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1.0 PROGRESS AND PROSPECTS ON FINANCIAL INCLUSION

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1.1 Introduction

Financial inclusion is globally considered as a critical indicator of development and well-being of society. In this post, Srinivasa Rao traces the financial inclusion journey in India so far, and discusses prospects for the future.

While inclusive banking began, in spirit, with the nationalization of banks in 1969 and 1980 in India, the real thrust on Financial Inclusion (FI) came in 2005 when the Reserve Bank of India (RBI) highlighted its significance in its annual policy statement of 2005-06. It urged banks to work towards reaching out to the masses, offering banking services down to the hinterland. The worrying fact was the mass exclusion of people from the formal banking system that hindered economic growth at the bottom of the pyramid. Then onwards RBI began to persuade banks to include FI as a business objective.

Globally, FI is considered as a critical indicator of development and well-being of a society. As a result of renewed thrust on FI, an inclusive financial system is widely recognized in policy circles as a proactive measure and has become a basic priority in many countries – including India. FI is considered as an effective means to sustainable economic growth, and is intended to ensure that each citizen of the country is able to use their earnings as a national financial resource for redeployment in productive sectors of the economy. Such pooled financial resources can be channelized to develop enterprises, fueling the nation's progress. This underlying theme has brought FI in the spotlight and it has come to occupy centre-stage in financial intermediation.

1.2 The Beginning of the Financial Inclusion Journey

FI as a policy initiative entered the banking lexicon only after the recommendations of the Rangarajan Committee in 2008. It began to attract the attention of stakeholders when banks realized the significance of connecting with more people for business growth. The span of financial services included provision of basic savings accounts, and access to adequate credit at affordable costs to vulnerable groups such as the excluded sections of the society and low-income households. The experience of microfinance units in India and abroad shows that vulnerable groups who pay usurious interest rates to local moneylenders, can also be worthy borrowers of banks. One of the broader objectives of FI is to pull the poor community out of the net of exploitative moneylenders. But despite such emphasis, the penetration of banking services was initially mostly confined to urban areas and major cities, after which they started spreading to the hinterland. FI thus became an integral part of the business domain of banks, with RBI advising all public and private banks to submit a board-approved, three-year FI Plan (FIP) starting from April 2010. These plans broadly included self-set targets in terms of bricks-and-mortar branches in rural areas, clearly indicating coverage of unbanked villages with population above 2,000 and those with population below 2,000; deployment of Business Correspondents1 (BCs) and use of electronic/kiosk modes for provision of financial services; opening of no-frills accounts; and so on. For the dispensation of credit, Kisan Credit Cards (KCC), General Credit Cards (GCC), and other specific products designed to cater to the financially excluded segments, were introduced. Such accelerated microcredit was part of priority sector lending schemes of banks. Further, banks were advised to integrate FIP's with their business plans and to include the criteria on FI as a parameter in the performance evaluation metrics of their staff.

Among associated developments, RuPay – an Indian domestic debit card – was introduced on 26 March 2012 by the National Payments Corporation of India (NPCI). It has been a game changer in creating better digital infrastructure and enabled faster penetration of debit card culture.

1.3 The Progress of Financial Inclusion

Faster implementation of FIPs is seen after 2010-11. Commercial banks opened new rural branches, increased coverage of villages, set up ATMs and digital kiosks, deployed BCs, opened no-frills accounts, and provided credit through KCCs and GCCs. The introduction of core banking technology and proliferation of alternate delivery channels aided the process of inclusion on a larger scale. The statistics on key banking network give a sense of the pace of progress of banking outreach as part of FI.

Table 1. Progress of Financial Inclusion at a glance

Parameter of financial inclusion	March 2010	March 2016	March 2017
Number of Bank branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch points	142	3,248	3,761
Total number of banking touch points	67,694	586,307	598,093
Number of BSBDA* (in millions)	73	469	533
Deposits in BSBDA (Amount in Rs. billions)	55	636	977

In the last 7-8 years, banks have expanded their presence, and differentiated banks – payments banks and small finance banks – are set to take this further. When banks began pursuing three-year FI policies, innovations in providing better access to appropriate financial products and services came up. There was more focus on making banking accessible to vulnerable groups. Mainstream institutional players integrated fairness and transparency as part of their offerings, with basic products well-understood by the masses. As a result, FI became a critical factor for inclusive growth and development. Banks also realised that it can be an effective means for cross-selling and business growth.

1.4 The Tectonic Shift in Financial Inclusion

The biggest change came with the roll out of 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' in August 2014. PMJDY has been designed to ensure accelerated access to various financial services like basic savings bank accounts, affordable, need-based credit, remittances facilities, and insurance and pension for excluded sections. Such deep penetration at affordable cost can only be possible with effective use of technology. Hence, the banking ecosystem operating on core banking mode, and ability of NPCI to scale-up issue of debit cards has enabled effective implementation of PMJDY. As a result, the number of new savings accounts opened by the banking system has been phenomenal under the scheme. The progress since its inception is interesting to observe.

Table 2. Progress of PMJDY up to 9 May 2018

Deposits accumulated (in Rs. millions)			No of debit cards issued (in millions)
Public sector banks	255.3	652182.50	192.00
Regional rural banks	50.7	137170.30	36.80
Private sector banks	09.9	22681.30	08.20
Total	316.6	812035.90	238.00

Added to the ongoing FI schemes, financial literacy and digital literacy campaigns of banks were closely monitored by RBI. FI got renewed thrust with the launch of PMJDY because apex forums of RBI and Ministry of Finance monitored its focus. This has added a new dimension to the progress of FI by opening bank accounts on a large scale on mission mode. The benefit of such mass accretion to the customer base is expected to provide immense benefit to consumers and banks in the coming years.

1.5 Measurement of Financial Inclusion

The progress of implementation of FI has to be measured to decide on future policy framework. It is believed that when banks embarked on the formal journey of FI, hardly 40% of Indian adults had savings accounts, with only a small fraction receiving credit from the banking system. Though there is lack of concrete data on the achievement levels, informal data suggest that about 62% of adult Indians are now covered.

India’s first FI index was launched in 2013 based on four critical dimensions: (i) branch penetration, (ii) deposit penetration, (iii) credit penetration, and (iv) insurance penetration. The last dimension was added for the first time to make the index much more comprehensive. CRISIL Inclusix measures progress on FI down to the level of each of the 666 districts in the country in 2013 (as against 717 now). The index is based on data provided by RBI, the Micro-Finance Institutions Network (MFIN), and the Insurance Information Bureau of India.

The index readings for fiscal year (FY) 2015-16 (the latest period for which data are available) show that FI has improved significantly, with the all-India score rising to 58 in FY 2015-16, compared with 50.1 in FY 2012-13. The PMJDY and RBI’s steadfast focus on unbanked regions have made a big difference.

As many as 600 million deposit accounts were opened between FY 2012-13 and FY 2015-16, which is twice the number between 2010 and 2013. Nearly a third of this was on account of PMJDY. This gets well reflected in the deposit penetration index of CRISIL Inclusix.

There has also been a sharp incremental rise in number of people availing credit, to 31.7 million. This figure includes loans extended by banks and microfinance institutions together in the two years up to FY 2015-16, which is the highest since FY 2012-13. Notably, microfinance institutions contributed significantly to the financially under-penetrated regions. The Digital India initiative, payment banks, and small finance banks have all helped improve the outreach of formal financial services to economically disadvantaged sections of the populace and geographically remote regions.

1.6 Global Findex

Besides domestic measurement of FI, there are global institutions such as World Bank that measure the progress of FI across countries. World Bank started capturing data on FI in 2011, once in three years. The latest edition of the Global Findex (GFX), which came out in 2017, shows that 515 million adults worldwide opened an account at a financial institution or through a mobile money provider between 2014 and 2017. This means that 69% of adults globally now have an account, up from 62% in 2014, and 51% in 2011. In high-income economies, 94% of adults have an account; in developing economies the figure is 63%. There is also wide variation in account ownership across countries.

India’s GFX was 35 in 2011, 53 in 2014, and 80 in 2017. This reflects a speedy improvement in FI, suggesting that relevant Indian policies in the last few years have worked well. GFX 2017 stands at 80 for China (79 in 2014), 76 for Russia, 70 for Brazil, 69 for South Africa, 96 for UK, and 93 for US. Given the constraints of poverty, illiteracy, and lack of spread of banking network, the progress under PMJDY is laudable.

1.7 Pursuing Financial Inclusion Going Forward

FI has been a cherished policy objective pursued with the intent of reaching out to the masses. It is pertinent to draw reference to a profound International Labour Organization (ILO) Declaration of Philadelphia (1944), which states, “Poverty anywhere is a threat to prosperity everywhere.” Policymakers in India too had an early realization that poverty has implications for financial stability, and have endeavored to ensure that poverty is tackled in all its manifestations and that the benefits of economic growth reach the poor and excluded sections of society by connecting them with mainstream banking. Lack of effective and broad-based financial and digital literacy is inhibiting full-scale implementation of FI. According to Dr. Kanungo, Deputy Governor, RBI, “This illiteracy transcends across all geographies and regions, not just rural or semi-urban, north or south and is equally true of the staff at the front desks of bank branches. Are we doing enough to educate the public? Should it be the responsibility of the regulator alone? The answer is no. Let us all strive to build consumer awareness consciously and rigorously. An informed customer is a crucial cog in the payment ecosystem”.

The vision for FI as envisaged by the Committee on Medium-term Path is that over 90% of the hitherto underserved sections of society would become part of formal banking by 2021, and be active stakeholders in economic progress. This is very much possible but it requires concerted efforts by banks and coordinated support of stakeholders. Bank customers should also join the task. There is a strong business case for banks to cater to the underserved sections of the society, given the vast developments in digital technology. In order to sustain the momentum of achieving the FI objectives by setting FIP targets for banks, the third phase of FIPs for the next three years, that is, 2016-19, is in place. Under the third phase, the focus is on more granular monitoring of the progress made by banks under FIPs at the district level.

Moreover, the Financial Inclusion Advisory Committee (FIAC) set up in 2012 has been reconstituted in June 2015 to review FI policies on an ongoing basis and to provide expert advice to accelerate FI. FIAC is mandated to formulate National Strategy for Financial Inclusion (NSFI). Given the recent thrust on digital FI, and in line with international best practices, NSFI also seeks to draw upon the G-20 High-Level Principles for Digital Financial Inclusion, adapted to meet India-specific requirements.

1.8 Policy Reforms for Robust Financial Inclusion

Having developed a strong FI infrastructure and PMJDY accelerating the progress, the next milestone should be to bring about a mindset and cultural shift among newly connected beneficiaries to derive benefits from the formal financial system by borrowing from banks and repaying loans in time. This can boost micro and small enterprises, and hence alleviate poverty and raise the standard of living of the community at the grass-roots level. The next phase of FI is therefore less to do with policy and more to do with educating people, disseminate financial and digital awareness in the society, and making FI beneficiaries aware about the scope of expanding rural enterprises using their rights to borrow and duty to repay bank loans.

This campaign of literacy will need a multipronged, bottoms-up approach. RBI and banks should coordinate with institutions such as State Education Boards (SEBs), Central Board of Secondary Education (CBSE), University Grants Commission (UGC), and All India Council for Technical Education (AICTE), to include FI as a mandatory subject at different educational levels right from school to higher levels of education, so that the next generation of students become aware of the significance of nurturing good loan repayment culture and the society becomes digitally savvy. The project works of FI should earn better ranking to accelerate the spread of financial and digital literacy.

NGOs, corporate sector, banks, NBFCs (Non-Banking Financial Companies), and government departments currently engaged in FI should be persuaded to increase thrust. Unless using FI infrastructure becomes a mass agenda, the real benefit cannot accrue to the society. Needless to emphasize, global research has already linked poverty alleviation to FI brought about through financial awareness (see, for example, Chibba 2009). Having invested huge sums of money in building FI infrastructure, the next wave of inclusion should be to prompt beneficiaries to use their access to financial services for improving their economic and social well-being.

Conclusion:

Business Correspondents (BCs) are retail agents engaged by banks for providing banking services at locations other than a bank branch or ATM. BCs enable a bank to provide a limited range of banking services at low cost and are hence, instrumental in promoting FI.

2.0 Role of Banks in Financial Inclusion in India

(Deepa Yoganandan, Jalwa, Jeevitha, Jansi, Jushi)

2.1 Introduction

Commercial banks play a vital role in the economic development of a country like India. Indian economy in general and banking services in particular have made rapid strides in the recent past. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low-income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. To address the issue of such financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. Financial Inclusion should not be seen as a social responsibility of the Governments and the banking system, but it is a potentially viable business proposition today which provides the poor with opportunities to build savings make investments and get credit. Rangarajan committee (2008)1 defined financial inclusion 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." The financial services include the entire range - savings, loans, insurance, credit, payments etc. The financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, poor background etc. By providing these services, the aim is to help them come out of poverty. So far, the focus has only been on delivering credit (it is called as microfinance but is microcredit) and has been quite successful. Similar success has to be seen in other aspect of finance as well. The annual policy Statement of April 2005, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. With a view to achieving the objective of greater financial inclusion, all banks are advised to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. The nature and number of transactions in such accounts could be restricted, but made known to the customer in advance in a transparent manner. All banks are advised to give wide publicity to the facility of such 'no-frills' account including in the local media indicating the facilities and charges in a transparent manner.

2.2 Phases of Financial Inclusion: (Evolution of Commercial Banks)

a) 1950-70: consolidation of the banking sector and facilitation of Industry and Trade

b) 1970-90: focus on channeling of credit to neglected sectors and weaker sections.

c) 1990-2005: focus on strengthening the financial institutions as part of financial sector reforms.

d) 2005 onwards: financial inclusion was explicitly made as a policy objective.

The foundation for building a broad base of agricultural credit structure was laid by the Report of the All-India Rural Credit Survey (AIRCS) of 1954. The provision of cultivator credit in 1951-52 was less than 1% for commercial banks. It was observed that agricultural credit fell short of the right quantity, was not of the right type, did not fit the right purpose and often failed to go to the right people. With a view to give an impetus to commercial banks, particularly, in the sphere of investment credit, the nationalization of the Imperial Bank of India and its re-designation as the State Bank of India (SBI) was recommended

2.3 Role of Commercial Banks in the Financial Inclusion Programme

Given the evidence that financial access varies widely around the world, and that expanding access remains an important challenge even in advanced economies, it is clear that there is much for policy to do. It is not enough to say that the policy will provide. Policy may failures related to information gaps, the need for coordination on collective action, and concentrations of poor people, mean that banks in India everywhere have an extensive role in supporting, regulating, and sometimes directly intervening in the provision of financial services.

Financial inclusion is one of the top most policy priorities of the Government of India. Ever since the UPA government has come into power in the centre, one of the most visible aspects of the governance has been agenda of social inclusion of which financial inclusion is an integral part. Taking cue from the state proclivity towards inclusive growth agenda, the Reserve Bank of India (RBI) has taken a proactive role in ushering the enabling environment for expediting financial inclusion across length and breadth of the country through bank led model. To reach out at 400 million plus unbanked population at pace with profitability is the single most important challenge faced by the multi stakeholders, particularly banks and delivery channels.

Following are the role of commercial banks to be performed as part of financial inclusion programme:

A) Financial Literacy: Providing financial literacy is the core function of financial inclusion, as the main reason for exclusion is the lack knowledge about formal financial system. Financial literacy refers to knowledge required for managing personal finance. The ultimate goal is empowerment of people to take action by them that are in their self interest. When the people know about the financial products available and when they are able to evaluate the merits and demerits of each product and the suitability of the product for the specific needs they are in a better position to decide what they want and feel empowered in a meaningful way. The main functions to be performed by commercial banks in relation with financial literacy are:

1. Disseminating information regarding financial services and general banking concepts to various target groups, including school and college going children, women in rural places and urban poor, senior citizens, etc.

2. Extending financial education which will include:

- Need for savings,
- Advantages of banking with formal financial institutions, various financial products offered by banks relating to deposits, advances.
- Other financial services through electronic mode such as ATMs, Smart Cards, mobile banking etc.
- Method of calculation of interest on savings bank accounts, Fixed Deposits.
- Benefits of nomination facilities of accounts.

3. Bringing awareness of customer rights under fair practice code.

4. Organizing public awareness campaigns, seminars, press conferences etc.

B) Credit Counseling: There are two types of credit counseling, one is preventive counseling and the other is curative credit counseling.

Preventive counseling will include bringing awareness regarding cost of credit, availability of backward and forward linkages, etc., need to avail of credit on the basis of customer's repaying capacity. Curative counseling the credit counseling centre will work out individual debt management plans for resolving the unmanageable debt portfolio of the clients by working out effective debt restructuring plan in consultation with branch of the bank, taking into account income level and size of the loans.

Reserve Bank of India has indicated that banks may adopt segmented approach specific to different categories of borrowers. The centers in rural and semi- urban areas could concentrate on financial literacy and counseling for farming communities and those engaged in allied activities. The centers in metro and urban areas could concentrate on individuals with overdue in credit cards, personal loans, housing loan etc.

C) BC/BF Model: With an effort to focus commercial banks, to reach rural household and farm household, banks were permitted to use infrastructure of civil society organizations, rural kiosks, and adopt Business Facilitator (BF) and Business Correspondent (BC) models for providing financial services. RBI has operators and agents of small saving schemes of government of India/Insurance companies, retired and authorized functionaries of well run SHGs linked to banks.

In January 2006 RBI permitted to utilize the services of NGOs, SHGs, MFIs and other civil society organizations as intermediaries in providing finance and banking services through BF and BC which is known as "Agency model". (This allows banks to do 'cash in cash out' transactions at a location closer to rural population and facilitate greater financial inclusion and income) The type of services of Business Facilitator is:

a) Identification of borrowers and fitment activities.

b) Creation of awareness of savings and other products.

c) Collection and preliminary process of loan application.

d) Processing and submission of application to banks.

e) Educating, counseling, advice on managing money and debt.

f) Promotion and nurturing of Self Help group and Joint Liability Group.

g) Post sanctions monitoring.

In addition to the activities listed under business facilitator model, the scope of activities listed to be undertaken by BCs will include:

- Disbursement of small value credit.
- Recovery of principal/ collection of interest.
- Collection of small value deposits.
- Sale of micro insurance/mutual fund products, pension products and other third party products.
- Receipt and delivery of small value remittances, other payments of instruments.

D) KYC Norms: In order to ensure that persons belonging to the low income group both rural and urban areas do not encounter difficulties in opening bank accounts, the Know Your Customer procedure (KYC) for opening bank account was simplified asking banks to seek only a photograph of the account holder and self-certification of addresses (the amount of outstanding balance in these accounts would be limited to 50000 rupees and total transactions would be limited to one lakh rupees in one year.

E) KCC/GCC: Banks were asked to introduce a general credit card (GCC) scheme for issuing GCC to their constituents in rural and semi-urban areas based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card without insisting on security and the purpose or end use of credit (as Point Of Sale-POS and ATM facilities) with similar products are not feasible or available and limited infra structure in rural areas. The limit under GCC is up to 25000 rupees. Banks were advised to utilize the services of Schools, Primary Health Centre, local government Functionaries, Farmers' Association / Clubs, well established community based agencies etc.

F) No-Frill Accounts: In November 2005 RBI advised banks to make available a basic banking "No-frill Account" with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population.

G) Branch Expansion: In terms of existing provisions of banking regulation act, 1949 banks are not allowed to open new place of business or change the locations of the place or villages in India without prior approval of RBI. While considering the application of banks for opening branches, RBI gives due weightage to the nature and scope of banking facilities provided to common person, particularly in unbanked areas, actual flow of credit to the priority sector, pricing of its products and overall efforts for promoting financial inclusion including introduction of appropriate new products and enhanced use of technology for delivery of banking services.

RBI has identified districts were the population per bank office is higher than national averages in rural and semi urban areas. The lead banks have been advised by RBI to identify unbanked villages of populations above 2000 and to provide banking services through a banking outlet in every village by March 2011. Now it is completed through the lead banks of the concerned districts. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of Information and Communication Technology (ICT) models, including through BCs.

H) Mobile Banking: Mobile banking is a term used for performing accounting transactions, balance checks, payments via mobile device such as mobile phone. Mobile banking enables:

- Users to perform banking transaction using mobile phone like balance checks, fund transfers, bill payment etc.
- Purchase goods over internet or phone delivery
- Person to person fund transfers
- To pay goods at merchant location point of sale.

As the penetration of mobile phones particularly among low income people and enormous opportunities they afford in extending the banking outreach, RBI has formulated guidelines on mobile banking. It has encouraged introducing technology based products and services such as pre-paid card/debit cards, mobile banking (The total tele-density in the country is 35.67% in February 2009- Rural 11.81%, urban 83.66%)

I) Other Measures: The excluded segments of the population require products which are customized, taking into consideration their varied needs. Their banking requirements being small, the issue of servicing and delivery in a cost-effective manner assumes significance. The need for savings by these groups require special attention, e.g. for meeting life cycle needs, creating assets, repaying high cost borrowings, meeting emergencies etc.

- *Small Savings*: Savings products to meet the specific requirements of the poor need to be evolved. One way of meeting this would be to utilize the amount of MGNREGP wages of the poor who gets payment through banks, and another way to utilize the SHGs for tapping the small savings by providing incentives to the SHGs with suitable back-end technology support. The banks can develop medium and long term savings instruments by issue of pre-printed deposit receipts to the SHGs which in turn can be sold to the SHG members. Banks could be given the freedom to develop their own products, suiting local requirements and felt needs of the poor.

- *Micro-Credit:* With regard to credit products, the 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 terms and conditions. The credit within the limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behavior of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it also ensures good credit dispensation.

- *Micro-Insurance*: Since the income of the poor are uncertain they are more prone to risk, thus to provide the insurance cover the concept of micro insurance is used. Micro insurance is used to refer for providing insurance facilities to poor/low income group. The need for micro finance arises due to the fact that the risk faced by the poor is different from that of other income class, secondly they are more prone to all types of risk and thirdly the product that is applicable for high income are not applicable for them.

Conclusion

For the success of the financial inclusion initiative what is important is to provide banking services at an affordable cost to the disadvantaged and low income group. Commercial banks have to perform a vital role in this regard. However the road towards 100% financial inclusion is yet to complete. Important areas of financial inclusion performed by commercial banks are - financial literacy, Credit counseling, BC/BF model, KYC norms, KCC/GCC, No-frill accounts, Branch expansion, Mobile banking and other measures such as micro insurance, micro- credit etc.

3.0 IMPACT OF DIGITAL FINANCE ON FINANCIAL INCLUSION

(Likitha , Meena k , Monisha , Neelam C G , Nikhat Parveen)

3.1 Impact of digital finance on financial inclusion and stability

This study examines the impact of digital finance for financial inclusion and financial system stability. Focusing on digital finance, this article provides a discussion on digital finance and explores the impact of digital finance for financial inclusion and financial system stability - an issue which has not been addressed in the literature. At a conceptual level, the discussions also address the benefits and risks of digital finance, digital financial inclusion and financial inclusion.

Since 2010, the G-20 and the World Bank have led the initiative for increased financial inclusion in developing countries to help reduce poverty levels in developing and emerging economies (GPFI, 2010). Today, the relevance of digital finance and financial inclusion for poverty reduction and economic growth is attracting the attention of policy makers and academics, largely because of the number of issues that persist which if addressed can make digital finance work better for individuals, businesses, governments and the economy. Digital finance and financial inclusion have several benefits to financial services users, digital finance providers, governments and the economy such as increasing access to finance among poor individuals, reducing the cost of financial intermediation for banks and Fintech providers, and increasing aggregate expenditure for governments.

Notwithstanding its benefits, digital finance and financial inclusion have not adequately permeated vast segments of the population (G20 Summit, 2013), which suggests an existing gap between the availability of finance, its accessibility and use. One area where the disparity is quite pervasive and is receiving increased attention particularly among Fintech providers is digital financial inclusion, financial data inclusion and digital finance. The relationship between these and the issues they pose for financial inclusion have received very little attention in the literature. Also, Fintech providers can promote economic growth during good economic times by increasing the volume of financial transactions in the financial system, although, it is still unknown whether Fintech providers and their activities can exacerbate economic crises during bad economic times. This issue is also discussed in this article.

3.2 Digital Financial Inclusion: Concept and Benefits

The CGAP defines digital financial inclusion as "digital access to, and the use of, formal financial services by the excluded and underserved population" (CGAP, 2015). Currently, innovative digital financial services via mobile phones and similar devices have been launched in at least 80 countries (GSMA, 2014), to encourage millions of poor customers to exclusively use digital financial services rather than cash-based transactions.

The process of digital financial inclusion begins with the assumption that the excluded and/or underserved population have some sort of formal bank accounts and need digital access to enable them to carry out basic financial transactions remotely. If the excluded and underserved population understand and can be persuaded about the intended benefits of digital financial inclusion, an effective digital financial inclusion program should be suited to meet the needs of the excluded and underserved population, and should be delivered responsibly at a cost that is sustainable to providers and affordable to customers.

3.3 Benefits

Digital financial inclusion has some benefits. Digital financial inclusion promises to help banks lower costs by reducing queuing lines in banking halls, reduce manual paperwork and documentation and to maintain fewer bank branches. With digital financial inclusion, large number of depositors can easily switch banks within minutes; forcing banks to provide quality services or risk losing depositors to rival banks. For financial and monetary system regulators, digital financial inclusion also helps to reduce the amount of physical cash in circulation and is instrumental in reducing high inflation levels in developing and poor countries. Digital financial inclusion can improve the welfare of individuals and businesses that have a reliable digital platform with which to access funds in their bank accounts to carry out financial transactions. The expected benefits of digital financial inclusion can be fully realised if the cost of obtaining a digital transactional platform by poor individuals is negligible or low, where a digital transactional platform refers to mobile phones, personal computers and related devices.

3.4 Some issues

Digital Finance and Financial Inclusion

• <u>Positive Relationship:</u> The theoretical underpinning for the relationship between digital finance and financial inclusion is the premise that a large amount of the excluded population owns (or have) a mobile phone, and that the provision of financial services via mobile phones and related devices can improve access to finance for the excluded population. Provided that the excluded population have a mobile phone and affordable internet connectivity, greater supply of digital finance is often predicted to have positive effects for financial inclusion, all other things being equal; implying a positive correlation between the use of digital finance and access to formal financial services.

The positive effects of digital finance for financial inclusion are varied. Greater digital finance when applied to the lives of low-income and poor people can improve their access to basic services, thereby leading to greater financial inclusion in rural areas. Two, greater digital financial services channeled to rural and poor communities can improve access to finance for bank customers in rural and poor communities who cannot conveniently access banks located in the formal sector due to poor transportation networks and long queuing hours in banking halls, and will reduce bank customers' presence in bank branches and reduce cost because bank would cost-efficiently maintain fewer branches, and the lower costs would have positive effects for bank profitability and financial inclusion in rural and poor communities. Three, easy-to-use digital finance can provide a more convenient platform for individuals to carry out basic financial transactions including payments for electricity, water supply, money transfer to family and friends etc. If digital finance platforms are easy-to-use, users of digital financial services can help inform and persuade their peers in the formal and informal (rural) sector to take advantage of digital financial services, leading to greater number of individuals using digital finance thereby leading to greater financial inclusion. One caveat worth-noting here is that while there may be a positive relationship between easy-to-use digital finance and financial inclusion, it is needful to stress that the implied positive relationship is stronger for high-and-middle income users of digital finance while the relationship may be non-linear or negative for low-income and poor users of digital finance because digital finance users in indigenous and poor communities despite persuasion can refuse to use digital finance services due to (i) superstitious and religious beliefs they have about technological advancements and innovation, or (ii) unaffordable fees charged by digital financial services providers, or (iii) financial illiteracy and (iv) other reasons.

• Negative Effect: On the other hand, digital finance can have negative effects for financial inclusion. Providers of digital finance services are profit-seeking corporations that use digital finance to maximise their profitability or to maximise the profitable opportunities of businesses affiliated with digital finance providers namely banks, financial and non-financial institutions. Corporate providers of digital finance services can discriminately use a more aggressive marketing tactic to persuade high-and-middle income customers to use a new or existing digital finance platform or infrastructure and use a less-aggressive marketing tactic to persuade low-income and poor customers to use new or existing digital platforms or infrastructure if they believe the latter cannot afford the associated fees, thereby leading to lower financial inclusion for poor and low-income customers since the net monetary pay-off to digital finance providers is higher with high-and-middle income customers than with low-income and poor customers.

Two, bias in the provision of digital finance can be geographical because digital finance providers, based on their own internal risk assessment which may change from time to time, can choose to withdraw or discontinue the provision of specific digital finance services to high-risk rural areas or communities that do not have the supporting infrastructure to sustain specific digital finance services, thereby leading to lower financial inclusion. Some supporting infrastructure needed to make DFS work efficiently may include mobile phones that have modern (and up-to-date) operating software systems and applications that support digital finance services.

Three, educational bias can be introduced in the provision of digital financial services. If the net monetary value of providing digital finance to poor communities is very low, digital finance providers, based on their profitability assessment, can choose to focus less on the delivery of digital finance to poor and uneducated communities that do not have the basic financial literacy to use and understand digital finance.

3.5 Pros and Cons of Digital Finance.

Pros

- Expansion of financial services to non-financial sectors
- Convenient and secure banking services to poor individuals
- Boost the GDP of digitalized economies by increasing aggregate expenditure
- Reduce the circulation of bad/fake money
- Greater control of customers' personal finance
- Quick financial decision-making
- Ability to make and receive payments within seconds.
- Generates revenue to digital finance providers

Cons

- Digital finance does not serve individuals that do not have mobile phone or digital devices
- It relies excessively on internet connectivity, which excludes individuals that do not have internet connectivity
- The way digital finance is introduced in a country (voluntarily or forced) can lead to voluntary financial exclusion if the population is not ready for it
- Digital data security breaches are common and can lower customers' trust in digital finance platforms
- Systemic black-swan risks, when they occur, can be fatal for digital financial services around the world
- Fee-based digital finance platforms will benefit high- and medium-income individuals at the expense of poor and low-income individuals who cannot afford the associated transaction costs
- Many policy and regulatory environments are not enabling full-scale digital finance

4.0 ROLE OF POST OFFICE ON FINANCIAL INCLUSION IN INDIA

4.1 Introduction

What is financial exclusion and inclusion in simple term financial exclusion means lack of access to formal financial services. It is very transparent that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

4.2 Post Office, Commercial Banks and Financial Inclusion in India a Critical Look:

Despite taking various initiative from the part of government, RBI and commercial banks the banking sector in India has so far not been able to provide complete coverage in the country especially in the rural areas. There are 171 commercial banks in the country. Out of the 93,080 Commercial Banks‟ branches only 36.10% are in rural areas and 24.76% in semi-urban areas. All India average population served by per branch is 13,503. On the other hand, out of 1.55 lakhs Post offices, 89.8% i.e. 1.39 lakhs are in rural areas covering an population of 5,682 per Post office in rural areas and 20,346 in urban areas, on an average 7,176 people are served by one post office as on March 2011. On an average, a post office serves an area of 21.23 sq. k.m. Further, only 5% of 6 lakhs villages have bank branches. Two hundred ninety six (296) districts in states are under banked, i.e. they have below-par banking services. The Indian post office offering a plethora of financial services throughout its all branches. This includes various post office savings schemes, postal life insurance, mutual fund, money remittance, forex services etc. As on March 31, 2011, there are nearly 25 crore postal savings bank account under various post office savings bank schemes. The Department of Posts has taken the responsibility to disburse the MGNREGA wages through Post Offices by opening savings bank accounts in the names of MGNREGA beneficiaries. Starting with Andhra Pradesh Postal Circle in 2005, the Scheme of disbursement of MGNREGA wages through Post Offices accounts is currently operational in the entire country excepting Delhi, Jammu & Kashmir and Tamil Nadu Postal Circles (Tamil Nadu and Pondicherry). The Department is also contributing to the efforts in financial inclusion by payment of benefits under various social security pension schemes viz. IGNOAPS (Indira Gandhi National Old Age Pension Scheme), IGNWPS (Indira Gandhi National Disability Pension Scheme) and Indira Gandhi Matritva Sahyog Yojana (IGMSY Scheme), a Conditional Cash Transfer (CCT) Maternity Benefit Scheme. Such payments are being effected either through money orders or Post Office Saving Bank accounts. The Government's financial inclusion plan aims to provide banking services to 73,000 villages each having a population of 2000. This could be effectively and adequately provided by the PBI operating through postal network and thereby help to spread the savings habit. In this regard setting up of a Postal Bank will assist the Government in its plan for financial inclusion besides mobilizing deposits, especially in the under- served rural and semi-urban areas of the country.

Financial inclusion is a topic of increasing interest on the international policy agenda. Last week the Universal Postal Union (UPU) hosted the 2013 Global Forum on Financial Inclusion for Development. With over a billion people using the postal sector for savings and deposit accounts and a widespread presence in rural and poor areas, post offices (or “posts”) can play a leading role in advancing financial inclusion. In Brazil more than 10 million bank accounts were opened between 2002 and 2011 after the post established Banco Postal in partnership with an existing financial institution. However, leveraging the large physical network of the post is not without challenges. Posts generally have little or no expertise in running a bank and the business model that a government pursues in providing financial services through the postal network may be critical to its success.

Until now, little was known about the types of clients that post offices reach through their financial service offerings and how they might differ from those of traditional financial institutions (such as commercial banks). In a new paper we — together with our co-authors Jose Ansón and Alexandre Berthaud from the Universal Postal Union — document and analyze account ownership patterns at post offices in comparison with traditional financial institutions, using data from the Global Financial Inclusion Indicators (Global Findex) database based on interviews with more than 65,000 adults worldwide in 60 economies with postal banking systems. The nationally representative survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. We also explore the degree to which different postal business models and the size of the postal network help explain differences in account ownership patterns, after controlling for individual characteristics and GDP per capita.

4.3 What Types of Formal Accounts Do People Have?

The Global Findex data make it possible to distinguish between three types of account ownership: adults with an account only at a financial institution only, at both a financial institution and the post office, and an account at only the post office. Account Penetration varies widely between economies as figure 1 illustrates, but overall, within the sample of economies that offer postal accounts, 50 percent of adults have an account at either or both institutions, 12 percent have an account at the post office, and 3 percent (6 percent of all account holders) have an account at the post office only.

4.4 Who Is Most Likely to Have an Account at the Post Office?

In general, women, poor adults, and rural residents in developing economies are significantly less likely than their counterparts to have a formal account (Alen, 2012). Among account holders, we find that those who have an account at the post office tend to be significantly poorer, older, less educated, and less likely to be employed than those who have an account at a financial institution or both a financial institution and the post office. This suggests that post offices may play an important role in providing financial services to segments of the population that are particularly likely to be financially excluded. The results also suggest that posts could play an important role in bridging the gap in account penetration between rural and urban areas.

4.5 Financial Services at the Post Office

Using the postal network to deliver financial services is not a new idea. The first postal account was opened in 1861 when in the post of the United Kingdom established a postal savings bank to encourage poor people to save. Since then, many posts have followed suit in offering savings accounts and basic remittance services. For over a century, the business model of the postal savings bank remained essentially unchanged. However, the increasing use of digital communication technologies and falling mail volumes since the 1990's are forcing post operators to rethink their overall business strategy and diversify their product offerings. As a result, posts in some countries have decided to leverage their existing network to expand the number of financial services they offer. The business model that posts pursue, however, varies.

In India, for example, the loss-making post currently collects deposits from over 150 million adults through its post savings bank and would like to apply for a full bank license to expand the number of financial services it can offer. However, the Indian Finance Ministry is strongly opposed to an application for a bank license on the basis that the business proposal is unlikely to be viable and argue that the post office has no experience or necessary expertise — at both the management and staff level — in running a bank, including handling credit and managing risk.

While some countries have decided — or plan — to convert their postal savings banks into fully-fledged post banks, posts in other countries, such as Brazil and Indonesia, have chosen to partner with existing financial institutions to offer accounts and savings and credit products. In some countries, such as Benin and Ghana posts provide cash-in and cash-out services on behalf of banks and micro-finance institutions (MFI's), both as an access point to deposit and withdrawal from accounts, as well as to disburse and collect repayments on loans. Posts have also partnered with other financial service providers, to offer an expanded number of financial services, including insurance (Morocco) and mobile payments (Tunesia). Posts also often operate as cash merchants for utility and other bill collection, remittance service providers, and government payments.

4.6 What Types of Business Models Do Posts Pursue?

The Universal Postal Union—a United Nations specialized agency that is the primary forum for cooperation between governments and postal sector players—created a database on post office business models around the world. According to its classification, the posts in 7 economies in our sample have a postal bank license and are under the supervision of the banking supervisor, those in 29 economies provide unlicensed postal savings (i.e. fall under the supervision of their line ministry or the postal regulators) and are usually referred to as post office savings banks, and those in 24 economies offer financial services through a partnership with a financial institution (table 1). In high-income economies the most common business model involves a partnership with a financial service provider. In contrast, in developing economies, unlicensed postal savings banks are the most common business model.

4.7 What is the Relationship between Account Ownership Patterns and Postal Business Models?

Our regression results suggest that while partnership models between posts and other financial institutions are less likely than licensed or unlicensed postal banks to increase account ownership at the post office, partnerships are significantly related to greater account ownership overall. In addition, regardless of whether posts offer financial services on their own (as a licensed or unlicensed institution) or in a partnership with a financial institution, acting as a cash merchant for transactional financial services, such as electronic government and remittance payments, is related to higher account ownership. It is important to note that our data only allow us to establish correlation between account ownership and business models, not causality. However, this finding is in line with evidence from Brazil finding that in some municipalities, Banco Postal's launch attracted other banks not previously present in these municipalities to open branches (Anson and Bosh Gual 2008). Our results are at least suggestive that the contribution to financial inclusion through the post is potentially larger than what we can measure with the share of post office accounts alone.

4.8 Going Forward

Given their widespread presence in rural and poor areas, post offices have played an important role in providing access points to financial services. Our new Findex data suggests that posts may be comparatively better at providing accounts to segments of the populations that are most vulnerable to financial exclusion such as the poor, the less educated, those out of the labor market, and those residing in rural areas. But more research is needed to better understand under what circumstances and under which business models posts can most effectively and responsibly expand financial inclusion.

5.0 IMPACT OF DEMONETIZATION ON FINANCIAL INCLUSION IN INDIA

5.1 Demonetization

The term demonetization may be defined as a conclusion or the act of ending something; or "the termination of an agreement". The numbers and calculations for this are overwhelming. According to RBI, there are 16.5 billion '500 - rupee' notes and 6.7 billion '1000 - rupee' notes were in circulation. Of this, Rs. 500 notes constitute 45 per cent, while Rs.1000 notes, 39 per cent in value terms. However, Rs. 10 and Rs. 100 notes constituted 53 per cent of notes in circulation. The financial action task force has opined that there is a criminal use of the international financial system. In two words: black money. Unaccounted money, often used in any form of corruption or illicit deals, usually takes the form of high-value notes, which in this case are Rs. 500 and Rs. 1,000 notes.

5.2 Need for Financial Inclusion

In India financial services are used only by a section of the population due to illiteracy and other reasons. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. Hence, financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is essential for accelerated economic growth of the country.

5.3 State of Financial Inclusion for Digital Payments

Compared to the developed world, the coverage of India's financial services is abysmally low. According to the information available with the Reserve Bank of India, about 5.89 crores no-frill accounts, with and without value-added features, have been opened until November 23, 2016 of which about two-third are with the public sector and one-third with the private sector banks. Though the RBI promoted no-frills savings bank account under Jan Dhan Yojana, had all the potential to revolutionize India's rural agricultural economy, as well as usher in the banking habit amongst a large number of the less privileged population. However, considering to the vast multitude of the Indian population the number of accounts opened is not encouraging for the cause of complete financial inclusion. After current demonetization drive the financial inclusion is being carried out in various ways as people are seeking respite from the currency shortage. People are being forced to use electronic banking services and digital platforms. Banks have been pushing the cause of complete financial inclusion.

5.4 Effects on Cashless Payments

Demonetization had little immediate effect on the prevalence of cashless payments. A small portion of the population adopted cashless payments to facilitate transactions during the cash shortage after demonetization. Merchants generally do not see a need to adopt electronic payment products in the face of low consumer demand. However, the few merchants who did adopt these products and services found them valuable, which indicates that barriers to uptake are not product-specific but related to limited utility in the current context of early adoption.

India has shown remarkable progress in bringing its large unbanked population under the formal financial system, according to the Global Findex, a metric created by the World Bank.

Although there are gender disparities, it's clear that there is a steady rise in the number of women holding accounts at financial institutions. With the increasing penetration of cellphones and the increasing sophistication of devices and networks, mobile wallets have become more prevalent.

However, India has a long way to go in adopting initiatives such as Vodafone M-Pesa and Airtel Money. The same holds true for Internet payments as well.

Further impacts include:

- Digitization of banking services
- Indian shoppers are turning to hassle-free online payments
- Incentives to digitize traditional cash-based services and industries

Large-scale adoption of digital payment systems can make access to financial services quicker, and more hassle-free and affordable. While the government put in a lot of efforts to mitigate financial exclusion, India still has a long way to go before it achieves the target set by the RBI. In urban centers, the increasing cost for merchants hinders the adoption of digital payments, whereas, in rural India, the limited availability of payments infrastructure is identified as the major challenge to financial inclusion. In this regard, regulatory policies have a pivotal role to play in facilitating the growth of digital payments in India. At the same time, the government should run strategic campaigns and take concrete steps to ensure all sections of the society are enjoying financial security and benefits.

Demonetization had a strongly positive effect on financial inclusion, leading to increases in account registration, and active and advanced use of registered accounts. Inter Media's fourth annual Financial Inclusion Insights (FII) survey was underway on November 9, 2016 when approximately 85 percent of the banknotes in circulation in India were invalidated by the policy known as demonetization. The invalid notes had to be exchanged for new ones at banks and other financial institutions. The timing of demonetization presented an opportunity to measure its impact on financial inclusion using a panel survey of 1,600 randomly selected individuals in the states of Gujarat, Madhya Pradesh, and Rajasthan. These panelists were first interviewed for the FII survey roughly one month prior to Nov. 9, and then re-interviewed seven months later.

5.5 Financial Inclusion Relating to Women and Rural Residents

A critical measure of social inclusion is whether or not achievement gaps exist between demographic groups. For example, a gender gap exists if a greater proportion of men own a bank account than the proportion of women who own a bank account. Prior to demonetization, gaps in advancement along the customer journey existed for gender, urban vs. rural locality, and above vs. below the $2.50 per day poverty line. After demonetization, the demographic gaps shifted as follows:

- Gender: Women advanced to later stages of the customer journey at rates that exceeded their male counterparts (see Figure 3). This movement reduced the gender gaps among the panelists at each stage of the journey. However, the increases were not large enough to eliminate the gap entirely at any stage; more men are still financially included than women.
- Locality: Rural residents advanced to the access and registration stages of the customer journey faster than their urban counterparts, which eliminated the locality gaps at the access and registration stages. While rural panelists advanced on the journey to active use more frequently than urbanites, these gains were not sufficient to eliminate the urban vs. rural gaps at these later stages of the customer journey.

- Poverty status: Unlike gender and locality, the gap between panelists living above and below the poverty line widened after demonetization at each stage of the customer journey. The gap widened because the rate of advancement was greater among panelists living above the poverty line than among those below the line.

Conclusion:

Demagnetization is a weapon used by government to fight against corruption and black money. At the same time, it has brought changes in all the corners of the economy. Demonetization has badly affected the banks. Banned denominations were ploughed back and allowed the citizens to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Though it affected to a greater extent, it has paved the economy to grow in the years to come.

6.0 IMPACT OF SELF-HELP GROUPS FINANCIAL INCLUSION IN INDIA

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India effective financial inclusion is needed for up lifttment of the poor and disadvantaged people by providing them the modified financial products and services. The inclusion helps individuals to make daily payments reliably. It helps them to access credit which can be invested in their small-scale income-generating activities. It also helps people save their cash so that they can make future investments or respond to unforeseeable risks.

There are Three Models of Linking SHG and Banks in India:

- Model 1- provides all assistance directly to SHGs without any intervention facilitation by any NGOs.
- Model 2- provide all assistance directly to SHGs with facilitation by NGOs and other formal agencies.
- Model 3- provide all assistance through NGOs as facilitator and financing agency.

While the SHG-Bank linkage program has surely emerged has dominant micro financed model in India, other models too have evolved as significant micro finance providing channels. Model 4- The fourth model predicts bank loans directly to individual members of SHGs upon recommendations of the SHG and NGO. In this case, the NGO assists the bank in monitoring, supervising and recovery of loans. During 2014-15 about 2.68 lakh new SHGs were added in the domain of SHG to take the number of SHGs savings linked with formal financial institutions to 76.97 lakh as on 31.3.2015. After a dip in the number of SHGs in 2012-13, the SHG BLP has taken strength not only with net additions to the number of SHGs but also with enhanced savings and credit linkage of SHGs in the subsequent years. There was an increase of 3.59% in the number of savings linked SHGs over the previous year. What is significant that the number of SHGs savings linked has gone up substantially in some of the resource poor and strategic states like J &

K and in North Eastern states? States like Chhattisgarh, Madhya Pradesh, Uttar Pradesh, Uttarakhand, Maharashtra and West Bengal which are resource poor states registered rise in number of groups which is encouraging feature. However, in Bihar, Gujarat, Jharkhand, Odisha and Rajasthan there was decline in number of saving linked group which may be attributed to the dormancy and the data cleansing efforts made by the banks. As many as 16.26 lakh SHGs were disbursed with fresh loans during the year - a 19% increase over 13.66 lakh SHGs getting fresh loans during 2013-14. The quantum of fresh loans issued by banks also rose by nearly 16% during the year. Number of SHGs with credit outstanding with banks has shown a rise of 6%, from 41.97 lakh in 2013-14 to 44.68 lakh, against a 6% decline, the previous year. The amount of loan outstanding on the other hand has gone up by 20%. The total loan outstanding to SHGs stood at Rs. 51,545 crores as on 31.03.2015 against Rs. 42,928 crores a year back. A faster rise in loan outstanding over that of the number of SHGs credit linked implies a credit deepening during the year. The average institutional loan outstanding of SHGs as on end of March 2015 was Rs. 1, 15,361, which was 12.8% more than the average loan outstanding of Rs. 1, 02,273 at the end of 2013-14. The share of exclusive women SHGs in the total number of SHGs linked to banks now stands at 86% (up from 84 % last year). There has been a sizeable rise over the previous year in the number and savings of SHGs under NRLM/SGSY which constituted 39.65% (30.52 lakh) out of total saving linked SHGs and accounted for Rs. 4,424.03 crores (40%) of savings with banks. The number of SHGs under NRLM/SGSY increased by 7.9 lakh though there was a net addition of only 2.68 lakh.

Saving Linked SHGs The number of SHGs has shown a steady progress since the launch of the SHG programme barring a decline recorded in 2012-13 due to "data cleansing" by banks. Notwithstanding the dip in 2012-13, the CAGR of number of SHGs during last five years remained at 2%. There has been an obvious sluggishness in formation of new SHGs mainly because majority of the potential rural households in South India have already joined SHGs and the proliferation of the programme in other resource poor states is still quite slow. However, potential for new SHGs exist in all region other than Southern Region. Fresh Loans to SHGs by Banks Fresh credit linkage of SHGs through institutional sources has been steadily increasing over the years. There was an increase of 19% in the number of SHGs being extended fresh loans during 2014-15 as compared to the previous year while the quantum of fresh loans went up by nearly 15% (16.26 lakh and Rs. 27,582 crores respectively during 2014-15 compared to 13.66 lakh SHGs and Rs. 24,017 crores during 2013- 14). During the year 2014-15, Southern Region accounted for more than 62% of the SHGs credit linked followed by Eastern Region which accounted for more than 21% of the credit linked SHGs. There was a rise in credit linkage in all major states except West Bengal over the previous year. 5. Suggestions for Strengthening SHG-Bank Linkage Program (Financial Inclusion)

1. <u>Encouraging SHGs in Excluded Regions:</u> The spread of SHGs in North, Eastern and North-Eastern Region is poor. One of the reasons for this is the weak banking network and social backwardness and less NGO activity. There is a need to evolve SHG models suited to the local context.

2. <u>Capacity Building of Government Functionaries:</u> There is a need for sufficient training for SHG staff and members on SHG concept

3. Check on Corruption/Commission while Sanctioning and Upgrading the Loan: The commission and corruption at grass root level leads to selection of wrong people for loan, higher defaults, miss utilization of loans (like revolving loan for money lending, luxurious consumption).

4. Identification of Poor by the NABARD: NABARD has already identified 16 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.

5. Transparency in Maintenance of Records: Banks, with the help of NABARD, should evolve a common checklist for all SHGs with very simple record keeping.

6. SHGs to Evolve Norms for Distribution of Surplus: There is a need to evolve norms for distribution of surplus especially at the time when a member drops out of the group.

7. Need to restructure design & direction of SGSY subsidy: All subsidy component of SGSY should be used for income generating activities.

8. Identification of Income/Employment Generating Activities: The present challenge is to induce SHGs and their members to graduate into matured levels of enterprise, factor in livelihood diversification. Separate cell in each bank

9. Federations: Federations, if they emerge voluntarily from amongst SHGs, can be encouraged

10. ICT Technology and Product Innovation: In the ever changing technology there is good scope for ICT tools to reduce cost of financial inclusion. This needs to be sufficiently explored for the benefit of both banks and rural SHG members.

The two-decade-old self-help group-bank linkage programme for the economic betterment of rural poor is not receiving bankers' attention, says NABARD.

This observation comes in the backdrop of the Government pushing banks to step up their financial inclusion (FI) drive through intermediaries such as business correspondents (BCs) and business facilitators (BFs) in the last three years

The FI drive, whereby financial services are sought to be extended to the hitherto large un-served population of the country, envisaged by the Government and the Reserve Bank of India entails banks engaging the services of BCs and BFs.

According to a NABARD (National Bank for Agriculture and Rural Development) report, though the SHG-BLP (Self-Help Group-Bank linkage programme) is a step towards bringing the 'unbanked' poor into the mainstream banking channel, its formal acceptance as a financial inclusion channel by the central bank is still awaited.

An SHG is a homogeneous group, comprising 15-20 members (mostly women), where members first pool in their savings and give out small loans to needy members. Once the SHG successfully undertakes savings and credit operations from its own resources, it can borrow from a bank (SHG-BLP) to enhance its pool of resources.

11. Trends and Progress of SHG Bank Linkage Programme in India: Physical and Financial Growth- During 2006-07, the number of new SHGs credit- linked with banks was 0.7 million taking the cumulative number of SHGs credit linked to banks at 2.9 million. The phenomenal outreach of the programme has enabled an estimated 41 million poor households to gain access to micro finance from the formal banking system registering a growth of 24.16 % over 2005-06. Today, Commercial Banks with more than 32,000 rural branches have the largest share (55%) in credit linked SHGs followed by Regional Rural Banks (31%) through their 11,900 branches. More than 3,000 NGOs and other development agencies joined the programme primarily as promoters of SHGs or capacity building agencies.

12. Regional Growth and Trends: Correction of Imbalances The year 2006-07 witnessed the spread of the SHG Bank Linkage programme in resource-poor regions of the country, indicating a marked shift from its initial concentration in the southern region (Table1). The cumulative share of non-southern regions rose from 29% as on March 2001 to 48 % as on March 2007. In order to reduce the regional imbalance in the spread of the SHG Bank Linkage Programme, NABARD identified 13 States which have a large population of the poor, for focused attention. The cumulative number of SHGs credit linked in these 13 states increased from 1million in 2005-06 to 1.4 million in 2006-07. During 2006-07, the number of SHGs credit- linked in 13 priority States constituted 53.9 % in the all India credit linkage of 0.7 million SHGs.

13. The Future Thought: NABARD looks at the future of its micro finance interventions from the perspective of strengthening the existing institutional set up of rural financial institutions by marketing efficient banking tools among the poor, thereby expanding their outreach on a major scale, and creating a conducive and supportive environment for encouraging and supporting new Micro Finance Institutions (MFIs) or facilitating graduation of existing NGOs into MFIs for bridging the gaps in delivery of rural financial services. In pursuance of the above, NABARD has set for itself an ambitious task for providing access to micro financial services to about 50 million rural families by linking 4 million SHGs with the banking system by March 2012. NABARD interventions in this regard would continue 7 in the form of investments in development of human capital through large scale training of SHGs, NGOs and other SHG promoting agencies, banks and other stake holders, systems design, monitoring and infrastructural capacity building in the micro finance sector.

14. Issues in SHG : Bank Linkage Programme Regional Imbalances The regional spread of the SHG – Bank Linkage Programme is uneven as about 52% of the credit-linked SHGs are located in the southern States of the country. There is a need for a better distribution of group formation and linkage efforts especially in the northern, central, eastern and northeastern States. This is important as these States have a higher concentration of the rural poor. Special surveys and analytical studies need to be taken up in such regions to

identify factors affecting the spread and sustainability of SHGs. There is a need to invest more in capacity building programmes in these areas. For this, it is essential to build training capabilities in these regions by identifying or promoting new training institutions that may be trained and guided by training institutions of excellence in other areas.

Livelihood promotion among members of SHGs Of the total groups financed by banks, there are substantial number of SHGs which are more than three years' old and are well stabilized in their credit and savings operations. Members of these mature SHGs are now in a position to scale up and diversify their income generating activities. Many NGOs are trying to promote micro enterprises among SHG members. But their experience is rather limited. The critical constraining factor is that SHG members face a lot of problems in marketing of their produce besides low level of skills. There is a need to evolve a methodology for promoting micro enterprises to create livelihood and employment opportunities among SHG members besides imparting relevant skills and developing their risk taking abilities. The problem of rural migration which is a cause of concern could, among others, be addressed through this intervention. Pilot projects through professional marketing agencies have shown through this intervention. Pilot projects through professional marketing agencies have shown encouraging results.

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