FINANCIAL INCLUSION THROUGH BSBDAS

N. Suresh
Lecturer in Commerce,
MVS Government Degree College,
Mahabubnagar

The Phrase' Financial Inclusion 'is not a dynamic fad nor an obvious ruse spelt out by the political aces to enthrall the masses at times. Rather it is enmeshed with the serious obligations of disseminating financial services to the sheer size of population at very affordable cost and thereby ensuring a legitimate and healthy flow of finances across the country. The basic fulcrum believed to be instrumental in discharging such obligations is a bank account which is still remaining to be a hazy term in the sizable habitations of the country and keeping the scope of exploitation by the greedy lenders alive. This problem is seriously contemplated by the Government of India and undertook inclusive measures on war foot basis during the eleventh and present five year plans like ultra small bank branches, business correspondents and no frill accounts. These measures have hardly attracted any skepticism except the no frill account as the Reserve Bank of India had an objection to the very nomenclature itself and directed the banks to rename no frill accounts as the Basic Saving Bank Deposit Accounts or simply BSBDAs. RBI has reengineered BSBDAs with intricate conditions to be religiously followed by the bankers to skip themselves from the entanglement of operational rigidities. Therefore, the ability of BSBDAs in accelerating the process of financial inclusion and striking a balance with the commercial motives of Banks has become the central fillip for animating a research paper titled "Financial Inclusion through BSBDAs".

Key Words: *Financial Inclusion, BSBDA and RBI*

Introduction

Growth without inclusion has got no meaning in a country like India where the laments of poor and exults of rich lives in tandem to mirror the economic bifurcation of the sheer quantum of population. The vision, mission and policies of the state emphasized on the growth rates and development models but at the cost of equitable distribution. This approach led to the formation of deploring rifts among the people within the growth trajectory and still allowing the economic syndromes to continue. The only remedy that can trounce this problem is the adoption of inclusive growth strategies. Of course, inclusive growth has got multiple facets like health inclusion, education inclusion and so on. But, the basic DNA which can incarnate all the components of inclusive growth into a complete body is 'Financial Inclusion' that can fasten poor sections effectively with the government agencies pumping finance for the benefit of vulnerable or targeted class of people. This fact is well admitted by the state and started cultivating the habit of banking which is the advent of financial inclusion. the recent flagship programme, Prime Minister's Jan Dhan Yojna or simply PMJDY which targeted to open ten million bank accounts for the benefit of poor in one day implies the importance of bank accounts and banking transactions in fostering inclusive growth. The small accounts opened under PMJDY are known as Basic Savings Bank Deposit Accounts (BSBDA) which are more or less replicates the erstwhile no frills accounts except an insurance coverage. Therefore such account is not a novel concept in Indian banking system; rather it has been in

existence since ten years but could not meet the targets of financial inclusion to a considerable level of satisfaction. Thus, it has become necessary to probe into the technicalities of BSBDAs and to know the perceptions of targeted beneficiaries in order to decide the role of BSBDs in Financial inclusion.

Review of Literature

(Nachiketh 2005)[1] drew a statement from his study on Financial inclusion that The Phrase' Financial Inclusion 'is not a dynamic fad nor an obvious ruse spelt out by the political aces to enthrall the masses at times. Rather it is enmeshed with the serious obligations of disseminating financial services to the sheer size of population at very affordable cost and thereby ensuring a legitimate and healthy flow of finances across the country. The basic fulcrum believed to be instrumental in discharging such obligations is a bank account which is still remaining to be a hazy term in the sizable habitations of the country and keeping the scope of exploitation by the greedy lenders alive. This problem is seriously contemplated by the Government of India and undertook inclusive measures on war foot basis during the eleventh and present five year plans like ultra small bank branches, business correspondents and no frill accounts **(Himanshu 2009)**[2]. These measures have hardly attracted any skepticism except the no frill account as the Reserve Bank of India had an objection to the very nomenclature itself and directed the banks to rename no frill accounts as the Basic Saving Bank Deposit Accounts or simply BSBDAs. RBI has reengineered BSBDAs with intricate conditions to be religiously followed by the bankers to skip themselves from the entanglement of operational rigidities **(Sheshadri 2013)**[3]. Therefore, the ability of BSBDAs in accelerating the process of financial inclusion and striking a balance with the commercial motives of Banks has become a central issue to be addressed. **(Radha Krishna 2013)**[4] found from his study that the BSBDAs are not effectively campaigned by the banks to spread the awareness on banking system. Rather they are deliberately kept aside by the banks owing to the additional costs and risk factors. This opinion is also corroborated by **(Man Singh 2013)**[5] who felt that the concept of BSBDAs cannot be brought to fruition unless there is an intervention of the state with an aggressive policy.

Gaps in Literature

The review of available literature has viewed BSBDAs through the lens of scheduled commercial banks and attempted to attribute the reasons cited by the banks to draw the conclusions on them. But there is hardly any evidence available to know the flip side of these accounts like KYC norms and restricted transactions which are better addressed through capturing the perceptions of targeted beneficiaries. Therefore the following two objectives are proposed to be examined in the pursuit of this research paper.

Objectives of the Paper

- To study the functioning mechanism and present situation of BSBDAs
- To know the perceptions of targeted beneficiaries on BSBDAs

Research Methodology

The first objective is accomplished through reviewing the guidelines of RBI on the functioning mechanism of BSBDAs and other secondary data available in the web sources. On the other hand, the second objective forming the core of this paper shall be tested with the help of the following hypothesis for which primary data is gathered from the selected sample size.

Null Hypothesis H_0:
"Procedural rigidities and restrictions on transactions are independent of opting BSBDAs by the targeted beneficiaries."
Alternate Hypothesis H_1:
Procedural rigidities and restrictions on transactions are not independent of opting BSBDAs by the targeted beneficiaries.

Testing of Hypothesis

The null hypothesis is tested using a chi square test which envelops the two independent attributes namely procedural rigidities restricted transactions with a dependent attribute of opting BSBDA.
Sample Size: The primary data is collected from the sample size of one hundred respondents who are the pool of low income groups residing in the weaker section localities of the town of Mahabubnagar in the state of Telangana.

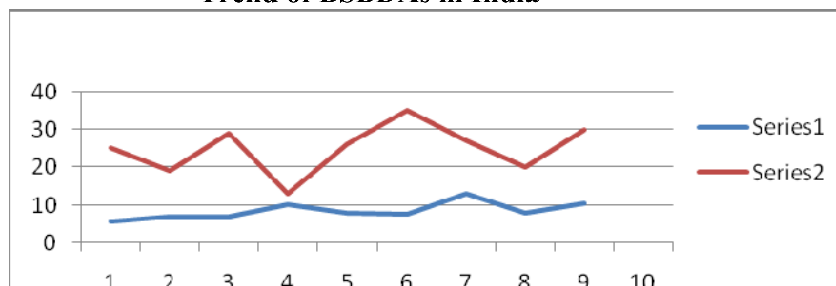
Time Period

This paper covers the time period of ten years starting from April 2005 to March 2014 so that the entire tenure of no frills accounts and BSBDAs is covered to draw the interpretations. The tenure of ten years is also reckoned to be a very long run period for deciding the viability of any financial products or reengineered bank accounts.

Functioning of BSBDAs

Basic savings bank deposit accounts are meant for connecting unbanked people with banks which are quite deferent from a normal savings account in terms of minimum deposits. These accounts can be opened and maintained without any minimum balance. Thus the cost of operations is obviously more than that of normal savings account unless the quantum of accounts and transactions enable the banker to reap economies of scale. BSBDAs shall be automatically converted into normal account any time during a financial year if either the balance in account is more than Rs fifty thousand or there is a credit transaction worth Rs one lakh. This provision naturally keeps the micro and small scale traders away from the BSBDA as there is a sound possibility for them to receive an amount of more than Rs one lakh in the normal course of business. Similarly, this account restricts number of transactions to five per month inducing the account holders to draw the cash in lump sum and deprives an opportunity of bank savings. These difficulties added with KYC norms though simplified for BSBDAs have created a myopic view on the small accounts.

Trend of BSBDAs in India



It can be seen from the above graph that the series 1 representing normal savings accounts grew manifold times and ranging between thirteen % and thirty five percent. Whereas the percentage increase in BSBDAs or erstwhile no frills

accounts has been fluctuating in the lower range of five to twelve percent in the long run of ten years. Therefore it is feasible to state that the BSBDA portfolio stood to be weak at macro level.

Data Analysis

The primary data has been collected from one hundred respondents from the slums and weaker section colonies of the town of Mahabubnagar and found from the responses that sixty five out of hundred are literates who can fill up the documents in a bank to open an account and the remain ing thirty five members are illiterates who cannot fill up any documents to open an account. this classification led to the construction of 2X2 table as shown bellow.

Table 1 observed values (o)

attribute	**lites**	**Illites**	**to**
Procedural rigidities keeps you away from banks	**13**	**24**	**37**
Restrictions on transaction is constraint of opting BSBDA	**52**	**11**	**63**
total	**65**	**35**	**10**

Table 2 calculation of Chi square

O	E	O-E	$(O-E)^2$	$(O-E)^2/E$
13	24.05	-11.05	122.102	5.077
24	12.95	11.05	122.102	9.428
52	40.95	11.05	122.102	2.981
11	22.05	-11.05	122.102	5.537

$\sum(O-E)^2/E = 23.023$

Degrees of freedom (2-1) (2-1) = 1

Interpretation

The calculated value of Chi square value is more than the table value. Hence the null hypothesis is rejected. That means procedural rigidities and restrictions on the number of transactions are the major constraints why the targeted beneficiaries have not opted BSBDAs in the selected sample size.

Conclusion

It is concluded from the data interpreted in this paper that there is a dire need to further simplify the procedures of opening BSBDAs and enhance the number of transactions and deposit limit to enthrall the unbanked sections of the society towards the banking system which accelerates the process of financial inclusion and thereby the inclusive growth.

References

1. More Nachiketh, Report on Financial Inclusion, RBI, 2005
2. Jain Himanshu, Inclusive Growth Strategies, p 52, 2009
3. Sheshadri. D. N, Evaluation of Financial Inclusion Measures in India, Sage,2013
4. Radha Krishna. K. V, Uplifting the Poor, p 159, Zenith, 2013

A Study of the Initiatives taken by the Government to Promote Financial Inclusion and its Recent Developments.

Mrs. Sabiha Shareef
Asst. Prof. in Commerce
OUCW, Koti, Hyderabad

ABSTRACT

Financial Inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions."

Financial Inclusion is not a recent phenomenon in India as Inclusive Growth has been embedded in our constitution. A focal event in the evolution of Financial Inclusion was the nationalisation of 14 major commercial banks in 1969 and 6 more in 1980.The agenda for Financial Inclusion was galvanised in the early 2000s in India following the publications of a spate of findings about financial exclusion and its direct correlation to poverty given by the report of K.C. Chakrabarthy and the facts of exclusion and their dire consequences that were highlighted by Former UN Secretary-General Kofi Annan, on 29 December 2003.Since then the policymakers throughout the world, recognizing the importance of Financial Inclusion as a key enabler of economic and social development started taking up measures to remove the barriers of Financial Inclusion.

Various policy initiatives have been undertaken by the Government of India under the guidance of RBI, to ensure universal financial access especially post-2005. which lead to the development in banking services like Overdraft facility in Saving Bank Accounts, Liberalised branch expansion, ATM, Introducing technology products and services, Pre-Paid cards, Mobile Banking, as well as allowing Regional Rural Banks / Co-operative banks to sell Insurance and Financial Products, Financial Literacy Program, Creation of Special Funds, etc. This paper, attempts to study the history of Financial Inclusion in India and the various initiatives taken up by the Government of India right from its evolution starting with the opening of "No frills Accounts till today's Information and Communication Technology (ICT) based models of financial products which are tailored to meet the requirements of the hitherto neglected weaker sections of the society so that it promotes their wellbeing and stimulates Economic Growth.

It also assesses the progress made by the GOI after the implementation of the Financial Inclusion Plan (2011 to 2013) with regard to its objective of achieving inclusive and sustainable growth.

Introduction

Financial Inclusion is not a recent phenomenon in India as the earliest efforts of it can be traced in 1904 when the Co-operative movement began showing the signs of inclusive growth. Inclusive Growth has been embedded in our constitution as our leaders had aimed to make India a Socialist Secular Democratic Republican Country . After independence right from the beginning the Govt of India has been taking initiatives to achieve inclusive growth. A focal event in the evolution of Financial Inclusion was the nationalization of 14major commercial banks in 1969 and 6 more in 1980 so that many branches would be opened in the rural areas to cater to the credit needs of the poor, weaker sections and low income groups of the society .

Inspite of this the low income groups were neglected as it was not a profitable venture for the banks and this financial exclusion lead to widening of the gap between the rich and the poor. The agenda for Financial Inclusion was galvanised in the early 2000s in India following the publications of a spate of findings about financial exclusion and its direct correlation to poverty given by the report of K.C. Chakrabarthy and the facts of exclusion and their dire consequences that were highlighted by Former United Nations Secretary-General Kofi Annan, on 29 December 2003,who said that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance and this stark reality should be taken seriously and immediate steps should be taken by the policy makers to achieve equitable and sustainable growth of the nations across the world.

The Government of India with the active support of RBI has been taking a number of initiatives such as introduction of priority sector lending requirements for banks, establishment of regional rural banks (RRBs), and Self-Help Group- Bank Linkage Programmes and many measures to augment the availability of financial products like No frills Accounts, Savings bank Accounts, Overdraft facility, General Purpose Credit Cards, Kissan Credit Cards, Loans at low rates of Interest, Insurance and other financial services to the poor and marginalized segments of society.

Need for Financial Inclusion

The rural population in India comprises the core of Indian society and represents the real India. According to the 2011 census, there are 6, 40,867 villages in India and about 83.3 crores of Indian population lives in these villages among 121 crores of total population (ie. Nearly 68.84%). Finance is one of the important keys to success. Finance is a panacea for all the ills of weaker and poor section. Commercial banks in India since nationalization are providing finance to weaker section under priority sector lending (PSL). The rural population in India suffers from a great deal of indebtedness and is subject to exploitation to the credit market due to high interest and lack of convenient access to credit.

They need the support of financial institutions which can provide credit at lower rates to them at reasonable terms than the traditional moneylenders and thereby help them avoid debt-traps that are common in rural India. Special measures to increase the out reach of banks with low cost and affordable financial products was the need of the hour and Financial Inclusion has the ability to generate positive externalities. It has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

Objectives of the study:

1. The main objective of the present paper is to study the history of Financial Inclusion in India.
2. To examine the policies, strategies, steps/initiatives taken by GOI under the guidance of RBI, in promoting financial inclusion.
3. To study the impact of financial inclusion plan and recent developments in India.

Methodology: The study is conducted purely with the help of secondary data taken from the published reports of RBI, through internet.

Period: The study is taken up right from the conceptualization of financial inclusion in India after independence till date. The study covers the period from 1947 to June 2014.

Government Initiatives for Financial Inclusion in India.

1.Economic Planning

After independence right from the beginning the Government of India has been working for the goal of achieving inclusive growth of the nation through Economic planning. Since 1951 Five Year Plans aimed at Financial Inclusion.

2. Nationalisation of Banks.

Bank nationalisation in India marked a paradigm shift in the focus of banking form class banking to mass banking.14 major commercial banks were nationalised in 1969 in the first phase and 8 more in the second phase in 1980 to increase the outreach of banks to the poor and neglected sector.

3. Establishment Of Regional Rural Banks.

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act. 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors on the recommendations of The Narasimham Working Group.
Earlier, RBI had laid down ceilings on the rate of interest to be charged by these RRBs. However from August 1996 the RRBs have been granted freedom to fix rates of interest, which is usually in the range of 14-18% for advances and they failed to cater to the needs of rural poor. At present there are 56 RRB's in India with a network of 14,494 branches.

4. Constitution of Commissions

The agenda for Financial Inclusion was galvanized in the early 2000s in India following the publications of a spate of findings about financial exclusion and its direct correlation to poverty given by the report of Khan Commission in 2004.
A committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan was constituted by the Government of India in June 2006 to recommend a strategy to achieve higher Financial Inclusion in the country.

5. Opening of “No Frills Accounts.

Financial inclusion was introduced with the directions to open “No frills Bank Accounts in 2005 by K.C. Chakrabarty and Mangalam in Tamil Nadu became the first village in India where all households were provided with banking facilities. This account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

6. Relaxation on Know-Your-Customer (KYC) norms:

KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

7.Agent Banking - Business Correspondent/ Business Facilitator Model or Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem.

8.Use of technology:

Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make

effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

9.Adoption of EBT: Banks have been advised to implement EBT(Electronic Banking Technology) by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

10.General Purpose Credit Card (GCC): With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

11.Simplified Branch Authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting.

12.Mandatory for banks to open atleast 25% of branches in unbanked rural areas.Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

12. Roadmap for Banking Services in unbanked Villages by preparing three-year Financial Inclusion Plan (FIP) starting in April 2010.

- In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target and have covered 74398 unbanked villages.
- In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4, 90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks to ensure availability of at least one banking outlet in each village.

14. Swabhimaan Campaign : The Government launched the "Swabhimaan Campaign in Feb 2011 , to enable small and marginal farmers to obtain credit at lower rates from banks and other financial institutions.

15.Direct Benefit Transfer from January 1, 2013 **:**As per the directions of GOI, The Reserve Bank has played a proactive role in the rollout of the Direct Benefit Transfer (DBT) scheme. State-Level Bankers' Committee (SLBC) Convenor Banks were advised to co-ordinate with the government functionaries for implementation of Aadhaar-enabled payments. The DBT was rolled out in 43 districts in the I phase from Jan 1, 2013, and 78 districts in II phase from July 1, 2013. Eventually, all districts in the country are covered.

16.Supervision and Monitoring of FIP by RBI under the directions of Government. Periodic monitoring of progress - Quantitative and Qualitative parameters.
The Government of India gave directions to RBI to monitor The implementation of these plans on a monthly basis through a quantitative reporting format. The qualitative aspects of the FIPs are monitored through a qualitative report submitted by banks every quarter.

17.Financial Inclusion Plan 2013-16: In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh 3 year Financial Inclusion Plan for the period 2013-16 by RBI. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

18. Robust Institutional Mechanism :GOI with the advice of RBI has created a robust institutional mechanism to support the roll out of banking services across the country.

- In order to spearhead efforts towards greater financial inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC) under the Chairmanship of a Deputy Governor from RBI and few Directors from the Central Board of RBI and experts drawn from NGO sector/other civil society representatives, etc. as members whose collective expertise would help to explore measures for Financial Inclusion.
- At the state level, we have State Level Bankers Committees (SLBC) in all the states. Going further down, we have Lead District Managers in all the 659 districts, with recent inclusion of the metropolitan areas into the Lead Banks Scheme.
- About 700 financial literacy centres have been set up by banks. There are Rural Self-Employment Training Institutes (R-SETI), working towards capacity building for taking up self employment ventures.

19. CRISIL Financial Inclusion Index (Inclusix)

- In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz.,Inclusix) by taking three critical parameters of basic banking services namely a)Branch Penetration, 2) Deposit Penetration and c) Credit Penetration.
- The CRISIL Inclusix indicate that there is an overall improvement in the Financial Inclusion in India {(on a scale of 100) it increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011}.

20. Committee on Comprehensive Financial Services for Small Businesses and Low Income Households - Setting up of the Mor panel in September 2013

The RBI has set up a Committee on Comprehensive Financial Services for Small Businesses and Low Income Households under the Chairmanship of Dr. Nachiket Mor ,to

frame a clear and detailed vision of Financial Inclusion and Financial Deepening in India According to the panel, by 1 January 2016, each low-income household and small business would have "convenient" access to providers that have the ability to offer them "suitable" investment and deposit products, and pay "reasonable" charges for their services.

21.Establishment of Payment Banks: A Reserve Bank of India (RBI) panel has recommended that a special category of banks, called payments banks, be set up to widen the spread of payment services and deposit products to small businesses and low-income households in India.

Progress made so far

There has been tremendous growth in the no. of banks and bank branches due to the initiatives taken by the RBI under he directions of the Government of India. The No. of Bank branches has increased from 8700 to 109811 and the rural branches from 1443 in 1969 to 40837 in 2013.Population per bank branch has also reduced from 63000 persons to 12000 persons in 2013 showing clear signs of financial inclusion and its growth in India.

Table 1: The progress of bank branches in India with regard to financial inclusion

Particulars	1969	1980	2000	2010	2011	2012	2013
Total No. of Branches	8700	32419	65412	68355	88441	93799	109811
No. of Rural Branches	1443	15105	32095	32000	34811	37471	40837
Population per bank	63000	31660	20000	14000	13000	13000	12000

Source: RBI data and Census reports.

Increase in banking outlets. Total number of banking outlets in villages increased from 67,694 in March 2010 to 2, 68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

Table: 2 banking outlets in India

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13
1	Banking Outlets in Villages – Branches	33378	34811	37471	40837
2	Banking Outlets in Villages – BCs	34174	80802	141136	221341
3	Banking Outlets in Villages - Other Modes	142	595	3146	6276
4	Banking Outlets in Villages –TOTAL	67694	116208	181753	268454
5	Urban Locations covered through BCs	447	3771	5891	27143

Source: RBI data

Table 3: Progress in financial inclusion Plan

Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13
Basic Savings Bank Deposit A/c -branches (No. In millions)	60.19	73.13	81.20	100.80
Basic Savings Bank Deposit A/c - branches (Amt. In billions)	44.33	57.89	109.87	164.69
Basic Savings Bank Deposit A/c - BCs (No. in millions)	13.27	31.63	57.30	81.27
Basic Savings Bank Deposit A/c - BCs (Amt. in billions)	10.69	18.23	10.54	18.22
OD facility availed in BSBDA's (No. In millions)	0.18	0.61	2.71	3.95
OD facility availed in	0.10	0.26	1.08	1.55
KCCs - (No. in millions)	24.31	27.11	30.24	33.79
KCCs - (Amt. in ` billions)	1,240.07	1,600.05	2,068.39	2,622.98
GCCs - (No. in millions)	1.39	1.70	2.11	3.63
GCCs - (Amt. in ` billions)	35.11	35.07	41.84	76.34
ICT A/Cs-BC- Transaction - No. in millions	26.52	84.16	155.87	250.46
ICT A/Cs-BC- Transactions - Amt. in ` billions	6.92	58.00	97.09	233.88

Conclusion.

While the task before the Modi Government is daunting as the expectations of the people are high as the promises made during elections are to be implemented and a collaborative approach can definitely help in successfully overcoming this challenge. Though it is expected that the commercial banks can play a significant role in ensuring financial inclusion and promoting financial literacy, it is emphasized that the banks alone would not be able to achieve this ambitious goal and that other stakeholder groups also need to contribute their mite towards this cause. For banks, the focus has to be on building a sustainable, scalable and cost-efficient business delivery model by leveraging upon technology and the active role of the government will surely make Financial Inclusion possible and help in achieving equitable and inclusive growth in India.

References

1. Joseph Stiglitz, “Making Globalization Work” 2004
2. Speeches and papers, “Inclusive Growth-a new challenge” , Banker’s Conference 2006,
3. K.C.Chakrabarty, “Pushing Financial Inclusion – Issues, Challenges and Way Forward”, 20th SKOCH Summit 2009, Mumbai on July 17, 2009.
4. Report of Rangarajan Committee (2008), on Financial Inclusion, Government of India.
5. Published reports of RBI –Credit Delivery and Financial Inclusion , 1980-to 2013 -14’
6. Rural Finance Challenges In Africa”Afraca Technical Workshop, 26th November 2008
7. K. Sriharsha Reddy, “A Study on Extent of Financial Inclusion among Small Borrowers in Andhra Pradesh”, CLEAR International Journal of Research in Management, Science and Technology Vol-1 No-1 Jan-Jun 2011.
8. Mohan Rakesh (2006), “Economic growth, Financial Deepening and Financial Inclusion”, Annual Bankers’ Conference 2006, Hyderabad.
9. Basant Kumar & BrajarajMohanty, “Financial inclusion and inclusive development in SAARC countries with Special Reference to India” Vilakshan, XIMB Journal of Management Vol VIII Issue 2 September 2011.
10. AroraRashmiUmesh “Measuring Financial Access”, Australia, June. , (2010),
11. World Bank (2006), “Micro Finance in South Asia- Towards Financial Inclusion of the Poor
12. Shashidhar KJ |Banks go on rural overdrive, but profitability a worry Mumbai | Nov 26 2013,
13. *Dr. M. M. Gandhi/* Profitable models for Banks in Financial Inclusion in India

HURDLES NEED TO BE CROSSED TOWARDS FINANCIAL INCLUSION IN INDIA

S.Tulasi Ram, Mba, M.Com,
Assistant Professor
Department Of Management
Ushodaya Institute Of Management And Technology
Seetharampet(Viil), Ibrahimpatnam(Mdl), R.R.District – 509506.

Abstract

A recent research reveals that one third of the world's poorest people live in India and also human development index shows 135thplace in the world. Being second most populated and third economically emerging country in the world, Indian statistics shows 28% of Indian population suffers from poverty and hunger. Inclusive growth will lead to eradication of poverty by providing equal opportunities and economic participation. Since 1991 various reforms have been introduced in India. Even though only a few have access to basic financial facilities, most of the poor were tapped by private microfinance institutions and money lenders. This emerge the concept of Financial Inclusion in India to distribute financial benefits to all. Financial Inclusion is a major economic development tool, it not only provides financial protection to the under privileged but also adds to the process of capital formation of the country. As 12thfive year plan says faster, sustainable and inclusive growth is only possible with economic participation of all. Financial Inclusion is a process of delivering basic financial services at an affordable cost to vast sections of poor or economically disadvantaged groups.RBI and GOI pays joint efforts towards financial inclusion in India; however it was not achieved yet. Being a largest populated and developing country India faces problems. It is possible only with well implemented policies and adoption by end user. In this entire process Information and Communication Technology plays a vital role. This paper will further focus on initiatives taken by Government of India and Reserve Bank of India towards Financial Inclusion. Need and major hurdles in implementing Financial Inclusion in India with existing financial institutions make propose some suggestions.

Key words: *Financial Inclusion, inclusive growth, Government of India, Reserve Bank of India, World Bank (IBRD), International Monitory Fund, National Sample Survey Office.*

Introduction

''Poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems''

- Amartyasen(2000)

Today the term 'bottom of the pyramid' refers to the global poor most of who live in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty. Accordingly, there is felt a need for policy support in channeling the financial resources towards the economic upliftment of resource poor in any developing economy. Inclusive growth is a concept which advances equitable opportunities for economic participants during the process of economic growth. Inclusive growth and inclusion are related.

Objective of the Study

- To find need of Financial Inclusion in development view.
- To find out hurdles while implementing financial inclusion in India.
- Options available with existing financial institutions to deliver financial services.

Methodology of study

The data to analysis this study is collected from secondary data which has already been collected by various organizations and by personal observation while visiting banks. This data collected from various reports published by RBI, IMF, IBRD (World Bank), Planning commission, Ministry of Statistics and NSSO.

To talk about Financial Inclusion in developing countries like India it is flogging a dead horse. The world most populated china has 269 million, Africa 230 million, rest of Asia 162 million and Indian population is 121 million. Population is one of the hurdle to achieve 100% availability of financial services. But china was achieved 100% financial inclusion and become a developed country. Coming to India, more than 65% of Indian population is still "unbanked" and does not access to basic financial facilities, leave a part other financial services like loans and insurance etc... To become a developed country it is important to deliver financial services to every citizen and participation in economy are necessary. As Financial inclusion means delivering basic financial services at an affordable cost to every citizen of country.

If we implement Financial Inclusion in India it increases accountability, savings, insurance which has a direct impact on economy. This shows relationship between GDP and Financial Inclusion. In India Reserve bank of India and Government of India takes steps towards it. In that process GOI nationalized banks, giving instructions time to time, as a central bank RBI monitor and controlled all banking activities implemented kisan credit cards(KCC), business correspondents(BC's),no frill a/c's, liberalized branch expansion and so on. But still many Indians are tapped by private money lenders, micro finance companies. To avoid that it is necessary to implement inclusion not only to assist people but also increase economic growth.

This is an attempt to reveals that earlier steps taken by the Government of India and Reserve Bank of India and the need of financial inclusion in the consent of inclusive growth. How extensive financial system helps in developing an economy.

Internationally financial Inclusion means:

In a wider perspective having a current/ savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the "super included", i.e. those who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. Developed counties have formal financial services serves by banks.

Country	**Population having banking accounts**
Denmark	99%
Germany	96%
France	96%
USA	91%

Peachy and Roe, 2004

At the other extreme, we may have financially excluded, who are denied access to even basic financial products.

Need for Financial Inclusion

Financial inclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.

- K.C. Chekrabarthy.

Limited accesses to funds in underdeveloped financial systems restrict the availability of funds to individuals. It is now widely acknowledge that financial inclusion leads to availability of funds, financial services at affordable cost.Government of India's vision is to become superpower in coming years. It will possible only if

Need from both Population and Growth side

- Due to lack of financial facilities, an individual payshigher charges (i.e., interest rates) for basic financial facilities.
- Absence of bank accounts will lose interest on cash on hand.
- To continuous growth with rate of 9 per cent.
- To provide access to safe formal access system.
- Improving financial and social stability.
- To increase accountability, savings culture which leads tax remittance.
- For better human development practices.
- To reduce risk in life with insurance facility.
- Financial services at minimum cost.

Government of India Initiatives for Financial Inclusion

Indian government has, for a long time, recognized the social and economic imperatives for broader financial inclusion and made an enormous contribution to economic development by finding innovative ways to empower the poor.

Few Milestones in Financial Inclusion.

- Co-operative movement in 1905.
- Set up of State Bank of India.
- Nationalization of banks in 1969 and 1980.
- Lead bank scheme in 1969.
- Priority sector lending with public sector banks 1972.
- Establishment of Regional Rural Banks in 1975.
- Service area approach.
- National Bank for Agriculture and Rural development an apex bank for rural credit in 1982.
- Self-Help Groups.
- Financial Inclusion mission in 2005.
- Bharat swabhiman campaign to start banking facilities having more than 2000 by using technology model called banking correspondents agents (BCA's) in February 2011.
- Aadhar linkage program to transfer money directly to bank accounts of domestic LPG customers from 1st June 2013 as pilot project.
- New Financial Inclusion Mission proposes to start 15th August 2014 with aim to open two bank accounts in each household to empower the weaker sections of society,

including woman, small and marginal farmers and laborers and also provide them services like credit, insurance, pension etc...

- Directed RBI to provide license to Small and Differentiated banks.

Financial Inclusion in the view of development

According to Kofi Annan former secretary general of United Nations, "A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment". Generally developing or developed country depends on the basis of economics, per capita income and so on. They are divided by

Table 1: differences between developed and developing countries

Characteristics of Developed Countries (China, UK,USA and so on)	Characteristics of Developing Countries (India)
High level of industrial development	In process of industrialization
Low levels of unemployment	High level of unemployment
Higher education rates	Lower education rates
Technological advantages	Limited technological capacity
Better infrastructure facilities	Developing infrastructure
High level of per capita income	Low level of per capita income
Human and natural resources fully utilized	Human and natural resources not fully utilized
Increased life expectancy	Low or medium standard of living
Low birth and death rates	High level of birth and death rates
High level of economic participation	Low level of economic participation
Easy access to credit from formal resources with low interest rate	Credit access to from informal resources for high rate of interest.

Human development index com is calculated with life expectancy at birth years, mean years of schooling, decent standard of living with Gross National Income. Most emerging countries

Table 2: India's HDI comparing with BRICS

Countries	Human Development Index Rank	Place in BRICS
Brazil	79	2
Russia	57	1
India	135	5
China	91	3
South Africa	118	4

Source: http://hdr.undp.org/en

The above rank both in HDI and BRICS countries shows India performs poor even south africa.

GDP and inclusive growth

Monetary value of all the finished goods and services produced within country's borders in a specific time period usually one year. It is compared with previous year.

Table 3: Comparison of India's GDP with other countries

Country	GDP for 2013-14
India	4.74
China	7.60
South sudan	24.70
USA	1.90

Source: CSO data, IMF

It was observed that comparing with china and south Sudan countries India's GDP is less. While comparing with USA, India performs well. Factors effecting to this may vary from country to country. In India we have a strong banking network and savings are in good when compare with USA. If we provide banking services to all it increases the savings also.

India's position on Financial Inclusion

In India the term financial inclusion was started in 1904 when co-operative movement was started, again in 1969 when banks are nationalized. After 2005 only Government of India concentrates this issue on economic development prospective and start implementing policies for financial inclusion. However it was not achieved till now. Being a second largest populated country after china it needs continuous efforts should be paid. The present Indias financial inclusion status is showed below.

Table 4: Position of households availing banking services

	As per census 2001			**As per 2011 census**		
Households	**Total number of households**	**Number of households availing banking services**	**Percentage**	**Total number of households**	**Number of households availing banking services**	**Percentage**
Rural	13,82,71,559	4,16,39,949	30.1	16,78,26,730	9,13,69,805	54.4
Urban	5,36,92,376	2,65,90,693	49.5	7,88,65,937	5,34,44,983	67.8
Total	19,19,63,935	6,82,30,642	35.5	24,66,92,667	14,48,14,788	58.7

Source: NSSO, http://mospi.nic.in/Mospi_New/Admin/publication.aspx As per census 2011, only 58.7% households are availing banking services.

Table 5:
Commercial and Public Sector Banks in India as on 31st December 2013.

Type of bank	No of branches	Rural branches	% of Rural Branches
SBI and Associates	20685	7277	35.2
Nationalized (including IDBI)	55919	18596	33.3
RRB's	17640	13176	74.7
Other Schedule Commercial Banks	17081	3248	19.0
Foreign Banks	336	8	2.4
Local area banks	62	17	27.4
All Commercial Banks	111723	42322	37.9

Source: Economic Survey 2013-14 according to RBI reports.

Table 6: Comparison of branches with post offices

Total no of villages	No of rural banks	Percentage of rural banks	Total no of post offices	No of rural post offices	Percentage of rural post offices
6,42,000*	42322	37.9%	1,54,866	1,39,040	89.78%

Source: census 2011, NSSO

Out of total 1, 11,723 schedule commercial banks in all over India 37,953 (37%) were in rural area where 68.8% of people living. Coming to post offices 1, 39,040 (89.78%) from total 1,54,866 were in rural areas. Significant proportions of households, especially in rural areas are still not covered banking services but they are avail postal services.

Table 7: Commercial Banks per One Lakh Population Globally

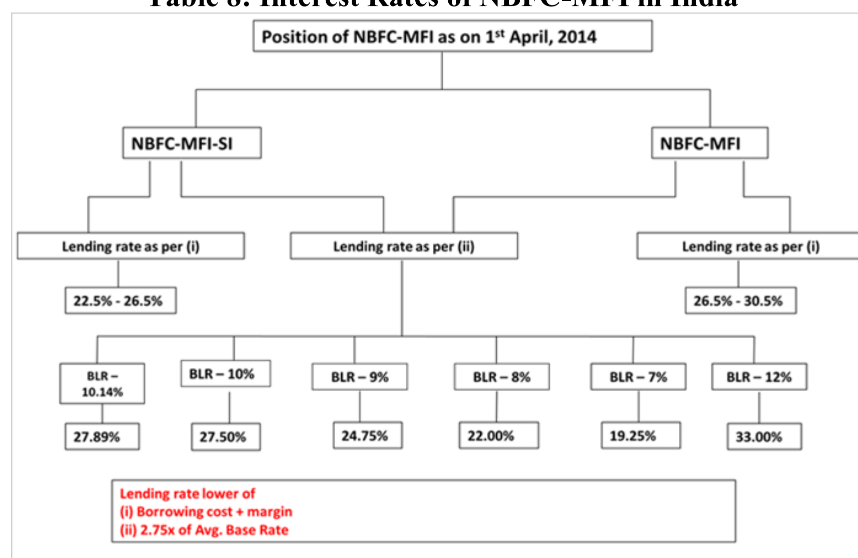
Country	Income level	Banks per one lakh
India	Middle	11.38
China	Higher	36.98
Srilanka	Middle	17.49
Morocco	Middle	23.41
Mongolia	Middle	68.82

Source: Financial Access Servey 2012. IMF data.

*Higher income represents developed countries &Middle income represents developing countries.

Here two things to observe. China having more number of banks comparing with India where largest populations are living. While comparing with middle level income countries like Sri Lanka, Morocco and Mongolia no of banks are less in India.

Table 8: Interest Rates of NBFC-MFI in India



Source:http://www.moneylife.in/article/rbi-modifies-interest-rate-cap-for-nbfc-mfis/36322.html

It is identified that NBFC-MFI's (i.e., Non-Banking Finance Institutions-Micro Finance Institutions)are borrowing money from banks at 14-18% rate of interest and lending that to Self Help Group's at the rate of 22.5% to 26%. RBI recently removed interest rate cap on MFI's loans which leads to increase interest rate up to 30%.

Major hurdles for financial inclusion from demand side

- Lack of banking facility in locality.
- Less financial literacy, i.e. even over all literacy is low.
- Some of the staff attitudes were not good.
- Cumbersome documentation and procedures to get financial services, even some literates not have capacity to fill deposit forms (i.e., pay in slip) also.
- Not availing tailor made products.
- Communication barriers with language.
- Customers feel uncomforted with large number of populations visiting to branch. Also queue lines take much time for their service.
- Limited cash delivery points. Availability of ATM's low comparing with urban areas.
- Lacking of awareness about banking facilities.

Hurdles for financial inclusion from supply side:

- Huge population and Excluded are unorganized.
- Absence of appropriate technology.
- Transaction and operating cost is too high.
- Few services are not economically viable to banks.
- Lack of dedication(or) rich having no compassion for poor.
- Expensive technology.
- Fear of Non-Performing Assets.
- Excellent plans but not having good mechanism.

Conclusion

Inclusive growth is only possible by sustainable growth where implementing financial inclusion is first step. In India there is no doubt that RBI and GOI is paying joint efforts towards it. Without having sufficient income people do not think about savings. Rapid industrialization generates employment opportunities with which income levels of people will increase. Otherwise would lead to economic imbalances.

REFERENCES

Misra and Puri.'Indian economy', 2010 edition.
Pooja Sharma and ShikaSachdeva, Finacial Inclusion in India Issues and Challenges, International journal of management and social sciences research, Volume 3,no 6.
C.Pramasivan and V.Ganesh Kumar. Overview of financial inclusion in india, IJMDS, Volume no 2, Issue
http://articles.economictimes.indiatimes.com/2014-02-08/news/47127322_1_margin-cap-lending-rate-interest-rate
http://www.moneycontrol.com/fixed-income/banks-deposits/
http://www.planningcommission.nic.in
http://www.rbi.org.in andhttp://mospi.nic.in/Mospi_New/Admin/publica

STATUS OF FINANCIAL INCLUSION IN INDIA

Dr. K. Veerachari,
Reader in Economics,
Govt., Degree College,
Alur, Kurnool Dist

Abstract

The approach of 12th five year plan (2012-2017) is faster, sustainable and more inclusive growth. The issue of financial inclusion is emerging as the new paradigm of economic growth. Financial inclusion plays a major role in driving away the poverty from the country. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. Though our country's economy is growing around 9 percent, still the growth is not inclusive with the economic condition of the people in rural areas worsening Further. One of the typical reasons for poverty is being financially excluded. Though there are few people who are enjoying all kinds of services from savings to net banking, but still in our country around 40% of people lack access to even basic financial services like savings, credit and insurance facilities. So an inclusive sector should not only serve the bankable clients, but also integrate the "unbankable" clients by making them "bankable". Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52% of urban households have access to banking services. Government and RBI has taken various steps to increase banking penetration in the country, nationalization of banks, establishment of RRBs, introduction of SHG and strategy of one person one account for accessing financial market. The 100 per cent financial inclusion drive is progressing all over the country. The present paper purports is to access the Indian experience through descriptive and empirical studies of available statistical data and role of RBI in promoting financial inclusion. With special reference of some articles it is found that there are 403 million mobile users in India in which 54% has bank account. In which rural average among the adult population is 39% against 60% in Urban India. Himachal Pradesh is only state to achieve full financial inclusion. The paper concludes that financial inclusion plays a major role in driving away the poverty from the country Keeping in view the enormity of the task involved, the Committee on Financial Inclusion recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and the remaining by 2015. In India a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion

Key Words: FI – Financial Inclusion, Low Income Groups, Regional Rural Banks, SHG

1. INTRODUCTION

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the area relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. There are several factors affecting access to formal banking system in any country.

They include culture, financial literacy, gender, income and assets, proof of identity, remoteness of residence, and so on. The Reserve Bank of India has taken several measures

since Independence to improve access to affordable financial services through financial education, leveraging technology, and generating awareness.

The aim of financial inclusion is to promote sustainable development and generating employment for a vast majority of the population especially in the rural areas. In the first ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. At present, only 34% of the India's population has access to basic banking services. The latest National Sample Survey Organization survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services - such as savings accounts, credit, remittances and payment services, financial advisory services, etc. Low-income groups do not have access to the formal banking systems, as they usually do not have the documents needed to open a bank account. As a result, they depend on the informal sector for their savings and loan requirements. Recognizing the importance of inclusive growth in India, efforts are being taken to make the financial system more inclusive. The time ate goal is to learn how to protect poverty reducing strategies from counterstrategies and carry them through to greater efficiency. This may be asking too much since this is an infield hat politicians and administrators have so far been reluctant to enter, and perhaps with good reason. Financial literacy levels are extremely low. Even though microfinance institutions have expanded very fast in the last five years, they still only cover about one fifth of low-income households and they to meet only one tenth of the credit needs of the poor. While it is a daunting challenge in size and scope, financial inclusion is also a great social and business opportunity. Among the potential businesses that will benefit from more inclusion are business correspondents who can bring simple banking services as wells insurance and even pension schemes to the poor.

The Report Committee on Financial Inclusion headed by Dr.C.Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives for achieving 100% financial inclusion in India.

2. STATUS OF FINANCIAL INCLUSION IN INDIA:

The status of financial inclusion in India has been assessed by various committees in terms of people's access to avail banking and insurance services. Only 34% of the India's population has access to banking services. The Eleventh Five Year Plan (2007-12) envisions Inclusive growth as a key objective. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream . One of the best ways to achieve inclusive growth is through financial inclusion.
The process of financial inclusion in India can broadly be classified into three phases.
During the First Phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self- Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage programme was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision making by the poor and provide 'door step' banking. During the Third Phase (2005 onwards), the 'financial inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through 'no frills' accounts.

The Report Committee on Financial Inclusion headed by Dr.C.Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

CURRENT STATUS:

(a) Number of branches of Scheduled Commercial Banks as on 30th June, 2012

Table 1: Bank Group-wise Number of branches as on 30.6.2012

Bank group	Rural	Urban	Semi urban	Metropolitan	Total
Public sector banks	221146	17803	14223	13231	67403
Private sector banks	1555	4660	3580	3621	13416
Foreign banks	7	9	61	247	324
Regional Rural banks	12258	3094	830	148	16330
Total	**35966**	**25566**	**18694**	**17247**	**97473**

Table 2: No. of villages and Average Population per Branch (APPB)

Number of villages in India as per the 2001 Census	600,000 (approx.)
Average Population per Bank Branch (APBB) as on 31.3.2012	12,921

Table 3: No. of bank branches of SCBs over the years

Number of scheduled commercial bank branches as on 31st December, 1969	8,826
Number of scheduled commercial bank branches as on 31st March, 1990	59,762
Number of scheduled commercial bank branches as on 31st March, 2012	93,659

World Bank study in April 2012, which had shown half of the world's population held accounts with formal financial institutions. The study said only nine per cent of the population had taken new loans from a bank, credit union or microfinance institution in the past year. In India, only 35 per cent have formal accounts versus an average of 41 per cent in developing economies.

India also scored averagely in respect of credit cards, outstanding mortgage, health insurance, adult origination of new loans and mobile banking. "Financial inclusion remains a substantially unfinished agenda," said the report.

RBI has admitted that they have faced criticism from extreme votaries of strong interventionist policies to promote financial inclusion and it was argued that such directed lending rates leads to mis-allocation of resources. However, the central bank said it has

striven to ensure a balance between equity and efficiency considerations so that financial inclusion is furthered while not compromising on the financial health and the lending capacities of the banks.

Latest figures indicate that there are over 110,000 business correspondents employed, which is not a large number in context of the number of banked villages, RBI said. However, the regulator said, they have taken several initiatives to make financial inclusion high on the agenda of Indian banking in the recent years. It required banks to provide no-frills account, tried to improve the outreach of banks through the business facilitator and business correspondent (BC) models and set up goals for banks to provide access to formal banking to all 74,414 villages with population over 2000.

RBI also adopted the information, communication, technology-based agent bank model through BCs for door-step delivery of financial products and services since 2006. However, in its annual report, RBI said the BC model has not been effective in addressing financial inclusion needs. "The model, by itself, cannot serve the financial inclusion objective. It cannot substitute the services and the customer confidence that the brick and mortar bank branches provide," said RBI in the report.

RBI said that there is a need for mainstreaming financial inclusion. "To improve the access of the poor to banking, banks need to open branches to provide low-cost intermediation with simple structures, minimum infrastructure for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 km," said RBI.

3. PROJECT INTRODUCED FOR FINANCIAL INCLUSION:

(a) SHG-Bank Linkage Programme

In the last two decades, the major institutional innovation in India for expanding financial system access and usage for the poor and marginalized sections of the population has been the SHG-Bank Linkage Programme (SBLP). This was an outcome of pilot projects during the 1980s for improving access of rural poor to formal institutional financial services. For the banks, it was a way of reducing their transaction costs by dealing with groups of people rather than individuals, reducing the credit risks through peer pressure and making people save. Subsequently in the year 1992, the National Bank for Agriculture and Rural Development (NABARD) started a pilot project of linking SHGs with branches of banks across the country. The project provided a cost-effective SBLP model for providing financial services to the underserved poor. Being a 'savings-first, credit later' model, credit discipline became a norm for SHGs and 'social collateral' made them bankable. The model was also successful in providing solution to the twin problems faced by banks, i.e., low recovery of loans in rural areas and high transaction costs in dealing with small borrowers at frequent intervals. One of the major positive impacts of the SBLP was social and economic empowerment of the membership.

The revised NABARD guidelines, popularly known as SHG2 (version 2), have sought to address some of the shortcomings of the earlier version. The major features of SHG2 are : (a) more focus on voluntary savings; (b) cash credit system of lending over three to five years cycle to minimize the problem of inadequate finance and non-availability of repeat loans; (c) enabling creation of Joint Liability Groups (JLGs) within SHGs to scale up economic activities by more entrepreneurial members of the group; (d) improving risk mitigation systems by bringing in third party audit; (e) building second tier institutions; (f)

strengthening the self-monitoring mechanism and (g) meeting the training/capacity building requirements of the SHGs.

(b) Microfinance Institutions (MFIs)

Given the limitation of scaling up SHG movement in the absence of human and financial resources and in the absence of deeper geographical penetration of formal banking system due to several demand and supply side factors, other intermediaries with a reach to the excluded segments of the society were required to augment the efforts. Semi-formal financial sector service providers like the MFIs fill this niche space and, to that extent, play a critical role in the financial inclusion. The MFIs have served the underserved/un-served populace in the last few years and improved access to credit though there have been quite a few debatable issues on the style of corporate governance and ethics of conducting business on part of some of the MFIs. Despite these debates, it has been realized that the MFIs do help in financial deepening and can remain an important segment of the Indian financial market keeping in view the present level of penetration of the banking system. Many of the MFIs have credit flows from the banks whose capacities for last mile reach are constrained under various forms of MFI-bank partnership model.

Creation of a new category of MFI-NBFC under the framework prescribed by the Malegam Committee, more nuanced appreciation by the financing banks of the difficulties being faced by some of the MFIs despite having responsible and sustainable business model, greater sense of responsibility in the sector as evident from the code of conduct being voluntarily accepted by the MFIs and the Microfinance legislation which is in the offing, possibly hold key to future success and sustainability of the MFIs.

(C) Business Correspondents (BCs)

Due to the constraints involved in going for a full-fledged brick & mortar branch model, the Reserve Bank, based on the recommendations of the Internal Group on Rural Credit and Microfinance, adopted the ICT based agent bank model through Business Facilitators (BFs)/ Business Correspondents (BCs) for ensuring door step delivery of financial products and services. In January 2006, the Reserve Bank permitted banks to engage BFs and BCs like NGOs/MFIs set up under the Societies/Trust Acts, Section 25 companies, post offices, etc. as intermediaries for providing financial and banking services, thus, addressing the proverbial last mile problem. The approach adopted has been technology and delivery model neutral. Initially, the BC retail outlets were being created by the banks themselves. Over the last few years, however, a number of innovations, in particular with regard to the universe of entities that can work as agents of banks (individuals like retired bank/government employees, *kirana*/fair price shops, insurance agents, operators of common service centres, etc.), have been brought in under the BC model so as to scale up the financial inclusion drive in a sustainable manner, latest being the use of corporate entities as BCs of banks.

Business Correspondents bridge the connectivity gap between the service seekers, i.e., under-served populace, and the service providers, i.e., the banks. Banks, being regulated entities, are governed by prudential regulations and supervisory rules, e.g. adherence to KYC/AML, consumer protection laws, etc. In the BC-oriented model of financial inclusion, pursuit of higher volume of business for revenue maximization may dilute prudential requirements exposing the banks concerned to whole host of risks like reputation risk, strategic risk, compliance risk, operations risk besides the risk of contaminated asset portfolio.

Viability of the BC model in general has remained a critical issue for which the model has not taken off as expected. There is a mismatch between the revenues earned and costs

incurred while undertaking the BC operations, resulting in non-viability of the model. Hence, attempts to employ large BCs under competitive L-1 (lowest one) bidding system without ensuring their financial and technical capabilities and without assessing the performance of a large number of existing BCs who are yet to become viable, run the risk of creating huge uncertainty for the whole system of Bank-BC partnership model. Many of the BCs became non-operational due to lack of timely payments by banks or inadequate commission paid by banks. It is extremely critical to ensure that the remuneration paid to the BCs is adequate to keep the model economically viable and attractive. There is a huge risk of the entire model being discredited with all its adverse consequences for the financial inclusion efforts.

(D) Product initiatives

Reserve Bank of India has been providing policy impetus for introduction of new products and innovative intermediary channels to enable sustainable and meaningful financial inclusion. The **'no-frills account' (NFA)** has been one of the landmark financial products which allowed financially excluded individuals to access banking services for the purpose of savings and also had credit feature in the form of overdraft facility. To ensure that more and more people come within the banking fold and realizing that there is some stigma attached to the NFA, it is now felt that banks should offer all the customers a **'basic savings deposit account'** with certain minimum common facilities and without the requirement of minimum balance. The services provided in this account should include deposit and withdrawal of cash at the bank branches as well as ATMs, receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments. The Reserve Bank is currently in the process of issuing guidelines on opening of such basic savings bank deposit account by banks. Another innovative product offered by the banking system is the **General Credit Cards**. This was, however, preceded by **Kisan Credit Cards** which are likely to undergo major transformation when they become smart-card based cards. Innovation of products for the specific needs of the poor is necessary for achieving the ultimate objective of inclusive growth.

Rural customers are looking upon banks for insurance products in view of their confidence in the banking system. Moreover, micro-insurance is a low-cost, high-volume business; therefore, scale of economy is crucial for success. Currently, only insurance company agents, banks, microfinance institutions, non-governmental organizations and SHGs are allowed to sell micro-insurance policies, while a BC is authorized to offer banking services, such as, cash transactions to customers. The BC network could be tapped to increase penetration of micro-insurance and take insurance to the uninsured segments of the country. The concern, however, remains on account of the possibility of mis-selling.

(E) Tapping technology platforms

It has been observed that the product initiatives are usually scaled down versions of the existing products. To enable a successful financial inclusion, innovation of products for the specific needs of the poor is not only necessary but also an essential condition. Today, banks can provide a bouquet of financial services through the various networks of agents and branches by leveraging and fine tuning technology platforms. Technology holds the key to providing models for efficient delivery of small value transactions in large volumes while reaping economies of scale. The implementation of such effective, scalable and platform-independent technology will help drive down the cost of providing banking services to the poor. Further, technology helps in spreading financial literacy both as a delivery channel and as an intrinsic part of the learning process (e.g., instructional computer). Today, both the service providers and service seekers have a number of technology options, such as, smart

cards, micro-ATMs, ATMs, mobile technology, Aadhaar Enabled Payment Systems (AEPS), etc. to choose from to provide/seek financial services irrespective of their geographic locations.

F) Mobile banking

Mobile banking transactions have been defined as customers undertaking banking transactions using mobile phones involving credit/debit to their accounts. With the rapid growth in the number of mobile phone subscribers in India, banks in collaboration with telecom companies are seeking to develop an alternate channel of delivery of banking services. Keeping in view the issues relating to diversity of network providers in India, remittance centric approach of such model and KYC related concerns, the Reserve Bank has advocated bank-led mobile banking model and issued operative guidelines to banks for effecting mobile based banking transactions. As on May 31, 2012, the Reserve Bank had permitted 69 banks to provide mobile banking services to their customers. During May 2012, about 3.34 million transactions amounting to ` 2.86 billion as against 1.28 million transactions amounting to ` 0.91 billion in May 2011 were transacted through this channel. Even though the value and volume are increasing on month on month basis, the growth rate is low when compared with the number of bank accounts and the vast mobile subscriber base of more than 900 million. This indicates that banks are yet to fully exploit this technology even for their existing customers. While the Reserve Bank has provided the policy framework for a collaborative relationship between the banks and mobile network operators, the results of this collaboration are not yet fully visible. Some of the likely reasons which have been flagged relate to ownership of the customer, control of transactions and developing an appropriate revenue sharing model. The need of the hour, therefore, is that the banks and the mobile operators reach a workable understanding while protecting their mutual interests. Such an approach would result in a “win-win” situation for both and, more importantly, serve the larger cause of public good of financial inclusion.

The Inter Bank Mobile Payment Service (IMPS), an instantaneous 24x7 electronic funds transfer system has been developed by the National Payment Corporation of India (NPCI). Despite tremendous potential of the product, the volumes are low, probably due to the reluctance of the telecom companies to offer the common Unstructured Supplementary Service Data (USSD) platform. The USSD platform is menu driven and can be invoked by dialling a number. Its main advantage is that even users with low-cost handsets can perform their banking transactions through the mobile phone. It is, however, gathered that the telecom companies prefer negotiating with individual banks on the issue rather than with NPCI in providing such a common USSD platform. Telecom companies, regulatory authorities, NPCI and all the stakeholders need to work together to draw up a roadmap for increasing the IMPS supported mobile banking transactions.

(G) Adhaar Enabled Payment Systems (AEPS)

The AEPS architecture designed by Unique Identification Authority of India (UIDAI) in collaboration with the NPCI is a platform which banks can leverage upon for expanding their financial inclusion initiatives. The basic premise of AEPS is that one BC Customer Service Point (CSP) will have the ability to service customers of many banks based on the unique bio-metric identification data stored in the Aadhaar database. The AEPS platform is expected to empower a bank customer to use Aadhaar as his/her identity to access the respective Aadhaar enabled bank account and perform basic banking transactions like balance enquiry, cash withdrawal and deposit through the BC. A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are credited to their Aadhaar enabled bank accounts. The beneficiaries withdraw the amounts through micro-

ATMs which authenticate their Aadhaar number. There is a need to scale this up across the country.

Recent Project for Financial Inclusion

Millions of people have lack of proper proof as driving license, Pan card , credit cards etc. so that they face difficulties to access public services like bank account, ATM facility, loan facilities etc. The project ADHAR (The brand name of UID) serve the KYC guidelines for the people who have lack of Identity. Thus, UID(Unique Identification Number) could act as a tool to drive financial inclusion for the rural an poor people.

SWAVALAMBAN

A co-contributory pension scheme launched on September 26,2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government will contribute a sum of Rs. 1000 per annum. Swavalamban scheme totalling to 40 lakhs subscribers by March 2014.

SWABHIMAN:

The central government has launched in a way to achieve financial inclusion programme Swabhiman on February 10, 2011 in which five crore household of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 crore no frills account till march 2012.

PFRDA (Pension Fund Regulatory & Development Authority's)

Government has set a regulatory body for the pension sector on August 23, 2003. PFRDA's effort are an important milestone in the development of the sustainable & efficient voluntary defined contributor based pension system of India. PFRDA also works for financial literacy and awareness campaigns as a part of its strategy to protect the interest of subscribers under Swavalamban scheme.

6. CONCLUSION

In achieving inclusive growth in India, the Financial Inclusion will play a vital role and help the nation to drive away the not only rural poverty but also urban poverty in India. It is the duty of every Indian citizen to ensure that all the Indian will have bank account and everybody should take part actively in achieving 100% financial inclusion in India. Setting up financial literacy centers and credit counseling at pilot basis launching a financial literacy campaign etc. are some initiatives currently under way of furthering Financial Inclusion. Our National vision for 2020 is to open nearly 600 million new customer's account and services through a variety of channels. Although various initiatives were introduced in India from last two decade but Financial inclusion remain distant dreams. A committee called by central government for financial inclusion has given its report that to access financial services including credit to be raised to 50% by 2012 and 100% by 2015. Thus, financial inclusion have enough scope for economic growth, raising living standard of people, equality etc. On the basis of above initiatives and projects we can conclude that a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion.

REFERENCES

1- Ghorude, K.N. (2009). "Micro Finance for Financial Inclusion and Sustainable Rural Development", Southern Economist, Vol. 48, No.1, PP.47 – 50.

2- Manoharan, B. "A study on commercial banks in India – An overview", Indian Journal of Marketing, Vol. 45, No.1

3- Muthiah Manoharan, P., and Krishnaveni Muthiah. (2010). "Financial Inclusion in the Indian Rural Area Context – A Micro level Study" Research Highlights, Vol. 20, No.2, PP.71 – 74.

4- Narendra. M (2011). "Financial Inclusion Gains Urgency", The Hindu Survey of Indian Industry.

5- Beck, T., Demirguc - Kunt, A. & Levine, R. (2007) ''Finance, Inequality and the Poor'', Journal of Banking and Finance, 28, 423-442.

6- Raj Kapila, and Uma Kapila, (Eds.) (2008). "Inclusive Growth: The Role of Banksin Emerging Economies", Economic Developments in India, Academia Foundation.

7- Sendhilvelan, M., and Karthikeyan, K., (2006) „No Frills Account: A Basic Drive for Financial Inclusion", Southern Economist, Vol. 45, PP.13 – 14.

8- Subhash Narayan, (2011). "Fund to Boost Financial Inclusion in the Works", http://news.in.msn.com/business/article.aspx?cp-documentid=4833211

9"Report of the Committee (Chairman: C.Rangarajan) on the Financial Inclusion", Government of India, January 2008.

10. Thorat, Usha (2007), "Taking Banking Services to the Common Man – Financial Inclusion", Deputy Governor, RBI, at the HMT-DFID Financial Inclusion Conference,Whitehall Place, London, UK, June 19, 2007, Speech.

11. Mahendra Dev.S.(2006), "Financial Inclusion – Issues and Challenges", Economic and Political Weekly, Vol.41 (41), October 14-October 20, 2006.

12. Rangarajan,C. (2007), "Financial Inclusion – Some Key Issues", Lecture delivered at Mangalore University, Mangalore, August 10, 2007.

13. Rana Mitra (2007), "Financial Inclusion meeting the Challenge", People's Democracy,Vol.XXXI-II, No.17, April 29, 2007.10

14. Sinclair,S.P.(2001), "Financial exclusion – An introductory survey", Report of Centre for Research in Socially Inclusive Services, Heriot-Watt University, Edinburgh.

15. Layshon,T,(1995),"Geographies of financial exclusion financial abandonment in Britain and the United States", Transactions of the Institute of British Geographers New Series, 20, pp.312-341.

16. Rakesh Mohan, (2006), "Economic Growth, Financial Deepening and Financial Inclusion", Address by Dr.Rakesh Mohan at the Annual Bankers' Conference 2006, at Hyderabad on November 3, 2006.

17. Littlefield, Elilzabeth; Helms, Brigit; Porteous, David (2006), "Financial Inclusion 2015 Four Scenarios for the future of Microfinance" CGAP Focus Note No.39.

18. Das, V (2006), "Financial Inclusion Initiatives" Inaugural address delivered at the 'National Conference on Financial Inclusion and Beyond Issues and Opportunities for India", September 19-20, 2006, Cochin.

19. Subba Roa, D (2009), "Financial Inclusion Challenges and Opportunities", speechdelivered by Shri Duvvuri Subba Rao, Governor, RBI, at the Bankers' club in Kolkatta on December 9, 2009..

20. Hemavathy, R (2009), "Financial Inclusion defies Economic Crisis" International Congress of Social Philosophy, 2009.

21. Sujatha, B (2009), "Financial Inclusion Concepts and Strategies", ICFAI

21. Sameer Kochal (2009), "Financial Inclusion", Eastern Book Corporation, New Delhi

FINANCIAL INCLUSION IN RURAL INDIA

G.Sandheep,
Lecturer in Commerce
Govt.Degree College, Armoor.
Sandeep.gottiparthy@gmail.com

ABSTRACT

The responsibility of meeting the credit needs in the rural areas of India was entrusted primarily with the cooperative sector and later to the commercial banks. One of the major objectives of the nationalization of major commercial banks in 1969/1980 was to improve the flow of formal institutional credit to rural households. Although these measures were ambitious and laudable, bank credit did not reach the poor people in adequate quantum. The financial sector reforms begun in 1992 have been systematically moving away from the social objective of the banking sector. The formal financial sector in India is shifting its focus from "mass banking" to "super-class banking". Though banking sector has witnessed tremendous changes in recent periods in terms of technological advancements, internet banking, online money transfers, etc, "financial exclusion" is a reality. It is in this context that the term "financial inclusion" gains importance and it is defined as the process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. In countries with a large rural population like India, financial exclusion has a geographic and social dimension. Geographic exclusion is exposed through inaccessibility; distances and lack of proper infrastructure. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few. The overall strategy for financial inclusion, especially amongst the poor and disadvantaged segments of the population should comprise ways and means to effect improvements within the existing formal credit delivery mechanism, as well as an evolution of new models for extending outreach, and a leverage on technology solutions to facilitate large scale inclusion. Only two to five percent of the 500 million poorest households in the world have access to institutional credit. Of which, women receive a disproportionately small share of credit from formal banking institutions. The Women's Self Help Group movement is bringing about a profound transformation in rural areas of India. Microfinance Institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. The present paper deals with how the mechanism of microfinance can enable the financial inclusion of hitherto excluded population, especially the women, into the formal financial sector.

Introduction

Although the banking system has experienced phenomenal growth in terms of geographical spread, deposit mobilization and disbursal of credit in rural areas after nationalisation, bank credit remains by and large, inaccessible to the poor. The poor both in rural and urban areas do not have the necessary capabilities to approach and negotiate with formal financial institutions. The drive of very poor people to help them through self-employment is ignored by the formal financial sector. Because the very poor have not traditionally been recognized as creditworthy or able to save, they are not perceived by the conventional agencies as profitable clientele for credit.

Further, the rural credit system entrapped by the twin problems of high transaction cost and poor repayment performance reduces the profitability of rural branches of

nationalised banks. The incompetence of management of individual banks also increased the non-viability of the rural credit delivery system (Analyst, 1993). The creditworthiness criteria adopted by institutional credit are alienating small farmers from borrowing as lending is closely linked to the landholding status of the borrower. The formal credit institutions neglected consumption needs of the poor and emphasized only on production credit. The spread of the system has been uneven across regions and wealth groups. The proportion of the poor obtaining credit from the banking system has been lower than their share in the total population. Moreover, there is widespread belief that the poor are unbankable. There are also internal problems such as absence of linkages of credit with marketing, investment credit having no provision for working capital. Inadequate staff and managerial deficiencies within the banking system have also been causing problems (Rajasekhar, 1994).

The financial sector reforms begun in 1992 were intended to liberalise the financial sector. But the proposed reforms have been systematically moving away from the social objective of the banking sector by abolishing concessional interest rates, insisting on collateral even for small borrowers and making large stipulated minimum balance compulsory for granting loans to small savers from the system (Mujumdar, 1995). In consequence, the number of small borrowal accounts has declined and it has resulted in misallocation of funds, especially diversion to investment from credit to the small borrower, expansion of foreign bank which only serves the elite in urban areas (Joshi, 1999). In short, the formal financial sector in India is shifting its focus from “mass banking” to “super-class banking”.

In recent periods, banking sector witnessed tremendous changes in terms of technological advancements, internet banking, online money transfers, etc. But it is a reality that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology have led to restricted access to financial services for some groups. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed “financial exclusion”. These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc.

Objectives

1. To examine the extent of financial exclusion in rural India
2. To study the extent of progress made by microfinance in rural India

Methodology

Secondary sources of data are used. Data published by various institutions such as Government of India, World Bank, Consultative Group to Assist the Poor (CGAP), Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD, State Level Bankers’ Committee (SLBC), etc are used for the purpose of the present paper.

Discussion of results

The process of financial inclusion is an attempt to bring within the ambit of the organized financial system the weaker and vulnerable sections of society. Financial inclusion can be defined as the delivery of credit and other financial service at an affordable cost to the vast sections of the disadvantaged and low income groups. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include,

within its ambit, people with low incomes. Through graduated credit, attempts must be made to lift the poor so that they come out of poverty. Financial inclusion may, therefore, be defined as the process of enabling access to timely and adequate credit and other financial service by vulnerable groups, such as weaker sections and low income groups at affordable cost. The target for National Rural Financial Inclusion Plan (NRFIP) is to provide access to comprehensive financial services to at least 50% (55.77 million) of the excluded rural cultivator and no cultivator households, across different States by 2012 through' rural/ semi urban branches of Commercial Banks and Regional Rural Banks.

The Extent of Financial Exclusion in Rural India

Based on the All Indian Debt Investment Survey 2002, 111.5 million households had no access to formal credit. It also showed that 17 million households were indebted to moneylenders. The Arjun Sengupta Report on financing enterprises in the unorganized sector has pointed out that only 2.4 million out of 58 million units in this sector (with investment of less than Rs 25000) have got credit from commercial banks. The AIDIS 2002 also showed that lower the asset class or income, higher the degree of exclusion. These findings are corroborated by Invest India Incomes and Savings Survey (2007). The survey showed that 32.8% of households had borrowed from institutional sources and 67.2 % had borrowed from non institutional sources. The survey also found that 70 per cent of earners in the annual income bracket of more than Rs.400,000 borrowed from institutional sources as compared with only 27.5 per cent in the case of earners in the income bracket of less than Rs.50,000.

Of the underprivileged sections of the society - farmers, small venders, agriculture or industrial laborers, people engaged in unorganized sector, unemployed people, women, children, old people and the physically challenged - only 40 per cent of the people have a check in account, 20 per cent have taken life insurance products, 0.6 per cent have taken non-life insurance products, only 2 per cent have access to credit cards. Geographically, only 5.2 per cent of the country's villages have a bank branch.

Despite the vast network of rural branches, only 27 per cent of the total farm households are indebted to formal sources; of them, one third also borrow from informal sources. There are parts of the country where more than 95 per cent of the farm households do not get any credit from institutional or non institutional sources. Apart from the fast that exclusion itself is large, it also varies widely across regions, social groups and assets holdings. The poorer the group, the greater is the exclusion. There is evidence that farm debt is increasing much faster than farm incomes and the larger issue of the overhanging debt stock, as distinct from credit flow, has not even been on the agenda except of a few State governments. According to NSSO data in the situation assessment survey on "Indebtedness of Farmer households" (2003), 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, only 27% of total farm households are indebted to formal sources.

Microfinance and Financial Inclusion

Since formal credit institutions rarely lend to the poor, special institutional arrangements become necessary to extend credit to those who have no collateral to offer. Microfinance, by providing small loans and savings facilities to those who have been excluded from commercial financial services, has been promoted as a key strategy for reducing poverty in all its forms by agencies all over the world. Microcredit has been defined as "programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons" (Micro Credit Summit, 1997). Nowadays, microfinance represents something more than microcredit - it also

refers to savings, insurance, pawns and remittances, in sum to a much wider range of financial services (Tankha, 1999). In most cases, microcredit programmes offer a combination of services and resources to their clients in addition to usual credit for self-employment. Also, this is an effort to provide a bridge between formal financial markets and the informal groups in the formal microfinance initiatives.

The basic idea of microfinance is that poor people are ready and are willing to pull themselves out of poverty if given access to economic inputs. The need for informality in credit delivery and easy access is demonstrated by the fact that Self Help Groups (SHGs) and Microfinance Institutions (MFIs) constitute the fastest growing segment in recent years in reaching out to small borrowers. Micro-finance is a new development in which Indian institutions have acquired considerable expertise and where up-scaling holds great promise both to expand the nature of financial services offered to micro enterprises and to make these the springboard for entrepreneurial development. (Planning Commission, 2006)

The SHG movement is bringing about a profound transformation in rural areas of India. MFIs play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. It is roughly estimated that there are about 1,000 NGO-MFIs and more than 20 Company facilitating the activities in all over India. There are today over 22 lakh such groups linked with banks. The objective of the country is to enrol at least 50% of all rural women in India as members of SHGs over the next five years and link these SHGs to banks.

SHG Financial model in India

In India three different models of linkage of SHGs to the financial institutions have emerged. They are:

- ❖ Banks, themselves, form and finance the SHGs.
- ❖ SHGs are formed by NGOs and other agencies but financed by banks.
- ❖ Banks finance SHGs with NGOs and other agencies as financial intermediaries.

The second model is the most popular model. Almost three-fourths of all the SHGs come under this model. Only 20 per cent of the SHGs are covered under the first and 8 per cent under the third model respectively.

Challenges Ahead for Microfinance in India

An evaluation of SHGs carried out by the regional offices (ROs) of the Reserve Bank revealed that there was scope for improvement in the area of maintenance of books of accounts. It also brought out that rotation of group leaders was generally not followed by SHGs. However, other best practices like strict adherence to attendance of group meetings, recording minutes of the meetings and prompt repayment of bank loans were being followed. The momentum of growth in the micro-finance sector has brought into focus the importance of regulating the sector to function in an efficient and orderly manner. There would be need for greater transparency in their functioning and for facilitating their reach to un-banked population of the country Interest rates in the microfinance sector have to be significantly higher than in the banking sector reflecting the much higher cost of doing business. This attracts criticism but it is important to remember that most microfinance institutions charge rates which are much lower than rates charged by money lenders. Borrowers stand to benefit from the experience of micro-finance institutions as these provide competition to money lenders. (Planning Commission, 2006)

Over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide. Sustainable (i.e., profitable) microfinance providers can continue to serve their clients without needing ongoing infusions of subsidies, and can fund exponential growth of services for new clients by tapping commercial sources, including deposits from the public. MFIs on average have higher returns on assets than commercial banks do, but MFIs produce lower returns on equity for their owners. The median return on MFI owners' equity in 2006 was moderate—12.3 percent, roughly 4 percent lower than the return for banks.

There have been incidents of state governments imposing restrictions on micro-finance institutions in a manner which does not reflect an appreciation of the realities on the ground. Excessive regulation and control of this sector may be particularly dangerous as it can prevent the development of a healthy and competitive microfinance sector which could compete with usurious money lenders. (Planning Commission, 2006)

Conclusion

Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by commercial banks, financial institutions and capital markets. In many developing countries, capital markets are at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs disproportionate to the amount of lending.

Extending the reach of financial services to the poor through new technologies and simplified branch regulations hold promise. Bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion. Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch. Poor infrastructure and telecommunications, and heavy branch regulation, also restrict the geographical expansion of bank branch networks. In many developing countries there are fewer bank branches per rural resident than per urban resident. Non bank financial institutions like microfinance institutions help to fill this gap. Even though, in India, the microfinance model extends credit and savings to the poor, the challenges faced by the industry has to be rectified in due course for the effective working of the model.

References

1. Rajasekhar, D., Savings And Credit Systems Of The Poor: Some Non-Governmental Organisation (NGO) Experiences, Bangalore, NOVIB And HIVOS, 1994
2. Reserve Bank Of India (RBI), Report Of The Working Group To Review The Business Correspondent Model, Mumbai, 2009.
3. Tankha, Ajay. "Some NGO Dilemmas In Reaching The Poorest With Microfinance." Search Bulletin 14(1), 1999, Pp.73-79.
4. Rosenberg, Richard, Adrian Gonzalez, And Sushma Narain, "Are Microcredit Interest Rates Excessive?",. CGAP Brief, Washington, 2009.
5. Analyst, "Myth Of Non-Viability Of Rural Branches", Economic And Political Weekly 28(18), 1993, Pp. 853-854:
6. Bell, Clive, "Interactions Between Institutional And Informal Credit Agencies In Rural India", The World Bank Economic Review 4(3), 1990, Pp. 297-327.
7. Binswanger, Hans, And S. Khandker, The Impact Of Formal Finance On The Rural Economy Of India, WPS 949, Agricultural And Rural Development Department, 1992.
8. Government Of India (Goi), Economic Survey 2009, New Delhi, 2010.
9. Joshi, P. N., "Banking Sector Reform - The Other Side Of The Coin", Economic And Political Weekly, 34(4), 1999, Pp.797-798.

AN OVER VIEW OF FINANCIAL INCLUSION IN INDIA

H. Ranjeeta Rani, Senior student of Master of Business Administration, ICBM-School of Business Excellence, Hyderabad

L.Madan Mohan, Senior Assistant Professor, Padala Rama Reddi College of commerce & Management, Hyderabad

Abstract

A well-developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development. In India, in an attempt to improve access to financial services or financial inclusion, the Reserve Bank of India (RBI) promulgated a drive for financial inclusion, where banks take the lead in providing all 'unbanked' households in a district and villages with savings accounts. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The paper emphasises at the current status of Financial Inclusion in India and the World in general, highlight the measures taken by the Government of India and RBI for promoting financial Inclusion and highlight the inter-linkages between Socio – Economic welfare and Financial Inclusion.

Key words: Rural banking, financial inclusion, financial stability, no frill accounts, KCC

Introduction

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. More than 150 million poor people have access to collateral – free loans. However, there are still large sections of the world population that are excluded from the financial market. In India half of the poor are financially excluded from the country's main stream of banking sector. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The paper discusses about the current status of Financial Inclusion in India and the World general, highlight the measures taken by the Government of India and RBI for promoting financial Inclusion and highlight the linter-linkages between Socio – Economic welfare and Financial Inclusion. In India, the apex body RBI takes various inclusive steps for implementing the Financial Inclusion program. These steps include Opening of No – Frill Accounts (NFA), Relaxation of KYC norms, Engaging Business Correspondents (BCs), opening of branches in unbanked rural centers, Financial Literacy Programmes etc. The study also deliberates about inter-linkages between socio economic welfare and financial inclusion.

The socio-welfare programmes like the NREGA, Direct Cash transfer, National Old Age pension Scheme are focused on implementing financial inclusion. This is primarily because it helps to ensure electronic cash transfers.

Financial Inclusion

By financial inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system.

Rangarajan Committee (2008) viewed financial inclusion as "***The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost"***

CRISIL defines financial inclusion as
"The extent of access by all sections of society to formal financial services, such as credit, deposit, insurance, and pension services".
The term 'formal' in this definition refers to service providers that maintain official books of accounts. It is important to distinguish this aspect, as several non-formal channels of financing exist in the Indian rural landscape, though these cannot be considered to be effective.

In simpler terms financial inclusion is about including the excluded in the financial system of the country, and to ensure that their financial & social security needs are taken care of through appropriate financial service providers.

Given below is the diagram which briefly describes the essential contents of financial inclusion:

Role of Financial Inclusion

Financial Inclusion is imperative for inclusive growth of India, with more than 25 % of its population living in abject poverty government's onus towards their growth and development is huge, and inclusive finance is one such measure which if targeted and attained in right manner will provide an apt solution to the severe problems of poverty and unemployment. Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty.

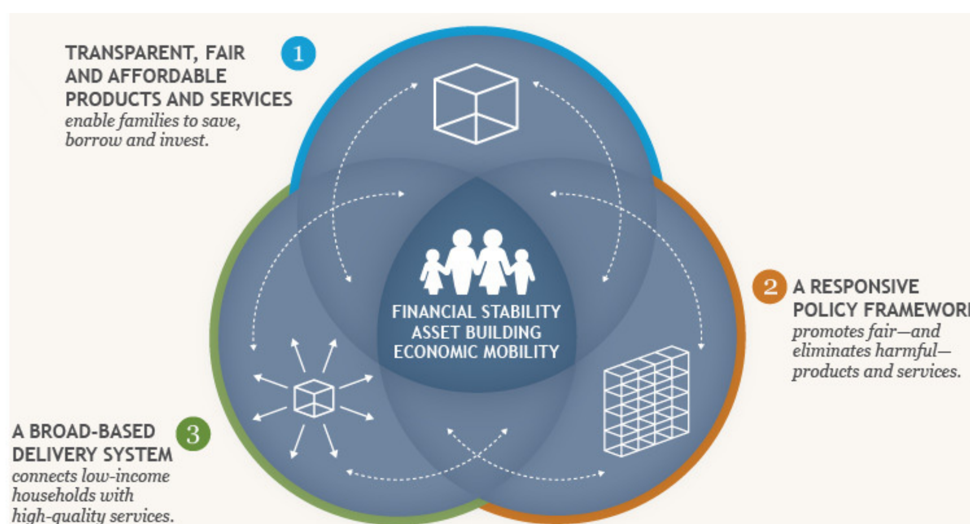
Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation.

Poors are typically more vulnerable to financial exclusion this is simply because their major problems arise from the need for finances. The formal banking services, by exploiting economies of scale and making judicious use of targeted subsidies may reduce or remove market imperfections and facilitate financial inclusion of the poor, ultimately leading to higher incomes. The access to financial services by poors would lead to their consumption smoothing and investments in health, education and income generating activities, thus expanding growth opportunities for them. Inclusive growth if targeted systematically may lead to financial stability, asset building and economic mobility and empowerment of the low income group people.

Financial inclusion ensures that a range of appropriate financial services are available to every individual and that the individual understands and accesses those services. This includes a basic, no-frills banking account for making and receiving payments, a savings product suited to the cash flows of poor households, money transfer facilities, small loans and overdrafts, and insurance (life and non-life).

Lack of awareness, low incomes, poverty, and illiteracy are among factors that lead to low demand for financial services and, consequently, to exclusion. On the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language barriers and staff attitudes all contribute to exclusion. Due to the procedural hassles involved in formal banking services, people feel it is easier to borrow from informal credit sources, even though it results in compromised standards of living, higher costs due to dependence on unethical and unregulated providers, greater incidence of crime and increased unemployment. Financial inclusion, thus, is not just about opening of saving bank accounts; it includes creation of awareness about financial products, and offering of advice on money management and debt counselling.

Following (Figure.-2) is the diagrammatic presentation of how inclusive finance can be used for the same



REVIEW OF LITERATURE

Financial inclusion, of late, has become the business world in academic research, public policy meetings and seminars drawing wider attention in view of its important role in aiding economic development of the resource poor developing economies. In the Indian scenario, the term 'financial inclusion' is popular in financial circles, especially after the Reserve Bank of India (RBI) announced a series of measures in its credit policy for 2006-07 to include many of the hitherto excluded groups in the banking net.
Rangarajan Committee (2008) on financial inclusion stated that: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty.

Indian Institute of Banking & Finance (IIBF) opines, "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Un restrained access to public goods and services is the sine qua non of an open and efficient society"

A perusal of literature on finance and economic development reveals that the earlier theories of development concentrated on labor, capital, institutions, etc., as the factors for growth and development. There have been numerous researches analyzing how financial systems help in developing economies. A great deal of consistency exists among economists regarding financial development prompting economic growth. Many theories have established that, financial development creates favorable conditions for growth through either a supply leading or a demand-following channel. According to Rajan and Zingales (2003), development of the financial system contributes to economic growth.

Basant Kumar1 & Brajaraj Mohanty (2012) (Financial Inclusion and Inclusive Development in SAARC Countries with Special Reference to India) stated that financial inclusion is a development policy priority aimed at improving conditions of vulnerable groups in many countries. Several initiatives for financial inclusion supported by legislative measures have come from financial regulators, banks and governments. One such initiative taken by the SAARC countries is the provision of microfinance. The comparison of Financial Access 2010 survey on various issues of financial inclusion agenda of the SAARC countries suggests that enforcement mechanisms are weaker than legislative requirements in all the SAARC countries.

Nitin Kumar (2012) made a deep analysis about the behavior of inclusion/exclusion across the population groups. According to the researcher, the financial inclusion mission has gained tremendous relevance in an emerging economy like India. Financial exclusion seems to be more severe in rural and backward locations. He has employed the pooled dataset spanning over the period from 1990 to 2008 for rural and urban regions separately. The result is a testimony to the fact that inclusion policies are actually translating into significant improvement of branch density in India.

Suresh Chandra Bihari (2011) studies about the various reasons behind the financial exclusion and explains the status of financial inclusion in India. The various financial services include credit, savings, insurance and payments and remittance facilities. Importance of financial

inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. With only 34 percent of population engaged in formal banking, India has a vast majority of financially excluded households. This study deals with the various reasons behind this and suggests wav to ameliorate the same.

S Sankaramuthukumar and K Alamelu (2011) in his study has investigated about the aims at developing an index for insurance inclusion for India and her states. It also ranks the states according to insurance inclusion index, and compares the insurance inclusion index with the latest financial inclusion index for Indian states. The average Insurance Inclusion Index (III) for India is 0.29 which means that the insurance penetration is only 29% in the country. When compared to Life Insurance Inclusion Index (LIII), the General Insurance Inclusion Index (GIII) is too low in India. The national average is just 0.19. LIII for the country as a whole is 0.34, which is above the III. There is a positive correlation between III and Financial Inclusion Index (FII).

Tushar Pandey, Nagahari Krishna, Venetia Vickers, Antonio Menezes,and M. Raghavendra (2010) analyzed the efforts for financial inclusion need to be designed with a vision beyond just the percentage of the country population with access to a bank account or a no frills account; enhance the capability and convenience for the un-banked and under transparency, accountability, efficiency and convenient access to necessary facilities. Government will play an important rescaling successful model as part of its policy to enable greater financial inclusion, with a focus on the small and marginal farmers.

Chandan Kumar Goyal (2008), in his research examines financial development which stimulates economic growth. In recent times, banking sector has played significant role in strengthening Indian financial system.. This paper looks into the circumstances that led to the growing consensus inclusion/exclusion in recent years. It attempts to make a comparative analysis of the status of financial inclusion as a whole. Addressing the issue of financial inclusion from the perspectives of both supply and demand, the paper concludes deal with these constraints on financial inclusion.

OBJECTIVES OF THE STUDY

- To examine the current status of Financial Inclusion in India and the World general.
- To understand the scope and coverage of financial inclusion in India.
- To evaluate & analyze the contributions of these initiatives to the Economic development of the nation

FINANCIAL INCLUSION IN INDIA AND THE WORLD

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies (Table I). Based on the announcement made in the Budget Speech of the Finance Minister for 2012-13 as well as the Annual Monetary Policy of the Reserve Bank for the year 2012-13, banks have been advised that they may set up intermediate brick and mortar structures (in rural centres) between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) units at a reasonable distance of about 3-4 kilometres. Such

branches should have minimum infrastructure, such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transactions and would have to be managed full time by bank's own officers/ employees. It is expected that such an arrangement would lead to efficiency in cash management, documentation, redressal of customer grievances and close supervision of BC operations.

Table I: Key Statistics on Financial Inclusion in India: A Survey

	Share with an account at a formal financial institution			Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All Adults	Poorest income quintile	Women	Using a formal account	Using a Community based method	From a formal financial institution	From family or friends				
India	35	21	26	12	3	8	20	2	2	7	4
world	50	38	47	22	5	9	23	15	7	14	7

Source: Asli Demirguc - Kunt and Klapper, L. (2012): 'Measuring Financial Inclusion', Policy Research Working Paper, 6025, World Bank, April.

Table: Position of households availing banking services in India

	As per Census 2001			**As per Census 2011**		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Total number of households**	**Number of households availing banking services**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,639,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Source: Ministry of Finance

Table: Bank Group-wise Number of branches as on 31.03.2013

Bank Group	**Rural**	**Semi-Urban**	**Urban**	**Metropolitan**	**Total**
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector Banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural Banks	12722	3228	891	166	17007
Total	**37953**	**27219**	**19327**	**17844**	**102343**

Table: No. of functioning branches of Scheduled Commercial Banks During 2009 to 2013

As on	**Rural**	**Semi-Urban**	**Urban**	**Metropolitan**	**Total**
March 31, 2009	31476	19126	15273	14325	80200
March 31, 2010	32493	20855	16686	15446	85480
March 31, 2011	33905	23114	17599	16419	91037
March 31, 2012	36356	25797	18781	17396	98330
March 31, 2013	37953	27219	19327	17844	102343

No.of Villages and Average Population per Brach (APPB)

Number of villages in India as per the 2001 Census	600,000 (approx.)
Average Population per Bank Branch (APBB) as on 31.3.2013	12,100

No. of bank branches of SCBs over the years:

Number of scheduled commercial bank branches as on 31st December, 1969	8,826
Number of scheduled commercial bank branches as on 31st March, 1990	59,762
Number of scheduled commercial bank branches as on 31st March, 2013	1,02,243

Number of ATMs in the country as on 31st March, 2013

	Rural	**Semi-Urban**	**Urban**	**Metropolitan**	**Total**
Public Sector Banks	8552	18445	22518	20137	69652
Old Private Sector Banks	768	2760	2354	1684	7566
New Private Sector Banks	2214	2214	10995	15842	35535
Foreign Banks	30	21	244	966	1261
Total	**11564**	**27710**	**36111**	**38629**	**114014**

Conclusion:

Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems—allowing broad access to financial services, without price or nonprice barriers to their use—are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs—and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth.

India had invested considerable amount of resources in expanding its banking network with the objective of reaching to the people. During the last 40 years huge infrastructure has been created in the banking sector. However, this large infrastructure that has penetrated even remote rural areas has been able to serve only a small part of the potential customers. While India is on a very high growth path, almost at the two-digit level, majority of the people are out of the growth process. This is neither desirable nor sustainable for the nation. We also know that one of most important driving forces of growth is institutional finance. Therefore, it is now realized that unless all the people of the society are brought under the ambit of institutional finance, the benefit of high growth will not percolate down and by that process majority of the population will be deprived of the benefits of high growth. Thus financial inclusion is not only socio-political imperative but also an economic one.

FINANCIAL INCLUSION IN INDIA: AN ANALYSIS

Dr.R.Neelaiah,
Assistant Professor,
Dept. of Commerce, Govt. Degree College,
Nandikotkur, Kurnool district,
Andhra Pradesh-518 401.

J.Masthani,
Assistant Professor,
Dept. of Commerce,
SML Govt. Degree College,
Yamiganur, Kurnool district,
Andhra Pradesh-518 401. India.

Abstract

More than 150 million poor people have access to collateral-free loans .However; there are still large sections of the world population that are excluded from the financial services market. In India half of the poor are financially excluded from the country's main stream of the banking sector. Still in India 22 percent of the people are living below the poverty line. Their monthly income is less than $1 per day and they are living in most un-liveable conditions. In India, growth with equity has been the central objective right from the inception of the planning process. The eleventh Five year plan (2007-12) re-emphasized the need for a more inclusive growth in order to ensure that the per capita income growth is broad- based. More and more Indian companies are trying to enter in the list of fortune 500 and one of our Indian entrepreneurs appears in the list of the top five richest persons of the world. The paper discusses about tackling this disparity between people by ways of financial inclusion through micro finance models and it also analyses how it leads to the economic development of a country.

Keywords*: Financial Inclusion, SHGs, MFIs, Index of Financial (IFI), Micro Finance, Poverty Alleviation,*

Introduction

The causality between economic growth, financial deepening and financial inclusion has been well recognized in India's development strategy, particularly since the reforms of the early 1990s.However an accelerated effort through targeted interventions has been a more recent story. The eleventh five year plan (2007-12) of the Government of India has further emphasized the initiatives of financial inclusion with its greater focus on "inclusive growth". The farming ,micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth as these sectors contribute to output and employment generation in a significant way with capacity to expand regionally diversified production and generating widely dispersed off farm employment.

Access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty.

The banking industry in India has recognized this imperative and has undergone certain fundamental changes over the last two decades. Reforms since the early nineties in the banking sector have facilitated increasing competition, the development of new generation private sector banks as well as technological breakthrough in diverse financial products, services and delivery channels. With the recent developments in technology, both delivery channels and access to financial services have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit / debit cards, internet banking, online money transfer, etc.

The moot point, however, is that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology - allowing, for example, more accurate targeting of sections of the market - have led to restricted access to financial services for some groups. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed "financial exclusion". These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, low cost credit, remittances and payment services, financial advisory services, insurance facilities, etc.

OBJECTIVES OF THE STUDY

- To review the present status of the financial inclusion in India in particular and the world general.
- To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion.
- To highlight how the micro finance models are useful to increas Financial Inclusion.

METHODOLOGY OF THE STUDY

Secondary research was conducted to review the present status of financial inclusion in India. Research methodology explains and chooses the best (in terms of quality and economy) way of doing it. The information and data for the research can be collected through primary as well as secondary sources i.e. published articles, journals, news papers, reports, books and websites." Various graphs and tables have been used. Data has been collected from the websites of the Reserve Bank of India and also taken from various committee reports submitted to Government of India on Financial Inclusion.

FINANCIAL INCLUSION: AN OVERVIEW

More recently, the term financial inclusion has gained argument among professionals. "Financial Inclusion" focuses attention on the need to bring previously excluded people under the umbrella of financial institutions. There is no universally accepted definition of financial inclusion. Financial Inclusion is generally defined in terms of exclusion from the financial system. The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services .Furthermore, the definitions have witnessed as shift in emphasis from the earlier ones, which defined financial inclusion and exclusion largely in terms of physical access, to a wider definition covering access to and use and understanding of products and services.

The financial services include the entire gamut - savings, loans, insurance, credit, payments etc. The financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, poor background etc. By providing these services, the aim is to help them come out of poverty. So far, the focus has only been on delivering credit (it is called as microfinance but is microcredit) and has been quite successful.

RATIONALE FOR FINANCIAL INCLUSION

Finance has come a long way since the time when it wasn't recognized as a factor for growth and development. It is now attributed as the brain of an economic system and most economies strive to make their financial systems more efficient. It also keeps policymakers on their toes as any problem in this sector could freeze the entire economy and even lead to a contagion.

The earlier research focused on how finance helps an economy. Now, research shows that financial inclusion is as important. The new avenue for research in finance is - making financial inclusion workable. Patrick Honohan (of Trinity College, Dublin) in his research developed an index to measure access to finance in 160 countries. If the index is put on a world map it can be clearly seen that those economies having higher indices are usually those, which we term as developed/advanced economies. It is not implied that financial inclusion alone has led to the development but is an important factor. The policymakers have set up their task force/committees to understand how financial inclusion can be achieved including advanced economies like United Kingdom. India also set up a committee under the chairmanship of Mr. C.Rangarajan to suggest measures to increase financial inclusion (hence called the Rangarajan Committee on Financial Inclusion). The World Bank had organized a conference in March 2007 and has released a report titled "Finance for All" in November 2007.
The first question that comes to mind is why can't financial inclusion happen on its own? Why do we need to make a policy to increase the same? Like any other product or service, why can't it find a market of its own? The reasons are:

a) **Financial Exclusion:** It has been found that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then hasto relies on informal sector (moneylenders etc) for availing finance that is usually at exorbitant rates. These leads to a vicious cycle. First, high cost of finance implies that first poor person has to earn much more than someone who has access to lower cost finance. Second, the major portion of the earnings is paid to the moneylender and the person can never come out of the poverty.

b) **High cost:** It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them. For example, to open a checking account in Cameroon, the minimum deposit requirement is over 700 dollars, an amount higher than the average GDP per capita of that country, while no minimum amounts are required in South Africa or Swaziland. Annual fees to maintain a checking account exceed 25 percent of GDP per capita in Sierra Leone, while there are no such fees in the Philippines. In

Bangladesh, Pakistan, Philippines, to get a small business loan processed requires more than a month, while the wait is only a day in Denmark. The fees for transferring 250 dollars internationally are 50 dollars in the Dominican Republic, but only 30 cents in Belgium.

c) **Non-price barriers:** Access to formal financial services also requires documents of proof regarding a persons' identity, income etc. The poor people do not have these documents and thus are excluded from these services. They may also subscribe to the services initially but may not use them as actively as others because of high distance between the bank and residence, poor infrastructure etc.

d) **Behavioral aspects:** Research in behavioral economics has shown that many people are not comfortable using formal financial services. The reasons are difficulty in understanding language, various documents and conditions that come with financial services etc.

WHY INCLUSIVE GROWTH?

Why inclusive growth now considered essential even to sustain the growth momentum. The rationale behind the inclusive growth is as under:

1. The poor chunk of India's population is based in rural areas.
2. From supply side management, growth in agriculture is necessary in order to keep manufacturing prices under check provide food security and keep inflation under control.
3. Higher growth in agriculture and rural areas coupled with demographic dividend (i.e. . growing proportion of population in the working age group of 15-65) will lead to rise in the savings level for financing the increasing level of investments necessary to sustain the overall growth momentum;
4. The limitations on increasing production and productivity in agriculture are driving migration to urban areas leading to population pressure in urban areas and increase in urban poor;
5. In India, the growth process is knowledge based and services led, the requirement of skilled labor is quite substantial in comparison to the present availability.
6. It is the unorganized non-farm sector that is increasingly absorbing most of the labor force. This sector has huge potential for growth once there is sufficient investment in infrastructure ensuring linkage to markets and easier access to assets and skills. Entrepreneurial development has to be encouraged by having an enabling competitive environment and easy availability of finance for newer projects and enterprises.

Thus there are several factors to be considered for inclusive growth. Uppermost among these is the need for raising the allocative efficiency of investment and resources use across different sectors of economy-this can be met by addressing two basic supply-side issues-

1. Effective credit delivery system to facilitate productive investment in employment impacting sectors especially, agriculture, micro, small and medium enterprises and
2. Large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power , rural/urban reconstruction and in social infrastructure such as health care education and sanitation.

Table 1: Status of financial Inclusion in India

Category of farmer house	Size class of land hold	Total farmer households (lakhs)	Non – indebted farmer households	Incidence of Exclusion	Proportion of non-indebted households in percentage
Marginal	Less than 1	589.06	324.04	55.0	70.6
Small	1.01-2.0	160.60	78.68	49.0	17.1
Semi-Medium	2.01-4.0	93.50	39.10	41.8	8.5
Medium	4.01-10	42.58	14.84	34.9	3.2
Large	10.0+	7.76	2.60	33.6	0.6
All sizes		893.50	459.26	51.4	100

OSTS AND CONSEQUENCES OF FINANCIAL EXCLUSION

INITIATIVES FOR FINANCIAL INCLUSION IN INDIA

India has a long history of banking development. After Independence, the major focus of the Government and the Reserve Bank was to develop a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. Accordingly, the Government's desire to use the banking system as an important agent of change was at the core of most policies that were formulated after Independence. The planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met satisfactorily.

In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The organized financial system comprising commercial banks, regional rural banks (RRBs), urban co-operative banks (UCBs), primary agricultural credit societies (PACS) and post offices caters to the needs of financial services of the people. Besides, MFIs, self-help groups (SHGs) also meet the financial service requirements of the poorer segments. Furthermore, development of the institutional framework in recent years has focused on new models of expanding financial services involving credit dispensation using multiple channels such as civil society organizations (CSOs), nongovernment organizations (NGOs), post offices, farmers' clubs, and panchayats as business facilitators/correspondents. Specific financial instruments/products were also developed in order to promote financial inclusion.

Pilot Project in Andhra Pradesh:

Andhra Pradesh Government has embarked on a pilot project with six banks. Viz SBI, SBH, Andhra Bank, Union Bank, UTI Bank and AP Grameena Vikas bank, to make payments of social security pensions and AP Rural Employment.

To further promote the SHG-bank linkage programme in the country, banks were advised in 1998 that SHGs that were engaged in promoting the saving habits among their members would be eligible to open savings bank accounts and that such SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts. Subsequent to the Monetary and Credit Policy announcement for the year 1999-2000, banks were advised that interest rates applicable to loans given by them to micro credit organizations or by the micro credit organizations to SHGs/member beneficiaries would be left to their discretion. Subsequently, banks were advised that they should provide adequate incentives to their branches for financing the SHGs and that the group dynamics of working of the SHGs may be left to themselves.

The objective of bringing financially excluded people within the fold of the banking sector received renewed emphasis in 2005-06 as the term 'financial inclusion' was explicitly used for the first time in the Annual Policy Statement for 2005-06. It observed that there were legitimate concerns in regard to the banking practices that tended to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganized sector. It also indicated that the Reserve Bank would (i) implement policies to encourage banks which provide extensive services, while disincentivising those which were not responsive to the banking needs of the community, including the underprivileged; (ii) the nature, scope and cost of services would be monitored to assess whether there was any denial, implicit or explicit, of basic banking services to the common person; and (iii) banks urged to review their existing practices to align them with the objective of financial inclusion.

The process of financial inclusion received further impetus in November 2005, when banks were advised to make available a basic banking 'no frills' account with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population. The low cost or free of cost account is internationally considered to be helpful in expanding the access of banking services, particularly to the low income groups. Similar types of accounts, though with different names, have also been extended by banks in various other countries with a view to making financial services accessible to the common man either at the behest of banks themselves or the respective Governments.

In order to ensure that persons belonging to low income groups, both in urban and rural areas do not encounter difficulties in opening bank accounts, the know your customer (KYC) procedure for opening accounts was simplified for those accounts with balances not exceeding Rs.50,000 and credit limits not exceeding Rs.100,000 in a year. The simplified procedure allowed introduction by a customer on whom the full KYC drill had already been done.

Besides the KCCs, which were introduced in 1998, banks were advised in 2005 to consider introduction of a General Credit Card (GCC) facility up to Rs.25,000 at their rural and semi-urban branches. Under GCC, based on the assessment of household

cash flows, the limits are sanctioned without insistence on security or purpose. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned. Interest rate on the facility is completely deregulated. Fifty per cent of GCC loans are treated as priority sector lending.

The SLBC identifies one or more districts for 100 per cent financial inclusion.3 The responsibility is given to the banks in the area for ensuring that all those who want to have a bank account are provided with one by allocating the villages to the different banks. In April 2008, SLBCs reported achieving 100 per cent financial inclusion in 134 districts in 18 States and 6 Union Territories (UTs) of the country. The Reserve Bank is undertaking an evaluation of the progress made in these districts by independent external agencies to draw lessons for further action in this regard.

In January 2006, the Reserve Bank, permitted banks to utilize the services of NGOs/ SHGs, MFIs (other than NBFCs) and other civil society organizations as intermediaries for providing financial and banking services through the use of business facilitator (BF) and business correspondent (BC) models. In April 2008, banks were permitted to engage retired bank employees, ex-servicemen and government employees as BCs, subject to appropriate due diligence. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus, addressing the last mile problem. Banks are also entering into agreements with Indian Postal authorities for using the enormous network of post offices as BCs, thereby increasing their outreach. In order to provide social security to vulnerable groups, in some cases banks have provided, in association with insurance companies, innovative insurance products at affordable cost, covering life disability and health cover. SHGs and MFIs are also being used extensively for financial inclusion on the credit side.

SELF-HELP GROUP - BANK LINKAGE PROGRAMME

An SHG is a group of about 15 to 20 people from a homogenous class who join together to address common issues. They involve voluntary thrift activities on a regular basis, and use of the pooled resource to make interest bearing loans to the members of the group. In the course of this process, they imbibe the essentials of financial intermediation and also the basics of account keeping. The members also learn to handle resources of size, much beyond their individual capacities. They begin to appreciate the fact that the resources are limited and have a cost. Once the group is stabilized, and shows mature financial behavior, which generally takes up to six months, it is considered for linking to banks. Banks are encouraged to provide loans to SHGs in certain multiples of the accumulated savings of the SHGs. Loans are given without any collateral and at interest rates as decided by banks. Banks find it comfortable to lend money to the groups as the members have already achieved some financial discipline through their thrift and internal lending activities. The groups decide the terms and conditions of loan to their own members. The peer pressure in the group ensures timely repayment and becomes social collateral for the bank loans Generally, the SHGs need self-help promoting institutions (SHPIs) to promote and nurture them. These SHPIs include various NGOs, banks, farmers' clubs, government agencies, self-employed individuals and federations of SHGs. However, some SHGs have also been formed without any assistance from such SHPIs. There are three different models that have emerged under the linkage programme:

- **Model I:** This involves lending by banks directly to SHGs without intervention/facilitation by any NGO.
- **Model II:** This envisages lending by banks directly to SHGs with facilitation by NGOs and other agencies.
- **Model III:** This involves lending, with an NGO acting as a facilitator and financing agency.

Model II accounted for around 74 per cent of the total linkage at end-March 2007, while Models I and III accounted for around 20 per cent and 6 per cent, respectively.

CONCLUSION

Access to financial services such as savings, insurance and remittances are extremely important for poverty alleviation and development. In order to achieve the goal of total financial inclusion, policymakers, banks, MFIs, NGOs and regulators have to work together. In addition to cooperating with other stakeholders, policymakers who believe that microfinance can help them to speed up financial education programs that allow their citizens to realize the economic potential of microfinance. Basic financial literacy programs can help achieve better results in poverty alleviation.

REFERENCES

1. Anshul Agarwal, "Financial Inclusion: Challenges and Opportunities", 23rd Skoch Summit, 2010.
2. Bhaskarans, R. (2006) "financial Inclusion: What needs to be done?" Reading on Financial Inclusion, published by IIBF & Taxman, New Delhi.
3. B.B. Barik, "Financial inclusion and empowerment of Indian Rural Households".
4. Reserve Bank of India, "Report on financial Inclusion".
5. Chakrabarthy, K.C (2006) "Indian bank: A case study on financial Inclusion", Readings on financial Inclusion published by IIBF & Taxman, New Delhi.
6. H.M. Treasury, (2007): "Financial Inclusion: the Way Forward", HM Treasury, UK,
7. Ranganatham. G, and Hasmukh Savlani, (2010) "Assessment of Social Entrepreneurship: a Case Study of Grameen Bank in Bangladesh." SEDME, Vol.31, No.1 March 2010, p 27-40.
8. Research Paper, NABARD, Chapter II-VI.
9. Report on Currency and Finance, "Financial Inclusion", Reserve Bank of India.
10. Report of the Committee on Financial Inclusion in India (Chairman: C. Rangarajan) (2008), Government of India.
11. Scoping paper on Financial Inclusion, United Nations Development Programme.

ROLE OF FINANCIAL LITERACY IN FINANCIAL INCLUSION

Selvarasu
Ph. D - Research Scholar
Department of Commerce
University of Madras, Chepauk, Chennai
E-mail: frmsarmaan@gmail.com

Dr. R. Shanthi
Assistant Professor
Department of Commerce
University of madras, Chepauk, Chennai
E-mail: rshanthicommerce@gmail.com

Abstract:

Financial literacy and financial Inclusion share a symbiotic relationship with each other. Financial literacy helps to create demand for the financial services whereas financial inclusion provides necessary supply to meet the demand. Financial literacy is basically the knowledge possessed by an individual to make decisions regarding the personal financial products such as savings, insurance, investment and tax planning. On other hand, Financial Inclusion involves a process of providing the financial services to the vulnerable group which includes the low income group and the weaker sections. It is a process of involving wider section of people in financial activities to improvise in the process of mobilization of the funds and to provide credit facilities to the people under various groups. Financial Inclusion can be possible only when people possess adequate knowledge and understanding about the benefit of financial planning and financial services. This understanding will in turn lead to inculcate the usage of financial services in their day to day activities. The mainstream of financial services provider can play a major role to make the services accessible to majority of the population in a transparent, fair and cost effective way. To achieve this, the service provider has to develop a proper business model to educate the financially illiterate population and it must also focus to provide the services simultaneously. Thus financial inclusion can be possible only when the people are financially literate.

Key Words: Financial Inclusion, Financial Literacy, Financial Services, Financial Planning, Reserve Bank of India (RBI).

Introduction

Financial literacy or financial literacy education has recently become a vital role of the society. Financial literacy education is the process by which the financial consumers improve their understanding of financial concepts, products and risk through information and instruction to develop the skills and confidence to become more aware of financial opportunities and risks. Financial literacy helps to make informed choices, to know the modus operandi of financial markets and institutions to take effective actions to improve the financial well-being. The importance of financial education has improved in recent years due to the developments in financial markets and economic policy changes. In the current scenario, it has been very essential and especially for the banks to prompt financial inclusion to achieve growth in the economy despite of the existing competition. The first step towards financial inclusion is financial literacy which is a pre-requisite to make financial inclusion meaningful and sustainable. Financial education will help to improve the financial skills of the population and encourage them for participation in the financial transaction. Imparting financial

education will enable a better appreciation of the risks and reward inherent in financial instruments.

Financial Inclusion and Financial Literacy - Meaning and Definition

Financial inclusion means, access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with the requisite consideration to client protection.

"Financial inclusion defined by Indian institute of banking & Finance is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."[1]

Financial Literacy

Financial literacy or financial education can broadly be defined as 'providing familiarity with and understanding of financial market products, especially rewards and risks, in order making informed choices. Viewed from this standpoint, financial education primarily relates to personal finance to enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial.[2]

Research Objectives

1. To examine the relationship between the financial literacy in financial inclusion
2. To study the initiatives taken by RBI & Commercial banks towards financial literacy
3. To identify the components included by financial literacy centres towards financial education

Research Methodology :A secondary data has been used to identify the relationship between financial literacy and financial inclusion in India. The data was collected through various report published by RBI, NABARD, World Bank, OECD and also from various committee reports submitted to the government of India on financial inclusion.

Literature Review

Duvvuri Subbarao (2013), Governor of the reserve bank of India, at the Indian- OECD World Bank regional conference on “financial education”, discussed about the financial literacy and financial inclusion. He detailed that both financial literacy and financial education are integral to each other he additionally conferred about the association of RBI and financial literacy. He pointed out that the head bank scheme introduced in 1969 and the priority sector lending. The importance of financial inclusions and financial literacy was highlighted. He has concluded that the purpose of education is to teach people to deal with financial decisions more intelligently and with a greater sense of confidence, making it interesting, making instructive and making it relevant to the age and income group.

Margaret Sherrard Sherraden (2010), has remarked that financial literacy has been projected widely as an actual approach to preparing people to manage their finances. The study proposes an alternative concept, financial capability. Financial capability includes both

---

[1] http://www.iibf.org.in/scripts/iib_financeinclusion.asp

[2]The Role of Financial Education: The Indian Case' - Inaugural Address by Dr. Y. V. Reddy, Governor, Reserve Bank of India at the International Conference on Financial Education organized by OECD and co-hosted by Pension Fund Regulatory and Development Authority at New Delhi on September 21, 2006.

the ability to act and the opportunities to Low-income households, who face the absence of financial knowledge, require both financial literacy and financial inclusion. The paper begins by addressing how people obtain financial knowledge and skills through financial socialization, financial education and guidance, and financial advice and counselling. Next, it addresses how financial inclusion can be achieved through financial services that are accessible, affordable, financially attractive, easy to use, secure, and reliable. Then it illustrates how financial knowledge and skills and financial inclusion are connected. The paper concludes with a call for more research.

Dean Roy Nash, "Financial literacy: An Indian Scenario" discussed about the financial literacy as concerned with the Indian scenario he has stated that the importance of financial education has improved in recent years due to the developments in financial markets as well as demographic, economic and policy changes. India is ranked number two in the list of highest financial literacy countries in the world. He discussed about the various projects carried out by RBI and other NGOs for the improvement of financial education in India. He concluded by stating that the financial literacy in India is on the positive side now.

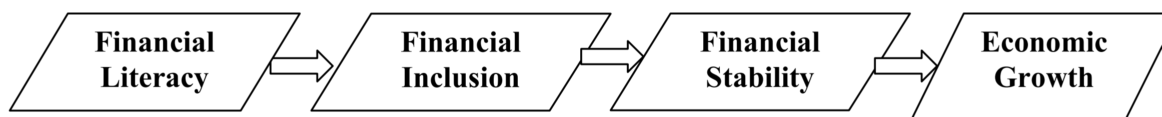
Bhushan Bhatia." Financial Literacy- Concept and its Importance in India", studied the importance of financial literacy. He discussed the global scenario with respect to the financial literacy. He specified that, particularly in the context of the developed economies that while the young do not save enough and do not fully understand the need for investments for the future, many of the elderly tend to feel the pinch of poverty.. He has also discussed about the steps taken by RBI to promote financial education, the need and approaches of financial literacy. His study has concluded stating that there is a need for banks and other agencies striving to extend financial literacy to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues. A common effort of the educational programmes typically focuses on the 'supply' side that stresses on attracting customers in the financial fold.

A.S. Norman (2010) has stated that the discourse of expenditure is important, if finance is of concern. Those who save money understand the fact that intelligent spending leads to saving and hence investing. A household that spends recklessly can end up complaining on deficient funds attained. Governments and organizations which spend unwisely will always complain about a budget deficit. Therefore the paper provides a discussion on the importance of financial education in making informed decision on spending. The paper demonstrates the use of key aspects which need to be looked at, while utilizing the money. The first part covers the overview which discloses the definition of financial education as opposed to financial statement analyses. The second part exposes the importance of financial education to individuals, governments and financial institutions. The third part is the encounters for attaining financial education and examples that tells the prominence of financial education. The fourth part is the conclusion and recommendations. The paper concludes that while income conquered at any level is important, most suffrage related with insufficient income in many households is due to poor spending caused by absence of financial education.

Relationship between Financial Literacy and Financial Inclusion

Financial literacy education is an important element for promoting financial inclusion and achieving financial stability. The majority of the investors are not fully equipped with financial knowledge. Therefore, financial literacy education has become an integral part of financial decision. There is not much growth in the rural sector in financial services and financial literacy education. Access to financial services and investment opportunities in rural areas has now become an important agenda in the economic policies to enhance their standard

of living. The technological revolution has made it easier for the government and banks to address the need of financial literacy education to the people. Therefore, extending formal banking services, and making judicious use of targeted subsidies may be able to reduce or remove market imperfections and facilitate financial inclusion.



In order to achieve financial inclusion there serve bank of India has decided to upgrade with an integrated approach where financial literacy and financial inclusion will work hand in hand. Financial literacy and education acts as a source to spread knowledge about general banking concept to the target group that includes college students, pensioners, senior citizens and women's. This is carried out by financial literacy centers these centers organize Outdoor Literacy camps which are spread over a period of three months and delivered in three phases wherein along with creating awareness, accounts are also opened in the Literacy camps itself.[3]

Initiatives taken by RBI & Commercial banks towards financial literacy

The main intention of RBI behind the initiation of FLC is to provide knowledge to different section of people. In order to commence this RBI started several schemes and programs with the assistance of NGOs, other banks, schools and colleges. Various initiations done by RBI are as follows

Sl. No.	Project /Scheme	Description
1.	'Project Financial Literacy	On 14 Nov 2007, RBI launched a financial education website in order to teach the basics of banking and finance to the students
2.	Financial education site	On 14 Nov 2007, RBI launched a financial education website in order to teach the basics of banking and finance to the students Comic book formats are used to explain various concepts. The site has films to explain the security features of currency notes It also consists of games to familiarize kids with the various currency notes available in India
3.	Promoting financial awareness	RBI conducts essay writing competition among the school students on the topic related to banking and finance
4.	RBI Young Scholars Award	This award is granted to almost 150 young scholars undergoing under graduate studies. they are selected by conducting competitive exam and they are given scholarship to participate in short duration projects carried out by RBI
5.	Financial Literacy Centres	In June 2012, revised guidelines on Financial Literacy

[3] http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=858

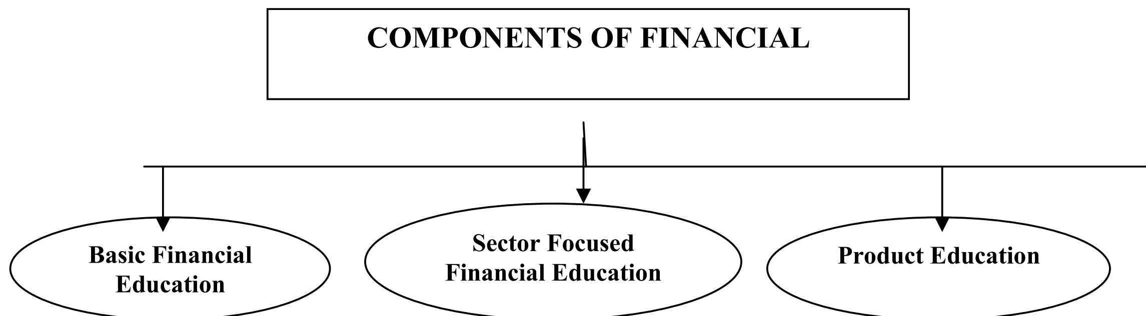
	(FLC)	Centers (FLCs). Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been refined through awareness camps seminars and lectures during April 2012 to March 2013.
6.	Reserve Banks Outreach Program	In this program Reserve bank of India connects its Senior Staff with the villages in India. Here the Senior Staff should visit the villages and enrich them with the knowledge of Finance.
7.	Monitory Museums	RBI sets up monetary museum with the intention of spreading awareness about the history of money and also to supply knowledge about money and banking.
8.	Association with the World Bank and the OECD	The Reserve Bank, organizes Conference on Financial Education association with the World Bank and the OECD in order to acquire knowledge about the financial literacy in a global standpoint
9.	Financial literacy guide	The Reserve Bank has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services.

Financial Literacy Centers by various Commercial Banks

Sl. No.	Name of the Bank	Project	Objective of the Project
1.	Bank of Baroda	SAARTHEE	To direct the people who are under financial distress and to educate others in this aspect.
2.	Union Bank Of India	FLCC	To educate the unbanked and unreached sector To conduct financial literacy camp once in a month.
3.	State Bank of India	Runa Viveka Aacharana	To provide free counseling on various aspects like calculation of interest on deposits or loans, nomination facility, customer rights etc. . . .
4.	ICICI	FLCC	To educate the villagers regarding banking and inculcate banking practices in them
5.	HDFC	FLC Power of Banking Program **Sustainable Livelihood Initiative**	To conduct financial literacy projects across 600 schools in Andhra Pradesh and Odisha. To inculcate financial and social habits among the students. It aims to conduct in house workshops for private and government school students. It provides non-financial services such as credit counselling and financial literacy training, in addition to providing access to livelihood finance.

Components of financial education

FLC has to keep in to consideration about the certain components of financial education it should also decide the content and the delivery channels that can be made use of to provide necessary education.



From the above chart it is clear that the components of financial education consist of three major aspects. In basic financial education, the consumer is trained on the basics such as the benefit so saving and deposits, the benefit of opening a bank account, the procedure for obtaining loan from banking sector and so on. The sector based financial education is basically given to the consumers who are already financially included. They are trained to enter into security market, Insurance market, retirement planning etc... There are various financial products available in the market. The consumer should know clearly about it in order to utilize its benefit. Therefore product education helps them to understand and choose the right product as per their need.

Conclusion

There is a continuous increase in the customers utilizing the banking services but even then the people who are not financially literates are considerably high. This is because of the lack of financial education. In order to achieve financial Inclusion, Financial education promotion is crucial. As once the people are aware of the financial benefits they themselves will indulge in the banking activities. In the current scenario information technology plays a vital role, many people feel that the usage of information technology is complex and unsafe. Even those who are educated hesitate the usage of information technology into their banking practices fearing to the phishing scams. RBI should focus on programs inculcating the usage of information technology as a part of their financial education. RBI with the support of other banks and organization can conduct courses in respect to banking practices to enhance financial literacy. In order to achieve India's dream of achieving financial inclusion obtaining financial education must be made as an important phase in every individual's life.

References

- http://egov.eletsonline.com/2012/07/state-bank-group-comes-up-with-financial-literacy-and-counselling-centre-in-hyderabad/#sthash.482QsPDj.dpuf
- http://www.rbi.org.in/scripts/PublicationDraftReports.aspx?ID=526
- http://www.bankofbaroda.co.in/rur/saarthee.asp
- http://egov.eletsonline.com/2012/07/state-bank-group-comes-up-with-financial-literacy-and-counselling-centre-in-hyderabad/
- http://www.unionbankofindia.co.in/RABD_Finance_FLCC.aspx
- http://www.sebi.gov.in/sebiweb/home/detail/27939/yes/PR-Financial-Literacy-and-Inclusion-Survey-by-National-Centre-for-Financial-Education
- http://www.hdfcbank.com/htdocs/aboutus/csr/financial_literacy.html
- http://www.icicibank.com/aboutus/article.page?identifier=news-plan-to-strengthen-association-with-rajasthan-icici-bank-launches-series-of-initiatives-20131912153235463
- http://www.oecd.org/india/
- http://www.worldbank.org/
- **Duvvuri Subbarao,** Governor of the Reserve Bank of India, at the India-OECD-World Bank Regional Conference on "Financial education", New Delhi, 4 March 2013.

- **Margaret SherrardSherraden -** Financial Capability: What is It, and How Can It Be Created? CSD Working Papers No. 10-17 Centre for social development – George warren brown school of social work. Washington University in St. Louis, 2010.
- **Dean Roy Nash** - Financial Literacy: An Indian Scenario, Asian Journal of Research in Banking and Finance Vol.2 Issue 4, April 2012, ISSN 2249 7323.
- **Bhushan Bhatia -** Financial Literacy- Concept and its Importance in India
- **A. S. Norman -** Importance of financial education in making informed decision on the spending Journal of Economics and International Finance Vol. 2 (10), pp. 199-207, October 2010 Available online at http://www.academicjournals.org/JEIF ISSN 2006-9812 ©2010 Academic Journals.

HISTORY OF FINANCIAL INCLUSION IN INDIA – INITIATIVES TAKEN BY RBI FOR THE INCLUSIVE GROWTH

M .Venkateswarlu
Lecturer in Political Science
Vashista Degree College.ZHB
Email.Id: venkatosmania2005@gmail.com.

ABSTRACT

A nation can grow economically, if its weaker sections can turn out to be financial independent. For the Inclusive growth process of economy the government of India and the Reserve Bank of India has provided high importance to the financial Inclusion. The term financial inclusion defined as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Said by The Committee on financial inclusion, Chairman: Dr.C.Rangarajan. In January 2006, the concept of financial inclusion was introduced by RBI with a soul objective of providing flow of credit to the weaker sections of society and to eradicate the poverty in India. RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottlenecks in achieving greater goal. Further number of initiatives taken by RBI for the inclusive growth. The study focus on the history of financial inclusion and the paper highlights the greater role of RBI in financial inclusion in India. The paper contains need and importance of the study, objectives, methodology, history of concept of financial inclusion, initiatives taken by RBI, findings and conclusion.

Key Words: Financial inclusion, Inclusive growth, Weaker sections, Initiatives ,BSBD , KCC.

Introduction

"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

The term "financial inclusion has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion defined" as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" said by the committee on financial inclusion, chairman Dr.C.Rangarajan. The government of India and the reserve bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. The soul objective is to providing flow of credit to the weaker sections of society and to eradication of poverty in India . Some of the major efforts made in the last five decades include – nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting Bc,s/BFS to be appointed by banks to provide door step delivery of banking services, Zero balance BSBD accounts, etc. with all these initiatives RBI played an important role for achieving inclusive growth through financial inclusion.

Need for the study

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large regiment of rural population and plays its own role in the process of economic development. By bringing low income groups within the perimeter of formal banking sector, financial inclusion also protects their financial wealth and other resources recognized through formal financial institutions such as banks .Besides, it is important to note that the defining principles of financial inclusion, coverage, role and responsibilities of institutions and measurements have been evolving over the years. In order to appreciate the measurement and data needs, abroad understanding of the policy initiatives is important.

Objectives

1. To know the history of financial inclusion in India.
2. To study the formal financial lending institutions in India.
3. To analyze the initiatives taken by RBI for the inclusive growth.
4. To study the role of RBI in financial inclusion for achieving inclusive growth.

History of financial inclusion in India

The reserve bank of India (RBI) set up the khan commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review to the policy (2005-06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available basic " no frills" banking account. In India. Financial inclusion first featured I 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in Indian where all households were provided banking facilities. Norms, were relaxed for people intending to open accounts with annual deposits of less than Rs:50.000. General credit cards (GCCS) were issued to the poor and the disadvantaged with a view to help them access easy credit .In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs) , micro - finance institutions , and other civil society organization as intermediaries for providing financial and banking services . These intermediaries could be used as bank in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign , states or union territories like Pondicherry , Himachal Pradesh and kerala announced 100% financial in all their districts . Reserve Bank of India's vision for 2020 is to open nearly 600 million new customer's accounts and service them through a variety of channels by leveraging on IT.

Financial Inclusion - RBI Policy Initiatives.

RBI has adopted a bank -led model for achieving financial inclusion 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. The following initiatives are ;

* **Opening of BSBD**: RBI advised all banks to open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance ,deposit and withdrawal of cash at bank branch ATMs , receipt / credit of money through electronic payment channels facility of providing ATM card.

* **Relaxed and simplified KYC norms** : KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, there by simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full Know Your Customer

(KYC) drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to satisfaction. IT has now been further relaxed to include letters issued by the unique identification Authority of India containing details of name , address and Aadhar number.

* **Engaging business correspondents (BCS)** : In January 2006, RBI permitted banks to engage business facilitator (BFS) and BCS as intermediaries for providing financial and banking services , The BC model allows banks to provide doorstep delivery of services , especially cash in - cash out transactions . Thus addressing the last mile problem. The list of eligible individuals from entities that can be engaged as BCs is being widened from time to time. With effect from September 2010. For -profit companies have also been allowed to be engaged as BCS.

* **Simplified Branch Authorization policy** : To address the issue of uneven spread bank branches , domestic SCBS are permitted to freely open branches in Tier 2 to Tier 6 centers with populations of less than 1 lakh under general permission , subject to reporting . In North -Eastern States and Sikkim domestic scheduled commercial banks can open branches without having any permission from RBI .With the objective of further liberalizing general to domestic scheduled commercial banks for opening branches in Tier 1 centers, subject to certain conditions.

* **Use of Technology :** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT) , to provide door step banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics thus ensuring the security of transactions and enhancing confidence in the banking system.

* **General Purpose Credit Card (GCC)** : With a view to helping the poor and the disadvantaged with access to easy credit ,banks have been asked to consider introduction of general purpose credit card facility up to 25,000 at their rural and semi-urban branches . The objective of the scheme is to provide hassle - free credit to banks customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit . This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

* **Opening of branches in unbanked rural centers**: To further setup the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bank branches beside the use of BCS was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25 % of the total number of branches to be opened during a year to unbanked rural centers.

* **Financial Literacy Centers (FLCS)** : In June 2012 , revised guidelines on financial literacy centers (FLCS).Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor financial inclusion through provision of two essentials i.e., "financial Literacy" and "Financial Access" . Accordingly, 718 FLCS have been setup as at end of March 2013. A total of 2.2 million people have been educated through awareness camps, seminars and lectures during April 2012 to March 2013.

* **Findings and Conclusion**:

Finally I found that since the launch of financial inclusion in India banks are progressing in areas like opening of banking outlets, deploying BCS, opening of BSBD accounts, grant of credit through KYC , GCCs . Due to RBI's concerted efforts since 2005, the number of branches of scheduled commercial banks increased manifold from 68,681 in

March 2006 to 1, 02,343 in March 2013, spread across length and breadth of the country. The number of banking outlets in villages increased from 67,694 in March 2010 to 2, 68,454, in March 2013. Banks have been advised to issue Kisan Credit Cards (KCCs) to small farmers for meeting their credit requirements up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs .2622.98 billion .This bank-led model helps in bringing more people under sustainable development in a cost effective manner within a short span of time .As on march 2011, these are around 7.46 million saving linked SHGs with aggregate savings of 70.16 billion and 1.19 million credit linked SHGs with credit of Rs /- 145.57 billion .

Finally I conclude with some remarks on the challenges to financial inclusion and , in particular , the measurement challenges . The issue of expanding the geographical and demographic reach poses challenges from the viability perspectives Appropriate business models are still evolving and various delivery mechanisms are being experimented with. Financial literacy and level of awareness continue to remain as issue an the ICT based BC model is also taking time to stabilize. It calls for co ordination of all the stake holders sectoral regulators, banks , governments, civil societies , NGOs etc , to achieve the objective of financial inclusion.

References :

1. Chakrabarty K.C (2011) - "Financial Inclusion and Banks Issues and Perspectives ", RBI Bulletin, Nov - 2011.
2. Rangarajan.C (2008) - "Report of the committee on Financial Inclusion".
3. Status of Micro fiancé in India : 2010 -11 NABARD Report.
4. Fiancial Inclusion in Indian An Assessment speech delivered by P.Vijayabhaskar .Excutive Director .RBI.

FINANCIAL INCLUSION- ROLE OF MICRO FINANCE

Dr. Nuzhath Khatoon
Associate Professor
Padala Rama Reddi College of Commerce and Management (Affiliated to O.U)

Abstract

Poverty is the common obstacle in achieving high economic growth and enhancing the standard of living of the people in our country. Government of India has been implementing various schemes to alleviate poverty since independence. One of those schemes is providing micro finance service to the needy people. The study covers the micro financing process in India from 2008-2014, in which there were a huge changes and failure of micro finance because of cumbersome recovery process and increase competition among the 'for profit' microfinance institutions (MFIs). For this purpose secondary data is collected. Finding of the study shows that the reason of the failure of the microfinance schemes under poverty alleviation was low recovery process, high rate of interest, multiple loans and corruption in the government sector. Still there is few private micro finance institutions are running based on the same rate of interest and proper recovery strategies.

Introduction:

According to RBI (2008)[4]report India has a long history of banking development with the major focus of the Government on economic development. The Reserve Bank of India has developed a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. The Government of India has made the strategies to use the banking system as an important agent of change for the economic development of the country. However, most policies were formulated after Independence. The Reserve Bank of India recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. Finally RBI with cooperation of government played a critical role to recognize and modify applicable policy framework from time to time to and ensure that the financial services needs of various segments of the society are met satisfactorily.

Giving support through financial access to the needy and poor strata of the society by linking them with banks has always an important priority of the Indian government. India has the largest microfinance sectors in the world, and particularly in Andhra Pradesh and Gujarat. Both Government of India and Reserve bank of India have traditionally played a large role in establishing bank linkage programs /schemes for the poor in order to have access to quality of financial products. NABARD and SIDBI also supported and aided to accomplish the above task. Financial inclusion is defined as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players".[5]

MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of

[4] http://rbi.org.in/scripts/publicationsview.aspx?id=10494
[5] http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=607

comfort to their clientele. There are several legal forms of MFIs. However, firm data regarding the number of MFIs operating under different forms is not available.

Definition of Microfinance and MFIs: The proposed Microfinance Services Regulation Bill defines microfinance services as "providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

1. An amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
2. An amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes, or

Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed."

Objectives of the study:

1. To study the measures taken by Government of India in promoting financial inclusion
2. To review the present status of financial inclusion through different Microfinance institutions.

Methodology:

The study is based on the secondary data, in which information is gathered about the financial inclusion through the published articles, journals, reports and websites of NABARD, SIDBI, RBI, Microfinance Information Exchange and others financial institutions. Graphs and tables are used for explanation and interpretation.

Interpretation:

It is roughly estimated that there are about 1,000 NGO-MFIs and more than 20 Company MFIs. Further, in Andhra Pradesh, nearly 30,000 cooperative organizations are engaged in MF activities. However, the companies MFIs are major players accounting for over 80% of the microfinance loan portfolio. During 2005-10 Indian microfinance sector was one among the largest microfinance sector in the world and Andhra Pradesh was applauded as "the State that would reform India" (*The Economist, 2000*)[6].

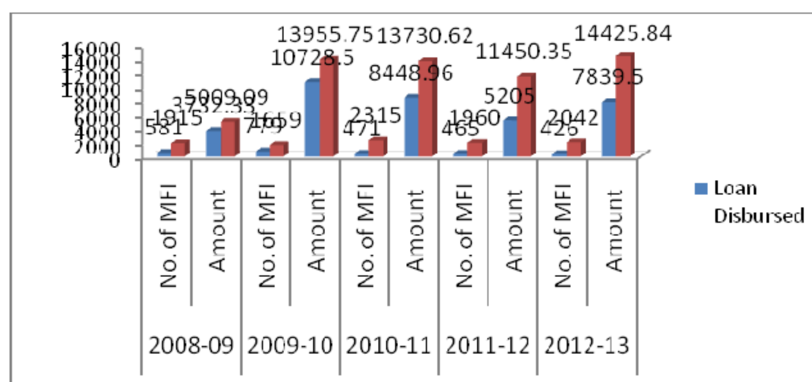
Figure 1:Progress of Micro Finance Program (As on 31st March 2013) (Amount in Rs. Crores)

Sl. No.	Particulars	Self-Help Groups (Number in Lakh)				Micro-Finance Institutions (MFIs)			
		2012 @		2013 @		2012 *		2013 *	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	Loans disbursed during the year	11.48 (2.10)	16,534.77 (2643.56)	12.20 (1.81)	20,585.36 (2207.47)	465 (12)	5,205.29 (239.42)	426 (41)	7,839.51 (408.27)
2	Loans Outstanding	43.54 (12.16)	36,340.00 (8,054.83)	44.51 (11.93)	39,375.30 (8597.08)	1,960 (129)	11,450.35 (1,597.11)	2,042 (102)	14,425.84 (1,880.63)
3	Savings Accounts with banks	79.60 (21.23)	6,551.41 (1,395.25)	73.18 (20.48)	8,217.25 (1821.65)	-	-	-	-

@ : Figures in parentheses indicate the share of SHGs covered under SGSY.
* : Figures in parentheses indicate the asistance of SIDBI to MFIs.

[6] http://www.economist.com/node/354212

Figure 2: Loan Disbursed & Outstanding loan to MFI and MFI Bank Linkage Program (Amount in Crores)



Overall market growth 14% in 2012-13; MFIs reported higher 26% growth to Rs 220 billion. MFIs could grow at an annualized pace of 30-35% over the next three years(assuming a 10-15% decline in portfolio of the Andhra Pradesh based MFIs admitted to Corporate Debt Restructuring (CDR) and 40-50% growth for the other MFIs) on the back of improved credit availability[7]. Lenders may incur loss of around Rs. 27 billion on the loans extended to the AP based MFIs, as recovery from the MFIs' AP borrowers remains insignificant. The credit profile of AP-focused MFIs weakened significantly during 2010-2013 as they were unable to raise collections from borrowers because of severe state government restrictions.

The AP-based MFIs reported cumulative losses of around Rs 58 billion in 2011-12 and 2012-13 on account of high provisions/write-offs made on the delinquent AP-portfolio. Performing non AP loan book (for the AP Based MFIs admitted to CDR) in relation to the outstanding borrowings was only 45% as on March 31, 2013. As collections from AP continue to remain extremely low, the AP based MFIs'5 cash inflows may not be sufficient to meet the debt repayments post the moratorium period under the CDR package; thus lenders may have to incur eventual loss of around Rs. 27 billion on AP based MFIs.

As on 31 March 2014, the cumulative sanctions under FIF and FITF were Rs.502.80 crore and Rs.408.45 crore, respectively, against which, disbursements were Rs. 135.35 crore and Rs.221.55 crore, respectively (Figure 3). The Micro Finance Development and Equity Fund (MFDEF) was closed on 31 March 2013 and the activities being financed there under are now being covered under FIF. Further, the commitments made under erstwhile MFDEF as on 31 March 2013 was taken as sanctions under FIF during 2013-14. There is a proposal to merge FIF and FITF into a single Fund. The RBI and NABARD have agreed to the proposal and the issue is under examination by the GOI.

Figure 3: Progress under FIF & FITF

(₹ crore)

Name of the Fund	2010-11		2011-12		2012-13		2013-14		Cumulative Upto 31 March 2014	
	S	D	S	D	S	D	S	D	S	D
FIF	19.00	9.21	75.96	18.90	67.02	33.31	321.05	65.58	502.80*	135.35
FITF	101.11	54.01	221.07	128.39	22.01	17.14	42.23	20.25	408.45@	221.55
Total	120.11	63.22	297.03	147.29	297.03	50.45	363.28	85.83	911.25	356.90

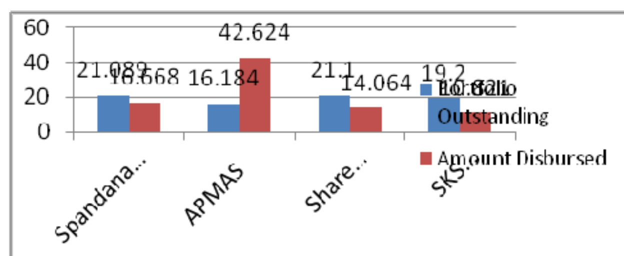
S-Sanctions D-Disbursements   ** : Includes sanctions of ₹56.00 crore for two projects treated as withdrawn.*
@ : Includes assistance of ₹14.72 crore for 12 projects treated as withdrawn/ closed.

The crisis in the microfinance sector has left microfinance companies like SHARE Microfinance, Asmitha Microfinance, Spandana Sphoorty Financial, Trident Microfinance

[7] http://www.icra.in/Files/ticker/SH-2013-H2-1-ICRA-Micro%20Finance%20Institutions.pdf

APMAS, SKS and Future Financial Services with negative net worth (Business Standard, 13 Sep, 2013)[8]. According to norms, banks are not allowed to give fresh loans to companies that have negative net worth. Since Banks stopped lending to MFIs, they have not been not been able to disburse fresh loan to their clients. Banks were also hit by crisis as 80% of loans MFIs borrowed were from the banks. Of the Rs 21,000 crore that banks have outstanding to MFIs, roughly a third was borrowed from private banks *(Financial Express, 1Nov, 2010)*[9] Banks and financial institutions lost their trust on MFIs credibility to repay the loans, that can be visible through the decline in the number of MFI.But still in Andhra Pradesh leading MFI's are providing money by thorough analysis of the clients, with proper paper work and sureties. Figure 4 shows the disbursed and the outstanding loan for the year 2013-14 by the leading MFI's of Andhra Pradesh.

Figure 4: Microfinance Institutions in Andhra Pradesh 31 March 2014(Amount in Crores)



Conclusion:

Indian microfinance market is the most evolved and developed market in the world. The current obstacles of microfinance institution are collection method, fraud, and multiple loans by the institution in order to recover the previous loan, increased competition in order to have more clients and corruption by the agents to provide loan to the needy. These obstacles automatically lead to low repayment rates, as a result microfinance institutions suffered significant losses. Banks stopped lending money to microfinance institutions resulting in a liquidity crunch for microfinance institutions, which are largely dependent on bank lending as a funding source. Commercial banks should be encouraged where the banks provide on-lending money and shares the risk of payment while the MFIs provides the intermediation of selecting the client, loan disbursement and collection of the repayments by charging handling fee. They should also have tailor made loan products available to meet each client's individual requirements and as such applies both the joint group lending and individual lending approach. MFIs should be more efficient only by having a strong internal auditing, internal control and monitoring systems.

References:

Reports of Reserve Bank of India (2008)http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=607

1. Financial Inclusion – A road India needs to travel - K.C Chakrabarty, Deputy Governor, RBI (2011) http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=607\
2. Financial Inclusion report of sks micro finance institutionhttp://sksindia.com/downloads/Report_Committee_Financial_Inclusion.pdf
3. http://shodhganga.inflibnet.ac.in/bitstream/10603/8674/12/12_chapter%203.pdf
4. The Economist (2000), The state that would reform India,
5. http://www.economist.com/node/354212

[8]http://www.business-standard.com/article/finance/allow-banks-to-offer-usfresh-loans-mfis-to-rbi-113091200555_1.html

[9]http://www.financialexpress.com/news/why-blame-akula/705194

6. Business Standard (2013), Allow banks to offer us fresh loans: MFIs to RBI,
7. http://www.business-standard.com/article/finance/allow-banks-to-offer-usfresh-
8. loans-mfis-to-rbi-113091200555_1.html
9. Financial Express (2010), Why blame Akula?,
10. http://www.financialexpress.com/news/why-blame-akula/705194
11. Radha Rani Financial Efficiency of Indian Top five MFI's
http://www.gifre.org/admin/papers/gjiss/FINANCIAL%20EFFICIENCY.pdf

WOMEN EMPOWERMENT IN MICRO FINANCE: ISSUES AND CHALLENGES

Dr.M.Prasanna kumar
Associate professor
Department of MBA
Sri Revana Siddeshwara Institute of technology
Bangalore-560092

ABSTRACT

Microfinance is emerging as a powerful instrument for poverty alleviation in the new Indian economy. Rapid progress in self help group's formation has now turned into an empowerment movement among women across the country. Economic empowerment results in women's ability to influence or make decision, increased self confidence, better status and role in household etc. Micro finance is necessary to overcome exploitation, create confidence for economic self reliance of the rural poor, particularly among rural women who are mostly invisible in the social structure. Microfinance institutions have contributed to the improvement of the economic and social conditions of the population and women in particular by their policy of promotion of the saving and credit which helps this population to carry out income generating activities via the individual projects and groups of solidarity.

In the backdrop of all these developments the present paper makes an attempt to: to study the micro finance in woman empowerment, to highlight the issues of micro finance in woman empowerment and. to understand the challenges of micro finance in woman empowerment.

Key Words: Women Empowerment, Micro Finance, Issues and Challenges

1. INTRODUCTION

Microfinance has a long history of helping the bottom of the economic pyramid to build assets and achieve a standard of living the rest of the world takes for granted. Microfinance Institutions (MFIs) act as banks which provide formal financial products and services for economically-productive low-income entrepreneurs, consumers and producers. They exist in many forms such as savings clubs, rotating savings and credit associations, and mutual insurance societies.Until 2008, MFIs had enjoyed a positive glow from both the media and other financial institutions, seeming to be an uncorrelated sector that delivered on their lofty promises of poverty alleviation, high repayment rates and unlimited lending opportunity. Loan portfolio growth that exceeded management's capacity to manage, client over indebtedness in certain saturated markets and the lagging effect of the global economic collapse, all contributed to the weakening of the microfinance sector in the last several years. The early funding model in MFIs, in contrast to the commercial banking sector, was comprised of donations and other forms of subsidized capital. In the effort to scale and transform into a commercially sustainable industry, MFIs have hit a significant stumbling block.

There are three main silos within the MFI landscape. The first includes the public institutions such as DFI (Department of Financial Institutions) that oversee the private equities and debt. The second silo is the MFIs themselves, the micro banks lending in small amounts to be repaid over a set duration and loan structure. The third silo encompasses the private sector. This segment consists of two main categories. The first is the actual investors, pouring large and small amounts of money into the MFIs. The second category is

the lending beneficiaries, the low-income countries, providing jobs and income to the most in need.

The current conversation, or rather lack thereof, remains the biggest hurdle the MFIs face. The dialog among stakeholders on all levels has to be re-calibrated and aligned to relay the same message. The three main silos all have differing objectives and motivations within the current landscape. Currently the entire microfinance industry is suffering from several negative conditions. The first big setback is the atmosphere of the entire financial sector worldwide. The second major setback can be attributed to expectations on the microfinance industry as a whole, regarding its failure to emancipate women, create millions of entrepreneurs, and pull impoverished countries into the developed world. The third condition is the divergence of interest and motivations surrounding this sector of the financial world.

Personally, I feel the future of leading will grow into more of a peer-to-peer model. Both in the micro/impact world, as well as the modernized first world, the current state of lending and investing need a overhaul. The current financial environment is far too volatile for sustainability and growth with its existing structure.

2. UNDERSTAND MICROFINANCE

Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.

3. UNDERSTAND THE EMPOWERMENT

Empowerment refers to increasing the spiritual, political, social or economic strength of individuals and communities. It often involves the empowered developing confidence in their own capacities.

Empowerment is probably the totality of the following or similar capabilities:

* Having decision-making power of their own
* having access to information and resources for taking proper decision
* having a range of options from which you can make choices (not just yes/no, either/or.)
* Ability to exercise assertiveness in collective decision making
* having positive thinking on the ability to make change
* Ability to learn skills for improving one's personal or group power.
* Ability to change others' perceptions by democratic means.
* Involving in the growth process and changes that is never ending and self-initiated
* Increasing one's positive self-image and overcoming stigma

4. **OBJECTIVES**

A. To study the micro finance in woman empowerment,
B. To highlight the issues of micro finance in woman empowerment.
C. To understand the challenges of micro finance in woman empowerment.

5. LITERATURE REVIEW

Malhotra (2002) constructed a list of the most commonly used dimensions of women's empowerment, drawing from the frameworks developed by various authors in different fields of social sciences. Allowing for overlap, these frameworks suggest that women's empowerment needs to occur along multiple dimensions including: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. It has been well-documented that an increase in women's resources results in the well-being of the family, especially children (Mayoux, 1997; Kabeer, 2001; Hulme and Mosley, 1997). A more feminist point of view stresses that an increased access to financial services represent an opening/opportunity for greater empowerment. Such organizations explicitly perceive microfinance as a tool in the fight for the women's rights and independence.

Ranjula Bali Swain (2007) Can Microfinance Empower Women? Self-Help Groups in India" concluded many strides have been made in the right direction and women are in the process of empowering themselves and NGOs that provide support in financial services and specialized training, have a greater ability to make a positive impact on women empowerment.
Susy Cheston, Lisa Kuhn in their article titled 'Empowering Women through Microfinance' concluded Microfinance has the potential to have a powerful impact on women's empowerment.

Ranjula Bali Swaina and Fan Yang Wallentin (September 2009) in their article 'Does microfinance empower women? Evidence from self-help groups in India' concluded that their study strongly indicate that SHG members are empowered by participating in microfinance program in the sense that they have a greater propensity to resist existing gender norms and culture that restrict their ability to develop and make choices.

Batliwala (1994) identified three approaches to women's empowerment: the integrated development approach which focused on women's survival and livelihood needs; the economic development approach which aimed to strengthen women's economic position and the consciousness approach which organized women into collectives that address the source of oppression

Mayoux (1997) argues that the impact of microfinance programmes on women is not always positive. Women that have set up enterprises benefit not only from small increases in income at the cost of heavier workloads and repayment pressures. Sometimes their loans are used by men in the family to set up enterprises, or sometimes women end up being employed as unpaid family workers with little benefit. She further points that in some cases women's increased autonomy has been temporary and has led to the withdrawal of male support.

6. METHODOLOGY

This study is based on the analysis of the secondary data published in the magazines and various websites.

7. ISSUES AND CHALLENGES OF MICRO FINANCE IN WOMEN EMPOWERMENT

Many elements contribute to make it more Difficult for women empowerment through micro businesses. These elements are:

- Lack of knowledge of the market and potential profitability, thus Making the choice of business difficult. Inadequate book-keeping.
- Employment of too many relatives which increases social pressure to share benefits.
- Setting prices arbitrarily.
- Lack of capital.
- High interest rates.
- Inventory and inflation accounting is never undertaken.
- Credit policies that can gradually ruin their business (many customers cannot pay cash; on the other hand, suppliers are very harsh towards women).
- Burden of meeting
- New Pressures
- Reinforcement of traditional gender roles

7.1 CHALLENGING ECONOMIC EMPOWERMENT

However impact on incomes is widely variable. Studies which consider income levels find that for the majority of borrowers income increases are small, and in some cases negative. All the evidence suggests that most women invest in existing activities which are low profit and insecure and/or in their husband's activities. In many programmes and contexts it is only in a minority of cases that women can develop lucrative activities of their own through credit and savings alone.

It is clear that women's choices about activity and their ability to increase incomes are seriously constrained by gender inequalities in access to other resources for investment, responsibility for household subsistence expenditure, lack of time because of unpaid domestic work and low levels of mobility, constraints on sexuality and sexual violence which limit access to markets in many cultures.

7.2 CHALLENGING WELL BEING AND INTRA HOUSEHOLD RELATION

There have undoubtedly been women whose status in the household has improved, particularly where they have become successful entrepreneurs. Even where income impacts have been small, or men have used the loan, the fact that micro-finance programmes have thought women worth targeting and women bring an asset into the household may give some women more negotiating power.

Savings provide women with a means of building up an asset base. Women themselves also often value the opportunity to be seen to be making a greater contribution to household well-being giving them greater confidence and sense of self-worth.

However women's contribution to increased income going into households does not ensure that women necessarily benefit or that there is any challenge to gender inequalities within the household. Women's expenditure patterns may replicate rather than counter gender inequalities and continue to disadvantage girls. Without substitute care for small children, the elderly and disabled, and provision of services to reduce domestic work many programmes reported adverse effects of women's outside work on children and the elderly. Daughters in particular may be withdrawn from school to assist their mothers.

7.3 CHALLENGING SOCIAL AND POLITICAL EMPOWERMENT

There have been positive changes in household and community perceptions of women's productive role, as well as changes at the individual level. In societies like Sudan and Bangladesh where women's role has been very circumscribed and women previously had little opportunity to meet women outside their immediate family there have sometimes been significant changes. It is likely that changes at the individual, household and community

levels are interlinked and that individual women who gain respect in their households then act as role models for others leading to a wider process of change in community perceptions and male willingness to accept change (Lakshman, 1996).

All the evidence suggests the poorest women are the most likely to be explicitly excluded by programmes and also peer groups where repayment is the prime consideration and/or where the main emphasis of programmes is on existing micro-entrepreneurs. It also suggests that even where they get access to credit they are particularly vulnerable to falling further into debt.

8. CONCLUSION

Microfinance is playing a vital role in the social, psychological as well as economic empowerment of women in India. Microfinance loan availability and its productive utilization found to be having a profound role and impact on women empowerment. Various traditional and informal system of credit that was already in existence before micro finance came into vogue. Viability of micro finance needs to be understood from a dimension that is far broader-in looking at its long-term aspects too. Very little attention has been given to empowerment questions or ways in which both empowerment and sustainability aims may be accommodated. Failure to take into account impact on income also has potentially adverse implications for both repayment and outreach, and hence also for financial sustainability.

9. REFERENCE

1. Chen .1997. Cited in Linda Mayoux, Gender and empowerment concepts, September 2005, available at http://www.genfinance.info/Documents/GenderConcepts.pdf.
2. Cheston, and Lisa Kuhn.2002. Empowering women through microfinance, Publication sponsored by UNIFEM, available at www.microcreditsummit .org/papers/+ 5cheston_kuhn.pdf
3. Ghate, Prabhu. 2008. Micro finance in India – A state of the sector report (2007). New Delhi:Sage publications.
4. Johnson, Susan .2004. The impact of microfinance institutions in local financial markets: a casestudy from Kenya, Journal of International Development,
5. Kabeer, Naila.2005. Is microfinance a magic bullet for women empowerment? Analysis of South Asia, Economic and Political Weekly, 40(44), 4709-4718.
6. K. Rajendran and R.P. Raya (2010) Impact of Micro Finance - An empirical Study on the Attitude of SHG Leaders in Vellore District (Tamil Nadu, India). 'Global Journal of Finance and Management'- ISSN 0975 - 6477 Volume 2, Number 1, pp. 59-68, http://www.ripublication.com/gjfm/gjfmv2n1_5.pdf.
7. Pitt, M. Mark, Shahidur R. Khandker and Jennifer Cartwright. 2006. Empowering women withmicro finance: Evidence from Bangladesh, Economic Development and Cultural Change
8. Ranjula Bali Swaina and Fan Yang Wallentin (September 2009) Does microfinance empower women Evidence from self-help groups in India, 'International Review of Applied Economics' Vol23, No.5, 541– 556, http://pdfserve.informaworld.com/595379_758077589_913075296.pdf.
9. Shylendra, H. S. 1999. Micro-finance and Self-Help Groups (SHGs): A study of the experienceof two leading NGOs, SEWA and AKRSP in Gujarat (India), Research paper No. 16. IRMA.
10. Fisher, Thomas and M.S. Sriram ed., 2002, Beyond Micro-credit: Putting Development Back into Microfinance, New Delhi: Vistaar Publications; Oxford: Oxfam.
11. Harper, Malcolm, 2002, "Promotion of Self Help Groups under the SHG Bank Linkage Program in India", Paper presented at the Seminar on SHG-bank Linkage Programme at New Delhi, November 25-26, 2002.
12. Kabeer N (2001),"Conflicts Over Credit: Re-evaluation the Empowerment Potential of Loans to Women in Rural Bangladesh": World Development,Vol.29,No.1.
13. Mayoux, L. 1998a. Women's Empowerment and Micro-finance programmes : Approaches, Evidence and Ways Forward. The Open University Working Paper No 41.
14. Ackerley, B. (1995). Testing the Tools of Development: Credit Programmes , Loan Involvement and Women's Empowerment. World Development, 26(3), 56-68.

10. WEBSITES

1. http://www.triplepundit.com/2011/12/current-state-microfinance-overhaul/\

FINANCIAL INCLUSION THROUGH MICROFINANCE SERVICES: AN ANALYSIS

Dr.G.Vijaya Kumar [1]
Professor, Dept. of Management Studies
Rajeev Gandhi Memorial College of Engg&Tech.(Autonomous)
Nandyal – 518501, Kurnool Dist, AP, India.

Dr.D.Sreenivasulu [2]
Lecturer in Commerce, Govt. Degree College,
Pathikonda, Kurnool Dist, AP, IndiaDr.

D.Adhinarayana [3]
Asst.Professor, Dept. of Management Studies , MITS (Autonomous), Madanapalli, Chitoor Dist., AP, India.

Dr. M.Thyagaraj [4]
Asst.Professor, Dept. of MBA-Tourism Management, Vikrama Simhapuri University, Nellore.

ABSTRACT

Microfinance has been recognized as an important tool in connecting the unbanked population to mainstream finance. The clearance of the draft document of the Microfinance Institutions (Development and Regulation) Bill by the Union Cabinet is an indication of the Government's faith in the sector. The RBI and NABARD have supported the propagation of micro finance considerably through the SHG-Bank Linkage Programme (SBLP) and have designed incentives to support micro finance institutions in forming Joint Liability Groups (JLGs). Commercial Banks are incentivized to lend to Micro finance institutions (MFIs) by placing MFIs under priority sector lending (PSL). PSL requirements mandate banks to ensure that 40% of their aggregate net banking credit goes to stipulated sectors that are considered important to foster financial inclusion.

Key Words: Financial inclusions, Micro Finance, Reserve Bank of India, NABARD and Financial Institutions.

1. Introduction

Role of Indian public policy for rural finance from 1950s to till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high. Starting late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as 'Social banking' phase. It saw nationalization of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of a new set of rural banks at district level and an Apex bank for Agriculture and Rural Development (NABARD) at national level.

In India Microfinance Revolution began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by Microfinance. But

India’s first Microfinance Institution ‘Shri Mahila SEWA Sahkari Bank was set up as an urban co-operative bank, by the Self Employed Women’s Association (SEWA) soon after the group (founder Ms. Ela Bhatt) was formed in 1974. The idea of micro finance was developed as a survival strategy for the poor. Ela Bhatt in India and Professor Muhammad Yunus of Bangladesh are the pioneers in this field. Ela Bhatt founded **S**elf **E**mployed **W**omen's **A**ssociation (SEWA) in 1972. It was to bring poor women together and give them ways to fight for their rights and earn better livings. Its membership has grown to 7000 members in 1975 to over 700,000. Over the past few decades, this innovative scheme has attracted a range of nongovernmental and state-sponsored institutions. Leading financial institutions are the Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the Rashtriya Mahila Kosh (RMK). A few NGOs like PRADAN, ICECD, MYRADA, and SEWA have played a significant role in promoting micro-credit. With micro-credit becoming financially viable, even commercial banks like ICICI Bank, ABNAMRO, HDFC Bank, UTI Bank and international banks like Citibank have also entered the field. Non-banking corporate is participating as well.

2. Objectives

- To study the concept of Microfinance and Microfinance Institutions (MFI's) in India.
- To study the current scenario of MFI's in India
- To Assess the impact of MFI's on financial inclusion with special focus on poverty alleviation and women empowerment.

3. Research Methodology

The present study is based on the information collected from various secondary sources including journals, research papers, case studies, articles and various research based websites. Attempts have been made to collect latest data available from reports on Microfinance.

4. Literature Review

- Shankar (2013) in his study examined that MFIs do break down many barriers to financial inclusion MFI penetration in the country is skewed and excludes some areas neglected by the banking sector, suggesting a need for policy incentives to encourage expansion to those areas.
- Ghosh (2013) in his study examined that that microfinance cannot be seen as a silver bullet for development and that profit oriented microfinance institutions are problematic. To fulfill even some of its progressive goals, it must be regulated and subsidized, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.
- Christabell and Raj (2012) in their study examined that The Women's Self Help Group movement is bringing about a profound transformation in rural areas of India. Microfinance Institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor.
- Shetty in his study examined that in the post-microfinance large number of the member households are not only accessing the credit services, but also they are competent enough to access the savings, micro-insurance and other non-financial services.

5. Client Outreach, Portfolio Size and Growth Rate of Indian MFIs

- MFIs operate in 517 districts in India spread across 27 states.
- The total MFI client outreach as of March 2011 was 3.17 crore while the total microcredit outstanding was Rs. 2500 crore which have been scrutinized to banks.

- This year loan portfolio growth rate has decreased to 13.15 percent compared to 56 percent in the previous year.
- During 2010-11, the microfinance through MFI channel has grown 18.75 percent in 2011 in terms of client outreach and 13.15 percent in terms of credit portfolio.
- MFIs collectively disbursed Rs. 33730 crore as loans to clients during 2010-11. Also, the average loan per client stood at Rs.5706, which is less than that of Rs.9766 in the last year.
- In 2010-11, more than one third of the MFIs displayed negative growth in client and loan portfolio.

Table 1: Top Microfinance Institutions In India

Rank	Name	Scale
1	Bandhan (Society and NBFC)	108
2	Microcredit Foundation of India	75
3	Saadhana Microfinance Society	263
4	Grameen Koota	209
5	Sharada's Women's Association for Weaker Section	229
6	Asmitha Microfinance Ltd	80
7	SKS Microfinance Private Limited	61

6. Modes of Delivery Of Microfinance

Micro Finance Institutions (MFIs) around the world follow a variety of different methodologies. The focus of such service is women rather than men for the reason women are more judicious and economical to men. The following are major methodologies employed by MFIs for delivery of financial services to low income families.

6.1 Self Help Groups (SHGS)

The Self Help Groups (SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. External financial assistance by MFIs or banks augments the resources available to the group operated revolving fund. Saving thus precede borrowing by the members. NABARD has facilitated and extensively supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings.

6.2 Individual Banking Programmes (IBPS)

In Individual Banking Programmes(IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member's savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahemadabad, offers both the joint liability

group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world‟s biggest and profitable microfinance institution is following this model.

6.3 Grameen Model

Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with 148 seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group are denied subsequent loans.

6.4 Mixed Model

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are a mix of SHG and Grameen model. The main difference between these programs is rather marginal. Grameen programmes have traditionally not given much importance to savings as a source of funds where as SHGs place considerable emphasis on the source of funds. The SHG programs have compulsory deposit schemes in which the members themselves determine the amount. The SHGs model is widely used in India. According to Vijay Mahajan (2003), Managing Director of BASIX, the SHGs and Grameen models offer economies of transaction cost to MFIs, but at the cost of members time because the unit of dealing is "group" rather than individual. In contrast, MFIs offering individual loans incur higher transaction costs for serving their borrowers. In summary, Exhibit 1 capture the appropriateness of each of the models described and discussed above.

Among all methodologies, Self Help Groups (SHGs) model is more popular in India. There are three models of SHGs. The salient features are given below:-

i) **SHGs-Bank Linkage model:-**This model involves the SHGs financed directly by the Banks viz. CBs(Public Sector and Private Sector), RRBs, and Cooperative Banks.

ii) **MFI-Bank Linkage model**:-This model covers financing of micro Finance Institutions (MFIs) by banking agencies for on ward lending to SHGs and other small borrowers.

iii) **NGOs-Bank Linkage Model**:-Under this model NGOs promote the linkage between banks and SHGs for savings and credit.

7. Microfinance and Financial Inclusion

Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele.

8. Financial Inclusion

Inclusive financial system, one that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows

them to contribute more actively to their development. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups.

Bharat Microfinance Report 2011 reveals that:

- The Government of India and the RBI with measures like the microfinance bill, India Microfinance Equity Fund of Rs. 100 crore, SHG Fund Rs. 500 crore and priority sector credit facilities to MFIs etc., have recognized the role of microfinance MFIs in Financial Inclusion
- The Self-Help Group (SHG) movement has helped over 8 crore poor women to accumulate savings worth Rs. 6200 crore and obtain small loans Rs. 28000 crore as of March 2010.
- The SHG movement has to receive impetus in North and North-Eastern states
- MFIs have consistently raising volume of credit made available to the clients located in rural and remote geographies, belonging to different social segments.
- The clientele of MFIs included more than 95 percent women, disabled people, religious minorities, Scheduled Castes and Scheduled Tribes and Below Poverty Line households.
- MFIs offered products ranging from microcredit, micro-insurance, savings, and remittance. Most of the credit availed from MFI are apparently used for income generation purposes.

9. Microfinance and Women Empowerment

Microfinance in India through its major channels served over 33 million Indians in the financial year 2007-08, up by 9 million over the last financial year, out of which around 80% clients were women. Empowerment is a social action process that promotes participation of people, organization and communities in gaining control over their lives in their community. There is urgent need of empowering women especially in rural areas. The formation of Self Help Group and Micro Financing will enhance their socioeconomic position in the society. Small loans can make good business sense among the women. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming selfreliant in a society that does not offer them much scope for entrepreneurship. And since it is women who run the household, a higher standard of living for women ensures better governance and a healthier and more prosperous future for the children and a better future for the nation. The success of micro credit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women's empowerment. It is observed that majority of rural women who are associated with self-help group activity positively succeeded to gain them empowered. Women in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women's Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG

is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

10. Conclusion

Economy of India at present is at a very crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050 and on the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority.

The important challenge facing the banking sector is to extend financial services to all sections of society. As a complementary to this, micro-finance1 can work as a powerful tool to fight poverty became the effective approach of financial inclusion. With the new philosophy and policies pertaining to micro credit, micro finance institutions (MFIs) such as Self Help Groups (SHGs) have emerged and they now have a strong footing in the developing countries such as Bangladesh, India etc.

Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65 per cent in Bangladesh) with significant variation exists across the states. The key factors that can drive success for MFIs are robust systems, and processes and efficiency and productivity levels, maintaining asset quality, prevention of credit losses and capital erosion and remaining adequately capitalized to fund growth plans.

References

1. Dynamics Of Microfinance In India: The Road Towards Rural Development available at: http://www.youthkiawaaz.com/2010/11/dynamics-of-microfinance-in-india-the-road-towards-rural-development/
2. Financial Inclusion and Microfinance in India: An Overview available at: http://ssrn.com/abstract=1089680
3. Ghosh, J. (2013). Microfinance and the challenge of financial inclusion for development. Cambridge Journal of Economics, 1-17.
4. Micro Financial Institutions available at: http://www.microfinanceinfo.com/micro-financial-institutions/
Micro Credit in India: Overview of regulatory scenario available at: http://www.vinodkothari.com/Micro%20Credit%20in%20India%20-%20Overview%20of%20the%20Regulatory%20Scenario.pdf
6. Micro finance available at: http://ssrn.com/abstract=1667161
7. Micro Finance in India and Millennium Development Goals : Maximising Impact on Poverty available at: http://www.aptsource.in/admin/resources/1273817616_misra.pdf
8. MICRO FINANCE: The Pillars of a Tool to Socio-Economic Development available at: http://ssrn.com/abstract=955062
9. Micro-finance and its role in India available at: http://ssrn.com/abstract=1697251
10. Microfinance in India: An Overview of Microfinance and SWOT Analysis of Microfinance available at:http://ssrn.com/abstract=1747874
11. Raj. P. C. (2012). Financial Inclusion in Rural India: The role of Microfinance as a Tool. Journal of Humanities and Social Science, 2 (5), 21-25.
12. Sa-Dhan releases Bharat Microfinance Report 2011 available at: http://www.microfinancefocus.com/sa-dhan-releases-bharatmicrofinance-report-2011
13. Shankar, S. (2013). Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers? Journal of Entrepreneurship Perspectives, 2 (1), 60-74.
14. Shetty, N. K. (n.d.). The Microfinance Promise in Financial Inclusion and Welfare of the Poor: Evidence from India. Working paper , 1-21

ROLE OF MICRO FINANCE AND SELF HELP GROUPS IN FINANCIAL INCLUSION

Dr.G.Tirumalaiah
Head dept.of Commerce
Govt. Degree College Srisailam Project

Introduction:

The importance of the rural banking and microfinance in the economic development of a country cannot be overlooked. As Mahatma Gandhi pointed out “Real India Lives in Villages”, and village economy is the backbone of Indian economy the existing extensive formal banking structure is still not sufficient to meet the growing demand of rural credit. Financial inclusion is delivery of financial services more especially the banking services at an affordable cost to vast sections of disadvantaged and low income groups. Financial inclusion aims at drawing the “Unbanked” population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance. Major commercial banks in India have been nationalized with the objective of establishing a strong financial structure and thereby paving the path for the economic and social development of the nation. It is now widely acknowledged that financial exclusion leads to non accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in the country.

Micro Finance:

Micro Finance is a hard term to define precisely. If a Self Help Group gives money to someone to buy a cycle rickshaw it is considered micro finance, if a commercial bank does the same thing it is not considered micro finance. In India, the term is generally understood to mean small loan given to the poor by NGOs to start small business. The world over, microfinance is synonymous with the Grameen bank in Bangladesh. In Bangladesh, Micro finance arose in direct response to failure of the nationalized commercial banks to cover the needs of the poor and marginalized.

In India, Micro Finance is dominated by Self Help Groups bank linkage programme aimed at providing financial services to the unreached poor. Micro financing has turned out to be an effective strategy for institutional finance agencies. Through group approach, small loans can be made available to the poor Creates saving habits and minimize extravaganza and for financial institutions.

Self Help Groups dominate the micro finance scenario and it is focusing more on poor women. Hence micro finance is emerging as a powerful instrument empowerment of poor women both socially and economically. It aims at providing cost effecting mechanism for financial services to the undetached poor women.

Financial Inclusion: The term financial inclusion is perceived in different ways under different context. There is a view that only access to credit is treated as financial inclusion

whereas the other view includes all the services extended by the financial institutions. That apart, financial inclusion by banks and other institutions must target, apart from personal or private investment requirement of individuals and groups. The universal public investment requirements necessary for development of infrastructure, social sector service, public utilities and productive forces/capacity building efforts and so on. Thus, financial inclusion may well be all about money and finance, but with the ultimate objective of directly abolishing the state of social exclusion in the economy.

In order to address the issues of financial inclusion, the Government of India constituted a Committee on financial inclusion, under the chairmanship of Dr.C.Rangarajan. The committee submitted its final report to union Finance Minister on 4th January 2008. The Committee has defined Financial Inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost".

Opening a bank account for large part of the population living on low income was rather difficult. Whether it's the maid servant, the sweeper in apartment building the vegetable vendor of a construction worker a bank account was simply out of reach earlier.

Holding a bank account itself confers a sense of identity, status and empowerment and provides access to national payment system. Therefore having a bank account becomes very important aspect of financial inclusion. Besides, financial inclusion, apart from opening and providing easy access to a No Frills account, should also provide access to credit, perhaps in the form of a General Credit Card. It should encompass access to affordable insurance and remittance facilities. It should also include credit counseling and financial education literacy. While financial inclusion in the narrow sense may be achieved to some extent by offering any one of these services, the objective of "Comprehensive financial inclusion would be to provide a holistic set of services encompassing all of the above.

A vast segment of India's population exists on the margins of India's financial systems. Whilst the per capital savings of this class may not be very high their sheer number means that taken together their savings are of considerable amount. If their entry in the formal financial sector is made easier these savings can be canalized for the formal economy. Also savings cum risk products that are their primary need can be structured for them once they are part of the formal banking system.

The Need for Financial Inclusion

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGO"s and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of the loan, how interest is calculated,

and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.

Benefits of Financial Inclusion

- It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan products for housing , consumption, etc.
- An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.
- This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged. From the banks point of view, having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates.
- Access to appropriate financial services can significantly improve the day-today management of finances. For example, bills for daily utilities (municipality, water, electricity, telephone) can be more easily paid by using cheques or through internet banking, rather than standing in the queue in the offices of the service.
- Transfer of money can be done more safely and easily by using the cheque, demand draft or through internet banking.
- A bank account also provides a passport to a range of other financial products and services such as short term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.
- Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in200 districts in the country would bring in large number of people through their savings accounts into the banking system.

Conclusion

Inclusive growth is much needed to include common people into the orbit of development. Social and economic justice can be provided only with the inclusion of hitherto excluded deprived section of people. Lot of measures was undertaken by the Government of India and Reserve bank of India together to mitigate the problem of financial exclusion. It leads to particularly, development of all sections of people. To achieve this multi-model approach was adapted. Service Area approach, priority sector lending. Differential rate of interest, Lead Bank Scheme, issue of General credit card and Kisan credit card and so on help to overcome financial hassle to get credit from formal institutions. In this direction emergence of Self Help Groups(SHGs) and then SHG- Bank Linkage Programme help extensively to strengthen the poor specially women folk. SHGs play a vital role to improve the socio-economic condition of women folk by developing thrift habit and providing micro finance in times of need and also encouraging micro entrepreneurs.

References:

1. 1. K.N.Ghorude, Microfinance for financial inclusion and sustainable rural development, southern economist, volume 48 number 1,Pp 47-50.
2. S. porkodi; dr. D. aravazhi, role of micro finance and self help groupsin financial inclusion International Journal of Marketing, F**inancia**l Services & Management,ResearchVol.2, No. 3, March (2013).
3. Dr. K.B.Rangappa,Miss. Renuka Bai,Mr. Sandesh. A.L, SHG-Bank linkage programme and financial inclusion: Rural Household Study in Davangere District of Karnataka. Md Masroor Alam & Dr. S.M. Jawed Akhter, financial inclusion in India: an analysis of SHG- bank linkage programme

INTEREST FREE MICROFINANCE: AN INCLUSIVE APPROACH TO SOCIAL AND LOW PROFIT BUSINESS

Muhammed Shafi. MK
Research Scholar, Department of Management & Commerce
Maulana Azad National Urdu University- Hyderabad

ABSTRACT

Interest free Microfinance (IfMF) is the Profit Loss Sharing (PLS) mechanism which adheres to the principles of Islam and is a form of socially responsible investing. Many elements of microfinance could be considered with the broader goals of Islamic banking. Both systems advocate entrepreneurial risk sharing and believe the poor should take part in such activities. The word social business is a business for the welfare and at the same time profit can be earned but not the huge rater as it happens these days in the name of microfinance.

The products and services of Interest free microfinance are relevant tools for rural and socio-economic developments like Micro-credit (*Qard*), Micro-equity and Micro-savings such as trustee financing (*mudaraba*) joint venture (*musharaka*) .etc. Now days it is running in many countries in variety of settings like Grameen Bank, Village Bank, SHG etc. In India it is similar with specialized institutions like the NBFC, NGO, etc. Rural and non educated people can easily access the its wide services due to its prohibition of Riba(Interest), Uncertainty and speculation. Moreover the Zakat(charity) system itself is high valuable service for prosperity and empowerment of society.

The proposed study is an attempt to develop a modal based upon Islamic principles that is aimed at the welfare of poor and needy with a low profit margin. It also investigates prospects of IMF, shari'a based principles of Interest free microfinance and its various products and services. Data is collected and analyzed on exploratory research basis.

Keywords: *Interest free Microfinance, IMF Models, IMF products and services, IMF as Social Business*

1. INTRODUCTION

Microfinance is an economic activity which is distinguished as a sustainable mechanism to fight poverty and empower low income households. In India it has expanded rapidly over the past few years, providing access to credit to a large number of individuals who were hardly served by the banks and other formal financial institutions. The concepts of Interest free microfinance stick on the principles of Islam with a form of socially responsible investing. Investors mainly involve in Islamic microfinance projects with the intention of profit loss sharing mechanism which is permissible by the law of Shari'a. Such projects include zakat, which is charity based, Mudaraba, Musharaka, Murabhaha or trade and industry projects to develop a country's economy. Islamic microfinance gives the investor a chance to get involve in worthwhile events which could essentially play a significant role in poverty and alleviation in many countries. Interest free microfinance primarily relies upon the designing of financial services to the poor or developing regions by which it exhort equalitarian economic society. Now days it is running in many countries in a wide variety of settings like Grameen Bank, Village Bank, Credit Union, and Self-Help Groups model.etc. South India is the most dominant part of microfinance where around 70 % of Indian institutions are working with various delivery methods. Today microfinance has evolved as a vibrant industry exhibiting variety of business models. Microfinance Institutions (MFIs) in

India exist as NGO, NBFC and SHG models. Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs.

Islamic Finance is at nascent stages of its growth in India. It does not different from conventional finance in respect of the fact that its primary critical success factor is trust and confidence the industry and its participants enjoy among the clients and other market participants. Despite Islamic Micro Finance (IMF) is not a mainstream Indian people, it plays all roles of conventional microfinance such as accessing credit, venture capital, savings, insurance, remittance etc which are enabling participation of those with severely limited financial means. The poor and needy household with no access to financial services find it extremely difficult to take advantage of economic opportunities, build assets, finance their children's education and protect themselves against financial requirements. In India only 20% of people are accessing loans from formal source and 80% from informal sources. Even it perceived as mode of welfare and socio economic developmental service, constrains like lack of adequate investment, heavy interest rate etc hinder its mobilization and inclusiveness of many commercial services to this sector.

2. REVIEW OF LITERATURE

Microfinance grew out of experiments in Latin America and South Asia, but the best known start was in Bangladesh in 1976, following the wide-spread famine in 1974. The basic principle of microfinance as succinctly expounded by Dr. Muhamad Yunus, the founder of Grameen Bank Bangladesh, and the recipient of the Nobel Peace Prize in 2006, that credit is a fundamental human right.

Microfinance and Interest free finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system. In this light, many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing and believe that the poor should take part in such activities. Both focus on developmental and social goals. Advocate financial inclusion, entrepreneurship and risk-sharing through partnership finance. Both involve participation by the poor. (Rahul Dhumale and Amela Sapcanin, 2006). Microfinance has proven to be an effective and powerful tool for poverty alleviation. International conference on financing for development in 2002 explicitly recognized that "microfinance and credit for micro, small and medium enterprises as well as national saving schemes are important for enhancing the social and economic impact of financial sector". (Obaidullah and Tariqullah 2008).

Islamic convictions on the responsibility go well beyond mere profitability goals and coincide with the renewed perception on business recently at stake within the most advanced sectors of western business and civil societies. Far from the limits imposed by neo-classical thought, this new wave implies new sorts of responsibilities on behalf of the company falling under the rubric of corporate social responsibility (Ferro, 2005). As an alternative to *riba'*, the profit and loss sharing arrangements are held as an ideal mode of financing in Islamic finance. It is expected that this profit and loss sharing will be able to significantly remove the inequitable distribution of income and wealth and is likely to control inflation to some extent (Siddiqui, 2001). Microfinance is defined as "small-scale financial services—primarily credit and savings—provided to people who farm, fish or herd" and adds that it "refers to all types of financial services provided to low-income households and enterprises."(Robinson, 2001).

At a very basic level, the disbursement of collateral free loans in some cases constitutes an example of how Islamic banking and microfinance share common aims. Thus Islamic banking and microcredit programs, may complement one another in both ideological and practical terms (Dhumale, Sapcanin, 1999). As its ultimate goal is the maximization of social benefits as opposed to profit maximization, through the creation of healthier financial institutions that can provide effective financial services also as grass roots levels, some authors (Al Harran, 1996) argue that Islamic finance, if inserted in a new paradigm, could be a viable alternative to the socio – economic crisis lived by the Western paradigm.

In attempts to formalize the behaviour of an Islamic firm in a theoretical framework, some authors have proposed maximizing utility (rather than profit, as is usually assumed in conventional economics) as the distinctly Islamic objective (Metwally, 1992; Hallaq, 1995). Broadly, they state utility as a function of profit and charity/social welfare. Hassan (1983; 1992), have assumed the same objective for the firm as in conventional economics, that is profit maximization. They use this assumption to analyse the rewards to the factors of production and how it affects the cost of production of an Islamic firm. The resulting outcome is higher output with lower prices, as compared to the conventional firm, mainly due to abolition of interest.

3. OBJECTIVES OF THE STUDY

- To analyse different applicable modes of Interest free microfinance for the socio economic development of poor and needy
- To understand the various products and services of Interest free finance use in micro financial system
- To investigate inclusive approaches of Interest free microfinance as a social business to eradication of poverty and economic imbalances of society

4. RESEARCH METHODOLOGY

This study is based on exploratory research analysis. The data are collected through secondary sources. Data are mainly collected from books and other financial periodicals. The information gathered on the basis of adaptability of Interest free microfinance products and services in Indian scenario and its other possibilities like different operational models, methods for market based and profit modes of social business etc. The main organization of this study is focused how IsMF is socially inclusive with the perspective of profit based social business.

5. ISLAMIC MICROFINANCE: KEY PRINCIPLES

Interest free microfinance adhere the principles of Islamic Sharia. The primary source of Islamic sharia is Quran, Sunnah (the sayings, deeds and endorsements of Prophet Muhammad PBUH), Ijma (Unanimous decision of the Ulama) and Qiyas (analogy). Islamic commercial laws come under the framework of Fiqh and Mua'malath which principles postulate all trade and other transactions should be based justice and fairness, honesty and truthfulness, free from riba (interest) and garar (uncertainty), prohibition of Najash (bidding), Mysir or qimar (gambling) and free from investment in activities like alcohols, adult entertainment etc. In islam the usury was being prohibited throuth the four stages. Quran says 'Allah has permitted trade and forbidden *riba*. (2:275). Sharia exhorts that is only a mean to exploit the poor and needy which hinders the equal balance among society. When investors are more concerned with rates of interest and guaranteed returns than they are with the uses to which money is put, the results can only be negative.

Keeping ethical principles is the other religious duty to ensure, what they invest in is good and wholesome. In other words, Muslims must take a close look at the business they are about to become involved in. for this purpose Islam prohibits gharar, bidding and gambling. Broadly speaking, gharar will affect the validity of contract if it occurs in small quantity which is called Gharar qaleel (it is clear that *gharar* does not have a single definition and is a fairly broad concept. In modern parlance, *gharar* may simply refer to settlement risk.)

6. IsMF POVERTY ALLEVIATION PROGRAMS

Poverty alleviation is the first and foremost intention of Islam A saying of the Prophet (peace be upon him) forcefully drives the central message of Islam regarding poverty: "Poverty is almost like disbelief in God." Poverty is in conflict with "enrichment of self (*nafs*)", which is one of the primary objectives of Shariah. Islamic jurists have unanimously held the view that it is the collective obligation (*fard kifayah*) of a Muslim society to take care of the basic needs of the poor. (M U Chapra, 2008). The Islamic approach to poverty alleviation is more inclusive than the conventional one. It provides for the basic conditions of sustainable and successful microfinance, blending wealth creation with empathy for the poorest of the poor. It also follows that the Islamic approach is a composite of mission based and market-based interventions. For eradicating poverty Islam put forward charity based programs like Sadaqa, waqf, Zakah etc.

7. PROFIT BASED SOCIAL BUSINESS MODELS OF INTERST FREE FINANCE

7.1 Grameen Bank model: This model works on intensive fieldwork by staff to motivate and supervise the borrower groups. Groups normally consist of five members, who guarantee each other's loans. This model requires careful targeting of the poor through means of tests comprising mostly of women group. A number of variants of the model exist; but the key feature of the model is group-based and graduated financing that substitute collateral as a tool to mitigate default and delinquency risk.

7.2 Village Bank model: This model involves an implementing agency that establishes individual village banks with about thirty to fifty members and provides external capital for onward financing to individual members. Individual loans are repaid at weekly intervals over four months, at which time the village bank returns the principal with interest/ profits to the implementing agency. This has been widely replicated mainly in Latin America and Africa, but with substantially less total outreach than the many Grameen Bank replications is the Village Bank model. A bank repaying in full is eligible for subsequent loans, with loan sizes linked to the performance of village bank members in accumulating savings. Peer pressure operates to maintain full repayment, thus assuring further injections of capital, and also encourages savings. Savings accumulated in a village bank is also be used for financing.

7.3 Credit Union (CU): A CU is based on the concept of mutuality. It is in the nature of non-profit financial cooperative owned and controlled by its members. CUs, mobilize savings, provide loans for productive and provident purposes and have memberships which are generally based on some common bond. CUs generally relate to an apex body that promotes primary credit unions and provides training while monitoring their financial performance. CUs are quite popular in Asia, mostly in Sri Lanka.

7.4 Self-Help Groups (SHGs): A fourth model originated in India is based on Self-Help Groups (SHGs). Each SHG is formed with about ten-fifteen members who are relatively homogeneous in terms of income. An SHG essentially pools together its members' savings and uses it for lending. SHGs also seek external funding to supplement internal resources. The terms and conditions of loans differ among SHGs, depending on the democratic decisions of

members. Typical SHGs are promoted and supported by NGOs, but the objective for them is for to become self-sustaining institutions.

7.5 Commercial Banks

Many commercial banks in different countries have microfinance portfolio. These institutions specially provide funds for development of microenterprises, social development, self employment projects and agricultural promotion. Most of the banks provide loans directly with receiving physical collateral. This method is not beneficial for the poor people because they have no enough collateral to give the banks. Other models of micro finance institutions mainly depend on social collateral. So some banks are promoting self help groups or NGOs for promoting microfinance.

7.6 Non Banking financial company (NBFC)

Non Banking financial company is another model followed in different countries for the implementation of microfinance. This model is comparatively new one in this field. Registering of a financial company under the law prevailed in the country is the first step. The working capital is collected through shares and giving loans to micro entrepreneurs. This model is seeing mainly in India and Pakistan. These types of institutions are providing loans only for productive purposes. In India it is registered under the company's act 1956, which is regulated and supervised by RBI.

7.8 Association of Persons

A simple way for providing micro loans is forming association of persons. This model is mainly functioning in the unorganized sector. A target community forges together to form an association through which a variety of microfinance activities are initiated. The associations may comprise of youth, women, or be formed around cultural, religious, or political issues. In some of the countries a legal body can also form an association. These legal associations have certain advantages, like collection of insurance, fees, tax breaks, and provide other protective measures. The association collects saving from its members and then disburse it among them as loans. Mutual help for increasing welfare is the principle behind this. In Kerala number of associations is working successfully. This type of institutions is not needed license or registration.

7.9 Nidhis

Nidhi model of microfinance institutions are found in different countries. This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment. A common fund is forming by collecting savings or through donations and it is utilized to give micro loans to poor and needy. Most of this loans are consumption purpose or for meeting emergencies like hospital expenses. In India this type of institutions are working from 19th century. Now in India thousands of *Nidhis* are functioning. Some *Nidhis* are registered under societies act or as charitable trusts. But most of them are unregistered and in unorganized sector. In Iran around 6000 institutions same as *nidhis* are working.

7.10 Community Banking

Community banking model is another method of providing microfinance. A community bank essentially treats the whole community as one unit, and establishes semi-formal or formal institutions through which microfinance is dispensed. Such institutions are usually formed by extensive help from NGOs and other organizations, who also train the community members in various financial activities of the community bank. These institutions may have savings components and other income-generating projects included in their structure. In many cases, community banks are also part of larger community development programmes which use finance as an inducement for action.

Apart from these methods, there many model especially in Unorganized sector In India. In unregistered sector, 119.68 lakhs MSME units are existing in rural areas whereas urban constitutes 79.05 lakhs units like Rotating Savings and Credit Associations (ROSCAs), Kuri micro investment etc.

8. INSTRUMENTS USING IN MICRO FINANCE

There are various schemes and instruments in Interest free finance based Islamic principles that can be advanced and adapted for the purpose of microfinance. Comparatively, *qardhul hasan*, *murabahah* and *ijarah* schemes are relatively easy to manage and will ensure the capital needs (*qardhul hasan*), equipments (*murabahah*) and leased equipment (*ijarah*) for potential micro entrepreneurs and the poor. Participatory schemes such as *mudarabah* and *musharakah*, can satisfy the risk sharing needs of the micro entrepreneurs. Savings schemes via *wadiah* and *mudarabah* deposits, money transfers such as through *zakat* and *sadaqah*, and insurance via *takaful,* charity such as *zakat* and *waqf* play vital role to exploit source of funds through the Islamic finance. The following products and services are commonly using in Indian scenario as services of interest free financing.

8.1 Micro Equity (Partnership contracts)

A micro-entrepreneur investing in a microenterprise may meet its financing requirements through debt or equity. Micro-equity provided to a first generation micro-entrepreneur is called micro venture-capital (VC). Micro VC providers are however, far smaller in number and outreach. In an Islamic economy, several partnership-based modes of equity financing exist, such as, trustee financing (*mudaraba*), joint venture (*musharaka*), share-cropping (*mudara*) and the like.

8.1.1-Musharaka Joint Venture

A *musharaka* or a joint venture involves a partnership in which both the IsMFI and its micro-entrepreneur contribute to entrepreneurship and capital. It is an agreement whereby the micro-entrepreneur and the IsMFI agree to combine financial resources to undertake any type of business venture, and agree to manage the same according to the terms of the agreement. Profits are shared between the IsMFI and the micro-entrepreneur in the pre-agreed ratio. Losses are shared strictly in proportion to their respective capital contributions.

8.1.2- Mudaraba(Trustee partneship)

Trustee partnership is a mode of financing through which the investor or institution provides capital finance for a specific venture indicated by the customer. The Investor institution is the owner of the capital and the customer-entrepreneur is responsible for the management of the business and provides professional, managerial and technical expertise for initiating and operating the business enterprise or project. Profit is shared according to a pre-agreed ratio. Losses if any are entirely absorbed by the capital provider. In cases of proven negligence or mismanagement by entrepreneurs, however, they may be held responsible for the financial losses.

8.2 Micro savings

Depositors – poor or rich – prefer high returns. They also want their deposits to score high on safety, security and liquidity. But they are constrained by the multiple demands on their low incomes and a lack of available deposit services that matches their needs and expectations. Poor people want secure, convenient deposit services that allow for small balances and transactions and offer easy access to their funds. However Muslims want the returns on their investment that is to be permissible in Islam (*halal*) . As an Islamic product and services, Micro savings comprises Wadia, and Al qarad mechanisms.

8.2.1-Wadia

Al-Wadia is an accepted way to receive member deposits according to Islamic finance principles. Under this framework, members are able to keep their money in a savings or current account, and any share of profit the institution makes by mobilizing the members' savings is divided among account holders. Under this Shariah-compliant arrangement, the institution provides a guarantee to members that the money will be available when needed for withdrawal and has the authority to use the deposits as financial advances to other members. The institution agrees to invest members' deposits in Shariah-compliant businesses only. Under wadia, banks commonly provide a return to depositor purely as a gift, such gift is not the part of profit.

9. FINDINGS OF THE STUDY

9.1-The concepts of Interest free microfinance stick on the principles of Islam with a form of socially responsible investing. Islamic commercial laws come under the framework of Fiqh and Mua'malath which principles postulate all trade and other transactions should be based justice and fairness, honesty and truthfulness, free from riba (interest) and garar (uncertainty), prohibition of Najash (bidding), Mysir or qimar (gambling) and free from investment in activities like alcohols, adult entertainment etc.

9.2-The present system of commercial banking is based on minimization of risks and maximization of profits. The sectors which are served well by it are trade, commerce and industry where risks could be measured rather easily and where quick returns are possible. It leaves out the sectors like small scale industries and social committed business because their ultimate aim of profit. Islamic microfinance is a solution of this problem due to its various forms of socially responsible products and services.

9.3-Microfinance and Interest free finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system.

9.4-Poverty alleviation is the first and foremost intention of Islam, For eradicating poverty Islam put forward charity based programs like Sadaqa, waqf, Zakah, Qard Hassan etc. When compulsorily mandated on an eligible Muslim, *sadaqa* is called *zakah*. When *sadaqa* results in flow of benefits that are expected to be stable and permanent (like endowment of a physical property), it is called *sadaqa jariya* or *waqf*. The primary issue with a *zakah* or *sadaqa*-based solution to the challenge of poverty is the issue of sustainability.

9.5-There are many social business models in microfinance which can be applicable in IsMF system also. The main models are Grameen Bank model, Village Bank model: Credit Union (CU), Self-Help Groups (SHGs), Non Banking financial company (NBFC), Association of Persons, Commercial Banks, Nidhis and Non Governmental Organisations. These are not only useful to welfare of society but also profit oriented business operations too.

9.6-In micro banking Micro Equity (Partnership contracts) 1-Musharaka Joint Venture 2-Mudaraba(Trustee partnership) Investors mainly involve in Islamic microfinance projects with the intention of profit loss sharing mechanism which is permissible by the law of Shari'a. Such projects include Mudaraba, Musharaka and Murabhaha which are Micro Equity or Partnership contracts. Micro savings includes Wadia, Deferred Deliveries which includes Working Capital Loan / Murabaha, Baiu-Salam, Manufacture-Sale (*Istisna*) Facility and *Bai-Istijrar.* Micro-credit includes Leasing (*Ijara*) Facility. Other methods are Micro-transfers and Micro-insurance.

10. CONCLUSION

The Islamic approach to poverty alleviation is more inclusive than the conventional one which involves a charity based intervention inherent in the institutions of *zakah* and *sadaqa* to take care of consumption needs of the extremely poor and the destitute and create a social safety net. The other institution of charity, the *awqaf,* is ideal for creation and preservation of assets that can build capacity and provide technical assistance for skill improvement and development of human resources. The financial assistance aims at wealth-creation using Shariah-compliant for-profit modes with free pricing. The entire process needs to be completely transparent with proper documentation, accountability and responsibility with a time-bound schedule. It seeks to bring economic empowerment for families as integrated units. The Islamic approach puts overwhelming emphasis on microenterprise development through financial and non-financial assistance and adherence to principles of transparency, empathy and cooperation.

To sum up, microfinance implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means. The provision of financial services to the poor helps to increase household income and economic security, build assets and reduce vulnerability.

11. REFERNCES

1. Mohammed Obaidullah (2008). "Introduction to Islamic Micro Finance" ISBN: 978-81-905822-2-3, Islamic relief World Wide Web: http://www.islamic-relief.com
2. Wilson.R. (2007). "Making Development Assistance Sustainable through Islamic Micro Finance", IIUM International conference on Islamic banking and finance. Kuala lumpur, Malaysia.
3. Obaidullah.M. (2008). "Role of micro finance in poverty alleviation: lessons from experiences in selected member countries", Islamic Research training institute, Islamic Development Bank, Jeddah
4. Ahmad, H. (2006). "Frontiers of Islamic banking: A Synthesis of Social Role and Micro Finance", Islamic Research Training Institute, Islamic Development Bank, Jeddah

INCLUSIVE GROWTH AND MICROFINANCE

Dr.N.Srinivas Kumar,
Professor, SRTIST,
Nalgonda.

Inclusive growth – Reaching the unreached

Though not properly defining the 11th plan strategy is "Towards Faster and More Inclusive Growth". The approach paper of the Eleventh Plan states that the plan provides "an opportunity to restructure policies to achieve a new vision based on faster more broad based inclusive growth. It is designed to reduce poverty and to focus on bringing various divides that continue to fragment our society.

The World Bank stated that inclusive growth can be achieved by "focusing on expanding the regional scope of economic growth, expanding access to assets and thriving markets and expanding equity in the opportunities for the next generation of Indian citizen no matter, who they are and where they live".

The UNDP defines inclusive growth by laying emphasis on the production and income side of the GDP as "the process and the outcome where all groups of people have participated in the organization of growth represents an equation with organization on the left hand side and benefits on the right hand side".

The above definitions convey that inclusive growth is the growth process which benefits even those sections that are deprived of both physical and human asset endowments and hence generally belong to the bottom rungs of income distribution and are incapable of benefiting from and participating in the growth process.

Why an emphasis on inclusive growth is needed?

The recent estimates of national income bring out a fact that the higher sides of national and per capita incomes that are being realized by the economy are not inclusive in nature. Due to the 9% plus growth rate of national income, and the moderation in population growth rate the population growth rate the per capita income is steadily increasing. But it is not inclusive particularly after mid 90s.

The main reasons for the situation creep up from the deceleration of agricultural growth which provides employment still for 60% of the population in India, relatively less growth of manufacturing sector as the Indian economic development is very much based on service sector growth.

As Singer opines, the economic development is characterized by a gradual shift in occupational structure, that is, people moving from primary to secondary, and from secondary to tertiary sector, that is, service sector. But in India the primary sector which provide livelihood for 60% of population is not showing good progress, and giving rise to many socio economic problems, and on the other hand instead of manufacturing sector, service sector is contributing a great deal to the impressive growth rates that are being achieved. It implies that certain sections of population are being excluded from participating in the progress of the economy and getting benefited from the progress.

Therefore it is clear that the planners are moving away from the belief of 'Trickle Down' effect of economic growth, and realize the need to focus on 'inclusive growth'. It is new felt that having a special focus on including the 'bottom of payment' the distributive justice cannot be achieved. Not only to satisfy the objective of equity but also to sustain the momentum of the growth it is required

In Prof. C.K. Prahlad's words

"If we stop thinking of the poor as victims or as a burden, and start recognizing them as resilient and creative entrepreneurs, the whole world of opportunity will open up".

Certain harsh realities of empirical observations stress the need of inclusive growth.

- India has a plural society, that is, a society consisting of different groups the Schedule castes, Schedule Tribes, other backward classes and other social groups. For historical reason, in India these social groups differ with respect to mean as well as distribution of economic welfare. For instance in AP when the broad based averages are taken the median per capita consumption in rural area for the year 2004-2005, it is 26.19% short with respect to Schedule castes. It implies that Schedule Tribes, 10.92% short with respect to schedule castes. It implies that in India still Schedule sates and Schedule Tribes continue to be socially vulnerable and economically backward classes. Those programs targeted for their upliftment are not benefiting all the subsections of them as a result only a subsection of those communities gets included in the mainstream benefited from welfare programs.

- According to a study conducted on women's malnutrition between 1998-99 and 2005-06 based on National Family Health Survey statistics. (Table IV) the findings show that during the period of higher growth and reasonable pace of reduction in poverty, malnutrition especially iron deficiency anemia has increased among women from disadvantaged social and economic groups. This is going to have an impact on maternal mortality to cause intrauterine growth retardation, child malnutrition and increasing prevalence of chronic diseases. Coming to the facts in this regard, in the lowest range 50.4% of women suffer from chronic energy deficiency in 1998-99, increased to 51.4% by 2005-06. And in the same group 62.7% suffer from anemia in 1998-99 and it increased to 65.1% in 2005-06. In the section of women belonging to higher income groups there percentages are 11.5%, 11.7%, 41% and 46% respectively. This observation clearly indicates that we are still very far from achieving out millennium development goals.

- In another study conducted on state and district level analysis of poverty patterns in India it is observed that the inequalities in MPCE are very high. The India average being Rs.559/- in Orissa, 31.19% have less than Rs.270/- were as in Punjab it is 0.5% only. Iff district wise analysis is taken, the average MPCE of AP being Rs.586/- that of Warangal is Rs.752/- and of Adilabad is Rs.400. Therefore it is clearly evident that country has a wide range of inequalities.

- The average growth rate of agricultural sector drops to 1.6% in the year 2007-08. It accounts for 17.8% of the GDP in the year against nearly 23.8% of previous years. The food grain production 222.85 million tones with a marginal increase of 1.97 million tons over previous years.

- The average per capita consumption expenditure in urban areas is double that of rural areas.

- In Kerala one out of 100 children dies in infancy. In Orissa, that number is 9. This point makes clear that there is lot of inter regional variation in physical quality of life.
- As the agricultural sector decelerates, people migrate to cities in search of jobs. It would create a lot of pressure on urban infrastructure. Hence there is a need to increase investment on urban infrastructure. The urban sector faces lot of infrastructural problems like poor sanitation, safe drinking water, poor dwelling facilities etc.
- Growth in agricultural sector is necessary to keep manufacturing prices under control, to provide food security and for a stable growth.
- Still 90% of workforces belonging to non-farm sector are finding the occupations in unorganized sector.
- To sustain the overall growth momentum there is a need for increasing levels of investments.
- There is a requirement of skilled labor in the rapidly changing environment. It calls for huge social sector investment to educate the poor and unreached.

There is a need to utilize the potential of unorganized non-farm sector. Providing the non-farm employment opportunities for rural poor definitely checks the migration. Therefore there is a need to infuse appropriate technology, skills, access to credit and startup capital. Entrepreneurial development has to be encouraged by having an enabling competitive environment and availability of finance for the new projects.

The multi pronged strategy that is suggested to achieve inclusive growth.

1. Increasing the employment opportunities in the non-farm sector in the rural areas.
2. Increasing wage levels in rural employment by understanding various measures to improve Productivity levels.
3. Promote entrepreneurship among weaker sections of the society.
4. Promote industrialization in rural areas with significant backward population.
5. Attaining improvement in the in the standard of education at all levels.
6. Uplifting the infrastructure Investments have to be made in construction of rural roads, minor irrigation projects, construction of check dams, bio gas plants etc.
7. Stressing the industry education linkage.
8. Providing greater opportunity to the backward sections of the society in employment.

Strengthening the microfinance movement is also a powerful tool in achieving inclusive growth. The spread of SBLP helps a great deal in reaching the unreach, works as an effective means of alternative banking which is the 'Zinda Tilismath' for poor and disadvantaged communities.

MICROFINANCE – an effective tool for achieving inclusive growth.

Micro finance refers to the service of providing small amounts of money to the poor who are not usually touched by the traditional banking sector that follows the sound banking

principles. The services include Savings, credit, thrift, insurance, leasing and money transfer etc.

NABARD launched the pilot programmed for promoting 500 SHGs. It was later supported by RBI by issuing instructions to banks in 1996 to cover SHG financing as a main stream activity under priority sector lending port folio. SBLP was made national priority by Government of India from 1999 onwards.

Objectives of Micro Finance

- Support financial services to the rural poor, particularly enterprises who have not been able to secure the needed services from the formal financial system.
- Provide lendable and capacity building funds in respect of enterprises and various types of other grass root level micro finance institutions.
- Support all initiatives for up scaling of the SHG – bank linking programmes through thrift – related banking activity.
- Build up expertise in micro finance activities.
- To help build-up mutual trust and confidence between the bankers and the rural poor.
- To evolve supplementary strategy for meeting the credit needs of the poor by combining flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institution.

Self Help Groups (SHGs) Indian Microfinance is dominated by SHGs.

The SHGs are small informal groups aiming at collective action. They are generally formed by the funding agencies and voluntary agencies in the context of micro finance. There are now about 9, 60, 000 SHGs in the country.

The SHG promotes mall savings amongst its members. The members pool their savings and re lends it among them on a rotational basis. The SHGs come together for the purpose of solving their common problems through self-help and mutual help.

The SHG Bank linkage programme has been successful and making steady progress as shown in Table-II

By 2002, 4, 64,478 SHGs have been linked to banks. Bank loan amounted to Rs.10263.30 Crore. Bank finance helped 7.8 million poor families comprising an estimated 39 million, very poor people. The loan repayment performance of the SHGs is more than 95 percent.

Banks are happy with micro finance schemes. The loans fetch the market rate of interest. As the group is responsible for repayment, the transaction costs for banks are eliminated. The repayment rate has been consistently above 95 percent.

Challenges in the implementation of Inclusive Growth Strategies

- In a plural society like India measuring the inclusiveness of the growth rate is very complicated. Choosing an appropriate broad based index is very important. A well designed methodology must be adopted.

- The skewed distribution of SBLP is a challenge. (Table-III) The southern states account for almost 60% of SHGs and A.P. being the 'Mecca of Micro finance' with 50% of share.

  However in states which have larger share of the poor the coverage is comparatively low. The skewed distribution is mainly because of the leadership role and support extended by some of the state governments. The regional imbalances in the spread of SBLP program must be taken care off.

- About half of the SHG members and 30% of MFI members are below the poverty line. It indicates that the progress towards the goal of extending financial inclusion is showing very slow progress. It is felt that MFIs are making no special effort to largest the poor.

- The inclusive development is the development that integrates all the social groups in the process of development. The malnutrition among the economically deprived classes of women weakens their health, and their participation in growth process gets adversely affected.

- The social aspect of micro finance is very important. There should be proper measurement about the social performance of micro finance. The social goals relates to reaching the poor or excluded clients, contributing to employment and enterprise education ensuring the social responsibility to clients to staff and to the communities in which they work. Social benefits happen only deliberate efforts are it done by MFIs?

- There is a need to realize the importance of micro insurance for the poor as a tool to protect livelihoods. The absence to proper risk hedging mechanisms like insurance, the poor stand to lose their wages, borrow, and liquidate their assets and migrate, finally face many hardships. They ultimately fall in the vicious circles of poverty. Bringing out sustainable insurance products has to be considered seriously by MFIs.

- There is inadequacy in the area of livestock insurance. The field staff lacks technical training in veterinary science.

- Due to the collapse of cooperatives once again the share of money lenders in the dues of rural households has increased after 2992. The rural indebtedness leads to the liquidation of their meager assets.

- Inclusive growth needs financial institutions to be strong and efficient. The experience cooperative banks under the dual regulation, the deposit lacking NBFCs and their poor governance are the challenges.

- Lack of proper recognition for the need of entrepreneurial education is a problem. The entrepreneurial education is the option for confronting the menace of unemployment in the country today.

- More attention should be given towards minimizing yield risk in agricultural sector. Apart from it there is a need to have a sustainable approach to manage agricultural risk. The crop insurance schemes should be more transparent.

The steps that have to be taken to achieve inclusive growth

- The regional skew must be rectified with deliberate measures. NABARD is working in this direction; it identified 13 states in 2005 for special efforts and location specific strategies. As a result SBLP expanded by 37% in these states.
- The importance of entrepreneurial education must be recognized properly. The small scale entrepreneurship is very important for the country. It provides lot of employment opportunities of the rural non form work force.
- Proper assessment of the social performance of MFIs and rating of their social performance must be done. They must not only identify the client as poor but they must also see that large number of their clientele comes from vulnerable communities (Schedule Castes, Schedule Tribes)
- The financial literacy and credit counseling should be increased to root out lack of awareness. The financial literacy and credit counseling centre's by SLBC conveners should be extended to all areas.
- Many MFIs which are registered as S25 companies or as NBFCs are not registered as micro insurance agents by micro insurance regulation and therefore they are constrained from spreading the micro insurance. The required steps have to be taken in this regard.
- There should be proper methods to manage agricultural risk. The crop insurance schemes should be made popular among farmer community. The index based weather insurance must be popularized.
- The cost of leading of MFIs should be addressed properly. The SHG federations must be encouraged. By applying sophisticated technology the process should be made low cost.
- Necessary steps should be taken to minimize the yield risk. Training centers, knowledge centers and farmer clubs should be established. NABARD and SIDBI should act in that direction.
- Last but not the least, the domination of money lenders must be reduced. State governments should immediately consider the proposals put forward by the Technical Group of RBI for establishing a link between formal and informal credit providers to be called accredited loan providers.

Conclusion

Therefore a conscious, well designed deliberate strategy is required to make the growth inclusive. It is the real challenge before the economy. The impressive growth rate of GDP which is experienced by the economy would provide better quality of life to the people only when it is inclusive. That is the only route for the economy to realize the millennium development goals.

Table-II

SHG – Credit Linkages Cumulative Progress

Year	No. of SGHs linked	Chapter I Bank Loan (in Rs. Crore)	Refinance (in Rs. Crore)
1992-93	255	0.29	0.27
1993-94	62	.0.65	0.46
1994-95	2122	2.45	2.13
1995-96	4757	6.06	5.66
1996-97	8598	11.84	10.65
1997-98	14317	23.76	21.39
1998-99	31995	57.07	52.09
1999-00	94645	192.98	150.13
2000-01	213213	480.87	400.74
2001-02	461478	1026.30	796.50

Sources: Annual Reports, NABARD

TABLE – III

Growth of linked SHGs' in the regions

Region	Mar-07	Percent-07	Share of population	Share of BPL population
Northern	182018	6	13	7
Eastern	525881	18	22	29
Western	270447	9	15	14
Southern	1522144	52	21	15
Central	332729	11	25	32

Source: Poverty Estimators; Press Information Bureau; Government of India

TABLE-IV

Growth of linked SHGs in 13 priority states

State	2003	2007	Percent Growth
Assam	3477	81454	44
Bihar	8161	72339	57
Chhattisgarh	6763	41703	33
Gujarat	13785	43572	28
Himachal Pradesh	8875	27799	21
Jharkhand	7765	37317	21
Maharashtra	28065	225856	72
Madhya Pradesh	15271	70912	24
Orissa	42272	234451	30
Rajasthan	22742	137837	40
UP	53696	198587	23
Uttaranchal	5856	21527	22
West Bengal	32647	181563	33
Total	**249462**	**1374917**	**37**
Percentage		**37**	

Source: NABARD Annual Report 2006-207

References:

1. The Economic & Political Weekly; Aug 16-22-2008.
2. The Economic & Political Weekly; Feb 28-Mar 6-2009.
3. The Economic & Political Weekly; Nov 22-28 2008.
4. Ghate Prabhu A State Sector Report-2007; Ford Foundation.
5. Dutt & Sundaram Indian Economy, S.Chand Publications 2007.
6. RBI Statistics 2007.
7. Report of the committee on financial inclusion 2008.
8. R.L.Sanghvi-Inclusive Growth – A Dream Or A Reality – Business Standard.
9. A.Sahay & A Nirjar Entrepreneurship Education Research & Practice Excel Books 2006.
10. Prahlad, C K ‘The Fortune at the Bottom of the Pyramid – Eradicating Poverty Through Profits’, Pearson Publication, 2005.

FINANCIAL INCLUSION- A KEY TO WOMEN EMPOWERMENT

Ms. M. Milcah Paul
M.Sc. (Home Science)
Department of Resource Management and Consumer Sciences,
College of Home Science (Affiliated to Prof.Jayashankar Telangana State Agricultural University), Saifabad, Hyderabad- 500004

ABSTRACT

Over the past few decades, India has made a remarkable progress in many areas of growth, development and in improving the lives of its citizens. There is an increasing recognition that improving Indian women's participation in the workforce can assist this process greatly. A recent report by the World Bank identifies improving access to economic opportunities for women as one of the key priority areas for development. The statistics very clearly indicate the need for empowering women in India with financial and life skills, enabling them to earn a livelihood and help in improving the lives of their family and the community they live in. For over a decade now, the micro-finance industry has been the poster child of financial inclusion in India. From being tiny non-profits at the start of the millennium, micro-finance institutions have built up a base of 26 million clients and $2.6 billion in loan outstanding currently, taking the benefit of credit to some of the country's most isolated communities untouched by four decades of nationalized banking. The sector is the new stock market preference and billions of dollars are waiting to tap into this seemingly unlimited potential. Similarly, the role of micro-finance in mitigating poverty, facilitating women empowerment and above all as a tool for financial inclusion has been proved beyond doubt. The international, national and regional experiences show testimony to the correlation between micro-finance and development. Women's lack of economic empowerment not only impedes growth and poverty reduction, but also negatively impacts education and health outcomes for children. Thus, it is extremely important to ensure that women are economically empowered. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit - where needed by vulnerable groups, such as women - at an affordable cost. The objective to meet the empowerment of women is to provide financial needs of the women by linking SHGs with the formal credit agencies in order to gain good access to education, services, resources and employment opportunities.

***Key words**: Women, empowerment, financial inclusion, growth, development*

INTRODUCTION

India has witnessed extraordinary growth in mobilization of deposits, extension of credit, usage of innovative financial services etc. However, access to finances and its services are very limited and many times not available to rural people majorly to the vulnerable groups like women. Despite of various initiatives undertaken, there are still many obstacles cropping up in attaining Financial Inclusion. Both public and private sector institutions should work together to overcome these challenges and contribute towards Inclusive Growth. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit - where needed by vulnerable groups, such as women - at an affordable cost.

Financial inclusion benefits individuals and households, and well-functioning financial systems benefit whole countries. However, access to financial services is highly unequal, with poor people – and particularly poor women – frequently the least served by existing institutions and systems. There is ample evidence of how financial inclusion projects

of different types can, if properly designed and implemented, enhance women's economic empowerment. Financial inclusion projects can therefore help to achieve both gender equity objectives and poverty reduction objectives. Financial Inclusion is meant to extend financial services to the large un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the women in particular.

The new rural finance pattern is premised on the fact that rural people are bankable (Nagarjun and Meyer, 2006). Though the rural people need it the most, they remain the largest unserved market for financial services. Ensuring their financial inclusion can unlock the considerable economic potential of rural areas. One of the major disadvantaged sections with regard to access to financial services is women. This paper is focused towards understanding the importance of Financial Inclusion for women which is a key for their empowerment.

Why action is needed?

- Rural households can have relatively stable incomes as they have diverse sources of income from a variety of farm and non-farm activities in the out of the village. Women also supplement family income by doing different activities in and outside the house. Hence providing financial support to them is essential.
- Women have less access to education and employment opportunities. Levels of financial literacy are often low in rural areas mainly for women as they remain uneducated.
- Migration to spouse to urban or neighbouring rural areas increases remittance flows, and thus the demand for efficient money transfer services for women is essential.
- Informal providers often offer only a narrow range of financial services. Little knowledge exists in women on the formal financial services other than credit, like savings, payment services and remittance transfers, leasing or insurance, which makes it difficult for supply to meet demand.
- Transaction costs in rural areas, especially in remote areas, are high due to low population density, lack of infrastructure (communications, electricity, transportation) and small average loan amounts. This makes financial services expensive (ILO, 2011).

Helping the women through some innovative microfinance programs paves a way for their financial inclusion in the state and national level policies which promotes their empowerment. Some of the ways to gain financial inclusion of women are to provide financial products and services like Bank Accounts, Savings Products, Remittances & Payment services, Insurance, advisory services, Entrepreneurial and Micro credit, Micro finance and SHG-Bank Linkages at an affordable cost even to the uneducated which can provide them good access and opportunities to both education and employment.

OBJECTIVES OF THE STUDY

- To understand the existing situation in rural areas with regard to access to financial services like loans and savings.
- To understand the importance of meeting the financial needs of the women by linking SHGs with the formal credit agencies in order to gain good access to education, services, resources and employment opportunities which promotes their empowerment.

LOCATION OF THE STUDY

An exploratory research design was adopted for conducting the study. The location of the study was in two villages namely Aurepalle and Dokur of Mahbubnagar district,

Telangana, India. The study was conducted on 112 women to understand their access to financial services. An interview schedule was used to collect the data.

RESULTS AND DISCUSSION

The results showed that very few women had access to loans taken from all the sources from which loans were acquired. As most of the women didn't dare to go to bank alone and carry out such big tasks, they weren't having access to the institutionalized loans and government schemes. Access to loans taken from money lenders and SHG's was better when compared to the other two sources. This was because as money lenders were an easy source from which loans could be acquired, women need not go outside of the village to get the money and as no formal processes are required to take loans from them, women had easy access to loans taken from money lenders. But the women were not allowed to take money from lenders without the permission of their husbands if the amount was huge as men were the ones who paid the debts back. Lack of education and knowledge on current issues, ownership of assets, mobility issues and confinement of themselves to household works were some of the barriers which hindered the loan access to women.

\ **Table 1: Access to financial services**

Type of financial services	Total (n=112)
Loans	
Institutionalised Loans	11 (9.82)
From Govt. Schemes	1 (1.78)
Money Lenders	38 (33.92)
Others (SHG's)	25 (22.32)
Savings	
Banks	0 (0.00)
Self- Help Groups	80 (71.42)
Others (Chit fund companies)	11 (9.82)

(Figures in parenthesis indicate percentages)

The results of the present study were in accordance with the study conducted by Boakye et al. (2013) and Gupta and Jain (2011) which showed that women had level of education which is restricting their access to financial services like loan and credit. Providing good financial services like SHG's mainly accessible to the women easily inside the village is important for empowering the women. Yadav et al. (2004) worked on the impact of SHG's on the quality of life of rural women and stated that economic security was the purpose behind joining SHG's for majority of women which can promote their empowerment. The results gave an indication to strengthen the link between the SHG's and other formal institutions in order to support financial inclusion of women.

CONCLUSION

The 'National Policy for The Empowerment of Women' (2000) states that "The women's movement and a widespread network of NGOs which have strong grassroots presence and deep insight into women's concerns have contributed in inspiring initiatives for the empowerment of women." UNDP has identified two crucial routes as imperative for empowerment. These are social mobilization through agencies and economic security. Financial inclusion through microfinance programs & self-help groups has adopted the same routes for providing women financial & nonfinancial assistance to reduce poverty & gender-bias.

However despite all the efforts, there has been a significant, but slow, progress towards financial inclusion of women. However, ensuring accessible and affordable financial services in all the 6 lakh villages in India is a herculean task and given the enormity of the task, a lot of ground still needs to be covered. This calls for a partnership of all the stakeholders-the Reserve Bank, other sectoral regulators like the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority, the Pension Fund Regulatory and Development Authority the National Bank for Agriculture and Rural Development; banks; governments; civil society and non-governmental organisations (NGOs) etc.

REFERENCES

- Archana H. N. Financial inclusion - Role of institutions. Innovative Journal of Business and Management 2 : 4 July – August (2013) 44 - 48.
- Boakye Ebenezer Yiadom, Sekyere Ebenezer Owusu, Nkegbe Paul Kwame and KwasiOhene-Yankyera. 2013. Gender, resource use and technical efficiency among rice farmers in the Ashanti region, Ghana. Journal of Agricultural Economics and Development. 2(3):102-110.
- GuptaManju and JainSimple. 2011. Access and control of gender over agriculturalresources in Sri Ganganagar District. *Rajasthan Journal of Extension Education*. 19:222-225.
- ILO: "Rural Microfinance", in Making Microfinance Work: Managing Product Diversification. Vol. II (Geneva: 2011).
- Nagarajan, G and Meyer, R. "Rural Finance Today," in Finance for the Poor . Vol. 7, Issue 4. 2006.
- Yadav, L., Verma, S., Jayanthi and Seema. 2004. Social, psychological and economic empowerment of women through SHG. *International Conference on Globalization and Women's work in South Asia and the EU: Friction, networks and Perspective.* Dec. 13-17, CCSHAU, Hisar. Pp: 101-102
- http://indianexaminations.blogspot.in/2012/12/free-essays-for-competitve-exams.html

SELF HELP GROUPS AND FINANCIAL INCLUSION:
A Case Study of Bellary District of Karnataka State

Megharaja. B*
Research Scholar and
Assistant Professor, Department of Studies and Research in Commerce,
Vijayanagar Sri Krishnadevaraya University,
Post Graduate Centre, Nandihalli. Sandur. Karnataka

Dr. Chalawadi. C.I**
Assistant Professor,
Department of Studies and Research in Commerce,
Vijayanagar Sri Krishnadevaraya University,
Post Graduate Centre, Nandihalli. Sandur. Karnataka

Abstract

Self help groups play a vital role in development of any nation, The objective behind formation of SHGs and the bank linkage have successfully achieved only in southern part of India, that too only in few states like Andhra Pradesh, Tamil Nadu and Karnataka. Effectiveness of SHGs is not yet renowned by the millions of marginalized people to get required facilities from the Government and non-government entities, since awareness of the same is too small. It is suggested that, awareness programs have to be conducted to enhance SHG network with supporting existing SHGs at District levels in India. This paper is going to contribute for developing our nation through Taluka Self help groups in Bellary district. SHGs' operations and their status in Bellary district with a research study. This study starts from macro view to micro view to understand the SHGs' status from Indian scenario, Karnataka current situation to Bellary scenario with respect to SHGs operations like SHGs formation, linkage etc.,

Key words: Economic Development, Financial Inclusion, Self Help Groups, Microfinance and Rural Growth

Introduction

India is a developing country economically and socially. For Indian government, it is difficult to assist financially in a single time to make stronger to be a well build economic country since it is not having sufficient fund to provide to desired areas or sectors. Even though Indian government has taken many steps to improve economical condition but unfortunately it is unable to meet desired amount of achievement because of so many internal and external reasons. To become developed, our government has to concentrate first on rural and semi urban places development since India is having nearly 70% of the villages and 26% of population still comes under below poverty line. So next question is how to bring them above poverty line, so that we can see some % poverty nation (India) in the world. For this financial and non-financial assistance has to pass through grass root level, for that our Indian government has founded so many plans. Among them one is formation and working of Self Help Groups (SHGs). So what are SHGs? What they do? How they work? How do they help the vulnerable section? Through them how Indian economy can improve? Like this a plethora

of questions will rise in the people's mind. So here we have made an attempt to give answers for all these questions by choosing SHGs formed and working in Bellary city.

SHGs in India

In India SHGs are supported by Governmental and Non Governmental bodies. SHGs are not only linked to banks for financial assistance even SHGs are linked to other promotional institutions viz., Women and Child Development Offices, NGO's etc. However, the Indian banks are playing significant role in providing financial assistance to SHGs. Now days, almost all banks like nationalized, co-operative, commercial banks etc., are assisting SHGs financially. In India, Southern Region is having very good growth in SHGs. By the end of March 2006, out of 22, 38,565 SHGs in India, 12, 14,431 (54%) SHGs of Southern Region have been linked to Banks.2 there is a considerable growth in number of SGHs in Southern Region since 2001. In the southern region, out of 5 states, Andra Pradesh is in the first place in forming SHGs and creating linkage to banks, Tamil Nadu is in the 2nd place and Karnataka state is in the 3rd place. SHGs bank linkage and loan amount disbursed as per the NABARD record in the year of 2006, over all amount disbursed for SHGs is Rs. 11, 39,750.43 million. Out of that, Rs. 4, 34, 55.18 million (26%), Rs. 2, 71, 21.87, million (14%) and Rs. 9927.53 million (10%) of fund is disbursed to SHGs of Andra Pradesh, Tamil Nadu and Karnataka respectively3. And even these states are leading now also in terms of number of SHGs.

NABARD Initiatives for SHGs Growth in India

In order to upgrade the status of SHGs in India, the NABARD has introduced not only financial assistance schemes but even so many non-financial programs by providing training and development for NGOs, Self Help Promotional Institutions(SHPI), Bankers, Micro Credit Agencies etc., and has conducted meets and seminars to provide necessary inputs to do required corrections in present operational system. Moreover, it was instrumental in launching the first Regional Rural Bank that is Cauvery Grameena Bank in Mysore district. By the end of March 2006, Rs.114 billion of cumulative loan was disbursed to nearly 45,416 SHGs by the NABARD. The participating banks and other institutions were the Commercial banks, Cooperative banks, Number of NGOs and other agencies. Following are the 3 models of Bank Linkage Program established by the NABARD by the end of 31st March 2006 to enhance bank linkage capacity at the grassroots' level.

SHG-Bank Linkage

Bank Linkage Scheme – The Model

The SHG-bank Linkage Programme has its origins in a GTZ-sponsored project in Indonesia. Launched in 1992 in India, early results achieved by SHGs promoted by NGOs such as MYRADA, prompted NABARD to offer refinance to banks for collateral-free loans to groups, progressively up to four times the level of the group's savings deposits. SHGs thus "linked" became micro-banks able to access funds from the formal banking system. The linkage permitted the reduction of transaction costs of banks through the externalization of costs of servicing individual loans and also ensuring their repayment through the peer pressure mechanism.

The programme encompasses three broad models of linkage:

Model I: Bank - SHG - Members

In this model the bank itself promotes and nurtures the self-help groups until they reach maturity. It accounted for 16% of cumulative bank loan provided till the end of March 2002.

Model II: Bank - Facilitating Agency - SHG - Members

Here groups are formed and supported by NGOs or government agencies. The dominant model, it accounted for 75% of cumulative loans of banks by March 2002.

Model III: Bank - NGO-MFI - SHG - Members

In this model NGOs act as both facilitators and MF intermediaries, and often federate SHGs into apex organisations to facilitate inter-group lending and larger access to funds. Cumulative bank loans through this channel were 9% of total by March 2002.

Another model has been piloted recently by NABARD for facilitating the formation of SHGs for bank linkage in areas where there are no NGOs. This involves using the services of committed individual volunteers identified by bank branches.

SHGs in Karnataka

Karnataka is in the third place in formation of more number of SHGs in India. In Karnataka SHGs are called as Stri Shakti or Swashakti (Women's power). Realizing the need to strengthen the power of women, SHGs have been formed. The main motto of formation of SHGs is Empowering Women who are economically and socially backward. First loan in Karnataka for SHG was given to an SHG called Venkateshwara Mahila Sangha of Mudugli of Kolar district by the Vysya Bank, Bangarpet branch on December 9,1991 and to an SHG called Saraswathi Mahila Sangha in Boduguriki on January 30, 1992 by the Corporation Bank, Andersonpet Branch. In Karnataka as per the government records, during 2006, a total of 2, 24,928 SHGs are linked to Banks and total fund disbursed for these groups is Rs.9927.53 million. In Dakshnina Kannada District, nearly 25,300 SHGs have been linked to banks. And the total loan amount disbursed for this district is Rs. 780.39 million. Rs. 809.45, Rs, 821.01 million is disbursed for 17,501 and 14,799 SHGs in Hasan and Tumkur respectively. As per the recent study 561 NGOs, 8 regional rural banks, 40,295 DWCD, (Department of Women and Child Development), 20 District Central Co-operative Banks and 2 Commercial Banks are involved in growth of SHGs in Karnataka

SHGs in Bellary District

In Bellary district, gradual growth is there in terms of SHGs formation and linkage to banks. But still awareness has to be created among people regarding the need and working of SHGs. This was observed the secondary data which has mentioned *District Statistical Office, Bellary*. While comparing Bellary district with other districts of Karnataka, it is less developed in terms of SHGs bank linkage and availing loan facility from the bank, only 5220 SHGs have linked and got Rs. 6244.04 Million of loan by the end of March 2012-13 record says We made an attempt to give picture of SHGs in Bellary district. The table given below shows the growth of SHGs from 2008-09 to2012-13.

Statement of the Problem

Self help groups are more important to solving financial problems in present context, SHGs collecting of small saving amount from different member in group. The collected savings assist to some one of the member in that group or others, it is not easy to executive what is there in theoretical, here the paper is evaluating the number of Self help groups established in different state and district, In especially Bellary District in Karnataka Region. The study to know the status of SHGs their savings and loan of different members in the group at Talukas level in Bellary.

Objectives of the Study:

1. To know the progress of Self Help Groups in the Study area.
2. To analyze banks contribution for the development of SHG in the study area

Research Methodology

The paper is totally based on secondary data. The data has been collected from the various sources like NGOs, Government offices, Banks, Journal Books and Websites. All talukas are covered for this study.

Significant of the Study

SHG makes them easy to access fund and easy to repay with minute rate of interest. Win -win situation will takes place since all the members will get monetary benefit by lending to one member or desired person in the group as will the person who is taken loan he or she also benefited with less rate of interest and in time lending. This is the main advantage for the group members.

To make use of this financial intermediation they need to set their standards regarding savings, book keeping, terms and conditions, frequency of meeting etc., this gradually builds financial discipline and group track record for future references and benefits. If SHGs maintain good financial track record they can get credit assistance from governmental and non Governmental bodies. That credit facility can be used not only for their personal purpose it can be used for their economical development individually or in a group. It can become their source of income and it may change their standard of living which help informs for improvement in economic development of the country.

Status of SHG in Karnataka State:

Table No: 1

Progress of SHGs in Karnataka State

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	Cumulative Progress
No. of SHGs promoted (In Number)	14061	10621	10516	19495	15381	185657
No. of Women SHGs	12937	9712	9296	17936	14151	176375
Savings of SHGs with Bank/PACS(Rs in Crores)	222.71	264.29	312.05	340.93	371.61	371.61
No. of SHGs Credit Linked (Number)	36768	30517	24023	34053	35146	270516
Amount of Bank Finance to SHGs(Rs in Crores)	251.30	227.58	187.57	410.01	474.40	2037.18
Average Loan per SHG(Rs)	68349	74581	94769	120403	134894	-
Repayment of Loan by SHGs (in percentage)	95.61	94.10	95.74	94.61	94.69	94.69
STCCS share in Micro Finance(In percentage)	15%	19%	23%	28%	30%	--

Source: *AMFIS, Karnataka*

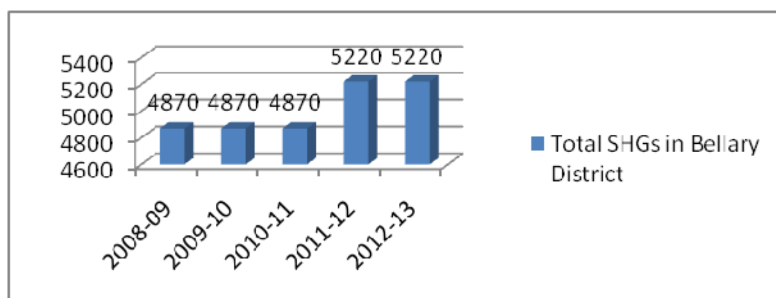
Status of SHGs in Bellary District

Year wise Growth of SHGs in the study area:

The below graph no 1 shows that number of women self help groups are not change for 3 year from 2008-09 to 2010-11, and 2011-12 to 2012-13.Growth rate of Self help groups positive in different taluka in Bellary district, as above rate is more at Hospet

Graph No:1

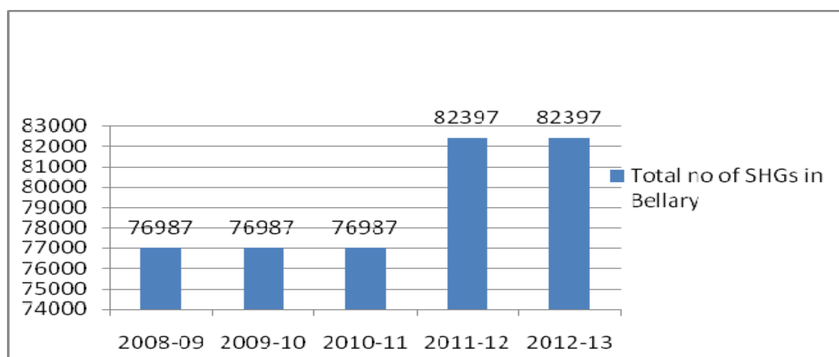
Shows Number of SHG'S in Bellary District in Karnataka



Source: District Statistical Office, Bellary

Year wise Growth of Women in SHG

Chart 2: Total No. of Women in SHG (All Categories) in Bellary District



Source: District Statistical Office, Bellary

The above graph no 2, shows that total number of women self help groups in all categories are same for 3 year from 2008-09 to 2010-11, and 2011-12 to 2012-13 Growth rate of Self help groups positive in different taluk in Bellary district, as above rate is more at Hospet, second Bellary and average growth rate is 7.03.

Talukas wise growth of SHGs Bellary District

Table.2

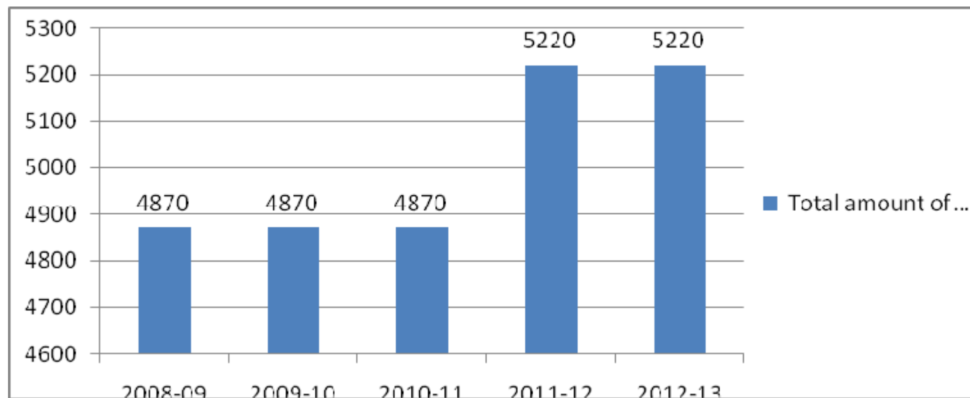
No. of Women Self Help Groups who have started savings in different taluk in Bellary District

SL.No.	Talukas	No. of Groups who have started savings('000)				
		2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
1	Bellary	850	850	850	930	930
2	Hadagali	640	640	640	672	672
3	H.B Halli	600	600	600	633	633
4	Hospet	650	650	650	715	715
5	Kudligi	750	750	750	800	800
6	Sandur	650	650	650	690	690
7	Siruguppa	730	730	730	780	780
Total amount of SHGs savings with Bank		**4870**	**4870**	**4870**	**5220**	**5220**

Source: District Statistical Office, Bellary

Chart:3

Shows that No. of Groups who have started savings in Bellary District.



Source: District Statistical Office, Bellary.

The above Chart No3 opines that 10 percent of growth rate in savings in Hospet taluk and second Bellary and third Siruguppa regarding SHGs savings, and low savings by the Hadagali and H.B.Halli. Than others and average 7.19 total in Bellary district.

The table No 3shows that Hadagali taluk continues increase the growth rate year by year means more SHGs have taken more loan in banks or SHGs and above last year Sandur has taken loan rest of years did not taken loan. But Average growth has been reducing loan by year to year means SHGs helping more and more to group members except last year.

Table: 3

No. of Women Self Help Groups taken loan from the bank in different taluk in Bellary District

Sl.No	Talukas	Total no. of SHGs taken loan from Bank				
		2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
1	Bellary	823	845	850	850	865
2	Hadagali	478	594	621	630	646
3	H.B Halli	566	587	596	599	609
4	Hospet	621	644	649	650	662
5	Kudligi	704	740	748	750	760
6	Sandur	650	650	650	650	660
7	Siruguppa	588	695	717	724	737
Total no. of SHGs taken loan from Bank		**4430**	**4755**	**4831**	**4853**	**4939**

Source: District Statistical Office, Bellary.

Table: 4

Talukas wise No. of Women SHGs taken Total loan amount from the bank in Bellary District

Sl.No	Talukas	No. of Women SHGs taken Total loan amount from the bank (Rs. In lakhs)				
		2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
1	Bellary	630.27	759.27	937.82	1036.22	1229.94
2	Hadagali	151.27	321.67	511.02	616.82	762.07
3	H.B Halli	232.96	303.26	431.51	521.86	665.81
4	Hospet	480.91	584.52	736.77	828.92	1005.47
5	Kudligi	394.28	508.09	639.29	731.46	886.31
6	Sandur	375.42	479.12	610.62	702.22	858.27
7	Siruguppa	293.62	442.57	588.02	684.32	836.17
Total No. of SHGs taken loan amount from the bank		**2558.73**	**3398.50**	**4455.05**	**5121.82**	**6244.04**

Source: District Statistical Office, Bellary

Above table no 4 shows that maximum loan amount taken by the Hadagali taluk SHGs members are first, Siruguppa second SHGs members have taken loan, H.B.Halli has taken women SHGs in third position as average growth rate base on above information.

Table: 5

No. of Women SHGs total financial aid received from Govt. in Bellary District

Sl.No	Talukas	SHGs total financial aid received from Govt. (Rs. In lakhs)				
		2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
1	Bellary	42.50	42.50	42.50	42.50	44.90
2	Hadagali	32.00	32.00	32.00	32.00	33.60

3	H.B Halli	30.00	30.00	30.00	30.00	31.45
4	Hospet	32.50	32.50	32.50	32.50	34.20
5	Kudligi	37.50	37.50	37.50	37.50	39.35
6	Sandur	32.50	32.50	32.50	32.50	34.25
7	Siruguppa	36.50	36.50	36.50	36.00	38.25
SHGs total financial aid received from Govt.		**243.50**	**243.50**	**243.50**	**243.00**	**256.00**

Source: District Statistical Office, Bellary

Finding

1. No. of Women SHGs have been promoting year by year.
2. Saving of SHGs have been increasing continues in selected area.
3. Banks have been increasing issues of loans to SHGs in Karnataka.
4. Repayment of SHGs loans are constantly.
5. The Hospet talukas Growth rate of no. of women SHGs are more than others talukas in Bellary district.
6. The Hospet total no. of women SHGs are higher than others talukas.
7. 10% of Growth rate of Hospet talukas no. of women SHGs have started savings.
8. The Hadagali talukas no. of women SHGs have taken more loans than others.
9. The Hadagali talukas women no of SHGs have taken higher loan amount than other talukas in Bellary district.

Conclusion

From the above study it is found that many important factors relating to SHGs. Problems of SHGs plagued the importance of the SHGs and they have made the objectives of SHGs not to reach till up to the mark of the economy. In Bellary district, the SHGs story is quite interesting as the number of SHGs and the number of members in SHGs is increasing continuously. It can be seen that there is less growth in number of SHGs compare to others District. This growth is because of socio- economic benefits of SHG system, like making collective decision, internal lending, lesser rate of interest for loans, using loan for better productive purposes, which in turn will add to economical development. For the purpose of further strengthening of SHGs, the governments, banks including private sector can work together in identifying the problems of SHGs and eliminating those problems in a measured and effective manner. Some of the below mentioned areas have to be focused by concerned authorities for development of SHGs. Govt. Bank and small entrepreneur have to take some activities for inspire people for participate to SHGs and discuss what are the pros and cons of SHGs and they could get less rate of interest and huge amount in convenient way. Bellary district has to conduct some of seminars and conference on SHGs in University or Colleges and interact with individual people, explain the pros and cons of SHGs in rural area or urban or town in different talukas in Bellary.

Reference

1. Dr. Anitha.H.S., Mrs. Kavitha.S, has discussed on entitled "Working of SHGs (self help groups) in Bellary City" -a pioneering study
2. District Statistical Office Records (2006-2008), Bellary.
3. Shivaprasad G and Dr.AnilkumarK.H " Financing of Self-Help Groups by Co-operative banks in Karnataka". "Asia pasific journal of research" June 2013, Volume No.2 Issues: 4.
4. Ajay Tankha "Self-help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact" A study prepared for ICCO and Cordaid, The Netherlands, August 2002.

MICROFINANCE AND URBAN CO-OPERATIVE BANK WOMEN'S CO-OPERATIVE BANK PROMOTING AND PRACTICING FINANCIAL INCLUSION OF RURAL POOR WOMEN

Dr.D.Sreenivasulu,
Lect.in Commerce,
GDC,pattikonda Kurnool (Dt).

Dr.K.Balasubramanyam,
Lect.in Commerce,
Govt.Degree College,
Cherial, Warangal(dt)

1 The Mann Deshi Mahila Sahakari Bank (MDMSB), is a licensed Urban Cooperative Bank (UCB) in Mhaswad, located about 175 kms. from Pune in Satara District in west central part of the country operating among the poorer sections of the population through micro finance projects. The bank is an ISO 9001-2000 certified financial institution, probably one of its kind amongst the UCBs. In Mhaswad, apart from the Mann Deshi, there exist branches of three public sector banks, one new private sector bank, one DCCB, and four urban cooperative banks besides around 20 credit cooperative societies, none of which serve the type of clients it serves and offers the range of small value products and services it offers now. This case study of Mann Deshi, based on my experiences during visits to the Head Office and branches of the bank and the interactions with the Founder President, Chief Executive Officer, Directors and officers of bank, women clients, and field agents, is an attempt to understand a small local micro finance bank who provides small and tiny financial and non financial products and services and the key issues, prospects, and the impact.

2. **A Bank for and by Poor Rural Womenfolk: Promoting Empowerment**

2.1. The MDMSB is, perhaps, unique in the fact that it is a "rural" Urban Cooperative Bank, regulated by the Central Bank of the Country, for and by poor women. MDMSB provides a wide range of services including savings, credit, insurance, pension and non-financial services in an integrated manner. Three distinct organizations, viz., Mann Deshi Mahila Sahakari Bank, Mann Deshi Mahila Bachat Gat Federation (Federation of SHGs), and Mann Deshi Foundation (NGO) operate to provide both financial and non financial services. The federation is a non profit association aimed at organizing rural women entrepreneurs and comprises of more than 2400 SHGs. Five offices have been set up by this federation of SHGs which help the bank in expanding its geographical coverage. The NGO-Foundation is providing a variety of non-financial services to clients like health, education, student scholarships, vocational skill training, etc. This tri-polar structure helps to serve the people holistically by offering both financial and non-financial services to thousands of rural poor women.

2.2. The Mahila bank with six fully computerized branches today has more than 13300 members with a share holding of Rs. 260.00 lakh, serves around 127,000 clients, half of them being daily wage labourers and the other half being micro Entrepreneurs, with

an average annual income of ranging Rs. 15000-20000 and a loan recovery rate of around 98 per cent. While 100per cent of the clients are women, 80 per cent are from the underprivileged classes, marginalized due to factors like gender, caste and class, drawn from the region's unorgainsed sector of women who are small producers, vegetable vendors, milk vendors, nomadic goat and sheep farmers, cottage industry entrepreneurs, casual labourers, daily wage earners, etc. Clients range in the age group of 20 and 60, majority being between 24 and 40. The absence of formal education had not deterred these women from managing a system of micro credit/finance that is suited to their needs. Several anecdoted experiences as that were studied, showed that the members have been able to change the quality of their life by empowering themselves economically, educationally and politically. The details of growth and financial parameters are annexed.

3. **Distinctive and Imaginative Supply of Products and Services**

3.1. Despite the benefits of a group based approach to microfinance, experience in Mann Deshi has shown that often the poorest of poor are so marginalized that they are excluded from the self selected SHGs or they lack the resources to be able to save even a nominal amount each month. In order to overcome these constraints as also to stress the fact that the individual initiative is the driving force behind businesses, the bank mainly focused on direct intervention to service the poorest of poor at affordable rates and at their doorstep. The bank understood that while the group lending gives confidence to women, credit facilities to individuals encourage entrepreneurship and upward economic mobility. It appears that the lessons from one of the world's biggest and most profitable microfinance operation, the village unit programme of the National Bank of Indonesia which does not use groups of any kind, but its clients to save and borrow as individuals, are the driving motive of the Mann Deshi.

3.2. The major challenge of the new born bank was to provide the client friendly products and services to the poor women with indifferent flow of income. Therefore, various savings and loan products to match their customers' typical cash flows and distinctive needs were developed. Some of the main considerations that were kept in view while working on the products and services innovations were the issue of gender, the clients being women and their position in society being poor and belonging to lower rungs of the society and economic ladder.

3.3. Understanding the market, identifying income generation niches and developing them was not so difficult for the bank as it had wisdom and support of the parent NGO, the Mann Deshi Foundation, which had been active for several decades in the area. The main economic activities of women in the area were raising animals and selling produce at the weekly markets. To understand the specific needs, the bank visited the weekly markets in the area and this exercise uncovered some interesting information. It was found that women deal with the smaller goats and sheep, sometimes buffaloes in the animal markets while men work with the bullocks that are used to till the land. With men migrating out of the villages in droves, the bank decided to emphasize on animals that women can control as an asset and that generate income. The bank had invited an agricultural expert to train the villagers in fodder cultivation and one of the lessons learnt was that the goat eats a certain kind of cactus during the summer months and so this was adopted as one of the fodder crops.

Growing and vending vegetables was identified as a second area of income generation for women. With the bank finance women have started producing a whole new repertoire of vegetables apart from the traditional ones.

3.4. The innovations in product design include daily, weekly and monthly savings products - mostly tiny amounts - as also credit facilities which have the repayment system of daily, weekly or monthly. Mann Deshi model revolves around the daily collection of small deposits through a network of agents who literally go door to door to clients. In each weekly market the bank has appointed women agents giving door- to-door services like savings and lending. This makes the distribution of services quicker, sustainable and viable. Since the rural poor often live with volatile and small cash flows, they cannot plan their savings and investments and hence the savings and loan products needed to be tailored accordingly. While street vendors, who earn in the weekly markets by selling their goods, require a daily savings facility, wage labourers, who receive wages on a weekly basis, require weekly products. A new savings product for women with school going children begins in the month of May through June of the succeeding year to meet her needs of school expenses.

Table 1: Deposit Products

Type of Savings Account	Description	Interest Rate
Regular Savings	Maximum two withdrawals per week	3.5%
Term Deposit	For 15 days to 3 years	3.5 % to 8.0 %
Daily, Weekly Deposits	For 6 months, 1 year or more	5.0%
Monthly Deposits	1 year to 5 years	8.0%

3.5. Mann Deshi is focused on individual borrowers through intensive door step banking by its field agents. Individual borrower has to begin by depositing a pre determined sum daily for at least a month. This pygmy deposit depends on the loan that the individual borrower intends to avail. For example, for a loan of Rs. 10,000, she will be advised to save Rs. 30 per day. There are loans for business, consumption, health care, education, social events, etc. While individuals are given loans upto Rs. 15000 without any collateral, loans above Rs. 15000 require physical collateral. The loan against gold or against savings is like the normal banking loan Loans to SHGs are small and without any rigorous procedures. However, the group lending mechanism adopted by the Mann Deshi was unlike the typical SHG-Bank Linkage model. Groups of 10-20 members were formed and the bank lends the money to SHGs through the federation. Unlike the individual lending, members need not "pygmy save" daily before they get the loan. Loans are given to individuals who are part of the group. The federation oversees the accounts and operations of such individuals who cannot qualify for individual loans from the bank. Mann Deshi, after gaining enough experience with such a scheme, is planning to phase out the "on- lending through federation" and directly lend to the SHGs like the typical SHG-Bank Linkage model. Some SHGs have taken loans from the bank to buy cows and buffaloes and have formed 12 mahila cooperative dairies which sell around seven thousand litres of milk every day. While 80 per cent of the borrowers are individuals, SHGs/JLGs account for the remaining.

3.6. Loans are provided for sewing machines because they are portable and women can even sit in the market place with their machines and get ready customers. The poor rural women of the district are discovering new possibilities for income generation with the provision of small loans for making packaged powdered spices, potato and lentil wafers, buying chutney making machines, etc. The bank has a bicycle scheme for girl students who travel a good distance to attend school and cannot afford public transport. Many a village does not have bus facility. Mann Deshi Bank with its sister organization have been donated more than 2400 bicycles. Mann Deshi also offers some innovative support programs like Garden Umbrellas. The Umbrella Program is a simple but effective way of protecting one of women's most important assets- their health. This helps to boost income generating capacity of women.

Mann Deshi is also considering financing a Mahila Bazaar that would be run exclusively by women. It's a great surprise for any visitor to Mhaswad to find four computer institutes run by the local women who have started them with loans from the bank. Loans for purchase and installation of solar lamps are now been granted in collaboration with a manufacturer. As an ISO certified financial institution, the bank has prepared system, procedure and manual for managing its credit portfolio.

Table 2: Loan Products

Type	Clientele	Maximum Amount (Rs.)	Terms
Short Term 1 year	Street vendors, small shop owners	5000-25000	12%; Fee:Rs. 25; Repayment monthly
Medium Term 2-5 years	Working capital, machinery, agriculture	25000 - 100000	14%;Fee: 1 % Repayment monthly
Long Term 7-10 years	Home repairs, construction, animal husbandry	000 and above	14%;Fee: 1 % Repayment monthly
Gold loan 1 year	Emergency purpose	of gold value	11%; Fee: Rs. 25 Repayment monthly

3.7. New Product Offerings: Some of the new products at the planning stage include credit-in-kind scheme where instead of giving a loan to buy a product, the product being bought by the bank and then lent to the account holder. To help the numerous marginal and small farmers, the bank proposes to introduce a warehouse financing product to enable the farmers to access finance against their stock of commodities at competitive rates using a process that is simple to execute. The NGO-Federation will build and own the warehouse with the financial support of SIDBI and the bank will provide finance to farmers against the pledge of warehouse receipt. A novel rural micro-housing loan product is also in the offing in collaboration with Micro Housing Finance Corporation, Ashoka Foundation and a local building firm. The NGO-Foundation will provide technical assistance to build houses as also help in procurement of quality raw materials at cheaper cost to the customers. The bank's future plan include financing a mobile veterinary service, developing a

federation of the Mahila diaries, distributing lacto-meters to milk vendors, issuing identify cards to members and clients to make them socially and economically visible.

3.8. The bank with partnership with insurance companies has also designed micro insurance products for the shareholders. Accident insurance policy and old age social security schemes are some of the novelties.

3.9. Mann Deshi was, probably, one of the first institutions in Maharashtra to introduce a micro pension scheme which makes investing for retirement an option for micro entrepreneurs for the first time in rural India. In partnership with the UTI Mutual Fund, the bank provides a pension scheme designed to ensure continued financial security of its clients. Clients, in the age group of 18 and 15, can contribute Rs. 100-
200 to their pension on a weekly, monthly, basis. When they reach the age of 59, they will receive a monthly pension based on their accumulated savings and compounded interest. The pension scheme has the flexibility to transfer the benefit payment. In the event of the death before the full benefit has been paid out, she can transfer the pension benefit to whomever she chooses. However, the clients found it difficult to understand the concept of variable returns and the very long term nature of the product.

Conclusion

The bank envisions a future where financial services are available to all the women who aspire to make life better for themselves and future generations. The hallmark of the operations of the organizational structure is that the bank has been able to invest in businesses built around local women's traditional skills, giving them an ownership stake in activities in which they had previously been labourers. One outstanding feature in the business model of the Mann Deshi is that it uses microfinance and financial literacy as safety nets to increase disaster resilience among the rural poor women. An outcome of this holistic approach is that around 127000 women in the rural Maharashtra have been benefited from the services of Mann Deshi and started controlling the finances, conducting businesses, acquire property rights, and break caste barriers. The entire family of each of these women now began to reap the full benefits as more money is spent on children, education and household necessities.

Table 3.Financial Performance of the Bank (Rupees in lakh)

	1999-2000	2004-05	2007-08	2008-09	2009-10	2010-11
Branches	one branch	4	5	5	6	6
Members	1626	3058	7630	9392	11366	13354
Clients	3800	11020	81214	96120	127025	140360
Share Capital	13.69	42.86	148.20	183.54	223.42	256.51
Net Owned Funds	14.05	51.92	159.10	200.76	245.05	290.29
Deposits	106.67	630.74	1326.46	1782.30	2721.56	3342.86
Advances	81.92	433.53	859.35	990.58	1442.14	2239.68
Net NPAs	0.00%	2.99%	2.63%	2.97%	3.26%	3.41%
Net Profit	0.27	1.48	3.06	4.61	15.74	18.97
CRAR	15.66%	13.04%	17.76%	20.15%	18.95%	17.27%

FINANCIAL INCLUSION THROUGH MICRO CREDIT: TOWARDS AN EFFECTIVE SHG LINKAGE.

Dr. K. Jayalakshmi, PDF, Dept of Commerce, S.K. University,Anantapur.

ABSTRACT

Microfinance has emerged as a Catalyst of rural development, especially in the over populated country like India. The purpose of this paper is to examine the role of micro finance in the empowerment of people and the realization of financial inclusion in India. While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements demand attention and appreciation. Today the MFIs want the government to empower them for mobilizing savings. With increasing demand for rural finance, and the inadequacies of formal sources, the MFIs have immense opportunities in the new avatar of micro credit in India. However, in the light of recent experiences, and the need for qualitative growth, we suggest that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility.

Keywords: *Micro finance, Financial Inclusion, Rural Development, Self-Help Groups(SHGs)*

Introduction

Financial Inclusion is probably the most important element of inclusive development. "Financial inclusion – the universal provision of financial services to all citizens – has been an important goal for Indian policymakers. The vast network of cooperative banks that provide credit to agriculture, the nationalization of commercial banks in 1969, and the creation of an elaborate framework of priority-sector lending were all elements of a state-led approach to meeting the credit needs of large segments of the Indian population.

Financial system relied primarily on expanding rural bank branches, setting up special – purpose, government-sponsored institutions (such as regional rural banks), and setting targets for commercial bank lending to broad sectors unable to access credit, such as agriculture and small-scale industry. The success of this strategy was mixed at best, and a large share of India's poor still has no access to financial services at a reasonable cost.

"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as the marginalized groups and low income groups in particular, at an affordable cost in a fair and transparent manner. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is question of both access to financial products and knowledge about their fairness and transparency". (Chakrabarthy, 2011).

It is aptly stated that the scope of financial inclusion could be expanded in two ways. "First through state-driven intervention by way of statutory enactments (for instance the US example, the Community Reinvestment Act and the French example of making it a statutory right to have bank account), and Second, through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society. When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation". (Leeladhar, 2010).

Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products / Services popularly called "Financial Inclusion". Financial inclusion may be defined as the

process of ensuring access to financial services and timely and adequate credit where need by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial products & services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities & also life & non, life insurance services. The following are the denotation & connotation of financial inclusion in India.

1. Affordable credit
2. Savings bank Account
3. Payments & Remittance
4. Financial advice
5. Credit/debit cards
6. Insurance facility
7. Empowering SHGs (self help groups)

An inclusive financial system facilitates efficient allocation of productive resource and thus can potentially reduce the cost of capital. An all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe savings practices and by facilitating a whole range of efficient financial services like easy day-to-day management of finances, safe money transfer etc.

Objectives:

1. To explain the role and importance of Microfinance in bringing financial Inclusion.
2. To analyze the different approaches, tools & benefits of financial Inclusion.
3. To explain recommendations taken by the Reserve Bank of India regarding FI.

Methodology

The aim of the present study is based on the secondary data received from Nabard annual reports, R.B.I Bulletin, Micro finance report 2012-13 Microfinance summit 2013 and other research papers, Journals and various other websites. To know the role of microfinance in providing financial services to the large sections of the vulnerable groups of the society of India.

Approaches and Tools of Financial Inclusion

According to C. Rangarajan there are six approaches in the system of Financial Inclusion, they are, as follows.

- First, credit to the farmer households is one of the important elements of financial inclusion among them providing credit to the marginal and sub marginal farmers as well as other small borrowers is crucial to the need of he hour.
- Second, rural branches must go beyond providing credit and extend a helping hand in terms of advice on a wide variety of matters relating to agriculture..
- Third, in district where population per branch is much higher than the national average commercial banks may be encouraged to open the branches.
- Fourth, there is need for the simplification of the procedures in relation to granting of loans to small borrowers.
- Fifth, the further strengthening the SHG-Bank Linkage Programme (BLP), as it has proved to be an effective way of providing credit to very small borrowers.
- Sixth, the business facilitator and correspondent model needs to be effectively implemented.

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. These services are:

i) No-frills banking account for making and receiving payments,
ii) Savings product suited to the pattern of cash flows of a poor ousehold,
iii) Money transfer facilities
iv) Small loans and overdrafts for productive, personal and other purposes, &
v) Micro-insurance (life and non-life)

Channels to Micro Finance

In India micro finance operates through two channels : 1. SHG – Bank Linkage Programme (SBLP) 2. Micro Finance Institutions (MFIs)

1. **SHG – Bank Linkage Programme :** This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI.

2. **Micro Finance Institutions :** Those institutions which have microfinance as their main operation are known as micro finance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee.

In Table-1, The number of savings of the bank as at the end of March 2013 stood at 8275.25 Crores.But a similar decline of number of SHGs savings linked to Banks was also observed with only 73.18 lakh SHGs linked to Bank as against 79.60 lakh a year back.over 81%of SHGs linked to banks are exclusive women groups ,which is one of the most distinguishing features micro finance sector in the country .The only Major state recording a positive growth during the year was Karnataka with a near 3%increase.It maintains the highest saving account balance of nearly Rs18,000 per SHGs closely followed by Andhra Pradesh .

Further number of SHGs having out standing credit with Banks however, showed a marginal increase of 2%to 44.5 lakh as against 43.5 lakh the previous year. The The average loan out standing of SHGs with banks is Rs 88,500 against 83,500 a year back. There has also been a 6% spurt in the number of SHGs getting fresh loans from banks during the year to 12.2 lakh (up from 11.5 lakh the previous year)and the Quantum of fresh loans issued also showed a significant growth of about 24% during the year.Table-1 gives the growth of SHGs-saving as well as Credit linked for the 4 years,separately for all groups,groups formed under SGSY and exclusive women groups.

Conclusion

Financial inclusion is indeed the catalyst for inclusive development. This should be realized and sustained only when the community led initiatives facilitate this process. 'Helping the people to help themselves' is what we need at present and that is the core spirit

of SHGs as well. Financial institutions need to appreciate the fact that the 'poor are bankable', while the needy groups of people need to understand that 'they are capable'. This approach, based on social capital, can create a self driven process of financial inclusion. Micro credit, credit in small and required dozes, channeled by beneficiary's own collective initiatives (SHGs) and supported by their own apex bodies (SHG Federation) would be the ideal instrument to facilitate financial inclusion.

References:

1. Chakrabarthy K.C, (2011) "Financial Inclusion", Lecture delivered at St, Xavier's College on 6th Sept. 2011.
2. Leeladhar V (2010) "Taking Banking Services to common Man-Financial Inclusion", Fedbank Hormis Memorial Foundation commemorative lecture.
3. RBI (2008) Report of the Rangarajan Committee on Financial Inclusion.
4. RBI Monthly Bulletin Sept – 2012.

Financial inclusion and Bank: issues and Perspectives", RBI Monthly Bulletin, November 2011

Table -1: Overall Progress Under SHG – Bank Linkage for last 4 Years
(Amt Rs. In crore / Number in Lakhs)

Particulars		2009-10		2010-11		2011-12		2012-13	
		No of ShGs (Lakh)	Amount	No of SHGs (Lakh)	Amount	No of SHGs (Lakh)	Amount	No of SHGs (Lakh)	Amount
SHG Savings with Banks as on 31 March	Total SHGs	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)
	Of which SGSY Groups	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3-6%)	1821.65 (30.6%)
	% of SGSY Groups to Total	24.4	20.9	27.1	25.9	26.7	21.3	28.0	22.2
	All Women SHGs	53.10 (9.18%)	4498.68 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)
	% of Women Groups to Total	76.4	72.6	81.7	75.5	79.1	77.9	81.1	79.3
Loans Disbursed to SHGs during the year	Total ShGs	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01%)	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)
	Of which SGSY Groups	2.67 (1.0%)	2198 (9.1%)	2.41 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)	1.81 (-13.8%)	2207.47 (-16.5%)
	% of SGSY Groups to Total	16.9	15.2	20.1	17.0	18.3	16.0	14.8	10.7
	All Women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)	10.37 (12.4%)	17854.31 (26.3%)
	% of Women Groups to Total	81.6	86	85	86.8	80.4	85.5	85.1	86.7
Loans Outstanding against SHGs as on 31 March	Total SHGs	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)
	Of which SGSY Groups	12.45 (27.5%)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5-.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)
	% of SGSY Groups to Total	25.7	22.3	26.9	25.1	27.9	22.2	26.8	21.8
	All Women SHGs	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)	37.57 (2.9%)	32840.04 (7.8%)
	% of Women Groups to	80.3	82.1	83.2	83.7	83.8	83.8	84.4	83.3

FINANCIAL EXCLUSION OF MUSLIMS: ISLAMIC MICRO FINANCE AS A TOOL FOR FINANCIAL INCLUSION.

Muhammed Ghouse,
Lecturer in Political Science,
MVS Govt. Degree & PG College, Mahabubnagar – 509001,

1. INTRODUCTION:

This paper recognizes Islamic micro-finance as an important component in poverty alleviation strategies. While conventional microfinance products have been successful in some of the countries including India. A financial system crucially depends upon the existence of a financial market and a number of financial instruments. A financial market is an organization through which the suppliers and users of finance (usually credit) are brought together to conduct business, while financial instruments are the devices through which the suppliers and users (sellers and buyers) of finance conduct their business. Thus financial instruments provide a way to raise finance and to invest them. In more technical usage, financial instruments refer to financial papers through which financial resources are raised and invested. The financial papers are bought and sold on the financial market like other commodities. However, from an Islamic point of view, modern financial markets involve a number of institutions and practices, which are repugnant to mores and ethical norms prescribed by Islam for its followers in conducting their financial deals. For instance, Muslims are required not to indulge in Riba. They are also required to avoid some other undesirable practices such as speculation and gambling. The desire of Muslim savers and investors to have financial instruments that do not violate Islamic injunctions has led to the evolution of Islamic financial instruments.

The application of Islamic finance to microfinance was first discussed in depth by Rahul and Sapcanin (1998). They demonstrate that Islamic banking, with its emphasis on risk sharing and, for certain products and collateral-free loans, is compatible with the needs of some micro-entrepreneurs. Viable projects that are rejected by conventional lending institutions because of insufficient collateral might prove to be acceptable to Islamic banks on a profit-sharing basis However, they concluded that from a microfinance standpoint the *mudaraba model* (profit-sharing) has more drawbacks than the *murabaha model* (cost plus markup). The *murabaha model* is overall more cost effective, has a lower margin of error, and provides immediate collateral for a MFI because the MFI owns the goods until the last installment is paid. Dusuki (2006) has presented the idea of Islamic microfinance initiative in the perspective of Ibn Khaldun's concept of 'Asabiyah or social Solidarity that emphasizes group efforts and loyalty over self-interests of individuals. He argues that Islamic microfinance can be promoted through group lending to the poor who are normally denied access to mainstream banking services.

2. OBJECTIVES OF THE STUDY:

The objectives of the present study to highlights

- The concept and application of Islamic Microfinance.
- Discovering the Islamic Economic System.
- Why interest free Banking and Finance
- Un-fair recommendations by Sachar Committee.

- Intervention of state and constitutionalism of Legal framework and Mechanism of Islamic Micro Finance Institutions at National and State levels.
- Institutional failure of seeking IMFIs.

3. METHODOLOGY:

This study based on the Primary and Secondary sources contains the reports, commissions and facts given by the public and private sector institutions. The data is interpreted and arrived at conclusions based on the facts and findings.

4. HISTORY OF MICRO-FINANCE IN INDIA:

The Micro finance activity is the result of NABARD's work in the micro finance sector, which started in 1992 through a pilot project for promoting 500 self help groups (SHGs). As the idea gained acceptance from the banking system and the results were promising, the Reserve Bank of India (RBI) encouraged this positive initiative by issuing instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector–lending portfolio. From 1999 onwards the Government of India (GOI) made linking SHGs with banks a national priority through its periodic policy and budget announcements. Today, the programme is growing at a pace of about 2.5 million households annually. It is the largest and fastest growing microfinance programme in the world in terms of its outreach and sustainability.

5. MODELS OF MICRO FINANCE:

There are two models of micro-finance which are prevalent in India:

Direct Financing Model: In this model (also known as Micro Finance Institution Model) the bank lends money to an NGO. The NGO promotes and imparts training to the Self Help Groups and also gives credit to them.

Self Help Group Bank Linkage Model: In this model SHGs act as a bridge between bankers and the grass root clients. Banks transfer funds to micro finance bodies that are responsible for disbursal and collection. The intermediation cost could be around 6% of the loan amount. The risk completely lies with the banks - the advances to the SHGs would be reflected in the portfolios of the banks. Banks do not mind taking the risk as servicing the grass-root level customers who are illiterate would otherwise involve a lot of transaction costs. A majority of these grass-root level customers have no means to produce ration card, identity card and even filling up application forms, which are the bare requirements to obtain loans in the normal course of bank lending operations. NABARD oversees the linking programme of banks to SHGs and offers refinance for it whereas SIDBI, through the SIDBI foundation for micro credit (SFMC) lends to Micro Finance Institutions. The Self-Help Group-Bank Linkage Programme implemented by commercial banks, Regional Rural Banks and Co-operative banks has emerged as a major micro finance programme in India, with 1.6 million SHGs being linked to banks in 2004-05 with the total flow of credit to them of over Rs. 6,800 crores.

6. DISCOVERING ISLMAMIC ECONOMIC SYSTEM:

Looking into the historical experience of Muslim society for some helpful precedents, one finds two major branches of Islamic studies worthy of consideration because they have a

bearing on the method of searching for the Islamic economic system. These are the two disciplines of *Fiqh* and *Qawa'id al Fiqh*.

Fiqh is the study of the texts of the Qur'an and Sunnah to find out the rulings that should be followed by human beings, as individuals and groups, so they can be consistent with *Shari'ah*, or, it is the discovery of Islamic law from the Qur'an and the Sunnah. *Fiqh* aims at finding all the detailed articles indicated by the texts and organizing them into a broad charter of behavior. Some of these articles are explicit and specific in some verses or sayings, but many of them require exertion of effort to derive from general texts or from texts that give the rulings of similar cases. In this process, the basic principles of mathematical logics are applied along with the principles of *'Usul al Fiqh'*.

Qawa'id al Fiqh is the science concerned with formulating general rules, principles and theorems for the science of *Fiqh*. Its concern is not in detailed articles but in the fundamental axioms of the law. Because the objective of *Qawa'id al Fiqh* is different of that of *Fiqh*, its methodology is also different. Hence, while *Fiqh* looks for details, individual cases, small pieces and particles, *Qawa'id al Fiqh* looks for the aggregate, global and general.

7. ISLAMIC MICRO FINANCE: UN-LOCKING NEW POTENTIAL TO FIGHT POVERTY:

In recent years, Islamic microfinance has become a rapidly growing market, offering millions of disadvantaged people in Muslim countries and beyond access to financial services that are premised on providing for the welfare of the population. Islamic microfinance refrains from practices that are not compliant with Islamic law – the sharia – such as providing or receiving any fixed, predetermined rate of return on financial transactions. Profits and returns are based on tangible assets or discrete, identifiable services opposed to the value of money. The approach is asset-based, rather than debt-based like conventional finance. In comparison, the terms and conditions of Islamic microfinance are more favourable and accessible for the most vulnerable and disadvantaged populations. They are based on risk- and profit-sharing, fixed prepayment rates, and transparency aiming to safeguard social welfare and justice.

As a result, Islamic microfinance is becoming an ever more important instrument to fight rural poverty in Muslim countries, and effectively diversify strategies improving access to finance in other parts of the world. Over recent years, Islamic finance has emerged from a market niche to a rapidly growing industry worldwide. More than 500 sharia-compliant institutions have been created in the past 30 years, spread across 75 countries. With a market size of US$1.3 trillion, growing at about 15 per cent per year, the sector attracts increasing interest from both Muslim and non-Muslim countries.

8. THE MOST COMMON ISLAMIC MICRO-FINANCE MODALITIES:

i. The *murabaha* sale is the most widely offered sharia-compliant contract used to finance goods needed as working capital. Upon request of a specific product by the client, the financier procures it directly from the market and resells it to the customer after adding a fixed margin for the service provided.

ii. Profit- and loss-sharing contracts most encouraged by sharia scholars are *musharaka* and *mudaraba*. *Musharaka* describes equity participation in a business venture. Parties share the profits or losses according to a predetermined proportion. This type of financing can be used for assets or working capital. *Mudaraba* constitutes a trustee

financing instrument where one party acts as financier while the other provides managerial expertise in the project's execution.

iii. A contract of exchange between a vendor and a buyer for the sale of an asset is called *istisna`a*. Salespersons can either manufacture the products themselves or purchase them from a third party. End clients can pay the sale price either as a lump sum upon signature of the contract or later at different stages of the manufacturing process.

iv. *Qard al hassan* is an interest-free loan used to bridge short-term financing gaps. The principal amount of the loan is repaid by the borrower without interest, mark-up or a share in the business the loan was used for. *Qard al hassan* is designed for people in need and the only type of loan in Islamic finance.

9. WHY INTREST FREE BANKING AND MICRO FINANCE:

Interest (Riba) is such a forbidding sin in Islam that the Creator of Universe Has Announced War against those who take Riba. According to Islam, those who devour Ribawould be under fire (Hell) forever after death. Riba is such a cruel practice against humanity; which ruins the sublime feelings like brotherhood, sacrifice, charity and help etc. from our society and develop a ruthless society, where instead of 'humanity'; the capitalist forces rules the society. In fact Riba is just not meant for a value addition as 'interest' over principal sum of deposit or lending, but it could be defined as a practice to take undue advantage from the needy on providing conditional credits. Whereas interest-free economy not only promise to build stable monetary and fiscal system, but also promotes sublime feelings like equality, partnership, sharing entrepreneurship risks, and more importantly it tends to minimize economic disparity and boost economic justice and welfare.

10. MANUPULATED OBSERVATIONS AND RECOMMENDATION BY SACHAR COMMITTEE:

The committee did not justify with some of the following sections of recommendations related to banking and finance.

"The chapters on Bank Credit and Government Programmes have highlighted the fact that flow of credit to Muslims is quite limited. While part of this could possibly be due to lower demand for credit due to low income levels of the Community, low access to credit cannot be ignored. Lack of access to credit is a more serious problem for the Community as a significantly larger proportion of workers are engaged in self-employment, especially home-based work."

Here in above observation, it was truly reported that flow of credit to Muslims is quite limited; but wrongly interpreted that it might be due to low income of people, because already in chapter 6, the committee has found and quoted the following facts contradictory to the above statement of low income as a reason for low credit demand.

"Muslims constitute about 12% of all ASCBs account holders. ... It is noteworthy that the share of Muslims in the 'amount outstanding' is only 4.7%".

Moving ahead with intention to promote interest based banking among Muslims instead of recognizing demand for interest-free banking, the committee further recommends the following -

"*The Committee, therefore, recommends promoting and enhancing access to Muslims in Priority Sector Advances. Any shortfall in achievement of targeted amount in minority specific programmes should be parked with NMDFC, NABARD and SIDBI and specific programmes should be funded with this amount. However, the real need is of policy initiatives*

that improve the participation and share of the Minorities, particularly Muslims in the business of regular commercial banks".

11. SACHAR COMMITTEE ADVOCATING PRACTICE OF FINANCIAL EXCLUSION OF MUSLIMS:

"The Committee also recommends that the coverage under Public Programmes should be extended to include more schemes and should also include lending by NABARD and SIDBI. SIDBI should set aside a fund for training for minorities under its Entrepreneurial Development Programme. Such programmes should not only aim to improve skills of artisans in traditional occupations but also reequip them with modern skills required to face the adverse effects of globalization in their area of artisanship. Given the substantial presence of Muslims in these occupational groups special attention should be given to them."

"While the available data is inadequate, there is a widespread perception that the participation of Muslims in the Self Help Groups (SHGs) and other micro-credit programmes is very limited. A policy to enhance the participation of minorities in the micro-credit schemes of NABARD should be laid down. This policy should spell out the intervention required by NABARD through a mix of target and incentive schemes based on the population percentage of Muslims in the village in order to enhance the participation of Muslims in micro-credit. In any case, data on the participation of different SRCs in such schemes should be collected and shared with the RBI or the NDB. The implementation of such schemes may need to be tailored to specific situations."

12. THIS FINANCIAL EXCLUSION HARM ECONOMIC GROWTH OF INDIA:

Majority of Indian Muslims are financially poor and orthodox about Islamic teachings. It is practically just not possible to induce Indian Muslims enthusiastically participate in interest based banking and financial businesses. It is a snitch among Indian Muslims to indulge into interest based monetary system. This snitch is a factor of financial exclusion of major section of Indian Muslim community. This exclusion may not be good for our economic growth targets. The financially excluded section would reflect poverty and subdue the inclusive growth target. The community with 67% poverty and over 90% workers associated with unorganized sector, the Indian Muslims need special financial facilities.

13. COMMITTEES ON FINANCIAL INCLUSION IGNORING MUSLIMS:

The issue of financial exclusion is off course a matter of concern for the nation. The Committee led by Dr. C. Rangarajan submitted its report in January 2008 but neither this committee did not comprise any member from Muslim Community, nor it said a single word about financial exclusion or inclusion of Indian Muslims. It is not supposed that such committee should focus the report on community base study, but since their were worth mentioned report on financial exclusion of Scheduled Castes and Scheduled Tribes, it look desirable to have at least a word about Muslims who are not far better to our SCs and STs.

14. CONCLUSION:

This study reveals the pathetic economic conditions of Muslims in India and their deliberate financial exclusion. Either the RBI and Union or State governments not executed the policies of Financial Inclusion and they remains as "Excluded" in the country. Therefore the following initiatives may be taken up for their financial inclusion and prosper life in multi facet dimensions. As such this is not only according to Qur'an and Sunnah but to escape from the current exploitative interest based financial market.

1. Interest Free (Riba Free) Banks should be established in all the states so that the Muslim Community utilize the system.
2. Islamic Micro Finance Institutions shall be enacted and powers may be delegated to their respective Minority Finance Corporations in their respective jurisdictions.
3. Since, the credit flow or access to credit is a liable source for the reduction of poverty in rural and urban areas, the loans, worth of Rs. 50,000/- (Rupees Fifty Thousand only) shall be sanctioned without collateral security.
4. An awareness programme shall be organized among the community to utilize the IMFIs. The fellow majority communities could be utilized this system of Islamic Micro Credit Facility.
5. A bill in the Union Parliament shall be introduced for the organized participatory Islamic Micro Finance in India without prejudice to achieve financial inclusion and inclusive growth.

15. REFERENCES:

1. Ausaf Ahmed, Islamic Financial Instruments for the development of infrastructure, Article Published in 2006 in Aspects of Islam and Muslim Societies, Serials Publications, New Delhi.
2. Dr. Jeet Singh, Head & Asst. Professor, and Dr. Preeti Yadav, Asst. Professor, Article Published in October 2012, “Micro Finance as a Tool for Financial Inclusion and Deduction of Poverty”.
3. Dr. Monzer Kahf, “Relevance Definition and Methodology of Islamic Economics” published in 2006.
4. Ramakrishna, R: “Micro Finance: Emerging Trends in Financial Management” Rasipuram.
5. Ravikumar, B. Ratna (2006): “A Primer on Micro Finance – The Paradox of Plenty in Poverty” The Chartered Accountant, May 2006.
6. Sanyal kaushiki: “Microfinance bill”.
7. Shankar Savita (2007): “Pluses and Minuses of Micro Finance Bill”.
8. Srinivasan R and Siram M.S.: “Micro Finance: An Introduction”.
9. Syed Zahid Ahmed, General Secretary, All India council of Muslim Economic Upliftment Limited, Baitulmal Cooperative Credit Society Limited. Article on “Indian Muslims Annually lose over Rs. 64,000 crores”.
10. News Papers: 1) The Economic Times, 2) The Hindu Business Line
11. Internet Sources:
    i) www.google.com, ii) www.moneycontrol.com, iii) www.wikipedia.com,
    ii) iv) aicmeu@yahoo.com v) www.ifad.org vi) http://www.microfinancefocus.com

WOMEN EMPOWERMENT
An Engine of Sustainable Development

D. NARAYANA RAO
Lecturer in Economics
Department of Economics
Girraj Govt. College (A)
NIZAMABAD.

ABSTRACT

Women constitute 48 percent of the total population and nearly perform two-thirds of the work and produce 50 per cent of food commodities consumed. However, they earn one third of the remuneration and own only 10 per cent of the property or wealth of the country. To put it straight, women enjoy an unfavorable status in our status. The picture is however, changing for the better. Women, especially in the rural areas have less economic freedom to take decisions than their male counterparts. Looking through the lens of poverty, there are various areas of discrimination against women. Malnourished women give birth to malnourished children. They are not only over worked and work for longer hours than their male counterparts but in general are unskilled and thus undertake menial works requiring more labor hours for which they earn less. It has the mandate to strengthen the inter-sector convergence; facilitate the process of coordinating all the women's welfare and socio-economic development programmes across ministries and departments. The Mission aims to provide a single window service for all programmes run by the Government for Women under aegis of various Central Ministries. Participation of women in economic activities is very much limited in the country. Their share in total employment especially in the organized sector is very small. This is the reason why woman is dependent and victim of all social evils, Many evils like dowry deaths will disappear if women are given an opportunity to stand on their own legs. The utilisation of women in economic activities will speed up the process of economic development in the country. Though woman is an equal partner of man's life in society, she is not an equal partner in economic sphere. Participation of women in economic activities is very much limited in the country.

Key words: *Women Empowerment, sustainability, self-help groups, Human development, women welfare schemes.*

INTRODUCTION

"**Empowerment as a process that aims at creating the conditions for the self-determination of a particular people at creating the conditions for the self-determination of a particular people or group".** "Empowerment with women" is the central issue that has been pervading the development debate after the 80s. Improving their status and empowering them would go a long way in accomplishing egalitarian gender relations in society. Women who are hitherto constrained by their social structure for their self-expression constitute the target of most of the development programmes, which aim at bringing them into the mainstream of the development. "Empowerment is the process by which the powerless gain greater control over the circumstances of their lives. Women empowerment is a change in the context of a women's life, which enables her to increase capacity for leading a fulfilling human life. Women Empowerment one of the essential factors that promote human development. Empowering women is critical to advancing Human Development and achieving progress towards in MDG's.

Human development and women empowerment both are mutually reinforcing. In fact empowered women can contribute to human development through household and community activity and at the same time progress in human development is expected to promote women

empowerment through improved health, nutrition, education, social security, political freedom, availability of employment and a decent standard of living. Female education is an important impact of the production function, i.e., "Human Development Improvement function".

Since the 1990's women have been identified as key agents of sustainable development and women's equality and empowerment are seen as central to a more holistic approach towards establishing new patterns and processes of development that are sustainable. The World Bank has suggested that empowerment of women should be a key aspect of all social development programs. For women in India, this suggests empowerment in several realms: personal, familial, economic and political. Women in India remain a disadvantaged section of society even in the context of advancement of science and technology. They are often dependent upon their male counter parts for their livelihood.
Empowerment of women involves many things – economic opportunity, social equality, and personal rights. Women are deprived of these human rights, often as a matter of tradition. Women's empowerment in India is heavily dependent on many different variables that include geographical location (urban/rural), educational status, social status (caste and class), and age. Policies on women's empowerment exist at the national, state, and local (Panchayat) levels in many sectors, including health, education, economic opportunities, gender-based violence, and political participation.

OBJECTIVES:

- The study objectives are to assess the women empowerment and sustainability of the women, self help groups, women welfare programmes, micro-finance and social security issues.
- To induce self help groups and their members to educate into matured levels of home enterprise, to increase livelihood, diversification of activities increase their access.
- Empowering women with economically productive work will enhance their contribution to rural and urban development.
- To overcome the financial problem of rural and urban women through self help groups and sustainability.
- There are three categories of institutions promoting self help groups, the government, financial institutions and NGO's.
- The impact of rural and urban women empowerment on Indian economy and contribution to state level and local panchayat level.
- Empowering rural women is a way forward idea to create a stronger India.
- To improve the finance and loan schemes to rural and urban women.
- To eradicate unbearable bureaucracy, terrible inefficiency, and corruption at all levels of the government have wasted much of the money allocated to women development.
- In a society where men control the destiny of women and avoid the control of men and encourage women's welfare problems.
- For development of women education place an important role in bringing about awareness on women's rights.

METHODOLOGY:

The present study of this paper based mainly on secondary data and acquiring literature from various books, magazines and internet websites.

ANALYSIS OF THE STUDY AND INTERPRETATION:

"Although women represent only 50% of the total population, they contribute 75% to the development of our society while men contribute only 25%. Women's participation in the Economy: The development is measured on account of the participation of women work force, quality of work allotted to them and their contribution in GDP and on all these parameters the women in India fare worse than men and the challenge is to bridge the inequality.

The NSSO data from 61st to 66th round indicates that female work participation rate has decreased between 2004-05 to 2009-10. NSSO data for the secondary and tertiary sectors shows that only 13 percent and 8 percent respectively, of the rural women workers worked in these sectors.

Table 1

Some Indicators related to status of women

Indicators	Male	Female
Literacy Rate (%) Census 2011	82.14	65.46
Maternal Mortality Rate (per 100000 live births) SRS, 2009-10		212
Sex Ratio, Census 2011	1000	940
Child Sex Ratio (0-6 years), Census 2011	1000	914
Worker Population ratios (per 1000)	819	336
MPs in Lok Sabha (%)	89.18	10.82

Table 2

Status of Employment (Women) per 1000 distribution

Year	Self employed		Regular wage		Casual labour	
	Rural	Urban	Rural	Urban	Rural	Urban
2009-10	557	423	44	393	399	196

Table 3

Distribution (per 1000) of usually employed women (principal status)

Year	Agriculture		Manufacturing		Construction		Others*	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
2009-10	789	118	76	258	42	51	34	139

Welfare Schemes for Women and Girls: Department of women empowerment and Child Development implements programs viz.

- The Integrated Child Development services (ICDS) program.
- Kishori Balika Yojana
- Old Age Pension Scheme
- Pension scheme for widows/homeless/aged/disabled
- Financial assistance to destitute widows
- Financial assistance for re-marriage of widows
- Grant to female student who has passed intermediate from BPL family t enable her to pursue her studies
- Early Child Care Education Centers
- National Programme on Education for Girls at Elementary Level
- Kasturba Gandhi Balika Vidyalaya
- Innovative scheme for the adolescent girls
- Mahila Samakya (Education for Women's Equality)
- Self Help Groups form the mainstay of women's empowerment programs
- Use of technology in women's training programmes

The above all programmes lead to women's economic emancipation like Economic empowerment, Social empowerment, Physical empowerment, Psycological empowerment.

Empowering Women – A step towards inclusive growth

Women from lower castes (SC, ST, BC) are particularly vulnerable to maternal mortality and infant mortality. They are often unable to access health and educational services, lack decision-making power, and face higher levels of violence. Low work force participation need to be looked into a greater detail and may partly be attributable to positive factors such as better retention in educational institutions. In our societies, and elsewhere, women empowerment is an imperative issue. Perhaps now the government has seriously started thinking about it and all the development programmes embrace requirements and concerns of women, so that they do not fall behind in the race of development. Thus, for the holistic empowerment of women, an inter-sectoral approach has to be adopted which will end exploitation and discrimination against women enabling them to develop their full potential to be active participants in nation building, sharing the benefits of economic growth and prosperity.

State of women in Rural India: Some Evidences:

- Females have a share of 48.1% in the urban population and of 48.6% in the rural population.
- Female Literacy increased from 46.13% in 2001 to 58.75% in 2011
- The share of women in the person days employed through MGNREGA stood at 48.3% in 2011-12.
- The female infant Mortality Rate was 49 compared with the make IMR of 46 and the overall IMR of 47 in 2010.
- The Maternal Mortality Ratio has come down from 254 during 2004-06 to 212 during 2007-09.

Role of Micro-Finance for enhancing of Women Empowerment:

The micro finance is mainly focused on poor women which provide independent sources of income outside the home and expose to a new sets of ideas, values, and social support. Women are more thus become assertive and confident in creating its own assets and play a stronger and strengthening role in decision making role towards family development. Many research studies have found that "having cash in hand and greater control over it can lead to empowerment of women". Out of 82 percent of microfinance clients are women whose decision making role increasing and repaid at rate averaging 97 percent. In brief giving women access to micro credit loan, therefore generate a multiple effect that increase the activities of microfinance institutions benefiting multiple generations". Microfinance is both financial access and tool of poverty alleviation of rural poor and would help in improving the quality of life in rural India.

Weakness of Micro-Finance

- Structure and sustainability
- Funding
- Regulations
- Capacity building of micro finance institutions
- Geographical position
- Population density
- Gender disparity
- Agricultural dominance

Empowering women for food security

Women in agriculture are 'invisible and silent partners' in economic life right from the gross root to the policy level. Agriculture sector employs 4/5th of all economically active women in the country. 48% of India's self-employed farmers are women. Women farmers still have poor access to extension services. Despite the fact that women produce much of the food in the developing world, they remain malnourished than most men are. Gender mainstreaming is the current international approach to advancing gender equality and equity in society. At the national level, it involves incorporating a gender perspective into all

policies, plans, programmes and projects to ensure that these impact on women and men in an equitable way. Empowering rural women is a way forward idea to create a stronger India. The rural women lack the privilege of taking food. Women share the primary responsibility for nutrition, child care and household management in almost all countries.

Suggestions and Conclusion:

Based on the study, some useful suggestions have been given below for the improvement of the women empowerment.

The structural constraints that hinder women's economic empowerment have not been adequately addressed over the past decade. Gender-equality perspectives have largely been ignored in macroeconomic analyses, and most equality-enhancing measures have been undertaken at the micro level. Many of these measures, such as promotion of microfinance and cash transfers have not been able to address adequately the underlying constraints in women's access to and control over economic and financial resources. Women's confidence and self-esteem increase when they have greater knowledge, economic assets and income-earning capacity, and they are more likely to participate in both private and public decision-making. Low participation is often due to stereotypes, perpetuated by both men and women, which assign women's influence to the private sphere and men's to the public. The use of quotas and positive action to increase women's participation in decision-making bodies is not enough to ensure their participation, but is an important first step. Secure access by women to productive resources such as land, water and financial capital ahs a ripple effect. When women build assets and achieve better economic status, they develop higher self esteem, are more visible in their communities, more mobile, and their children are better fed.

Over the years, women have continued to speak out for policies and practices that do not threaten the health and well-being of future generations. They continue to fight for improved living standards and protection of the environment. In almost all countries, women are disproportionately represented among the poor. Women share the primary responsibility for nutrition, child care and household management in almost all countries. Many women's groups are concerned that current patterns of economic development and globalization are increasing the gap between rich and poor, benefiting men more than women, and leading to increased environmental degradation. In almost all developing regions, women are often the primary users and managers of land, forest, water and other natural resources. Women in rural areas of India spend major parts of their day growing food, gathering fuel wood, cooking and carrying water.

Government and non government organization try hard to provide social security to women with different schemes through Self Help Groups linkage programmes and micro-finance institutions. Women are responsible for most local food production in India. Indigenous women have a special relationship to natural resources. While interacting with the rural women, the major obstacles were the elder male members of the family, who were used to seeing their women subdued and non-interfering and who never stepped outside the house on their own. Hence, a dialogue with women threatened their status and dominance. Therefore, it was helpful to sensitize the men about the benefits of women empowerment.

REFERENCES:

1. S. Galab, N. Chandrasekhara Rao 'Women's Self-Help Groups, Poverty Alleviation and Empowerment" – Economic and Political Weekly Publication.
2. S. Mahendra Dev, P. Padmanabha Rao "Poverty Alleviation Programmes.
3. Prabhakar Rajkumar K, "Empowerment of Rural Women through NABARD promotional activities.
4. Rao, V.M., Women Self Help Groups
5. V.P. Sriraman, "Micro Finance, Self Help Groups and Women Empowerment.
6. Kurukshetra Monthly magazines
7. Yojana Monthly magazines

MICROFINANCE IN INDIA – PROBLEMS AND SOLUTIONS

Dr. Jasti Ravi Kumar
Asst. Professor
Department of Commerce
University College of Commerce & Business Management
Osmania University, Hyderabad

Introduction

"Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services."

Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc.

Salient features of Microfinance:

- Borrowers are from the low income group
- Loans are of small amount – micro loans
- Short duration loans
- Loans are offered without collaterals
- High frequency of repayment
- Loans are generally taken for income generation purpose

Objectives of the Paper:

- To know the need for microfinance
- To explore the channels of Microfinance
- To identify the legal regulations of microfinance
- To explore the problems of microfinance

Methodology:

This study is based on Secondary data. This data was collected from various publications of NABARD, Reserve Bank of India and Annual Reports of Microfinance Institutions and Banks.

Microfinance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied centre stage as a promising conduit for extending financial services to unbanked sections of population. At the same time, practices followed by certain lenders have subjected the sector to greater scrutiny and need for stricter regulation.

Although the microfinance sector is having a healthy growth rate, there have been a number of concerns related to the sector, like grey areas in regulation, transparent pricing, low financial literacy etc. In addition to these concerns there are a few emerging concerns like

cluster formation, insufficient funds, multiple lending and over-indebtedness which are arising because of the increasing competition among the MFIs. On a national level there has been a spate of actions taken to strengthen the regulation of MF sector including, enactment of microfinance regulation bill by the Government of Andhra Pradesh, implementation of sector-specific regulation by Reserve Bank of India and most recently, release of Draft Microfinance Institutions (development and regulation) Bill, 2011 for comments.

Need for Microfinance – Gaps in Financial System

According to the latest World Bank survey, India is home to almost one third of the world's poor. Though central and state governments are implementing many poverty alleviation programs in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living.

In India about 50 % of the population doesn't have a saving bank account and they are not able to get banking services. Poor also need financial services to fulfill their needs like consumption, building of assets and protection against risk. Microfinance institutions serve as a supplement to banks and in some sense a better one too. These institutions not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counselling, training and support to start own business and the most importantly in a convenient way. The borrower receives all these services at her/his door step and in most cases with a repayment schedule of borrower's convenience.

Operation of Micro finance

In India microfinance operates through two channels:

1. SHG – Bank Linkage Programme (SBLP)

2. Micro Finance Institutions (MFIs)

SHG – Bank Linkage Programme

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI.

Micro Finance Institutions

Those institutions which have microfinance as their main operation are known as micro finance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

- High transaction cost – generally micro credits fall below the break-even point of providing loans by banks
- Absence of collaterals – the poor usually are not in a state to offer collaterals to secure the credit
- Loans are generally taken for very short duration periods
- Higher frequency of repayment of installments and higher rate of Default

Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel.

Sl. No.	Type of MFI	Legal Registration
1	NGOs	Society Registration Act, 1860 Indian Trust Act, 1882
2	Non-Profit companies	Section-25 of Indian Companies Act, 1956
3	Mutual benefit MFIs – Mutually Aided Cooperative Societies (MACS)	Mutually Aided Co-operative societies, Act enacted by State Governments
4	Non-Banking Financial Companies (NBFCs)	Indian companies Act, 1956 Reserve Bank of India Act, 1934

(Source: NABARD Issues Related to Microfinance)

Legal structure and regulation

Although the SHG-Bank linkage model is well managed in India by NABARD, currently there is no proper regulatory body for the supervision of MFIs. The presence of institutions with a variety of legal forms makes it difficult for the regulation of all such institutions by a single regulatory body in the current Indian legal structure. Though NBFCs, which cover the major part of the outstanding loan portfolio by the microfinance channel, are regulated by Reserve Bank of India, other MFIs like societies, trusts, Section-25 companies and cooperative societies fall outside the purview of RBI's regulation. The acceptance of the Malegam committee recommendations by the RBI is a big step forward in addressing the above concern but again it will cover only a section of the MFIs i.e. NBFCs. The microfinance bill which was introduced in the year 2007 is still pending. The most recent and the strongest step taken by the government, The Micro Finance Institutions (Development and regulation) Bill, 2011 is a major step in the microfinance sector. The proposed bill clarifies all doubts pertaining to regulation of the MFIs by appointing RBI as the sole regulator for all MFIs.

Problems of Microfinance:

The following are the major hindrances in the growth of Microfinance in India

- **Financial illiteracy of people**

One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings and programmes for the benefit of the people, according to some of the experts the first thing these SHG and JLG members are taught is to do their own signature.

- **Lack of Sufficient funds**

Inability of MFIs to raise sufficient fund remains one of the important concern in the microfinance sector. Though NBFCs are able to raise funds through private equity investments because of the for-profit motive, such MFIs are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD and SIDBI. In absence of adequate funding from the equity market, the major source of funds for MFIs are the bank loans, which is the reason for high Debt to Equity ratio of most MFIs.

- **Dropouts and Migration of group members**

Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group). Most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.

- **Transparent Pricing**

Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower.

- **Cluster formation – fight to grab established market**

MFIs' drive to grab an established market and reduce their costs is resulting in formation of clusters in some areas leaving the others out of the microfinance outreach. By getting an established microfinance market, MFIs reduce their initial cost in group formation of clients, educating them and creating awareness about microfinance. This is one of the reasons for the dominance of the microfinance sector in the southern states. Now the problem is that a similar trend is being followed in the northern states as well.

- **Multiple Lending and Over-Indebtedness**

Both of these are outcome of the competition among the MFIs. Microfinance is one such sector where the Neo-liberal theory of free market operation fails, at least to some extent. Though competition is good for many sectors but in this case it is going against both the

parties. In order to eat away each others' market share, MFIs are ending up giving multiple loans to same borrowers which in some cases is leading to over-indebtedness (a situation where the borrower has taken loans more than her/his repaying capacity) of the borrower. MFIs are getting affected because borrowers are failing to make payments and hence their recovery rates are falling, while over-indebtedness is making the borrower go to depression and in some cases forcing them to commit suicide.

CONCLUSION:

In a country like India, microfinance institutions (MFIs) play a very vital role in the development of the overall economy. In our country microfinance institutions established with the objective of empowering the people to fight against the poverty and outreach program to neglected areas. But these MFIs are facing problems like financial literacy of people, inability to generate sufficient funds, transparent pricing multiple lending etc.. Proper regulation field supervision, reduce operating cost, alternative sources of fund etc.. are the measures to overcome the problems of microfinance institutions in India.

REFERENCES

1. Adams, D.W.; and Vogel, R.C. (1986), "Rural Financial Markets in Low-income Countries: Recent Controversies and Lessons", World Development, Vol. 14, pp. 477-88.
2. Asian Development Bank (2000), Finance for the Poor: Microfinance Development Strategy, Asian Development Bank, Manila.
3. Ghate, P. (2007), Microfinance in India: A State of the Sector Report, 2006, Microfinance India Publications, New Delhi.
4. Ghate, P. (2008), Microfinance in India: A State of the Sector Report, 2007, Microfinance India Publications, New Delhi.
5. Hulme, D.; and Mosley, P. (1996), Finance against Poverty, Routledge, London.
   IIMS (2007), "Towards an inclusive financial system: Financial Services Demand and Utilisation by India's Low Income Workforce", Dataworks Research Report, Invest India Market Solutions Pvt. Ltd., New Delhi.
6. Kirkpatrick, C.; and Maimbo, M. (2002), "The Implications of the Evolving Microfinance Agenda for Regulatory and Supervisory Policy", Development Policy Review, Vol. 20, No. 3, pp. 293-304.
7. Mahajan, Vijay; and Nagasri, G. (1999), "Building Sustainable Microfinance Institutions in India", Paper Presented in Seminar on New Development Finance, Frankfurt, Germany, 29 September.
8. Micro Financial Sector (Development and Regulation) Bill (2007), Bill No. 41 of 2007, Introduced by the Union Finance Minister in Lok Sabha on 20.03.2007. Available at:http://www.sampark.org/Documents/Micro%20Financial%20Sector%20%20MF%20Bill%202007.pdf [Accessed on 12.10.2009].
9. Srinivasan, N. (2009), Microfinance India State of the Sector Report 2008, Sage Publications, New Delhi.
10. Tankha, A. (2002), "Self-help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact", A Study by Sa-Dhan, New Delhi, pp. 70-71.

FINANCIAL INCLUSION- ROLE OF BANKING INDUSTRY

Dr .P.Chengalrayulu ,
Post-Doctoral Fellow (ICSSR)
Department of Commerce
S.V.U College of CM&CS
Sri Venkateswara University
Tirupati-517502, Andhra Pradesh

Prof.K.Ramakrishnaiah**
Principal
& Dean Faculty of Commerce
Department of Commerce
S.V.U College of CM&CS
Sri Venkateswara University
Tirupati-517502, Andhra Pradesh

ABSTRACT

Financial inclusion is the recent concept which helps to achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. However deputy governor of RBI has recently clarified that the latter two reasons are myths, i.e. the cost in involved in financial inclusion is not unbearable by the banks and that it is not true that the banks are unwilling to do financial inclusion. The present study was undertaken to achieve the objectives: To analyze various important regulatory initiatives taken by the Reserve Bank of India to strengthened financial inclusion in India: To study the current position of Financial Inclusion Program in India. Government and RBI has taken various steps to increase banking penetration in the country, nationalization of banks, establishment of RRBs, introduction of SHG and strategy of one person one account for accessing financial market. Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognizing the importance of inclusive growth in India, efforts are being taken by the Government of India (GOI) and RBI to make the financial system more comprehensive. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social purpose. The sector was one of the foremost contributors to help the country to overcome the global economic recession. But the question arises whether the banking sector is just a sector of financial activities or has helped the country to achieve inclusive growth. India's GDP could achieve 8.5% growth rate in the current financial year, after dipping during the recession period.

Keywords: Financial Market, Reserve Bank of India, Inclusive Growth, Regional Rural Banks, Self-Help Groups.

INTRODUCTION

Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008). The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, and builds self-confidence and

empowerment. In an address Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth. There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy (see Throat, 2007). From supply side, lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. However deputy governor of RBI has recently clarified that the latter two reasons are myths, i.e. the cost in involved in financial inclusion is not unbearable by the banks and that it is not true that the banks are unwilling to do financial inclusion.

DEFINITION OF FINANCIAL INCLUSION

The Rangarajan Committee has defined financial inclusion as .the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. In other words, it means delivery of the banking services and credit at an affordable cost to the vast sections of the disadvantaged and low income groups. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling/advisory services by the formal financial system. An open and efficient society is always characterized by the unrestrained access to public goods and services. As banking services are in the nature of public goods, financial inclusion should, therefore, be viewed as availability of banking and payment services to the entire population without discrimination of any type.

NATURE OF FINANCIAL EXCLUSION

The United Kingdom has one of the most innovative and diverse financial services sectors in the world. Despite this, many individuals struggle to gain access to basic financial products such as bank accounts, credit, insurance and financial advice. Financial exclusion or lack of access to appropriate financial products and services can arise for a variety of often interlinked reasons. Witnesses suggested a variety of causes including:

- Exclusion due to inappropriate or excessively high charges: interest rates for doorstep lenders and other alternative credit products may be high and lead to a long-term cycle of over-indebtedness.
- Exclusion due to religious beliefs or other cultural barriers: financial services may not comply with Islamic law, which forbids the charging of interest, for example.
- Exclusion due to disability: disabled people might find it difficult to access premises, or find it difficult to read marketing material.
- Exclusion due to being on lower incomes or being long-term recipients of benefits, which impacts most on the disabled, ethnic minority groups, the elderly and those excluded from the labour market.
- Locational exclusion: lack of access in the person's locality to appropriate financial services.
- Regulatory requirements: regulations imposed by the Government or the FSA play a valuable role in enhancing consumer protection, but, where regulations are excessive or are implemented in a way which does not take account of particular circumstances faced by individuals, they might accentuate financial exclusion.
- Self-exclusion: where an individual feels that there is little point in applying for financial products because he/she expects to be refused, or is unwilling to engage with the financial services industry as a result of previous experiences.

- Information problems: an individual may have difficulty obtaining the information he or she needs, either due to the requirements of the providers (who may be unwilling to lend to people without a credit history), or to the challenge to the individual as consumer, who may not be able to access marketing information or may have particular difficulty choosing between complex products.

OBJECTIVES OF THE PAPER

- ✓ To analyze various important regulatory initiatives taken by the Reserve Bank of India to strengthened financial inclusion in India
- ✓ To study the current position of Financial Inclusion Program in India.

NEED FOR FINANCIAL INCLUSION

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGOs and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood.

So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of the loan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.

FINANCIAL INCLUSION: INDIA'S PERSPECTIVE

India has, for a long time, recognized the social and economic imperatives for inclusive financial inclusion and has made a huge contribution towards economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., numerous steps have been taken by the RBI over the years to increase access to the poorer segments of society. In India, financial inclusion first featured in 2005, when it was launched by K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided with banking facilities. RBI has been undertaking financial inclusion initiatives in a mission mode through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. Some of these steps are: facilitating no-frills accounts and General Credit Cards (GCCs) for small deposits and credit, norms were relaxed for people intending to open accounts with annual deposits of less than 50,000. GCCs were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, RBI permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries act as

business facilitators or business correspondents by commercial banks. The bank directed the commercial banks in different regions to start a 100% financial inclusion campaign on a route-finder basis. As a result of the campaign states or UTs like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is also inadequate legal and financial structure. The table 1 shows that the progress under financial inclusion plans, all SCBs including RRBs is given below:

Table 1: Progress under Financial Inclusion Plans, All SCBs including RRBs

Variable	2010	2011	2012	2013	Absolute ınge (2010-13)	Percentag e change (2010-13)
Banking outlets in villages>2000	37949	66605	112288	119453	81504	214.8
Banking outlets in villages<2000	29745	49603	69465	149001	119256	400.9
Banking outlets in villages-Branches	33378	34811	37471	40837	7459	22.3
Banking outlets in villages-BCs	34174	80802	141136	221341	187167	547.7
Banking outlets in villages-Other Modes	142	595	3146	6276	6134	4319.7
Banking outlets in villages-Total	67694	116208	181753	268454	200760	296.6
Urban locations covered through BCs	447	3771	5891	27143	26696	5972.3
Basic savings Bank Deposit Account 3DA) through branches (No. in million)	60	73	81	101	41	67.5
Basic Savings Bank Deposit Account 3DA) through branches (Amt. in billion)	44	58	110	165	120	271.5
Basic Savings Bank Deposit Account 3DA) through BCs (No. in million)	13	32	57	81	68	512.4
Basic Savings Bank Deposit Account 3DA) through BCs (Amt. in billion)	11	18	11	18	8	70.4
BSBDA Total (in million)	73	105	139	182	109	147.9
BSBDA Total (Amt. in billion)	55	76	120	183	128	232.5
OD facility availed in Basic Savings Bank osit Account (No. in million)	0.2	1	3	4	4	2094.4
OD facility availed in Basic Savings Bank osit Account(Amt. in billion)	0.1	0.3	1	2	1.5	1450.0
KCCs Total (No. in million)	24	27	30	34	9	39.0
KCCs Total(Amt. in billion)	1240	1600	2068	2623	1383	111.5
GCCs Total (No. in million)	1	2	2	4	2	161.2
GCCs Total(Amt. in billion)	35	35	42	76	41	117.4
ICT A/Cs-BC Total Transactions (No. in ion)	27	84	156	250	224	844.4
ICT A/Cs-BC Total Transactions (Amt. in on)	7	58	97	234	227	3279.8

Source: Report on Trend and Progress of Banking in India 2012-13.

Table 1 shows that the progress under financial inclusion plans, all SCBs including RRBs in 2010, SCBs adopted Board-approved Financial Inclusion Plans (FIPs) containing self-set

targets for financial inclusion for a span of three years. In 2013, banks completed three years under these plans. Taking stock of the developments over the last three years indicates considerable progress with regard to financial inclusion; Almost all identified unbanked villages with a population of more than 2,000 have been covered with a banking outlet; Greater attention is now being given to unbanked villages with a population of less than 2,000; there has been a steep rise in the number of villages with a population of less than 2,000, which were provided with banking outlets between 2012 and 2013. Dominance of BCs in the provision of banking services to villages as well as urban locations – The villages with a population of more/less than 2,000 are being provided with a banking outlet through branch, BCs and other (ICT-based) modes. Among these three, there is a dominance of BCs in the provision of banking services over opening bank branches. BCs have also been an important means of providing banking services to urban locations.

General Credit Cards (GCCs): Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban braches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on March 2013, banks had provided credit aggregating Rs.76 billion in 4 million General Credit Card (GCC) accounts.

Kisan Credit Cards (KCCs): Kisan Credit Cards to small farmers have been issued by banks. As on March, 2013, the total number of KCCs issued has been reported as 34 million with a total amount outstanding to the tune of Rs.2623 billion.

FINANCIAL INCLUSION - GLOBALLY

Financial inclusion has become one of the most significant aspects in the present era of inclusive growth and development all over the world. All over the World the importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Globally many countries now look at financial inclusion as the way to more inclusive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. Financial regulators, governments and the banking industry have taken several initiatives for Financial Inclusion all over the world. The banking sector has taken a lead role in promoting financial inclusion. Legislative measures have been initiated in some countries. For example, in the US, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods. In France, the law on exclusion (1998) emphasizes an individual's right to have a bank account. The German Bankers' Association introduced a voluntary code in 1996 providing for a so-called “everyman” current banking account that facilitates basic banking transactions. In the UK, a Financial Inclusion Task Force was constituted by the government in 2005 in order to monitor the development of the process. In South Africa, a low-cost bank account, called Mzansi, was launched for financially excluded people in 2004 by the South African Banking Association. Several Asian & African countries have harnessed the unique strengths of mobile banking to drive financial inclusion.

CONCLUSION

Financial inclusion is the road which India needs to travel towards becoming a global player. An people invest and save more and more will remove vicious circle of poverty and unemployment, it also act as a source of empowerment, better control of finance and allow people to participate more effectively in the economic and social process thereby increase per capita income. More financial access will attract more global market players to our country

that will result in increasing employment and business opportunities. Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognizing the importance of inclusive growth in India, efforts are being taken by the Government of India (GOI) and RBI to make the financial system more comprehensive. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social purpose. Indian banking sector is going great guns. The sector was one of the foremost contributors to help the country to overcome the global economic recession. But the question arises whether the banking sector is just a sector of financial activities or has helped the country to achieve inclusive growth. India's GDP could achieve 8.5% growth rate in the current financial year, after dipping during the recession period.

REFERENCES

1. Rajaram Dasgupta, "Two approaches to financial inclusion", Economic and Political Weekly, Vol. XLIV, No. 26 & 27, June, 27, 2009, Pp.41-44.
2. Srinivasan. N, "Policy Issues and Role of Banking System in Financial Inclusion", Economic and Political Weekly, July 28, 2007, Pp.3091-95.
3. Subba Rao. K. G. K., "Financial Inclusion: An Introspection", Eco Balbir Singh., "Financial Inclusion-Role of Banking Industry", The Management Accountant, January 2012, Pp.25-29.
4. Kuppan, S., "Financial Inclusion", The Management Accountant, January, 2012, Pp.12-14.
5. Rangarajan, C., "Report of the Committee on Financial Inclusion‟, Ministry of Finance, Government of India, 2008.
6. Bandgar, P. K., "Financial Inclusion", The Management Accountant, January 2012, Pp.22-24.
7. Asok Chattopadhyay, "Financial Inclusion-Indian context" The Management Accountant, January, 2012, Pp.55-56.
8. Atul Raman, "Financial Inclusion and Growth of Indian Banking System", IOSR Journal of Business and Management, Vol. 1, Issue. 3, May-June 2012, Pp. 25-29.
9. Rama Krishna Reddy. D., "Financial Inclusion: Road Ahead", The Journal of Indian Institute of Banking & Finance April - June 2012, Pp.40-45.

ROLE OF BANKING SECTOR IN FINANCIAL INCLUSION IN INDIA

Dr.Dalavai Sreenivasulu
Lecturer in Commerce
Govt. Degree college, Pattikonda – 518 380.

Abstract

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups in disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks. Despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. This paper makes an attempt to assess the role of banking sector in financial inclusion process in India. Role of banks in financial inclusion process in India is examined on the basis data available from the institutional sources such as Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Scheduled Commercial Banks (SCBS), RRBs, UCBs and PACS from different viewpoints namely branch penetration, ATM penetration, population per branch, distribution of banking branches in India.

Introduction

India has a long history of banking development. After Independence, the major focus of the Government and the Reserve Bank was to develop a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors.

Accordingly, the Government's desire to use the banking system as an important agent of change was at the core of most policies that were formulated after Independence. The planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met at satisfactory level.

In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The organized financial system comprising Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS) and post offices caters to the needs of financial services of the people.

The initiatives taken by the Reserve Bank and the Government of India towards promoting financial inclusion since the late 1960s have considerably improved the access to the formal financial institutions.Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector.

This article makes an attempt to assess the role of banking sector in financial inclusion process in India. Role of banks in financial inclusion process in India is examined on the basis data available from the institutional sources such as Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Scheduled Commercial Banks (SCBS), RRBs, UCBs and PACS from different viewpoints namely branch penetration, ATM penetration, population per branch, distribution of banking branches, credits, including micro finance, of SCBs and Co- operative banks, deposits of SCBs and Co- operative banks, credit-income ratio, deposit- income ratio and cash-deposit ratio in India.

Objectives of the Study

- To study about role of Indian banking sector in bringing financially excluded people in to formal financial sector.
- To assess the role Indian banking sector in bringing financially excluded people in to formal financial sector.

Methodology

The study is based on secondary data. Relevant data are availed from the sources of Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), National Federation of State cooperative Banks (NAFSCOB) and other sources. Data for the minimum period of 10 years (2001-02 to 2011-12) have been considered and analyzed. However, in few cases, data have been considered till the year 2010-11 as data for the year 2011-12 is not available.

Financial Inclusion

The broader concept of financial inclusion is delivery of banking/ financial services at an affordable cost to the vast sections of disadvantaged and low income groups. These banking /financial services are savings/deposits, loan /borrowings and, payment/settlement and remittance facilities. The insurance services come under savings facilities. Out of these three above mentioned important services if any one of the service is absent the entire concept will be considered as incomplete/insufficient financial inclusion. Commercial Banks, RRBs, Cooperatives, Government, M.F.I.s, SHGs, Post offices, NBFCs, NGOs, etc. are the provider of financial services and these have either adequate or inadequate presence in rural areas of the country. Cooperatives like Primary Agricultural Credit Cooperative Societies, MFIs, SHGs, Post Offices and NBFCs are restricted to provide only savings/deposits and loan /borrowing facilities and they are not permitted for payment and remittance facilities. Hence their operation /function under financial inclusion partially covered. Only the commercial banks, RRBs and District Central Cooperative Banks fulfills the purpose of total financial inclusion.

The number of commercial Banks in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system. Larger the number of commercial banks, larger the scope for bringing people in to formal financial system provided if banks provide suitable financial products and services.

Table - 1 shows number of commercial banks in India in different periods. In the year 1969, there were 89 commercial banks in India of which 73 were Scheduled Commercial Banks and the rest were non-scheduled commercial banks. Regional rural banks were not started at that time. In the year 2001, number of commercial banks in India reached 301 of which 296 were scheduled commercial banks and 5 were non-scheduled commercial banks. Out of 296 scheduled commercial banks in the year 2001, Regional rural banks accounted for

196 banks. As on 31st March 2011, there were 167 commercial banks in India of which 163 banks were scheduled commercial banks and 4 were non- scheduled commercial banks. Decrease in number of commercial banks in the year 2011 as compared to 2001 may mainly be due to sharp decline in number of RRBs in India.

TABLE - 1: NUMBER OF COMMERCIAL BANKS IN INDIA

	1969*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Numberof nercial banks	89	301	298	294	291	288	222	183	175	170	169	167
a)Scheduled nercial banks	73	296	294	289	286	284	218	179	171	166	165	163
Of which RRBs	-	196	196	196	196	196	133	96	91	86	82	82
b) Nonscheduled nercial banks	16	5	4	5	5	4	4	4	4	4	4	4

Source: Basic Statistical Returns of Commercial Banks in India, RBI. * End - June.

Table – 2
Population per Bank Branch

End March	Population per branch	End March	Population per branch
1969*	64000	2006	16000
2001	15000	2007	15000
2002	16000	2008	15000
2003	16000	2009	14500
2004	16000	2010	13800
2005	16000	2011	13000

*As at end-June, Source: Basic Statistical Returns of Commercial Banks in India, RBI.

One of the indicators for measuring banking access is the population per branch. Following the nationalization of banks in 1969, branch network of SCBs expanded rapidly. As a result, the population per branch declined significantly between 1969 and 1991. The population per branch in the rural segment increased after 1991. The population per branch, however, continued to decline in the urban areas (Table 2)[1]. One of the factors responsible for increase in population per branch in rural areas between 1991 and 2007 was the reclassification of 953 rural centers, classified as rural as per 1991 census, which moved to higher population centers on account of increase in population. Besides reclassification, there were also instances where certain centers, which were earlier classified as rural, were brought into the jurisdiction of the adjoining municipality / municipal corporations and, thus, classified as urban/metropolitan depending on the population of municipality / Municipal Corporation. As on 31st March 2011, population per branch was 13000.

Table - 3

Number of Offices of Scheduled Commercial Banks in India According To Area

(As on 31st March)

YEAR / ARE	1969*	1991	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rural	1833	35206	32562	32380	32303	32121	32082	30579	30551	31076	31667	32624	33495
Semi urban	3342	11344	14597	14747	14859	15091	15403	15556	16361	17675	18969	20740	22631
Urban	1584	8046	10293	10477	10693	11000	11500	12032	12970	14391	15733	17003	17712
Metropolitan	1503	5624	8467	8586	8680	8976	9370	11304	11957	12908	14178	15026	15784
Total	8262	60220	65919	66190	66535	67188	68355	69471	71839	76050	80547	85393	89622

*As at end-June Source: Basic Statistical Returns of Commercial Banks in India, RBI.

Distribution of banking system is another indicator of level of financial inclusion in a country. Banking system should not be concentrated particular area or region in a country like India which has vast geographical area and population. Table - 3 indicates distribution of SCBs' branches in different areas of India at different periods of time. In the year 1969, there were 1833 bank branches in rural areas, 3342 branches in semi urban areas, 1584 branches in urban areas and 1503 branches in metropolitan areas. Number of branches in rural areas declined between 1991 and 2001. But, number of branches in semi urban, urban and metropolitan areas increased significantly during the same period. This trend continued till the year 2007. Since the year 2008, number of branches in all kinds of areas (rural, semi urban, urban and metropolitan) has been increasing in India. But, percentage of increase in branches in rural areas is low as compared to other areas. As on 31st March 2011, there were 33495 branches in rural areas, 22631 branches in semi urban areas, 17712 branches in urban areas and 15784 branches in Metropolitan areas. In total, there were 89622 branches of SCBs in India as on 31st March, 2011. Here, an important thing which is to be considered is number of branches in rural areas. The numbers of branches of SCBs in rural areas as on 31st March, 2011 was 33495 which were lower than number of branches of SCBs in the year 1991 (35206).

Table – 4

Geographic Branch Penetration of SCBs in India

End- March	Total number of branches	Geographic branch penetration
1991	60220	18.31
2001	65919	20.05
2011	89622	27.26

Source: Compiled on the basis of RBI data.

Geographic branch and ATM penetrations have been used considerably as a proxy measure of financial inclusion in the literature. Geographical branch penetration means number of bank branches per 1000 square kilometers (km2). Geographic ATM penetration refers to number of ATMs per 1000 square kilometer (km2). Penetration of geographic bank branches and ATMs measure availability of banking branches and ATMs to the people in terms of geographical access. Higher geographic branch and ATM penetrations indicate smaller distance and thus easier geographic access of the bank branches and ATMs and vice versa.

Beck et al. (2007) and Satya R. Chakravarty and Rupayan Pal (2010) used geographic branch and ATM penetrations in their study to measure financial inclusion. Table - 4 shows

geographic branch penetration of SCBs in India at different periods of time. It is clear from the table that geographical branch penetration keeps on increasing from the year 1991. In 1991, geographical branch penetration score of India was 18.31, in the year 2001 it was 20.05 and in the year 2011, it reached 27.26. Geographical branch penetration scores indicate that there were about 18 branches per 1000 km^2 in the year 1991, 20 branches per 1000 km^2 in the year 2001 and around 27 branches per 1000 km^2. Geographical branch penetration score of SCBs in India as on 31st March 2011 indicates that people have to travel considerable distance to avail banking services in India.

Table - 5 shows geographic ATM penetration in India at different periods of time. In this study, geographic ATM penetration has been computed for six years up to the year 2011. The table indicates that geographic ATM penetration score keeps on increasing every year in India. In the year 2005, geographic ATM penetration score was 5.4 and in the year 2010, it was 18.3. There had been more than 4 fold increase in geographic ATM penetration in India over the period of seven years.

Demographic branch and ATM penetrations are also considerably used as a proxy measure in the literature to measure financial inclusion. Demographic branch penetration refers to number of bank branches per 1, 00,000 persons. Demographic ATM penetration refers to number of bank branches per 1,00,000 persons. Penetration of demographic bank branches and ATMs measure availability of banking branches and ATMS to the people in terms of accessibility. Higher demographic branch and ATM penetrations indicate easier access because of fewer potential clients per outlet and vice versa.

Table - 5

Geographic ATM Penetration of SCBs in India

End-	Total number of	Geographic ATM
2005	17642	5.4
2006	21147	6.4
2007	27088	8.2
2008	34789	10.6
2009	43651	13.3
2010	60153	18.3
2011	74505	22.6

Source: RBI

Beck et al. (2007), Kiatchai Sophastienphong and Anoma Kulathunga (2009) and Satya R. Chakravarty and Rupayan Pal (2010) used demographic branch and ATM penetrations in their study to measure financial inclusion. For the indicators demographic branch and ATM penetrations, a country may be considered approaching full access, if its outreach indicator lies above the mean value in developed countries (Beck and de la Torre 2006).

Table - 6

Demographic Branch Penetration of SCBs in India

End-March	Total number of branches	Demographic branch penetration
1991	60220	7.17
2001	65919	6.46
2011	89622	7.41

Table - 6 depicts demographic branch penetration of SCBs in India at different periods of time. From the table - 5, it is evident that demographic branch penetration in India was 7.17 in the year 1991, then it declined to 6.46 in the year 2001 and it reached 7.41 in the year 2011. The demographic branch penetration scores of India indicate that in the year 1991 and 2011, about 7 branches were available for every 1, 00,000 persons and about 6 branches were available for every 1, 00,000 persons in the year 2001.

Demographic branch penetration score for the year 2003 in India was 6.33. Demographic branch penetration in India, on the basis of 2003 data, was lower than Malaysia (8.26) and Thailand (7.37). But, Demographic branch penetration in India, on the basis of 2003 data, was higher than China (1.33) and Indonesia (3.73). Further, India's demographic branch penetration was much less than developed countries like Canada (28), Australia (24), Japan (45), UK (23) and USA (26). It has been mentioned in the study conducted by Kiatchai Sophastienphong and Anoma Kulathunga (2009) titled "Getting Finance in South Asia, (2009): Indicators and Analysis of the Commercial Banking Sector".

Demographic branch penetration score for the year 2010 in India was 7.13. It has been specified in the Report on Trend and Progress of Banks in India, 2009 - 10. An important point which is to be noted here is that geographic branch penetration in India in the year 2011 increased nearly two fold as compared to that of the year 1991 (Table - 4). But, demographic branch penetration in India for the same period increased slightly only (Table - 6). From this, it is evident that there has been considerable increase in bank branch expansion in India, but, it is not in the proportion to increase in population in India.

Table - 7 shows demographic ATM penetration scores of SCBs in India at different periods of time. In the year 2001, 3.5 ATMs were available for every 1, 00,000 persons in India. But, in the year 2011, it has gone to 6.1. It means that only 6.1 ATMs were available for every 1, 00,000 persons in India. Here, it should be mentioned that geographic ATM penetration in India has increased 3 fold over the period of six years (Table - 5). But, demographic ATM penetration has increased moderately in India (Table - 7) over the period of ten years. This clearly indicates that number of ATMs in India has increased considerably, but not in proportion to increase in population.

Table – 7

Demographic ATM Penetration of SCBs in India

End- March	Total number of ATMs	Demographic ATM penetration
2001	35724	3.5
2010	60153	5.2
2011	74505	6.1

Source: Compiled on the basis of RBI data

To sum up, population per branch of SCBs over the years declined considerably. Penetration of bank branches in different areas of India increased slightly except rural areas. In fact, number of bank branches in rural areas in the year 2011 was less than number of bank branches in the rural areas in the 1991. Although RBI and GOI have been taking number of measures to develop rural areas economically, it seems that such efforts are inadequate. Geographic branch and ATM penetration had made considerable progress in India over the years. Despite considerable increase in demographic branch and ATM penetrations in India, India still lacks far behind the goal of "finance for all" because India's

demographic branch penetration score as on 31st March 2011 (7.41) and demographic ATM penetration score as on 31st March 2011 (6.1) are much less than mean score of demographic branch penetration of selected developed countries (29.2) and mean score of demographic ATM penetration of selected developed countries (128).

Conclusion

Now a day, there is a significant national as well as global focus on inclusive growth. The Financial Stability and Development Council (FSDC) headed by the Finance Minister is mandated to focus on financial inclusion and financial literacy. All financial sector regulators including the Reserve Bank of India are committed to the mission and directing the banking sector and other financial sector entities. If government is advocating any kind of sustained development and stability whether financial, economic, political or social and inclusive growth with stability, it is not possible to attain these goals without achieving financial inclusion. Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism, thus strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Thus, financial inclusion is no longer a policy choice today but a policy compulsion. And, banking is a key driver for financial inclusion/inclusive growth.

REFERENCES

1. Anderloni, L., Carluccio, E.M., (2007), “Access to Bank Accounts and Payment Services”, in: Anderloni, L., Braga, M.D. and E.M. Carluccio (eds.), New Frontiers in Banking Services, Berlin et al.: Springer, 5105.
2. Beck, T., A. Demirguc-Kunt, M. Soledad and M. Peria (2007), “Reaching Out: Access to and Use of Banking Services across Countries”, Journal of Financial Economics, Vol. 85, No. 1, pp. 234-266.
3. Chakrabarty, K.C., (2011), “Financial Inclusion and Banks: Issues and Perspectives” Address delivered at the FICCI - UNDP Seminar on “Financial Inclusion: Partnership between Banks, MFIs and Communities” at New Delhi on October 14 2011.
4. Handbook of statistics on Indian economy 2009-10.
5. Kiatchai Sophastienphong and Anoma Kulathunga, (2009) “Getting Finance in South Asia, (2009): Indicators and Analysis of the Commercial Banking Sector” World Bank, Washington DC.
6. Peachy, S. / Roe, A. (2006): Access to finance - what does it mean and how do savings banks foster access, A Study for the World Savings Banks Institute, Perspectives No. 49, Oxford Policy Management.
7. Report on Currency and Finance 2007-08, Reserve Bank of India.
8. Report on Trend and Progress of Banks in India - 2009 - 10.
9. Sadhan Kumar Chattopadhyay, (2011), “Financial Inclusion in India: A case-study of West Bengal” RBI working paper series: W P S (DEPR): 8 / 2011.
10. Satya R. Chakravarty and Rupayan Pal, (2010), “Measuring Financial Inclusion: An Axiomatic Approach”, working paper, Indira Gandhi Institute of Development Research, Mumbai, March, 2010.

THE ROLE OF REGIONAL RURAL BANKs (RRBs) IN FINANCIAL INCLUSION IN INDIA

Dr.D.Adeppa,
Lecturer in Economics,
Govt.Degree College,ARMOOR

ABSTRACT

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. Financial inclusion is a process of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream financial institutional players. In our country, Reserve Bank of India (RBI) has formulated the policy of financial inclusion with a view to provide banking services at an affordable cost to the disadvantaged and low-income groups. Since 1975 Regional Rural banks (RRBs) are being regarded as a significant Rural Financial institution for promoting sustainable economic growth. This research topic is a study on the role of *RRBs* **i**n financial inclusion**.**

Key Words: - sustainable development, Regional Rural banks, susceptible groups, low-income groups

INTRODUCTION

An essential pre-requisite for inclusive and sustainable economic growth is capital formation through credit and financial services. Therefore, access to a well-functioning financial system, by creating identical opportunities, enables economically and socially excluded people to integrate better into the economy, so as to actively contribute to development and protect themselves against economic shocks (RBI, 2008). Amartya Sen (2000) persuasively argued that poverty is not just insufficient income, but rather the lack of wide range of capabilities, including security and ability to partake in economic and political systems. Today the term 'bottom of the pyramid' refers to the global poor most of whom subsist in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to steer them out of their conditions of poverty. Accordingly, there is always a need for policy support in channelling the financial resources towards the economic up liftment of resource poor in any developing economy. Financial inclusion is a planned exercise guided by the central bank to connect people with banks for consequential benefits. It is a process of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development in the developing countries. India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made a huge contribution to economic development by finding pioneering ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, selfhelp group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to improve access to the poorer segments of society. The RBI has, therefore, formulated the policy of financial inclusion with a view to provide banking services at an affordable cost to the disadvantaged and low-income groups.

Since 1975 regional rural banks (RRBs), popularly known as gramin banks have been regarded as key sources of institutional financing of rural credit in India. These institutions were established exclusively to meet the excess demand for institutional credit in the unbanked rural areas, particularly among the economically and socially marginalised section. After much

experimentation RRBs are emerged as institutions that combine local feel and familiarity with the rural problems which the cooperatives posses and the degree of business organisation, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have.

Objectives

- To explain the conceptual aspect of financial inclusion
- To describe financial inclusion in global perspective and in the context for India.

Methodology

This study is basically exploratory in nature and the entire gamut of discussion has been made on the basis of secondary sources. Secondary data are collected from various reports on RRBs published by NABARD and the RBI bulletin, annual reports of RRBs, reports of the various committees set up by the government on RRBs and the publications of Banker Institute of Rural Development (BIRD). Parameters like ratios, percentage of growth and others are considered for some meaningful comparison and analysis to evaluate the role of RRBs in West Bengal in financial inclusion and also to derive some concrete conclusion.

Need for Financial Inclusion

Financial exclusion is a serious concern among the low-income households as well as small businesses, mainly located in semi-urban and rural areas. Basically, it is unavailability of any banking services to the people living in poverty. According to K. C. Chakraborty "Financial inclusion (exclusion) is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers". There are 3 types of exclusions: (a) people who do not have any access to a regulated financial system; (b) people who have limited access to banks and other financial services; and (c) individuals who have unsuitable products. Major causes for financial inclusion are - (a) lack of banking facility in the locality (i.e. geographical exclusion including a rural-urban divide), (b) financial illiteracy, (c) Nonchalant attitude of the staff, (d) cumbersome documentation and procedures, (e) unsuitable products, (f) language, (g) feeling uncomfortable by a section of population in visiting a bank branch, (h) lack of awareness and initial inhibitions in approaching a formal institution, (i) low incomes/assets, (j) distance from branch and branch timing, (k) fear of refusal. Financial inclusion is channelized mainly to provide affordable banking services to marginal farmers, landless labourers, Oral lessees, urban slum dwellers, migrants, self-employed and unorganized sector enterprises, ethnic minorities and socially excluded groups, Senior citizens and women etc.

The importance of an inclusive financial system is extensively recognized in policy circles and has become a policy priority in many developing countries. Several countries across the globe now look at financial inclusion as the means for sustainable growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve likely financial status and adding to the nation's economic progress.

Role of Regional Rural Banks (RRBs) in financial inclusion

Concept of RRBs

The Regional Rural Banks (RRBs) were established in 1976 under Regional Rural Banks Act, 1976. RRBs are an integral part of rural credit system and are expected to play an increasingly important role in the development of, particularly, rural areas. It is important that the RRBs function in a highly professional manner, embracing the technological advancements. The Government of India had taken a number of steps, including recapitalization support from time to time, to improve the functioning of the RRBs and their financial health. Considering the tremendous potential, due to their presence throughout the

country, Government of India has initiated the process of restructuring of RRBs to improve their functioning, achieve the economics of scale and to ensure better managerial control. As a result the total number of RRBs, as on 31 March 2011, stood at 82.

With a view to modernize and strengthen the technology up gradation and functioning of RRBs to compete and play a more meaningful role in the financial services sector RRBs are required to roll out Core Banking Solution (CBS) and their banking operations need to be functionally integrated with their sponsor banks.

Financial Inclusion

As envisaged by the Government Of India, RRBs have become a strong intermediary for financial inclusion in rural areas by opening a large number of "No frills" accounts and by financing under General Credit Card (GCC), as per RBI guidelines. Total number of accounts stood at 1310.17 lakh in March 2011 which was 929.22 lakh in March 2008.

Financial Inclusion Fund (FIF) - Sanction of Research and Development Project on Financial Inclusion with ICT based solutions by RRBs -

A Pilot Project on Financial Inclusion with ICT based solution was launched in year 2009 in 13 selected RRBs, in the country in different regions. The project envisaged educating and motivating the rural people to use the banking services at their doorstep. The objective of the project was to ensure timely and adequate credit to low income groups at an affordable cost, increasing the reach of the banking services to the excluded segments, and providing the best suited financial services to the small value customers with an overall reduction of transaction costs. NABARD's assistance is extended as back end incentive from the Financial Inclusion Technology Fund. The deliverable under the project were ;

Provide Hardware : Client device, Laptop for enrolment

1. Client Software License : ESE Server Software for Financial Inclusion for 6 months
2. Server Software License :ESE Server Software for Financial Inclusion for 6 months
3. Prior to deployment, each RRB to sign the STS Software License and equipment Sale Agreement to allow for use of each RRB of the client Software for up to 6 months on the purchased Hardware.
4. Smart Cards : STS to provide to each RRB
    i. 1000 client smart cards
    ii. 20 Operator Smart cards
5. Impact study, report drafting and final reporting & publications
6. Sharing of learning with suggestions for adopting appropriate model for further expansion.

The project has been completed and an interim assessment of the project shows that the ICT based initiative can accelerate the pace of financial inclusion if the physical connectivity, educating the people on financial literacy and making technology compatible with the local condition.

Village Adoption and Debt Swap

The RRBs were given the target of adopting at least one village per branch, for financing the indebted farmers to swap the debt taken from moneylenders. RRBs had adopted 31442 villages as at the end of March 2011 and issued loans to the tune of Rs.842 crore to 2.08 lakh indebted farmers.

Interest Subvention to RRBs

The continuance of the interest subvention scheme was announced in the Union budget 2010-11. Interest subvention of 1.5% per annum was available to RRBs for deploying their own funds for crop loan upto Rs. 3 lakh per farmer, provided the ultimate borrower get such loans at 7% interest per annum. An additional subvention of 2% was announced during the

year to those farmers who repaid crop loans promptly within one year of disbursement. Thus, the interest paid on crop loans by such farmers was effectively at the rate of 5%. Suitable interest subvention was given to NABARD for providing concessional refinance to RRBs at 4.5 interest rates. Scheduling of RRBs Of the 82 RRBs, 80 RRBs now stand scheduled by RBI. The case of remaining two RRBs will be reviewed after their inspection by NABARD.

Other Developments

a. Based on the recommendations of Amaresh Kumar Committee, the GoI issued the RRB Service Regulations 2010.

b. GoI also notified the RRB Appointment & Promotion Rules 2010, in July 2010.

CONCLUSION

Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognising the importance of inclusive growth in India, efforts are being taken by the Government of India (GOI) and RBI to make the financial system more comprehensive. The focus of financial inclusion is on promoting sustainable development and generating employment for a vast majority of the population especially in the rural areas. As a supporting agent for the commercial banks and the co-operatives, RRBs are serving a class of clientele belonging to the rural poor like rural artisans, petty shopkeepers, small traders, village entrepreneur and people engaged in service sector and also people belonging to the lower income group in these rural areas, physically handicapped persons and widows as well. These banks are playing a significant role in ensuring sustainable development through financial inclusion. However, there is a long way to go for the financial inclusion to reach to the core poor and according to K. C. Chakrabarty, Deputy Governor of RBI, “Even today the fact remains that nearly half of the Indian population doesn’t have access to formal financial services and are largely dependent on money lenders”. Therefore, RRB network will have to be leveraged for benefiting the people of the rural areas through broader banking services; and in West Bengal, these institutions take a long stride towards inclusive economic growth by promoting various financial products meant for broader financial inclusion.

References

1. Aghion P and Howitt P (1998), Endogenous Growth Theory, MIT Press, pp. 56-57.
2. Aghion P and Howitt P (2005), ‘Appropriate Growth Policy: A Unifying Framework’, the 2005 Joseph Schumpeter Lecture, European Economic Association, Amsterdam.
3. Asli Demirguc - Kunt and Klapper, L. (2012), ‘Measuring Financial Inclusion’, Policy Research Working Paper, 6025, World Bank, April.
4. King Robert G. and Levine R. (1993), ‘Finance and Growth: Schumpeter Might Be Right’, the Quarterly Journal of Economics, Vol. 108, No. 3, pp. 717-738.
5. Leeladhar, V. (2006), ‘Taking Banking Services to the Common Man- Financial Inclusion’, RBI Bulletin, January
6. Levine R and Zervous S (1998), ‘Stock Markets, Banks and Economic Growth’, American Economic Review, Vol. 88, No. 3, pp. 537-558.
7. Mohan R. (2006), ‘Economic Growth, Financial Deepening and Financial Inclusion’, Address by Rakesh Mohan, Deputy Governor, Reserve Bank of India at the Annual Bankers’ Conference 2006, November 3, Hyderabad.
8. Rajan R. G. and Zingales L (1998), ‘Financial Dependence and Growth’, American Economic Review, Vol. 88, No. 3, pp. 559-586.
9. Rajan R. G. and Zingales L. (2003), ‘Saving Capitalism from Capitalists’, Crown Business, New York, pp.106-107.
10. Rangarajan, C. (2008), ‘Report of the Committee on Financial Inclusion’, Ministry of Finance, GOI.
11. Reserve Bank of India (2008), ‘Report on Currency and Finance 2006-08’, Volume II, RBI, Mumbai.
12. Sen, Amartya, (2000): ‘Development as Freedom’, Anchor Books, New York, pp. 223227

FINANCIAL INCLUSION AND GROWTH OF INDIAN BANKING SYSTEM

Dr.G.Mallikarjun
Lecturer in economics
Sgk Govt degree college
Vinukonda, district:Guntur-a.p

INTRODUCTION

Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty. Lack of access to financial services in most of rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension service create the need and scope of financial inclusion. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. Financial inclusion is integral to the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population deposit mobilization and credit intermediation.

FINANCIAL INCLUSION

The term financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people. Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc. Rangarajan's committee on financial inclusion defines it as, the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. By financial inclusion we mean the provision of affordable financial services like, access to payments, remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded.

In short Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion

Where, NFA - No frills bank account

OFIs - Other financial Institutions

MFI - Micro financial Institutions

IT – Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the

mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic “no-frills” banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), microfinance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a100% financial inclusion campaign on a pilot basis. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts and service them through a variety of channels by leveraging on it. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

INITIAL STEPS FOR FINANCIAL INCLUSION

Reserve bank of India and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration in the country. Before 1990s several initiatives has been undertaken which included creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980;initiating the Lead Bank Scheme in 1970;, was a big step to expand financial inclusion. Priority sector lending norms, branch licensing norms with focus on rural and semi urban branches, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 mainly to provide refinance to the banks extending credit to agriculture, establishment of regional rural banks in 1975 are also the major steps for same aim which encourage branch expansion in rural area. It also regulate interest rate ceiling for credit in weaker sections. After 1990s there are major important steps taken for financial excluded people as launching Self help groups linkage programmed in1992 by NABARD, which facilitates and provides door step banking. Simplifications of Know your customer (KYC) norms are another milestone. Where NGOs are set up to organize the poor, build their capacities and facilitates the process of empowering them. In 1998 Kisan credit card has been launched and on the suggestion of NABARD in 2005 General credit card has been launched which facility up to Rs. 25000/-.In January 2006 NGOs, SHGs, AND Micro Finance Institutions are permitted by RBI. Now MFIs currently cover 8.3 million borrowers. MFIs, self-help groups (SHGs) also meet the financial service requirements of the poorer segments.

The Reserve Bank had advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April2010 to March 2013. These FIPs contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc. Financial inclusion has been accorded high importance by the Reserve Bank to aid the inclusive growth process for the economy. There have been formidable challenges in this area such as bringing sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms. Apart from the priority sector lending policy which has been in existence for a long time, a host of initiatives have been taken in recent years which include the rollout of Financial Inclusion Plans and

expanding the scope micro and small enterprises (MSE) sectors and encouraging the adoption of Information and Communication Technology (ICT) solutions.

RBI report quotes a World Bank study undertaken in April2012, which stated that only 9 percent of Indian population had taken new loans from a bank, credit union or micro finance institution in the past year with only 35 percent having formal accounts versus an average of 41 percent in developing economies. The penetration of formal banking channel is still particularly poor in rural India that still houses 70 percent of the country's population further widening rural-urban economics in equality. This paper highlights the role of Government of India, RBI and Banks in financial inclusion

Table.1
Position of Households availing Banking services

House lds	As per censes 2001			As per censes 2011		
	Total No. of House holds	Total No. of households availing banking services	%	Total No. of House holds	Total No. of households availing banking services	%
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: Financialservices.gov.in/banking/Over view of efforts

Table 1 reveals the position of the Indian households availing banking services. As per censes 2001, only 30.1% of the households in rural areas and 49.5% of the households in Urban areas were availed banking services and as per 2011censes 54.4% of the rural households and 67.8% of the urban households availed the services of banks. Only 58.7% households are availing banking services in the country. There are100,277 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 36,972 (36.9%) bank branches are in the rural areas and 26,595 (26.5%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, still significant proportion of the households, especially in rural areas, is still outside the formal fold of the banking system.

Table. 2
Number of functioning branches of SCBs during the last three years

As on	Rural	Semi urban	Urban	Metropolita	Total
March 31, 2010	32525	20776	16678	15342	85321
March 31, 2011	33800	22961	17563	16293	90617
March 31, 2012	34671	24133	18056	16799	93659
December 31, 2012	36972	26595	19047	17663	100277

Source: Financialservices.gov.in/banking/Over view of efforts

Table.2 reveals the number of branches during the last three years. The numbers of branches have been increased during the three years in rural, semi urban, urban and metropolitan cities. In the year 2010, there are 85321 branches which are increased to 100277 branches during 2012. In 2012-13, it has been increased by 6,503 branches, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas.

Table. 3
Number of ATMs in the country as on 30th September, 2012

Rural	Rural	Semi an	Urban	Metropolitan	Total
Public Sector Banks	6926	15638	20075	17934	60573
Old Private Sector Banks	615	2356	2046	1489	6506
New Private Sector Banks	1739	6146	10703	14718	33306
Foreign Banks	33	22	254	1052	1361
Total	9,313	24,162	33,078	35,193	101,746

Source: Financialservices.gov.in/banking/Over view of efforts

Table 3, reveals the number of ATMs in India as on 30thSeptember 2012. There are 101746 ATMs, which constitutes60573 ATMs of public sector banks, 6506 ATMs of old private sector banks, 33306 ATMs of New private sector banks and1361 ATMs of foreign banks. There are 9313 ATMs in rural areas, 24162 ATMs in semi urban areas, and 33078 ATMs in metropolitan areas. The Government of India has introduced Direct Benefit Transfer in respect of 26 schemes in 43 pilot districts to begin with, directly into the bank accounts of beneficiaries with effect from 1st January, 2013. The purpose of Direct Benefit Transfer is to ensure that benefits go to beneficiaries' bank accounts electronically, cutting down delays. The scheme is extended to other districts and schemes in a phased manner. Under the Direct Benefit Transfer, Government will transfer cash benefits like scholarships, pensions etc. directly to the Bank or Post Office Accounts of identified beneficiaries. Direct Benefit Transfer will be under taken using Aadhaar issued by Unique Identification Authority of India (UIDAI). All Public Sector Banks are in a state of readiness for benefit transfer using beneficiaries Aadhaar. Regional Rural Banks (RRBs) sponsored by Public Sector Banks, are

also getting ready for accepting and executing Aadhaar based benefit transfer advice. Direct Benefit Transfer requires strengthening of banking infrastructure in the districts taken up under the scheme. At present Scheduled Commercials Banks have 97,473 bank branches (as on 30th June, 2012and 1, 05,784 ATMs (as on December, 2012) in the country.

Besides, under the Financial Inclusion Campaign – "Swabhimaan", to extend banking services to habitations of 2000or more population, banks have extended banking services to over 74,000 such habitations. Banks have been advised to complete mapping of the entire service area of districts under Direct Benefit Transfer to assess the requirement of additional bank branches, Business Correspondents, etc., to cater to the requirement of Direct Benefit Transfer. It is the endeavour that one banking outlet (branch / Business Correspondent Agent (BCA)) is available for, on average, 1000-1500 households, taking the geographical and local conditions in consideration.

Conclusion:

Inclusive economic growth has been one of the priority agendas of the Government of India (GOI) over the past decade. It is widely acknowledged that inclusive economic growth cannot be accomplished without achieving financial inclusion for the nearly two-thirds of India's population who are unbanked.FI is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. It is evident from the data given above and the RBI annual report that even though various measures have been taken and more flow of credit to various sector of the economy, still majority of the population in rural areas have not come under the concept of financial inclusion. The government of India and the Banks functioning in India has to play major role in financial literacy to include the excluded.

References:

1. Parameswara and Raghurama(2013), Role of Banks in Financial Inclusion, IndianJournal of Applied Research X 337, Volume : 3, Issue : 6, June 2013, ISSN - 2249-555X.
2. ThoratUsha, (2007), Financial Inclusion- The Indian experience, HMT- DFID, Financial Inclusion conference 2007, London.
3. PawarGanesh, joshi,Chandra Deepak, 2008, Inclusive Growth- Role of banks and credit providers in the economy and credit delivery models.
4. NageswaraRao (2010), FinancialInclusion - Banker's Perspective. The Journal of Indian Institute of Banking & Finance, October –December, pp 20-26.
5. Suresh Chandra Bihari (2010) FinancialLiteracy - The Key to Financial Deepening, The Journal of Indian Institute of Banking & Finance, October –December, pp 28-35
6. RBI Annual report 2011-12
7.Annual Report 2012-13, Ministry of finance, Government of India
8. Financialservices.gov.in/banking/Overviewofefforts

ROLE OF COMMERCIAL BANKS IN FINANCIAL INCLUSION
(With special reference to Bellary district, Karnataka State)

Mubarak,
Assistant Professor and research scholar
Department of Commerce,
VSK University, PG Centre- Nandihalli,
Sandur (TQ), Bellary Destrict-583119 Karnataka (State)

Abstract

The banking industry is making rapid strides with Information technology driven initiatives and has led to expansion of financial services giving birth to the concept of Financial Inclusion. Financial Inclusion is the availability of banking services at an affordable cost to the unaware and low income groups. The twelve five years Plan (2012-17) envisaged inclusive growth as a key objective as well as a strategy for economic development. The transition to high growth is an impressive achievement, but we must not forget that growth is not the only measure of development.

The objective of financial inclusion is to extend financial services to the large backward population of the country and achieve broad based improvement in the living standards of people. The banks have encountered various problems while adopting financial inclusion Viz. Improper repayment, the need for additional workforce, more time consumption, heavy work load, high cost etc.

The main objectives of this study to know the measures taken by the commercial banks for financial inclusion, to examine the difficulties involved in the adoption of financial inclusion and also to enhance the extent of financial inclusion.

The data required for the study was collected from both primary and secondary sources. The total numbers of samples were 25. The study was conducted among the commercial banks in general and syndicate banks in specific in Bellary District, Karnataka state.

Reserve Bank of India vision for 2020 is to open nearly 600 million new customers' accounts. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programs etc. to achieve the aim of 12th plan of Inclusive Growth.

Keywords: Economic Development, Inclusive Growth, Financial services, Financial Inclusion.

1. INTRODUCTION

At present, nearly seventy percent of people in India live in villages. High level of rural indebtedness is identified as the root cause of rural poverty. Village money lender was the focal point on which rural credit system mostly depended. The majority of people living in rural area remain excluded from the purview of the financial institutions, even after independence.

Credit is a critical input for the development of rural economy. Many of the farmers and rural households do not have access to institutional credit, thereby depriving them an opportunity to take up economic activities. Reaching out to the hither-to unreached segment of population and providing basic financial services, is the need of the hour. Accordingly, the RBI in consultation with GOI, have brought in the concept of financial inclusion.

"Financial Inclusion is the delivery of financial services to all the people in a fair, transparent and equitable manner at affordable cost. Financial Inclusion has the potential to improve the standards of life of the poor and the disadvantaged. Financial services permit individuals and households to manage the risk and uncertainties to save on better terms, to invest in a business venture or property or to cope with unforeseen expenses."

The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

2. NEED FOR FINANCIAL INCLUSION

The contribution of poor and disadvantaged people to the economic development of the country is largely dependent upon their ability to access credit and create wealth. To improve the economic conditions of the poor people, banking and financial services are to be made available easily without any discrimination, for the public good. The formal and informal credit institutions in our country could reach only 49% of the population, whereas 51% of the population has remained outside the purview of basic banking services. This is despite the increase in number of branches of Commercial Banks and Regional Rural Banks (RRBs) from 8321 in the year 1969 to 68,282 branches as at the end of March 2005 and the decrease in population per branch office from 64,000 to 16,000 during the same period. It is estimated that Scheduled Commercial Banks have covered only 18.4 percent of the rural population through savings/deposit accounts and at a lower percentage of 17.2 percent of the rural households by way of loan accounts. This proves a point that the coverage of financial services in India is quite low compared to the developed countries.

3. REVIEW OF RELATED LITERATURE

An empirical study of Sendhilvelan .M and Karthikeyan .Kn (2006) revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of “no frills” account. Further efforts must be made to move from the concept of „anytime, anywhere banking. To anytime, anywhere and to everyone banking.

Usha Thorat (2007) reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy centre and credit counselling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently underway for furthering financial inclusion.

The work of Ghorude .K.N (2009) indicated that attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion. Developing micro entrepreneurship with organizational and community based support is a way of strengthening inclusive growth.

Muthiah Manoharan .P and Krishnaveni Muthiah (2010) found limited access to affordable financial services such as savings, loans, remittance and insurance services to the vast majority of the population in the rural area and unorganized sector is believed to be a constraint to the growth impetus in these sectors. The behavioral pattern shows that many people were not comfortable with formal financial services. The reasons were difficulty in

understanding language, various documents and conditions that come with financial services etc.

4. STATEMENT OF THE PROBLEM

Financial inclusion is a policy measure to address the issue of poverty which would ensure avenues for people. It is estimated that globally over two billion people are excluded from access to financial services, of which one third is in India. Access to various financial services enables the poor people to participate in the growth of the economy. Many banks are forced to adopt financial inclusion rather than their own interest. Only few banks are actively involved in financial inclusion to promote economic development. The banks have encountered various problems while adopting financial inclusion Viz. Improper repayment, the need for additional workforce, more time consumption, heavy work load, high cost etc. Hence, many banks are not fostering fully fledged financial inclusion plan to accelerate the growth of the country. This study attempts to address the issues involved in the adoption of the financial inclusion plan and to widespread the financial inclusion.

5. SCOPE OF THE STUDY

There are various types of banks which operate in our country to meet the financial requirements of different categories of people. On the basis of function, the banks can be classified into five categories Viz. central bank, commercial bank, development bank, co-operative bank and specialized bank. This study had focused only the commercial banks in general and syndicate banks located in Bellary district.

6. OBJECTIVES OF THE STUDY

The main objectives of this study were:

1 To study the measures taken by the commercial banks for financial inclusion

2 To analyze the difficulties involved in the adoption of financial inclusion

3 To know the status of commercial banks towards financial inclusion.

7. METHODOLOGY

The data required for the study was collected from both primary and secondary sources. The primary data was collected from the commercial banks using a structured questionnaire. The secondary data was collected from the published journals, books and various websites. The samples were selected by administering convenience sampling technique. The total numbers of samples were 25. The study was conducted among the syndicate banks in Bellary district. A pilot study was administered before going for data collection. For the pilot study, some necessary changes were made in the questionnaire. The percentage analysis used to analyze the primary data.

8. RESULTS AND DISCUSSION

Table 1: depicts out of 25 banks, 80 % of the banks have offered no frills account, 88 % of banks have offered Bank assurance and the remaining 12 % of the banks have not offered such services. 72 % of the banks are offering core banking service and the remaining 28 % of the banks are not offering core banking service. 80% of the banks have offered e-banking, mobile banking service and the remaining 20 % of the banks have not offered such services.

40% of the banks have not issued Kisan credit card and the remaining 60% of the banks have issued the Kisan credit card to the farmers. No bank has offered Biometric ATM facility to the customers. 68 % of the banks have offered microfinance and the remaining 32% of the banks have not offered microfinance to the vulnerable people. 40% of the banks have not tied

up with NGOs and the remaining 60% of the banks have been tied up with NGOs to disseminate their service. 20% of the banks have not given advertisement for financial inclusion and the left over 80% of the banks have given advertisement for financial inclusion. 60% of the banks have not preferred business correspondent and the rest 40% of the banks have preferred business correspondent. 72 % of the banks have not established financial literacy and counseling centre and the remaining 28 % of the banks have established financial literacy and counseling centre to educate the customers.

Table 1: Measures taken to achieve Financial Inclusion

	Services	Yes	No
1	No frills account facility	80 % (20)	20 % (05)
2	Core Banking	72 % (18)	28 % (07)
3	E- banking	80 % (20)	20 %(05)
4	Mobile Banking	64 % (16)	36 % (09)
5	Issue Of Kisan Credit Card	60 % (15)	40 % (10)
6	Biometric ATM	....	100 % (25) e planned
7	Bank assurance	88 % (22)	12 % (03)
8	Microfinance	68 % (17)	32 % (08)
9	Ties up with NGOs	60 % (15)	40 % (10)
10	Advertisement For Financial usion	80 % (20)	20 % (05)
11	Business Correspondent del (Smart Card System)	40 % (10)	60 % (15)
12	Financial Literacy And unselling Centre (FLCC)	28 % (07)	72 % (18)

Source: - primary data

Table 2: Problems Involved in Financial Inclusion

Problems	*HA	*A	*DA	*HDA
Improper Repayment	18	05	....	02
Need For Additional Employees	14	06	05	....
Consumes More Time	16	07	02	....
Difficult To canvass	13	09	03	....
Heavy Work Load	15	08	02	....
Requires High Cost	14	07	02	02
Low Consumer Awareness	07	14	04	....

Source: - primary data

*HA – Highly agreed *A- Agreed *DA- Dis-agreed *HAD- Highly Dis-agreed

Table 2: shows the compliance of banks on various issues faced by them. As per the above table, it is noted that few problems were highly agreed and a few were agreed by the banks. The banks highly agreed on an improper repayment (18), the need for additional employees (14), consumes more time (16), difficult to canvass the customers (13), heavy workload (15) and requires high cost (14). The banks also agreed on low consumer awareness (14). Hence, the main problem associated with financial inclusion is improper repayment.

9. FINDINGS OF THE STUDY

- ✓ The respondents of 30 % (syndicate banks) were commercial banks, 60% of the banks were operating more than 10 years.
- ✓ Getting refinance for financial inclusion: Majority (75%) of the banks had not received refinance for financial inclusion.
- ✓ Inducement for financial inclusion: All the banks had been induced by another institution to adopt financial inclusion. The majority (70%) of the banks was induced by the Reserve Bank of India to adopt financial inclusion.
- ✓ Conducting financial inclusion campaign: Majority (70%) of the banks had conducted financial inclusion campaigns to turn un-bankable into bankable.
- ✓ Focused people for financial inclusion: 60% of the banks had focused rural people for financial inclusion.
- ✓ Reason for financial exclusion: 66% of the banks had stated that the reason for financial exclusion was illiteracy.
- ✓ Perception towards financial inclusion: 64% of the banks felt that adoption of financial inclusion was neither easy nor difficult.
- ✓ Expected assistance from the government: 54% of the banks were expecting advertisement from the government for financial inclusion.

10. CONCLUSION

Financial inclusion becomes a major prerequisite to poverty alleviation. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. However, the improper repayment need for additional workforce, time consumption, high cost and illiteracy are continuing to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting fully fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote areas. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the aim of 12th plan of Inclusive Growth.

11. REFERENCES

1. Ghorude, K.N. (2009). "Micro Finance for Financial Inclusion and Sustainable Rural Development", Southern Economist, Vol. 48, No.1, PP.47 – 50.
2. Manoharan, B. "A study on commercial banks in India – An overview", Indian Journal of Marketing, Vol. 45, No.1
3. Muthiah Manoharan, P., and Krishnaveni Muthiah. (2010). "Financial Inclusion in the Indian Rural Area Context – A Micro level Study" Research Highlights, Vol. 20, No.2, PP.71 – 74.
4. Narendra. M (2011). **"**Financial Inclusion Gains Urgency", the Hindu Survey of Indian Industry.
5. Raj Kapila, and Uma Kapila, (Eds.) (2008). "Inclusive Growth: The Role of Banks in Emerging Economies", Economic Developments in India, Academia Foundation.
6. Sendhilvelan, M., and Karthikeyan, K., (2006) „No Frills Account: A Basic Drive for Financial Inclusion", Southern Economist, Vol. 45, PP.13 – 14.
7. Subhash Narayan, (2011). "Fund to Boost Financial Inclusion in the Works", http://news.in.msn.com/business/article.aspx?cpdocumentid= 4833211
8. Usha Thorat (2007). Financial Inclusion - the Indian Experience. Financial Inclusion Conference. London. BIS Review.
9. Vighneswara Swamy and Vijayalakshmi, "Role of Financial Inclusion for Inclusive Growth in India – Issues & Challenges", http://skoch.in/fir/Role%20of%20Financial%20Inclusion%20
10. VSRD International Journal of Business and Management Research, Vol. 2 No.1 October 2012 ISSN No. 2231248X (Online),23192194(Print):www.vsrdjournals.com

A STUDY ON FINANCIAL INCLUSION IN INDIA: WITH SPECIAL REFERENCE TO BANKING SECTOR

Dr. K. Rama Prasad
Lecturer in Commerce,
S.K.R. Govt. Degree College,
Gudur, SPR Nellore – District,
Andhra Pradesh,

ABSTRACT

The prime objective of the paper is to understand the inter- relation between financial inclusion and its overall contribution to economic growth and the impediments to financial inclusion in Indian scenario and what needs to be done to encompass all those financially excluded into the folds of inclusive class. Financial inclusion or Inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast in financial exclusion those services are not available or affordable. The main goal of financial inclusion is to improve the range, quality and availability of financial services and products to the unserved, under-served and financially excluded. A society can be considered financially inclusive when all segments of society have access to financial services and timely and adequate sources of formal credit. Similar to access to education and healthcare, and especially to the poor and marginalized sections, as it can facilitate them to eke out a sustainable living and alleviate them from poverty. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups. Many reforms in Indian banking system have been activated since 1990. Simplification of KYC norms for low income group are permitted, Business Correspondents are be appointed by banks to provide door step delivery of banking services, Cheque Truncation, No-Frill accounts, Biometric ATMs, Mobile Banking, PMJDY etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

KEYWORDS; Financial Inclusion, Inclusive Growth, Business Correspondents, PMJDY

INTRODUCTION

Globalization and liberalization of Indian economy brought a sea change in the Banking Sector in the post economic reforms period, which has shown positive effect on the economy. India is growing still people being unbanked. Financial Inclusion (FI) reduces the gap between rich and poor. On the other side of the coin Financial Exclusion is the lack of access by certain segments of the society to suitable, low costs, fair and safe financial products and services from mainstream providers. FI is a long-term goal, as the time progresses, it has lot of impact and financial growth. We live in an age of specialization, and banking is no exception. Banks in advanced countries, imbued with an egalitarian ideology, have devised imaginative lending techniques to meet new situations; and they have spurred their economies by lending to small and medium sized business with a growth potential. During the early seventies, the emphasis shifted from banking for the classes to banking for the masses. As a result of 1991 financial sector reforms several changes and innovations have taken place in the industry. Since then the country is flooded with enormous foreign banks and their ARM stations. Lot of efforts have been taken place to give satisfactory services to

customers through m-banking and net-banking, EPTOPS (Electronic Fund Transfer at Point of Sale), Investment advisory services, Business Correspondents, Core Banking Solutions.

REVIEW LITERATURE

Dr. C. Rangarajan Committee (2008): The Committee commented - 'Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost'.

Raghuram Rajan (2014) Governor of RBI stated in conceptual terms what inclusion should be. "Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians," he said. Further, "in order to draw in the poor, the products should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age."

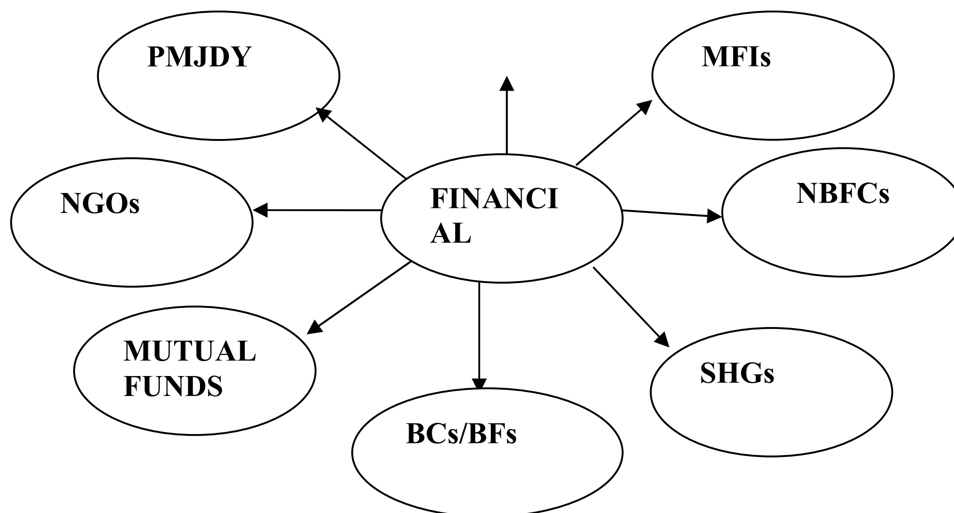
Modi(2014), The Prime Minister of India stated a few words about financial inclusion, ' 'Mahatma Gandhi worked to remove social un-touchability. If we want to eradicate poverty, we must get rid of financial untouchability'

Sandhu(2014), Financial Services Secretary addressed in Financial Inclusion Summit 2014 about Financial Inclusion as 'It has to be beyond just a bank. The idea is to convert cash economy into a cashless and digital economy".

FINANCIAL INCLUSION IN INDIA

There is a long history of financial inclusion in India. It includes opening new branches in rural and unbanked areas. Now the scenario has changed financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of the various short comings in delivering subsidies, direct transfers using technology have been thought of the day. In practical point of view it is not possible to open sufficient physical branches – the brick and mortar types – the accent will be on opening electronic accounts. Technology would be a key feature in this scheme for financial inclusion. Financial Inclusion is generally defined in terms of exclusion from the financial system. In India, the financially excluded community comprises largely small farmers, landless labourers, self employed, urban slum people, migrants, ethnic minorities and socially excluded groups, senior citizens and women. In the post independence era, the major concentration of the Govt. and RBI was to develop a sound banking system which could support planned economic development through mobilisation of depostis and deployment of funds into productive sectors. To Facilitate expand the credit and financial services to the wider sections of the population, a wide networks of banks and financial institutions have been established over the years. The organized financial system comprising commercial banks, Regional Rural Banks (RRBs), Urban Co-operative banks (UCBs), Primary Agricultural Credit Societies (PACS), Micro Finance Institutions (MFIs), Self-help Groups (SHGs) cater to the needs of financial services to the people. Besides, development of the institutional framework in the recent years has focused on new models of expanding financial services includes non-government organizations (NGOs), Business Facilitators (Bes)/Business Correspondents (BCs), post offices, Nonbanking Financial companies (NBFCs), recently Pradhan Mantri Jan-Dhan Yojana (PMJDY) are developed in order to promote financial inclusion. To sum up, banks need to spruce up their business approach to incorporate specific plans to promote financial

inclusion of low income groups treating it both business opportunity as well as social responsibility. Conversely the newly emerged private and foreign bankers are providing their services to urban and semi-urban people. This is a good sign for ensuring financial inclusion and better quality of service in these areas. These banks need to penetrate into rural areas. The technology offers opportunity for the private and commercial bankers to improve financial inclusion for the unbanked people.



MUTUAL FUNDS: In India Mutual Fund system now regulated under the SEBI (MF) Regulations, 1996 and amendments thereto. A mutual fund is a financial intermediary that mobilize savings from small investors, invests them in corporate and government securities and distributes interest and dividend earned on a specific principal to investor. UTI is the first mutual fund in India, established in the year 1963. It is the country's largest mutual fund company. Other mutual fund companies set by commercial banks like SBI, Indian Bank, and many companies came into existence with the foreign collaborations viz. ICICI with JP Morgan, Tata with Kleinwort Benson and so on. In the post liberalisation period mutual fund companies encompassed many hurdles.

NBFCs Non-Banking Finance Companies(NBFCs) resembles a banking company since it receives deposits from the public and lends the same to ready parties. It is not however a bank because it is not incorporated as a bank and is not governed by the provisions of Banking Regulations Act, 1949, hence it is called a NBFC. Usually NBFCs charge at a rate of interest range between 24 to 36 percent per annum. They are established to mobiles public savings in different motive. Commercial Banks cannot satisfy all types of needy people, hence NBFCs came into existence. Which include Investment Trusts, Insurance Companies, in organized sector, on the other side Nidhis and Chit Fund companies in unorganised sector. Major activities of NBFCs Finance equipment, leasing, hire purchase, activity, buying and selling and underwriting of securities and so on.

SHGs: The origin of SHG is the brain child of Grameena Bank of Bangladesh, which was founded by the economist, Prof. Mohammed Yunus of Chittagong University in the Year 1975, to provide micro-finance to rural women. In Bangladesh, micro-finance has been established as a most powerful instrument to tackle poverty. The principle of SHG services

is, 'by the women, of the women and for the women'. Self-help groups are voluntary associations of people with common interests formed to achieve collective social and economic goals. Such groups are organized for mutual help and benefit. It is formed democratically without any political affiliations. They may comprise of 15–20 women and/or men, although they generally consist exclusively of women members. In India, more than 90 per cent groups are formed by women, which function at micro or group level.

BUSINESS CORRESPONDENTS:

In January, 2006 Reserve Bank of India allowed banks to appoint Business Facilitators/Business Correspondents as intermediary for facilitating financial and banking services. The BCs allow banks to provide door step delivery of services especially 'cash in – cash out transactions at reasonable costs to the rural people. As per the progress reports received from SLBCs, banks had opened banking outlets in 1,83,993 unbanked villages by March, 2014, comprising 7,761 branches, 1,63,187 Business Correspondents and 13,045 through other modes. The Reserve Bank of India is clearly monitoring the progress made by the banks under the roadmap.

PMJDY :

Pradhan Mantri Jan Dhan Yojana was launched on 28th, August, 2014 to help the poor to open bank accounts which will come with the facility of a debit card and an insurance coverage of Rs. 1 lakh. The scheme is to be pushed by the government in a mission that seeks to facilitate two accounts for 7.5 crore identified household by August, 2018. The main feature of the scheme is Rs. 5,000 Overdraft facility for Adhar linked account Ru Pay Debit Card. Some economists commented on the new banking and insurance programme put base among poor households with small savings. Over 40 per cent of country population lives on less than one dollar a day. By paying benefits directly into their bank accounts, the scheme would seek to cut waste and corruption that inflate India's 43 billion subsidy bill, equivalent to more than 2 per cent of its GDP, for handouts of grain, fuel and fertilizer. This facility causes bad loans at Indian Commercial banks rose to 4.1 percent of gross advances in March, 2014 from 2.4 per cent in March, 2011. Hence, banks should take proper initiatives to recover overdraft amount otherwise it may cause negative impact on financial inclusion.

CONCLUSION:

It is mandatory that the financial system around the Globe has undergone structural changes in technology, deregulation of financial services. Traditional Banking practices may not be solution for financial inclusion. Banks need to take innovative measures to eradicate financial exclusion. They need to adapt modern technology to take forward the country and make it financially strengthen. As a part of financial inclusion, Govt. of India has taken measures like PMJDY as its impact banks raise funds and simultaneously common man financially strengthened, ultimately it results inclusive growth. Financial Inclusion enhances the quality of life of the people of the country and leads systematic economic growth of the country.

REFERANCES

1. Akhil Damodharan(2013), 'Financial Inclusion; *issues and Challenges',* AKGEC International Journal of Technology, Vol.4, No.2, pp 54-59,
2. Shweta Bambuwala(2013), 'Global Financial Inclusion; *Challenges and Opportunities',* PARIPEX – Indian Journal of Research, Volume 2, Issue 11/Nov, 2013
3. Twinkle Prusty (2010) 'Financial Sector reforms in India : *Enthusing Proactive Economic growth*', Banking Finance, February, 2010 Pp 5 -19.
4. C. Satyadevi (2014) "Financial Services – Banking and Insurance" , Chand & company Pvt Ltd, New Delhi.
5. Dutt & Sundharam (2009), Indian Economy, S. Chand Pvt Ltd, New Delhi,
6. http://indiatoday.intoday.in/story/jan-dhan-yojana-pm-modi-nda-government/1/379478.html
7. Anurag B Singh (2012), 'Financial Inclusion in India: *An Analysis'* , International Journal of Marketing,

FINANCIAL INCLUSION AND ITS ROLE IN BANKING SECTOR IN INDIA

Dr.G.Vijaya Kumar, Professor
Dept. of Management Studies
Rajeev Gandhi Memorial College of Engg&Tech.(Autonomous)
Nandyal – 518501, Kurnool Dist, AP, India.

M.Sudheer Kumar,HOD
Dept. of Management Studies
Rajeev Gandhi Memorial College of Engg&Tech. (Autonomous)
Nandyal – 518501, Kurnool Dist, AP,

Dr.D.Sreenivasulu,
Lecturer in Commerce, Govt. Degree College,
Pathikonda Kurnool Dist, AP, India.

ABSTRACT

In India Financial Inclusion growth is necessity to possible only proper good mechanism which channelizes all the resources. It is a new concept which makes suitable tools to promote the banking habits of the rural people. India is a great considered as largest rural populations in the world and belongs to high agriculture activities. Thus financial inclusion is aimed at providing and facilitate to banking and financial services to all people in an honest, fair, transparent and equitable manner at affordable cost. Households with low income people often access to bank account and have to spend time and money for multiple visits to avail the banking facilities, be it opening a savings bank account or availing a loan, these families find it more difficult to save, and to plan financially for the future. This paper is discuss and an attempt the development of financial inclusion in India.

Key Words: *Financial Inclusion, Financial Inclusion in India, Reserve Bank of India, Banking Sector, Financial Institutions*.

Introduction

Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Without this ability people are often referred to as financially exclude. People that are financially excluded might; Not be able to access affordable credit. Financial inclusion is the recent concept which helps achieve the economic integration development of the country, through available financial service facility to the unreached people by the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008).

The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, and builds self-confidence and empowerment. In an address Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave

2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth.

Objective

The study is aims to indentify the development of banking sectors in India the towards reaching the rural and poor people by the help of financial institutions.

Methodology

Present study attempt that only secondary data were used for the study, the data constructed and gathered the information from various books, research papers, Articles, and govt. reports etc.

Financial inclusion in India

The Reserve Bank of India planned to develop Aadhaar-linked bank accounts for adults by January 2016 on the commitment of financial inclusion. It will greatly transform India by preventing the poor people falling into debt-traps of unlawful money-lenders, cashless transactions, elimination of poverty and corruption.

The Reserve Bank of India (RBI) had set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

Review of Literature:

Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion.

Oya Pinar Ardic et al (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

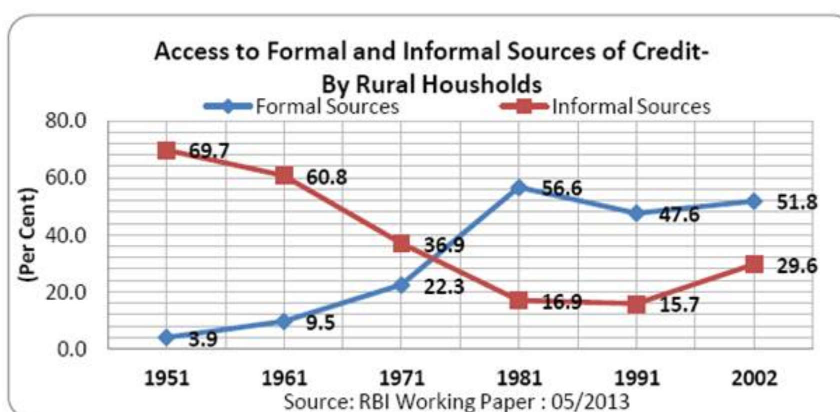
The report quoted a World Bank study in April 2012, which had shown half of the world's population held accounts with formal financial institutions. The study said only nine per cent of the population had taken new loans from a bank, credit union or microfinance institution in the past year. In India, only 35 per cent have formal accounts versus an average of 41 per cent in developing economies.

Financial Inclusion on Banking Sector in India

Commercial Banks role in a country provides an opportunity for the people in the India to utilize and participate in the formal financial system services. Larger the number of commercial banks, larger the scope for bringing people in to formal financial system provided if banks provide suitable financial products and services.

Access to Formal and Informal Sources

Chart 1: Access to Formal and Informal Sources

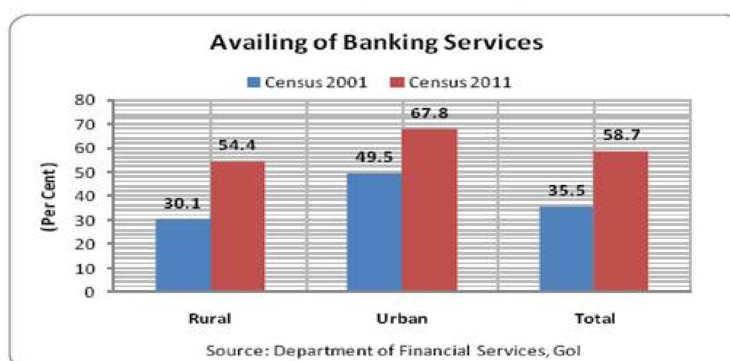


51.4% of farmer households are financially excluded from both formal/ informal sources. Out of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources. Overall, 73% of farmer households have no access to formal sources of credit. Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%. However, over the period of five decades, there has been overall improvement in access to formal sources of credit by the rural households.

Availing Banking Services on Indian Population Census 2011

As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas.

Chart 2: Availing of Banking Services

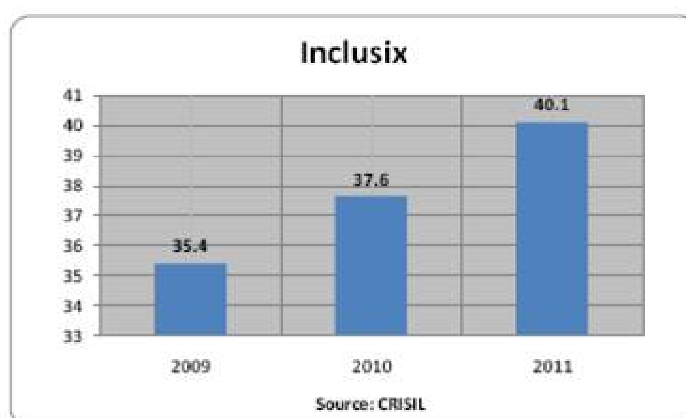


CRISIL Financial Inclusion Index (Inclusix)

In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz.,Inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration, deposit penetration and credit penetration. The CRISIL Inclusix indicates that there is an overall improvement in the financial inclusion in India.

CRISIL – Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

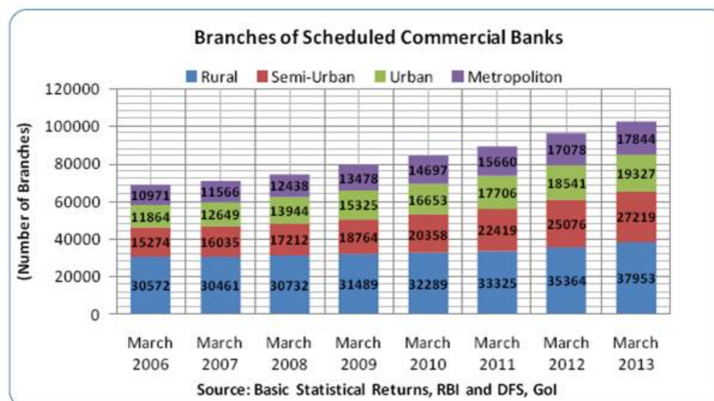
Chart 3: CRISIL - Inclusix



Number of Commercial Bank Branches (including RRBs)

Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country. In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

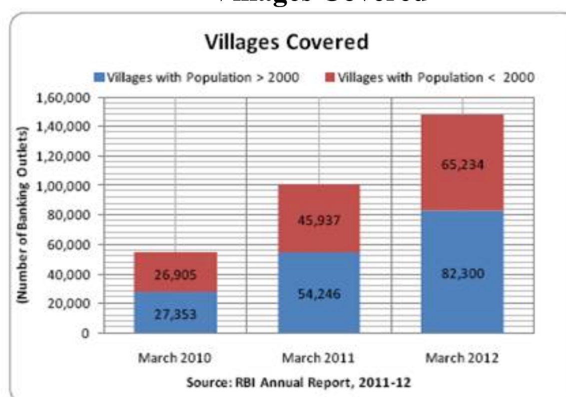
Chart 4: Branches of Scheduled Commercial Banks



Villages Covered:

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010.

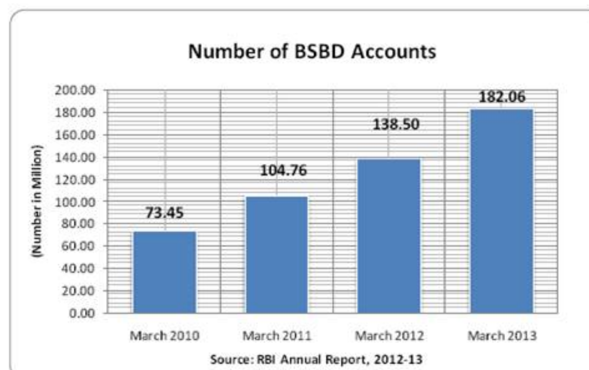
Villages Covered



Total Bank Outlets (including RRBs)

Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times). 3.3.4 BSBD Accounts Opened The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013.

Chart 6: Number of BSBD Accounts

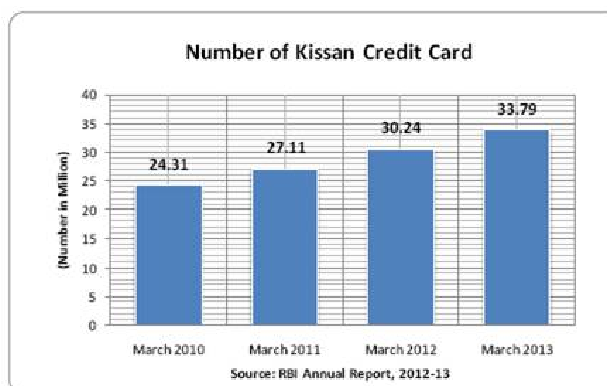


RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

Kisan Credit Cards (KCC) Issued

Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion.

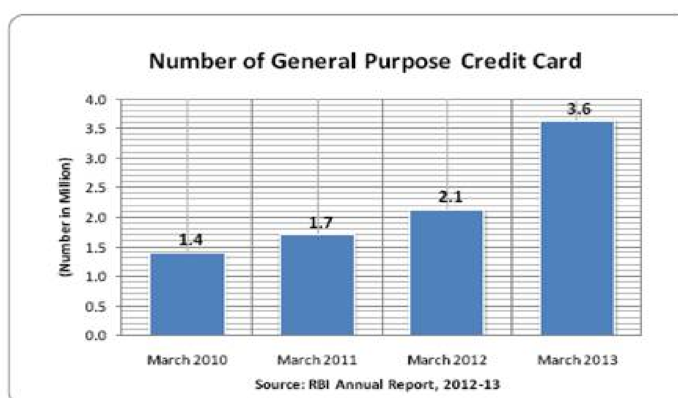
Chart 7: Number of KCCs



General Credit Cards (GCC) Issued

Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts.

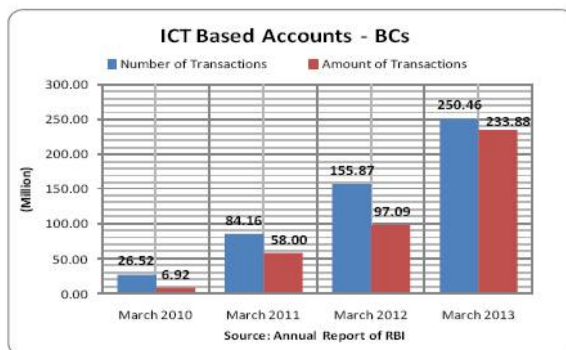
Chart 8: Number of KCCs



ICT Based Accounts - through BCs

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 based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions. The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period.

Chart 9: ICT Based Accounts - BCs



Expansion of ATM Network

The total number of ATMs in rural India witnessed a CAGR 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.

Chart 10: ATM Network – By Population Group

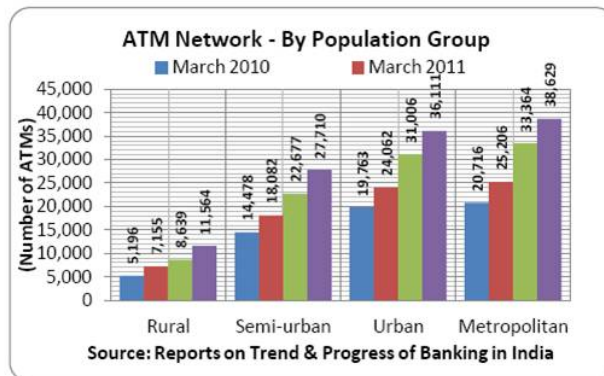
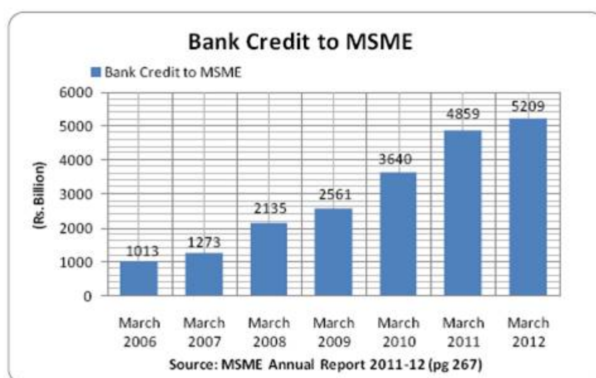


Chart 11: Bank Credit to MSME



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 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.

Conclusion

Thus, Financial inclusion have enough scope for economic growth, raising living standard of people, equality etc on the basis of above initiatives and projects we can conclude that a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion.

References

1. Anand Sinha (2012), "Financial Inclusion and Urban Cooperative Banks", edited transcript at the launch of the financial inclusion program of COSMOS Bank at Pune.
2. Chakrabarty K.C (2011), "Financial Inclusion and Banks: Issues and Perspectives", RBI Bulletin, November, 2011.
3. Chakrabarty K.C (2011), "Financial Inclusion: A Road India Needs to Travel", RBI Bulletin, November, 2011.
4. Chakrabarty K.C (2012), "Empowering MSMEs for Financial Inclusion and Growth – Role of Banks and Industry Associations", address at SME Banking Conclave 2012.
5. Chakrabarty K.C (2013), "Financial Inclusion in India: Journey So Far And the Way Forward", Key note address at Finance Inclusion Conclave Organised by CNBC TV 18 at New Delhi.
6. Chakrabarty K.C (2013), "Revving up the Growth Engine through Financial Inclusion", address at the 32th SKOCH Summit held at Mumbai.
7. Leeladhar V (2005), "Taking Banking Services to the Common Man – Financial Inclusion", Commemorative Lecture at the Fedbank Hormis Memorial Foundation at Ernakulam.
8. Mira Mendoza (2009), "Addressing Financial Exclusion through Microfinance: Lessons from the State of Madhya Pradesh, India", The journal of International Policy Solutions, Vol 11, pp 25-35.
9. Narayan Chandra Pradhan (2013), "Persistence of Informal Credit in Rural India: Evidence from All-India Debt and Investment Survey and Beyond", RBI Working Paper Series, WPS (DEPR): 5/2013
10. Radhika Dixit and M. Ghosh (2013) "Financial Inclusion For Inclusive Growth of India – A Study", International Journal of Business Management & Research, Vol.3, Issue 1, pp. 147-156.
11. Rangarajan C (2008), "Report of the Committee on Financial Inclusion"
12. Raghuram G. Rajan (2009), "A Hundred Small Steps - Report of the Committee on Financial Sector Reforms".
13. Reserve Bank of India - "Annual Reports and 'Report on Trend and Progress of Banking in India", various issues.
14. Sadhan Kumar Chattopadhyay (2011), "Financial Inclusion in India: A Case-study of West Bengal". RBI Working Paper Series, WPS (DEPR): 8/2011.
15. Sarkar A.N (2013), "Financial Inclusion: Fostering Sustainable Economic Growth in India", The Banker, Vol. VIII, No.4, pp.44-53.
16. Sarkar A.N (2013), "Financial Inclusion Part-II: Fostering Sustainable Economic Growth in India", The Banker, Vol. VIII, No.5, pp.32-40.
17. Status of Microfinance in India: 2010-11, NABARD

SHG – BANK LINKAGE PROGRAMME IN INDIA

P.Sujatha
Lecturer in Political Science
GDC Zaheerabad,Dist.Medak.

ABSTRACT

Micro finance has been considered as a powerful instrument for achieving " Financial inclusion" and alleviation of poverty. The formal financial institutions in India have entered into micro finance in a massive way by adopting the Self Help Groups –Bank Linkage Programme Model. Through this programme , Reserve Bank Of India , NABARD have tried to promote relationship banking i.e., " Improving the existing relationship between the poor and the bankers with the social intermediation of the NGO's". This programme as the most prominent means of delivering micro finance in India .Through this programme the average annual net income , assets and savings of SHG member households increased significantly in the post SHG – situation . The average amount of loans and the regularity in repayment of loans increased , the percentage of loans used for productive purposes and employment per house hold increased . Poverty among the SHG members declined and the social , economic empowerment of women improved significantly . The paper focus on the conditions of SHG members after introducing the bank linkage programme in India , the paper contains need and importance of the study , objectives , methodology , models of SHG – bank linkage programme in India , SHG- credit links of different banks , impact of SHG-bank linkage programme on socio – economic conditions of SHG households , findings and conclusion .

Keywords : *SHG , Micro finance , Bank linkage Programme , RBI , NABARD , Empowerment*

INTRODUCTION

"The process of mobilization needs to be accompanied and complemented by economic security . As long as the disadvantaged suffer from economic deprivation and livelihood insecurity, they will not be in a position to mobilize " (UNDP 2001) .In India villages are faced with problems related to poverty , illiteracy, lack of skills , healthcare etc. These are problems that cannot be tackled individually but can be better solved through group efforts . Today these groups known as Self help groups have become the vehicle of change for the poor and marginalized. A Self help group consists of 10-20 members drawn from a relatively homogeneous economic class , self selected on the basis existing affinities and mutual trust members regularly at a fixed time and placed and pool their savings into a common fund from which they take need based loans .

The Self help groups - Bank linkage programme in India referred to as the micro finance model . The SHG- Bank linkage programme implemented by the National Bank for Agriculture and Rural Development (NABARD). Since 1992 has become the dominant model.SHG - Bank linkage programme which was initiated 1992 as pilot project for promoting Self help groups ,experienced significant growth over time in terms of coverage and amount of credit to poor people in rural areas . NARBAD and Reserve Bank of India guided the commercial Banks to lend to Self help groups without collateral . Loan repayment rates from SHG's of 98 % against 32 % from other programmes to the poor convinced the banking sector of the viability of SHG lending .

NEED AND IMPORTANCE OF STUDY

Micro finance has been considered as a powerful instrument for achieving financial inclusion and alleviation of poverty . About 16 million poor households have gained access to formal banking system through SHG - Bank linkage programme . SHG have become the focal point of development schemes under the unified poverty alleviation programmes and 9th five year plan of the government of India had given due recognition on the importance and the relevance of the SHG method to implement developmental schemes at gross root level Thousands of the poor and the marginalized population in India are building their lives , their families and their society through SHG's . Hence it is essential to study the SHG Bank linkage programme in India .

OBJECTIVES

1. To study the growth of financial inclusion through SHG- Bank linkage programme in India .
2. To analyze the role of micro finance in eradication of poverty in India.
3. To study how far women empowerment achieved by SHG-Bank linkage programme .
4. To know the credit linkage models in India.
5. To Study agency wise distribution of disbursed and outstanding Bank loans to SHG's .

MODELS OF SHG-BANK LINKAGE PROGRAMME IN INDIA:-

In India , three models have emerged in the SHG - bank linkage programme. They are as follows :

Model I : Bank - SHG - Members : In this model the bank it self promotes and nurtures the self help groups until they reach maturity .

Model II : Bank - Facilitating Agency - SHG - Members : Here groups are formed and supported by NGO's or Government agencies .

Model III : Bank -NGO-MFI - SHG - Members : In this model NGO's act as both facilitators and micro finance intermediaries and offended federate SHGs in to apex organizations to facilitate inter - group lending and larger access to funds .

The second model, where SHGs were formed and nurtured by the NGO's was more popular among bankers. Banks opened saving accounts and then provided credit directly to the SHGs , while NGO's acted as facilitators . This approach has been widely accepted by the practitioners partly because of the large scale participation of the state government through development agencies like the District Rural Development agency (DRDA) , District woman development agency (DWDA) and some of the centrally sponsored social sector missions .

Another model has been piloted recently by the NABARD for facilitating the formation of SHG's for Bank linkage in areas where there are no NGO's. This involves using the services of committed individual volunteers identified by bank branches.

SHG-CREDIT LINKS OF DIFFERENT BANKS

Reserve Bank of India and the government lend support to the SHG -Bank linkage programme through policy formulation and regulation while the NABARD acts as a facilitator and re financing agency . The programme at the grass root level is executed through a network of commercial banks , Regional Rural Banks (RRBs), District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit societies (PACS) . These Banks have been playing effective role in promoting and nurturing SHGs .27 public sector

commercial Banks , 19 foreign and private sector banks , 81 Regional Rural Banks , 318 Co-operative Banks and one Small industries development Bank of India participated in the linkage programme in 2009 -2010.

COMMERCIAL BANKS: The process of institutionalizing rural credit by commercial banks began with the nationalization of 14 private banks in 1969. Commercial Banks have been found to be more suitable for micro finance because they are regulated and fulfill the conditions of ownership, capital adequacy and they have necessary physical and financial infrastructure, including a large network of branches, and well established internal control and accounting system .Commercial Banks accounted for the highest percentage of share i.e., nearly 62.4% of SHG in 2009 -10. The SBI had the maximum coverage.

REGIONAL RURAL BANKS: Regional Rural Banks were established in 1975 to support the rural lending operations of commercial banks . RRB's are functioning as self help promoting institutions (SHPIS) with grant support from NABARD RRB's have been share 23.7% of SHGs in 2009-10.The RRBs were predominant in 8states of India . Out of 38998 SHG s that were credit linked all most half were in Karnataka and Tamilnadu.

COOPERATIVE BANKS: Co-operative banks are late entranced to micro finance through SHGs and they have been more conservative relative to RRBs. Cooperative banks accounted for 9.3 % of the total loan disbursed in 2009-10. And the coverage of Cooperative banks in the SHG -bank linkage programme was minimal. Credit linkages established by DCCBs were more than those by PACS , since facts by constitution so far have not been allowed to lend to SHGs. NABARD provides refinance support to banks to the extent of 100% of the loans disbursed to SHGs . Among all credit linkage banks the average loan per SHG ranged from the highest of ₹ 100050 by commercial banks to the lowest of ₹ 57629 by Cooperative banks in 2009-10.

IMPACT OF SHG - BANK LINKAGE PROGRAMME ON THE SOCIO - ECONOMIC CONDITIONS OF SHG HOUSE HOLDS :

A number of studies have evaluated the impact of the SHG -Bank linkage programme on the socio economic conditions of SHG member households .For ex : study by NABARD , NCAER. National Council of Applied Economic Research (NCAER) survey was carried out for the country as a whole covering a total of 4791 households from 961 SHGs spread over 6 sample states from five different regions viz , Andhra Pradesh , Karnataka , Maharastra ,Odisha , UP and Assam . According to NCAER survey data house hold income data during pre and post - SHG situation reveal positive impact of SHG-bank linkage programme on income of the SHG households. Data at the all India level revealed that net house hold income per annum increased from ₹ 34786 during pre - SHG situation to ₹ 47934 during post - SHG situation .

The SHG-bank linkage programme is expected to generate additional employment opportunities for SHG households by enhancing opportunities for under taking income generating activities .As compared to male members female members have benefited more in terms of employment opportunities from the linkage programme . Increased levels of employment and incomes of SHG households are expected to raise their expenditure on various items. With the SHG bank linkage programme there is a changes occurred in savings , assets and borrowings .The average level of financial savings examples savings in SHG , Banks , Post -offices , Co-operative Societies , life insurances and cash in hand increased from ₹2057 in the pre -SHG period to ₹ 4213 in post SHG period (NCAER 2008) .

The dependence of households on money lenders was found to have reduced substantially in post -SHG situation while about 60 % households took loans from money

lenders in pre - SHG situation, only 1.2 % of households reported that they had taken loans from then in post- SHG situation (NCAER, 2008) . A major objective of the SHG bank linkage programme is to alleviate poverty by extending banking services to the poor have been achieved. The percentage of poor households declined from 58.3 % percentage in pre - SHG situation to 33.00 % in post-SHG situation.

Finally social empowerment of SHG members improved significantly in terms of improved self confidence, better treatment from family members, improved communication space for freely talking to others, improved abilities to face problems, increased control over use of money. All these indicators shows that social empowerment of women has increased over a period after joining SHG s .

FINDINGS AND CONCLUSION:

The findings of this study suggest that the SHG- bank linkage programme has significantly improved the rural poor's access to formal financial services and has had a positive impact on the socio- economic conditions are SHG households. The percentage of loans used for productive purposes and employment per households increased and the poverty among the SHG members declined after the linkage programme , and also improved social empowerment of women members over a period after their joining SHG's .

Though the widespread of this programme there is a regional imbalances. This programme heavily concentrated on South India . It is need to be spread in where the incidence of poverty is higher .Out of the three major lending rural institutions involved in retailing the commercial banks and RRB's were successfully worked . The cooperative in India have yet not ventured into SHG financing in a fully fledged manner . Ensuring the quality of SHGs becomes a great challenge and it should be properly addressed, because sustainability of the programme depends crucially on the quality of SHGs.

With the above observations, I concluded that SHG -bank linkage programme has succeeded in reaching around 3 million poor households with major coverage of women. This has been an outstanding achievement.

REFERENCES

1.Geraldine Forbes - " Women in modern India", Rekha printers Pvt.Ltd, New Delhi , 1998.
2.Planning commission Government of India website .
3.Journal of Rural Development Vol.31,No(3)PP,347-363,NIRD ,Hyderabad.
4.HR.Krishnamurthi "Economic Development in India"(2006)-Sapna Book House , Banglore.
5.Data Source from NABARD (2000) , NCAER (2008) .
6.Web pages

THE ROLE OF LANGUAGE WITH A SPECIAL REFERENCE TO ENGLISH IN FINANCIAL INCLUSION FOR INCLUSIVE GROWTH

-MD.JALEEL
Head, Department of English
Government Degree College
Zaheerabad, Medak (Dt)

ABSTRACT

Indian Economy witnessed radical changes during the closing decade of the twentieth century, when the Indian Union Government had introduced reforms in Indian Economy in 1991.There after the mixed Economy of the Democratic Socialist State no longer existed. Since then it has shown a drastic deviation from its old ideals. Government after Government in every five years who ever comes into power continued the reforms in Indian Economy more or less. The collapse of the USSR ,the birth of European Union, the dominance of the USA on world Economy, the revolution in Tele communications, so on and so forth compelled Indian State to pass through the road of reforms. These changes caused the retreat of the Public sector and soaring of Private sector in Indian Economy.

These changes have their own impact by and large on Indian Economy and remarkable on inclusive growth of the Economy. Financial inclusion has a prominent role in contributing inclusive growth of an Economy. In this regard financial services are broadly concerned to human development contributing to Economic development and then to social development. Very often in India, it is noticed that the Economic growth is impressive but not inclusive. One of the big contributors to financial inclusion is Banking and other service sectors. As India is based largely on agrarian sector most of the users of these services belong to rural areas.

To utilize these services efficiently, language has an important role to play. But unfortunately language is becoming a notable obstacle. Generally English is widely used in these sectors. But majority of the users of these sectors are alien to English. It places them in an awkward position in their financial transactions, which does not enable them to do them on their own. In this scenario the present paper tries to focus the challenges related to language with a special reference to English involved in financial inclusion for inclusive growth. The paper also tries to study in elaborate the status of English language in present day Indian society and the role of English in Banking industry and also the challenges and their possible solutions in this regard.

Key Words: Mixed Economy, Economic reforms, financial inclusion, Challenges, English language

INTRODUCTION

India throughout its thousands of years of rich past to till date sustained its Economy. Till the modern era the Economy witnessed a steady progress. At the same time the age old clutches of landlords and the inhuman practices of caste system put a large section of its souls far from matters related to Economy. These sections remained aloof from mainstream Economy though they were the sole contributors in the building of the Economy.

The British rule in India marked the ugly face of Colonialism. The only aim of Colonialism was to squeeze the wealth of the native country to drain it to the ruling country.This was clearly elaborated in Dadabhai Naoroji's *'Drain of Wealth'* theory. Colonialism along its exploitation brought some positive changes in the subjugation country

such as introduction of modern education, Science and technology, English language, western democratic thought to oriental countries including India.

After the independence by the influence of socialist countries Indian governments introduced mixed Economy in India. This mixed economy tried to balance the public sector and to flourish native capitalists simultaneously. Five year planes were adapted for public welfare. But the dramatic changes took place during the last decades of the twentieth century in the form of collapse of the Soviet Union and the fall of Socialism in East Europe countries and the emergence of only super power, in the form of the USA pushed India to review its policies related to Economy.

Indian Economy witnessed radical changes during the closing decade of the twentieth century, when the Indian Union Government had introduced reforms in Indian Economy in 1991.There after the mixed Economy of the Democratic Socialist State no longer existed. Since then it has been shown a drastic deviation from its old ideals. Government after Government in every five years who ever came into power continued the reforms in the Economy more or less. The collapse of the USSR, the birth of European Union, the dominance of the USA on world Economy, the revolution in the field of Tele communications, so on and so forth compelled India to pass through the road of reforms. These changes caused the retreat of the Public sector and soaring of Private sector in Indian Economy.

Globalisation and liberalisation consolidated the private sector's position in Indian Economy. With the back drop of Globalisation Indian democratic system has been trying to involve all the sections of society into the arena of the Economy. As a result the governments of all levels are trying to involve all the sections of the society in the Economic development. In this regard governments are paying special attention towards the marginalised and deprived sections of the society. The participation and involvement of these sections in the Economy make it a holistic and meaningful one. This participation and involvement narrow the gap between the rich and the poor. This narrow down ensures amicability among the different classes of the society.

In this scenario the present paper tries to focus the challenges related to financial inclusion for inclusive growth and particularly the role of language with a special reference to English. The paper also tries to study in elaborate the contribution of English language to financial inclusion for inclusive growth. The paper also studies the role of English language in the Banking and other service sectors and the resulting challenges and their possible solutions.

INCLUSIVE GROWTH

Inclusive growth of an Economy is an ideal proposed by the Modern era. This ideal manifest that 'growth' should take place in holistic way but not in isolation. This approach enables the growth of an Economy not only in numbers but in human development. It provides an opportunity to involve all the sections of the society particularly the marginalized and deprived. In this way inclusive growth of an Economy promises equality and fraternity in the society.

In Indian society certain sections like Dalits, Tribes, women, religious minorities etc., are neglected in all fields including Economy in the past. As the democratic systems have been strengthening, these sections are demanding for their rightful share in the Economy. Many obstacles like poverty, backwardness, illiteracy etc., hinder these sections from progress. Financial inclusion provides an opportunity to these sections to participate in the building of Economy.

Dalits nearly constitute 20% of Indian population. They were denied all kinds of rights for thousands of years. Large number of this population depends on land as labour. In the case of tribal people according to the Suman Tendulkar Panel recommendations still 43% of population lives below poverty line during 2011-12 against to the national average of 23%. According to the census of 2011 women population constitute 46% in India. Among most of them are in under unproductive sector resulting into any economic freedom to them. Nearly 15% of Indian population is consisting of religious minorities. According to the Sachaar committee Muslim minorities occupy most backward position in the national Economy. According to a study in India 62% of its population depends on agriculture. Largely this population constitutes rural India. Though this population large in number contributes only 14.6% to the national GDP in 2011.The facts about these sections reveal that the growth of Indian Economy is impressive but not that much inclusive as desired.

The term Inclusive growth has a holistic perceptive. Before independence Economic development was viewed largely in the perceptive of 'exclusive'. This approach result disparities among the different sections of the society. Ultimately these disparities cause inequalities in the society. To escape from this havoc Economic development has to be done with the perspective of inclusive than exclusive.

Inclusive growth tries to make it possible to include all the sections of the population in the process of Economic development particularly marginalise and deprived sections of the society. Through financial inclusion one can reduce the gap between the classes and can make every section to participate in the development. It is always harmful to a society to allow gap between *'haves'* and *'have-nots'*.

Indian constitution's foremost concern is to establish equality in all spheres of life among all the sections of the society. Hence development is to be done with the perceptive of *social justice.*

FINANCIAL INCLUSION

Financial inclusion is one of the many aspects that contribute to Inclusive growth of an Economy. In this regard financial service are to be intended for human development, thus to Economic and then to social development. The big contributors for financial inclusion are Banking and other service sectors.

We can define financial inclusion as delivering financial services at affordable costs to the disadvantaged, deprived, marginalised and low income sections of the society through Banking and other service sectors.

In January 2006,RBI introduced the concept of financial inclusion targeting the marginalised sections of Indian society with an objective to eradicate poverty and to make these sections part and parcel of Indian Economy.

RBI Governor Sri Raghuram Rajan while delivering one of his lectures on financial inclusion said that *"Simplicity and reliability in Financial inclusion in India and direct benefits, though not a 'cure-all', can be a way of liberating the poor from dependence on indifferently delivered public services and from venial politicians."*

Banking sector plays a vital role in financial inclusion along other service sectors. The nationalisation of banks in 1969 by then Indian Prime Minister Indira Gandhi revolutionized the access of banking services to common man in India. The scenario of Globalisation and privatisation facilitated the scope for the establishment of banks in private sector in India. These new establishments created a competition among the various banking establishments. These banking establishments due to the competition among themselves have adapted many

strategies to reach the households of common people. These banks provide services which include ATMs, Liberalised branch expansion, Overdraft facility in saving Bank accounts, Pre-paid, debit and credit cards, mobile and net banking, Regional rural banks, Co-operative banks, Financial Literary programmes, Creation of special funds etc.

But still people in India exhibit indifference to banking sector, World Bank Findex Survey 2012, gave astonishing figures that in India only 35% of people have access to banking.

RBI Deputy Governor Sri K.C. Chakrabarthy said that *"Our approach is that those who are borrowing from Micro finance institutes must now borrow from the Banks and those who are borrowing from the money lenders must borrow from Micro finance institutes."*

A common man can avail the following financial services at affordable rates through banking which come under financial inclusion,

- Access to payments
- Access to remittance
- Savings
- Loans
- Small investments
- Availing of Govt. Welfare schemes
- Insurance facilities
- Micro credit
- Branch less banking
- Micro finance
- Pensions etc.

Through financial inclusion the deprived sections of the society can participate and strengthen the fields like transportation, communication, trading, finances, real estate and health. Financial inclusion by involving large number of population contributes to national GDP.

Financial inclusion provides the scope for increase in sustainability, reduction of vulnerability, improvement of capacity building, development of weaker sections, increased education, better standards, reduced child mortality and labour, emancipation and communal harmony.

FINANCIAL LITERACY

The involvement of vulnerable sections in financial inclusion depends on financial literacy. To carry on, the effective ways of financial inclusion, it is essential to literate these sections in the matters related to finance. It is a fact to be accepted that still Indian rural society is in the influence of age old financial practices to lend or borrow money. Financial literacy creates awareness among these sections towards financial matters. Awareness makes these sections to explore financial services available. This exploration contributes to financial inclusion.

FINANCIAL INCLUSION AND ENGLISH

To utilize these services efficiently, language plays a vital role. But unfortunately language is becoming a notable obstacle in this regard. Generally English is widely used in the sectors related to financial inclusion. But majority of the users of these sectors are alien to English. It places them in an awkward position in their financial transactions, which does not enable them to act on their own. Here we try to focus the challenges related to language with a special reference to English in financial inclusion for inclusive growth.

Very often transactions and documentation for these financial services take place through English language. The applications, forms, bonds, cards etc., used for these services are available most of the times in English language. Proficiency in English language enables the users to avail these services effectively and comfortably. But at the ground, it is a known fact that these particular sections of Indian society are almost alien to English language. When they have to operate documentation in financial services either they put their thumb impressions or write their names in their mother tongues as their signature where ever the agents or the officers suggest. This is nothing more than a blind practice. To excel the practices of financial inclusion, we have to make English language accessible to common folk. Now the paper tries to discuss the strategies to be adapted to overcome the challenges posed in using English language in financial inclusion.

STATUS OF ENGLISH IN INDIA

English entered in India along the English merchants. After East India Company consolidated its roots in India, English gradually started spreading all over India. When Britishers captured political power in India English was established as administrative language. Lord Macaulay tried to make English as a part of Indian society for the local administrative purposes. He wanted local work force with English proficiency who can work for low salaries for the purpose. But a strong resistance from the cultural guards of the country prevented him from total success in his mission.

Though English has been prevailing for more than 300years in India failed to become common man's language. Still English is considered as a language of aristocracy and academicians. This attitude towards English is now to be altered. The change of attitude must begin from the classrooms. English is now being taught as a second or third language in Indian class rooms. Here English is taught as a subject than a language. It makes the learners to learn the language to pass examination than to learn language. Here very often English is taught through literature than in a socio-cultural environment which was alien to spirit of language. But this scenario has been changing drastically since economic reforms were introduced in India. Globalisation made English as an essential language to be acquired to survive in the era of Globalisation. Now even the rural India is showing a lot of enthusiasm in acquiring English and giving due importance to it. These conditions gave popularity to functional English than grammatical English. Communicative English is now much in demand as per the market requirements. The proficiency in English helps to cope with fields like e-literacy, net banking, ATM's etc.

CONCLUSION

The governments should formulate suitable strategies to strengthen the ways to popularise English in rural areas. The strategies to be implemented from school level for this purpose. If English becomes part of life in a period of time, it makes common people to involve extensively in financial inclusion that leads to inclusive growth. For present needs persons who can access both to English and respective mother tongues to be appointed in all financial related services They guide the vulnerable sections of the society to execute financial services effectively and efficiently.

REFERENCES

1. Anurag B Singh(2012),*'Financial Inclusion in India:An Analysis'*,International Journal of Marketing,Financial Services&Management Research, Volume 1, No. 6: June, 2012.
2. Craig Chaudron, '*Second Language Classrooms:Research on Teaching and Learning'* (Cambridge:Cambridge UP, 1988).
3. Shewta Bambuwala(2013),*'Global Financial Inclusion:Challenges and Opportunities',* PARIPEX-Indian Journal of Research, Volume 2, Issue 11/Nov, 2013.

INCLUSIVE GROWTH IN CONSTRUCTION SECTOR: OPPORTUNITIES AND CHALLENGES

Dr.KANDULA SALAIAH,
Lecturer,
Government Degree College,
Ramannapet, Nalgonda District, T. S.

Abstract

The construction industry is the second largest industry of the country after agriculture. It makes a significant contribution to the national economy and provides employment to large number of people. In the recent times, India has stepped up its development agenda. One explicit indicator of this is the aggressive pace of construction activity in the country. The honorable former President of India, Dr. A. P. J. Abdul Kalam, has set the goal of 2020 for India to become a developed nation. However, economists and development analysts of the country have a different perception. They believe that if the current national level initiatives are consistently supported along with a few new initiatives in the areas of education, health and labour, this country will be in the driving seat and on a one-way street of growth. The use of various new technologies and deployment of project management strategies has made it possible to undertake projects of mega scale. In its path of advancement, the industry has to overcome a number of challenges. Hence, the industry is still faced with some major challenges, including housing, disaster resistant construction, water management and mass transportation.

The objective of this paper is to examine the challenges in some elements of inclusive growth in construction sector. Growth may be higher in the last two decades but inclusive growth or equitable development has been missing. Recent experiences of several new mega-projects are clear indicators that the industry is poised for a bright future. The particular emphasis on infrastructure development will put India on a road map with Brazil, China and Russia towards becoming a developed Nation by 2020.

Key words**:** Construction Sector, Inclusive Growth, Infrastructure, NHDP.

Introduction

The construction industry is the second largest industry of the country after agriculture. It makes a significant contribution to the national economy and provides employment to large number of people. The use of various new technologies and deployment of project management strategies has made it possible to undertake projects of mega scale. In its path of advancement, the industry has to overcome a number of challenges. Hence, the industry is still faced with some major challenges: housing, disaster resistant construction, water management and mass transportation. Recent experiences of several new mega-projects are clear indicators that the industry is poised for a bright future. It is the second homecoming of the civil engineering profession to the forefront amongst all professions in the country.

Presently, the annual expenditure budget of India is Rs.438,795 Crores against the backdrop of the total Gross National Product (GNP) of the country of about Rs.2200,000 Crores. Over the years, more than half of the expenditure budget is spent on civil engineering works. Table - 1 shows the investments made in the industry over the past years. The construction industry sets in motion the process of economical growth in the country, investment in this sector contributes 6.5 per cent of Gross Domestic Product (GDP) growth.

Every Rs.1 investment in the construction industry causes an Rs.0.80 increment in GDP as against Rs.0.20 and Rs.0.14 in the fields of agriculture and manufacturing industry respectively. Statistics over the period have shown that compared to other sectors, this sector of economic activity generally creates 4.7 times increase in incomes and 7.76 times increase in employment generation potentiality. Sustained efforts by the Indian construction industry and the Planning Commission have led to assigning the industry status to construction today. This means formal planning and above board financial planning will be the obvious destination of the construction sector in the country, with over 3.1 Crores persons employed in it.

Table - 1
Investment in the Construction Industry (Rs. in Crores)

Years	Residential Construction		Non- residential Construction	
	Public	Private	Public	Private
1998	4300	4700	5600	10400
1999	4600	4900	5800	10700
2000	6500	8500	5500	9500
2001	7500	10,000	6000	11000
2002	7700	10,300	6500	12000

Source: India Budget.nic.in-2004

Need and Importance

In India, traditionally the construction industry has been labour intensive as the labour is cheap and easily available. In 1995-96, approximately 1.50 Crores people were employed in this industry which is expected to be 3.26 Crores by the year 2004-2005. There are three categories of manpower involved in this industry consisting of the artisan level, the supervisory level and managerial level. It has been observed that every one crore investment on construction project, generates employments of 22,000 unskilled man-days, 23,000 skilled or semiskilled man-days and 9,000 managerial and technical man-days approximately. Only 3 per cent of total teaching in the country addressing the direct needs of the construction engineering and management aspects required in the construction industry. The 14th Engineering Congress on Human Capital Development in January 2002 observed that, "*in time to come, India will not have sufficient quality civil engineers even to undertake basic infrastructure work*." Urgent steps are to be initiated to reverse this trend of severe shortage of technical manpower.

Objectives of the Study

1. To assess the growth of construction sector in India.
2. To identify the potential prospects and their implications for the growth of construction and employment.
3. To analyse the challenges confronting the growth of construction sector in India.

Methodology

The study is an empirical investigation based mainly on the secondary data. It would be of interest to mention a few methodological issues involved in the present study. As

a matter of fact, considering the size and the scale of operations, the uniform period for all the activities is required. However, varying period for each activity is considered because of non-availability of data. The secondary data are collected from annual publications of the CSO, Economic Survey GOI & AP and other unpublished sources. Further, simple statistical tools and techniques such as percentages, averages are used in the study.

Opportunities and Challenges

The construction industry everywhere faces problems and challenges. However, in developing countries like India, these difficulties and challenges are present alongside a general situation of socio-economic stress, chronic resource shortages, institutional weaknesses and a general inability to deal with the key issues. There is also evidence that the problems have become greater in extent and severity in recent years. One of the changes leveled at the construction industry as at the beginning of the 21st century is that it has a poor record on innovation, when compared with manufacturing industries such as aerospace or electronics.

Housing

As per 2001 census, the total number of houses in India is 24,90,95,869, of which only 23,32,84,677 are occupied, the rest were found vacant. However, even today a large segment of India's population is still houseless. Three major bottlenecks in the construction of houses are: (a) constraints of taking to the common-man the know-how on making disaster resistant housing, (b) constraints of taking to the common-man the know-how of effectively using local material in house construction and (c) inadequate finances. Notwithstanding this, the State Governments in association with the Central Government have undertaken several housing projects to provide houses to the needy, such schemes are: IAY, VAMBAY, IHP and WSHP etc.

Environment

The preserving of environment is a great challenge in a developing country like India, which has a fragile environment that is faced with high levels of land degradation (*e.g.,* erosion, aridity, desertification, drought, flooding, alkalinity and salinity of ground). The rapid urbanization alongside associated problems like pollution of air and pressure on existing infrastructure with regard to waste management, pose a race against time. Many countries, mainly industrialized ones, have taken steps to ensure that the reduced use of construction materials, techniques and practices, which result in operations and products that have lower environmental impact. Developing countries like India can derive valuable lessons from these steps. Some of the desirable steps are:

(a) *Government action* – The Government need to enforce legislation and regulations on environmental performances. Licenses and approvals need to be regulated with transparency to ensure that all organizations in the industry operate in an environment friendly manner. Tax holidays and special grants may be introduced to encourage environment protection. A policy of certification and labeling of products need to be brought into practice.

(b) *Market forces* – Project clients need to insist on better environmental performance of construction companies. Experience from other construction firms adopting or benefiting from good environmental practices need to be disseminated to all.

(c) *Institutional initiatives* – Professional bodies need to take interest in providing support services to construction firms to function in an environment friendly manner.

(d) *Operational environment* – Pressure groups and informed users need to work continually to prevent deterioration of the environment. The practice of being engaged in a continuous search for inputs and ways of working which will minimize the negative impact of construction activity on the environment should be encouraged among construction companies and practitioners. Also, openly discussing detailed case studies of good practices would be useful. The feasibility of preparing good-practice manuals suitable for use in various contexts may be investigated.

Transportation

The National Highways Development Project (NHDP) aims at 4/6 laning of about 14,846 km of National Highways in the country between 1999 and 2007. Apart from the stringent physical targets, which are perhaps unparallel in the history of highway construction, the cost of the Project is huge – about Rs.54,000 Crores at 1999 prices. This amount was required over a period of 9 years from 1999-2000 to 2007-08 with peaks reaching up to Rs.10,000 Crores in mid-period. Historically, development of National Highways road infrastructure was financed from the budgetary allocations of the government. But, these were of the order of only Rs.2,000 Crores. Thus, financing of NHDP was not possible from budgetary source and some innovative financing mechanism was necessary. Hence, a time-plan for financing was developed for the project (Table -2).

Table - 2
Financing Plan for NHDP

Sources	Amount (Rs. in Crores)
Cess Accruals	20,000
Loan Assistance from International Lending Agencies	20,000
Private Sector Participation	4,000
Market Borrowing	10,000
Total	**54,000**

Source: Financial plan NHDP, 2003-04.

The project also required extensive transportation planning so that optimum benefit may be obtained from it. Since the project extends over the entire country, it will involve construction in extreme hot and cold climates as well as in highly humid weather in different locations. Standardized materials and design mixes became necessary in the construction of these pavements in stretches.

Power

As per the 2001 census, 57.3 per cent houses in rural areas and 12.4 per cent in urban areas of India do not have electricity and rely on other sources for lighting. Nowadays, large apartments and multiplexes in big cities are being built with captive power generating units. These self-sufficient of power generating systems are being insisted by the Municipal Corporations at the time of providing clearance to such high budget projects.

Natural Hazards

India as a nation is quite susceptible to all forms of natural hazards. Of all these, floods happen to be the most frequent form of natural disaster faced by the country. It has 40 million hectares of flood prone lands and on an average 18.6 million hectares of its land is flooded

annually. Earthquakes cause the most dangerous and most devastating natural disasters in India. Over 60 per cent of the land area of the country is vulnerable to earthquakes of moderate to severe seismic intensities, the Indian Ocean is considered to be the six most cyclone prone areas of the world. This exposes the 8,040 km long coastline of the country to tropical cyclones. Natural Hazards like earthquakes, floods and cyclones always lead to immense damage and widespread destruction of civil engineering structures.

The financial setback in such disasters is huge. Further, the rehabilitation work involved after any such hazard, to bring life back to normalcy, is itself a great challenge for the construction industry. This apart, even the various equipments of the construction industry serve a great purpose in the rescue and relief works succeeding any such calamity. Undertaking detailed damage investigation, evolving appropriate rehabilitation techniques or even clearance of debris of destructed buildings requires use of specialised technology and equipment. It is therefore imperative to attempt to make only disaster-resistant constructions to begin with. Also, the governments and local bodies need to develop capacities to cope with natural disasters to mitigate the effects of the natural disasters.

Conclusion

In the years ahead, the construction industry in India has to overcome various challenges - be it with respect to housing, environment, transportation, power or natural hazards. Technocrats associated with the Indian construction industry need to employ innovative technologies and skilled project handling strategies to overcome these challenges. The outstanding performance under demanding situations in the past will stand in good stead and give confidence to the Indian construction industry to bring about an overall development in the infrastructure of the nation. The gains of large investments in the mega-projects eventually will feedback to the construction industry itself in the form of better economy and improved work conditions.

References

1. Aggarwal,S., (2003), *"Challenges for Construction Industries in Developing Countries,"* Proceedings of the 6th National Conference on Construction, 10-11 November 2003, New Delhi, CDROM, Technical Session 5, Paper No.1.
2. Sinha,N.K., (2003b), *"Financing of Highway Projects in India,"* Proceedings of the 6th National Conference on Construction, 10-11 November 2003, New Delhi, CDROM, Technical Session 4, Paper No.2.
3. Swarup,P.R. and Mahajan,S., (2001), *"Country Report on Indian Construction Industry,"* Souvenir of *The Seventh Asia Construct Conference & Exhibition*, 3-6 October 2001, New Delhi.
4. Arghadeep Laskar and C. V. R. Murty(2004), *"Challenges before Construction Industry in India",* online journal - January 2004
5. www.censusindia.net; 2 January 2004

Ch.Kishor kumar
Lecturer in Commerce,
Government Degree College,
Khairathabad, Hyderabad

Abstract

The concept of 'Inclusive Growth' finds place more frequently in the debates and discussions at different forums. The Government aimed at promoting 'inclusive growth' as it recognized that high national income growth alone did not address the challenge of employment promotion, poverty reduction and balanced regional development or improving human development. The subject of inclusive growth has been in the spotlight recently, for very obvious reasons. This orientation is most visibly manifested in the theme of the Eleventh Five-Year Plan. The theme is 'towards faster and more inclusive growth,' which clearly reflects the need to find a sustainable balance between growth and inclusion. Many people view 'inequality' and 'exclusiveness' as being the same thing. The Eleventh Plan defines inclusive growth to be "a growth process which yields broad-based benefits and ensures equality of opportunity for all". The inclusive growth and development vision as envisaged in the Five Year Plan also reflected the budgetary and political commitment of the government. Though, efforts and progress in the direction of inclusive growth and development appears to be quite satisfactory, however, challenges, problems and constraints in achieving the goals of inclusive planning have emerged that require multiple approaches and strategies to address them effectively and efficiently.) The present paper attempts to examine the emerging challenges in achieving inclusive development and growth in India.

Keywords: Inclusive's Growth, Human Development, Challenge, Balanced Regional Development

Introduction:

Inclusive growth is a major concern for human development in India with rising inequalities. Despite tremendous growth of economy, failure on distributive front has aggravated the progressive journey towards collective well-being. Inclusive growth has become the buzzword in policy-spheres with recent phenomenon of rapid growth with characteristic patterns of exclusion. Exclusion continued in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. The sectoral, social and spatial inequalities have raised questions about welfare approaches of Government planning, and emphasized the role of the private sector in addressing development issues in the country. Employment generation, social and developmental infrastructure, health-care and rural diversification are some of the major concerns. Due to faulty approaches and often politically motivated policies, growth has generated inequalities. It is imperative for the planners and policy-makers to make growth inclusive through adoption of pragmatic policies. The journey towards balancing the outcome of economic growth involves many challenges. The dominant challenges include the

imperative of maintaining the acceleration of economic growth without compromising on human development and sustainability.

The Eleventh Five Year Plan Strategy is 'Towards Faster and More Inclusive Growth'.The Approach Paper states that the Plan provides "an opportunity to restructure policies to achieve a new vision based on faster, more broad-based and inclusive growth. It is designed to reduce poverty and focus on brining the various divides that continue to fragment our society." These are the broad objectives that successive Five Year Plans in India have sought to achieve in some form or the other right from the beginning. Of course, the context of economic reform, involving changes in the economic policy framework since 1991, has called for a careful scrutiny of the distributional consequences of the growth process and an appropriate strategy to deal with the emerging issues.

WHAT IS INCLUSIVE GROWTH?

The Eleventh Plan defined inclusive growth as a "growth process which yields broad-based benefits and ensures equality of opportunity for all" it stands for "equitable development" or "growth with social justice".

WHY INCLUSIVE GROWTH?

While it is quite evident that inclusive growth is imperative for achieving the equity objective, what is, perhaps, not so obvious is, why inclusive growth is now considered essential even to sustain the growth momentum. Majority population living in rural areas, it is often identified with the agriculture sector. However, it is the unorganized non-farm sector that is increasingly absorbing most of the labour force. This sector has huge potential for growth once there is sufficient investment in infrastructure ensuring linkage to markets and easier access to assets and skills. Infusion of appropriate technology, skills, and easier access to credit, especially start-up capital, apart from facilitating market development, can make this segment an expanding base for self-sustaining employment and wealth generation and also foster a culture of creative and competitive industry. Entrepreneurial development has to be encouraged by having an enabling competitive environment and easy availability of finance for newer projects and enterprises. In Prof. C. K. Prahalad's words, "If we stop thinking of the poor as victims or as a burden, and start recognising them as resilient and creative entrepreneurs and value conscious consumers, a whole world of opportunity will open up."

Thus, there are several factors to be considered for inclusive growth. Uppermost among these, is the need for raising the allocative efficiency of investment and resource use across different sectors of economy – this can be met by addressing two basic supply-side issues viz. (i) effective credit delivery system to facilitate productive investment in employment impacting sectors especially, agriculture, micro, small and medium enterprises and (ii) large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, rural/ urban reconstruction and in social infrastructure such as health care, education and sanitation.

INCLUSIVE GROWTH IN INDIA

From an annual average growth rate of 3.5 per cent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 per cent in the 1980s and 1990s. In the last four years (2003-04 to 2006-07), the Indian economy grew by 8.8 per cent. In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 per cent, respectively and now at around 8%. Reflecting the high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. An important characteristic of the high growth phase in recent years is its resilience to shocks. The Indian economy, for instance, successfully avoided any adverse contagion impact of the East Asian crisis, sanctions like situation post-Pokhran nuclear test, and border conflict with a neighboring country during May-June 1999 and recent economic crisis in USA.

Despite the impressive numbers, growth has failed to be sufficiently inclusive, particularly after the mid-1990s. Agricultural sector which provides employment to around 60 per cent of the population lost its growth momentum from that point, though there has been a reversal of this trend since 2005-06. The percentage of India's population below the poverty line has declined from 36 per cent in 1993-94 to 26 per cent in 1999-2000. The approach paper to the Eleventh Plan indicated that the absolute number of poor is estimated to be approximately 300 million in 2004-05.

Concerns about financial exclusion, especially in rural areas have surfaced in India in recent years following the results of the NSSO's All-India Debt and Investment Survey (AIDIS), 2002. According to the Survey results, though the share of non-institutional sources of credit for the cultivator households had declined from 92.7 per cent in 1951 to 30.6 per cent in 1991, it had increased to 38.9 per cent in 2002 mainly due to increase in moneylenders' share. Simultaneously, the share of institutional sources such as commercial banks, co-operative societies, etc. increased from 7.3 per cent in 1951 to 66.3 per cent in 1991, before declining to 61.1 per cent in 2002. It is expected that the doubling of agriculture credit and other measures since 2004 would have led to some improvement in the share of institutional sources.

The Finance Minister Mr. Pranab Mukherjee in his budget speech (2011-12) said that – "In my last budget speech I had advised Banks to provide banking facilities to habitations having a population of over 2000 by March, 2012. The Banks have identified about 73,000 such habitations for providing banking facilities using appropriate technologies. A multi-media campaign, "Swabhimaan", has been launched to inform, educate and motivate people to open bank accounts. During this year, banks will cover 20,000 villages. Remaining will be covered during 2011-12".

CHALLENGES AHEAD AND SOLUTIONS:

The challenge is expressed in different ways—"improving quality of public expenditures" or "increasing institutional capacity" or "more effective implementation" or

"better service delivery". In sixty five years since its independence, India has been successful on a number of fronts: the country has maintained electoral democracy, reduced absolute poverty by more than half, dramatically improved literacy, and vastly improved health conditions. Its achievements have, however, created new challenges. Two of the most prominent are:

1. Improving the delivery of core public services: As incomes rise, citizens are demanding better delivery of core public services such as water and power supply, education, policing, sanitation, roads and public health. As physical access to services improves, issues of quality have become more central. There are four avenues for reform: internal reform of public sector agencies; producing regular and reliable information for citizens; strengthening local governments and decentralizing responsibilities; and expanding the role of non-state providers. It however cautions that planned reform alone cannot bring about the desired changes - ultimately implementation is everything.

2. Maintaining rapid growth while making growth more inclusive: With growing disparities between urban and rural areas, prosperous and lagging states, skilled and low-skilled workers, the primary medium term policy challenge for India is not to raise growth from 8 to 10 percent but to sustain rapid growth while spreading its benefits more widely.

CONSTRAINTS TO OVERALL GROWTH

Infrastructure: India needs to invest an additional 3-4 per cent of GDP on infrastructure to sustain current levels of growth and to equalize its benefits. Although this will clearly require a government role, the relative roles of the government and private sector need to be defined.

The massive demands now on power networks, transport, urban infrastructure, and ports are the result of India's success in promoting economic growth. The danger is that poor economic infrastructure now will put a brake on that overall growth. Infrastructure is also important to equalize growth—investments that raise productivity and farmer incomes in agriculture, infrastructure that help jobs move to people, as well as the infrastructure that is needed to connect rural India with the benefits of a growing economy.

Fiscal deficit: It is a major concern that in the recent budget (2011-12) the fiscal deficit has risen to 4.6 per cent of the GDP from 2.7 per cent of the GDP in the 2008-09. Added to this, the off–budget items and the deficits of States, the combined total fiscal deficit may well exceed 10 per cent of GDP. This excess expenditure over income is to be funded almost wholly through government borrowing. Fiscal discipline is vital to contain this problem.

REFORMS TO IMPROVE ECONOMIC EFFICIENCY

Labor regulations: India's restrictive labor regulations have constrained the growth of the formal manufacturing sector. Better designed regulations can attract more labor- intensive investment and improve the job prospects for India's unemployed millions, those trapped in

poor quality jobs, and the 80 million new entrants who are expected to join the work force over the next decade.

Financial sector: Problems in accessing finance are a major impediment to the performance of small and medium size businesses in India. Improving financial intermediation and ensuring broader access to financial services is critical for equalizing growth. Inclusive growth needs financial institutions to be strong and efficient. The experience with cooperative banks under dual regulation, and deposit taking NBFCs with poor governance, points out the challenges in ensuring effective regulation and supervision of entities allowed to access public deposits. While aligning regulation with international best practices, a more relaxed approach is adopted in India for smaller units such as regional rural banks and small urban cooperative banks operating within a district, without compromising on solvency and liquidity principles.

Real Growth: As the countries the world over switched to the floating exchange rates after decades of fixed rates, the foreign exchange market began to grow by leaps and bounds. In the United States alone, forex transactions leaped from 10.7 per cent of the GDP in 1970 to 195.3 per cent in 1980, i.e. within a decade. Similarly, between 1980 and 2008, the size of the world stock markets is estimated to have swelled from about $ 3 trillion to over $ 35 trillion, most which are said to be speculative nature. The world derivatives market again is, estimated at about $480 trillion face or nominal value 12 times the size of the entire world economy. This kind of financial leveraging is to have reached incredible levels in the current global melt down. According to the latest Mc Kinsey report the current debt levels amount to more than three times the GDP in the US and Europe, where historically they have been around 150 to 200 per cent. The implications of unbridled financial growth can only awesome. The world is being run on credit, which is untenable. 'Can swelling be muscle?' Can debt be money?' the answer is never. Instead of being a catalyst of economic growth, finance has become an end in itself. The consequences of financial growth are running far ahead of real growth already blatant. The real economy based on agriculture, manufacturing and services has been undermined and neglected. The unprecedented surge in money and capital and their free flow across economies have globalised money laundering fueling terrorism and many other anti- social activities.

AGRICULTURE AND THE RURAL ECONOMY

Raising agricultural productivity requires a return to investments in agricultural technology and infrastructure. Getting the rural economy moving will also require facilitating rural-nonfarm entrepreneurship.

LAGGING STATES

Faster economic growth has seen rising inter-state disparities. Lagging states need to bring more jobs to their people by creating an attractive investment destination. Reforming cumbersome regulatory procedures, improving rural connectivity, establishing law and order, creating a stable platform for natural resource investment that balances business interests with social concerns, and providing rural finance are important. Good understanding and coordination between the government machinery is essential for development and inclusive growth.

RIGHT TO INFORMATION ACT

This Act will make awareness among the people about different schemes introduced by the government from time to time and their implementation. This will help them for better utilization of the schemes.

PUBLIC-PRIVATE PARTNERSHIPS

Public-private partnerships (PPP) can play an increased role in the provision of services of all types, from telecommunications to health, from airport modernization to primary education. As with all other service delivery reforms merely involving the private sector (which could be either for profit or for non- profit (e.g. NGO)) cannot be expected to improve services unless it increases account abilities.

SOCIAL DEVELOPMENT

- In social sector, significant achievements in education and health.
- In the HDI index of India ranked at 119 in 2010. India belongs to Medium Human development category. UNDP 2010 report says that Indian income grows, but not development and it also pointed out that income inequalities are increasing.
- Social indicators are much lower for Scheduled castes and Scheduled tribes.
- Malnutrition among children is one major problem (46% of children suffer from malnutrition) are to be given top priority for inclusive growth.

ENVIRONMENT

- Degradation of land, water. Increase in pollution levels
- Challenges of climate change
- Consumption patterns of rich
- Higher economic growth should not lead to decline in our environment

EMPOWERMENT AND OPPORTUNITY

In order to achieve inclusive growth, policy reforms should focus on empowerment and opportunity—enabling all Indian citizens to engage with the emerging economy on fair terms. Expanding rural infrastructure is good, but without complementary investments in empowerment and opportunity will not be enough. Increased access to rural finance can be important, but only if embedded with other reforms to make the rural economy work for the poor.

ACCOUNTABILITY OF REFORMS

Outlays do not necessarily mean outcomes. The people of the country are concerned with outcome. Emphasis should be laid on the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. The fruits of reforms are now being enjoyed by the rich and to some extent by the middle class and they are not reaching the poor. Hence, efforts should be made in this direction.

INCLUSIVE GROWTH WITH RESPECT TO EMPLOYMENT

- Generation of productive employment (decent work) for labour force in the economy, as employment is a key to inclusive growth,
- Employment generation in all sectors, regions and for all socio-economic groups
- Particularly (1) for poorer sections of population, (2) backward regions, (3) lagging sectors and (4) ST / SC / OBC / women etc
- Inclusion of small enterprises / producers preferably in a decentralized framework
- Controlling inequalities and disparities. In this context, NREGA is yielding good results, but the following loop-holes should be paid immediate attention.
- It lacks a long term perspective in designing and in implementation.

SOCIAL SECURITY

Providing social security is a challenge. As in the previous plans, the 11th Plan proposes targeted livelihood support programmes aimed at increasing productivity and incomes of the poor in several low income occupations, such as small and micro enterprises weavers, artisans, crafts men, etc. Lack of concern and commitment by the government poses a threat for the plight of these unorganized sections. The recent suicides of weavers in certain parts of the country reflect lack of concern. In this context, the recommendation of National Commission for Enterprises in the unorganized Sector NCEUS 2006) assume significance. The Government has introduced schemes to provide social security coverage through life cover, health insurance and old age pension on the lines recommended by NCEUS, but by restricting to sections of below poverty line (BPL) house holds. It will be better if this is extended to middle class households also.

INCLUSIVE GOVERNANCE

Governance has to be viewed and shaped in the context of ongoing social change through the functioning of our democratic system. Experience has amply demonstrated that

anticipatory or inclusive governance is indispensable for achieving inclusive growth. Union Budget: 2011-12 focuses on Inclusive development, the finance minister said "The Government has engineered a major directional change in public policy by its focus on inclusive development. Creation of legal entitlements for an individual's right to work has added to resilience and dynamism in our rural economy. The right to information and the right to education are effective tools of empowerment for removing social imbalances. The country has carried for long enough the burden of hunger and malnutrition. After detailed consultations with all stakeholders including State Governments, we are close to the finalization of National Food Security Bill (NFSB) which will be introduced in the Parliament during the course of this year. The proposed allocation of 1, 60,887 crore for social sector in 2011-12 is an increase of 17 per cent over current year. It amounts to 36.4 per cent of the total plan allocation".

Conclusion

To conclude, inclusive growth is a wider connotation encompassing social, economic and political factors. Socially, lack of inclusive growth leads to unrest among many people. The measures which raise equity also promote economic growth. The political argument is that no government in a democracy can afford to ignore large sections of workers and non-working population. If it is not inclusive it can generate very severe social tensions. Thus, politically, for having a stable and democratic society one needs to have inclusive growth.

References:

1. Prahlad, C K 'The Fortune at the Bottom of the Pyramid - Eradicating Poverty Through Profits', Pearson Publication, 2005.
2. Union Budget–2011-12.
3. The Hindu: Implications of unbridled financial growth, Dated: 14. 06. 2009.
4. UNDP Report–2010.
5. Union Budget–2011-12.

FINANCIAL INCLUSION AND NEED FOR AGRICULTURAL DEVELOPMENT: AN ANALYSIS

Mr. BANDAMEEDI NAGARAJU.
Research Scholar,
Department of economics,
Osmania University,
Hyderabad-500007,

INTRODUCTION:

Around 62% of India's population depends on agriculture for a living. Agriculture sector also provides employment to nearly 52 per cent of the work force. In contrast to this the contribution of agriculture to the national GDP is 14.6% in 2011 against 15.7 % in 2008-09. The average productivity of major crops i.e., cereals has remained 1600-1800 kgs/ha since 1995. The stagnation in agricultural productivity, increase in cost of production, distortion in the market and poor infrastructure have made the livelihood of farming population more difficult. A large number of poverty ridden farming households especially marginal and small farmers, tenant farmers, oral lessees, share croppers and agricultural labourers etc. eke out living from a mix of subsistence activities like animal husbandry especially of small ruminants, wage labour, horticulture, foresting, plantation, logging etc.. The reasons of pervasive rural poverty are low growth rate in agriculture, low productivity, failed crops, unemployment and inadequate command over resources due to low income level, low adoption of agricultural technology, in access to credit and even inequitable access to credit. Agricultural growth is the panacea for rural poverty alleviation and social transformation. In the advanced estimates of 2010-11 it was expected that the agricultural sector is likely to grow at 5.4%. In order to achieve the five year plan (2007-2012) target of average of 4% per annum the agriculture sector requires growing at 8.5% during the year 2011-12. Enhanced growth rate in agriculture will not only improve the income and employment levels of farm households but also reduce the level of poverty, address the hunger, malnutrition, promote rural prosperity and mitigate rural distress.

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

Although the banking system has experienced phenomenal growth in terms of geographical spread, deposit mobilization and disbursal of credit in rural areas after nationalization, bank credit remains by and large, inaccessible to the poor. The poor both in rural and urban areas do not have the necessary capabilities to approach and negotiate with formal financial institutions. The drive of very poor people to help themselves through self-employment is ignored by the formal financial sector. Because the very poor have not traditionally been recognized as creditworthy or able to save, they are not perceived by the conventional agencies as profitable clientele for credit.

Meaning of Financial Exclusion:

Financial inclusion is the delivery of banking facilities to all people in a fair, transparent and equitable manner at an affordable cost. The Indian micro finance industry is a boon to a greater extent in achieving financial inclusion by offering small quantum of finance structured with low rate of interest with easy repayment options, to the individual or any origination. It also enables the poor people to be thrifty. Further, these micro finances are also offered for the development of people in the semi-urban and urban areas in improving their income and living standards. Micro-finance programs have been implemented by many banks at government behest. It is in this context that micro credits has emerged as the most suitable and practical alternative to the conventional banking in reaching the unreached poor population. The recent developments in banking technology have transformed banking from the traditional structure like staffed branches to a system supplemented by other channels like automated teller machines (ATMs), credit/debit cards, internet banking, online money transfers etc. However, the access to such technology is restricted only to certain segments of the society. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income people and a large section of the population without even the most basic banking services. This is termed financial exclusion. The people living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances, payment services, money transfer facilities, overdrafts for productive, financial advisory services, insurance facilities etc. Merely having a bank account may not be a good indicator of financial inclusion. In simple terms, if genuine claimants for credit and financial services are denied the same then that is the case of financial exclusion. It also includes what could be done to make the claimants of institutional credit bankable or creditworthy.

OBJECTIVES OF THE STUDY:

- To study present scenario of financial inclusion in India.
- To study the major factors affecting access to financial services.
- To analyses the different approaches of financial inclusion and agricultural development.
- To suggest the future prospects of financial inclusion.

METHODOLOGY:

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India.

Vulnerable Group Demands for Financial Services in India:

NABARD (2009) reported that indebtedness of household in India has been reviewed periodically by government of India. The demand side of financial services of Indian households has been analyzed from National sample Survey Organization (NSSO) reports. Debt and investment survey of NSSO, 59th round has estimated incidence of indebtedness (IOI) that is defined as percentage of indebted households. It can be observed in the results of financial inclusion from the various studies and report; there is an urgent need to fast-track financial inclusion, adding that the various technological and financial products need to be taken. According to 2011 census the rural population is 72.2 per cent of even today, but only 30% of the bank branches operate in the rural areas (Nirupam Mehrotra, Dr. V. Puhazhendhi, Gopakumaran Nair G, Dr. B. B. Sahoo, 2009). According RBI (2012) report indicated that the rural India accounts for just 9% of total deposits, 7% of total credit, 10% of life insurance, and 0.6% of non-life business, all the financial inclusion not reaching to the poor. Thus, financial inclusion needs to redefine the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Unreserved access to public goods and services is a feature of an open and efficient society. Therefore, there is urgent need to understand the Demand and supply of financial services in Rural India.

Rural finance consists of following main sectors:

Informal sector (not regulated by banking sector) - this includes moneylenders, rotating or accumulating savings and credit associations. Semi-formal institutions - not regulated by banks but licensed and supervised by another govt. agency such as self help groups (SHG), NGOs involved in provision of financial services.

Issues and concerns with distribution in rural markets:

- Due to fierce competition from new and existing financial service providers, the companies concentrate more on urban areas in order to maintain growth in their top line as well as bottom line. Thus opening up new branches in semi-urban/rural areas, setting up advanced technologies for non branching facilities and providing educational facilities require high capacity outlay.
- Scale of investment in rural areas is very low. People have low incomes and are risk averse. Income levels in urban households are 85% higher.
- Customers are scattered over wide areas creating accessibility problems for the financial service providers. Huge cost is incurred on setting the required infrastructure.

Rural investors do not prefer travelling long distances to avail the financial service due to lack of accessibility, awareness and willingness.

- Rural Infrastructure is in a poor state with no roads, electricity, telecommunication and Internet networks creating operational hurdles.
- Irregularities in payments
- There have always been problems in obtaining relevant documents for verification such as PAN, ration card, birth certificate, etc.
- Promotion of financial products is difficult as the sales and marketing personnel are required to understand the local customs, culture and language.

Despite so many challenges there are quite a few reasons for providing financial services in rural areas.

- Rising income levels of the semi-urban and rural population in India
- Rapid semi-urbanization observed in rural areas
- Saturation of urban markets
- Rising credit demand
- As the rich is becoming richer and poor becoming poorer due to unavailability of services the wealth inequality will continue to increase at a faster pace in years to come and lead to a hollow growth of the world's second fastest growing economy.

It is not that the concept of financial inclusion is a recent phenomenon in India. For realization of this dream govt. and private sector have taken quite a few steps in past. In 2006, RBI approved setting new branches on condition that 50% of the branches have to be opened in the unbanked areas. Currently RBI has proposed a draft where it will also encourage foreign banks to open their new branches in tier III to tier VI cities. In the same year, RRBs were allowed to market mutual fund units based on approval from Board of Directors. RRBs can enter into distribution agreements with private or foreign mutual fund houses for marketing their schemes based on terms and conditions specified by RBI.

Expectations of Poor People from Financial System:

Inclusion report (2012) gave the insights that the bankers can only provide the financial services for their customers such as finances, products, money transition, and other business services. Therefore, to recognize that efforts can never be one sided, but also need to converge of these items which can ultimately result in a real increase in production and that bank has not only given credit but whether banks are going to have any increase in agriculture productivity?" While questions previously have focused on the broad spectrum of operations ranging from issues regarding banks to those regarding productivity, it is important to look back at the question focused an essential element of the system, "How many families or how many people are we able to connect with the bank on the one hand and what banking solutions are we able to extend to people?" Other than this, there is also the issue of safety and security. People carrying large amounts of cash in states such as UP, Bihar and Jharkhand

face such breaches of security. However, based on the discussion and then results given evidences that taking into account their seasonal Inflow of Income from agricultural operations, migration from one place to another, seasonal and irregular work availability and income; the existing financial system needs to be designed.

Agricultural Productivity:

An attempt is made to compare the productivity of major crops like Bajra, Sugarcane, Paddy, Wheat, Mustard and Potato between financially included farms and excluded farms. The overall per hectare productivity of Bajra, Sugarcane, Wheat and Potato of financially included farms are higher than the financially excluded farms. The only exception is that the per hectare productivity of Paddy and Mustard of financially excluded farms are higher than the included farms. Sugarcane, Wheat and Potato are the input-intensive crops. The financially included farms were able to achieve the higher yield in comparison to financially excluded farms due to adoption of better package of practices including inputs. This is also verified from the comparison of paid-out costs. The achieving of higher yield by the financially included farm households was possible due to unrestricted access to credit from the formal financial institutions.

Farmers relying on rain fed agriculture in particular do not have access to formal crop finance, because banks perceive the risks as too high for the type of (capped and regulated) interest rate they can charge. Weather risk and moral hazard can tend to be higher for the rain fed farmer. In the case of monsoon-related crop failure, a culture of low payment morale sets in as the crop failure and resulting default on debts are seen as force majeure. In addition, political pressures for debt forgiveness tend to rise in drought years. This proposed scheme seeks to transfer systemic risk out of the farmer-bank relationship into insurance markets. It can lower the moral hazard problem by removing any excuse for non-repayment in case of monsoon-related crop failure.

FINDINGS AND IMPLICATIONS:

The paper found that a large no. of population and rural households of India do not have access to banking and other financial services. Therefore, to provide access to these services to them RBI and GoI has taken various initiatives. The target of RBI and GoI is to achieve 100% financial inclusion. Many obstacles are there in the path of promoting and achieving financial inclusion. It should not be taken as an obligation by banks and financial institutions but should be seen as a future prospect and opportunity for growth and for tapping and targeting untapped and unorganized market. For building customer awareness E-banking and mobile banking training and education programmes should be conducted.

ONCLUSION:

India's challenges are multifarious: a geographically diverse growing population, 1corruption, an of apathetic general populace, lack of proper infrastructure, rapid urbanization, inaccessibility of health care facilities and unavailability of basic financial services. Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by commercial banks, financial institutions and capital markets. In many developing countries, capital markets are at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs disproportionate to the amount of lending. There is a need to cover more people under financial inclusion who deserve and extremely in need of finance. The challenges In particular are, to introduce innovations in identifying such people, re-engineering of financial products as per the requirements, risk assessment, reduce transaction costs, devise new credit delivery channels and use information technology to make financial inclusion a viable model. As a developing country, India faces constraint of resource for rapid socio-economic development. While there may be limitation of financial resources but available human resources are huge and yet to be fully exploited. Thus it is not only the availability of finance to the targeted class but also about the usage. Therefore there is a need of evolving appropriate strategy for mobilizing and training human resources for optimizing use of the available financial resources. For achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals but the ball is set in motion!

REFERENCES:

1. Awasthi, N., Bhalla, O., Tewari, C.K. (2012). Demand elasticity: A hurdle for financial nclusion in India.VSRD International Journal of Business and Management Research, 2(2), 54-64.
2. Bihari, S.C. (2011). Financial inclusion-The key to emerging India. Asian Journal of Research in Social Sciences and Humanities, 1(1), 47-66. Retrieved from http://www.aijsh.org/setup/socialscience/paper%205.pdf.
3. Department of Financial Services, Ministry of Finance, GoI (2012).Financial Inclusion. Journal of Banking, Insurance and Pension, Issue 1, 4-14.
4. Ministry of Finance, GoI (2012). Annual Report 2011-12, New Delhi.
5. Ministry of Finance, GoI (2013). Annual Report 2012-13, New Delhi.
6. Srijanani, D. (2012).Financial inclusion: Taking banking services to the common man. International Journal of Management and Business Studies, 2(3), 54-58.

POLICIES FOR INCLUSIVE GROWTH:
NATIONAL COMMISSION FOR ENTERPRISES IN THE UNORGANIZED SECTOR

Dr. Mallam Naveen
Lecturer in English,
Government Degree College,
Narsampet, Warangal District, Telangana

ABSTRACT

To ensure the welfare and well-being of all workers, particularly those in the unorganised sector who constitute 93 percent of our workforce, The Government of India constituted The National Commission for Enterprises in the Unorganised Sector (NCEUS). Although the Indian economy experienced a reasonably high growth rate till then, this was not seen as inclusive enough by the majority of the population in the unorganised sector. The Government was very keen in the "inclusive growth" as its central plank.

It is in this background that the Commission has examined the conditions of work as well as livelihood issues of the unorganised workers, who form the overwhelming proportion of the Indian workforce. The situation calls for immediate steps to ensure minimum conditions of work for the unorganised workers as well as measures for livelihood promotion. It has, further, proposed a number of measures to improve the livelihood of unorganised sector workers. The present paper examines the major highlights of this report in the wake of existence and quantification of unorganised or informal workers, defined as those who do not have employment security, work security and social security. Most of the population get wages that are too low to enable them to come out of their poverty, not to speak of overcoming their helplessness. These workers are engaged not only in the unorganised sector but in the organised sector as well of whom, the workers now constitutes 92 percent of the total workforce.

Key words: *inclusive growth, National Commission for Enterprises in the Unorganised Sector (NCEUS)*

INTRODUCTION

The Constitution of India clearly recognized the link between decent conditions of work and the promotion of enterprises in the unorganised sector. Articles 39 and 42 of the Directive Principles emphasized the goals of just and humane conditions of work, while Article 43 required the State to work towards not only the provision of a minimum wage but also the conditions of work ensuring a decent life and to promote cottage industries on an individual or co-operative basis.

The following are the main criteria to adopt the inclusive growth and to take into consideration about the unorganised sector in India:

- ✓ The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.
- ✓ Unorganised workers consist of those working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment social security benefits provided by the employers.

It concentrates on a detailed analysis of the conditions of work and lives of the unorganised workers consisting of about 92 per cent of the total workforce of the population.

The Government is firmly committed to ensure the welfare and well-being of all workers, particularly those in the unorganised sector who constitute 93 per cent of our workforce.

The main aims of the introduction of the Commission as follows:

1. Expand the social security, health insurance and other schemes for such workers like weavers, handloom workers, fishermen and fisherwomen, toddy tappers, leather workers, plantation labour, beedi workers.
2. Enhance the welfare and wellbeing of farmers, farm labour and workers, particularly those in the unorganised sector.
3. Assure a secure future for their families in every respect.
4. Ensure the fullest implementation of minimum wage laws for farm labour.
5. Enact a Comprehensive protective legislation for all agricultural workers.

In order to fulfil the above commitment, the Government of India, among other measures, constituted a National Commission for Enterprises in the Unorganised Sector (NCEUS) in 2004, to act as an advisory body and watchdog for the informal sector.

On the employment front, the low rate of growth during 1993-94 and 1999-00 gave way to a higher growth rate of employment during 1999 to 2005. But the additional employment created during this period was entirely informal, whether in the unorganised or organised sector. The Commission has carried out a detailed analysis of the various dimensions of the challenge confronting the informal or unorganised workers. They work as so called self employed or wage workers, sometimes located in their homes but mostly outside. Some are lucky to have some kind of regular work but majority of wage workers are employed on a casual basis. Discrimination is the common thing when it comes to women, children, bonded or migrant workers. Such positions of disadvantage are often reinforced by one's social identity, rural location and, above all, low or no education.

On the basis of its detailed assessment, the Commission has recommended a 13 Point Action Programme that will not only provide a minimum standard for conditions of work and social security but also provide a modicum of livelihood opportunities to the 92 percent of the unorganised workers in this country. The following are the main recommendations that the

Commission has made for the inclusive growth to be honoured for the welfare of the unorganised sector in India.

Land Acquisition for Public Projects:

The acquisition of land under the Land Acquisition Act and the displacement of people for the sake of public works such as dams and roads has been a cause of concern for some time. While these initiatives are important for development, and they also generate alternative employment, the principal constraint is the principles underlying compensation for land and assets, resettlement of the displaced persons and access to alternative employment opportunities.

The basic issue is that while, at present, the Land Acquisition Act compensates loss of assets it should more basically compensate the loss of livelihood. The relative loss may be much higher for a landless labourer or sharecropper on the fields of an absentee landlord, but it is only the latter who is eligible for compensation.

Recommendations on Urban Street Vendors:

Provide, promote supportive environment for earning livelihood to urban street vendors by following measures:

- Restriction of street vending in urban areas to only on the consent of owners
- 3 level monitoring mechanism: Town Vending Committee (TVC) ward level;
- CEO Municipal Level; Official at state level Mechanism for eviction
- Issue of notice prior to eviction - giving due date and time
- Imposition of fine if space not cleared within due date
- Confiscated goods may be obtained by payment of fine and within fixed durations
- Incentives to state governments and municipalities to tackle issue of street vendors

Recommendations of Credit to priority sector:

Treating units with investment in plant and machinery up to Rs. 0.5 million as Special Sub-Group of Micro Enterprise (SSME) for lending under Priority Sector Lending Policy

Sanctioning 8% of the net bank credit be fixed for SSMEs- this growth in credit to be achieved in a phased manner in 5 years

Proper monitoring of credit to small & medium enterprises and micro enterprises with investment in P&M up to Rs.0.5 million and those between Rs0.5 million to Rs. 2.5 million separately

- Extending credit plus services like credit plus insurance, guidance and counselling of entrepreneurs, training of personnel, linking skill with project development
- Rationalising and reducing cost of credit by controlling the rate of interest which need to be governed by the overall cost and not specific high cost of lending of small loans alone

- The rate of interest on loan up to Rs.0.5 million to farm and non - farm unorganized enterprises should be same as in the case of agriculture; employment intensive farm and non - farm unorganized enterprises deserve the same treatment as agriculture
- Loans under Credit Guarantee Scheme up to Rs.0.5 million be made mandatory and guarantee cover be enhanced to 90% on loans up to Rs.0.5 million; 1.5% of guarantee fee on loan up to Rs.0.5 million should be met by the government, out of the available corpus of proposed National Fund
- Rate of margin money be uniform at 25% in respect of all credit linked Government Schemes
- Strengthening delivery points by making it mandatory for each bank branch in the country to open fresh loan accounts of non-farm unorganised sector enterprises every year
- Issue multipurpose Swarojgar Credit Cards for the self-employed persons in non- farm unorganised sector
- National Fund for refinancing, financing and development of unorganised sector enterprises and workers should be created and named as "National Fund for Unorganized Sector" (NAFUS), to carry out development, financial, legal & administrative functions in the form of a registered society. The Fund will have an initial corpus of Rs.50 million out of which Rs.20 million would be Govt of India's contribution. The corpus may be raised to Rs.100 million by 2012

Growth Pole based on Cluster Approach:

- ❖ GP is a continuous geographical location with a number of clusters
- ❖ GP approach relies on economies of scale, interdependencies and inter-linkages within a cluster and between clusters in a geographical region
- ❖ Extension of SEZs benefits to GP clusters initially - citing their 'infant' nature in terms of access to capital, level of technology and competitiveness
- ❖ Based on assumption that clusters once developed would leash out multiplier effect - expand production and employment - help tap positive and tackle negative externalities - resulting in spread effect and engulfing larger areas
- ❖ Identification of clusters with potential to evolve to growth poles by state governments
- ❖ Selection of cluster for Pilot Project from those identified above by state governments
- ❖ Promoted thereafter and developed by independent authorities like corporations, with conditions and responsibility to focus and provide support services themselves by involving other stakeholders
- ❖ Evolve a prototype of growth pole - leading to development of a model to be replicated
- ❖ Wherever possible combining PURA scheme with Growth Pole Strategy to develop townships around

National Fund for the Unorganised Sector:

The Commission has proposed the creation of the National Fund for the Unorganised Sector (NAFUS). The aims and functions of the Fund would not merely be to enable better access to credit of farm and non-farm enterprises alone but to enable the unorganised sector to benefit in the areas of marketing, technology, skill and entrepreneurship, guidance and counselling and capacity building. The target group of the Fund on the other hand, would be the micro enterprises, with focus on those below an investment of Rs. 0.5 million which constitute 94 per cent of the small enterprises.

The National Rural Employment Guarantee Act, 2005 (NREGA):

The Commission has extended a major step in the direction of providing assurance and security of employment to rural workers by providing at least one hundred days of guaranteed wage employment in every year to every household whose adult members volunteer to do unskilled manual work. The Act marks a historic step towards recognising and ensuring work as a right of the people.

The programme was launched on February 2006 in 200 districts of India and has been extended to 330 districts a year later. It aims to provide employment through public works, which lead to development of infrastructure, land development, irrigation, and construction. The main aim is the empowerment of labourers by making employment a right and the guarantee of employment an assurance by which the rural workers can demand employment.

Skill Training:

Skill development programmes have been undertaken at various levels and by a number of organizations. At the level of the Central Government, at present, around 24 ministries and departments are organizing or funding skill development programmes. The main ministries are the Ministry of Human Resource Development and the Ministry of Labour and Employment. Most of the initiatives by other ministries and departments are sectoral in nature and target-group oriented. Moreover, many state governments are also running programmes for skill development. Numerous non-governmental organizations, industry organizations are also providing training to various segments of the workforce. A number of private institutions have also entered the training arena.

The Commission has proposed an on-the-job training-cum-employment assurance programme for workers who are trained or certified under the Ministry of Labour. The programme would provide for on-the-job training for workers for a year, with a wage or cost subsidy of Rs. 5000 is being provided to the employer at the end of the period.

CONCLUSION

Public policy has the task of maintaining the balance between the rights of groups of citizens in the context of growth and development. This requires it to address issues of current as well as inter-temporal priorities. It is only reasonable that when faced with choices, the governments should place the highest priority on the poor and the weak, and ensure that these groups are adequately compensated whenever their livelihoods are threatened by specific

policies, laws and regulations. However, government policies and programmes, regulations and laws, sometimes, fail this test, and have adverse effects on the livelihood of the poor and especially those in the unorganized sector.

The Commission is aware that there have been concerted efforts by the Government during the past several years to address some of the constraints and problems faced by the poor households in general and workers in the unorganised sector in particular. The enactment of a National Rural Employment Guarantee for rural households is, in our view, a historic move. The launching of the National Rural Health Mission is another important milestone. The schemes and projects under the Bharat Nirman address some of the critical constraints in infrastructure faced by rural India and, by implication, the poorer segments of the population whose livelihood opportunities are, by and large, in the unorganised sectors of the economy. There is also the scope for adopting a new agenda strengthening existing initiatives as well as taking new initiatives which will give a sharper focus on the poor and vulnerable who constitute the majority of the informal or unorganised workers.

REFERENCES

1. National Commission for Enterprises in the Unorganised Sector (2008). Ministry of Small Scale Industries, Government of India.
2. Jha Krishnan (1975). *"Policies for Expanding Employment in the Informal Urban Sector for Developing Economics", International Labour Review*, Vol.3 (1), Jan.
3. World Bank Report (2001). *Finance for growth: Policy choices in a volatile world*. Oxford: Oxford University Press.

FINANCIAL INCLUSION AND INCLUSIVE GROWTH IN INDIA

Dr.D.Rajashekar
Lecturer in Commerce
SRR Government Arts & Science College Karimnagar

Introduction

Financial inclusion is a policy measure to address the issue of poverty. It is estimated that globally over two billion people are excluded from access to financial services, of which one third is in India. Many banks are forced to adopt financial inclusion. Only few banks are actively involved in financial inclusion to promote economic development. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. The objective of financial inclusion is to extend financial services to the large hitherto unserved population of the country and achieve broad based improvement in the living standards of all our people. The banks have encountered various problems while adopting financial inclusion Viz. Improper repayment, the need for additional workforce, more time consumption, heavy work load, high cost etc. Hence, many banks are not fostering fully fledged financial inclusion plan to accelerate the growth of the country. It is clear that 'inclusive' growth is a compulsory for smoothening our country's journey towards growth & development. Financial inclusion has become part of inclusive growth. An Inclusive financial system in India means bringing 94.8% of the country's 6, 38,596 villages under formal banking system to facilitate access to financial services for millions of our countrymen. In the first ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50.

The latest National Sample Survey Organisation survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services - such as savings accounts, credit, remittances and payment services, financial advisory services, etc. Low-income groups do not have access to the formal banking systems, as they usually do not have the documents needed to open a bank account.

Objectives and Methodology of the Study

The objective of the paper is to study the present situation of financial inclusion in India and the steps taken towards financial inclusion. The data required for the study was collected from the published journals, books and various websites

Need for Financial Inclusion

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the *sine qua non* of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy

Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52% of urban households have access to banking services. Over 41% of adult population in India does not have bank account. There are number of factors affecting access to financial services by weaker section of society in India. The lack of awareness, low incomes and assets, social exclusion, illiteracy are the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure and requirements of documents for opening bank accounts, unsuitable banking products/schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side. Hence, there is a need for financial inclusion to build uniform economic development.

Objective of Financial Inclusion

Financial empowerment is not only about financial inclusion but it also means financial literacy. Many a time's people are not aware of the various benefit schemes introduced by Govt. A major reason for this is information gap. In these terms, financial literacy assumes most importance. Financial literacy is a prerequisite for effective financial inclusion, which will ensure that financial services reach the unbanked sections of the society, leading to consumer protecting through self-regulation.

In recent years, the financial markets have become more complex with the risk shifting from governments/corporations to individuals; to manage risks individuals require access information that cab be compared of the various available choices.

Financial Inclusion and financial literacy are twin pillars. Financial literacy stimulates the demand side – making people aware of what they can and should demand. Financial inclusion acts from the supply side – providing in the financial market what people demand. While we have traditionally focused more on addressing financial exclusion through many supply-side measures so as to help "connect people" with the banking system, we have come to recognize the demand side imperative also – that financial literacy and education should be developed hand in hand with improving access to financial services

Financial Inclusion – Global Scenario

An interesting feature which emerges from the international practice is that the more developed the society is, the greater the thrust on empowerment of the common man and low income groups. It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion so that we can learn from the international experience.

In United Kingdom, one out of 12 households do not have basic current account with any bank. The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion, viz., access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial inclusion. Basic bank no frills accounts have been introduced.

In USA, varying from State to State, 10 to 20 per cent of US households lack a bank account. Among the low income families, 22 per cent do not have either a current or savings account. The Government has taken various measures to deal with the problem of financial inclusion. A civil rights law, namely the Community Reinvestment Act (CRA) prohibits discrimination by banks against low and moderate income neighborhoods.

The CRA imposes an affirmative and continuing obligation on banks to serve the needs for credit and banking services of all the communities in which they are chartered.

In France, as per the 1984 Banking Act, any person refused a bank account can approach the Bank of France, which will identify and nominate an institution to provide the bank account.

Thus, it is observed that even in developed countries, the State has accepted financial inclusion as an important measure for socio-economic development of the poor and disadvantaged groups. Various proactive and positive actions have been initiated by the Governments to deal with the problem of financial exclusion.

Indian Scenario of Financial Inclusion.

The scenario of financial inclusion in India has been assessed by various committees in terms of her people's access to avail banking and insurance services. Only 34% of the India's population has access to banking services. The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion.
The process of financial inclusion in India can broadly be classified into three phases.

During the First Phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society.

Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self- Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage programme was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision making by the poor and provide 'door step' banking.

During the Third Phase (2005 onwards), the 'financial inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through 'no frills' accounts.

Financial Inclusion - Banks

Banking in India existed since ancient times. The journey of formal Banking in India started in 18 century. From there it has been long journey to the modern Indian banking Industry of today. Nationalization of Banks in 1969 and liberalization in 1991 laid the foundation for development of banking sector in India. The most remarkable thing about

Indian Banking is its reach to the length and breadth of the country and especially remote corners of the country. India has seen tremendous progress and growth in the past decade.

Banking sector presence increased from 8,826 branches in 1969 to 93,659 branches in 2012. Despite all these efforts, a significant proportion of the households, especially in rural areas, still remained outside the coverage of the formal banking system.

Steps taken by Government and RBI

Initiatives have also been taken by the Government of India and RBI for furthering the reach of banking services and financial inclusion. Financial Literacy and Credit Counselling Centres - each SLBC convenor has been asked to set up a credit counselling centre in one district as a pilot, and extend it to all other districts in due course.

As on March 2011, banks have reported setting up of 225 credit counselling centres in various States of the country. A model scheme on Financial Literacy and Credit Counselling centres (FLCCs) was formulated and communicated to all scheduled commercial banks and RRBs with the advice to set up the centers as distinct entities maintaining an arm's length from the bank so that the FLCC's services are available to even other banks' customers in the district.

Steps towards financial inclusion

In the context of initiatives taken for extending banking services to the small man, the mode of financial sector development until 1980's was characterized by

- a hugely expanded bank branch and cooperative network and new organizational forms like RRBs;
- a greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities;
- lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population, etc;
- interest rate ceilings;
- significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes;

In the context of India becoming one of the largest micro finance markets in the world especially in the growth of women's savings and credit groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition. The IBA may explore the possibility of a survey about the coverage in respect of financial inclusion keeping in view the geographical spread of the banks and extent of financial services available to the population so as to assess the constraints in extension of financial services to hitherto unbanked sections and for initiating appropriate policy measures. Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion

of the semi urban and rural populace. In this regard, it is worthwhile to emulate the example of 'e-Choupal' project brought forth through private sector initiative.

Conclusion:

In achieving inclusive growth in India, the Financial Inclusion will play a vital role and help the nation to drive away the not only rural poverty but also urban poverty in India. It is the duty of every Indian citizen to ensure that all the Indian will have bank account and everybody should take part actively in achieving 100% financial inclusion in India. Financial inclusion becomes a major prerequisite to poverty alleviation. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. However, the improper repayment need for additional workforce, time consumption, high cost and illiteracy are continuing to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting fully fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote areas. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the aim of 11th plan of Inclusive Growth.

References

1. Pratima Trivedi, "Financial Inclusion: A Must for Financial Stability", Vinimaya, Vol.XXIX (2), 2008-09, Pp.59-64
2. Devaki Muthukrishnan, "Financial Inclusion", The Journal of Indian Institute of Banking and Finance, April-June 2008, Pp.30-33
3. Gadewar, A.U , "Financial Inclusion: Issues and Challenges", Vinimaya, Vol.XXVII (4), 2006-07, Pp.49-56
4. Ramesh,M, "RBI Pilot Project on Financial Inclusion in Pondy", The Hindu Business Line, November 22, 2005.
5. Leeladhar, V (2005), "Taking Banking Services to the Common Man: Financial Inclusion", Commemorative Lecture by Shri V.Leeladhar, Deputy Governor, RBI, Fedbank Hormis Memorial Foundation, Ernakulam, December 2, 2005.
6. "Banks Back RBI's Inclusion Plan with no Frills Account", Business Standard, December 30, 2005.
7. Nair, M.V., "RBI Policy Reiterates Stress on Financial Inclusion", The Financial Express, April 19, 2006.
8. Punnathara, C.J., "No-Frills Accounts: Financial Inclusion is Good Economics", The Hindu Business Line, June 8, 2006.
9. "Report of the Committee (Chairman: C.Rangarajan) on the Financial Inclusion", Government of India, January 2008.
10. Thorat, Usha (2007), "Taking Banking Services to the Common Man – Financial Inclusion", Deputy Governor, RBI, at the HMT-DFID Financial Inclusion Conference, Whitehall Place, London, UK, June 19, 2007, Speech.
11. Mahendra Dev.S.(2006), "Financial Inclusion – Issues and Challenges", Economic and Political Weekly, Vol.41 (41), October 14-October 20, 2006.
12. Rangarajan,C. (2007), "Financial Inclusion – Some Key Issues", Lecture delivered at Mangalore University, Mangalore, August 10, 2007.
13. Rana Mitra (2007), "Financial Inclusion meeting the Challenge", People's Democracy, Vol.XXXI-II, No.17, April 29, 2007.
14. Financial Regulation for Growth, Equity and Stability in the Post-Crisis World - Dr. Duvvuri Subbarao, Governor, Reserve Bank of India.

SOCIO-ECONOMIC DEVELOPMENT AMONG THE SCHEDULED TRIBES THROUGH FINANCIAL INCLUSIVE GROWTH

A COMPARATIVE STUDY

RAMAVATH RAVI
Department of commerce
Government Degree College Mahabubabad
Warangal – Telangana

Abstract:

This paper examines the changes in poverty incidence using the NSS unit record data of four rounds 1993-94, 2004-05, 2009-10 and 2011-12 and studies the causes of higher poverty among Scheduled Tribes households compared with other Social groups households. This paper also studies the compare ST Community to other Social groups with regarding availability of banking services, below poverty line, basic amenities like water, electricity, types of fuel using for cooking, sanitation, housing condition and procession of durable assets. It concluded that the incidence of poverty in Scheduled Tribes households is much higher than for the rest of the population, and also higher proportion of Scheduled Tribes households are not literate. It show that many of the modern facilities are to reach more tribal population in India through inclusive growth. Appropriate steps are to be initiated at the earliest to bring the tribal's in the inclusive growth pattern

Keywords: *Inclusive, Poverty, Households, Scheduled Tribes, Banking Services, households, National Sample Survey (NSS) Scheduled Tribes and population.*

Introduction

Financial inclusion is an important tool for inclusive growth which ensures equal opportunity for all. The focus of financial inclusion is to facilitate a wide range of financial products and services to underprivileged sections at affordable costs. As far as India is concerned, the growth potential in the SMEs sector is enormous. But limited access to savings, loan, insurance and remittances are their major constraints to growth. Financial inclusion provides access to payments and insurance to this sector. Marginal farmers, landless labours, self employed in the unorganised sector, urban slum dwellers, migrants, ethnic minorities, women and socially excluded groups are often excluded from the formal credit system. Lack of awareness, low income, social exclusion, illiteracy, distance from bank branches, branch timings, higher transaction costs, easy availability of informal credit are important causes for financial exclusion.

Inclusive growth should result in lower incidence of poverty, improvement in health outcomes, universal access to school education, increased access to higher education, including skill and education, better opportunities for both wage employment and livelihoods and improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of the SC, ST and OBC population, women and children also minorities and other excluded groups

The population of STs in India stood at 10.43 million among male 5.24 million and female 5.19 million as per the Census of 2011. Scheduled Tribes constitute 8.6% of the total population of the country with 90% of them living in rural areas and 10% in urban areas. As per 2011 Census the literacy rate among the tribals is 63.1 per cent, and the overall literacy rate of India is 74.04 per cent, sex ratio among tribal population is 990 which were much higher than the national average of 943. The proportion of ST population to the total population had also increased from 8.2% in 2001 to 8.6% in 2011; decadal growth rate is 23.7 per cent. According to the Suman Tendulkar panel recommendation in 2011-12, still 43 % of tribals' population is below the poverty line and the overall poverty line of India is 21.9%. 44 per cent of tribals' population is using formal financial service (Banking Services) remaining 56 per cent are still on depending informal financial services system.

Objectives of the study

- To overview the financial inclusive growth in India.
- To evaluate the how far balanced growth access has resulted among the scheduled tribes.
- To compare Scheduled Tribes and other communities people with regard to poverty line, basic amenities like water, electricity, types of fuel used for cooking, sanitation and housing, Income, Expenditure and saving pattern.

Methodology:

The present paper studies the Socio-Economic Development among the Scheduled Tribes through Financial Growth and a comparison of ST Community to other Social groups with regard to availability of banking services, poverty line, basic amenities like water, electricity, types of fuel used for cooking sanitation and housing condition and possession of durable assets.

Source of data

To conduct the study, the information has been gathered mostly from secondary sources, government publications and websites, reports of various agencies like Planning Commission of India, Ministry of Scheduled Tribes, Census of India, National Sample Survey Reports and other related agencies.

Period of study

The present study covers the period from 1993-94 to 2011-12 covering a time period of 18 years.

Poverty: - Poverty is a state where a person is unable to maintain a minimum socially accepted level of standard of living. It is regarded as the root cause for low levels of health and educational outcomes, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity for mobility.

One of the primary indicators of economic development of the society is by comparing the proportion of people living below the poverty line and decline in the proportion over a period of time, which demonstrate the impact of the development of tribes. According to Suresh Tendulkar panel's recommendations in 2011-12, BPL had been fixed at Rs 27 in rural areas and Rs 33 in urban areas, but at the same period C.Rangarajan said in a report submitted to the BJP government spending over Rs 32 a day in rural areas and Rs 47 in urban areas should not be considered poor. The panel's recommendation, however, results in an increase in the BPL population, which is estimated at 363 million in 2011-12, compared to the 270 million estimate based on the Tendulkar formula — an increase of almost 35%. This means 29.5% of the India's population lives below the poverty line as defined by the Rangarajan committee, as against 21.9% according to Tendulkar.

Table 1.1

Percentage of Population below the Poverty line in India (Social group wise)
(According to Suman Tendulkar panel recommendation)

Year	India(in millions)	All groups % in India	Scheduled Tribes	Scheduled Castes
1993-94	403.7	45.3	63.7	60.5
2004-05	407.1	37.2	60.0	50.9
2009-10	354.0	29.8	45.6	40.6
2011-12	269.3	21.9	43.0	29.4

Source: Planning Commission of India and Ministry of Scheduled Tribes

The above table shows that the poverty rate decreases from 45.3 % to 21.9% during the 1993-94 to 2011-12 but at the same time poverty among the scheduled tribes also decreased from 63.7% to 43 % during this period, the incidence of poverty in tribals' population is much higher than in the rest of the population. In rural area poverty rate is higher than urban areas. 90 % of tribals are living in rural areas and only 10 % are in urban areas therefore, rate of poverty is higher among this community. Overall poverty rate is decreasing as it indicates improvement of the living standard of people in the country. Poverty is more in rural areas in India in the SC & ST population. A much higher proportion of SC & ST households are not literate, compared with non-scheduled households.

Table 1.2

Poverty by Social groups Rural and Urban areas combined in Andhra Pradesh (in per cent on population)

Year	Scheduled	Scheduled	All groups in	ST in

	Tribes	Caste	AP	India
1993-94	57.0	62.2	44.9	63.7
2004-05	59.3	40.2	30.0	60.0
2009-10	37.6	24.5	21.3	45.6
2011-12	23.1	12.7	9.30	43.0

Source: Author Calculation

It is observed that the Andhra Pradesh BPL rate is decreasing from 44.9% to 9.3% during the period 1993-94 to 2011-12 and among the SC & ST BPL rate is also reducing but poverty rates for STs have declined more slowly than in other groups. Still higher rate of poverty is prevailing among tribals' population with 23.1% when compared the poverty of 9.3% of all groups in Andhra Pradesh. **Table 1.3**

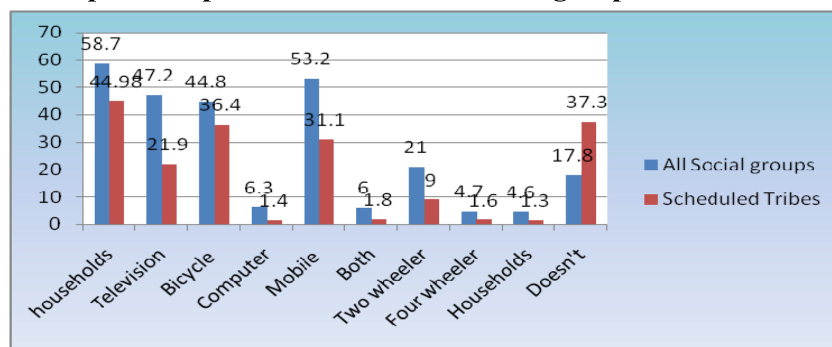
Percentage of ST households having Bank A/C and possessing few durable assets - a comparative picture of ST and all social groups

	Households having Banking Services	Tele vision	Bicycle	Computer Laptop	Mobile Phone	Both Mobile & land Line phone	Two wheeler	Four wheeler	Households With TV, Bicycle, Computer, Mobile & land phone Two & four Wheelers	Doesn't have any
All Social groups	58.7	47.2	44.8	6.3	53.2	6	21	4.7	4.6	17.8
Scheduled Tribes	44.98	21.9	36.4	1.4	31.1	1.8	9	1.6	1.3	37.3

Source: Ministry of Scheduled Tribes, Census of India and Planning Commission of India.

Figure 1.1

Percentage of ST households having Bank A/C and possessing few durable assets - a comparative picture of ST and all social groups



It's found that 59 % of households having banking services for all social groups in India but 44.9 % of tribals are having these facilities. It means most of tribals are depending on informal credit system due to their local convenience. 4.6 per cent of households are having Television, bicycle, computer/laptop mobile phone/land phone, two and four wheeler among all groups but only 1.3 per cent tribals have these durable assets. on the 29 per cent of tribals are having TV, Mobile phone, and bicycle but very low rate of population is using commuter, two or four wheeler vehicles.

Table 1.4
Housing Condition and types of fuel using for cooking

	Total houses	Good	% having latrine facility within the premises	% having separate kitchen inside the house	Firewood Crope residue Cowdung cake coal lighte charcoal	Kerosene LPG,PNG, Electricity &no cooking
All Social group	246692667	53.1	46.9	61.3	63.99	35.58
Scheduled Tribes	23329105	40.6	22.6	53.7	87.50	12.50

Source: Ministry of Scheduled Tribes & Planning Commission of India

Above table shows that the total houses in India are 24, 66, 92,667. Among these 53.1 percent are in good condition, at the same time 40.6 percent of the houses of tribals are in good conditions. 46.9 % of Indians are having latrine facility at house but among the tribals only 22.6% are having latrine facility. 64% Indians are cooking food by using firewood residue, cowdung cake, coal lighte charcoal crop and 36% kerosene, LPG electricity and others(depending on hotels). 88 % of tribals are using firewood and 12% of tribals are using kerosene, Gas and electricity.

Conclusions

It is concluded that 90 per cent of tribals are living in rural areas poverty rate is higher than urban areas. according to the Suman Tendulkar panel recommendation in 2011-12, still 43 % of tribals' population is below the poverty line and the overall poverty line of India is 21.9%. 44 per cent of tribals' population is using formal financial service (Banking Services) remaining 56 per cent are still on depending informal financial services system. on the 29 per cent of tribals are having TV, Mobile phone, and bicycle but very low rate of population is using commuter, two or four wheeler vehicles. 88 % of tribals are using firewood and 12% of tribals are using kerosene, Gas and electricity and only 22 per cent of tribals are having latrine facilities at home.

It shows that many of the modern facilities are to reach more tribal population in India through inclusive growth. Appropriate steps are to be initiated at the earliest to bring the tribals in the inclusive growth pattern.

References

1. Reports of Planning Commission of India 2. Reports of National Sample Survey of India,
4. Reports of Ministry of Scheduled Tribes , 4. C.Rangarajan Committee Report

HEALTH CARE FOR INCLUSIVE GROWTH – AN ANALYSIS & CHALLENGES

Dr. P. Rajalingam
Associate Professor + Principal
Govt. Degree & P.G. College, Peddapalli

Dr. V. Bikshapathi
Asst. Professor of Commerce,

S.R.R. Govt. Degree & P.G. College, Karimnagar.

INTRODUCTION

Healthcare is the prevention, treatment and management of illness and the preservation of mental and physical well being through the services offered by the medical, nursing and allied health professionals. According to the World Health Organization, healthcare embraces all the goods and services designed to promote health, including preventive, curative and palliative inter-reactions, whether directed to individuals or to populations. The organized provision of such services may constitute a healthcare system. Like health science in general, health care includes both the study and application of preventing and curing human diseases and disorders. Healthcare focuses on achieving equity in health, demands coordinated action by all concerned government and non government organization.

PHILOSOPHY OF HEALTH CARE is the study of ethics processes and people which constitute the maintenance of health for human beings. For the most part, the philosophy of health care is best approached as an indelible component of human social structures. That is a social institution of health care can be seen as a necessary phenomenon of human civilization whereby an individual continually seeks to improve, mind and after the overall nature and quality of his or her life. The philosophy of health care is primarily concerned with the following elemental questions such as who requires/deserves health care ?, is healthcare a fundamental right of all people ?, what should be the basis for calculating the cost of treatment, hospital stays, drugs, how can health care best administered to the greatest number of people, what are the necessary parameters for clinical trials and quality assurance.

Ultimately, the purpose, objective and meaning of healthcare philosophy is to consolidate the abundance of information regarding the ever – changing fields of biotechnology, medicine and merging. And seeing that healthcare typically ranks as one of the largest spending areas of governmental budgets, it becomes important to gain a greater understanding of healthcare as not only a social institution, but also as a political one. In addition healthcare philosophy attempts to highlight the primary movers of health care systems, be it nurses, doctors, hospitals, administrators, health insurance companies, the government and the patients.

OBJECTIVES OF THE STUDY:

- ✓ To analyze the status of health care infrastructure and facilities in India.
- ✓ To assess the health mission norms of Government and level of achievement.
- ✓ To provide required steps for strengthening healthcare system in India.

In India healthcare has been a neglected area by the Government. India is a country of people are treated for the most basic diseases such as leprosy, polio, cancer and the newly emerged AIDS. To cope up with both the old and the new challenges the need is to get a sound infrastructure and making sure that it has been implemented with perfection.

Infrastructure has been described as the economic arteries and veins for the achievement of rural health. Roads, ports, railways, airports, power lines and wires that enable people, goods, commodities, water, energy and information to move about efficiently. Increasing infrastructure is regarded as a crucial source of economic competitiveness.

Table 1:
Growth of Primary Healthcare System

Years	Sub Centre	Primary Health Centre	Community Health Centre
1981-85	84376	9115	961
1985-90	130165	18671	1910
1992-97	136258	22149	2633
1997-02	137311	22875	3054
2007-12	145272	22370	4045

The entire family welfare programme is being implemented through primary health care system. The primary Health Care Infrastructure has been developed as a three tier system with sub centre, Primay Health Centre and Community Health Centre being three pillars of Primary Health Care system. The Sub-Centres has increased from 84,376 to 145,272 over a period of 22 years indicating 1.72 tonnes growth rate.

The Primary Health Centres has increased from 9115 to 22370 indicating an increase of 2.45 tonnes by comparing tenth plan with that of sixth plan. Unlike te growth of sub centres and primary Health care centres, the above mentioned data reveals that there was highest growth rate in the case of community Health Centres. According to the figures of population based on 2001 census, the shortfall in the rural health infrastructure comes out of to be of 20855 sub centres 4883 Primary Health Centres and 2525 community Health Centres.

Status of infrastructure Building:-

About 50 percent of sub centres, 76 percent of primary Health Care Centres and 91 percent of community health care centres are located in the Government buildings. The rest are located either in rented building or rent free panchayath or voluntary society buildings. As on March 2012 in case of sub centres, over all 66382 buildings are required to be constructed. Similarly, for primary health centres 3618 and for community health centres 199 buildings are required to be constructed.

Table 2: Population – wise Health care infrastructure in India.

	Tribal Area	Non-Tribal Area
SubCenters	3,000	5,000
Primary Health Centre	20,000	30,000

Government of India and State Governments have established a country wide network of sub-centres and primary Health Centres with differential norms of population coverage. 20 percent posts of Medical Officers were vacant in tribal areas compared to15 percent in non-tribal areas. Similarly in tribal areas about 15 percent of posts of para –medical staff were vacant compared to about non-tribal areas. The lack of infrastructure in tribal areas is predominantly discouraging social factor calls for correct assessment and evaluation of the existing facilities. This issue of optional structure of health care in an age-old neglected segment of population may naturally lead to proposing a different strategy for providing best quality of Reproductive and Child Programme services up to the satisfaction of the tribal people in general and tribal women and children in particular.

Staff level picture:

The existing staff is an important pre requisite for the efficient functioning of the Small infrastructure. As on March 2007 the over all shortfall in the posts of ANMs was 12.6 percent of the total requirement. Similarly, in case of male ANMs there was a short fall of 55.4 percent of the requirement. In case of Female Health Assistant the shortfall was 32.8 per cent and that of Male Health Assistant was 28.8 per cent. For Doctors at Primary Health Centres, there was a shortfall of 7.8 per cent of the total requirement. Even out of the sanctioned posts, a significant percentage of posts are vacant at all the levels.

National Rural Health Mission: Action plan for infrastructure strengthening:

- Every village habitat will have a female accredited social health activist, chosen and accountable to the panchayth to act as the interface between the community and the public health system. Accredited social health activist would act as a bridge between the ANM and the village and accountable to the panchayth.
- The female activist would promote universal immunization, handle health care delivery programme implement best practices through the panchayat, coordinate the other department functionaries and self-help Group members.
- The female activist will be promoted all over the country with special emphasis on 18 high focus sates. The Government of India will bare the cost of training incentives and medical kits. The remaining components will be funded under financial envelope given to the states under the programme.
- Prototype training material to be developed at National level subject to state level modifications. The training would require partnership with NGOs / ICDs Training Centres and state health institutes.

The Government has established certain national level norms to implement and achieve rural health infrastructure for outreach of medical facilities to the citizen in India. The above information reveals that the Government ha been near to achieve the coverage of medical infrastructure facilities to the population of India.

Table 3: Rural Health Infrastructure – Norms Level of Achievements

Indicator	National Norms		
	General	Tribal/Hilly/Desert Areas	Achievements
I. Rural population 2001 covered by a Sub Centre Primary Health Centre: Community Health Centre:	 3000 30,000 1,20,000	 3,000 20,000 80,000	 5,111 33,191 1.83 lakhs
II. No. of Sub Centres per PHC	6		6
III. No. of PHC per CHC	4		6
IV. HW (F) HW	5000 5000	3000 3000	5035 11808
V. Ratio of HA (M) to HW (M)	1:6		1:3
VI. Average Rural Area (Sq. KM) Covered by a Sub Centre PHC CHC	 - - -	 - - -	 21.47 139.40 770.90
VII. Average No. of Villages Covered by Sub Centre PHC CHC	 - - -	 - - -	 4 29 158

Reproductive and Child Health Programme (RCH)

RCH Programme was launched by the Government of India in October, 1997 all over the country. It would provide need – based, demand driven, high quality health and family welfare services to the mothers and children and to ensure clients' satisfaction which needs improving the existing facilities and creating new facilities.

The RCH focuses on two basic and most significant initiatives which are a) decentralized participatory planning and b) bottom up approach for program implementation dispensing with decades old approach for implementing family welfare programme under RCH programme building up an efficient machinery of management particularly for

monitoring the progress and evaluation of effectiveness is treated as one of the most important trust areas. The existing system of evaluation comprises the following components.

- ❖ Quantitative evaluation through verification of the reported performance to check the authenticity of records and identification of interventions for improvement.
- ❖ Qualitative evaluation to assess the skills of different health personnel, facilities available, utilization of available, health services, clients satisfaction etc.,

Status of RCH Services in Tribal areas

a) Facilities relating to infrastructure at Sub-centres are lacking in the tribal areas. Staff posted in tribal areas are practically working in non-tribal areas due to lack of basic amenities.
b) Tribal population is generally scattered in hilly areas and difficult terrains. The jurisdiction of one ANM is spread over 15 to 20 villages. This situation constrains heavily the ANMs from providing adequate services such as post-nodal care, safe delivery, immunization of children etc.,
c) Minimum number of medical equipments and other essential equipments are not available. The institutional deliveries are too low.
d) A good number of posts were found vacant and facilities at sub-centres are very poor.

The public policy for the welfare of tribals is to create an enabling environment for people to enjoy long, healthy and creative lives. The major initiatives for the development of tribals with a view to shelter them from exploitation and increase their incomes for enabling them to enjoy a better quality of life. These efforts have helped in the alleviation of poverty levels among tribals. It is believed that some among them would have benefited from the expansion of irrigation facilities, the introduction of cash cropping, increase in purchase price of minor forest produce and extension of agriculture credit facilities etc., available evidence suggests that poverty is the prime cause for ill-health. However lack of access to right food cause for the high incidence of nutritional deficiency. These factors combined with lack of access to basic health care services is the main reason for the unexceptionally adverse differentials with one more developed parts.

Neglecting rural health care:

The neglecting of rural health care system if largely due to lack of specialist doctors in the rural sector. Even the local villagers who study medicine prefer to work in the city rather than work in the villages.

It is a striking feature that tribal women in India suffer from high levels or female morbidity and morality. They do not seek generally medicinal facilities from health centres. They simply neglect the serious health problems like RTI/STD.

The whole system should be cracked down to 2-step system and it should be divided according to the population of the villages. The villages where population between 5000 to

10,000, there should be small clinics, which can take care of small diseases and help the women during their pregnancy months. The focus should be on diseases like malaria, leprosy etc., The clinics can organize camps in different small villages. The next type of organizations should be small hospitals which include population above 10,000 people. It can treat complex diseases and perform complicated operations. To employ medical graduate with good salary is also a difficult task itself.

There is a need to improve the participation of the private sector in the rural areas. The small hospitals would take the load of district and apex hospitals, which run out off beds for the patients. The small hospitals should be able to load off 30 percent of the district hospitals.

CONCLUSION:

Maintaining and protecting and health of population involves protecting and safeguarding the environment in which we live. The Government should take appropriate steps encompassed with multifaceted activities such as spreading healthcare awareness, building healthcare infrastructure, distribution of nutritional food to targeted reproductive women population, equipping the health centres with facilities, staff and modern drugs and provision of nurse managed health centres in diseases prone tribal or agency and remote hubs.

References:-

1. www.healthex.co.in
2. Administering health care – sonal/sukhla
3. Healthcare management
4. Akhil Tandulwadikar
5. Indian Healthcare Reforms – Navin Chandra Nigam
6. Healthcare in India – Ranjit – Shahani
7. Healthcare Management – Kharan H Timmons

KNOWLEDGE ECONOMY AND INCLUSIVE GROWTH

Dr Chandrakanta Sahoo
Department of Management Science
Madanapalle Institute of Technology and Sciences
Chitoor, AP

Abstract

Knowledge management has emerged as a fertile field of study in research community in the wake of globalizations which has brought a paradigm shift in Human Resource Management. It is also viewed as a corporate cost savings process to augment performance capabilities and realize inclusive growth with broader availability and utilization of major corporate knowledge assets. Knowledge management forms the citadel for planning, execution of various organizational developmental programs. With recession on stage, the organizations are passionately exploring cost cutting practices to maintain profitability and competitiveness. When progressive enterprises realize that developing and sharing knowledge is the key to sustain a cutting edge, the management can decide to place knowledge management high on their agenda- especially during economic down turn. The present paper is an attempt to study the conceptual development of knowledge management. It also explores how effective knowledge management can result in inclusive growth even during economic turmoil.

Keywords: knowledge, knowledge management, recession, Knowledge Economy, inclusive growth

Introduction

The role of business in society has undergone the waves of transformation in the last century. Companies that were branded for their product categories a few years ago are now no longer in existence where as the companies that were no more in the market earlier have emerged as most preferred brands. Alvin Toffler was absolutely right when he commented in his book titled '*Third Wave*' that third wave has already set in. In a general bird's eye view, three waves of transformation have already taken place in society. The first wave started with the agricultural development which swiftly bid adieu to the Stone Age barbarous lifestyle and human beings started leading lives in sophisticated way in the banks of various rivers, conducive for procurement of various crops. The second wave ushered the industrial revolution that necessitated for the mass production of goods in the back drop of wars that caused a lot of destruction, growing population within the limited geographical areas. The wave force, hitherto, yielded imbalance in terms of scarcity and opulence of various necessary goods and services which lead to the culmination of the third wave to connect the nations across the globe- to exchange required goods and services through exports and imports. Development of Information and Technology infrastructure facilitated the global connection among the business community and the nations as well which were instrumental for shaping

of the world characterized by the phrase VUCA coined by the US War Army college. VUCA stands for volatility, uncertainties, complexities and ambiguities.

We are living through a period of insightful change and an age of transformation in the colour of society and its underlying economic base. What we see today will not be the nature of production, trade, employment and work in the coming decades. The progress and growth of mankind were achieved through and was very well accompanied by knowledge. Modern information and communication technology has connected the world on all spheres; be it personal, professional, social, national, international or the like. The entire globe has become a net from which we can interconnect from any point. It can be said that knowledge in the past was in a way "connected" with an individual, but it's today the characteristic of the society as a whole. Boosted by technology, knowledge moves quickly from among and within these networks – far across the firms, institutions, borders, and distances. Knowledge today is more widely disseminated than ever before, and that it has become an instrument of socio-economic development and empowerment of the masses as never before. Society is structured on knowledge, it is simply deeply penetrated so that the complete functioning of society, including the entire development and progress, rests on knowledge. The rising knowledge intensity of the world economy and our increasing ability to distribute that knowledge has increased its value to all participants in the economic system. A knowledge-driven economy is one in which the generation and exploitation of knowledge play the predominant part in the creation of wealth.

A knowledge economy is one in which knowledge is the key resource. In simple words the Knowledge Economy refers to the use of knowledge to produce economic benefits. The generation of knowledge is traditionally conceived as a process internal to single entity. But it is increasingly a product of networked entities, often differently situated yet urging to a single motive to find new solutions to specific problems, needs, and circumstances – and, in many cases, to reveal these solutions to others.

The **knowledge Economy** is the **use of knowledge** to generate tangible and intangible values. Technology and in particular knowledge technology i.e. Artificial Intelligence has impacted traditional way of human work resulting in massive dependence on it. Artificial intelligence is used in decision support systems in various domains which ultimately yields economic values for the corporate houses and nation as well. Knowledge economy comprises the human resource capabilities- the ultimate drivers of business.

The phrase **Knowledge Economy** was popularized by Peter F Drucker in his book titled *The Age of Discontinuity* who credits the its origins to the idea of "scientific management" developed by Frederick Winslow Taylor (Drucker, P.F, 1969)

Other than the agricultural-intensive economies and labor-intensive economies, the The global economy is in transition to a "knowledge economy" from the agricultural labour intensive economies (Keith S, 2002; Ismail R & Giulia P, 2010; Powel et all, 2004, Rothboeck & Sandra, 2000; Blomstorm et al., 2002; Dieflat, 2009; Antras et all, 2006) as an extension of an "information society" in the Information Age led by innovation (Dutta, Soumita ed. 2012)

such as providing the development platform for engineering physics. The transition requires that the rules and practices that determined success in the industrial economy need rewriting in an interconnected, globalized economy where knowledge resources such as *know-how* and expertise are as critical as other economic resources.

Knowledge Economy: Concept

Knowledge Economy is that knowledge and education (often referred to as "human capital") can be treated as one of the following two:

- A business product, as educational and innovative intellectual products and services can be exported for a high value return.
- A productive asset (Wiki)

It can be defined as

"Production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance, as well as rapid obsolescence. The key component of a knowledge economy is a greater reliance on intellectual capabilities than on physical inputs or natural resources. (Walter W.P and Kaisa S, 2014)

The initial foundation for the knowledge economy was founded by Peter F Drucker in the book *The Effective Executive* , 1966 in which he differentiated between the manual worker and the knowledge worker. The manual worker, according to him, works with his or her hands and produces goods or services. In contrast, a knowledge worker works with his or her head, not hands, and produces ideas, knowledge, and information.

Evolution

The knowledge economy is also seen as the latest stage of development in global economic restructuring. Thus far, the developed world has transitioned from an agricultural economy (pre-Industrial Age, largely the agrarian sector to industrial economy (with the Industrial Age, largely the manufacturing sector) to post-industrial/mass production economy (mid-1900s, largely the service sector) to knowledge economy (late 1900s – 2000s, largely the technology/human capital sector). This latest stage has been marked by the upheavals in technological innovations and the globally competitive need for innovation with new products and processes that develop from the research community (i.e., R&D factors, universities, labs, educational institutes).

In the knowledge economy, the specialized labor force is characterized as computer literate and well-trained in handling data, developing algorithms and simulated models, and innovating on processes and systems. Harvard Business School Professor, Michael Porter asserts that today's economy is far more dynamic and that comparative advantage is less relevant than competitive advantage which rests on "making more productive use of inputs, which requires continual innovation" (Porter M E, 1998). Consequently, the technical, STEM careers including computer scientists, engineers, chemists, biologists, mathematicians, and scientific inventors will see continuous demand in years to come. Additionally, well-situated clusters, which Michael Porter argues is vital in global economies, connect locally with linked industries, manufacturers, and other entities that are related by

skills, technologies, and other common inputs. Hence, knowledge is the catalyst and connective tissue in modern economies.

With earth's depleting natural resources, the need for green infrastructure, a logistics industry forced into just-in-time deliveries, growing global demand, regulatory policy governed by performance results, and a host of other items high priority is put on knowledge; and research becomes paramount. Knowledge provides the technical expertise, problem-solving, performance measurement and evaluation, and data management needed for the trans-boundary, interdisciplinary global scale of today's competition. (The Bookling Institution, 2008)

The next evolutionary step Network Economy has already emerged as a sequel to knowledge economy, where the relatively localized knowledge is now being shared across various networks for the benefit of the network members as a whole, to gain economic of scale in a wider, more open scale. This has benefitted the companies and nations across the globe.

Driving Force

There are many driving forces for the emergence of knowledge economy. Globalization trends have opened borders across nations and the companies are no longer seen to be restricted to local markets. The business houses are moving globally in their operations as per the market trends and products and services are rendered to cater to the needs of the global citizens. Media is playing a creating role. New media increases the production and distribution of knowledge which in turn, results in collective intelligence. Existing knowledge becomes much easier to access as a result of networked data-bases which promote online interaction between users and producers. Development of information and Communication Technology (ICT) has made the world a global village resulting in easy accessibility of company services and products.

Traditionally, the consumer was moving to the market for shopping purpose. Now, the trend seems to be in reverse direction as the market seems to visit the house hold. Home shop 18, Flipkart, Quiker have brought about revolution and impacted consumer buying behavior. Consumers have access to online information regarding product and services features and book online and can track the movement of their desired products. We can have a Pizza in a phone call and can book air/ railway or bus ticket online. In cities, Patients are able to access medical facilities such as consulting doctors and nurse. The pattern of consumer purchasing mode has been affected by and large.

HR Manager is not free from artificial intelligence. Human Resource Information System is a database which supports HR decision making in its core areas. Multi National Corporation are found to use digital technology to recruit, select, orient, develop and maintain human resource in the company.

As regards the applications of any new technology, this depends on how it meets economic demand. It can remain dormant or make a commercial breakthrough. In view of the 2008 recession, which caused a downturn in turnover in majority of the companies, the

biggest threat identified was the ability to reduce the time to market and develop a competitive advantage. Followed by cost reduction and improved productivity. Quality of the product was one of the major issues but was not identified as an immediate threat to business sustainability. Though knowledge management is the next important business strategy; it is not a priority as Alliance/networking amongst the people within the organization is less critical for organizations during the coming five years.

Knowledge Management: Causes and Concern

The multidisciplinary nature of knowledge management invokes input from professionals in different domains including economists, human resource professionals, IT professionals and library and information professionals. Knowledge management assists an organization to gain insight and understanding from its own experience. Specific knowledge management activities help focus the organization on acquiring, storing and utilizing knowledge for problem solving, dynamic learning, strategic planning and decision making. It also prevents intellectual assets from decay, adds to firm intelligence and provides increased flexibility.

Nirmala Palaniappan, Senior Manager- knowledge management, Oracle APAC has classified knowledge management strategies into five types: dictator, broker, psychologist, peacemaker, and doctor/surgeon. In the dictator approach, everything in knowledge management is integrated, centralised, and controlled from one place. In contrast, the broker strategy is to connect everyone in the organisation, and is not focused just on assets and capture. This approach has a strong focus on communities, relationships, conversations and expertise location. (Meheta D et al, 2011)

To ensure knowledge management "stickiness," organisations need to focus on the branding of their knowledge management initiatives, regular communication, daily usage of knowledge management, and effective tools (with useful and innovative features).

The major challenge for most Knowledge management organizations that aspire to provide E-learning in India is to get good program that meets the learner's needs and then make the cultural change in the way they learn. There are various significant challenges which lie ahead as follows: (Meheta D et al, 2011):

- ¾ Putting Information Technology on the edge
- ¾ Preparing young minds to develop with the blends of the technology
- Providing good infrastructure in Knowledge management
- ¾ The organization does not display a relationship between the importance of knowledge management and the accomplishment of organizational goals.
- ¾ Awareness and implementation of knowledge management across the organization may not be uniform but pilot projects are in place in some areas.
- ¾ The organization uses knowledge management procedures and tools and it is recognized that knowledge management brings some benefit to the business.
- ¾ The organization has an integrated framework of knowledge management procedures and tools, but there are some technical and cultural issues still to be overcome.

- ¾ Knowledge management procedures are an integral part of organizational and individual processes and the value of knowledge is reported to the stakeholders.

A few problems which have been highlighted could adopt the following step-by-step procedure of progress. The clubbing of technology adds more glory in its shades and shines like more innovations and skills. The technology and its tentacles create passionable and fashionable stuff with latest tools of Knowledge Management.

These challenges can be overcome by following below knowledge management strategies.

Enhance the supply of internal digital knowledge and external information through one portal;

- Develop the organization of the library and deliver more information services through this facility.
- Classify and execute a development/training librarians; path for professionals;
- Develop the process of document delivery and hire know how workers per sections to synchronize
- Build a new system that enables the professionals in their mundane affairs

Conclusions

The organizations encounter new challenges and opportunities during the economic downturn. An economic downturn may present positive opportunities in disguise to grow sales and marketing success. It is believed that effective knowledge management strategy can be instrumental in surviving an economic crisis. The organizations by designing and implementing innovative knowledge management strategies can weather today's economy storm and stay better connect with the internal –external business world. The progressive organizations should develop the habit of learning from the past mistakes and evaluate their communication. A comprehensive knowledge management strategy will certainly facilitate them a road map to achieve their business targets even during and after the recession period as well. The organization should concentrate to foster connections –whether attracting, retaining, building, growing, maximizing, and/or maintaining connections.

References

1. Amidon, Debra M.; Formica, Piero; Mercier-Laurent, Eunika, eds. (2005).*Knowledge Economics: Principles, Practices and Policies*. Tartu University Press.
2. Antràs, Pol; Garicano, Luis; Rossi-Hansberg, Esteban (2006). "Offshoring in a Knowledge Economy". *Quarterly Journal of Economics* **121** (1): 31–77.doi:10.1093/qje/121.1.31.
3. Blomström, Magnus; Kokko, Ari; Sjöholm, Fredrik (2002). "Growth & Innovation Policies For a Knowledge Economy. Experiences From Finland, Sweden & Singapore". *Working Paper 156*.
4. Djeflat, Pr. Abdelkader (2009). "Building Knowledge Economies for job creation, increased competitiveness, and balanced development". *Worldbank Draft*.
5. Drucker, Peter (1969). *The Age of Discontinuity; Guidelines to Our Changing Society*. New York: Harper and Row.
6. Dutta, Soumitra, ed. (2012). *The Global Innovation Index 2012: Stronger Innovation Linkages for Global Growth*. INSEAD.
7. Flew, Terry (2008). *New Media: An Introduction* (3rd ed.). New York: Oxford University Press.
8. Meheta D, Meheta N.K & Sharma J.K (2011). Knowledge Management in Economic Downturn, *Brand, Broad Research in Accounting, Negotiation, and Distribution,* Vol 2, Issue 2.
9. Porter, Michael E. (1998). "Clusters and the New Economics of Competition". *Harvard Business Review*. December: 77–90.

FINANCIAL INCLUSION IN UNORGANIZED SECTOR

Dr. D. Adinarayana,
Asst. Professor,
Dept. of Management Studies,
MITS, Madanapalle- 517 325,
Chittoor (Dist) (A.P.) India

Dr. D. Sreenivasulu,
Lecturer in Commerce,
Govt. Degree College,
Pathikonda, Kurnool (Dist

Dr. G. Vijaya Kumar,
Professor, Dept. of MBA,
R GM C E T (A), Nandyal, (A.P.)

Introduction

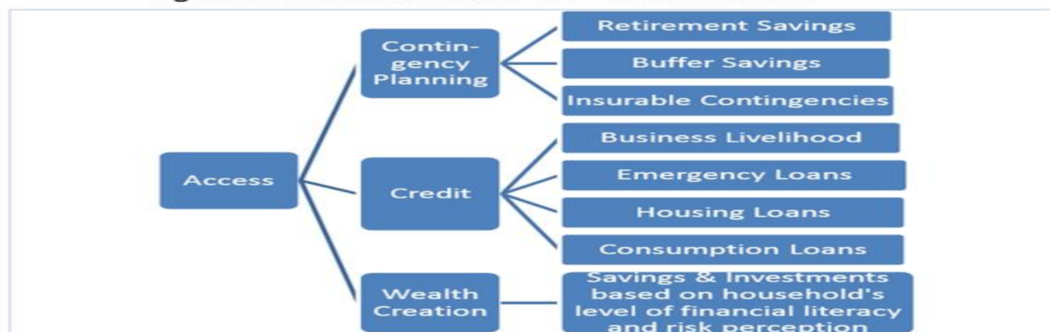
The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

Definitions:

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan)..

Figure I: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan).

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. In rural areas, the Gini's[2] coefficient rose to 0.28 in 2011-12 from 0.26 in 2004-05 and during the same period to an all-time high of 0.37 from 0.35 in urban areas.

Factor affecting access to financial services

Financial illiteracy is the stumbling block to further financial inclusion. Lack of a legal identity (like voter's ID, ration cards, birth certificates etc) is an important reason for sections of the society not being covered under the various financial schemes. This is because the completion of paper work is seen as too cumbersome by the sections of the society that are illiterate or semi-literate.

Impact of financial exclusion

There is a huge social impact of financial exclusion. Complete financial exclusion results in poverty, and this creates social exclusion. The result of social exclusion is again financial exclusion and thus a vicious cycle is created. This also creates financial discrimination and even worse, financial exploitation of the poorer sections of the society. At a micro level, the divide between haves and have-nots keeps widening, while at a macro level, this affects national and economic growth.

Who are the financially excluded?

While technically anyone with limited or no access to appropriate financial services is considered to be financially excluded, this happens more in some sections of the society. Financial exclusion is more prevalent among the poor, the uneducated, the unemployed, ethnic minorities, women, aged and the disabled.

Some trailblazing initiatives in the area of financial inclusion

SEWA bank

Self-employed workers, who depend on their own labour for survival and have hardly any assets, fall under the unorganized sector of the society. 92% of all workers in India are in the unorganised sector while 96% of all women workers are in the unorganised sector.

A group of such self employed women first formed their own organisation in 1972 called the Self Employed Women's Association (SEWA) with the main objective of "strengthening its members' bargaining power to improve income, employment and access to social security." They had to face two major problems, the lack of working capital and non-ownership of assets. To overcome this, about 4000 members of SEWA established the Mahila Sewa Co-operative Bank by contributing Rs. 10/- each. Since then, it has been provided financial services to the poor, illiterate and self-employed women. Today Sewa bank covers

about 10 districts of Gujarat and has brought women out of poverty and freed them from unscrupulous money-lenders by encouraging savings and providing financial services. The section on the lessons learnt by Elaben Bhatt, the Founder of Sewa Bank, should be an eye opener for all financial inclusion planning by the banking sector today.[2]

e-Choupal

The constraints faced by the Indian agricultural sector – unreachable areas, poor infrastructure and roads for transporting produce, dependence on good monsoons, intermediaries – result in inconsistent quality and uncompetitive prices for the farmer. ITC's answer to this is the e-Choupal programme, which attempts to link directly with the farmers through the internet for procurement of agricultural products. ITC Limited has now provided computers and Internet access in rural areas across several agricultural regions of the country, where the farmers can directly negotiate the sale of their produce with ITC Limited. This online training and access enables farmers to obtain information on mandi prices, and good farming practices, and to place orders for agricultural inputs like seeds and fertilizers. This helps farmers improve the quality of their products, and helps in obtaining a better price. Each ITC Limited kiosk having Internet access is run by a sanchalak — a trained farmer. The computer is housed in the sanchalak's house and is linked to the Internet via phone lines or by a VSAT connection. Each installation serves an average of 600 farmers in the surrounding ten villages within about a 5 km radius. The sanchalak bears some operating cost but in return earns a service fee for the e-transactions done through his e-Choupal. Since the introduction of e-Choupal services, farmers have seen a rise in their income levels because of a rise in yields, improvement in quality of output, and a fall in transaction costs. Even small farmers have gained from the initiative. The system serves to inform, empower and help compete the farmer, while saving procurement and time costs for ITC.

Conclusion

Financial inclusion will go a long way in removing poverty and social exclusion. It provides growth – of individuals and businesses - with equality. It provides for security of income and savings, safety through health and life insurance and increased financial awareness. All this will boost businesses, increase GDP and contribute to national economic growth. It also attracts global players to set shop and invest in business opportunities, which again increases employment and growth.

References

[1] http://www.chillibreeze.com/articles_various/Indian-Finance.asp

[2] http://www.sewabank.com/lessons-learnt.htm

http://www.thehindubusinessline.com/2010/09/11/stories/2010091150140800.htm - The road to financial inclusion

http://en.wikipedia.org/wiki/Financial_inclusion

ROLE OF INSURANCE SECTOR IN FINANCIAL INCLUSION IN INDIA

Dr.D.Sreenivasulu, Lecturer in Commerce, Govt. Degree College, Pathikonda, Kurnool Dist,

Dr.G.Vijaya Kumar, Professor in Management Studies RGM College of Engg&Tech.(Autonomous) Nandyal – 518501, Kurnool Dist, AP, India.

.M.Vinathi Priyadarshini, Lecturer in Biotechnology ,ST.Joseph's Degree & PG College, Kurnool, AP, India

---

ABSTRACT

Risk is pervasive in the lives of poor and low-income groups. Economic, social, natural, and other factors distort household's risk management capability and their struggle to come out of poverty. Faced with multiplicity of risks, poor and weaker sections are often forced to deplete their financial, physical, social and human assets just to cope with the contingencies. Some common risks they confront with are unemployment, illness, and accident, death of main earning members of the family, crop loss, loss of livestock, fire, theft, drought, flood, and loss in petty trading activity due to market factors. Insurance is a key major role for protecting and reducing, to overcome from risk and uncertainty through savings and investing. Life insurance, funded pension systems, and to a lesser extent, non-life insurance, will accumulate a significant amount of capital over time, which can be invested productively in the economy. There are good reasons to expect that the growth momentum can be sustained.

***Key Words**: Risk Factors, Risk Management, Insurance, Insurance Industry, and Financial Inclusion.*

Introduction

In 2003, the Indian insurance market ranked 19th globally and was the fifth largest in Asia. Although it accounts for only 2.5% of premiums in Asia, it has the potential to become one of the biggest insurance markets in the region. A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework.

The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 28, up from five before liberalisation. A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003.

Objectives of the study

- To study of the financial inclusion on insurance sector
- Overview of the insurance industry in India

Financial Inclusion in India

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

In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50, 000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture. Along with Microfinance we need to focus on Micro insurance too.

Review of Literature

Oya Pinar Ardic et al (2011) - explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services. Joseph Massey (2010) - said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Michael Chibba (2009) - noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history. Mandira Sarma and Jesim Paise (2008) - suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion.

An overview of Insurance industry in India

Insurance in India used to be tightly regulated and monopolized by state-run insurers. Following the move towards economic reform in the early 1990s, various plans to revamp the sector finally resulted in the passage of the Insurance Regulatory and Development Authority (IRDA) Act of 1999. Significantly, the insurance business was opened on two fronts. Firstly, domestic private-sector companies were permitted to enter both life and non-life insurance business. Secondly, foreign companies were allowed to participate, albeit with a cap on shareholding at 26%. With the introduction of the 1999 IRDA Act, the insurance sector joined a set of other economic sectors on the growth march.

During the 2003 financial year[1], life insurance premiums increased by an estimated 12.3% in real terms to INR 650 billion (USD 14 billion) while non-life insurance premiums rose 12.2% to INR 178 billion (USD 3.8 billion). The strong growth in 2003 did not come in isolation. Growth in insurance premiums has been averaging at 11.3% in real terms over the last decade.

Insurance development and potential

Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. At the end of 2003, the Indian insurance market (in terms of premium volume) was the 19th largest in the world, only slightly bigger than that of Denmark and comparable to that of Ireland *(Source: Swiss Re, sigma No 3/2004)*. This was

despite India being the second most populous country in the world as well as the 12th largest economy. Yet, there are strong arguments in favour of sustained rapid insurance business growth in the coming years, including India's robust economic growth prospects and the nation's high savings rates.

The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. It has been shown that insurance penetration and per capita income have a strong non-linear relationship (*Rudolf Enz, "The S-curve relation between per-capita income and insurance penetration," Geneva Papers on Risk and Insurance:Issues and Practice, Volume 25, No 3, July 2000, p 396-406).* Based on this relation and other considerations, it can be postulated that by 2014 the penetration of life insurance in India will increase to 4.4% and that of non-life insurance to 0.9%.

Table: 1 Projection of life insurance and non-life insurance premiums, 2004-2014

Year	Life Insurance		Non – Life Insurance	
	INR m	INR m, Constant 2004 Prices	INR m	INR m, Constant 2004 Prices
2004	749 971	749 971	203 856	203 856
2005	871 672	834 136	234 323	224 233
2006	1 025 957	934 358	271 830	247 561
2007	1 201 425	1 042 105	315 522	273 680
2008	1 403 362	1 159 284	368 094	304 074
2009	1 667 814	1 312 134	429 750	338 101
2010	1 983 051	1 485 832	496 953	372 350
2011	2 366 576	1 688 756	572 727	408 690
2012	2 804 561	1 905 996	651 736	442 924
2013	3 326 543	2 153 072	734 778	475 578
2014	3 947 899	2 433 546	828 433	510 659
Average growth rate between 2004-2014	18.1%	12.5%	15.1%	9.6%

Source: Swiss Re Economic Research & Consulting.

Evolution of the industry

The growing demand for insurance around the world continues to have a positive effect on the insurance industry across all economies. India, being one of the fastest-growing economies (even in the current global economic slowdown), has exhibited a significant increase in its GDP, and an even larger increase in its GDP per capita and disposable income. Increasing disposable income, coupled with the high potential demand for insurance offerings,

has opened many doors for both domestic and foreign insurers. The following table briefly depicts the evolution of the insurance sector.

Features of the 1999 IRDA Act

The Insurance Regulatory and Development Act of 1999 set out "to provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the General Insurance Business (Nationalisation) Act, 1972." The Act effectively reinstituted the Insurance Act of 1938 with (marginal) modifications. Whatever was not explicitly mentioned in the 1999 Act referred back to the 1938 Act. The salient features of the 1999 IRDA Act are discussed below.

Licensing

The IRDA Act, 1999, sets out details of registration of an insurance company along with renewal requirements. The minimum capital requirement for direct non-life and life insurance business is 100 crores (ie INR 1 billion). The IRDA regulates the entry and exit of players, capital norms, and maintains a strict watch on the equity and solvency situation of insurers. Should an application be rejected, the applicant will have to wait for a minimum of two years to make another proposal, which will have to be with a new set of promoters and for a different class of business.

Conclusion

Branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

Reference

1. Anshul Agarwal. (2010). Financial Inclusion: Challenges & Opportunities. Skoch Summit, pp 5-6.
2. Joseph Massey. (2010). Role of Financial Institutions in Financial Inclusion, FICCI's Banking & Finance Journal.
3. Mandira Sarma and Jesim Pais. (2008). Financial Inclusion and Development: A Cross Country Analysis, Indian Council for Research on International Economic Relations, pp 1-28.
4. Michael Chibba. 2009. Financial Inclusion, Poverty Reduction and the millennium Development Goals, European Journal of Development Research Vol. 21.
5. Oya Pinar Ardic Maximilien Heimann Nataliya Mylenko. (2011). Access to Financial Services and the Financial Inclusion Agenda Around the World, The World Bank, pp 1-17.
6. Santanu Dutta and Pinky Dutta. (2009). The effect of literacy and bank penetration on Financial Inclusion in India: A statistical analysis. Tezpur University, pp 1-4.

THE ROLE OF POSTAL NETWORK IN FINANCIAL INCLUSION

Y. Venuprasad
Lecturer in Economics
G.G. College (A), Nzb.
Email:venuprasadyalavarthy@gmail.com

Abstract

Financial inclusion is assumed to be one of the key drivers of our vision of an inclusive society and inclusive economy. During post liberalization period the banking sector has grown enormously keeping pace with and in some cases leading the country's remarkable economic growth. At the same time Indian post offices are also providing banking services to the all section of people of the society since 1882. Indian post served Indian villagers as banker much before financial inclusion become buzzword and Indian post claims to be the pioneer of financial inclusion in India. Through this paper an attempt has been made to study the role played by Indian post in financial inclusion and the challenges before the Indian post in providing banking services to the masses. While preparing the paper data and information's are collected from the department of post, discussion are holds with officials of Indian post and accordingly analysis is made.

Key words: Indian post, financial inclusion, post office savings bank account.

Introduction

Indian economic policy emphasises achieving high growth rates coupled with ensuring that the poor are able to participate in the market economy. This inclusion agenda has many implications for the field of finance. It involves creating a business environment through which the poor across the country have easy, secure and affordable access to critical risk management products.

During post liberalization period the banking sector in India has grown enormously keeping pace with and in some cases leading the country's remarkable economic growth. The banking system has improved its strength, efficiency and resilience. The branches of commercial banks including RRBs have increased from 8321 in the year 1969 to 93080 in 2011. The average population per bank branch has decreased from 64,000 in 1969 to 13,466 in 2011. Despite such increase in bank branches formal banking system has simply fail to reach to the common masses of the country and all developments are seems to be deficient.

Financial inclusion is not an Indian specific problem, it is global one. The Deputy Governor, Reserve Bank of India, Dr.K.C. Chakrabarty in one of his address at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012 said "Across the globe 2.5 billion adults do not use formal financial service to save or borrow. In India, Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit

cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population”.

Other than banking and other financial institution the Indian post which partially do banking activity under the ministry of finance is doing a commendable job towards providing easy financial services to the people throughout the country especially in the remote areas through its huge network.

What is financial exclusion and inclusion?

In simple term financial exclusion means lack of access to formal financial services. It is very transparent that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc) for availing finance that is usually at exorbitant rates.

Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Objective of the study

This paper is prepared with the objective of study the role of post office in financial inclusion, challenges before the post office in providing financial services and to provide some suggestions for making Indian post a good conduit for financial inclusion.

Methodology

The paper is basically a descriptive one. The paper tries to review, what role the post office is playing in financial inclusion. While preparing the paper secondary data were collected. Secondary data was collected from annual administrative report, annual report and websites of the Indian post and from publications of RBI. Data collected from both primary and secondary sources are summarized and conclusions are drawn and depending upon the conclusion some suggestions are made.

Indian Post an overview

The first post office in India was established by East India Company in the year 1688 in Bombay followed by Calcutta and Madras. It was named as „Company Mail . The Post Office Department of the East India Company was first established on March 31, 1774 at Calcutta, followed in 1778 at Madras and in 1792 at Bombay. The present type of post office came in to being in the year 1854 under the post office Act of 1854. The Indian post office

has a huge network of branches with an unique outreach in rural areas. In the year 1861 total number of post offices in India were 889. The number of post offices in India increase from 23,344 in 1947 to 1, 54,866 as on 31-03-2011. Out of total post offices in India 1,39,040 numbers post offices are in rural areas which accounts for 89.78% of India s total post office and remaining 15,826 numbers of post offices situated in urban areas which is only 10.22% of total numbers of post offices. Apart from providing regular postal service s the post offices in India are also providing financial services to the public through Post Office Savings Bank. The Indian Post starts Postal Life Insurance in the year 1984 as a welfare scheme for the employees of the Post and Telegram Department due to huge demand of the scheme latter on it was opened for employees of other departments and finally in the year 1995 it was opened for all people. In addition to these services post office also provide money transfer services. Post Office Savings Bank which was establish with an objective of encouraging saving habit and thrift among the masses has now become a medium of mobilizing a huge amount of funds.

Post office, commercial banks and financial inclusion in India a critical look

Despite taking various initiative from the part of government, RBI and commercial banks the banking sector in India has so far not been able to provide complete coverage in the country especially in the rural areas. There are 171 commercial banks in the country. Out of the 93,080 Commercial Banks branches only 36.10% are in rural areas and 24.76% in semi-urban areas. All India average population served by per branch is 13,503. On the other hand, out of 1.55 lakhs Post offices, 89.8% i.e. 1.39 lakhs are in rural areas covering an population of 5,682 per Post office in rural areas and 20,346 in urban areas, on an average 7,176 people are served by one post office as on March 2011. On an average, a post office serves an area of 21.23 sq. k.m. Further, only 5% of 6 lakhs villages have bank branches. Two hundred ninety six (296) districts in states are underbanked, i.e. they have below-par banking services.

The Indian post office offering a plethora of financial services throughout its all branches. This includes various post office savings schemes, postal life insurance, mutual fund, money remittance, forex services etc. As on March 31, 2011, there are nearly 25 crore postal savings bank account under various post office savings bank schemes. The Department of Posts has taken the responsibility to disburse the MGNREGA wages through Post Offices by opening savings bank accounts in the names of MGNREGA beneficiaries. Starting with Andhra Pradesh Postal Circle in 2005, the Scheme of disbursement of MGNREGA wages through Post Offices accounts is currently operational in the entire country excepting Delhi, Jammu & Kashmir and Tamil Nadu Postal Circles (Tamil Nadu and Puducherry). The Department is also contributing to the efforts in financial inclusion by payment of benefits under various social security pension schemes viz. IGNOAPS (Indira Gandhi National Old Age Pension Scheme), IGNWPS (Indira Gandhi National Disability Pension Scheme) and Indira Gandhi Matritva Sahyog Yojana (IGMSY Scheme), a Conditional Cash Transfer (CCT) Maternity Benefit Scheme. Such payments are being effected either through money orders or Post Office Saving Bank accounts.

The Government's financial inclusion plan aims to provide banking services to 73,000 villages each having a population of 2000. This could be effectively and adequately provided by the PBI operating through postal network and thereby help to spread the savings habit. In this regard setting up of a Postal Bank will assist the Government in its plan for financial inclusion besides mobilizing deposits, especially in the under- served rural and semi-urban areas of the country.

Problems and challenges

There is no doubt of the fact that Indian post is playing a very important role in financial inclusion but it can play a much better role if it can overcome from the following problems:

a) Lack of basic infrastructure:

The post offices in India, especially post offices in rural areas which playing an important role in providing financial services in rural areas are not equipped with basic infrastructure. In most of the post offices even proper sitting arrangement for staff is not available.

b) Less numbers of staff:

There is a crunch of manpower in the post offices. It is observed that most of the post offices are run by one or two persons and need to do all sorts of work which has a very adverse effect on performance and output.

c) **Lack of coordination:**

There are many examples in the foreign countries where post offices are doing tremendous work for financial inclusion in coordination with other departments. But, till today Indian post keep itself away from other sister organization or other organization also not seeking coordination of Indian post in providing financial services.

d) Slow progress of innovation:

To cope with the fast changing environment Indian post also need to be catching the new invention and technology timely. The Indian post still following the age old practices of working, though it bringing some innovation recently but in a very slow speed. Out of total post offices only 25464 post offices are computerized till 2011-12.

e) Abstain from landing:

Providing loan is one of the major aspects of financial inclusion but Indian post is not till today taking it as a part of its business which has narrowed down its operation.

Despite having these problems it has some other difficulties too in expanding its area of operation. From the verbal discussion with the officials it is observed that being a government department they cannot take a decision independently.

Concluding Remarks

The expert committee on Harnessing the India Post Network for Financial Inclusion is of the opinion that "succeeding with universal access to financial services will require a considerable role for post offices. In parallel, and as some traditional functions of the postal network are being supplanted by new technologies such as email, India Post is also in the

process of carving out a larger role for itself. Therefore, there is a remarkable coincidence of needs between the twin problems of (a) charting the future for India Post, and (b) resolving India's challenges of financial inclusion".

In terms of number of branches and customer the Post Office Savings Bank is all ready the largest bank in the country. There is no doubt of the fact that the Indian Post can lead the way in financial inclusion with its given network and reach. It can increase its importance and profit provided it can bring together all the stakeholders in to a single platform, bring the necessary reforms, adopt the innovation and take some policy appropriate with the situation. The Indian post has all ready adopt certain reform measures for innovation and technological up gradation. Government had approved IT modernization project for computerization of all the non computerized post offices, establishment of required IT infrastructure and development of software. A pilot project on core banking solution and Information and Communication Technology (ICT) is going on in six circles. The project is supposed to be completed by 2014. Indian posts also take decision to establish 1000 ATMs throughout the country.

The Indian post can make coordination with other stakeholders, infuse necessary human resource with proper training and technology, bring innovation and other appropriate measures the Indian post can reap the benefits of its huge network, extensive outreach and lower cost and at the same time it will able to contribute towards the national objective of financial inclusion. Establishment of Post Bank of India may be another strong decision to associate Indian post in financial inclusion. Indian post has already applied to the RBI for a banking license; if the license is given it will be a great achievement for Indian post which will enable post offices to perform full banking activities. Indian post can give a new dimension to the process of financial inclusion and can reach an extra mileage in the field of financial inclusion. Indian post can start the journey where Indian banking system stops.

References:

1. A Profile of Banks,2010-11,RBI
2. Annual Administrative Report, 2010-2011, Assam Postal Circle
3. Annual Report, 2010-2011, Indian Post
4. Branch Banking Statistics, RBI, 2009
5. Chakrabarty K.C., Deputy Governor, Reserve Bank of India, keynote address at BIS- BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012,HM Treasury, 2004, Promoting Financial Inclusion, London, available at www.hm-treasury.gov.uk.
6. Report of the Committee on Financial Inclusion, 2008, Government of India.
7. Report of the expert committee on Harnessing the India Post Network for Financial Inclusion, 2010, New Delhi.

FINANCIAL INCLUSION AND HUMAN DEVELOPMENT IN INDIA

Ch. Yadagirireddy
Ph.d Scholar
Dept of Economics
Osmania University, Hyd

Abstract

The process of financial inclusion can be seen as effective instrumental mechanism for enlarging people's choice in respect of same basic indicators of human development. The most important choices are considered to be a long and healthy life, to be educated, and to enjoy a decent standard of living. The study sheds some light on the association between the process of financial inclusion and the level of human development in the context of different states of India. Empirical evidences suggest that an all-inclusive financial system would facilitate the process of human development by addressing the basic distortions in the level of human development to the Indian economy.

Key words: Financial Inclusion, Poverty reduction, Human Development Index

INTRODUCTION

The process of financial inclusion reinforces the process of human development. There are, in fact, two-way causations; one induces the other, and vice versa1. The process of financial inclusion is an attempt to bring the weaker and vulnerable sections of society within the ambit of the organized financial system. It may, therefore, be defined as the process of enabling access to timely and adequate credit and other financial services for vulnerable groups such as the weaker sections and low-income groups at affordable cost. The National Sample Survey (NSS) data reveals that 45.9 million farmer households in India, that is, 51.4 per cent of the nearly 89.3 million total households do not have access to credit either from institutional or non-institutional sources. Nearly 51 per cent do not have access to any credit, formal or informal. More importantly, despite the vast network of rural branches, only 27 per cent of the total farm households are indebted to formal sources; among them, one-third also borrow from informal sources. Besides, there are vast regional differences. There are parts of the country where more than 95 per cent of the farm households do not get any credit from institutional or non-institutional sources (NSSO, 2005). Thus, apart from the fact that the extent of exclusion itself is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

An all-inclusive financial system would certainly enhance the efficiency and welfare by providing avenues for secured and safe saving practices and by facilitating a whole range of efficient financial services. However, merely the inclusion of low income groups (financially) without addressing the structural causes that result in the failure of livelihoods (an important component of human development) cannot help. Without this, financial inclusion would ultimately result in greater exclusion, especially in agriculture/allied activities, and there

would be a vicious cycle of debt practices. Thus, financial inclusion cannot be restricted merely to the opening of savings accounts and/or providing credit for consumption/consumer spending. It needs to focus more on enhancing the capacity building of the poor. It needs to devise and deliver financial products that can help in risk and vulnerability management for the poor in the context of their fragile livelihoods and the vicious cycle of poverty, which is often caused by structural weaknesses and other factors. While financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is also important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. In order to improve their level of inclusion, demand side efforts need to be undertaken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages (NABARD, 2008). It is also important to establish the linkage between the process of financial inclusion and the level of human development. Human development is a process of enlarging people's choice. The first human development report of the United Nations Development Programme (UNDP) published in 1990 identified three important indicators reflecting reasonable choices of people for sustaining a life with dignity. The most important choices are considered to be: a long and healthy life, to be educated, and to enjoy a decent standard of living. Ensuring an access to financial services can be seen as an effective instrumental mechanism for meeting these ends.

Undoubtedly, financial deepening is considered to be associated with a higher level of human development. Under the circumstances, attempts have been made in this paper to examine the inter-state variations in the level of financial inclusion and that of human development in order to establish the empirical relationship between them.

DATA AND METHODOLOGY

Several indicators have been used in the literature to assess the extent of financial inclusion. These measures of financial access can be broadly divided into two broad categories, one of which is based on the supply side information from the perspective of credit providers such as banks and other service providers, while the other category is based on demand side information from the perspective of users including individuals, households or firms. These indicators of financial access provide only partial information on the inclusiveness of the financial system of an economy. Such individual indicators are: the number of bank accounts (per 1000 adult population), the number of bank branches (per million people), the number of Automated Tellor Machines (ATMs) (per million people), the amount of bank credit and the amount of bank deposit. Due to some inherent limitations, these indicators fail to adequately capture the overall extent of financial inclusion. An attempt has been made in the paper to construct a comprehensive measure of financial inclusion that would be able to incorporate information on several dimensions of financial inclusion. In addition, a modified HDI has also been formulated in an effort to establish an association, if

any, between the process of financial inclusion and the level of human development across various states of India.

FINANCIAL INCLUSION IN INDIA: AN INTER-STATE ANALYSIS

The National Sample Survey Organization (NSSO) measured the extent of indebtedness in the situation assessment survey on "Indebtedness of Farmer Households" (2003). The indebtedness of farmer households refers to farmer households having outstanding loans from institutional or non-institutional sources in cash or kind, having a value of Rs. 300 or more at the time of transaction. The percentage of farmer households excluded from institutional sources is especially high at 95.91 per cent, 81.26 per cent and 77.59 per cent in the north-eastern, eastern and central regions, respectively. On the other hand, the southern region exhibits relatively better levels of access to formal/non-formal sources (72.7 per cent). A disaggregated analysis across

the states of India indicates that states like Andhra Pradesh and Tamil Nadu in the southern region exhibit greater dependence on non-institutional sources of finance. The proportion of non-indebted farmer households was most pronounced in the states of Jammu and Kashmir (68.2 per cent) and Himachal Pradesh (66.6 per cent) in the northern region, all states in the north-eastern region (61.2 to 95.9 per cent) except Tripura, in Bihar (67 per cent) and Jharkhand (79.1 per cent) in the eastern region, and Chhattisgarh (59.8 per cent), Uttar Pradesh (59.7 per cent) and Uttaranchal (92.8 per cent) in the central region. Thus, there are large inter-state variations in the level of financial exclusion (inclusion) in India. However, the level of financial exclusion (inclusion) defined in terms of the households' indebtedness is, in fact, based on a narrow definition of exclusion. In order to measure the inter-state variations in the level of financial inclusion in a broader sense, we have considered three indicators of financial inclusion, namely, banking penetration, availability of banking services, and the usage of banking services. Accordingly, the inter-state variations in the level of financial inclusion as estimated are shown in Table 1, which illustrates the values of IFI for 31 states of India.

Indicates that Chandigarh occupies the highest ranking in the IFI with a value of 0.76948. It is followed by Delhi and Goa, which belong to the high IFI group with IFI values of 0.5 or more. Another ten states, viz. Punjab, Maharashtra, Uttaranchal, Karnataka, Himachal Pradesh (HP), Sikkim, Kerala, Jammu and Kashmir (J & K), Puducherry and Tamil Nadu (TN) form the group of medium IFI states with IFI values ranging between 0.2 and 0.5. All the other states bear low IFI values, lying between 0.0000 and 0.19717. These include states like Haryana (14th), Andhra Pradesh (AP) (15th), Gujarat (16th), Andaman and Nicobar Islands (17th), Meghalaya (18th), Uttar Pradesh (UP) (19th), West Bengal (20th), Arunachal Pradesh (21st), Rajasthan (22nd), Mizoram (23rd), Jharkhand (24th), Madhya Pradesh (MP) (25th), Odisha (26th), Tripura (27th), Assam (28th), Bihar (29th), and Chhattisgarh (30th). At the lowest rank of IFI values is Manipur (31st rank) with a low IFI value of 0.000.It needs to be pointed out that most of the states with high IFI values belong to the northern and western

regions. Overall, the empirical result seems to suggest that the northern (Haryana, HP, Punjab, Rajasthan, Chandigarh, Delhi), western (Gujarat, Maharashtra, Goa) and southern (AP, Kerala, Karnataka, Tamil Nadu, Puducherry) regions are better performers in terms of including the excluded in the financial network than the north-eastern (Assam, Manipur, Meghalaya, Tripura, Arunachal Pradesh, Mizoram), eastern (Bihar, Orissa, West Bengal (WB), Andaman and Nicobar island, Sikkim, Jharkhand) and central (MP, UP, Chhattisgarh, Uttaranchal) regions.

ASSOCIATION BETWEEN INDEX OF FINANCIAL INCLUSION AND HUMAN DEVELOPMENT INDEX

A Conceptual Framework

Financial development has an important bearing on the growth of human capital and thus, in turn, influences the level of human development. However, this causality is a complex process. There might be indirect channels whereby one reinforces the other. Several attempts have been made in the literature to establish the causal link between financial development and human development. In fact, income inequality and poverty act as a hindrance to human development. It has been argued that financial development disproportionately boosts the income growth of the poorest quintile, reduces income inequality, and is thus strongly associated with poverty alleviation. Intuitively, the lower the level of poverty, the higher is the level of human development. Thus, financial development positively influences the level of human development. This argument is further substantiated by the fact that the access to a banking network is negatively associated with the level of poverty and is thus positively associated with the level of human development. Over the period 1961-2000, the expansion of rural branches significantly lowered the level of rural poverty in India. The enhancement of economic opportunities through banking inclusion has an indirect effect upon the attainment of education and health opportunities and this, in turn, induces the level of human development.

The economic opportunities created by growth need to be made available across the entire spectrum of the population including the vulnerable sections of society. The process of financial inclusion facilitates the creation of an environment for providing better access to economic opportunities. In order to ensure equal access, it is necessary to strengthen human capabilities to enable the people to qualify for productive employment. On the other hand, a social protection system through the provision of a social safety net is required for the chronically poor, which would enable them to survive with dignity. The social safety net acts as a springboard for helping the vulnerable sections of the society break out of the poverty trap.

The Indian Experience

In order to examine whether there exists a high degree of statistical correspondence between two sets of ranks between IFI and HDI, the study estimated the Modified HDI for 17 major states in 2004-05. A similar measurement was also carried out for 16 major states4 in 1993-94 for analyzing the changes of the level of financial inclusion over the period 1993-94 and 2004-05.

Reestablishes a significant association between the estimated values of IFI and modified HDI. The modified HDI varies between 0.844 in the case of Kerala and 0.078 in the case of Bihar during the year 1993-94. However, during the year 2004- 05, HDI varies between 1.000 in the case of Kerala and 0.124 in the case of Madhya Pradesh (MP). Among the better-off states with respect to the level of human development, Kerala, Punjab, Haryana and Himachal Pradesh (HP) had HDI values of above 0.5 in 1993-94. States like Tamil Nadu (TN), Jammu and Kashmir (J & K) and Maharashtra were included in the category of better-off states during the year 2004-05. At the other end, states like Uttar Pradesh (UP), Odisha and Bihar had modified HDI values of less than 0.2 during the year 1993-94. The situation remained more or less the same during 2004-05, as the modified HDI comprises three states only. Uttar Pradesh has now been included in the group of states with a medium level of human development, while the level of human development in the state of MP deteriorated during the year 2004-05. A comparison of IFI with HDI suggests that both indices seem to move in the same direction. The state of Kerala secures the first ranking among the modified HDI states during both the reference periods of study. The state of Kerala, which belongs to the group of states with a high level of human development, ranked third in 1993- 94 and second in 2004-05 in terms of the ranking of IFI. Punjab, a high IFI state, had a second ranking in 1993-94 and a first one in 2004-05, in terms of the modified HDI. States like Kerala, Punjab and HP have a high level of human development and high financial inclusion in terms of both the state-wise classifications of 1993- 94 and 2004-05. The states that have a medium level of human development and a medium extent of financial inclusion include Gujarat, Maharashtra, West Bengal (WB), MP and TN during the year 1993-94. States like Gujarat, Andhra Pradesh (AP) and WB have the same characteristics in terms of both the level of human development and the extent of financial inclusion at the medium level in 2004- 05. While Orissa was the only state that belonged to the category of low level of human development and low financial inclusion in 1994-95, later two more states, viz. MP and Bihar joined this particular category of states in the year 2004-05.

The movements of both IFI and Modified HDI values during the years 1993- 94 and 2004-05 are shown in Figures 2 and 3. An association between these two indices is quite evident in these two figures. Figures 4 and 5 simply plot the relationship between the process of financial inclusion and the level of human development of major states of India during the years 1993-94 and 2004-05. It is expected that as we move into the ranges of states with a very high level of human development, the process of financial inclusion would also be at a

high level. In these figures, the scatter dots represent the observations of various states. It has been found that a majority of the observations lie within the north-east and south-west portions of the scatter diagram. This suggests that the level of human development is a powerful correlate of financial inclusion. The evidence is expected to find enough empirical support if we rank the states rather than cardinal measures.5 In other words, if we rank states according to their level of human development and then compute similar ranks on the basis of some other financial inclusion index, then we find a high degree of statistical correspondence between the two sets of ranks. However, some statistical evidence also suggests that the values of IFI and HDI for the set of major states move closely with each other.

CONCLUSIONS

The process of financial inclusion is expected to create an enabling environment for tackling distortions in the level of human development of an economy. This paper sheds some light on the extent of financial inclusion across different states of India on the basis of an index of financial inclusion. Empirical findings suggest that only three (Chandigarh, Delhi and Goa) of the 31 states classify as high IFI states. While ten other states have fulfilled the criteria of medium extent of financial inclusion, all the other states have a lower magnitude in the process of financial inclusion. A comparative analysis is also conducted in the paper to examine the association between the process of financial inclusion and the level of human development. Substantial evidences have also been found to emphasize that the ranking of the level of financial inclusion broadly follows the same pattern as the modified Human Development ranking. The analysis suggests that the level of human development and that of financial inclusion are positively correlated in the sense that the states having a high level of human development are also the states with a relatively high level of financial inclusion.

A REVIEW ON FINANCIAL INCLUSION FOR PEASANTS AND AGRICULTURAL LABORERS

Dr.K.Anitha Kumari, lecturer, Government Degree College for Women, Guntur

K.N.Raja Kumar, Assistant professor, College of Agricultural Engineering, Bapatla.

Introduction

RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players". Therefore, the objective of Financial Inclusion (FI) is to extend financial services to the large hitherto unreserved population of the country to unlock its growth potential. In addition, it strives to achieve more inclusive growth by making financing available to the poor in particular

With the perspective of inclusive growth in the XII five year plan (2012-2016) the Indian agriculture sector is playing a prominent role in the Indian economy. Agriculture alone supports about 50 percent of India's workforce, and occupies more than one third of the country's total geographical area. Agriculture is an essential link in the supply chain of the manufacturing sector, and plays an important role in the rural development of the country. Given the importance of the sector, the Government of India has focused on offering schemes and incentives to various stakeholders. These schemes have helped the sector to improve food grain production from 52 million tons in FY2 to 244.78 million tons in FY11.

About 76% of the workforce includes cultivators and agriculture labourers in our state. The number of agricultural labours has increased from 27.5 million in 1951 to 107.4 millions in 2001, indicating an increase by 290 percent during last 50 years period having been given least importance for various reasons. Keeping this in view this paper broadly analyses key policy initiatives and some remedial measures taken by the Indian Government over the course of the time to for their upliftment.

Schemes of Central and State Governments

At time to time state governments and central government have announced debt waivers on peasants.

Farm Loan Waiver Scheme 2008

Government of India in 2008 released Rs 10,000 crore to banks and financial institutions as part of compensation for writing off loans under the farm-debt waiver scheme throughout the country.

Comprehensive Crop Insurance Scheme 1985

Crop insurance is undertaken by agricultural producers, including farmers, ranchers, and others to protect themselves against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss of revenue due to
declines in the prices of agricultural commodities.

Crop insurance assumes a vital role in the stable growth of the sector. An All-Risk Comprehensive Crop Insurance Scheme (CCIS) for major crops was introduced in 1985, coinciding with the introduction of the Seventh-Five-year Plan and subsequently replaced by National Agricultural Insurance Scheme (NAIS) w.e.f. 1999-2000. These Schemes have been preceded by years of preparation, studies, Planning, experiments and trials on a pilot basis.

Kisan Credit cards Scheme 1998

Agricultural Credit is essential to ensure inclusive growth in agriculture. Therefore, offering credit to farmers has become a priority for the government. The government has focused on improving the flow of credit through a system of Kisan Credit Cards (KCC), introduced in 1998–99. The banking system issued more than 87.8 crore KCCs, resulting in the sanctioning of Rs 381,070 crore until November 2009.

National Agricultural Insurance Scheme 2000

The Ministry of Agriculture has been implementing the National Agricultural Insurance Scheme (NAIS) as a Central Sector Scheme since Rabi season 1999-2000 to insure the farming community against these risks. The Scheme was implemented as a Central Sector Scheme on a pilot basis in 50 districts in last two years of 11th Five Year Plan starting from the Rabi season of 2010-11 with a budgetary provisions of ` 358 crore for the Modified NAIS for the years 2010-11 and 2011-12. With the introduction of the modified scheme, it is expected that an increased number of farmers will be able to manage risk in agriculture production in a better way and will succeed in stabilizing farm income particularly at the times of crop failure on account of natural calamities.

National farmers Commission 2004

The Indian government has unveiled a national policy for farmers to help in rejuvenating the farm sector and bringing lasting improvement in the economic condition of the farmers. Based on the recommendations made by the Commission in its Revised Draft National Policy for Farmers and the comments/suggestions received from various Central Ministries and Departments and State Governments, the "National Policy for Farmers, 2007" has been formulated and approved by the Government of India. The policy, among other things, aims to improve the economic viability of farming by substantially improving the net income of farmers in addition to improving productivity, profitability, land, water and support services and provide appropriate price policy, risk management measures.

Micro Finance Schemes-SHG Bank Linkage Programs etc.

Under the 11th plan, consistent progress was witnessed in the formation of Self Help Groups (SHGs). According to the SHG bank linkage programme, 6,121,147SHGs, with

saving bank accounts, had savings of Rs 5,546 crore on 31 March 2009, whereas, 5,009,794 SHGs accounted for savings of Rs 3,785 crore on 31 March 2008.

Various Rural Employment Scheme like NREGA for economic upliftment of the rural poor and landless labourers

The outlay for just NREGA in 2010-11 is Rs 40,000 crore. In addition, payments under the various components of the National Social Assistance Program and newer schemes like the pension co contribution, will add another Rs 8,000 crore. The recipients are about 80 million and will receive at least six payments in a year, in other words about 480 million payment transactions, with an average payment size of Rs 1000. The GoI enforcing the condition that NREGA payments must be made into bank (or post office) accounts.

Farmers Field Schools (FFS)

The concept of Farmers Field Schools (FFS) otherwise known as 'Polam Badi' is gaining momentum in the district and several farmers, appreciating the objectives of the programme, are coming forward to organise the field schools in cooperation with co-farmers. The basic objective of the programme is to promote an eco-friendly environment, including popularising the use of bio-agents and bio-pesticides for controlling crop pests, which, in turn reduce cost of cultivation and improve quality of produce resulting in high market price and good returns. The project is being implemented throughout the State to counter the negative impact of the indiscriminate use of fertilizers and pesticides. A study at the national level revealed the disastrous consequences of our cropping practices. The annual crop losses due to pests in India amounts to Rs.90,000 crore and rejection of agriculture exports by overseas agencies every year is registered at Rs.4,000 crore. Our exports are rejected due to high pesticide residue content in crops which pose grave health hazards. Chemical pesticides lead to incurable diseases like cancer and neurological disorders and leave DDT residues in mother's milk. All the above factors had prompted the Central and State governments to launch the concept of FFS.

Pavalavaddi (Crop Loans to Farmers)

To mitigate the financial burden on the farmers the government is providing relief to them by allowing interest incentive over crop loans. Crop loans have been extended to the farmers under Pavala Vaddi at 3% interest rate from 2008-09 onwards. All the farmers who have availed crop loans from Scheduled Commercial Banks / Cooperatives Banks / RRBs and have repaid their loans within the due date are covered under the scheme. The scheme is applicable to farmers who avail crop loans from Rs. 1.00 lakh toRs. 3.00 lakhs. An amount of Rs. 6000.00 lakhs is provided for the scheme in 2013-14 to cover about 7.63 lakh farmers.

Conclusion

The core objectives of these Schemes are to improve the incomes and welfare of peasants and agricultural labourers with a bearing on the livelihood sustainability.