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# GROWTH THROUGH FINANCIAL INCLUSION IN INDIA

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**Abstract:** Financial inclusion is the ease of access, availability and use of the formal financial system by all members of the economy. The growing literature on financial inclusion has provided plenty of evidence of the merits of an inclusive financial system. However, we notice an absence of a comprehensive measure that can be used to measure the extent of financial inclusion in an economy. This study is an attempt to fill this gap, and, thus, make an original contribution. We propose an index of financial inclusion (IFI) following a multidimensional approach. The IFI developed here can be used to compare levels of financial inclusion across economies at a particular point of time. It can also be used to monitor the progress of policy initiatives for financial inclusion over a period of time. And, most important, such an index can be of interest to the research community in order to investigate empirical questions on relationship between development and financial inclusion. The IFI developed here incorporates information on various dimensions of an inclusive financial system, and it is easy to compute.

The promotion of an inclusive financial system is considered a policy priority in many countries. While the importance of financial inclusion is widely recognized, literature fails to offer a comprehensive measure to measure the extent of financial inclusion across economies. This study attempts to fill this gap by proposing an index of financial inclusion (IFI). The IFI is a multi-dimensional index that captures information on various dimensions of financial inclusion in one single digit between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. The proposed index is easy to compute and is comparable across countries.

**Keywords:** Financial inclusion, growth, multidimensional approach policy initiatives, financial system

## Introduction

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 savings or current account with any bank. In reality, it includes loans, insurance services, and much more.

The Indian banking system will have to deliver on the plan for financial inclusion, the system, which demonstrated its resilience in the face of the recent global financial crisis, should adopt strong and urgent measures to reach the unbanked segment of society and unlock their savings and investment potentials.

An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and, thus, can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help reduce the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. Thus, an all-inclusive financial system would enhance efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

The importance of an inclusive financial system is widely recognized in the policy circle, and, recently, financial inclusion has become a policy priority in many countries. Initiatives for financial inclusion have come from the financial regulators, the governments, and the banking industry. Legislative measures have been initiated in some countries.

The banking sector has also taken a lead role in promoting financial inclusion. In India, the Reserve Bank of India (RBI) has initiated several measures to achieve greater financial inclusion, such as facilitating ―no-frills ‖ accounts and ―General Credit Cards ‖ for low deposit and credit. Alternate financial institutions, such as micro-finance institutions and Self-Help Groups, have also been promoted in some countries in order to reach financial services to the excluded. Recently, the SKS Microfinance group was oversubscribed, which highlighted the need and significance of microfinance in India.

Financial inclusion is no less important than social inclusion. As we see in our society, millions of people are not considered for fair treatment either from the social institutions or from the financial institutions. It is commendable that, of late, the policy makers and banking institutions have come forward to address the issue of banking exclusion.

It is estimated that, globally, over two billion people are excluded from access to financial services, of which one third is in India. The Committee on Financial Inclusion (Rangarajan Committee, 2006) observed that in India 51.4% of farmer households are financially excluded from both formal and informal sources, and 73% of the farmer households do not access formal sources of credit. To be specific, those excluded are marginal farmers who happen to be women, who are further excluded right from the first stage of perception.

Financial inclusion is a complex issue, not simple. There are issues in our approach. When the excluded sections approach formal financial institutions, they are confronted with problems of accessibility, timeliness, and inadequacy of credit. For one reason or other, they are compelled to approach the informal agencies to meet their credit demands as we all know. An all-out effort has to be taken to address these problems that are not simple.

## Objective

This is a detailed study of financial inclusion and findings on how financial inclusion has contributed to inclusive growth (in India with, citations from other countries). The study examines the relationship of financial inclusion and development and proceeds to propose an index for measuring financial inclusion.

## Literature Review

According to Dr. Chakrabarty, Deputy Governor, Reserve Bank of India[1] ―Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities. ‖ In order for growth to be inclusive, there needs to be not

only the creation of economic opportunities, but also equal access to them. Inclusive growth can, thus, also contribute to poverty reduction by creating productive economic opportunities for poor and vulnerable groups. This address given by the Deputy Governor of the Reserve Bank of India discusses the important contribution of financial inclusion as a driver of inclusive growth. The definition of financial inclusion relied upon 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. ‖ The speaker notes that there is evidence which indicates that countries with a high degree of financial exclusion also show higher poverty rations and higher inequality.

Dr. Chakrabarty outlines supply-side and demand-side factors driving inclusive growth. On the supply side, poor individuals and small and micro-enterprises often have difficulties in accessing formal sources of credit. They have to rely on personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities. Banks are expected to mitigate the supply-side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. On the demand side, lower income and /or asset holdings also impact significantly on financial inclusion. Agriculture plays a central role here, as the majority of India‘s population derives employment from this sector. Agriculture thus is important not only for high growth but also inclusive growth.

## Methodology

As an inclusive financial system should be judged from several dimensions, a multidimensional approach is followed while constructing the index of financial inclusion (IFI). The approach is similar to that used by UNDP (offer expansion) for computation of some well-known development indexes, such as the HDI, the HPI, the GDI, and so on. As in the case of these indexes, proposed IFI is computed by first calculating a dimension index for each dimension of financial inclusion. The dimension index for the ith dimension, di, is computed by the following formula.2

di=Ai-mi/Mi-mi

where

Ai = Actual value of dimension i

mi = minimum value of dimension i

Mi = maximum value of dimension i

The formula ensures that 0 ≤ di ≤ 1. The higher the value of di, the higher the country‘ s achievement in dimension i is. If n dimensions of financial inclusion are considered then, a country i will be represented by a point Di = (d1, d2, d3, ….dn) on the n dimensional Cartesian space.

In the n-dimensional space, the point O = (0,0,0,…0) represents the point indicating the worst situation while the point I = (1,1,1,…,1) represents the highest achievement in all dimensions. The index of financial inclusion, IFIi for the ith country, then, is measured by the normalized inverse Euclidean distance of the point Di from the ideal point I= (1,1,1,….1). The exact formula is

$$IFI_i = 1 - \frac{\sqrt{(1-d_1)^2 + (1-d_2)^2 + .. + (1-d_n)^2}}{\sqrt{n}}$$

In this formula the numerator of the second component is the Euclidean distance of Di from the ideal point I, normalizing it by n and subtracting by 1 gives the inverse normalized distance. The normalization is done in order to make the value lie between 0 and 1 and the inverse distance is considered so that the higher the value of the IFI corresponds to higher financial inclusion.

## Detailed Analysis of Financial Inclusion

According to the United Nations, three billion people around the world do not have access to formal financial services like savings accounts, credit, insurance, and payment services. More than half the population in developing countries and more than 80 percent of households in most of Africa is financially excluded. Financial inclusion aims to provide timely delivery of various financial services at an affordable price to financially excluded households and micro, small and medium-sized entrepreneurs. Through increased access to savings accounts and other financial services, the poor can build financial security, manage risks against adverse shocks, such as illness or natural disaster, and even invest in new business opportunities. More importantly, recent research shows that improving access to finance plays a crucial role in promoting economic growth and reducing poverty.

Microfinance was an initial effort to reduce poverty by improving access to finance for the poor. About three decades ago, Muhammad Yunus, the 2006 Nobel Laureate, established the Grameen Bank in Bangladesh. Microfinance institutions (―MFIs ‖ ) like the Grameen Bank make small loans to the poor who have no collateral or credit history and cannot borrow from mainstream financial institutions. MFIs‘ unique group lending schemes incentivize borrowers to repay, and the global average repayment rates have been unexpectedly high (96 percent). However, microfinance alone cannot expand financial access for the poor. MFIs offer services to only 150 million poor people around the globe, and most financially excluded people still lack access to finance. Building an inclusive financial system is a more comprehensive effort. It emphasizes that formal financial institutions such as banks also have important roles to play in expanding financial access to the poor. It also stresses the importance of governments‘ role in creating a proper environment to facilitate increased financial access.

### *Why Does Financial Inclusion Matter?*

A well-functioning financial system is a crucial part of development, promoting economic growth and reducing poverty. Financial institutions and markets mobilize savings, provide payment services, allocate resources and transform risk by pooling and repackaging it. When a financial market functions well, funds will likely be allocated to the most productive users, which will contribute to economic growth and poverty reduction. However, when the market does not function properly, it loses growth opportunities. The financial system becomes more efficient and functions better when it is more inclusive. By being inclusive, it provides more growth opportunities to more individuals and entrepreneurs. Improving access to finance for the poor has been emphasized as an effective tool for achieving the Millennium Development Goals (MDGs). The way in which access to financial services can help achieve the MDGs is explained below.

Goal 1: Eradicate extreme hunger and poverty

With access to financial services such as savings accounts, loans and insurance, the poor can build financial security, diversify income sources, and reduce their vulnerability to economic shocks. In addition, improving access to finance is likely to reduce inequality and poverty.

Goal 2: Achieve universal primary education

When households have access to microfinance, they are more likely to send their children to school, and the children are more likely to stay in school for a longer period of time. Also, with access to credit, savings and insurance, households are less likely to rely on their children's labor.

Goal 3: Promote gender equality and empowering women

MFIs have been targeting women as their main clients in an effort to enhance the status of poor women in their homes and the community by giving them ownership of assets.

Goals 4, 5, and 6: Reduce child mortality, improve maternal health and combat HIV/AIDs, malaria and other diseases

Many MFIs provide health education along with microloans to their clients. These programs help clients become more aware of health issues and take preventive actions, such as immunizing their children. Also, many MFIs provide health insurance products so that the poor clients receive timely treatment.

Goal 7: Ensure environmental sustainability

MFIs have been supporting the purchase of ―sustainable energy products‖ such as solar powered lamps. Given that a large portion of microcredit is used for agricultural businesses, MFIs can promote environmentally sustainable practices in agriculture.

***How to Measure Financial Inclusiveness?***

Measuring and comparing access can be challenging because there are no readily obtainable indicators of access and different countries and institutions may define financial access differently. However, in order for policymakers to understand the impact of access to financial services and to design effective policies to improve access, it is very important to measure access and identify the barriers to access.

In 2005, the World Bank published indicators of financial access and updated them in 2010. In measuring financial inclusiveness, the Bank focused on the groups that are involuntarily excluded from financial services due to discriminatory lending policies, lack of the contractual or informational framework, or inadequate price and product (see Figure 1).

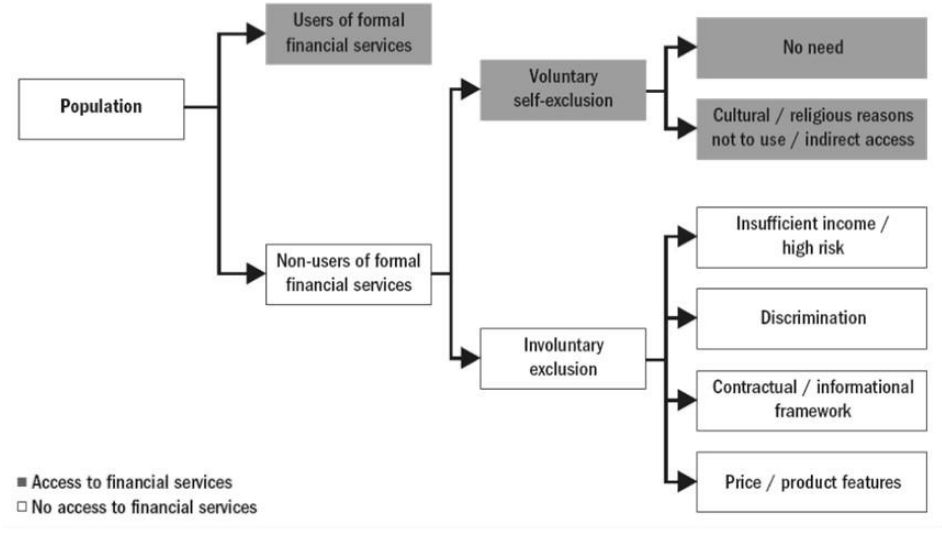



*Figure 1.* Distinguishing between access to and use of financial services[3]

There are three main approaches to measuring financial access.

***1) Number of Users of Financial Services.*** While aggregated indicators, such as the total number of bank accounts, abound, the exact number of people who possess a bank account is unknown. The aggregated indicators can be unreliable, as some households or enterprises may own several accounts. Due to this limited value of aggregated data, researchers created so-called ―headline indicators‖ by using a census or survey of users along with aggregated data.

According to the World Bank, these headline indicators show that less than 50 percent of households in many developing countries have some kind of account. In many African countries, more than 80 percent of households do not have a bank account. In contrast, more than 90 percent of households possess a bank account in several European countries.

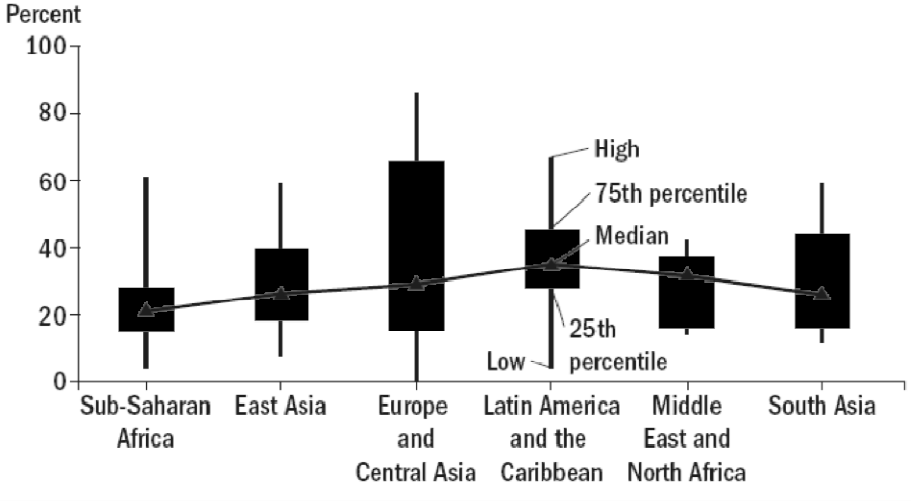



*Figure 2.* Proportion of households with an account in a financial institution[4]

(NOTE: This figure shows ―the highest and lowest national % as well as median and quartiles, for the countries in each region.)

***2) Firms' Subjective Assessments.*** In the case of firms, there are several useful surveys, such as ―the World Business Environment Survey‖ and ―the Investment Climate Assessment‖ surveys. These surveys provide information regarding to what extent firms experience difficulties in operating and expanding their businesses due to inaccessibility to finance or high cost of external finance (obtaining funds from outside of the firms). These surveys suggest that small firms tend to experience more difficulties in obtaining external finance. For small firms, only less than 20 percent use external finance, while around 50 percent of large firms use external finance. Also, small firms say that lack of access to finance is one of the most critical business impediments they face. In regions such as Africa, the Middle East, and Latin America, at least 40 % firms respond that their growth is constrained by lack of access to and cost of external finance (see Figure 3).

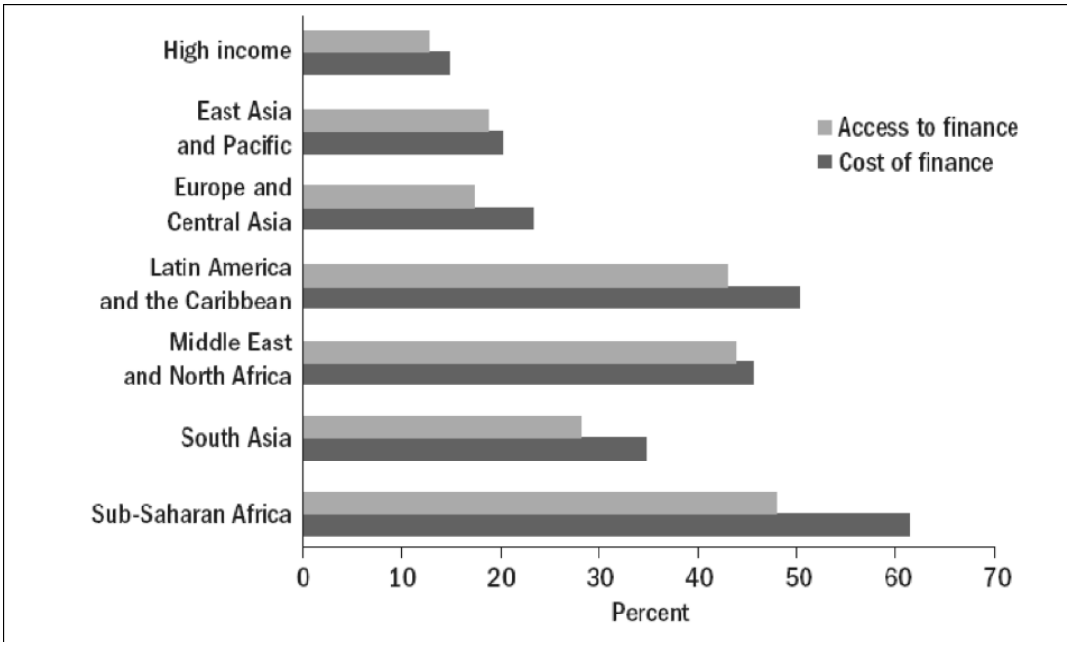



*Figure 3.* % of firms reporting finance as a problems

(NOTE: This figure demonstrates the % of firms which reported that ―access to finance or cost of finance‖ is a ―severe or major obstacle‖ to expanding their businesses.)

***3) Geographical and Cost Barriers.*** Identifying barriers to access to financial services is also an important part of measuring access. Major barriers include limited geographical access to a bank, lack of appropriate documents (e.g., drivers licenses), and account fees or minimum balance requirements. In the case of geographical access barriers, for example, access can be measured by knowing how far clients are located from the nearest bank branch or an ATM (or measuring the ―density of branches per square kilometer or per capita‖). For example, Botswana has only one branch per 10,000 square kilometers and Ethiopia has even fewer than one branch per 100,000 people. In comparison, Spain has a more inclusive financial system, with 96 branches per 100,000 people and 790 branches per 10,000 square kilometers. When the density of branches is high, more individuals are likely to have a bank account.

***How Does Access to Finance Impact Households?***

By having access to financial services, poor households obtain reliable tools for managing their money.

Since the incomes of poor households are unstable, their needs for reliable financial services are greater than those of richer households. By borrowing and saving, poor households can meet basic consumption needs, such as having food on the table every day. Furthermore, they can save money for education expand their business opportunities or use during emergencies.

Moreover, poor households also benefit from higher incomes and more and better employment opportunities as financial development reduces poverty through economic growth. In order to foster financial development, it is important to promote more efficient capital allocation. When 50 to 80 percent of the population around the globe lacks access to finance, it will be hard to achieve efficient allocation of capital without improving access to those large parts of the population. In this regard, the World Bank's report, ―Finance for All, ‖ emphasizes the need to broaden the focus of financial inclusion from poor households to all excluded households and firms, including non-poor micro and small- and medium-sized entrepreneurs.

***How Does Access to Finance Impact Firms?***

When a firm has access to external finance, it is likely to grow faster. In India, for example, small- and medium-sized firms have expanded their operations after becoming eligible to borrow from a bank at subsidized interest rates. Moreover, by having access to finance, small firms can allocate assets more efficiently, and can increase innovation. By contrast, when small firms face difficulties in obtaining external finance, they lose opportunities to grow and innovate.

Foreign banks entry into developing countries tends to improve access to finance for firms. Although most large foreign banks focus on lending to larger firms rather than small- and medium-sized enterprises (SMEs), often this forces local banks, facing increased competition for large firm business, to look for profitable services in segments that they had previously ignored−like SMEs. Also, when the market share of foreign banks is higher, there are fewer firms that face obstacles to external finance.

**Computation of IFI[6]**

In the index of financial inclusion presented here, we consider three basic dimensions of an inclusive financial system: banking penetration (BP), availability of the banking services (BS) and usage of the banking system (BU). These dimensions are largely motivated by two factors -- data availability for a large number of countries and recent development in the literature

***Dimension 1: Banking penetration.*** An inclusive financial system should have as many users as possible; that is, an inclusive financial system should penetrate widely amongst its users. The size of the ―banked ‖ population, i.e. number of people having a bank account is a measure of the banking penetration of the system. Thus, if every person in an economy has a bank account, then the value of this measure would be 1 In the absence of the data on ―banked ‖ population, we use number of bank accounts as a proportion of the total population as an indicator of this dimension.

***Dimension 2: Availability of banking services.*** The services of an inclusive financial system should be easily available to its users. Availability of services can be indicated by the number of bank outlets (per 1000 population) and/or by the number of ATM per 1000 people, or the number of bank employees per customer. In the absence of comparable data on the number of ATMs and number of bank staff for a large number of countries, we use the number of bank branches per 1000 population to measure the availability

dimension.

***Dimension 3: Usage.*** This dimension is motivated by the notion of ―under banked‖ or ―marginally banked‖ people, as observed by Kempson et al (2004)[7]. They have observed that ―in some apparently very highly-banked countries, a number of people with bank account are nonetheless making very little use of the services on offer‖. These people are termed ―under-banked‖ or ―marginally banked‖. Thus, merely having a bank account is not enough for an inclusive financial system; it is also imperative that the banking services are adequately utilized. In incorporating the usage dimension in our index, we consider two basic services of the banking system –credit and deposit. Accordingly, the volume of credit and deposit as proportion of the country's GDP has been used to measure this dimension.

Thus, considering the above three dimensions –penetration, availability and usage– we can represent a country i by a point (pi, ai, ui) in the three dimensional Cartesian space, such that $0 \leqslant$ pi, ai, ui $\leqslant 1$, where pi, ai and ui denote the dimension indexes for country i computed using formula (1). In the three dimensional Cartesian space, the point (0, 0, 0) will indicate the worst situation (complete financial exclusion) and the point (1, 1, 1) will indicate the best or ideal situation (complete financial inclusion). The IFI for the country i is measured by the normalized inverse Euclidean distance of the point (pi, ai, ui) from the ideal point (1, 1, 1). Algebraically,

$$IFI = 1 - \sqrt{\frac{(1-p_i)^2 + (1-a_i)^2 + (1-u_i)^2}{3}}$$

***Data***

While computing an index such as the one proposed here, availability of data is an important challenge. We found that the latest year for which some data are available is 2008. For financial (banking) penetration dimension, we have used the data on ―Bank Deposit Accounts‖ from World Development Indicators (2008) of the World Bank. These are deposit accounts, including checking (or current), savings, and time deposit accounts for business, individuals and others. For the availability dimension, we have taken the data on deposit money bank branches from the same source. Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits. For the usage dimension, we have used the data on ―domestic claims on the private and resident sector‖ and the data on ―total deposits‖ from International Financial Statistics (IFS, 2006) of the IMF.

## Results

Using data on all three dimensions (*penetration*, *availability* and *usage*) for India and data for *availability* and *usage* dimensions for the year 2008, IFI values have been computed. Depending on the value of IFI, countries are categorized into three categories, viz.:

1. $0.5 < IFI \leq 1$ – high financial inclusion
2. $0.3 \leq IFI < 0.5$ – medium financial inclusion
3. $0 \leq IFI < 0.3$ – low financial inclusion

It was calculated that:

Degree of Penetration (D1) was: **0.185**

Degree of Availability (D2) was: **0.096**

Degree of Usage (D3) was: **0.186**

Thus the Index of Financial Inclusion of India came out to be: **0.194** which means it is below 0.3 and has a **low** financial inclusion

## Strategies for Inclusive Growth

The key components of the _inclusive growth' strategy includes a sharp increase in investment in rural areas, rural infrastructure and agriculture; spurt in credit for farmers; increase in rural employment through a unique social safety net; and a sharp increase in public spending on education and health care. There is a pressing need for making banking and financial services available to every part of the country. Also, in a country like India with diverse social and economic profile, financial education is particularly relevant for people who are resource poor and who operate at the margin and are vulnerable to persistent downward financial pressures.

### *Measures Used in the Past*[8]

Access to financial services is in a very dismal state in the country. Typically one branch in India caters to banking needs of around 16,000 persons (RBI, 2010). Introduction of the Self Help Group (SHG)-bank linkage programs in the early 1990s through the National Bank for Agriculture and Rural Development (NABARD) with the policy support from Reserve Bank was to facilitate a concept called ―door step banking. ‖ By developing habits of pooling up their savings, handling loans and keeping accounts the program gradually build financial discipline among SHG members, and they get ready for larger loans. Today, 12 million poor women have access to savings and credit services through 800,000 SHGs all over the country. Over 30,000 branches of regulated banking structure are involved in this phenomenon. They have mobilized loans of over 2000 Crore Rupees (NABARD, 2008).Micro finance is considered as a viable tool for reaching the unreached.

The Kisan Credit Cards (KCC) scheme was started by the GOI in consultation with the RBI and NABARD in 1998-99 to join the features of two of the then existing schemes namely, Agricultural Credit Cards and Cash Credit Facility offered by PSU banks and to overcome their shortcomings. However for this scheme to be successful, education of both the farmers and also the bank officials about the scheme are required. Swarnjayanti Gram Swarozgar Yojana (SGSY) was setup with the objective of bringing the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. But the poor credit absorption capacity of the poor can be illustrated by the prevalent credit-subsidy ratio under SGSY at about 2:1, much below the target ratio of 3:1, partly due to failure to strengthen the demand side of the credit by improving the capacity of the poor to absorb credit for income generating activities.

To achieve the objective of greater financial inclusion, RBI advised all banks to make available a basic banking ―no-frills ‖ account either with ―nil ‖ or very low minimum balances, as well as reduced charges that would make such accounts accessible to vast sections of population. The Reserve Bank of India said there has been a considerable progress in most regions; where Gujarat has 90% financial inclusion, the progress in Bihar and North East has not been good. As of May 2010 the domestic banks have opened 1.8 million no-frills accounts in the country, but it is still very early to reach a conclusion about it.

***Government Policies to Improve Access to Finance***

Governments can contribute to improving access to finance through appropriate policies, legislation, etc. However, experience suggests that not all government policies are helpful, and governments' direct intervention could be counterproductive. In order to share successful policies and avoid ineffective ones, policymakers in developing countries formed a global network, called ―Alliance for Financial Inclusion‖ in 2008. Although reforming overall institutions and building infrastructure will take a long time, governments can improve access to finance relatively fast by prioritizing certain institutional reforms and focusing on specific infrastructures. Reforming information infrastructures such as building credit registries and improving debt recovery procedures, tend to generate fast results in improving access to finance. For example, India established Debt Recovery Tribunals (―DRTs‖) to speed up a debt recovery procedure. Under this system, banks can recover loans faster by filing claims in DRTs without going through court proceedings that may involve corrupt judges and delays. This new mechanism has contributed to increasing loan recovery rates and lowering interest rates on loans.

In particular, it is noteworthy that governments can improve access by providing legislation and regulations that would allow market participants to use innovative technologies (e.g., the Internet and cell phones) to reduce the cost of providing financial services significantly. While banks invest substantial amounts of money for infrastructure and personnel under the traditional branch-banking approach, mobile banking allows banks to provide financial services at reduced costs

The government's appropriate policy actions made this impressive success possible. A recent paper by the Brookings Institution identified several factors that contributed to such success. First, the government created a favorable environment to expand the mobile phone market. Although mobile phone penetration rates in Kenya were very low in 1990s compared to some countries in Africa, the number of mobile phone users rose sharply from 15,000 in 1999 to 16 million in 2008 after the government facilitated reforms in the telecommunication sector by enacting ―the Kenya Communication Act.‖ The government also provided an efficient tax system and a stable legal structure and encouraged innovation. Second, the government engaged the private sector in its policy-making process to make sure that government will provide support for service providers and to evaluate possible risks to financial stability (e.g., possibility of fraudulent movement of funds). In introducing M-PESA, the private sector's contribution was especially effective, since it was well supported by their research and evidence. Third, the government strategically chose to allow technological innovations before enacting appropriate legislation in order to expand access to finance. Allowing new products into the market in the absence of relevant legislation may compromise financial stability. However, the government successfully balanced access with stability by carefully monitoring the market and enhancing oversight capacity to ensure the financial stability.

Governments can also improve access by facilitating competition. As competition intensifies, incumbent financial institutions are likely to extend services to a new market and try new, cost-effective technologies in an effort to find new ways to increase profits. However, it is also important to make sure through regulatory measures that intense competition would not result in reckless and improper lending practices. One of those measures is setting a ceiling on interest rates. Although many governments have used this measure, clients are still vulnerable to abusive lending practices because banks tend to require higher fees and additional charges to offset lower interest rates.

While governments' role in creating an appropriate environment to facilitate access is important, the scope of their direct intervention is limited, and direct intervention programs require careful monitoring. In most cases, providing direct credit through government-controlled financial institutions has not worked well in part because the lending decisions are likely to be distorted by political influences. By initiating the public/private partnerships, however, governments can play a role in starting new financial services and widen access to finance.

## Financial Education

Given all these challenges of financial inclusion under difficult circumstances and with few resources to fall back upon, could be accentuated by the lack of skills and well informed decisions. It encourages under banked consumers to get into or may be to make better use of the financial mainstream and, also, to help them to retain as successful account holders in the shorter perspective. It also contributes in keeping them as savers for the longer perspective and can contribute to asset building among households.

a) Community Finance Learning Initiatives (CFLIs) should be introduced with a view of promotion of basic financial literacy among the rural people

b) A Dominant Perspective that finance for the rural people and the poor people was a social obligation and it is not a potential business opportunity

## Recommendations

The major reasons for failure of Financial Inclusion in the past in spite of initiatives were: a) absence of technology, b) absence of reach and coverage, c) inefficient delivery mechanism, d) absence of business model, and e) lack of compassion for poor among rich. But, today, there is an increase in focus on inclusive growth. Banking technology has progressed fast enough and more importantly the realization that the poor is bankable has arrived. Various immediate measures which government of India should implement or which are under implementations but should be executed in a more effective manner are

Strengthen agency banking (micro finance institutions, business facilitators and business correspondents). Our very old post offices will be an ideal channel to pursue the future long term goals of agency banking especially in rural India. A Post Office Card Account may be created for those who are not able or unwilling to access a basic bank account.

Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications.

Increase coverage under mobile banking and satellite banking and develop new platforms. Recent developments from private players like Nokia, which has introduced Nokia Life Tools, should be targeted as potential partners in achieving such goals.

Have interest rate ceilings specified for NGO/MFI for they tend to charge higher rates of interest in a sugar coated form. These legalities can be introduced once an NGO/MFI enters into partnership with a bank.

Corporate social responsibility: The CSR cells of MNC's and other firms can contribute by means of a common platform or even individually. Contribution can be cash grants to registered NGO/MFI's, which will be responsible for disbursement, or the CSR cell can act as potential

customers for goods produced by the cottage industries. This model has been highly successful in the United Kingdom and even in eastern rural regions.

***Long Term Measures***

Legal requirement that each and every citizen or resident should have access to transaction banking and payment services with an independent supervisory body to enforce and control the implementation.

Financing infrastructure development: The rural economy has a big need to upgrade necessary infrastructure and, thereby, contribute to enhanced development capacity, poverty reduction, and improved living standards. To this it was agreed to work towards adopting sustainable and viable financing policies and supporting technical assistance, capacity-building, and knowledge-sharing initiatives to make infrastructure markets operate more effectively.

National registers of information of payment defaults, as well as bankruptcies and court judgments, to address credit use difficulties by protection of vulnerable consumers from exploitative lending and ensuring the provision of appropriate credit on the market.

## Conclusion

Financial inclusion has been a catch phrase for the past few years. Delivering financial services to all sections of the population will remain a challenge that central banks around the world will face over the next few years. Increasing educational levels means more financial inclusion; therefore, a literate population must be created in order to create a meaningful financially included population. Innovation and out-of-the-box thinking are what has made the world what it is today. We can never be complacent with what we have or what we have achieved; the human life is an endeavor for progress and a better life This should be the case with financial inclusion; we cannot become complacent and become victims of our own success. Not only should people have access to basic financial services but should also actively use them. A modern and a globalized economy cannot be successful unless it is inclusive. With enthusiasm and foresight, this challenge would be overcome rather simply. We should not lose the enthusiasm with which we started and that mediocrity or partial success cannot considered as same as success.

Developing and under-developed economies all over the globe are looking for new modes and means to contain poverty and include their citizens in the financial system. It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion.

The main focus of the banks in the country has been towards using business correspondents for reaching out to the unbanked population. However, with the increasing penetration of telecommunications in the country and greater reach, mobile based business models (also referred to as M-Banking) will prove to be instrumental in realizing branchless banking and taking it to higher grounds by enabling low cost and real time transactions over secure networks.

**Notes**

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