FINANCIAL INCLUSION STRATEGIES IN DEVELOPING COUNTRIES WITH SPECIAL REFERENCE TO INDIA

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Abstract: *Day in and day out, the gap between the haves and have-nots is widening, not only at inter-country level but also at the intra – country level. In this process, a large chunk of population does not have access to the formal financial markets, institutions and instruments. It is estimated that as many as eighty seven percent of marginal households in the world lack access to formal finance , and to fulfill their credit needs, they are resorting to the means of informal and unregulated finance, through money lenders, who charge them as much as hundred percent rate of interest. Thus, this stratum of population, in midst of financial exclusion, has been pushed to the vicious circle of poverty and, therefore, remain outside the growth parameters always. However, recently, the governments in about one hundred and forty two countries have become serious to overcome this menace and decided to design strategies to make formal finance available to the un-bankable at cheaper (price) interest. In this way, Financial Inclusion became a buzzword of these strategies. Financial inclusion, as a pre-condition to inclusive development, refers to the process of ensuring the accessibility, availability and usage of formal financial system for all members of an economy. In this paper, an attempt has been made to examine the financial inclusion efforts made at the global level and highlight the progress made on the subject in SAARC countries, and what strategies were designed and implemented in the fast developing economy like India in the past two decades have been discussed in detail.*
Key Words: *Financial Inclusion, Financial Exclusion, No frills account, Business correspondent*.

INTRODUCTION

It is shocking to note that, in the world, access to finance has been as low as 13% in the rural areas of the poorest households which in other words mean 87% of these marginal households lack access to credit, which charge as much as 100% interest rates on these lending, making them even more vulnerable (World Bank Report, 2006). It has also been found that people borrow at exorbitant rates in case of emergency from local money lenders as formal system of banking and finance is not within their reach. Thus they remain in the vicious circle of Poverty always and forever. Financial Access 2010 survey found that out of 142 countries included in the study, nearly 60 percent experienced a contraction in real per Capita income as a result of the deepening of the global financial crisis during 2008-09.The survey identified broadly six areas viz. Promotion of savings, financial capability, regulation of microfinance, promotion of access to finance for small & medium, enterprises, consumer protection, and most significantly, promotion of rural finance which were included within the financial inclusion agenda of the countries. In 90% of the countries, financial inclusion mandates were on the agenda of many governments, financial regulators and banks; and reform efforts were wide spread, but implementation capacity was often limited (CGAP, 2010). Financial inclusion, as a pre-condition to inclusive development, refers to the process of ensuring the accessibility, availability and usage of formal financial system for all members of an economy. According to Rangarajan Committee (2008), "Financial inclusion is the process of ensuing access to financial services and timely and adequate credit wherever needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". It has been proved that the absence of financial inclusion keeps the disadvantaged and poor away from the growth parameters (World Bank Report, 2008). Taking cognizance of this fact, all countries in the world took active steps in their financial systems to include all sections of population within the ambit of financial inclusion. In this paper an attempt is made to describe the genesis of financial inclusion examine the efforts made regarding the financial inclusion.

Objectives of the Paper:

i) To give a brief description of various efforts taken at the international level regarding financial inclusion;

ii) to analyze the state of financial inclusion in SAARC countries; and

iii) To examine financial inclusion strategies adopted in India.

FINANCIAL INCLUSION EFFORTS AT THE INTERNATIONAL LEVEL

The U.K government has committed to tackle financial exclusion and undertook special proposals in three key areas: Access to banking services, Access to affordable credit and Access to money advice. Access to banking services includes a basic no-frills account and Post-Office Card Account (POCA) and advisory services will be provided by the advice bureaus, NGO's, Community Development Groups, etc. Besides, a Financial Inclusion fund has been set up to tackle financial exclusion under the supervision of Financial Inclusion task force.

In USA, the various developmental initiatives have been taken by the government to deal with the ever complex situation of financial exclusion which includes the enactment of a civil rights law- Community Re-investment Act (CRA). This Act prohibits discrimination by banks against low and moderate income neighborhoods and imposes an affirmative and continuing responsibility on banks to cater to the credit needs of the excluded sections in the areas where they are allowed to do business.

In Germany, the voluntary undertaking by the banking industry endorses to provide current accounts on demand to everyone. In France, however, the Banking Act, 1984 made access to a bank account a legal right.

In Indonesia, the Microfinance Institution (MFI) mode of operation has developed to its full extent and MFI's operating at regional levels are now out numbering the number of commercial banks in the country.

In Bangladesh, the MFI and NGO tie-ups has done wonders which works under prudent regulations of the Govt. and the steering Committee headed by the Governor of the Bangladesh Bank.

FINANCIAL INCLUSION IN SAARC COUNTRIES

South Asian Association for Regional Cooperation (SAARC) provides a platform for South Asian countries to work together in a cooperative manner towards accomplishing certain common goals which can help accelerate the economic and social development in the region (Kumar & Mohantey, 2011). Inclusive finance is not a new concept in SAARC countries. Those countries have a long policy history of developing inclusive banking systems. Historically, however, their interventions have been on the supply side, such as nationalizing private banks, prescribing branch regulations, placing interest rate ceilings on credit to low-income households, and providing credit at subsidized rates to priority sectors etc. Based on Financial Access 2010 survey of 142 countries and world Economic forum, 2010, a Comparative analysis on important aspects of financial inclusion in SAARC nations is presented in table 1.

From table 1, it can be seen that there is a wide variation among countries in the South Asian region in terms of deposit account penetration and access to credit. The deposit account per 1000 population varies from 83 bank accounts in Afghanistan to 1891 bank accounts in Sri Lanka. Similarly, in terms of loan account penetration, it varies from only 3 bank loans per 1000 adults in Afghanistan to 137 bank loans per 1,000 adults in India. The ATM location equally varies from as low as 1 in 1,00,0000 populations in Nepal to 12.29 in Sri Lanka. The Financial Access Index calculated in terms of outreach

Table 1 Indicators of outreach of financial services in SAARC countries

		India	**Bangladesh**	**Pakistan**	**Nepal**	**Sri Lanka**	**Afghanistan**
1	Bank Branch per 1,00,000 population	10.11	5.16	8.68	4.19	9.05	2.00
2	Bank branches per 1000 Kms	26.46	43.14	11.73	5.26	21.38	0.49
3	Deposits accounts per 1000 adults	467.40	228.75	119.84	229.49	1891.74	83.85
4	Loans account per 1000 adults	137.0	54.73	21.93	1.81	12.29	3.32
5	ATM per 100,000 population	7.29	-	4.06	1.81	12.29	--
6	ATM per 1000 Km	19.08	-	5.49	2.27	29.03	0.39
7	Financial Access Index Rank (WEF 57 countries)	49	35	55	-	-	-

Sources:

01. Compiled from Financial Access 2010, www.cgap.org

02. W.E.F (World Economic Forum), 2010, www.weforum.org

ease, cost, and accessibility in both the studies read with main indicators of outreach of financial services suggest that with regard to financial access in South Asian Region, there is a huge gap between the demand for financial services form the unreached and low income households and its supply from the formal sources. This calls for a robust financial inclusion policy in the entire region.

FINANCIAL INCLUSION IN INDIA

The banking industry in India 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, Indian banks have not been able to include vast segment of the population, especially the under-privileged sections of the society, into the fold of basic banking services (Muthu, yattoo and Kadalarasane, 2011). In India 45.9 million farmer households in the country (51.4%) out of a total of 89.3 million households do not have access to credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted (i.e. enjoy credit facilities) to formal sources (Sangmi & Kamili, 2010). Thus, apart from the fact that exclusion in general is large, it varies across states and regions as shown in table 2.

Table 2 Level of Financial Exclusion (Non-indebtedness) of various states in India

State/Region	**Non-indebted farmer HHs@**		**State/Region**	**Non-indebted farmer HHs@**	
	Lakh	%		Lakh	%
Northern	**53.21**	**48.7%**	**West Bengal**	**34.53**	**49.9**
Haryana	9.11	46.9	Central	158.29	58.4
Himachal Pradesh	6.03	66.66	Chhatisgarh	16.50	59.8
Jammu & Kashmir	6.43	68.2	Madhya Pradesh	31.09	59.2
Punjab	6.38	34.6	Uttar Pradesh	102.38	59.7
Rajasthan	25.26	47.6	Uttranchal	8.32	92.8
North Eastern	**28.36**	**80.4**	**Western**	**47.92**	**46.3**
Arunachal Pradesh	1.15	94.1	Gujarat	18.20	48.1
Assam	20.51	81.9	Maharashtra	29.72	45.2
Manipur	1.61	75.2	Southern	44.11	27.3
Meghalaya	2.44	95.9	Andhra Pradesh	10.84	18.0
Mizoram	0.60	76.4	Karnatak	15.52	38.4
Nagaland	0.51	63.5	Kerala `	7.82	35.6
Tripura	1.19	50.8	Tamil Nadu	9.93	25.5
Sikkim	0.36	61.2			
Eastern	126.39	60.0	Group of UTs	0.99	66.9
Bihar	47.42	67.0			
Jharkhand	22.34	79.1	All India	459.26	51.4
Orrissa	22.09	52.2			

Source: National Sample Survey Organization (NSSO) India-2003

The analysis in table 2 reveals that the proportion of non-indebted farmer households at the country level was 51.4% and among the regions, Northern Region 48.7%, North Eastern region 80.4%, Eastern region with 60.0%, Western region 46.3%, Southern region 27.3% and all union territories were financially excluded to the extent of 66.9% (NSS, 2003). Seeing the gloomy picture of this exclusion, the Govt. of India appointed a Committee on financial inclusion to suggest measures and develop strategies for bringing the vast population of the country within the contours of financial inclusion. The committee analyzed the financial exclusion of all sections and all areas of the country and recommended financial inclusion strategies for the nation. The committee propounded that to make financial inclusion successful at the national level, a national mission and a national plan is a must which can act as a vision. These are described as:-

i) National Mission on Financial Inclusion: To take up the task of financial inclusion in a mission mode, a National Mission on Financial Inclusion with representatives of all stakeholders with the aim of achieving universal financial inclusion within a specific time frame at the national level should be set for suggesting policy changes required for achieving the desired level of financial inclusion, and for supporting a range of stakeholders in the domain of public, private and NGO sectors in undertaking promotional Initiatives.

ii) National Rural Financial Inclusion Plan: The committee suggested to launch a National plan with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.57 million by 2012 through rural/semi-urban branches of commercial banks and Regional Rural banks. The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015. The plan for future given by the committee is reflected in the table 3.

The Committee suggested a 179 point strategy for building an inclusive financial sector and observed that financial inclusion must be taken up in a mission mode and representation from all the quarters for support and suggestions is needed. The report suggested certain specific measures like opening of no-frills account, routing National Rural Employment Guarantee Programme (NREGP) payments through banks, product innovation, issue of general purpose credit card, granting overdraft facilities to saving bank accounts, providing services through bio-metric smart cards, leveraging technology, developing business facilitator / Business correspondents as intermediaries in delivering financial services, etc.

Table 3 Analysis of State-wise extent of Exclusion and Plan for covering excluded households

S.No	States/Region	Formally excluded cultivator HHs	Non-Cultivator HHs;juju	Total HHs	50% Coverage by 2012	Total Rural & Semi Urban branches of CBs and RRBs	Per branch coverage 5 years of (No of HHs)	Per branch coverage P2(no of HHs)
	Northern Region							
1	Haryana	11594		11594	5797.00	972	596	119
2	Himachal Pradesh	7334		7334	3667.00	766	479	96
3	**Jammu & Kashmir**	**9162**		**9162**	**4581.00**	**648**	**767**	**141**

4	Punjab	11442		11442	5721.00	1783	321	64
5	Rajasthan	42503		42503	21252.50	2538	837	167
	Total	**82037**		**82037**	**41018**	**6707**	**612**	**122**
	North Eastern Region							
6	Arunachal Pradesh	1217		1217	608.50	69	882	176
7	Assam	24360		24360	12180.00	1042	1169	234
8	Manipur	2114		2114	1057.00	55	1922	384
9	Meghalaya	2541		2541	1270.50	147	864	173
10	Mizoram	719		719	359.50	69	521	104
11	Nagaland	670		670	335.00	72	465	93
12	Tripura	1805		1805	902.50	148	610	122
13	Sikkim	500		500	250.00	56	446	89
	Total	**33926**		**33926**	**16963.00**	**1658**	**1023**	**205**
	Eastern Region							
14	Bihar	65426		65246	32713.00	3078	1063	312
15	Jharkhand	25645		25645	12822.50	1223	1048	210
16	Orissa	28571		28571	14285.50	1913	747	149
17	West Bengal	51531		51531	25765.50	2762	933	187
	Total	**171173**		**171173**	**85586.50**	**8976**	**954**	**191**
	Central Region							
18	Chattisgarh	20277		20277	10138.50	816	1242	248
19	Madhya Pradesh	42656		42656	21328.00	2533	842	168
20	Uttar Pradesh	139051		139051	69525.50	6032	1153	231

Source: Report of the Committee on Financial Inclusion, Reserve Bank of India (RBI)-2008

The Committee suggested a 179 point strategy for building an inclusive financial sector and observed that financial inclusion must be taken up in a mission mode and representation from all the quarters for support and suggestions is needed. The report suggested certain specific measures like opening of no-frills account, routing NREGP payments through banks, product innovation, issue of general purpose credit card, granting overdraft facilities to saving bank accounts, providing services through bio-metric smart cards, leveraging technology, developing business facilitator / Business correspondents as intermediaries in delivering financial services, etc.

INITIATIVES AND PROGRESS OF FINANCIAL INCLUSION

Various steps were initiated by the Govt. of India, Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), various commercial and regional rural banks, Non-Governmental Organizations (NGOs) and state governments. Some of the steps and the achievements registered are discussed as follows:-

i) No Frills Accounts: RBI advised all banks in the country to make available a basic "No Frills" account with no or very low minimum balances and minimum charges to make such accounts accessible and affordable to vast population of the country. The progress made under this head is given in table 4.

Table 4 Number of 'no frills' accounts opened in India in different categories of banks

Category	**March 2006**	**March 2007**	**March 2008**	**March 2009**
Public Sector Banks	3,32,878	5,865,419	11026,619	29,859,178
Private Sector Banks	156388	856495	1560518	3124101
Foreign Banks	231	2753	30260	41482
Total	**4,89,497**	**6,724,667**	**12,617,397**	**33,024,761**

Source: Chandra Shekhar Babu, "Development Through Financial inclusive Financial Sector – Origin and Growth," in Lazar & Aravanan & Deo (Edited) Growth with Equity: Financial Inclusion, Vijay Nicole imprints Pvt. Ltd.: 212

ii) Easier Credit Facility

Banks have been asked to introduce Credit Card facility in the nature of revolving Credit upto Rs 25,000 without insisting on security / collateral especially in the rural areas. In this direction, the scheme of Kisan Credit Card was launched which achieved tremendous progress in the country. A brief snap of the same is given in the table 5.

Table 5 Performance of Kisan credit Cards in India

Year	**Total Number of Cards issued**	**Trend%**	**Total Amount Rs. in Crores**	**Trend %**
2005-06	80,12,251	100	47601	100
2006-07	85,11,478	106	46729	98
2007-08	84,69,602	105	88264	105
2008-09	85,92,473	107	53085	111
2009-10	90,06,123	112	57678	121

Source: RBI 2009-10

iii) Simplify KYC norms

The banks have been advised to observe the new simplified Know your customer (KYC) norms for opening accounts. The relaxed norms are applicable to those balances not exceeding Rs 50,000 and credits thereto not exceeding Rs 100,000 in a year. For this purpose, the banks have been directed to treat Ration Card, PAN Card, identity Card, NREGA card etc. as address proof.

iv) Electronic Benefit Transfer through Banks and NREGA payments

In order to encourage banks adopt information technology, the RBI has reimbursed the cost of opening accounts with bio-metric access/smart cards. The payments to beneficiaries under NREGA are required to be routed through banks. Payments of

NREGA wages through bank are useful means of separating payment agencies from implementing agencies. Opening of accounts of poor rural households provide an immense opportunity to bring the NREGA beneficiaries into the fold of the organized banking. The banks open the accounts under NREGA without any charge and upto November, 2010 the total number of accounts opened has reached to 59,078,983 at the All India Level. However, a picture of NREGA accounts state wise is given in table 6.

Table 6 Population covered under Financial Inclusion through NREGA up to November, 2010

S.No	State/UT	No. of bank A/C opened
1	Andhra Pradesh	1957469
2	Arunachal Pradesh	16512
3	Assam	1483481
4	Bihar	1644246
5	Chhattisgarh	2395973
6	Gujarat	1010054
7	Haryana	722460
8	Himachal Pradesh	722460
9	Jammu & Kashmir	264962
10	Jharkhand	1177219
11	Karnataka	3505564
12	Kerala	1215237
13	Madhya Pradesh	6262342
14	Maharashtra	641981
15	Manipur	101750
16	Meghalaya	21892
17	Mizoram	23515
18	Nagaland	1161
19	Orissa	3861411
20	Punjab	388622
21	Rajasthan	4641539
22	Sikkim	36809
23	Tamil Nadu	15745470
24	Tripura	424832
25	Uttar Pradesh	7141394
26	Uttarkhand	749656
27	West Bengal	3301085
28	Andaman & Nicobar	38689
29	Dadra & Nagar Haveli	13776
30	Daman & Diu	NR
31	Goa	8938
32	Lakshadweep	NR
33	Pondicherry	16409
34	Chandigarh	NR
	Total	**59,078,983**

Source: www.nrega.nic.in

(V) Branch and ATM Expansion

RBI in its new Branch Authorization Policy has totally freed the location of branches and ATMs by the banks in towns and villages with a population less than

50,000. Thus under this policy, branch expansion has been taken up in a big way and network expanded exponentially. The picture is clear in the table 7.

Table 7 Branch and ATM position in India (selected years)

Branch/ATM	2005	2006	2007	2008	2010
Branch per 1 lakh population	6.33	6.37	6.35	6.60	7.13
ATM per 1 lakh population	1.63	1.93	2.40	3.28	5.07
Population per bank branch	----	---	16.0	15.1	14.0
Branches per 1000 sq.km	22.57	22.99	23.5	24.13	25.49
ATM per 1000 sq.km	---	5.93	7.11	9.11	12.68

Source: Getting Finance in South Asia, Kiatchai Sophastienphong, Anoma Kulathunga, The World Bank-2010

(VI) Development Fund and Technology Fund

As to bring, the vast hitherto excluded and vulnerable sections into main stream of banking initially is a herculean task, the committee on inclusive finance suggested to set up supporting funding for promotional and developmental initiatives for the purpose of creating an institutional support structure. Based on the recommendations of this, Govt. of India in collaboration with RBI and NABARD constituted two funds viz. Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF). The FIF for meeting the cost of developmental and promotional interventions of the financial inclusion and FITF to meet the cost of adoption of the technology. Both the funds were created and the position of these is presented in table 8.

Table 8 Contributions to FIF and FITF as on 31.03.2011

Contributed by	FIF (Rs in crores)	FITF (Rs in crores)
Govt. of India	30.00	30.00
RBI	3.05	0.41
NABARD	30.00	40.00
Interest Credited by NABARD	7.61	8.32
TOTAL	**70.66**	**78.73**

Source: NABARD

VII) Business Correspondent

Recognizing the divide between the poor people and the organized financial system, banks were permitted to use the services of individuals, non-governmental organizations (NGOs), micro finance institutions, retired bank employees, ex-serviceman etc. as agents to outreach financial services to un-bankable population of rural areas. These agencies are called Banking correspondents. Banking correspondent (BC) with internet Kiosks at villages as well as armed with mobile phones with back-end interface are used extensively. Under this model, a BC goes home to home in a village and collects small savings from villagers on behalf of a bank. If they want to withdraw from their accounts, the same BC gives them the money as required by them. Thus BC acts as a mobile bank branch for the villagers.

VIII) Common Service centers

The common service centers (CSCs) are ICT enabled front end service delivery points at the village level for delivery Government, financial, social and private sector services in the areas of agriculture, health, education. Entertainment, banking, insurance, pension, utility payments etc. A typical CSC is enabled with a PC, printer, scanner, UPS, digital/ web camera and broad connectivity. Under PPP mode, the CSC envisages a three-tier structure consisting of the CSC operator(called Village level entrepreneur/VLE, the service centre agency (SCA), and a State Designated agency(SDA) identified by the state govt. to manage it in the state.

Services offered by CSCs include-Account opening, Deposit/ withdrawal in account, NREGA's wage payment, govt. pension distribution, Loan for farm equipments and house, Micro finance for small ventures, loan recovery, etc.

In India 1 lakh (100,000) CSCs have been established. CSCs operationalized by AISECT have opened over 3,00,000 bank accounts for SBI, enabling transactions worth over Rs. 200 crores in one year.

IX) Financial Literacy

Setting up credit counseling and financial education and multilingual website in 13 Indian languages on all matters concerning banking and the common person in the year 2007 by RBI is a step further in the direction of financial literacy (Babu, 2011). Moreover, in every state, the RBI has advised the Convener Bank of each state level bankers committee (SLBC) to set up a financial literacy-cum-counseling centre in any one district on a pilot basis, and then extending the facility to other centers in due course. In this centre full information regarding banking, insurance and other financial services is provided to the general public who later this for their financial decision making. This programme has been launched a few years ago in all states and now lot of seminars, symposia, is conducted in all states. The media strategies through TV and community Radio programmes have improved the financial literacy of the citizens.

CONCLUSION

From the above discussion, it may be concluded that India along with other countries of the world has put Financial Inclusion process into a mission mode given that it can effectively help in addressing the concern of inclusive growth. However, still Financial exclusion remains an area of concern given the low levels of financial penetration and deepening in the country- only 30,000 habitations out of a total of 6,00,000 habitations have a commercial bank branch and just about 40% of population across the country have bank accounts. The proportion of people having a life insurance cover is 10% and proportion having non-life insurance cover is abysmally as low as 0.6%

of population (Chakrobarty, 2009). This requires continuous efforts on all fronts by all stake holders if India wants to achieve 100% financial inclusion in the coming years and be free from poverty.

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