

Chapter 1 Introduction

1.1 Introduction

Absolute free market mechanism has failed miserably in different parts of the world and many too big corporations have been severely affected by the great recession. It has failed to take care of all people in the growth and development. Now, it is increasingly realized that state intervention is desirable to take care of those who could not catch the superfast train of capitalism.

Provision of food, education, health and basic amenities to its citizens is the prime responsibility of any state specially welfare state like India. The government takes all necessary steps to ensure livelihood and a respectable quality of life to the last man in the last row. In this regard, state cannot be a silent spectator in economic system rather it intervenes actively in the economic process to achieve desired results through progressive taxation, public expenditure, administered price mechanism and inclusion practices. Thus, state has a great role to play in improving the life of a common man today.

Growth is key to enhance economic empowerment of common man. Any sustainable growth process should ensure participation of all players in an economic system because participation of larger section ensures shock absorbers in the event of recession. Thus, worldwide it is increasingly realized that inclusive growth is key to achieve sustainable growth, peace and prosperity of the nation as a whole. Any growth process requires optimum utilization of natural and human resources most efficiently. Productive processes depend upon timely availability of financial resources because finance is the

pre-requisite in any productive activity. It is said that finance is the blood life of any economic activity. First of all, small business and entrepreneurs should be pooled in an effective way then only it can be distributed for productive processes in order to provide finance for economic activities to common man. Mobilization of financial resources to create a pool for further allocations to various productive activities requires a vibrant economic system. The financial system plays an essential role in the mobilization and allocation of the savings from saving surplus units to saving deficit units. The Indian financial system has an impressive network of banks, financial instruments and a wide range of financial services. These financial resources should be available to all people and enterprises, who want to use these recourses in productive purposes without excluding poor and marginalized sections of society. Otherwise only few people and organizations will participate in the growth process and it will not achieve broader level. Thus, it is now realized that inclusive finance is a prerequisite for inclusive growth. Globally many economists are of the view that availability of adequate finances to the small and medium enterprises leads to inclusive and sustainable growth that is why the term financial inclusion is widely discussed among academicians, bankers and policy makers.

Financial institutions, instruments of borrowing and lending, financial market, which comprise the financial sector, act as a mediator for the transfer of funds from those whose expenditure is less than what they earn. There are number of studies indicating that a well-developed financial system can be an effective poverty alleviation tool and it also uplifts the living standard of the people. It ensures that poor households and small

entrepreneurs need not depend on middlemen. Financial inclusion helps to develop the financial system and facilitate the people with the benefits.

The expansion of financial services in the whole economy is very important because it leads to the promotion of the economic development and growth. It will include poor sections in rural and urban areas like farmers, small vendors, agricultural and industrial laborers, people engaged in unorganized sectors, unemployed, women, children, old people, physically challenged people, who can be benefited through the banking inclusion. The poor people belonging to all sections of the society will get opportunity to come into banking fold. They will be able to open accounts and can save money, whereas they will also be able to use the credit facilities. The deposits of the poor people will result in increase the resources of banks. Banking habit will help people to avoid risks associated with holding of cash and cash transaction. Banking inclusion will create opportunities for banks to increase the number of their savings bank accounts which will also lead to increase their size of business. Lending programs of banks and micro credit will empower people at lowest strata of the society enabling them to get rid of their poverty themselves.

The Government of India, RBI and other institutions have taken a number of initiatives to ensure inclusion in the development process through many ambitious schemes such as National Rural Employment Guarantee Scheme, the Bharat Nirman Programme and the Sarva Siksha Abhiyan etc. The Government of India constituted a committee on financial inclusion in 2006 and Dr. C. Rangarajan was appointed as chairman of this committee. This committee was constituted to recommend strategy to achieve higher financial inclusion in India. Recently Prime Minister of India, Sh.Narendra Modi launched a new

financial inclusion scheme namely 'Pradhan Mantri Jan Dhan Yojana on 15th August 2014 to help the poor people in opening bank account which will provide the Rupay card facility and insurance cover of one lakh rupees (Modi, 2014). Planning commission of India has set the target of inclusive growth in Eleventh Five Year Plan (2007-12) and faster sustainable and more inclusive growth for Twelfth Five Year Plan (2012-17). Government is putting continuous efforts in order to achieve the targets of five year plans. In the context of India, mainly three sectors are contributing in our Gross Domestic Products (GDP) namely agriculture, manufacturing, and service sectors. Service sector contributes a major portion of Indian GDP (including construction) with 64.8 percent at factor cost (at current price) in 2013-14 (Economic Survey 2013-14, pp. 175). Financial inclusion plays an important role in the growth of all sectors of the economy and ultimately leads to inclusive growth story of India. The focus of the financial inclusion in India is to promote the sustainable development and generating the employment to for rural and urban poor. In rural area, maximum numbers of people are financial excluded being a non-salaried person. Salaried persons have relatively easier access to credit from financial institutions because they can fulfill required paperwork and conditions needed by commercial banks for granting a loan (Mahambare & Saletore 2014). Thus, there are few challenges in financial inclusion, but the cost of inclusion is not more than its fruits which will ultimately provide platform for inclusive and sustainable growth.

1.2 Financial Exclusion

Financial exclusion occurs due to both demand and supply side reasons i.e. no willingness to open account due to lack of awareness about financial and money matters. At the same time, if a poor person is aware and willing to open bank account but he is

either denied due to lack of KYC norms or the branch of bank is not available nearby his house. Financial exclusion is a process whereby poor and marginalized sections of society are not able to access basic financial products and services from formal financial system of their own without government's deliberate intervention. Financial exclusion occurs when a series of obstacle exists in the systematic delivery of financial services and products to all sections of society at reasonable cost on equitable basis for equitable and inclusive growth of nation. Financial exclusion gained attention of policy makers during early 1990s in Europe where the geographers found that some definite pockets or regions of a particular nation were behind the others in utilizing financial services. It was found that these pockets or regions were poorer compared to regions which utilized more of financial services (Kumar 2009). The term secured a larger association in the late 1990s when it was expanded to refer to individuals who were denied access to financial system and inclusion rather than geographical areas. Financial exclusion may not mean a social exclusion in India as it does in the developed countries, but it is an issue that requires to be addressed.

Financial exclusion is the denial of access to the most basic financial services and products. In the narrower terms, it is the restrictive access to financial services, through merely banking services for deposits and withdrawal of money (Leeladhar 2005). If a person's bank account is dead or inactive due to the absence of transaction for a considerable specified period, he is considered as financially excluded person. Even the non-issuance of the pass-books to the small customers of savings bank account by the bank can indirectly lead to their financial exclusion. Another study defined that financial exclusion signifies the lack of access by certain segments of the society to appropriate,

low-cost, fair and safe financial products and services from formal sources of finance (Mohan 2006). The literature on financial inclusion also define that there are five major forms of financial exclusion – access exclusion, where segments of population remain excluded from the financial system either due to remoteness or due to the process of risk management of the financial system; condition exclusion, when exclusion occur due to conditions that are inappropriate for some people; price exclusion, when the exclusion happens due to unaffordable prices of financial products; marketing exclusion, when exclusion occurs due to targeted marketing and sales of financial products and self - exclusion, that takes place when certain groups of people exclude themselves from the formal financial system owing to fear of refusal or due to psychological barriers (Kempson & Whyley 1999).

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 observed that in India, 51.4 percent of farmer households are financial excluded from both formal and informal sources and 73 percent of the farmer households do not access formal sources of credit (Rangarajan, 2008). These facts are a matter of concern for our government, policy makers and academicians.

1.2.1 Factors Responsible for Financial Exclusion

There are numerous reasons for financial exclusion in rural area. In remote hilly, desert and less populated areas, the physical and communication infrastructure are insufficient. As a result accesses to financial services institutions are severely restricted. The barriers of financial inclusion on demand side are illiteracy, lack of awareness and financial

literacy, low income, pre-owned collateral /assets and social exclusion. The reasons for exclusion from the supply side are wide distance between the bank branch and the residence, non-adjustable timings of the branch, complicated procedure and complexities of documentation, unfamiliar language, unsuitable products and staff attitudes. The requirements of documentary proof of identity and residential address are the most important barriers in opening not only the bank account but also in post offices for availing the financial services (Subharao, 2009). Above said numerous factors that are responsible for financial exclusion may be explained as follow:

- (I) ***Lack of Knowledge on money matters:*** The lack of financial awareness may be the single most risk in financial inclusion as those who are newly included in the financial sector have to maintain within the formal financial sector.
- (II) ***Low Income:*** Maximum numbers of poor have no access for permanent source of income. They are largely seasonal low-wage earners, for them opening an account and withdrawing money is seemingly not feasible. Maximum numbers of poor do not have high expenditure amount to spend that would require borrowing of credit from formal financial system. They would keep their daily income at their homes rather than in a bank. Moreover, financial status of people is always important in gaining access to financial services. Extremely poor people find it difficult to access financial services even when the services are tailored for them.
- (III) ***Gender Issues:*** Access to credit is often limited for women, who do not have or cannot hold title to assets such as land and property or must seek male guarantees to borrow.

- (IV) ***Age Factor:*** Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older and younger potential customers.
- (V) ***Legal Identity:*** Lack of legal identities like identity cards, birth certificates or written records often exclude women, ethnic minorities, economic and political refugees and migrant workers from accessing financial services.
- (VI) ***Place of Living:*** Although effective distance is as much about transportation infrastructure as physical distance factors like density of population, rural and remote areas, mobility of the population, insurgency in a location etc. also affect access to financial services.
- (VII) ***Psychological and Cultural Barriers:*** The cultural, psychological and religious barriers lead to self-exclusion from banking service for many households.
- (VIII) ***Social Security Payments:*** In those countries where the social security payment system is not linked to the banking system, banking exclusion has been higher.
- (IX) ***Bank Charges:*** High and a range of bank charges have a disproportionate effect on people with low income.
- (X) ***Terms and Conditions:*** Terms and conditions attached to products such as minimum balance requirements, and conditions relating to the use of accounts often dissuade people from using such products/services.
- (XI) ***Type of Occupation:*** Level of financial inclusion of rural people also depends on their occupation. Many people in rural area are engaging in agriculture and

agricultural allied activities, while many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganized enterprises and hence, they tend to deny such loan requests.

(XII) *Attractiveness of the Products:* Appropriateness of the financial products/services and how their availability is marketed are crucial in financial inclusion.

1.3 Financial Inclusion

In the present era, 'Financial Inclusion' and 'Inclusive Growth' have become part of the common man's glossary as well as an important item in the development agenda. Financial inclusion is one of biggest challenges in the world economics. Financial inclusion comes under the priorities of Reserve Bank of India (RBI).

Financial inclusion is defined as enabling the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Financial inclusion means providing the financial services to all sections of society without excluding vulnerable sections such as weaker section of the society, low-income group, slum-dwellers, and vast section of disadvantaged and marginalized people at affordable prices.

In general, financial inclusion is perceived in various contexts. Some scholars believe that financial inclusion is only access to credit whereas others opines that it includes all the service provided by banks and other financial institutions. Only bank account opening may not be good indicator of financial inclusion. Financial inclusion extended by financial institutions must target to help in creating assets for individual as well as

groups, to help in making personal/private investment which is necessary for development of infrastructure, social sector services, public utilities and capacity building etc. (Teki & Mishra, 2012 pp. 75). Therefore, an ideal definition of financial inclusion should look at people who really need and who want credit.

Rangarajan committee on financial inclusion recommended strategies for extending the financial inclusion and defined *“Financial inclusion as a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income group at affordable cost”* (Rangarajan Committee 2008).

Therefore, the essence of financial inclusion is to ensure that a range of appropriate financial services rendered by the formal financial system is available to every individual and enable them to access those services whenever needed. The range of financial services include the entire series of financial products cheque accounts, saving products, loans, debit cards, credit cards, insurance and health care services and other financial services such as payment services, remittance and money transfer and financial advisory services and counseling.



Source: Report of committee on Financial Inclusion 2008.

Financial inclusion is itself a multi-facet concept with a number of components, all or some of which may be relevant to the specific country agenda. Alliance for Financial Inclusion (AFI) approached to define the concept of financial inclusion by offering examples of four commonly used lenses through which financial inclusion may be understood as follow:

1. **Access:** This component is concerned primary with the ability of use available financial services and products from formal institutions. Understanding levels of access may require insight and analysis of potential barriers to opening and using a bank account for any purpose, such as cost and physical proximity of bank service points like branches, ATMs, etc. A basic proxy for access can be proportion of the population with an account. Data on access can be obtained from financial service providers and regulatory bodies.

2. **Quality:** As a measure of the relevance of the financial service or product to the life style needs of the consumer, quality encompasses the experience of the consumer, demonstrated in attitudes and opinions towards those products that are currently available to them. The measure of quality would be used to gauge the nature and depth of the relationship between the financial services provider and the consumer as well as the choices available and their levels of understanding of those choices and their implications.
3. **Usage:** Usage focuses more on the permanence and depth of financial service/product use than basic adoption of banking services. In other words, determining usage requires more details about the regularity, frequency and duration of use over time. Usage also involves measuring what combination of financial products is used by any one person or household.
4. **Welfare:** The most difficult outcome to measure is the impact that a financial device or service has had on the lives of consumers, including changes in consumption pattern, business activity wellness.

1.3.1 Steps Initiated by RBI to Extend the Financial Inclusion

Financial inclusion has become the buzz word in the present era at the national as well as international level in the context of formulating development strategies that influence the lives of the economically backward people to increase their participation in the process of economic growth and social development. To achieve the ultimate objective of reaching banking services to all the more than six lac villages in India, financial inclusion has to become priority for the banks. In order to achieve the goal of financial inclusion that process of ensuring to the range of financial services as bank accounts credit, remittances

and payment, insurance facilities and financial advisory services at an affordable cost to the economically vulnerable groups, RBI has taken several initiatives described as below (Chakrabarty, 2014):

- ***Opening No-Frill Account:*** Basic banking no-frills accounts 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 also in such accounts.
- ***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. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. 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.
- ***Engaging business correspondents (BCs):*** In January 2006, RBI permitted banks to engage business facilitators (BFs) and business correspondents(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 and 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.

- ***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.
- ***General Credit Card (GCC):*** With a view to help the poor and the disadvantaged section of society with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to INR 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.
- ***Simplified branch authorization:*** To address the issue of spreading the bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.
- ***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 monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

- ***Road map for providing banking services in unbanked villages:*** Banks were advised to draw up a road map to provide banking services in every unbanked village having a population of over 2,000 by March 2012. RBI advised banks that such banking services need not necessarily be extended through a bricks and mortar branch, but could also be provided through any of the various forms of ICT-based models. About 73,000 such unbanked villages were identified and allotted to various banks through state-level bankers' committees.
- ***Financial inclusion plans of banks for three years:*** RBI has advised all public and private sector banks to submit a board-approved, three-year financial inclusion plan (FIP) starting April 2010. These plans broadly include self-set targets in respect of rural bricks and mortar branches opened; BCs employed; coverage of unbanked villages with a population above 2,000 as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT; KCCs and GCCs issued; and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The progress by commercial banks (excluding RRBs) during the year 2010-11 clearly indicates

that banks are on the right path towards deploying BCs, villages covered, opening of no-frills accounts, and grant of credit through KCCs and GCCs. The numbers would be much higher if the figures pertaining to RRBs were to be added.

1.3.2 Steps Recently Initiated by Government of India for Financial Inclusion

- ***Adoption of Electronic Benefit Transfer Scheme:*** Banks have been advised to implement the direct benefit transfer scheme to cover the uncovered area under the fold of formal financial system. This scheme is a strategic approach to cover the unbanked people by transferring their benefits availed under the government's several schemes.
- ***Pradhan Mantri Jan Dhan Yojana:*** Recently, The Prime Minister of India, Sh. Narendra Modi launched a financial scheme 'Pradhan Mantri Jan Dhan Yojan' to extend financial inclusion to bankable people who are still unbanked. It is proposed to be implemented on a mission mode basis in two phases to help the poor people for the bank bank account that will provide the debit card facility and insurance cover of one lakh rupees. The objective of scheme will be to bring 7.5 crore unbanked families into the banking system fold through opening of 15 crore bank accounts (two accounts for every household) in financial year. After a span of six months from the date of opening of the bank account and depending on the activity in the account, banks could even extend an overdraft of say Rs. 2,500 to the account holder ("Pradhan Mantri Jan Dhan Yojana", 2014").

1.4 Financial Literacy

Financial education plays a vital role in making demand side response to the initiatives of the supply side interventions. Financial inclusion is one of the top most policy priorities of the Government of India. One of the most visible aspects of the governance has been agenda of social inclusion in which financial inclusion is an integral part. Financial literacy plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity. OECD defines “Financial Literacy as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well being. People achieve financial literacy through a process of financial education”.

In the context of connecting the unbanked people with formal financial system, there is a need for the formal financial system to look at increasing financial literacy and financial counseling. As part of the Community Reinvestment Act in the US, banks are expected to contribute towards educating people from socially and financially disadvantaged groups on matters relating to their financial needs. Indian banks and financial market players should actively look at promoting such programs as part of their corporate social responsibility. The concept of improving literacy as a national project has been gradually developing. The RBI has undertaken a project titled “Project Financial Literacy”. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor defence personnel and senior citizens (RBI’s Financial Education initiative). The overall objective of RBI’s financial literacy strategy is to achieve financial inclusion by creating awareness about formal financial system. The

RBI's financial literacy efforts are channelized through banks in the form of a mass scale literacy campaign which includes conducting financial literacy camps in unbanked locations. For this purpose, all the financial literacy centres (FLCs) and rural bank branches of scheduled commercial banks (SCBs) are advised to undertake financial literacy activities in the form of awareness camps at least once a month.

Financial Literacy is an important aspect for promoting financial inclusion, consumer protection and ultimately financial stability, RBI has adopted an integrated approach wherein efforts towards Financial Inclusion and Financial Literacy would go hand in hand. Besides the various initiatives taken by RBI individually to encourage financial literacy, a National Strategy for Financial Education (NSFE) has also been finalized under the aegis of the Financial Stability and Development Council (FSDC) to co-ordinate efforts of various stakeholders involved in this process. The Reserve Bank has been playing a supportive role in financial inclusion by creating a conducive regulatory environment and providing institutional support to banks in their efforts. Importantly, RBI has provided banks the freedom and the space to determine their own strategies for rolling out FI and have encouraged them to identify their own goals and targets through their respective Financial Inclusion Plans (Chakrabarty, 2013).

1.5 Microfinance and Financial Inclusion

The concept of microfinance was championed in 1970s and since then it has become a global phenomenon. The concept of micro-lending existed in different forms in the past and still does exist in many parts of the world. Microfinance is the process by which diverse financial services are made available to the poor and the low income people. Microfinance Institutions (MFIs) include NGOs, private commercial banks, Non-Banking

Financial Companies (NBFCs), cooperative societies. It has had far reaching impacts in the developing impacts in the developing world especially Latin America, South and Southeast Asia. It along with the SHG movement in India has ensured microcredit to women entrepreneurs. Microfinance through its innovative dealing has achieved to some extent the target of 'helping people help themselves'. It has also successfully debunked the myth that poor people are not worthy of being banked upon because of the low repayment capacity and defaulting by the debtors especially women. The 2006 Nobel Peace Prize being awarded to the Bangladeshi economist Muhammad Yunus (for Grameen Bank) shows the success and relevance of a concept of Microfinance.

Microfinance has been long recognized and practiced in India as a tool for extending banking services to the poor to enable them to save and invest or partake of credit, thereby facilitating them to break the chain of poverty. However, financial inclusion is a paradigm shift from microfinance to inclusive finance. Financial inclusion acquires a broader definition since it is not limited to MFIs. Financial inclusion aims at bringing into the mainstream those people who had not had the chance of being financially included while at the same time looking at the comparative advantage for the banks. Although, the terms microfinance and financial inclusion are closely inter-related, there is some difference between the two. Till now, through microfinance we have only allowed the people access to inclusion aims at bringing the unbanked citizens in to the financial mainstream. With few initiatives the previously excluded section of population could have access to financial facilities. They should be made aware of the advantages of remaining with a formal financial agency. Therefore, financial inclusion is a step by step process involving people as well as the respective agencies. Financial inclusion takes the

process of microfinance a step further by not just treating them as different or poor but by considering them as creditworthy citizens and bankable consumers. Financial inclusion aims to bring into contact the poorest of the poor with the large banks who have so far been hesitant to deal with them.

Channels of Micro Finance

1. SHG-Bank Linkage Program (SBLP)
2. Micro Finance Institutions (MFIs)

1.5.1 SHG-Bank Linkage Program (SBLP)

SHG-Bank Linkage Program has completed two decades of existence since the early days of the pilot in 1992. It was introduced to include the vulnerable groups such as poor people and low income group who are excluded with financial services and informal financial system. The Self-help group (SHG) is a major component of strategy for delivering financial services to the poor in eradication poverty. The SHG is a group of people belong to same socio-economic conditions; they are associated for eradication of poverty. These people are often residing in same location. The SHGs make a common fund and open a group's bank account for doing a small business and to fulfill livelihood requirement of the groups. Women members of SHGs are encouraged to save amount of rupees within range of approximately Rs. 20 to Rs. 100 per month. SHGs provide a good linkage programme between financial institutions and needy person of money. The programme has been growing rapidly and the number of SHGs financed increased to 29.25 lakhs on 31 March 2007 (**Rangarajan, 2008**). The spread of the SHG - Bank Linkage Programme in different regions has been with southern States accounting for the major chunk of credit linkage. Many States with high incidence of poverty have shown poor

performance under the programme. NABARD has identified 13 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus. The Committee has recommended that NABARD may open dedicated project offices in these 13 States for up scaling the SHG - Bank Linkage Programme. As on March 2011, there were are around 7.46 million saving linked SHGs with aggregate savings of Rs. 70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (NABARD, 2012-13).

For the North-Eastern Region, there is a need to evolve SHG models suited to the local context of such areas. There are a large number of SHGs in the country which are well established in their savings and credit operations. The members of such groups want to expand and diversify their activities with a view to attain economies of scale. Many of the groups are organizing themselves into federations and other higher level structures. To achieve this effectively, resource centres can play a vital role. Federations of SHGs at village and taluk levels have certain advantages. Non-Government Organizations (NGOs), Regional Rural Banks (RRBs) are playing a vital role in promoting the SHGs in India. The government is monitoring and implementing several wage employment and economic development such Mahatma Gandhi National Rural Employment Scheme (MGNRES), Swarnjayanti Gram SwarojgarYojana (SGSY) through District Rural Development Agencies (DRDA). SGSY was launched by the Union Ministry of Rural Development with effect from April 1, 1999, which was replaced to IRDP and its allied schemes. The main objectives of SGSY are to cover all aspect of self-employed activities such as SHGs and to provide financial assistance and subsidies to below poverty line

families. Therefore, SGSY is making very key role in promoting the SHGs for greater access of financial inclusion. The SHGs have given a life-line to the women in villages for their social and economic development. Social and economic developments both are playing a significant role for the growth of women in society. The SHGs are playing very significant role in access to financial services by working women of groups. Women members of SHGs can get loan under the scheme of SGSY through DRDA. The NABARD status of Microfinance 2011-12 report states that, “it is widely believed that the SHGs of the poor will be the vehicle leading the march of India’s emergence as a super economic power in the next decade” (Nair & Tankha 2013).

1.5.2 Micro Finance Institutions (MFIs)

The MFI model in India is characterized by diversity of institutional and legal form. MFIs operate in small volumes and have deeper penetration than banks due to local networks knowledge and presence, adoption of better delivery models and optimum technology usage. MFIs have shown better results than banks in reaching out to the financially underserved population and providing access to financial services. The first well known MFI SEWA Bank was incorporated as an urban cooperative bank in 1974 and paved the way for microfinance in India by showing that the poor were bankable. In 1980s, a number of registered societies and trusts commenced group based savings and credit activities on the basis of grant from donors. The other from the beginnings of 1990s began replicating Grameen bank based initially on donors’ funding but increasing fund from domestic apex financial institutions like NABARD, Small Industries Development Bank of India (SIDBI), Friends of Women’s World Bank (FWWB) India and Rashtriya Mahila Kosh (RMK) (Satish, 2014). Micro credit creates an opportunity for source of

income for the lending institute and for the borrower a prospect for alleviation of his poor financial conditions. Microcredit is the basis for the formation of various non-banking financial companies (NBFCs) including Bangladesh's soft-cited Grameen Bank and tool for the permanent eradication of financial exclusion. There are about 750 MFIs registered with the RBI, serving a client base of 10.5 million of which, 90 percent of this client base is served by the top 40 MFIs. This includes SKS Micro Finance Pvt. Ltd., Bandhan, Microcredit Foundation of India, Saadhan Microfin Society etc.

NABARD Chairman Dr. Harsh Kumar Bhanwala said in his speech in National Microfinance Conclave 2014. "Microfinance sector has emerged as a focus area for policy makers in India to reach out to millions of poor beyond the reach of financial services. Our success in providing affordable financial services to each and every Indian shall be the key in meeting the important national priorities and contribute to nation's financial stability and prosperity. Microfinance sector has a key role to play in complementing the efforts of Government of India and Reserve Bank of India in addressing issues like financial exclusion, providing livelihoods and empowering the citizens and women in particular. Therefore, NABARD and SIDBI decided to join hands in a unique way to organize the National Microfinance Conclave by involving all the stake holders to provide new vibrancy and momentum to the microfinance sector".

1.5.4 Legal Structure and Regulation for Microfinance Sector

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.

1.6 Technology and Financial Inclusion

Information and communication technology (ICT) has a key role in enabling supply and demand side interventions which can deliver affordable financial services. The objectives of Technology development in banking sector are broadly to reduce costs of doing business, enhance business productivity and better manage business risks. The RBI has played a pivotal role in this process of transformation of the financial sector with the use of IT. RBI has strived to create a conducive environment for promoting technological adoption encompassing the financial sector. Moreover, being an important institution in the financial sector, it too has undergone the process of technology change. RBI has endeavoured to streamline technological change in a manner that would help to enhance the inclusiveness of the financial sector. Technology has become an integral part of conducting and managing business in the financial sector, it can hardly ever be characterized as static. It has evolved over the years and it is important, therefore, that the

financial sector too reviews these developments and adapts itself to the same. It is in this context of review, and adaptation to technology that the information management requires specific attention to technology. In this context, RBI has constituted a 'High Level Committee (HLC) to prepare the IT vision for 2011-17. The objective of this committee is to identify the information need of the Reserve Bank as also to work on the change to the organization structure of Department of Technology (DIT).

Government policies have laid a strong foundation wherein technology has helped to spread the reach of financial services. Some of the technology solutions being implemented today are Smart Cards, Biometric ATMs, Point of Service Devices and Mobile Phone Applications. Leading banking and financial institutions are engaged in providing banking services to the financially underserved through pilots or limited commercial rollouts using either one or above said multiple technologies. However, the needs of the vast majority of the underserved and unbanked have not yet been addressed. Technology solutions are being promoted to address the scalability challenges facing financial inclusion in India and other developing countries. Amidst the ever-changing technology landscape, self service has emerged as the foremost scalable and sustainable solution.

The information technology (IT) saga in Indian banking sector commenced from the mid eighties when the Reserve Bank of India (RBI) took upon itself the task of promoting computerization in banking to improve customer services, book keeping, management information system (MIS) to enhance productivity. RBI has played the guiding role which helped banks in achieving various objectives such as the introduction of MICR based cheque processing, implementation of the electronic payment system such as Real

Time Gross Settlement (RTGS), Electronic Clearing Service (ECS), National Electronic Funds Transfer (NEFT), Cheque Truncation System (CTS), Mobile Banking system etc.

1.6.1 Commonly Promoted Technologies for Financial Inclusion

- **IT Enable Kiosk for Financial:** IT-Kiosks are among the most common forms of delivering the products for the financial product. They are small and self operated IT-enables centre's that provide the customers with banking feature such as cheque or cash deposit, Internet Banking, Non cash ATM transaction and teller enquiries. Kiosks are located in areas where the financial Inclusion initiative is likely to lead to significant increase in transactions volume as well as the number of users.
- **Business Correspondent (BC):** The BC model (sometimes known as 'banking correspondent') is a doorstep banking solution that delivers financial services to the underserved population through a human banking agent supported by technology, but the delivery of financial services is dependent on the reach and presence of bank agents and therefore, limited when it comes to scalability. Some of the technological solutions being adopted today by Business Correspondents are smart cards, point of service devices, biometric readers and mobile phones.
 - I. **Smart Card:** Smart cards contain a microchip that stores customer data including identification and account information such as that found on an ATM or credit card.
 - II. **Point of Service device:** Point of Service devices facilitate the transaction process of the BC by taking banking services closer to the customer's doorstep. Using the device to access the bank's database, the agent can

assist the client perform transactions and provide credit facilities on the spot.

III. *Biometric Reader:* Biometric scanners read and authenticate users through finger print recognition or retina scanning. They eliminate barriers caused by illiteracy and regional languages and also act as a second level of authentication thereby, enhancing transaction security. Biometrics thus opens the door to India's 433 million illiterate and semiliterate population and reduce errors caused by manual transactions.

➤ **Full Self Service:** Full self-service solutions reduce errors, enable faster transaction, improve productivity, allow increased volumes of transaction and deliver multiple financial services from the same device. Financial transactions performed at an ATM over the internet or on a mobile device are examples of full self-service.

I. ***Automated Teller Machine (ATM):*** Automated Teller Machines (ATMs) are banking terminals that provide bank account holders easy access to cash and financial services in public locations.

II. ***Mobile Phone Applications:*** Mobile banking is offered to established customers as a means of convenience, eliminating the need for the customer to visit the bank and perform transactions 'on the go'. The biggest disadvantage with mobile banking is the element of cash. When cash is needed, mobile banking requires the assistance of other technologies or channels.

1.7 Recommendations of Various Committees on Financial Inclusion

1.7.1 Recommendations of Rangarajan Committee

The committee on financial inclusion was chaired by Sh. C. Rangarajan and submitted report to NABARD, Government of India with various recommendations. Some of these recommendations have been cited as below:

- I. Financial Inclusion must be taken up in a mission mode as a Financial Inclusion Plan (FIP) at national level. The target of FIP could be to provide access to comprehensive financial services to at least 50 percent of the excluded rural cultivator and non-cultivator households, across different states by 2012 thru' rural/semi urban branches of CBs and RRBs.
- II. The committee is of opinion that schedule commercial bank including RRBs should require to offer products according to varied needs of excluded segments of the population. The products and services offered at present do not effectively meet their needs.
- III. The committee recommended to constitute two funds namely Financial Inclusion Promotion & Development Fund (FIPDF) for meeting the cost of development and promotional interventions and Financial Inclusion Technology Fund (FITF) to meet costs of technology adoption.
- IV. The recommended that Regional Rural Bank (RRBs) should their services to unbanked areas and increase their credit to deposit ratio.

- V. NABARD should prepare a strategic action plan RRB-wise, for promotion and credit linkage of Self-Help Groups and RRBs should adopt the BF and BC models as a major strategy of financial inclusion.
- VI. The committee is of view that that nearly all pilot models converge on certain essential components and processes to be followed in technology application. The essence of a majority of the models under consideration features the issue of a smart card to the farmers, BCs at the village level and Central Processor Unit (CPU) linking the smart cards and BC terminals with the banks.
- VII. The committee is of opinion that the state Governments should make payments under National Rural Employment Guarantee Scheme and Social Security Payments Thru' such Technology based solutions.
- VIII. The committee recommended that the e-kiosks in villages could be yet another source of operating a remittance system that is accessible to the poor.
- IX. Banks should endeavour to have a BC touch point in each of the six lac villages in the country. There should be a micro-bank in every village.
- X. The committee is of opinion that offering microcredit without micro-insurance is financial behaviour fraught with risk. Therefore, there is need to emphasise linking microcredit with micro-insurance.

1.7.2 Recommendations of Nachiket Mor Committee

The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households chaired by Dr. Nachiket Mor has recommended six vision statements for accessing financial services to small businesses and low income households (Nachiket Mor 2013).

- I. **Universal Electronic Bank Account (UEBA):** The committee recommended that by January 1, 2016 each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
- II. **Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges:** By January 1, 2016, the number and distribution of electronic payment access points would be such that every single resident would be within a fifteen minute walking distance from such a point anywhere in the country. Each such point would allow residents to deposit and withdraw cash to and from their bank accounts and transfer balances from one bank account to another, in a secure environment, for both very small and very large amounts, and pay reasonable charges for all of these services. At least one of the deposit products accessible to every resident through the payment access points would offer a positive real rate of return over the consumer price index.
- III. **Sufficient Access to Affordable Formal Credit:** By January 1, 2016, each low income household and small-business would have convenient access to formally regulated lenders that have the ability to assess and meet their credit needs, and offer them a full-range of suitable credit products at affordable price. By that date, each District and every significant sector (and sub-sector) of the economy would have a credit to GDP ratio of at least 10 per cent. This ratio would increase every year by 10 per cent with the goal that it reaches 50 per cent by January 1, 2020.
- IV. **Universal Access to a Range of Deposit and Investment Products at Reasonable Charges:** By January 1, 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. By that date, each District would have a total deposits and Investments to GDP ratio of at least 15 per cent. This ratio would increase every year by 12.5 per cent with the goal that it reaches 65 per cent by January 1, 2020.

V. Universal Access to a Range of Insurance and Risk Management Products

at Reasonable Charges: By January 1, 2016, each low-income household and small business would have convenient access to providers that have the ability to offer them suitable insurance and risk management products which, at a minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property, and pay reasonable charges for their services.

VI. Right to Suitability: Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. While the customer will be required to give informed consent he/she will have the right to seek legal redress if he/she feels that due process to establish suitability was not followed or that there was gross negligence.

1.8 Financial Inclusion in Present Scenario

Due to government, NGOs and RBI efforts, there has been a reasonable progress in penetration of banking services and opening bank accounts. Near about 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been newly added and now the total number of BSBDAs is 182 million. The share of Information and Communication Technology (ICT) based accounts has increased substantially. The percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013. But use of ICT in banking services is still very low. As a result of developing the Financial Inclusion Plan (FIP) 2010-13, banks including Regional Rural Banks (RRBs) have moved towards Core Banking System (CBS), have developed in built capability to provide remittances using electronic payment systems such as the Real Time Gross Settlement System (RTGS), National Electronic Funds Transfer (NEFT), National Electronic Clearing Service (NECS), Immediate Payments Service (IMPS), Aadhaar Enabled Payment Systems (AEPS) etc. Banks are increasingly using alternate channels of delivery; the number of ATMs is even more than the number of branches. All the rural branches are expected to have an e-ATM in place in the near future. About 7,400 rural branches have been opened during this 3-year period compared with a reduction of about 1300 rural branches during the last two decades. Banking outlets in villages have increased to 383,804 in March 2014 from 67,694 outlets in March 2010 (Annual Report RBI, 2013-14).

1.9 Significance of Financial Inclusion

Nowadays, financial inclusion has become the buzz word. Several organizations have focused on the ways and means of achieving financial inclusion. The United Nations has

set forward the Millennium Development Goals (MDGs) to be achieved by all the nations. Financial inclusion is a very significant aspect for the development of economic and social conditions of individual and group. Lower access of formal financial system leads to high cost of credit from informal financial sources such as relatives/friends, and village money lenders. Borrowers have to pay extremely higher rate of interest on credit availed from informal financial system due to lack of financial institutions. Absence of bank account also leads to security threats and loss of interest on holding cash idle. Other aspect observed is that financial exclusion may lead in holding of black money, which is not circulated in formal financial system. Moreover, it may lead to low private investment, higher rate of interest of credit. Hence financial inclusion is must for accelerating the inclusive growth in the country.

Financial inclusion is an approach to alleviate poverty. The major cause of poverty among people of rural area is the lack of productive assets and financial resources. Informal financial system is widely available especially in rural area for accessing the financial services to fulfill their basic requirement. They have to pay more interest on availed credit from informal financial resources. Hence, they move towards poor to poorer condition. In such a condition, financial inclusion can play an effective role in eradicating poverty and vulnerability. Therefore, there is need of government's more attention in field of formal financial system. The central theme of government of India's 12th Five Year Plan (FYP) 2012-17 is faster, sustainable, and more inclusive growth. The present research work on financial inclusion is closely aligned to central theme of government of India's five year plan. It is observed that financial inclusion is an

innovative model that focuses on vulnerability reduction of the poverty, especially for disadvantaged groups and disadvantaged regions.

The issue of financial inclusion of rural people is of considerable important because many of the rural people do not have even bank accounts. They are financially excluded. The reasons range from both sides such as supply side as well as demand side. Recently, the government of India launched a financial scheme 'Pradhan Mantri Jan Dhan Yojan' to extend financial inclusion to bankable people who are still unbanked especially in rural area. For the rural population, RBI has taken another initiative 'financial inclusion plan (FIP)'. RBI has advised all public and private sector banks to submit a board-approved, three-year FIP starting April 2010. These plans broadly include self-set targets in respect of rural area for the coverage of unbanked villages through branches; BCs and other modes to cater to the financially excluded segments.

1.10 Rationale of Study

Financial inclusion is an invincible approach to achieve the faster, more inclusive and sustainable growth of the country. Haryana is well known for manufacturing hub of cars, two wheelers, tractors, auto ancillaries and other industries located close to Delhi. Haryana is growing in service sector as well as manufacturing sector. Haryana is also known for its rich agriculture output. All these features indicate that there might be high level of financial inclusion in the state but it is not true. Even being close to Delhi and high Per capita income it is observed that there is financial exclusion of rural farmer, workers and weaker sections of society in the state. The salaried persons in urban areas have easier access to credit from financial institutions because they can fulfill required

paperwork and conditions needed by commercial banks for granting a loan. But more than 68.84 percent of total population is living in rural area (census, 2011); whereas about 51.4 percent of farmer households are financially excluded from both formal as well as informal sources (NSSO 59th Round Survey). Thus, being a high per capita income and good agriculture crop, there is huge potential for financial institutions and banks to grab this vast segment of unbanked people. Therefore, this study is conducted to assess the current status and awareness of financial inclusion, study the level of technology adoption among rural households and to study nuances of financial inclusion so that appropriate strategies may be suggested to policy makers for enhancing financial inclusion.

1.11 Objectives of the Study

1. To assess the current status of financial inclusion among rural households in Haryana.
2. To assess the level of financial literacy among rural households in Haryana.
3. To study the role of technology in financial inclusion among rural households in Haryana.
4. To analyze the impact of socio-economic variables on financial inclusion among rural households in Haryana.
5. To measure the financial inclusion by constructing Index of Financial Inclusion in rural areas of Haryana.

1.12 Structure of the Study

This research work has been frame worked in five chapters as below given:

Chapter: 1 Introduction

Chapter: 2 Review of Literature

Chapter: 3 Research Methodology

Chapter: 4 Extent of Financial Inclusion

Chapter: 5 Data Analysis and Discussion: Primary Survey

Chapter: 6 Measurement of Financial Inclusion: Index of Financial Inclusion

Chapter: 7 Findings of the Study and Conclusion