoured at all and the average for the banks is less than 2 percent of the target defined. Targets should be fixed for every branch and compliance should be made mandatory (at the cost of disciplinary action) to ensure that the 1% of the total outstanding advances of the bank are indeed disbursed as DRI loans to those below poverty line as stipulated.

6. **Focus on Inclusion of Minorities (See Annexure VIII)**

An Analysis of the report of SLBC of Andhra Pradesh for the year ending

March 2014 shows that while targets are being surpassed in ensuring financial inclusion of marginalized sections like the Weaker Sections (Target 10%: Achieved: 15.85%) and women (Target 5%, Achieved: (11.22%), the loans sanctioned to the Minorities stood at just 7.06% when the target is 15% on the Priority Sector. This is seen to be a constant trend for many years. Targets should be fixed for every branch and compliance should be made mandatory (at the cost of disciplinary action) to ensure that the target of the bank to disburse 15% of the advances of the priority sector to the minority community is achieved.[49]

7. **Financial Inclusion in Urban Areas:**

Generally, the focus for financial inclusion has been the rural poor and urban areas are being neglected. With over 35% of the population of India now in urban areas and with most of the urban poor being migrants and self employed, it is critical that they have adequate access to credit from the banking system. Systems should be evolved and bank wise targets fixed to ensure total financial inclusion of the urban poor in a specified time frame.

8. **BSBD Accounts:**

It is reported that nearly half of the BSBD accounts are dormant. For effective use of BSBD accounts the OD facility of Rs. 5000 announced by GoI for all account holders on 11th July 2014 should be publicized and implemented and government should use BSBD accounts for all financial transactions with all BSBD account holders. The OD facility can prove to be critical in protecting the poor from exploitation by usurious money lenders and increase their association with formal financial institutions.

Policy Initiatives Required

9. **Adequate Publicity of Priority Sector Targets and Entitlements**

At present there is hardly any publicity about the priority sectors and their targets, especially about MSE, DRI and for minorities. Most people, especially the poor, are not just aware that they are entitled to access credit from banks even 35 years after the introduction of social banking in India. Banks and the government should launch a massive and sustained publicity campaign to ensure that all citizens become aware of their right to be included in the formal financial world and their entitlement to bank credit.

10. **Financial Education in School and College Curriculum**

Modules on financial literacy should be introduced from high school onwards as part of the syllabus to ensure widespread and systematic understanding of the functioning of the world of finance and the entitlements of citizens to the collective financial assets available with the banks and other formal financial structures.

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49. *183rd Meeting of the State Level Bankers Committee of Andhra Pradesh: Report 2013-14*

11. **Human Face of Banking:**

To deal with the rural and urban poor who are mostly illiterate or semi literate, banks need to initiate perspective building programs to frontline staff and managers as well as to BCs on the human side of banking. It is observed that the syllabi for training of bank officers does not have any courses on orientation to the issues and causes of poverty or the criticality of financial inclusion of the poor for the empowerment of the marginalized as well as for development of society and strengthening of the national economy.

12. **Vernacular Languages**

All banking transactions including different forms should be made available in vernacular languages to facilitate extensive Financial Inclusion.

As part of Financial Literacy initiatives, banks should also undertake pro-active steps in helping the common public to get over their English phobia.

13. **Tailor Made Services:**

- Banks should design tailor made and innovative products to cater to the requirements of poor in rural and urban areas at affordable rates.
- To wean away rural and urban poor from borrowing from money lenders, banks should develop simplified credit disbursement procedures and also flexibility in their work processes and documentation requirements.

14. **Less Documentation**

Most poor and lower middle class people in rural or urban areas do not have documents like rental deeds, trade licenses and audited account statements etc. Directives should be issued to all banks to process all DRI and Micro loans only on the basis of the relaxed KYC norms and without insisting on any additional documents like the ones listed above.

15. **Outdated and Redundant Conditionality:**

Some of the Circulars and Directives issued by the RBI and the Government of India are outdated or redundant and hinder financial inclusion instead of facilitating. An example is the circular of the RBI of 2008 stipulating the income limits of Rs. 18,000 per annum for rural and 24,000 per annum for urban areas as eligibility for availing loans under the DRI scheme. As income limits have increased even for those below poverty line, it is impossible for anyone to get income certificates of 18,000 or 24,000 per annum and hence banks are refusing to sanction DRI loans under this pretext. A detailed study should be conducted of all the prevailing conditionalities and requirements to weed out all the out dated and redundant directives and ensure that only the bare minimum and appropriate stipulations are formulated and enforced in all processes and procedures dealing with financial inclusion. These should also be compulsorily revisited, and if required, revised within specific time frames- preferably three years.

16. Dedicated Bank Staff- Accountability and Incentives

Though there are specific targets for financial inclusion and 40% of all advances by banks have to be given to the priority sector, banks do not have any dedicated staff for priority sector nor is there any accountability on any one from the staff for non or under performance in the priority sector. Managers at the branch level do not easily accept loan forms for DRI and Micro schemes, do not give receipts and do not give reasons for rejection of loan applications.

Well defined processes should be laid down to ensure that all loan forms are accepted online or at the branch level, receipts are given, processing is ensured within specific periods and loans sanctioned or reasons for rejection are communicated in writing. Further, there should be incentives and dis-incentives for the performances of all the staff connected with priority sector lending.

17. Orientation of Staff in Social Banking and their Network with Government Departments in Approval and Recovery of Loans

Bank staff is not given adequate and proper orientation and training in importance of inclusive growth, criticality of effective social banking and the need to invest in the priority sectors for holistic economic growth, national integration and a peaceful society founded on principles of all round justice.

There are no separate sessions or courses conducted at staff Training Centres to educate the staff on the issues listed above which reflects the lack of importance given to the concepts of Social Banking and Financial Inclusion in Banks.

Further, the selection process for beneficiaries for loans under government schemes is done in the absence of Bankers by the government officials and these government officials do not help Banks in the process of recovery of loan amounts from the borrowers who were given loans under government schemes. Synergy and organic networking and mutual accountability is imperative between banks and the concerned governments if the targets under the priority sector lending are to be effectively achieved and loans are to be recovered in time and in total.

18. Government should Subsidise Processing and Recovery Costs

As priority sector lending entails processing of very large numbers of loan application forms and their verification and involves additional efforts to reach out to large numbers for recovery in cases of default, much more staff is required for social banking involving financial inclusion than it is needed for commercial banking that generally operates with fewer clients but with large volumes. Hence as the cost to the banks for social banking is much more and adversely impacts their profitability, they do not assign the required staff and in the process all aspects for proper implementation of financial inclusion suffer.

As banks are essentially commercial enterprises, they cannot operate at a loss. It is proposed that the government should subsidise all additional costs incurred in the implementation of social banking for effective and optimal attainment of financial inclusion.

Strengthening of Processes

19. Orientation and Facilitation of BCs

- BCs are not making enough income and have to be adequately compensated so that they are sufficiently incentivized to promote financial inclusion as a viable business opportunity.
- Banks should open small brick and mortar branches at reasonable distances to provide the required assistance to BCs for cash management, effective supervision and costumer care.
- Banks should initiate suitable training and skill development programs for BCs effective functioning.

20. Use of PACs and Primary Cooperatives as BCs:

PACs penetration in rural areas is far more than that of bank branches. Banks may make use of this largest rural network of cooperatives as business correspondents. Recent NABARD circular also envisaged that PACs can be utilized as BCs for CCBs/SCBs.

21. Ultra Small Branches:

Ultra Small Branches may be set up between the base branch and BCs to provide support to about 8-10 BC units at a reasonable distance.

22. SHG-Bank Linkage - Penetration and Outstanding:

Although SHG-Bank Linkage model is successful in rural areas, it has not spread evenly throughout India, the spread is poor especially in the financially excluded regions namely central and north-eastern. Further, outstanding bank loans against SHGs accounted for only 1.93% of gross bank credit as on March 31, 2011. It was observed that SHGs are not getting loans from banks even after more than one year of its formation and group activities in some cases. Bank and branch wise targets should be fixed to ensure appropriate flow of credit to SHGs.

23. Private Sector Banks: Need to open more branches in rural areas:

In the case of private sector banks, rural branches accounted for just 13.3% of their total branches in March 2013 (while in the case of public sector the same stood at 33.1%). There is an imperative need to ramp up the number of rural branches by the private sector banks.

24. Penetration of RRBs in Financially excluded Regions:

Though RRBs have more presence in central (30.7% as on March 2012) and eastern regions of India (23.1%), financial exclusion is more acute in these regions and hence requires greater penetration.

25. Post-offices:

Post offices (POs) are closest to the rural people compared to bank branches. As on March 31, 2011, there were 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas. All round efforts should be made to ensure that Post Offices play a greater and more active role and become BCs for the benefit of all stake holders.

26. White Label ATMs:

RBI has already started allowing eligible private entities to establish White Label ATMs. There is a need to facilitate extensive proliferation of such ATMs in rural areas.

27. Private Corporate Initiatives through CSR (Corporate Social Responsibility)

A few large private corporates have undertaken projects such as E-Choupal / E- Sagar (ITC), Hariyali Kisan Bazar (DCM), Project Shakti (HUL), etc. with good results. More corporates should be encouraged to undertake financial inclusion programs in their areas of operation through CSR initiatives of their companies.

28. Technology Applications:

- Banks should create extensive ICT enabled environment to be used as the main lever to achieve the eventual goal of universal financial inclusion at the earliest in a cost effective manner.
- ATM-Network: ATM Network in rural areas accounted for only 10.1% of total ATMs in the country as on March 31, 2013. Banks should enhance their ATM network in rural and un-banked areas to serve poor villagers.
- Rupay Network: To reduce the overall transaction costs associated with small ticket transactions in rural areas, domestic Rupay cards may be utilized.
- Conversion of KCC/GCCs: To enable farmers and others to withdraw cash from ATMs anywhere in the country, banks need to convert KCCs/GCCs to electronic credit cards.
- Mobile Banking: In rural India, there were 323.27 million mobile subscribers as on March 2012 (TRAI Annual Report, 2012).

RBI must immediately evolve and operationalise the options for SMS based funds transfer for expansion of mobile banking in the country and attain optimal financial inclusion.

29. Scalability of CBS Platform:

In order to handle the growing amount of work due to intensive financial inclusion efforts of the country, banks/RRBs should ensure scalability of their CBS platforms.

30. **Infrastructure Development:**

For up-scaling financial inclusion, adequate infrastructure such as digital and physical connectivity and uninterrupted power supply are prerequisites. Out of six lakh villages in India, around 80,000 villages have no electricity and the constraints of electricity directly impact the working of banks and inhibit initiatives for financial inclusion.

31. **Scope for Further Research:**

In financial inclusion, there are a few potentially interesting areas for future research –viz., (a) the most appropriate delivery model (which banks are still trying to figure out) for different geographical regions given their unique characteristics, (b) The unbanked segments- in rural, urban or metropolitan areas are largely served by the un-organized sector even today. Research into the products, practices and procedures of this unorganized sector to identify and understand the same, which the bottom of the pyramid populace finds so convenient and comfortable to deal with, could throw up valuable leads for the organized sector – banks and financial institutions to follow (c) Further, in order to measure the intensity of money lenders especially in rural areas, research agencies should conduct a census of money lenders in rural India.

PART IV
Annexure

Annexure I: RBI Master Circular: KYC Norms- Dated: 1st July 2014
http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9031

Annexure II : Details of tier-wise classification of centers based on population

- (i) Classification of centres(tier-wise) Population(as per 2001 Census)
- Tier 1 - 1,00,000 and above
- Tier 2- 50,000 to 99,999
- Tier 3- 20,000 to 49,999
- Tier 4- 10,000 to 19,999
- Tier 5- 5,000 to 9,999
- Tier 6- Less than 5000
- (ii) Population-group wise classification of centres
- Rural Centre Population upto 9,999
- Semi-urban centre from 10,000 to 99,999
- Urban centre from 1,00,000 to 9,99,999
- Metropolitan centre 10,00,000 and above

Annexure III: Basic Savings Bank Deposit Account-
http://www.rbi.org.in/scripts/FAQView.aspx?Id=96

Annexure IV: RBI Circular on the Use of Business Facilitators and Business Correspondents
http://www.bu.edu/bucflp/laws/rbi-circular-on-the-use-of-business-facilitators-and-business-correspondents/

Annexure V: RBI Master Circular: Priority Sector Lending-Targets and Classification- Dated: 1st July 2014-
http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9046

Annexure VI: RBI Master Circular - Lending to Micro, Small & Medium Enterprises (MSME) Sector- Dated: 1st July 2014-
http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9018

Annexure VII: DRI Scheme- Revised Norms
http://www.indian-bank.com/loans.php?by=107&ty=1

Annexure VIII: RBI Master Circular - Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)- Dated: 1st July 2014-
http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9052

- **Eligibility Criteria:**
  - Total income of the household per annum: Less than Rs. 18.000 in rural areas and less than Rs. 24.000 in Semi-Urban
  - Less than 1 acre of irrigated land or 2.5 acres of non-irrigated land
  - Physically handicapped people pursuing gainful occupation
  - Indigent children who are looking to enter higher education
- **Institutions that are eligible:**
  - Orphanages
  - Women's homes where saleable goods are made and there are no other financing methods
  - Institutions for physically handicapped people
- Banks may route credit under the scheme through State Corporations for the welfare of Scheduled Caste and Scheduled Tribes

Quantum of Loan:

I. For house: Rs. 20000.00

II. Other purposes: Rs 15000.00

- **Rate of interest:** 4% at Simple Rate
- **Security:** No collateral security needed
- **Repayment:** 5 years
- To begin with, such SGSY lending at 4% is available till the Bank achieves 1% benchmark. Thereafter, the scheme will be reviewed.
- Preference is given to SHGs where members are from SC/ST/Minority community, women SHGs and SHGs in districts identified by the Bank for 100% financial inclusion.

LIST OF VANI PUBLICATIONS

- Civil Society Accountability Principles and Practice (India Toolkit) (English)
- Enabling environment for Voluntary Organisations A Global Campaign (English)
- Model Policies for International Good Governance in Voluntary Organizations
- The Hand Book in Good Governance for the Voluntary Sector
- Status of the Voluntary Sector in India A Report
- Status of the Voluntary Sector in India (Primer) English & Hindi))
- Civil Society Engagement in Aid Effectiveness Discourse
- Changing Dynamics Between VOs and Private Sector
- Involving Voluntary Organizations in Governments Plans and Projects
- India's Global Footprints
- India's Development Assistance: Trends, Challenges and Implications for CSOs
- India's Role in the G20: A Civil Society Approach
- Contribution and Challenges of Voluntary Organizations Working on Religious Minority A Primer of the Study Report (English & Hindi)
- Contribution and Challenges of Voluntary Organisations Working with Women A Primer of the Study Report (English & Hindi)
- Role and Contribution of Voluntary Organisations in Health & Nutrition A Primer of the Study Report (English & Hindi)
- Challenges of the Grassroots Voluntary Organisations A Primer of the Study Report (English & Hindi)
- Role and Contribution of Voluntary Organisations on Water & Sanitation A Primer of the Study Report (English & Hindi)
- Contribution and Challenges of Voluntary Organizations Working with Dalits A Primer of the Study Report (English & Hindi)
- Contribution of CSR on Thematic Issues of Education, Health and Nutrition, and Water and Sanitation A Primer of the Study Report (English & Hindi)
- Revisiting the National Policy on Voluntary Sector and Need for a National Policy on Volunteering (English & Hindi)
- Policy Brief of Revisiting the National Policy on Voluntary Sector and Need for A National Policy on Volunteering (English & Hindi)
- Enabling Environment of the Voluntary Sector in India A Study Report (English)

About Heinrich Böll Foundation

"The Heinrich Böll Stiftung / Foundation (HBF) is the Green Political foundation from Germany, affiliated to the "Greens/Alliance '90" political party represented in the Germany's federal parliament. Headquartered in Berlin, and with 30 international offices today, hbs conducts and supports civic educational activities and projects worldwide.

HBF understands itself as a green think-tank and international policy network, working with governmental and non-governmental actors and focusing on gender equity, sustainable development, and democracy and human rights.

With a presence in New Delhi since 2002, the HBF India office coordinates the interaction with stakeholders and partners in the country. Its programme focus areas include climate and resource policy, socio-economic policy from a gender perspective, the dynamics of democracy, and India's role in the new global order."

About VANI

Voluntary Action Network India (VANI) is an apex body of the Voluntary Organisations.

- Founded in 1988 to act as a promoter/Protector and collective voice of the voluntary sector.
- Base of 8000 non-governmental organisations spread in 25 states of India.
- Resource Centre for publications, research work, articles, important documents and information about and related to the voluntary sector.

Objectives:

- As a platform, to promote voluntarism and create space for voluntary action.
- As a network, attempt to bring about a convergence of common sectoral issues and concerns for building a truly national agenda of voluntary action in India. In addition, facilitate linkages of various efforts and initiatives of the Indian voluntary sector, which succeed in strengthening a united and sustainable movement of change.
- An an association, work towards fostering value based voluntary action and long term sustainability especially amongst our members.

Areas of work

- Promoting practices of good governance in the voluntary sector.
- Strengthening networks
- Articulating independent voices of the sector.
- Research and advocacy of policies and law effecting the voluntary sector.

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