

A Study of the Status and Prospects of Financial Inclusion in Madhya Pradesh

K S Thakur and Jay Nigam

Abstract

Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population which lacks access even to the most basic banking services. Despite the laudable achievements in the field of banking, the issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before.

The present study has attempted to give a brief historical background of Financial Inclusion efforts giving a Macro and a Micro level picture of the extent of Financial Exclusion throwing light on the coverage by geographical and other categories. Recent policy response of the Government of India and the Reserve Bank of India for achieving Financial Inclusion along with the major recommendations of the Committee on Financial Inclusion have been dealt with in detail. The Financial Inclusion initiatives, in general, and in the State of Madhya Pradesh, in particular, have been explored. The prospects and the probable solutions for achieving total financial inclusion in the State of Madhya Pradesh have been attempted in the study.

It is concluded that the financial exclusion is caused both by the demand and the supply side issues. Therefore, the strategy for upscaling Financial Inclusion should concentrate not only on evolving new models for effective outreach, and leveraging on technology based solutions; but also aim at improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non-cultivator households.

KEYWORDS : *Financial Inclusion, Micro-finance, SHG-Bank Linkage, Kisan Credit Card, Agricultural Credit Cooperatives, Farm Credit, Know Your Customer (KYC).*

1. INTRODUCTION:

The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, Internet banking, online money transfers, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology - allowing, for example, more accurate targeting of sections of the market - have led to restricted access to financial services for some

groups. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population which lacks access even to the most basic banking services. This is termed "financial exclusion". These people particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc.

Merely having a bank account may not be a good indicator of financial inclusion. The ideal definition should look at people who want to access financial services but are denied the same. If genuine claimants for credit and financial services are denied the same, then that is a case of exclusion. As this aspect would raise the issue of creditworthiness or bankability, it is also necessary to dwell upon what could be done to make the claimants of institutional credit bankable or creditworthy. This would require re-engineering the existing financial products or delivery systems and making them more in tune with the expectations and absorptive capacity of the intended clientele. Based on the above considerations, a broad working definition of financial inclusion could be as under:

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

2. Objectives of the Study

The main objectives of the present study are :

1. To give a brief historical background of Financial Inclusion efforts.
2. To give a Macro and a Micro level picture of the extent of Financial Exclusion and to throw light on the coverage by geographical and other categories.
3. To study the recent policy response of the Government of India and the Reserve Bank of India for achieving Financial Inclusion.
4. To outline the major recommendations of the Committee on Financial Inclusion.
5. To study the recent Financial Inclusion initiatives in general and in the State of Madhya Pradesh in particular.
6. To attempt to give the prospects and the probable solutions for achieving total financial inclusion in the State of Madhya Pradesh.

3. Methodology

The present study is focused on the analysis of the results of financial inclusion efforts by various agencies, viz., Banks, Government and the MFIs, etc. The research study is based on the material sourced from secondary data such as books, journal publications, notifications and the internet. The data were also obtained by visitin

the Centre for Micro finance and Research at Banker's Institute of Rural Development, Lucknow, NABARD-MP Regional Office, a few Controlling Offices of Banks and the Government of Madhya Pradesh, Lead District Managers and leading NGOs working in the field. The study also attempted to understand the performance of different stakeholders involved. During the course of study, responses/opinions were also collected in order to understand the various facets of Financial Inclusion in Madhya Pradesh.

4. Historical Background of Financial Inclusion

The historical background of financial inclusion discussed by the researchers begins from the colonial period, and progresses to the present covering developments during the pre and post independence periods. The details are as follows:

- 4.1 Agriculture has been one of the key areas of the economic development efforts in India's economic history. Given issues of food security and the dependence of vast majority of population on Agriculture has always been a key issue of the development strategy of the Government. The main focus in development of agriculture has been on the efforts to ensure access for credit to agriculture as most of the ills of the rural community practicing agriculture revolved around its dependence on usurious money lenders who used the relationship to exploit the farmers in several ways.
- 4.2 An attempt to promote financial inclusion was started by the Colonial Government with the issue of taccavi loans in the last quarter of the nineteenth century when repeated famines struck Indian farmers. This was soon followed by the formation of cooperatives. Nicholson, a British Officer in India, suggested introducing Raiffersen model of German agricultural credit Cooperatives in India. As a follow-up of that recommendation, the first Cooperative Society Act of 1904 was enacted to enable formation of "agricultural credit cooperatives" in India. The 1904 Cooperative Societies Act was repealed by 1912 Cooperative Societies Act which provided formation of Cooperative societies other than credit. Under 1919 Administrative Reforms Act, Cooperatives was made a provincial subject making each province responsible for Cooperative development. In 1942, the British Government enacted the Multi-Unit Cooperative Societies Act, 1942 with an object to cover societies whose operations were extended to more than one state.
- 4.3 The impulses of the Indian freedom movement gave birth to many initiatives and institutions in the post independence era in India. Soon after Independence, RBI set up All India Rural Credit Survey Committee (AIRCS) to take stock of the rural credit. In spite of the cooperatives having failed; it was felt that cooperatives must carry the onus of rural credit. Over the major part of the 20th century it was believed that cooperatives would deliver the much needed credit to agriculture. But financial impairment and poor governance over the years resulted in cooperatives becoming ineffective in meeting the

objectives. With green revolution in the late sixties and need to ensure greater access to credit for adopting improved technologies, nationalization of banks followed by unprecedented branch expansion in rural areas and creation of RRBs were the newer strategies adopted. The multi-agency approach to agricultural credit and unparalleled increase in outreach has been the supply side response to the problem. A comprehensive Act known as Multi State Cooperative Societies Act, 1984, repealing the Act of 1942 was enacted by the Government of India.

- 4.4 SHG-Bank Linkage Programme piloted by NABARD did prove to be a useful delivery channel to improve access to credit by the asset-less rural poor. The SHG - Bank Linkage Programme can be regarded as the most potent initiative since Independence for delivering financial services to the poor in a sustainable manner. The programme has been growing rapidly and the number of SHGs financed increased to 42.24 lakh on 31 March 2010, providing access to credit for 86 million poor households. The spread of the SHG - Bank Linkage Programme in different regions has been uneven 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. This initiative alone has been able to provide access to hitherto unbanked and excluded by the financial system.
- 4.5 The Farm Credit Package was announced in June 2004. Under this package, Debt was restructured in respect of farmers in distress and farmers in arrears to make them eligible for institutional credit. More than 50 lakh new farmers were sought to be added to the banking system each year. The credit flow to agriculture was more than doubled in 2 years as against the 3 years envisaged by the Government. Government of India wanted that the credit channel of cooperatives which had become clogged be revived and announced a revival package based on recommendations of Vaidyanathan Committee. Government of India constituted a Committee on Financial Inclusion under Dr C Rangarajan.

5. Extent of Exclusion

The extent of exclusion has been studied by analyzing various surveys such as NSSO, CMIE, RBI and NABARD etc.

- 5.1 Recent survey by the NSSO in 2003 revealed some important pointers to the extent of Financial Exclusion in India. Apart from the fact that exclusion in general was large, it also varied widely across regions, social groups and asset holdings. The poorer the group, the greater was the exclusion. Some of the findings of NSSO survey were as follows:

(a) General:

- 51.4% of farmer households are financially excluded from both formal / informal sources.

- Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrows from non-formal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- The dependence on money lenders as a percentage had increased during 1991-2003.

(b) Region-wise :

- Exclusion is most acute in Central, Eastern and North-Eastern regions - having a concentration of 64% of all financially excluded farmer households in the country.
- Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions.

(c) Occupational Groups :

- Marginal farmer households constitute 66% of total farm households. Only 45% of these households are indebted to either formal or non-formal sources of finance.
- About 20% of indebted marginal farmer households have access to formal sources of credit.
- Among non-cultivator households nearly 80% do not access credit from any source.

(d) Social Groups :

- Only 36% of ST farmer households are indebted (SCs and Other Backward Classes - OBC - 51%) mostly to informal sources.

5.2 Analysis of the data provided by RBI through its Basic Statistical Returns reveal that critical exclusion (in terms of credit) is manifest in 256 districts, spread across 17 States and 1 UT, with a credit gap of 95% and above. This is in respect of commercial banks and RRBs.

5.3 As per CMIE (March 2006), there are 11.56 crore land holdings. 5.91 crore KCCs have been issued as at the end of March 2006, which translated into a credit coverage of more than 51% of land holdings by formal sources. Further data with NABARD on the doubling of agricultural credit indicate that agricultural loan disbursements during 2006-07 covered 3.97 crore accounts.

5.4 Madhya Pradesh has a population of 603.48 lakh and steadily improving the position with regard to literacy. However a sizable majority of the rural population, particularly the low income groups continue to remain excluded from the opportunities and services provided by the financial sector. As per banking statistics (RBI website), the all India average of deposit accounts per branch is around 6500 and the loan accounts are around 1100. In the state of Madhya Pradesh, the average per branch deposit A/C was 5104 whereas the

average loan account was only 765. The State with 4949 bank branches has an average per branch deposit of ₹1810.55 lakh whereas the average loan was only ₹1213.53 lakh. Besides there is a large gap between the number and actual clients with the banking system.

6. Policy Response of the Government of India and the Reserve Bank of India for Achieving Financial Inclusion

The Government of India and Reserve Bank identified financial inclusion as one of the important instruments for achieving equitable socio-economic development of the country. This is reflected in the various policy measures taken from time to time. The important policy response of Government of India and the Reserve Bank of India for achieving financial inclusion is discussed in the following paragraphs:

- 6.1 Hon'ble Finance Minister of India in the Union Budget speech for 2010-11 announced that the banks would prepare a roadmap for providing banking services through a banking outlet in every village having a population of over 2,000, by March 2012. In this connection, RBI has emphasized that roadmaps have to be drawn up for achieving financial inclusion with monitoring mechanisms to assess and evaluate progress made in achieving the roadmaps. NABARD has issued circulars to the effect that each RRB needs to draw up an achievable roadmap for Financial Inclusion in its area of operations. The roadmap should include among others, plans for financial literacy, opening of bank outlets including BC outlets, issue of KCC/GCC/SCC to all eligible borrowers, identification and placement of BCs/ BFs in terms of RBI circular. NABARD has also issued Circular with model schemes on BC operations through ICT solution and using Farmers Clubs as BFs, addressed to our ROs with request to share the same with all RRBs in the State.
- 6.2 The Reserve Bank of India took several policy decisions to achieve the objective of Financial Inclusion. Some of the important policy responses of the Reserve Bank of India are:
 - No-frills accounts were sought to be opened by Commercial Banks and RRBs for unbanked population.
 - General Credit Cards were introduced to promote greater inclusion and banks were incentivised by allowing 50% of lending under GCC to be reckoned as priority sector lending.
 - Pilot districts were taken up for 100% financial inclusion (defined as each family having access to banking services by having at least one account).
 - Based on the recommendations of Khan Committee report RBI issued guidelines to Commercial Banks and Regional Rural Banks to adopt the Business Facilitator / Business Correspondent approach.
 - Committees were set up to study ways to improve the financial services in North-East, Uttarakhand, Andaman and Nicobar Islands.

6.3 Major Recommendations of the Committee on Financial Inclusion : The Committee on Financial Inclusion headed by Dr C Rangarajan made wide ranging suggestions for supply-side and demand-side initiatives. It is suggested that Financial Inclusion can be substantially enhanced by improving the supply side or the delivery systems. Many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. Demand side efforts need to be undertaken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages, improving the delivery systems, both conventional and innovative.

6.3.1 National Mission on Financial Inclusion : The Committee has outlined that the task of financial inclusion must be taken up in a mission mode as a financial inclusion plan at the national level.

- A National Mission on Financial Inclusion (NaMFI) comprising representatives from all stakeholders may be constituted to aim at achieving universal financial inclusion within a specific time frame.
- The Mission should be responsible for suggesting the overall policy changes required for achieving the desired level of financial inclusion, and for supporting a range of stakeholders – in the domain of public, private and NGO sectors - in undertaking promotional initiatives.
- A National Rural Financial Inclusion Plan (NRFIP) may be launched with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.77 million by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks.
- The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015.
- Semi-urban and rural branches of commercial banks and RRBs may set for themselves a minimum target of covering 250 new cultivator and non-cultivator households per branch per annum, with an emphasis on financing marginal farmers and poor non-cultivator households.

6.3.2 Inclusion and Technology Funds : Based on the recommendations of the Rangarajan Committee on Financial Inclusion, the GoI has set up in NABARD, viz., 'Financial Inclusion Fund' (FIF) for meeting the cost of developmental and promotional interventions of financial inclusion and 'Financial Inclusion Technology Fund' (FITF), for meeting the cost of technology adoption.

- Each Fund consists of an overall corpus of ` 500 crore, to be contributed by the GoI, RBI and NABARD in the ratio of 40:40:20 in a phased manner over five years, depending upon utilisation of funds.
- GoI and NABARD made initial upfront contributions of `10 and ` 5 crore, respectively to each of these funds, for 2007-08. GoI again contributed `10 crore for 2009-10 to each of the funds.

- Reserve Bank of India has decided to contribute to the funds on reimbursement basis.
- As on 31 March 2010, the total contribution under FIF and FITF stood at ` 5 crore each.
- Out of the corpus of ` 50 crore each of FIF and FITF, an amount of `19.4 crore and `21.83 crore, respectively, have been sanctioned for financial inclusion.

6.3.3 Business Correspondent Model : Extending outreach on a scale envisaged under NRFIP would be possible only by leveraging technology to open up channels beyond branch network. Adoption of appropriate technology would enable the branches to go where the customer is present instead of the other way round. This, however, is in addition to extending traditional mode of banking by targeted branch expansion in identified districts. The Business Facilitator/Business Correspondent (BF/BC) models riding on appropriate technology can deliver this outreach and should form the core of the strategy for extending financial inclusion. The Committee has made some recommendations for relaxation of norms for expanding the coverage of BF/BC. Banks should endeavor to have a BC touch point in each of the 600,000 villages in the country.

6.3.4 Procedural Changes : Procedural Changes like simplifying mortgage, Stamp Duty exemption for loans to SF & MF and providing agricultural / business development services in the farm and non-farm sectors respectively, will help in extending financial inclusion.

6.3.5 Role of Regional Rural Banks (RRBs) : RRBs represent a powerful instrument for financial inclusion. Their outreach vis-à-vis other scheduled commercial banks particularly in regions and across population groups facing the brunt of financial exclusion is impressive. RRBs account for 37% of total rural offices of all scheduled commercial banks and 91% of their workforce is posted in rural and semi-urban areas. They account for 31% of deposit accounts and 37% of loan accounts in rural areas. RRBs have a large presence in regions marked by financial exclusion of a high order. They account for 34% of all branches in North-Eastern, 30% in Eastern and 32% in Central regions. Out of the total 22.38 lakh SHGs credit linked by the banking industry as on 31st March 2006, 33% of the linkages were by RRBs. Significantly the more backward the region the greater is the share of RRBs which is amply demonstrated by their 56% share in the North-Eastern, 48% in Central and 40% in Eastern region. RRBs are, thus the best suited vehicles to widen and deepen the process of financial inclusion. However, there has to be a firm reinforcement of the rural orientation of these institutions with a specific mandate on financial inclusion. With this end in view, the Committee recommended as under :

- The process of merger of RRBs should not proceed beyond the level of sponsor bank in each State.

- Recapitalization of RRBs with negative Net Worth.
- Widening the network of RRBs to cover all unbanked villages in districts where they are operating, either by opening a branch or through the BF/BC model in a time bound manner.
- Their area of operation may also be extended to cover the 87 districts, presently not covered by them. (since implemented by the Government of India).

6.3.6 SHG – Bank Linkage Scheme : The SHG-Bank Linkage programme launched by NABARD in 1992 has an important strategy in promoting financial inclusion and inclusive growth. The programme started as a pilot project of financing 500 SHGs across the country and has resulted in 41.61 lakh SHGs being credit linked by March 2008. In the country, 13 States have been identified with large population of the poor, but exhibiting low performance in implementation of the programme. The Committee has recommended that :

- NABARD may open dedicated project offices in these 13 States for up scaling the SHG - Bank Linkage Programme.
- The State Governments and NABARD may set aside specific funds out of the budgetary support and the Micro Finance Development and Equity Fund (MFDEF) respectively for the purpose of promoting SHGs in regions with high levels of exclusion.
- For the North-Eastern Region, there is a need to evolve SHG models suited to the local context of such areas.
- NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas.
- There are a large number of Self Help Groups 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 attaining economies of scale. Many of the groups are organising themselves into federations and other higher level structures. To achieve this effectively, resource centers can play a vital role.
- Federations of SHGs at village and taluka levels have certain advantages. Federations, if they emerge voluntarily from amongst SHGs, can be encouraged. However, the Committee felt that they cannot be entrusted with the financial intermediation function.

6.3.7 Extending SHG-Bank Linkage Scheme to Urban Areas : There are no clear estimates of the number of people in urban areas with no access to organized financial services. This may be attributed, in part at least, to the migratory nature of the urban poor, comprising mostly migrants from the rural areas.

Even money lenders often shy away from lending to urban poor. The Committee recommended amendment to NABARD Act to enable it to provide micro finance services to the urban poor.

6.3.8 Joint Liability Groups : SHG-bank linkage has emerged as an effective credit delivery channel to the poor clients. However, there are segments within the poor such as share croppers/oral lessees/tenant farmers, whose loan requirements are much larger but who have no collaterals to fit into the traditional financing approaches of the banking system. To service such clients, Joint Liability Groups (JLGs), an up gradation of Self Help Group model, could be an effective way. NABARD had piloted a project for formation and linking of JLGs during 2004-05 in 8 States of the country through 13 RRBs. Based on the encouraging response from the project, a scheme for financing JLGs of tenant farmers and oral lessees has also been evolved. The Committee has recommended that adoption of the JLGs concept could be another effective method for purveying credit to mid-segment clients such as small farmers, marginal farmers, tenant farmers, etc. and thereby reducing their dependence on informal sources of credit.

6.3.9 Micro Finance Institutions - NBFCs: Micro Finance Institutions (MFIs) could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. The Committee has, therefore, recommended that Greater legitimacy, accountability and transparency will not only enable MFIs to source adequate debt and equity funds, but also eventually enable them to take and use savings as a low cost source for on-lending. The Committee feels that MFIs registered under Section 25 of Companies Act, 1956 can be brought under the purview of a Micro Financial Sector (Development and Regulation) Bill that, when enacted, would help in promoting orderly growth of microfinance sector in India.

6.3.10 Micro Insurance: Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well off. It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. The Committee concurred with the view that offering micro credit without micro-insurance is self-defeating. There is, therefore, a need to emphasis linking of micro credit with micro-insurance.

7. Initiatives Towards Financial Inclusion

Several initiatives have been taken by Government of India, RBI, NABARD and the state Governments. In this research study, apart from the important initiatives at the national level the initiatives, of the Government of Madhya Pradesh have been studied in detail.

7.1 The Reserve Bank has initiated a number of measures in recent years to improve

the credit delivery mechanism and bring about maximum financial inclusion of the poorer sections of the society.

- 7.1.1 Banks have been urged to make available a basic banking 'no frills' account either with 'nil' or very low minimum balance as well as charges. As a result of the measures taken for financial inclusion, the number of no-frills accounts has impressively increased from 5 lakh in March 2006 to 15 million in March 2008. Regional Rural Banks have been advised to allow limited overdraft facilities in 'no frills' accounts, without any collateral.
- 7.1.2 The 'Know Your Customer' (KYC) procedure for opening accounts has been simplified so that people from low-income groups do not face problems in opening new accounts.
- 7.1.3 Banks have been asked to consider introducing a General Purpose Credit Card (GCC) facility in the nature of revolving credit up to ` 25000 without insisting on security or purpose, at their rural and semi-urban branches. GCC loans are treated as part of the banks' priority sector lending.
- 7.1.4 All State Level Bankers' Committee (SLBC) convener banks have been advised to initiate action for identifying at least one district in their State / Union Territory for 100 percent financial inclusion and similarly, set up, on a pilot basis, a financial literacy-cum-counselling centre in a district in the State / Union Territory coming under their jurisdiction.
- 7.1.5 Banks have been advised to enhance their outreach by utilising the business facilitators' and business correspondents' models. Banks are also entering into agreements with Indian Postal authority for using the wide network of post offices as business correspondents.
- 7.1.6 Banks are encouraged to make use of Information and Communication Technology (ICT) using bio-metric smart cards and mobile hand held electronic devices for receipts and disbursement of cash by their business facilitators / correspondents.
- 7.1.7 Three recommendations of the Working Group constituted by the Reserve Bank viz. dispensing with no dues certificate (NDC) for small loans upto ` 50000, considering opening of counselling centres and extending credit to the landless labourers, share-croppers and oral lessees based on the certificates provided by local administration / Panchyati Raj Institutions were accepted and banks have been advised accordingly.
- 7.2 National Bank for Agriculture and Rural Development (NABARD) also initiated a number of measures to improve the credit delivery mechanism and bring about maximum financial inclusion in the rural areas.
 - 7.2.1 The Kisan Credit Card (KCC) Scheme, introduced in 1998 for timely and hassle-free short term loans has been extended to borrowers for term credit and consumption loans. As on 31st March 2008, 714.7 lakh KCCs had been issued by the banking system. Kisan Credit Cards are being issued by the banks in the

state of Madhya Pradesh to all the eligible farmers. The state government has already decided to route the payments under NREGS and similar schemes through the banking network on a pilot basis, sharing with the banks the cost of technology upgradation of banks for servicing the additional bank accounts.

7.2.2 The Swarozgar Credit Card (SCC) scheme was introduced by NABARD in 2003 for facilitating hassle free credit for meeting investment and working capital requirements of small borrowers and rural micro-entrepreneurs like small artisans, handloom weavers, fishermen, self-employed persons, rickshaw owners, SHGs, service sector, etc. As on 31 March 2008, the banking system had issued 8.34 lakh cards.

7.2.3 Based on the recommendations of Committee on Financial Inclusion, GoI entrusted NABARD with the setting-up of two funds, viz., Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) with the corpus of ₹ 500 crore each, to be contributed by the GoI, RBI & NABARD in the ratio of 40:40:20 in a phased manner over five years, depending upon the utilisation of funds. While the FIF is utilized for supporting developmental and promotional activities to secure greater financial inclusion particularly among weaker sections low-income groups in backward regions & unbanked areas, the FITF is to enhance the usage of information and communication technology for providing financial services.

7.3 Initiative by the Government of Madhya Pradesh: The Government of Madhya Pradesh has taken several measures to ensure welfare of masses utilizing financial inclusion as a tool for development.

7.3.1 In line with the suggestions given by the Reserve Bank of India, GOMP launched a pilot project in the selected 12 Development Blocks of the state and slum areas of Bhopal city in 2008. For better implementation of this project GoMP has decided to financially assist the selected banks for the purpose of financial Inclusion in the form of grant for the cost of Hand Held devices and Smart Card. In this scheme GOMP will bear the 50% cost of Hand held device or ₹ 10,000/- per machine, whichever would be less and 50% cost of smart card or ₹ 60/- per card, whichever would be less.

7.3.2 GoMP has provided Financial assistance of ₹ 23,26,172/- to 4 commercial Banks i.e. State Bank of Indore, ICICI Bank, Union Bank of India & Central Bank of India, so far.

7.3.3 For the purpose of extension in banking solutions, GOMP will provide ₹ 1 Lakh per Biometric ATM or 25% of the cost of establishment of Bio Metric ATM in the identified 2615 villages along with Tribal majority villages having population less than 2000. It has been decided that for the purpose of establishment of ATM, space will be provided, if available.

7.3.4 GoMP has identified 2615 villages having population more than 2000 in the State and formed a strategy to provide banking solutions to these villages by March 2012. In line with this mandate, Bank wise villages were allotted and

banks were asked to prepare a micro plan for the allotted villages. All the financial institutions were asked to submit their roadmaps for the financial inclusion through the establishment of at least one banking outlet/ point which may be any one of : 1.Branch, 2. Extension counter, 3 Satellite Branch, 4. ATM, 5. Business correspondent/kiosks, 6. Mobile Branch, 7. Biometric ATM, or 8. Debit Card, Internet banking, Agri Credit. In this context Banks have given micro Plan for 2449 villages.

- 7.4 Progress under Financial Inclusion in Madhya Pradesh : Data received reveals that 18031 out of 55393 villages in 50 districts have achieved 100% Financial Inclusion as on 30.09.2010. All 33 Banks volunteered for this activity.

8. Strategy for Building an Inclusive Financial Sector

The financial exclusion is caused both by demand and supply side issues. On the one hand, the strategy for up scaling Financial Inclusion should concentrate on supply side issues of financial inclusion and what can be done to enhance supply of financial services, through increased outreach by existing institutions, enhancing their incentives to serve the excluded and adding new distribution channels. On the other hand, unless some initiatives are taken on the demand side, or in the "real sectors", mere supply side solutions from the financial sector will not work. Thus, the overall strategy for building an inclusive financial sector may be based on effecting improvements within the existing formal credit delivery mechanism; Suggesting measures for improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non-cultivator households; evolving new models for effective outreach, and leveraging on technology based solutions.

- 3.1 Product Innovation : The excluded segments of the population require products which are customized, taking into consideration their varied needs. The products and services offered at present do not effectively meet these needs.
- 3.1.1 Savings : Savings products to meet the specific requirements of the poor need to be evolved. SHGs may be utilized for tapping the small savings by providing incentives to SHGs with suitable back-end technology support. Banks can develop medium and long term savings instruments by issuing pre-printed deposit receipts to SHGs which in turn can be sold to SHG members. Banks could be given the freedom to develop their own products, suited to local requirements and felt needs of the poor.
- 3.1.2 Credit : A savings-linked financing model can be adopted for these segments. The approach should be kept simple which should guarantee the beneficiaries a credit limit, subject to adherence to simple terms and conditions. Credit within a specified limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behaviour of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it would also ensure good credit dispensation.

8.1.3 Insurance : Banks can play a vital role in this regard by distributing suitable micro-insurance products such as, Life Insurance, Health Insurance, Crop Insurance, Livestock Insurance and Asset Insurance.

8.1.4 Remittance Needs of the Poor.

8.2 Procedural Changes

8.2.1 Easy Documentation for Small Loans

8.2.2 Exemption from Stamp Duty for Loans to Poor and Small/Marginal Farmers:

8.2.3 Simplifying Mortgage Requirements

8.2.4 Nodal Branches

8.2.5 Strengthening Boards of Management

8.3 Strengthening Delivery of Financial Services

8.3.1 Making Marginal Farm Holdings Viable and Enabling their Financial Inclusion

8.3.2 Financing poor farmers

8.3.3 Widening network and Expanding coverage, Business Facilitators , Business Correspondents (BFs/BCs)

8.3.4 Separate credit plan for excluded regions

8.3.5 Incentives for Implementation of initiatives for financial inclusion

8.3.6 Risk Mitigation - setting up of Credit Guarantee

8.3.7 Capacity building of Government functionaries

8.4 Cooperative Credit Institutions

8.4.1 Use of PACS and other Primary Cooperatives as Business Correspondents

8.4.2 Cooperatives Adopting Group Approach for Financing Excluded Groups

8.5 Financial inclusion through Micro Finance

8.5.1 Strategic microfinance plan

8.5.2 Self Help Group – Bank Linkage Model

8.5.3 Encouraging SHGs in Excluded Regions – Funding support

8.5.4 Adoption of JLG Model to cover marginalized groups

8.5.5 From Micro-credit to Micro-enterprise - Challenges

8.6 Use of Technology

8.6.1 Technology Applications

8.6.2 Technology – The Driving Force for Low-cost Inclusion Initiatives

8.6.3 Computerisation

9. Conclusion

It is concluded that the financial exclusion is caused both by demand and supply side issues. Therefore, the strategy for upscaling Financial Inclusion should concentrate not only on evolving new models for effective outreach, and leveraging on technology based solutions; but also aim at improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non-cultivator households.

- 9.1 Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population which lacks access to even the most basic banking services. Despite the laudable achievements in the field of banking, the issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before.
- 9.2 The financial exclusion is caused by both demand and supply side issues. Therefore, while the strategy for up scaling Financial Inclusion should concentrate on evolving new models for effective outreach, and leveraging on technology based solutions; at the same time it should aim at improving credit absorption capacity especially amongst marginal and sub-marginal farmers and poor non-cultivator households. A number of measures have been taken in recent years to improve the credit delivery mechanism and bring about maximum financial inclusion of the poorer sections of the society.
- 9.3 The essence of financial inclusion is in trying to ensure that people, particularly, those living on low incomes, are able to access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc. While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these services, the objective of "Comprehensive Financial Inclusion" would be to provide a holistic set of services encompassing all of the above.

References

- Government of India (GoI) (2001): Census.
- Government of India (GoI), Ministry of Finance, Budget Speeches by the Minister of Finance (July 8, 2004)
- Government of India (GoI) (2003) All India Debt and Investment Survey, NSSO 59th Round Report.
- Leeladhar, V (2005). "Taking Banking Services to the Common Man - Financial Inclusion" Commemorative Lecture by Deputy Governor, Reserve Bank of India at the Fedbank Hormis Memorial Foundation at Ernakulam on December 2, 2005

- Minakshi Ramji, (January 2009). Financial Inclusion in Gulbarga : Finding Usage in Access Working Paper Series No. 26, Institute for Financial Management and Research Centre for Micro Finance
- Mohan, Rakesh (2006). "Economic Growth, Financial Deepening and Financial Inclusion' Address by Dr. Rakesh Mohan at the Annual Bankers' Conference 2006, at Hyderabad on November 3,2006
- NABARD, State Focus Paper 2009-10 : Madhya Pradesh
- NABARD, State Focus Paper 2011-12 : Madhya Pradesh
- RBI Circular No. RBI/2005-06/233 RPCD.RF.BC.54/07.38.01/2005-06 dated 13.12.2005.
- Report of the Committee for Financial Sector Reforms, Chaired by Dr. Raghuram Rajan, Planning Commission, Government of India
- Report of the Committee on Financial Inclusion, Chaired by Dr. C. Rangarajan, January 2008
- Report on Currency and Finance (2006 -2008), Reserve Bank of India.
- Report on Status of Microfinance Sector in India, 2006-07, NABARD
- Report on Trend and Progress of Banking in India, 2007-08, Reserve Bank of India
- The Economic Times. 12 September 2008. "RBI asks banks to offer credit through no-frills Accounts"
- The Microfinance Review (January-June 2009): Journal of the Centre for Microfinance Research, Bankers Institute of Rural Development, Lucknow
- The Microfinance Review (January-June 2010): Journal of the Centre for Microfinance Research, Bankers Institute of Rural Development, Lucknow
- The Microfinance Review (January-June 2011): Journal of the Centre for Microfinance Research, Bankers Institute of Rural Development, Lucknow
- The Microfinance Review (July-December 2009): Journal of the Centre for Microfinance Research, Bankers Institute of Rural Development, Lucknow
- Union Budget 2006-07. Available at: <http://www.banknetindia.com/banking/budget79.htm>
- Usha Thorat (2008), Speech on Financial Inclusion and Information Technology, Vision 2020- Indian Financial Services Sector, NDTV, Mumbai.
- www.iibf.org.in
- www.mospi.nic.in
- www.nabard.org
- www.planningcommission.nic.in
- www.rbi.org

Dr K.S. Thakar, Professor, Institute of Commerce and Management, Jiwaji University, Gwalior
Jay Nigam, Research Scholar, Institute of Commerce and Management, Jiwaji University, Gwalior