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Climate Change and Its Financing – India's Experience

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Abstract

According to Ministry of Environment and Forest, Climate Change refers to a statistically significant variation in either the mean state of the climate or in its variability, persisting for an extended period (typically decades or longer). The Climate Change initiatives need huge finance and it is difficult for the developing economies to garner such funds. In this light, this paper attempts to understand the scenario of Climate Change and its financing in India. This paper outlines the extent of funds dedicated for Climate Change projects during 2007 to 2013 by external agencies (GEF, Germany's International Climate Initiative, Japan's Fast Start Finance, Clean Technology Fund and others) in India. It will focus on sixty-six projects which have been approved by international agencies; while the funds approved are USD 3312.78 million only USD 122.82 million have been disbursed. The focus areas of these projects will be analysed in the light of the National Action Plan on Climate Change's eight missions.

Keywords: *Climate Change, Finance, NAPCC*

1. Introduction

According to Ministry of Environment and Forest, Government of India, Climate Change (CC) refers to *a statistically significant variation in either the mean state of the climate or in its variability, persisting for an extended period (typically decades or longer); CC may be due to natural internal processes or external forcing or to persistent anthropogenic changes in the composition of the atmosphere or in land use.* With the awakening of the conscience and consciousness towards climate change by individuals, utilities, states and multilateral bodies; initiatives have been planned and progress is being made on this front. Unlike other issues, climate change impacts whole of planet earth and hence the need for coordinated global efforts. It has been accepted that the developed economies have higher footprint; and therefore their contribution to ensure that further impact is minimized is greater in terms of financing the initiatives and to reduce their footprint.

The initiatives need huge finance and it is difficult for the developing economies to garner such funds. In this light, this paper attempts to understand the scenario of climate finance in India. "... there is currently no precise internationally agreed definition of climate finance and current efforts to track climate finance lack transparency, comparability and comprehensiveness"[1]. According to Copenhagen Accord (December, 2009) and Cancun Agreement (December, 2010) developed countries committed USD 30 billion for a period of three years (2010-12) and USD 100 billion per year by 2020. The approved amount totaled to USD 18994.53 million till July, 2013. India stands on top regarding the funds approved for the

Climate Change issue. The details of funds approved till July, 2013 for the top twenty countries are outlined in Table 1.

Table 1: Top twenty countries – Aid for Climate Change

(Amount in million USD)

Country	*Approved Amount*	*Country*	*Approved Amount*
India	3312.776	Morocco	365.365
Indonesia	3173.903	Bangladesh	348.780
Brazil	1017.149	Turkey	348.289
Vietnam	736.043	China	307.151
Mexico	727.825	Uzbekistan	243.210
Egypt	541.880	Pakistan	199.800
South Africa	497.322	Tanzania	180.617
Kenya	453.400	Cambodia	162.990
Philippines	409.675	Russian Federation	153.662
Thailand	388.588	Democratic Republic of Congo	133.165

Source: Climate Finance Options

2. Literature Review

The literature in the field of climate change is enormous while literature on climate finance is limited in the Indian context. The following paragraphs outline the review of literature undertaken.

Mandal and Sivapradha (2012), outline the position of India in the Climate Change scenario and three broad sources (Private, Public – Domestic and International) of financing in India and quantum of funds (partially) invested and issues concerned and the way out. It highlights the point that there is no particular means to find the flow of funds for climate change.

Multilateral Development Banks Report (2012), the paper highlights the need for finance for avoiding dangerous climate change and more specifically to track climate finance. It has developed a framework for reporting mitigation finance and outlines that Multilateral Development Banks (MDBs) is in the plan for tracking adaptation finance. The agreed upon typology of mitigation activities are:

- Demand-side Brownfield Energy Efficiency
- Demand-side Greenfield Energy Efficiency
- Supply-side Brownfield Energy Efficiency
- Renewable Energy, Transport, Agriculture, forestry and land use
- Waste and Waste water, Non-energy GHG reductions and Cross-sector activities

Objectives of the study: The objectives of the study are:

1. To understand the concept of climate change and it's financing in India.
2. To outline briefly the policies, institutional framework in India to handle Climate Change.

3. To outline inflow of funds for climate change initiatives in India by external agencies.

3. Methodology

The secondary sources of data have been accessed to collate information related to Green House Gas emissions and socio economic variables during two decades (1990 to 2010). The trends in sector wise emission during 1990 to 2009 are present graphically. The details of climate change projects that have approved by external agencies for various initiatives have been considered for the study. These projects have been approved from 2007 to July, 2013.

3.1 Trends - GHG emission and socio economic variables:

The GHG emissions and the socio economic indicators of India during the last two decades (1990-2010) indicate the path that has been trodden. The details are outlined in Table 2:

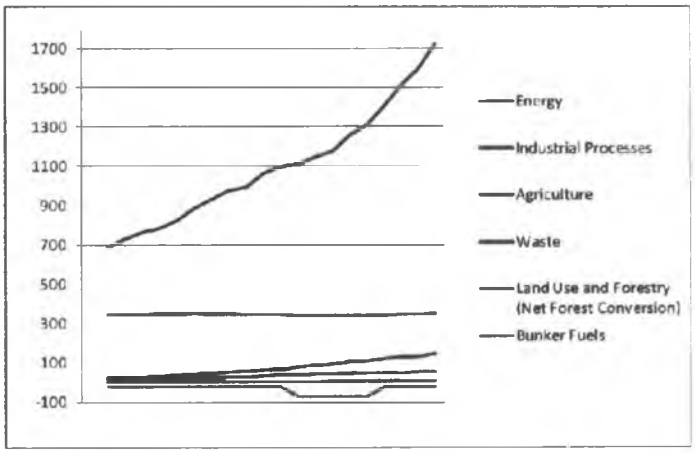
Table 2: India's GHG emission and Socio Economic Variables

Year	*Total GHG Emission (MtCO2e)*	*Population (People)*	*GDP-PPP (Million Intl$ (2005))*	*GDP-USD (Million US$ (2000))*	*Energy Use ((Thousand tonnes oil eq. (ktoe))*	*Total GHG emission per GDP (including LUCF)*	*Per Capita Emission (Including LUCF) (tCO2e)*	*Total GHG Emission (% change over the previous year)*
1990	1,069.11	873,785,449	1,057,120	276,491	316,743	1,011.34	1.22	n/a
1991	1,115.98	891,910,180	1,068,290	279,413	329,487	1,044.64	1.25	4.38
1992	1,156.62	910,064,576	1,126,860	294,731	342,626	1,026.41	1.27	3.64
1993	1,186.04	928,226,051	1,180,400	308,733	350,462	1,004.78	1.28	2.54
1994	1,232.73	946,373,316	1,259,000	329,292	364,050	979.14	1.3	3.94
1995	1,301.48	964,486,155	1,354,360	354,234	384,285	960.95	1.35	5.58
1996	1,350.76	982,553,253	1,456,610	380,977	396,680	927.33	1.37	3.79
1997	1,401.31	1,000,558,144	1,515,600	396,406	412,207	924.59	1.4	3.74
1998	1,428.28	1,018,471,141	1,609,330	420,921	422,257	887.5	1.4	1.92
1999	1,514.92	1,036,258,683	1,745,530	456,544	448,343	867.89	1.46	6.07
2000	1,533.32	1,053,898,107	1,814,920	474,692	457,214	844.84	1.45	1.21
2001	1,517.09	1,071,374,264	1,904,650	498,161	464,504	796.52	1.42	-1.06
2002	1,566.08	1,088,694,080	1,979,070	517,627	477,505	791.32	1.44	3.23
2003	1,608.48	1,105,885,689	2,136,290	558,748	489,496	752.93	1.45	2.71
2004	1,709.87	1,122,991,192	2,303,960	602,603	519,094	742.15	1.52	6.3
2005	1,783.58	1,140,042,863	2,517,880	658,553	539,276	708.37	1.56	4.31
2006	1,924.19	1,157,038,539	2,751,140	719,562	566,754	699.41	1.66	7.88
2007	2,032.97	1,173,971,629	3,020,790	790,088	598,801	672.99	1.73	5.65
2008	2,140.59	1,190,863,679	3,138,330	820,830	626,082	682.08	1.8	5.29
2009	2,311.01	1,207,740,408	3,404,450	890,435	675,195	678.82	1.91	7.96
2010	2,304.39	1,224,614,327	3,763,500	984,344	692,689	612.3	1.88	-0.29

Source: World Resources Institute

The sectoral GHG emissions ($MtCO_2e$) of India during 1990 to 2009, is presented in Figure 1. It is noted that greater proportion of emissions is by energy sector, though India is still energy deficit. Taking a clue from this scenario India has two challenges; one is to meet the energy demand and second is to reduce the emissions. In this light, of eight national missions of NAPCC, two missions are related to energy (Solar Mission and Enhanced Energy Efficiency Mission). India's expert group on Low Carbon Strategies appointed by Planning Commission has outlined strategies for major potential carbon mitigation sectors viz., Power, Transport, Industry, Buildings and Forestry.

Figure 1: Sectoral GHG Emissions during 1990 to 2009 ($MtCO_2e$)



Source: World Resources Institute

According to Yannick Glemarec, UNDP Director for Environmental Finance, "National budgets will be an important component of initial funding for climate change...."[1]. Understanding the importance of Climate Change, India has rolled out National Action Plan on Climate Change (NAPCC) in 2008. The eight missions of NAPCC are Solar, Enhanced Energy Efficiency, Sustainable Habitat, Water, Sustaining the Himalayan Ecosystem, Green India, Sustainable Agriculture and Strategic Knowledge for Climate Change. In August 2009, Prime Minister Mr. Manmohan Singh, in his address to the State Environmental Ministers had asked then to prepare State Action Plan on Climate Change (SAPCC). According to Economic Survey 2012-13, *"21 states have prepared documents on the SAPCC, focused on approaches that are sectoral but with regional ramifications."* In India, understanding the importance of the subject, a climate change finance unit has been set up in the Department of Economic Affairs, Ministry of Finance. Each of the mission has specific goals to be attained to ensure sustainable economic development.

According to a note by Department of Economic Affairs** *"Global Environment Facility (GEF) is one of the operating entities of the financial mechanism of the Convention; providing grants and loans to developing countries for projects that benefit the global environment, linking local, national, and global environmental challenges and promoting sustainable livelihoods. Apart from GEF and GCF (Green Climate Fund), there are specific funds established under the UNFCCC like the Adaptation*

fund, Least Developed Country Fund, etc.. There are other funds administered by World Bank, Asian Development Bank, African Development Bank, etc., with clear climate change components".

3.2 Profile of the projects:

The profile of climate change funds in India are presented in Table 3.

Table 3: Projects' Profile

Year	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013***	*Total*
Number of projects	1	9	5	23	10	16	2	**66**
Amount* Approved	2.96	12.15	13.49	1183.28	1715.26	378.12	7.52	**3312.78**
Amount* Disbursed	2.96	0.22	0.60	114.67	0.00	4.37	0.00	**122.82**

*(USD Million) **upto July, 2013 Source: http://www.climatefundsupdate.org/data

It is noted that except in 2007, there is a wide gap in the amount approved and disbursed. Table 4 outlines the funders and the number of projects during the period 2007 to 2013. Of the sixty six projects, forty nine had mitigation as the focus area while only nine had adaptation as the focus area and the rest (eight) had multi focus.

Table 4: Number of projects approved Funder wise

Funder	*Number of projects*	*Funder*	*Number of projects*
Clean Technology Fund	4	Japan's Fast Start Finance	
	15		
GEF Trust Fund (GEF 4)	14	Special Climate Change Fund (SCCF)	
	2		
GEF Trust Fund (GEF 5)	9	Germany's International Climate Initiative	
	16		
GEF Trust Fund (GEF 4) - Strategic Priority on Adaptation (SPA)	5 1	Global Energy Efficiency and Renewable Energy Fund (GEEREF)	

Source: http://www.climatefundsupdate.org/data

Japan and Germany have approved a greater number of projects compared to others; while the Global Environment Fund (GEF) under various trenches has approved twenty eight projects. The financial instrument under which funds are approved is detailed in Table 5.

Table 5: Financial Instruments Used

Financial Instrument	*Number of projects*	*Financial Instrument*	*Number of projects*	*Financial Instrument*	*Number of projects*	*Financial Instrument*	*Number of projects*
Concessional Loan	4	Loan	14	Grant	42	Unknown	6

Source: http://www.climatefundsupdate.org/data

Table 6 outlines details of projects where funds have been sanctioned. Projects 1 to 5 have been funded by GEF Trust Fund (GEF 4) Strategic Priority on Adaptation (SPA) with focus on adaptation. In case of fifteen other projects the focus has been on mitigation.

Table 6: Profile of projects for which amount has been disbursed

S.No.	*Project*	*Year*	*Implementer*	*Amount**
1	Sustainable Rural Livelihood Security through Innovations in Land and Ecosystem Management	2007	WB	2.96
2	Integrated Land and Ecosystem Management to Combat Land Degradation and Deforestation in Madhya Pradesh	2008	UNDP	0.22
3	Sustainable Land, Water and Biodiversity Conservation and Management for Improved Livelihoods in Uttarakhand Watershed Sector	2009	WB	0.35
4	Sustainable Participatory Management of Natural Resources to Promote Ecosystem Health and Resilience in the Thar Desert Ecosystem	2009	UNDP	0.25
5	Reversing Environmental Degradation and Rural Poverty through Adaptation to Climate Change in Drought Stricken Areas in Southern India: A Hydrological Unit Pilot Project Approach	2010	FAO	1.00
6	Achieving Reduction in GHG Emissions through Advanced Energy Efficiency Technology in Electric Motors	2010	UNDP	0.25
7	Chiller Energy Efficiency Project - under the Programmatic Framework for Energy Efficiency	2010	IBRD	6.30
8	Coal Fired Generation Rehabilitation Project	2010	IBRD	45.40
9	Energy Conservation in Small Sector Tea Processing Units in South India	2010	UNDP	0.95
10	Energy Efficiency Improvements in the Indian Brick Industry	2010	UNDP	0.70
11	Financing Energy Efficiency at Micro, Small and Medium Enterprises (MSMEs)	2010	IBRD	11.30
12	IND Energy Efficiency Improvements in Commercial Buildings - under the Programmatic Framework for Energy Efficiency	2010	UNDP	5.20
13	IND Improving Energy Efficiency in the Indian Railway System - under the Programmatic Framework for Energy Efficiency	2010	UNDP	5.20
14	Low Carbon Campaign for Commonwealth Games 2010 Delhi	2010	UNDP	0.80
15	Market Development and Promotion of Solar Concentrators based Process Heat Applications in India	2010	UNDP	4.40

S.No.	Project	Year	Implementer	Amount*
16	Promoting Energy Efficiency and Renewable Energy in Selected Micro SME Clusters in India - under the Programmatic Framework for Energy Efficiency	2010	UNIDO	7.17
17	Sustainable Urban Transport Project	2010	IBRD	22.50
18	Enabling activities for Preparing India's Second National Communication to UNFCCC	2010	UNDP	3.50
19	Promoting Business Models for Increasing Penetration and Scaling up of Solar Energy	2012	UNIDO	4.37

*approved and sanctioned (USD Million) Source: http://www.climatefundsupdate.org/data

It is noted from sixty six projects, the focus of twenty five projects has been on Energy and Efficiency, six projects have been on Solar Energy, while Water, Himalayan Ecosystem and Strategic Knowledge for Climate Change each had two projects while Green India had only one project; rest of the twenty-eight projects had focus other than the eight national missions.

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Financial Inclusion: Moving From Access to Usage

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Abstract

Finance matters for both economic growth and development. There is substantial theoretical as well as empirical evidence that effective financial intermediation and access to financial markets promotes growth. It is also well documented that financial development plays a crucial role in moving households out of poverty – indirectly by stimulating growth and directly by providing savings and credit services to the poor. It is also a well accepted fact that, lack of access to finance restricts growth, and indirectly widens inequality by hurting the smaller firms more and discouraging new entrepreneurs. Number of studies point out that, greater access to formal financial services leads to higher income of households, including that of poor households.

On review of the existing literature, one observes that they generally consider access to finance and actual use of finance synonymously, may be due to non-availability of adequate data on actual use of financial services by households and firms. Given that considerable success has been achieved in so far as access to formal banking is concerned, a lot needs to be done as far as the use of these bank accounts is considered.

The present paper makes an attempt to bring out the significance of usage of bank accounts to make financial inclusion more sustainable and meaningful. The paper tries to analyse the constraints on usage of financial products offered under financial inclusion drive in India. An attempt has also been made to suggest measures to strengthen the usage of financial services, basic bank accounts in particular.

The present study is based on primary data collected as a part of an ongoing usage study of basic bank accounts opened in tribal regions of Nashik district. The data has been collected through questionnaire method from sample households. This study attempts to highlight demand side factors of financial inclusion at the grass-root level, mainly the socio-cultural aspects coupled with lack of financial education in general and financial literacy in particular.

Keywords: *Finance, Economic growth, Financial inclusion, Economic development.*

INTRODUCTION

Throughout the world, there is a growing awareness towards building an Inclusive Society for bringing about more sustainable social and economic development. It is now a well recognized fact that economic growth of any magnitude and rate is not meaningful unless it embraces all segments of the society. Thus everyone in the society, without any constraints and discriminations, has a particular role to play in the design of the economic development of the country.

There can be and there are a number of ways, strategies and policies to achieve the goal of inclusive growth. Financial Inclusion or Inclusive Finance is perceived and rightly so, as an effective tool for achieving the inclusive growth agenda as there exists a crucial link between finance and economic growth. After the U.N. celebrated 2005 as the 'Year of Micro Credit ', Financial Inclusion as a term as well as a policy tool caught the eyes of the economists, central bankers, policy makers and leaders.

FINANCE and GROWTH

The recent literature, theoretical as well as empirical, clearly indicates the link between finance (financial depth) and economic growth. There seems to be unanimity in the acceptance of the fact that a well developed and efficient financial system can promote economic growth, reduce poverty and income inequalities. In the recent past it has been also accepted by economists and policymakers that a mere stable and efficient financial system is not sufficient, but it has to be 'Inclusive' as well. This 'Access' aspect of the financial system is at the core of the strategy of Financial Inclusion. Empirical evidences also suggest that, the societies with large proportion of population excluded from the formal financial system show higher poverty ratio and higher inequality as well.

When they work well, financial markets provide opportunities for all market participants to take advantage of the best investments by channeling funds to their most productive uses, boosting growth, improving income distribution, and reducing poverty. When they do not work well, opportunities for growth are missed; inequalities persist.

Recent development theory sees the lack of access to finance as a critical mechanism for generating persistent income inequality, as well as slower growth. Without inclusive financial systems, poor individuals and small enterprises need to rely on their own limited savings and earnings to invest in their education, health, and training, become entrepreneurs to take advantage of promising growth opportunities. Financial sector policies that encourage competition, provide the right incentives to individuals, and help overcome access barriers are thus central not only to stability but also to growth, poverty reduction, and more equitable distribution of resources and capacities.

FINANCIAL INCLUSION IN INDIA: POLICY ENVIRONMENT

There has been a long history of efforts in India as far as expanding the banking services to the socially and economically disadvantaged sections of the society. Priority sector was instituted to provide loans to agriculture, small and medium enterprises, rural artisans, educated unemployed etc. Further, special banks like Rural Co-operative Banks, Regional Rural banks were set up and also national level institutions like NABARD, SIDBI were established to channelize credit to rural areas and small scale sector.

These efforts were further intensified since 2005-06 under the Financial Inclusion drive. As banking regulator and policy maker RBI, has taken following policy measures:

- Relaxation on KYC norms
- Simplified branch authorization
- Pricing has been made free
- Liberalization of Business Correspondents Model

- Opening of branches in unbanked rural centers
- Financial Inclusion Plan for Banks
- Opening of No-frills accounts /Basic Savings Deposit Account (BSDAs)
- Small Overdrafts in Basic Savings Deposit Account (BSDAs
- General Credit Cards (GCCs) and Kisan Credit Cards. (KCCs)

FINANCIAL ACCESS: THE BIGGER PICTURE

The massive drive led by regulator RBI with use of ICT platform and branchless banking models using BCs/BFs in the form of NGOs, MFIs, post offices and civil society organizations has succeeded in terms outreach and access of banking services. The Table 1 explains the outreach of banking services to the Indian households while Table 2 shows the progress in financial access between March 2010 and March 2013 with reference to villages covered, BSDA accounts, ODs, KCCs and GCCs issued.

Table 1: Increasing Outreach (2001-2011)

	As per Census 2001			*As per Census 2011*		
Households	Total number of HH	Number of HH availing banking services	Percent	Total number of HH	Number of HH availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

SOURCE: An Overview of Financial Inclusion; Department of Financial Services, Ministry of Finance, Government of India.

TABLE 2: PROGRESSES in FINANCIAL ACCESS

PERTICULARS	*March 2010*	*March 2013*
1 Banking Outlets in Villages >2000	37,949	1,19,453
2 Banking Outlets in Villages <2000	29,745	1,49,001
3 Banking Outlets in Villages(Branches)	33,378	40,837
4 Banking Outlets in Villages(BCs)	34,174	2,21,341
5 Banking Outlets in Villages (TOTAL)	67,694	2,00,760
5 Basic Savings Bank Deposit A/C BSBDAs) through Branches (Mn.)	60	101
6 (BSBDAs) through BCs (Mn.)	13	81
7 BSBDA Total (Mn.)	73	182
9 OD Facility On BSBDA (No. in Mn.)	0.2	4
10 OD Facility On BSBDA (Amount Rs Bn.)	0.1 (Total 55Bn.)	2 (Total 183 Bn.)
11 KCCs Total (No. in Mn.)	24	34
12 GCCs Total (No. in Mn.)	1	4

(SOURCE: RBI Report on Trends and Progress of Banking in India 2012-13.)

Thus, financial inclusion efforts in the last five years or so have been successful in terms of enrolment with nearly 60% of adult population is having bank account now. The percentage is quite high as compared with other developing countries such as South Africa (32%), Columbia (39%), and Brazil (48%) but still very low as compared to UK (88%), US (91%) or Denmark (99%).

FROM ACCESS TO USAGE

However, despite this success, evidence from various surveys and case studies suggest that '**access**' has not translated into '**usage**'. For example studies in Tamilnadu and Karnataka found that 72% of poor individuals have 0 or minimum balances after holding their no frill account for one year. In case of **G2P** (Government to People) persons this number was even higher at 85% and that only 5% G2P recipients made deposits into no frill account.

The major observations about usage of no frills account after these studies are as follows:

1. The percentage of active bank accounts varies between 3 to 15%, rest being dormant.
2. Only 0.18% of no frill accounts were provided with overdraft facilities.
3. Very negligible number of KCC and GCC are found linked to the no frill accounts.

In short the FI drive has certainly widened the availability of bank accounts but their usage remains a big question mark. These surveys have brought out several reasons for non-usage of the no frill accounts but the most striking are lack of attention by bank personnel and benefits of running a bank account being not explained to them. These two aspects highlight one barrier each from the supply side as well as the demand side of the Indian financial inclusion story so far, viz. staff attitude and lack of financial education.

Thus there is enough evidence to conclude that the present financial inclusion drive has focused on access, believing that access will (some how?) translate into usage. The fact that most of these newly opened accounts, which are considered as a gateway to credit and remittance products, remain unutilized seems to have gone unnoticed.

USE OF BANK ACCOUNTS: STUDY OF TRIBAL REGIONS IN NASHIK DISTRICT.

Nashik district is one of the major districts of the state of Maharashtra. The district is a unique blend of industry and holds the top position in the production of onions, grapes and wine. With about six of the fifteen tehsils with significant tribal population, one fourth of the district population belongs to scheduled tribes. Social alienation, weak resource base and illiteracy are the prominent features of this society. The present paper is based on an ongoing study to assess the usage of banking services. The observations of the study are based on quantitative data collected from responses to the structured questionnaire and the qualitative data based on interviews of sample respondents from tribal regions of the district. The purpose of this study is to identify the supply side as well as demand side factors which act as barriers to translate financial access into actual usage. The respondents are asked about owning a bank account, its use pattern, frequency of transactions in the account, availability and use of products like KCC, GCC, OD, Credit, Remittances etc. Respondents were also asked about their need for financial education, underutilization of bank accounts, not availing bank credit etc.

The observations and findings of this study are briefly summarized below:

- Out of the total respondents, 84% were men while 16% were women.
- 67 % belonged to ST, 25% SC, 6% NT and 2% others categories.
- 43 % were land owners with land holding less than 3 acres.
- 20% of the sample was cultivators, 32% cultivators who also worked as wage labours, 45% purely wage labours and 3% reported 'other' occupations.
- Of the total sample 16% chose to remain 'excluded' having no bank account. (The reasons reported by concerned respondents were, inadequate and irregular income, don't want account opening 'hassles' and nomadic nature of employment.)
- Of the 84 % who held bank account, majority (78%) opened their account in the period of less than year. Thus nearly $1/5^{th}$ had bank accounts for more than a year.
- To the question as to why they opened a bank account, 94% said to receive payment from government, 4% to save money, 0 % to send/receive remittances and 2% to get loan from a bank.
- The most important observation is that, of the NEW account holders, 68% have NOT used their account at all. While those who have bank account for more than three years make deposits/ withdrawals 2 to 3 times a month.
- None of the bank accounts were having OD facility.
- None of the respondents used remittance products.
- 55% responds reported that they never borrow.
- Of those who borrowed nearly 80% borrowed for non-productive purposes (house repair, marriage, sickness etc.) 12% for buying vehicle and only 8% for productive purpose.
- Only 14 % of borrowers accessed credit from banks while 86 % borrowed from informal sources, mainly moneylenders and landlords.
- Almost ALL respondents reported that neither the banks nor their representatives provided them any type of financial advice or education and they opened the bank account as they were told that they will not receive any government assistance/subsidy/aid without a bank account. A few 4% respondents stated that they came to know about importance of saving and having a bank account from other sources.
- About not using bank credit, more than 60 percent complained that the bank agent doesn't help in getting loan from bank, bad treatment is given by bank staff, 'they' don't understand our 'language'.

CONCLUSIONS

- While one cannot deny the fact that by adopting scalable technology and right kind of business models the outreach and access of formal financial services can certainly be improved and also that a simple bank account can become a gateway to variety of financial services, the present study however, brings out the fact that if demand side factors like socio-cultural peculiarities, needs of specific communities are not understood, access cannot convert into usage. Similarly it also becomes clear that even when provided with access, the poor and socially excluded groups may not use formal financial services, if they lack 'information'.

- In a developing economy like India, the existence of informal sector creates issues like collateral, guarantees, restricting the use of formal credit products. Moreover with the predominance of the informal sector, characterized by low and irregular incomes, cash transactions are the order of the day and individuals tend to prefer substitute informal sources of credit. Due to this historical fact, the behavior of the disadvantaged sections, more particularly the SCs/STs in the rural areas are conditioned to use more informal sources of savings as well as credit. Huge efforts would be needed to bring about a decisive change in this behavioral pattern or else the advantage of improvement in access of banking services will eventually peter out.
- This study clearly brings out the importance of financial literacy and financial education without which the real purpose behind financial inclusion will not be served. A very strong financial education drive is needed, involving entities like NGOs, college youth, academicians and retired bank employs on volunteer basis. The present study shows that, there is a demand for financial education by rural masses. In fact financial access and financial education must go hand in hand. Studies in some countries clearly show that financial education certainly changes financial behavior, improving the use of financial services.
- There is also a need of designing flexible, simple and useful financial products both deposit and credit.

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