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Editorial

Dear Readers,

"Financial Inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably, in a well regulated environment".

World Bank research study discloses that an estimated 2.5 billion working – age adults globally – more than half of the total adult population has no access to any form of financial services delivered by regulated financial institutions that wealthier people rely on.

Even after the 67 years of independence, a large section of India's population doesn't have access to formal financial services. This discrimination and malice led to inequality and imbalance in the economic development of the nation and various states. However, the 12th Five Year Plan gave utmost importance to Inclusive Growth and Financial Inclusion. The Herculean task of accomplishing the financial inclusion has been shouldered by the Government of India in the recent years. Since then, the regulatory agencies and policy makers have been trying to implement various reforms and policy measures to achieve financial inclusion.

This volume of AMBER focuses on various issues of Financial Inclusion in India like Inclusive Growth, Financial Exclusion, Financial Deepening, Micro Finance etc. Readers are welcome to give their feedback on this issue and the suggestions of the readers will help us to improve the quality of the Journal.

I thank the contributors of this volume and Management of ABBS for their untiring support in regular publication of AMBER. I would fail in my duty, if I do not thank the Co–editor of this issue Prof P. Sudharsana Reddy who worked hard in making this issue see the light of day.

Dr. H.R. Venkatesha
Chief Editor

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A Review of Corporate Social Responsibility and Inclusive Growth

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Abstract

Business houses are playing an important role in the overall social development process of the country. This is due to the policy adopted by many Indian Companies have grown in size and are capable of conceiving conducting development policy and innovative programs in the field of health, livelihood, education, micro-financing, and income generation programs. These programs have also made important contributions in the effort to eradicate various social problems as these are all closely intertwined with the rapid inclusive growth of the country. There are some reports showing that rapid, inclusive growth is possible with more participation of the private sector. However, unless big companies make significant improvement and constructive changes in promoting philan thropic behaviors, their best efforts may not prove sufficient for ending various problems being faced by the larger sections of the society. Meanwhile the companies have started focusing on the middle and lower income group markets and to that extent have embraced inclusive growth. This paper gives a solid background based on the review of various literatures in order policy to conceive a strong CSR policy in the country.

Key words: CSR, Inclusive growth, micro finance.

Background

It is found that Corporate Social Responsibility (CSR) has much bigger implications for development of any country. It reduces dependency on the government for social expenditure and helps in speedy inclusive growth. The scale of CSR emerged significantly in the last decade in India. Since business houses required to do business in the society they operate in, it would be an obligation to share a small portion of their profit for the betterment of the society. To relate fundamental business philosophy to make CSR sharp, smarter, and focused is what really matters and it is the responsibility of a head of any organisation. However, criticisms are emerging on the recent Government bill on CSR which makes mandatory on the part of the company to spend a small portion of their profit for the social causes. Some of the big Indian corporate such as Infosys, WIPRO, TATA, have become a kind of role model in CSR activities in India. Some of them have really done wonders in the selected social sectors. Also, some reputed companies are spending more than 15-20% of their profit for social service!. Although the various Indian corporate sectors are involved in CSR activities, it is not enough when compared to their actual financial capabilities. In addition, companies have institutional and other problems in having CSR policies. Further, social involvement of some companies also helps in inclusive growth and eradicates social exclusion in the country. Social presence of companies will help them in increasing their financial performance, social accountability, reputation and branding. This is the time to involve small and medium scale industries to enter into CSR activities. They can take-up small projects at the local level using their business presence and network. Also, they can share their human and technical skills with the local NGO's. Even they can train the NGO's also. Still there is a dearth of CSR activities in some untouched sectors that includes human rights, poverty eradication, rehabilitation, training, tribal development, etc. which need more funds and larger time commitment.

Inclusive growth basically means, "broad based growth, shared growth, and pro-poor growth". It decreases the rapid growth rate of poverty in a country and increases the involvement of people in the growth process of the country. Inclusive growth by its very definition implies an equitable allocation of resources with benefits incurred to every section of the society. Even under global economic recession, India's economy is fast growing at the rate of over 5.5%. The Indian market is an attractive center for many global companies for huge investment" (Shetty, 2010). India's recent economic reforms have attracted foreign direct investments in the country. It has given an opportunity for more companies to enter into India, thereby we can expect more CSR work in the days to come.

Nidhi (2014) suggests Indian CSR has been the main agenda for a considerable period of time. Many big Indian Companies are taking CSR initiatives. The private sector is more active than the public sector in CSR. Globally, many corporate leaders are accepting the concept of CSR and agree that it should be streamlined in the business activities of the companies. As a country, India faces many problems. Human Development Index ranked India at 136 Nearly 30 percent of India's population is illiterate. India is able to leave a footprint globally. India is a lively country and inclusive growth has been a major national level agenda in India for a considerable period of time. Inclusive growth helps in increasing the growth rate and enlarging the size of the economy, while increasing employment opportunities with productive gains. It is important to recognize the gap between reform and outcome to meet the long term view. Inclusive growth signifies implementation of policies for sustainable, inclusive growth. This will reduce poverty and provide more opportunity to contribute to the positive progress of inclusive growth.

Mrityunjay (2009) finds that CSR will play a very important role in inclusive growth at the global, national and local level. This paper deals with the requirement of the inclusiveness and challenges. It goes on to look at the role that CSR will play in inclusive growth. There's a big potential in CSR programs. Only they have to be compelled to be re-oriented & managed to grasp such a possibility.

Ghosh (2011), discuss the issue of inclusive and sustainable growth that is very crucial considering the disproportionate allocation of wealth and the widening gap between the prosperity of the rich and the plight of the poor. The fastest economic growth of 5.5% not withstanding, among 169 countries surveyed, India is ranked in 119th position. In the Index of United Nations Human Development, due to poor social infrastructure. India is covering behind even countries like Pakistan and Bangladesh in health care and education. The poverty rates in eight Indian states are comparable to 26 of the poorest countries in Africa. On the basis of the Human Development Report 2010 by UNDP, and the census report 2011, this paper examines the role of the government and the corporate sector in alleviating the sufferings of the poor while at the same time it also tries to find out the answer by suggesting appropriate policy formulations.

Kour (2013). Manjit (2013) analyzes the inclusive growth on broad based development. It means addition of each and every part of the social arrangement in overall growth, as well as poor and less advantaged on the whole development and growth process of the country are in financial inclusion. It decreases the speedy growth rate of poverty in a nation and increase the participation of citizens in the growth process of the country. In India's environment, financial inclusion is one of the majority groups to talk about this burning issue at the moment. The sufficient, timely production, services and delivery of goods at affordable prices can also guide to inclusion. This role is assigned by civilization to firms and individuals to resourcefully produce and efficiently allocate to the concerned segment of punchers in need. So, the corporate sector has to align its business goals with the inclusivity objectives of the state. By following moral norms in this paper explores how business could play a vital role in the accomplishment of its profit-oriented goals beside satisfactorily addressing the ever changing societal requirements so as to maintain it on an ongoing basis creating both nationwide wealth and shareholder returns.

Debashish (2011) investigators the CSR initiative in India by going behind 1990's and today have become an average for most of the corporate to contribute to Indian society through inclusive growth. e-choupals of ITC group that leverages the authority of internet to authorize the small farmers with best opportunities, relevant weather information, and practice, clear disclosure of prices and a great deal more. Likewise Jaipur Rugs have risen weaving skills among people of distant villages so that they can make a self contained living for themselves. These initiatives have shown in the upliftment of the disadvantaged sections and allocation of wealth. When TCS is creating software business that helps an illiterate start reading and writing within 40 days; Infosys has been serving students to get computer educated by contained a course for them; then Aviva, a planning life insurance firm has started street schools to teach the under privilaged students. All of these emerge as examples of corporate involvement in CSR.

Shetty (2012). Argued that Corporate Social Responsibility (CSR) is basically a large plan whereby corporates decide voluntarily to contribute to a better society and a cleaner atmosphere. It is described by the contributions undertaken by corporations to society through its business activities and its social investment. An attempt has been made to analyze the status of CSR and its current trend in Karnataka to understand its contribution towards inclusive growth. The findings of this study showed that corporatons in Karnataka have a positive perspective towards CSR and also the extent of their involvement in CSR initiatives have improved over the years. It emerges from the survey that large scale companies in Karnataka have maintained their support for CSR programmes. Even if micro finance and charity registered less important among CSR programmes, companies are putting more effort into integrating CSR with their business strategy and expanding their support for health care, environmental education and sustainability initiatives.

Dima (2008) comes out with a stakeholder theory that has gained currency in a business and society, literature in recent years in the light of its practicality from the perspective of managers. In accounting for the recent stakeholder theory, dominance, this paper attempts an overview of two traditional conceptualizations of corporate social responsibility (CSR) (A Three Dimensional Conceptual Model of Corporate Performance (Carroll 1979), and 'Corporate Social Performance Revisited', highlighting their major fondness towards providing static taxonomic CSR descriptions (Wood 1991). The article then makes the case for a stakeholder theory to CSR, reviewing its motivation and delineation and how it has been integrated into recent studies with empirical evidence. In the highlight of this review, the article adopts a stakeholder theory and the Ethical concept. Scorecard (ECS) moral Business and investment (Spiller 2000). A representation for Business and Society – to look at the CSR view of a sample of Syrian ûrms and Lebanese with an interest in CSR and test applicable hypothesis resultant from the CSR/stakeholder theory literature. The study analyzed and implications drawn regarding the effectiveness of a stakeholder theory to CSR.

Mathur and Nihalani (2011) state that CSR has been on the program in India for a substantial period of time. Most of the big companies are engaged in some CSR programs in India. As the case in so many countries, the public sector is still usually less active in this area than the private sector. Corporate leaders internationally are advocating the idea of social responsibility. In the latest socioeconomic context we have witnessed, that there is a lot of growing necessity for Corporate Social Responsibility (CSR) initiatives, as a country like India face hurdles and polarity in its societies. India's rank at the lower end on the Human Development Index, at 127 to be precise. Almost 40 per cent of the population of India is illiterate. Further 1/3rd of the population in India, often called, "demographic dividend" lives on less than a dollar a day. However, at the same time India takes pride in the fact that it has made a mark on the intellectual world map. India boasts of the world's third largest, technical and scientific manpower and is reckoned as an economic power centre house. India is a developing country, and fortunately, inclusive growth is at the hub of India's nationwide agenda. The government of India is very severe about ensuring that this comes true rapidly.

Ameer and Othman (2012)opined that Sustainability is concerned with the blow of present events on the societies, environments and ecosystem of the future. Such concern is supposed to reflect in the tactical planning of sustainable companies. Strategic intention of this nature is operationalised through the acceptance of a long-term focus and a more comprehensive set of responsibilities focus on moral practice, employees, customers and the environment. A central supposition, that we test in this paper is that companies which attend to this set of responsibilities under the term greater sustainable practice, have upper financial performance compared to those who do not engage in those practices. The study sample includes 100 top sustainable global companies 2008 which have been chosen from a population of 3,000 companies from the emerging markets and developed countries. We find significantly higher return on assets, mean sales growth, cash flows from operations and profit before tax in some activity sectors of the sample companies compared to other companies over the period of 2006-10. Moreover, our result shows that the upper financial positive performance of sustainable companies has enlarged and been constant development over the sample. Despite sample limitation, casual proof reported at this stage suggests that, there is dual relationship between CSR initiatives and financial performance of corporations.

Subhasis (2013) have mentioned economic forecast of India to be the world's biggest economy by 2050. This would need India to go faster with its infrastructure development and industrial development. Industrial development based on economic growth will have an unenthusiastic impact on the environment and therefore sustainable development. Such step could involve the societal and ecological bottom line of the nationwide economy. In the recent time, a number of authoritarian events have been planned by the government of India to ensure company support to achieve the objectives of inclusive growth and sustainable progress. The objectives of these guidelines are to achieve triple bottom line based growth. Outstanding among them is the compulsory CSR rule for PSUs, first started in April, 2010. The study of problems, possibly created by this effort by analyzing the role credentials and interview of executive responsible for implementing CSR initiatives in PSUs of India. Executive interview came from coal, power distribution, shipping industries and hydro-power. The study, identified four areas that require concentration for effective linking among sustainable development & CSR; institutional mechanisms, stakeholder engagement, knowledge management and capacity building. Both public sector, government and community engagements, has to be more efficient. Institutional mechanism has to be developed to see that CSR projects are delivered and effective.

Prominently, are executives at all levels require an improved concern of CSR through sustainable development. While, most of the projects are in country side areas, considerate of rural issues and sustainability is extremely significant. Lastly, such a big scale work out in CSR should have an information management instrument to learn from the achievement and mistakes at an early time. This paper discusses the suggestion of the conclusion on India and other up-and-coming economies, many of which are stressed to balance growth and inclusive growth. I conclude that the compulsory CSR rules for PSUs in India has the posibility of achieving sustainable growth only if early achievement is taken on the recognized areas.

Abdul and Manwani (2013) found that CSR is a region so dynamic and so sparkling that prompts and inspires for a diversity of study to be carried out .This study tries to travel around the optimistic implication of CSR activities on brand equity and its important improvement towards meeting sustainability issue. It is hereby an attempt to find an answer to the theme matter evolved, that, does CSR improve corporate status and leads to its brand fairness? The research aims to spot out CSR as a sole framework that endow its overall impact on corporate position through the provision of developing brand fairness. Furthermore, what are the relationships between mediate effects of corporate sustainability during CSR implications. In adding, does corporate status or brand equity has connection between CSR and brand progress? The this paper proposes sustainability and corporate branding through a combination of the disjointed literature of CSR and thereafter incorporating rambling sustainability literature. CSR has a great optimistic impact on the behavior of the consumer, but even then misfortune lower was known about these effects (Sen & Bhattacharya, 2001). The insufficient amount of research on CSR and the behavior of the consumer till nowadays has recommended that CSR affect the consumers both directly as healthy as indirectly, during company evaluation and purchase intention, but the effects are much varied (Sen & Bhattacharya, 2001). Researches into trust specifically in context of brand is limited (Delgado-Ballester, 2004) and the relationship, particularly between CSR and brand trust is yet to be investigated. This study tries to analyze the implications of CSR building up the Brand trust & shall identify the ways through which strong positive bond of CSR & Sustainability could be built up.

Narwal and Rajinder (2013) came up with unlike results that the aim of this paper is to explore diverse areas of CSR roofed by the companies in India and to have a relative analysis of such practices of companies in India and Multinational companies (MNCs) running in India. The study shows that there is a small disparity in CSR initiative practices of companies in India and MNCs and that is in terms of focused areas of CSR. Companies are following CSR initiative practices of sustainable development, local community support, environmental marketing, accountability and transparency. MNCs are following almost all the same CSR initiative as following by their complement companies of India. Therefore, MNCs is adhering to the existing corporate practices in host countries.

Conclusion

Companies' social involvement also helps for inclusive growth and eradicates social exclusion in the country. Companies' social presence will help the company in increasing stronger financial performance, social accountability, reputation and branding, etc. This is the time to think to involve small and medium scale industries to enter into CSR. They can take-up small projects at the local level using their business presence and network. Also, they can share their human and technical skills with the local NGO's . They can also train the NGO's. Still, it is a dearth need of CSR in some untouched sectors including human rights, poverty eradication, rehabilitation, training, development, etc which needs more money and time.

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2 A Study on Role of SHG in Financial Inclusion and Poverty Eradication-With Reference to Mepayyur Village, Calicut District, Kerala

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Abstract

Poverty is a contaminated and dangerous disease which is spread in every socio – economic zone in India .Poverty is mostly rampant in rural as well as in urban areas . Rapid urbanization is the main culprit of creating poverty. The Indian governments have come up with many strategies in eradicating this dangerous disease. One of the strategies created is to attain hundered percent fiancial inclusion. One of the steps to acheive financial inclusion is the formation of Self Help Groups. Self Help Group Bank Linkage Program is sponsored by NABARD (National Bank of Agriculture and Rural development). It is a successful model striving towards upliftment of poor. Individuals, mainly women with homogenous social and economic backgrounds, voluntarily join together and form a group. They mutually agree to contribute to a common fund and float a small business. These people who pool their resources save small sums of money. They convert their savings into a common fund known as the Group Corpus to be used through a common management scheme. The formation of SHGs have benefited its members (mainly women), in numerous ways, not only by eradicating poverty but also empowering the women folk.

Key Words: Financial Inclusion,Self Help Group, Group corpus.

INTRODUCTION

"Poverty is the Worst form of violence"-
Mahatma Gandhi

Mahatma has led India to independence but the violence of poverty and unemployment is following even today. Poverty eradication and unemployment generation have been the two main cuses of India since independence. The government of India has formulated many strategies to eradicate poverty. The main reason for poverty is unemployement.The unemployment rate in India was 9.4% in the year 2009-2010. As Nehru said "to build a strong nation we have to make the women of our country play a vital role in eductional,technical and financial infrastructure." To develop our nation, we have to eradicate unemployement and empower women. Many schemes were introduced by the government to solve these major issues .The biggest challenge of Indian banking system is attaining hundered percent financial inclusion in the country.Self Help Group is one such scheme. In SHG the female members in a village voluntarily form a group. They pool their resources and start a small business. They convert their savings into a common fund known as the group corpus .They organise a weekly meeting known as "Ayalkuttam" .In the meeting they will collect the minimum savings amount from the members and with this fund they will repay the loan amount.

The study focuses on the functioning of SHG in Meppayur village in Calicut district, Kerala.

FINANCIAL INCLUSION

Financial inclusion is defined as the process of ensuring access to appropriate financial products and services needed by all sections of society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players (Dr. K.C. Chakrabarthy, Deputy Governer, RBI). In the past, various steps like cooperative movement, setting up State Bank of India, nationalisation of banks, lead bank scheme, regional rural banks, service area approach, formation of self help groups etc. But many of them failed because of absence of good banking technology, absence of proper reach and coverage and not having proper business model. In 2004, Reserve Bank of India has set up the Khan Commission to look into the aspect of financial inclusion. RBI has initiated several measures like no frills account, Know Your Customer (KYC) norms, Engagement of Business Consultants (EBC),adoption of EBT, simplified branch authorization and opening of branches in unbanked rural centers.

SELF HELP GROUP

Self Help group is a voluntary association of small and homogeneous groups of 10 – 20 local women in a village.The members with common interest join together and form a group.There is no political interference in a self help group. These women members make small regular savings and raise the capital to start a business. The Self Help Group empowers the poor, especially the women's community. The main objectives of self help groups are to create employment opportunities, empower the women, to alleviate poverty to mobilize and encourage savings.

OBJECTIVES

The objectives of the study are:-

- To study the functions of SHG in Meppayur, Calicut District, Kerala.
- To understand the effectiveness of SHG in financial inclusion.
- To understand the reasons for joining SHG
- To study the income, savings pattern of the members

Hypothesis

H0: There is no significant relationship between monthly income and the increase in the women's own income.

H1: There is a significant relationship between monthly income and the increase in the women's own income.

Research Design

Descriptive research design is used for the study.The research design reveals the study of existing facts.

Sources of Data

Both Primary data and secondary data were collected for the study. Primary data was collected by issuing the questionnaire and by direct interview of the members of SHG in Meppayur, Calicut District, Kerala.

Secondary data were collected from the published records, journal and website.

Sample Size

The data was collected from 150 respondents on a random basis.

Tools

For the analysis of the data, tools such as percentage analysis and chi square test were used.

ANALYSIS AND INTERPRETATION FROM PRIMARY DATA

Table 1 Reason for Joining SHG

Particulars	Numberof Respondents	%
Poverty	50	33
Unemployement	45	30
Mobilize Saving	35	23
Family Pressure	20	14
Total	150	100

Table 1 shows that poverty (33%) and unemployment (30%) are the major reasons why the members have joined SHG.

Table 2 Monthly Income

Income	Numberof Respondents	%
Upto Rs.3000	50	33
Rs.3000-Rs.4000	30	20
Rs.4000–Rs.5000	40	27
Above Rs. 5000	30	20
Total	150	100

From Table 2 we can infer that 33% of the respondents are earning up to Rs.3000 per month, 27% are earning between Rs. 4000-5000 per month, 20% are earning is above Rs.5000.

Table 3 Problems Faced by the members

Particulars	Numberof Respondents	%
Formation of group members	30	20
Resistance from family	50	30
Raising Loan	40	0
Objection from the groupmembers	30	0
Total	150	100

From Table 3 it can be seen that the resistance from the family members(30%) is the major problem the members are facing. Formation of group members (20%), Raising Loan(20%) and objection from the group(20%) are some of the other problems faced by the members

Table 4 Association with Banks

Particulars	Number of Respondents	%
Cooperative Bank	80	53
State Bank of India	30	20
Gramin Bank	40	27
Other Banks	-	
Total	150	100

From Table 4 we can infer that majority of the members (53%) are maintaining transaction with the Cooperative bank, 20% of the members are maintaining with State Bank of India, and 27% of the members are maintaining accounts with the Gramin Bank.

Table 5 Type of Business

Particulars	Number of Respondents	%
Agriculture	60	40
Manufacturing food	60	40
Polutary farming	30	20
Total	150	100

From table 5 it can be inferred that 40% of the members are engaged in agriculture business and food manufacturing business. Only 20% of them are engaged in poultry farming.

Table 6 Frequency of Conducting Meeting

Particulars	Number of Respondents	%
Weekly	150	100
Quaterly	-	
Monthly	-	
Total	150	100

The members conduct meting on weelky basis and are known as "Ayalkuttam"

Table 7 Purpose of conducting Meeting

Particulars	Number of Respondents	%
To take decision	40	27
To collect savings amount and loan amount	47	70
To decide upon financial requirement	6	10
To maintain relationship	20	30
Total	150	100

The table 7 reveals that 47% of the group conduct meeting to take to collect the savings amount and loan amount, 27% conduct meeting to take future business decision , 6% of them conduct meeting to decide upon the financial and loan requirement for the business and 20% of them conduct meeting to maintain good relationship with the members.

Table 8 Increase in Income

Particulars	Number of Respondents	%
Strongly Agree	70	47
Agree	50	33
Neither Agree nor Disagree	30	20
Disagree	-	-
Strongly Disagree	-	-
Total	150	100

Table 8 reveals that 47% of the members strongly agree that their income have increased, 33% of them agree and 20% of them have no opinion since they are new members.

Table 9 Increase in Decision making skill

Particulars	Number of Respondents	%
Strongly Agree	75	50
Agree	75	50
Neither Agree nor Disagree	-	-
Disagree	-	-
Strongly Disagree	-	-
Total	150	100

Table9 shows that the 50% of the members strongly agree and agree that their decision making power and skill have increased.

Table 10: Easy Access to Finance

Particulars	Number of Respondents	%
Strongly Agree	20	13
Agree	60	40
Neither Agree nor Disagree	5	3
Disagree	45	30
Strongly Disagree	20	14
Total	150	100

Source: Primary Data

From table 10 it can be seen that 40% of the members agree that there is easy access to finance, 30% disagree that the loan is easily available, 13% strongly agree that loan is easily available ,and 14% strongly disagree that there is easy access to finance.

Table 11 Easy to follow Bank Procedure

Particulars	Number of Respondents	%
Strongly Agree	50	33
Agree	80	53
Neither Agree nor Disagree	20	14
Disagree	-	-
Strongly Disagree	-	-
Total	150	100

From Table 11 it can be inferred that 53% of the members agree that it is easy to follow the bank procedures,33%of them strongly agree and 14 % of them have no opinion regarding the understanding of the bank procedure

Chi Square

The Chi Square test is an important test among the several tests of significance developed by statisticians. The Chi square value is often used to judge the significance of population variance. It is an important non – parametric test. It is a technique through the use of which it is possible to test the goodness of fit,test the significance of association between two attributes and test the homogeneity or the significance of the population.

$$X^2 = \frac{(O-E)^2}{E}$$

Result

Ho : There is no significant relationship between monthly income and the increase in the women's own income.

H1: There isa significant relationship between monthly income and the increase in the women's own income.

$$\chi^2 = \frac{(O-E)^2}{E} = 57.59$$

Degree of freedom =
(c-1) (r - 1)=(4 - 1)(5-1)= 12
The Table value of chi- square for 12 degrees of freedom at the five percent level of significance is 21.0. The calculated value of Chi – Square is 57.59. The calculated value of Chi- square is higher than the table value and hence it is proved that there is a significant relationship between monthly income and the increase in the women's own income.

FINDINGS

Poverty and unemployment are the major reasons why the members have joined SHG 33% of the members are earning up to Rs 3000 per month

30% of the members were resisted by their family for joining in SHG. 40% members are engaged in manufacturing of food and agriculture

The Majority of the members strongly agree that their income have increased.

50% of the members strongly agree that their decision making skill have increased.

SUGGESTIONS

Awareness programme should be conducted among the younger generation to participate in SHG.

More training programmes should be given to the members to increase their efficiency. A session on awareness and importance of SHG should be given to the male members .

CONCLUSION

The study was undertaken in SHG of Meppayur village in Calicut District.Many studies show that men contribute 50 to 60%of their salaries to the collective household fund but women tend to keep nothing for themselves. This study shows that how women are efficient in saving and loan repayment. Presently the rate of saving has reduced due to increase in expenditure .But this factor is not affecting the loan repayment. Thus, based on the above study, we can conclude that SHG has helped in financial independence and social upliftment of women in Meppayur village in Calicut district, Kerala.

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Financial Inclusion

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ABSTRACT

After 65 years of independence, large sections of the Indian population still remain unbanked. This has led generations of financial instability and lower income group who do not have access to financial products and services. However, in the recent years the government and the Reserve Bank of India has introduced the concept and idea of financial inclusion. Financial inclusion is an important method of economic development of a nation. Financial sector inclusion is a very important component of inclusive growth strategy. Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast sections of the disadvantaged and low income groups. It plays very vital role in economic progress. Financial sector inclusion helps in eliminating poverty, reducing inequality, eliminating unequal access to opportunities, reducing inequalities of choice. This study tries to understand policy initiatives by the government for financial inclusion, reasons for financial exclusion, steps taken by the government for financial inclusion and the implications of financial inclusion. This study is mainly based on secondary data and collected information from books, journals and website.

Key word: Financial Inclusion, Economic Development, Financial Products and Services.

Introduction

India's commitment to planned economic development is a reflection of our society's determination to improve the economic conditions of our people and affirmation of the role of the government in bringing about this outcome through a variety of social economic and institution means. The eleventh five year (2007-2012) plan which was approved by National Development Council (NDC) on 19th December 2007 reaffirms this commitment. It provides a comprehensive strategy for inclusive development. The Main slogan of Eleventh Five Year Plan is **"Faster and More Inclusive Growth"**. It is the heart of Indian planning philosophy. It emphasizes inclusive growth. Financial sector inclusion is a very important component of inclusive growth.

The strategy for inclusive growth in the 11th plan is not just a conventional strategy for the growth to which some elements aimed at inclusion have been added. Inclusive strategy aims at achieving a particular type of growth process which will meet the objectives of inclusiveness and sustainability. This strategy must be based on sound macro economics policies which establish the macroeconomic pre -condition for rapid growth.

Meaning

Inclusive growth is a participatory approach to economic development and a key factor in economic development. According to **Oxford**

dictionary" Inclusive growth is a growth that does not exclude any section of society"

According to **world bank report (2006)** reveals that "inclusive growth process should go towards the enhancement of the quality of basic services including education, power, healthcare and water supply for every individual across the country and should be given not only to the distribution of economic gains but also in empowering people in enjoying their social life and at creating employment opportunities".

According to **C. Rangarajan committee On financial inclusion (2007)** is defined as "the process of ensuring access to financial services, timely and adequately, where credits were needed by vulnerable groups such as weaker section and low income groups at an affordable cost".

According to **Raghuram Rajan Committee Report** financial inclusion refers to universal access to a whole range of financial resources at a reasonable cost. These include not only banking products, but also other financial services such as insurance and equity products"

Financial inclusion refers to bring the financially excluded population within the formal and informal financial system. Financial inclusion yields broad based benefits and ensures equality and opportunity for all. It attributes opportunity, capability, access and security. In simple words we can say that inclusive growth is the distribution of income in favour of the poor .Distribution of income in favour of vulnerable section of the society and elimination of all types of deprivation. Financial sector inclusion is a very important component of inclusive growth strategy.

Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast section of the disadvantaged and low income groups.

Objectives of the Study

1. To know the extent of financial exclusion in India.
2. To examine Policy initiatives for financial inclusion.
3. To analyze reasons of financial exclusion.
4. To study the implications of financial inclusion.

Policy initiatives for financial inclusion

Many policy initiatives have been taken for financial inclusion such as:

1. Making Available basic banking "no frills" account, either with 'nil' or very low minimum balance.
2. Issuing of general credit cards to eligible beneficiaries without insistence on security, purpose or end use of credit.
3. Introduction of KCC (Kisan Credit Card).
4. Allowing banks utilize the services of NGOs, SHGs, MFIs and other civil society organizations as intermediaries in providing financial services.
5. Credit is linking of SHGs and support to MFIs.
6. Introduction of the financial sector (regulation and development) bill 2007 to develop and regulate the MFIs.
7. Constitution of financial inclusion fund and financial inclusion technology fund to strengthen the institutional and technological infrastructure for greater financial inclusion.
8. Financial literacy would help in using savings, credits and insurance services.
9. Stipulation of Priority sector lending. Priority sector comprises agriculture, SSIs, Small road and water transport operators, Small business, retail traders, self employed persons, housing loans, micro credits, artisans, village and tiny industries etc.

Extent of financial exclusion:

Lack of access to financial services such as credit, savings, at an affordable cost not only result in exclusion, but also act as a constraint to growth impetus in the rural and unorganized sectors. Even today, a large number of households do not have access to formal financial services. Financial exclusion covers exclusion from any or all of the financial services necessary for participating in a modern market economy. Exclusion from credit provision has been looked at as being more significant than that from other services. Table below shows the prevailing situation.

Savings and Loan Accounts:

Sl. No	Regions	No of Savings accounts for the adult population in (2005)	No of loan accounts to adult Population in (2005)
1	North	80	12
2	North East	37	07
3	East	34	08
4	Central	52	09
5	West	60	13
6	South	66	25
7	All India	59	14
8	Rural	39	9.5
9	Urban	60	14

Sources: Speech of Usha Tharot , Dy Governor of RBI.

The NSSO situation Assessment Survey on Indebtedness of Farmer Households (2003) reveals that 51.4% of the farmer households do not access credit either from formal or informal sources. The region wise position of the level of indebtedness is indicated in following table.

Credit Access of Farmer households:

Sl. No	Regions	Former house holds borrowing from both formal and non formal Sources (%)	Former households not accessing credit from both formal and Non formal Sources (%)
1	Northern	51.4	48.60
2	North Eastern	19.90	80.10
3	Eastern	40.40	60.00
4	Central	41.66	58.34
5	Western	53.77	46.23
6	Southern	72.70	27.30
7	Groups of UTs	33.10	66.90
8	All India	48.6	51.4

Sources: Speech of Usha Tharot , Dy Governor of RBI.

Reason for Financial Exclusion

There are several reasons for financial exclusion. They are :

1. Lack of awareness
2 Low income and asset
3 Social exclusion
4 Illiteracy
5 Distance from bank branches
6 Branch timings
7 Cumbersome documentation and procedures
8 Unsuitable product
9 Language
10 Staff attitudes, etc

Different steps taken by the Govt for Financial inclusion:

1) Banks nationalization (1969 & 1980): Rural branch network of commercial banks had steadily grown in the years following nationalization in 1969. Existing rural branch infrastructure can be more intensively used so as to serve a larger customer base. A major recommendation of the Rangarajan committee is that banks be given targets to add at least 250 farmer accounts per year per branch.

2) Revitalization of co-operation: Attempt made to spread to increase co-operative organization such as co-operative societies, banks, etc., Co-operative has the largest nominal outreach amongst the rural financial institutions. On the basis of the recommendation of the Vaidynathan Committee, Govt of India has formulated a revival package for restructuring and strengthening of the rural co-operatives credit institutions.

3) Interest rate caps: Interest rates on loans made by the banks has been deregulated from 1994. Central Govt and state Govts plays a central role in reducing the interest rate without introducing rate caps at the state level.

4) Priority sector lending: This includes small and marginal farmer, village industries, street traders, weaker section etc.

5) Zero balance account can be maintained.

6) Differential interest rate: To attract the people to bank, usage of regional language in the bank transaction.

7) Self Help Groups Linkage Program (SHLP)

SHGLP has registered an impressive growth in the last 5 to 7 years. At present 90%of the micro credit of being disbursed through SHGLP model.

8) MFI sector (Micro Finance Institution)

In the MFI model the MFI both from the groups provide credit to SHGs & individual. MFIs raise funds from banks and financial institutions for lending to SHGs and individuals. Khan Committee Report on rural credit and micro finance of RBI mentions that timely availability in right quantity of credit and with low interest rate are crucial to the success of a micro finance programme.

9) Usage of regional language in the bank transaction.

10) New initiatives: There are certain NGO, societies, trust & Co-operative societies operating in the micro financial sector that are engaged in providing credit and other financial services to economically active low income people especially women, poor households and their micro enterprises.

11) Simplification of documentation and procedures to reduce transaction costs.

12) Recent developments: Aam Adhmi Bima yozana, Rastriya Swasthi yozana, Yasasvini scheme, crop insurance, NREGP, Kisan Credit scheme are some of the recent developments in financial inclusion.

13) Swabhimaan: It is a special campaign for financial inclusion to bring banking services to the masses. Swabimaam is a movement that promises to bring basic banking services to all 73000"unbanked" villages with over 2000 population by March 2012. It will facilitate the opening of bank accounts, provide need based credit, remittance facilities and help to promote financial literacy in rural India. New technologies and business correspondents will drive the movement. Swabhimaan is a path breaking initiative by the Govt. of India and the India Bank Association to cover the economic distance between rural and urban India.

Implications of financial inclusion:

I. To eliminate socio- economic problem

II. To strengthen weaker section of the society

III. To empower active low income group

IV. To focus on capacity building

V. To create opportunities

VI. To provide a safety net to weaker section

VII. To break the vicious circle of poverty.

Conclusion:

Financial sector includes is a very important component of inclusive growth. It plays a very vital role in economic progress. Financial sector inclusion helps in eliminating poverty, reducing inequality, eliminating unequal access to opportunities, reducing inequalities of choice. Therefore, planning commission in its 11th Eleventh Five Year Plan emphasises financial inclusion. All activities mainly depend on finance. The financial sector is like blood in the human body .All economic and social problems arise due to financial sector exclusion. We can solve all these problems and strengthen the weaker section only through financial inclusion.

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Financial Inclusion: Issues and Challenges in India

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ABSTRACT

Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. Financial exclusion, in terms lack of access to credit from formal institutions, is high for small and marginal farmers and some social groups. For developing nations the era is of inclusive growth and the key to inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of vulnerable and low income segments of society. There have been many formidable challenges in the financial inclusion area such as bridging the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvise the financial economic growth. A nation can grow economically and socially, if its weakest section can turn out to be financially independent. This paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening India's position in relation to other economy. For analyzing such facts, data for the study has been gathered through secondary sources, including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalystic role in the economic and social development of society but still there is a long road ahead to achieve the desired outcomes

KEY WORDS: Financial inclusion, financial exclusion, NABARD, financial instruments.

INTRODUCTION:

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. In the case of credit, the proper definition of financially excluded would include households that are denied credit in spite of their demand. Financial inclusion covers various other financial services such as savings, insurance payments and remittance facilities by the formal financial system to those who tend to exclude. It is important to the Government and Banking sector to give service to these untapped people. Special measures have to be taken to solve the financial problems of these groups who are unable to give any security. Unorganized financial institutions, individuals and unregistered chit fund companies are exploiting by charging high interest rates.

Definition of 'Financial Inclusion'

Financial services include, among other things, a range of products such as savings, suitably designed loans, insurance, credit, payments, etc., The efficacy of the financial system depends on its ability to source funds from surplus units and convert them 15 finance deficit units. This challenge becomes more pronounced when the units that experience the deficit do not have access to the formal sources of finance. Financial inclusion initiatives highlight the concerted efforts undertaken by the financial system or any constituent thereof to bring into its fold sections of the economy that have been excluded from access to affordable credit and other financial services. "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together,we can and must build inclusive financial sectors that help people improve their lives." Kofi Annan(2003). Claessens (2006) has defined financial inclusion as the "availability of a supply of reasonabl equality in financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs."To quote the Committee on Financial Inclusion chaired by Rangarajan, (2008) "Financial inclusion maybe defined as the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Access to finance has been defined by Demirguc-Kunt and Levine (2008) as the 'absence of price and non-price barriers.Many authors in the past have been able to establish the impact of availability and access to formal sources of finance on poverty alleviation. Banerjee and Newman (1993) have observed that a critical factor that enables people to exit poverty by enhancing productivity is access to finance. Binswanger and Khandker (1995) have established that Indian Rural expansion programme significantly lowered rural poverty and significantly increased non-agricultural employment. Eastwood and Kohli (1999) in their study have found that branch expansion programmes and directed lending programmes have enhanced small scale industrial output. An inclusive financial system can help in reducing the growth of informal sources of credit, namely the money lenders which are often found to be exploitative. Bell and Rousseau(2001) have empirically established that financial intermediaries have influenced India's economic performance. Beck et al (2009) observed that a well-developed financial system accessible to all reduces information and transaction costs, influences savings rates, investment decisions, technological innovations and long run growth rates.

The importance of Financial Inclusion to national economies is evident from the support extended by individual governments and international bodies around the world.(Frost & Sullivan Report, 2009) Banking services are being viewed increasingly as a public good that needs to be made available to the entire population without discrimination. The degree of 'publicness' in financial inclusion may be different from a typical public good like 'defense'. But being as important as access to water or basic education, it does qualify to be termed as 'quasi-public good' (Mehtrotra et.al2009). This recognition has made financial inclusion a policy objective for policy makers and others engaged in developmental activities. It is estimated that globally about 2.9 billion people are excluded from access to financial services, (World Bank, United Nations 2006). According to the National Sample Survey Organisation, (2003, 59thround) 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. The report of the Committee on Financial Inclusion constituted by Government of India (Rangarajan, 2008) reports that 73% of farmer households have no access to formal sources of credit. India alone has 560 million people who are excluded from formal source of finance and this is in strong correlation with the 41.6percent of the population (457 million) that still lives below the poverty line i.e., US $ 1.25/day (NCR Whitepaper on Financial Inclusion, 2009). The recognition that financial inclusion is a powerful tool to not just alleviate poverty, but also fuel economic growth has brought this concept to the limelight since early 2000 and is seen as a policy priority in many countries.To quote C. Rangarajan, Ex-Governor, RBI and Chairman, Committee on Financial Inclusion,Government of India "The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of the population in the process of economic growth. Financial inclusion of hitherto excluded segments of the population is a critical part of this process of inclusion". Inclusive growth as a strategy for economic development received attention because of the rising concern that the benefits of economic growth have not been equitably shared (Chakraborty, 2010). According to the United Nations (2003) the main goals of Inclusive Finance are as follows :

1. Access at a reasonable cost for all households and enterprises to the range of financial services which are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances
2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring of the market, as well as by sound prudential regulation were required
3. Financial and institutional sustainability as a mean of providing access to financial services over time.
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers). Improving access to financial services would help overcome a host of constraints that have hampered growth both at the level of the individual and that of the country. Constraints identified that need intervention may either be specific to the individuals or may be triggered by systemic or institutional inadequacies and/or shortcomings.

Some of the constraints that are specific to individuals are low literacy levels, low level of income, psychological and cultural barriers, place of living, and lack of awareness. Even as governments have been exploring innovative methods to help overcome these barriers, the process of transformation is generally long drawn and depends as much on the individual's level of motivation to overcome these barriers. However, the same is not true of constraints triggered by systemic or institutional inadequacies. These are constraints that arise due to the inadequacies and/or shortcomings of the system which result in the inability to provide easy access to financial services. These constraints may be effectively overcome by making available legal identity cards, simplifying complicated procedures for availing services or relaxing stringent terms and conditions attached to financial products and services and making them available at affordable costs. Financial inclusion initiatives are generally multipronged and are designed predominantly to address all the systemic and institutional inadequacies, at the same time urging individuals to overcome barriers at their personal level. Solutions to combat financial exclusion are either initiatives - such as a charter of codes of practice developed by the banks themselves, (Elaine Kempson etal, 2004) - or directives given by the central bank of the country or part of the vision statement of the country and hence driven by special legislations enacted by the governments. Initiatives for financial inclusion are being announced at regular intervals by Governments, Central Banks of countries and developmental organizations like the United Nations. For example the German Bankers' Association introduced a voluntary code in 1996 providing for an 'every man' current banking account that facilitates basic banking transactions. In the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods. In France; the law on exclusion (1998) emphasizes the right to have a bank account. In South Africa, a low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, the Financial Inclusion Task Force had been constituted by the government in 2005 in order to monitor the development of financial inclusion. The British government has set up a fund of Sterling pound 120 million Pound Sterling for addressing issues of financial inclusion. Brazil has urged the state banks to reach out to the rural areas and the poor. Out of the 45% sight deposits that a bank is mandated to hold with the central bank, it is encouraging using 2% of micro loans at an interest of 24 to 48%. This has helped them gain eight million new customers within a span of three and half years. Kenya has passed a Micro Finance Act in 2006 to provide an impetus for financial inclusion. The central bank of China has also promoted micro lending since 2006 and seven domestic micro credit corporations were established. In India, the government has established the National Rural Financial Inclusion Plan to achieve complete financial inclusion by the year 2015. Towards this, in 2005, the Reserve Bank of India advised Indian Banks to facilitate basic 'no frills' accounts with low or minimum stipulated balance and in 2006, banks were encouraged to set up bank linkages with micro-finance and self-help groups (Sarma 2008, Frost & Sullivan, 2009).

Objective of the Study

1. To explore the need and significance of financial inclusion for economic and social development of society.
2. To analyze the current status of financial inclusion in Indian economy.
3. To study the access of rural people to bank branches..
4. To study the progress of State Cooperative Banks in the financial inclusion plan.

Research Methodology

The Research methodology is exploratory and involves the analysis of data from secondary services caused .For this study, data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, opinions of eminent personalities.

Need of Financial Inclusion

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation were required

3. Financial and institutional sustainability as a means of providing access to financial services over time

4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

There has been a many objectives related to the need for financial Inclusion such as;

1. **ECONOMIC OBJECTIVES**:
   Since the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boon for the underdeveloped and developing nations.

2. **MOBILIZATION OF SAVINGS:**
   If the weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.

3. **LARGER MARKET FOR THE FINANCIAL SYSTEM:**
   To serve the requirements and need of the large section of society, there is an urgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.

4. **SOCIAL OBJECTIVES:**
   Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.

5. **SUSTAINABLE LIVELIHOOD:**
   Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. (This financial inclusion turns out to be booming for lower income households).

6. **POLITICAL OBJECTIVES:**
   There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

Initiation of Financial Inclusion Concept in India

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General, credit cards were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank of India permitted commercial banks to make use of the services of non-governmental organizations, micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The RBI asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on Information Technology. However, illiteracy and the low income, savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

SCOPE OF FINANCIAL INCLUSION

(a) Through state-driven intervention by way of statutory enactment

(b) Through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society

When bankers do not give the desired attention to certain areas, the regulators have to step in to give remedy to the problem. This is the reason why the Reserve Bank of India is placing a lot emphasis on financial inclusion. In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills-to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account or savings account on its own is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the super-included, i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these people may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers

Major Three Aspects of Financial Inclusion are:

1.Access to financial markets.

2.Access credit markets.

3.Learn financial matters (financial education).

Financial Inclusion includes Accessing of Financial Products and Services such as:

- Savings facility.
- Credit and debit cards access.
- Electronic fund transfer.
- All kinds of commercial loans.
- Overdraft facility.
- Cheque facility.
- Payment and remittance services.
- Low cost financial services.
- Insurance (Medical Insurance).
- Financial advice.
- Pension for old age and investment schemes.
- Access to financial markets.
- Micro credit during emergency.
- Entrepreneurial credit.

To access above products and services by the people, the bankers have to start their branches at various locations which is easy accessible to the all financial inclusive groups, individuals. The Reserve Bank of India is taking necessary steps to overcome the hurdles. The following table shows the establishment of scheduled commercial bank offices across India during the period 2009-2013.

Tab.1. No. of scheduled commercial bank (SCB) offices across India

	2009		2010		2011		2012		2013	
	Number	%	Number	%	Number	%	Number	%	Number	%
Rural	31598	38	37	38	33602	36	36503	36	39439	36
Semi-urban	19337	23	24	23	23048	25	26144	25	28691	26
Urban	16726	20	21	20	19156	21	20650	20	21720	20
Metropolitan	15236	18	19	18	17274	19	19080	19	19961	18
Total	82897	100	100	100	93080	100	102377	100	109811	100

NABARD

The number of scheduled commercial bank offices in rural India increased from 31598 to 39439 i.e. 24% increase for the half decade. Semi-urban, Urban, Metropolitan areas have also shown nearly same level of growth during the half decade period. This development of offices helps to access the financially excluded people like Marginal farmers, landless labor, Self-employed and unorganized sector enterprises, urban slum-dwellers, Migrants, senior citizens and women.

BENEFITS OF INCLUSIVE FINANCIAL GROWTH:

Growth with equity: In the path of superpower we the Indians will have to achieve the growth of our country with equality. It is provided by inclusive finance.

Get rid of poverty: To remove poverty from the Indian context everybody has been given access to formal financial services. If they take loans for business, education or any other purpose they get the loan, to pave way for their development.

Financial Transactions Made Easy: Inclusive finance will provide banking related financial Transactions in an easy and speedy way.

Safe savings along with financial services: People will have safe savings along with other allied services like insurance cover, entrepreneurial loans, payment and settlement facility, etc.

Inflating National Income Increasing business opportunities will definitely increase GDP; this will be reflected in our national income growth.

Becoming Global Player: Financial access will attract global market players in our country that will result in increasing employment and business opportunities. Relationship between Financial Inclusion and Development Indicators Economic growth follows financial inclusion. In order to achieve the objective of growth with equity, it is imperative that infrastructure is developed with financial inclusion: Savings. Increase in per capita income, infrastructure development will indicate the development.

THE WAY FORWARD

The banks should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically, banking services need to be marketed to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty:

In the context of India becoming one of the largest micro finance markets in the world, especially in the growth of women is savings and credit groups and the sustaining success of such institutions which has been demonstrated by the success of the SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.

It may be useful for banks consider franchising with other segments of financial sector, such as cooperatives, Regional Rural Banks etc. So as to extend the scoops of financial inclusion with minimal intermediacy cost. Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, simple to use cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in the vernacular language would greatly facilitate financial inclusion of the semi-urban and rural populace

CONCLUSION

The main reason for financial exclusion is the lack of a regular or substantial income. In most of the cases, people with low income do not qualify for a loan. The proximity of the financial service is another fact. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion as the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor. "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders". Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is a long road ahead, but no doubt it is playing a significant role and is working on the positive side. It is important that banks should make the people learn the various financial products offered by them, how they have to make use of them. The financial inclusive have to take initiative make all the people utilize the finance for their well being and development, it helps to achieve financial sustainability and economic growth of the individual. Individual development leads the national growth. Thus financial inclusion play pivotal role in economic development of the country.

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5

Financial Inclusion In India – The Present and Future

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ABSTRACT:

Unanimously agreed fact is that the savings are key to the credit formation which thereby becomes the result of national growth. The rich, Heritage of India is in the great emergence of converting the savings into investment in order to become strong and self reliant. One of the prime reasons for low GDP is the lack of savings habit among people and a majority of the country is being unbanked! Financial inclusion is all about converting unbaked areas into the banked areas by different means. The paper tries to explain about the present position and future of financial inclusion in India with some elective reasons.

Key words: financial inclusion, Govt. of India policies, RBI initiatives

Introduction:

Financial inclusion is a multi-dimensional concept. Its implementation throws up various challenges ranging from KYC issues, choice of financial products, viability, scalability and sustainability, to addressing the last mile reach and cost of the low ticket transaction.

- Dr. Raghuram Rajan, Governor, Reserve Bank of India

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

Report of the Committee on Financial Inclusion in India (Chairperson C.Rangarajan) (2008) observes 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." A recent RBI report quotes a World Bank study undertaken in April 2012, which stated that only 9 per cent of Indian population had taken new loans from a bank, credit union or microfinance institution in the past year with only 35 per cent having formal accounts versus an average of 41 per cent in developing economies.

RBI defines **Financial Inclusion** as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players". Therefore, the objective of Financial Inclusion (FI) is to extend financial services to the large, hitherto unreserved population of the country to unlock its growth potential. In addition, it strives to achieve more inclusive growth by making financing available to the poor in particular. Thus, keeping in view of the interests of the poor people, the Government of India (GoI) has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the financial services.

OBJECTIVES OF THE STUDY

1. To understand the present scenario of financial inclusion in India.
2. To study the prime factors influencing access to financial services.
3. To study the major initiatives and policy measures taken by RBI and Govt. of India for financial inclusion.
4. To suggest the future prospects for financial inclusion

RESEARCH METHODOLOGY

The Paper's study is explanatory in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trends and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

THE NOTION OF FINANCIAL INCLUSION IN INDIA

In India, the concept of financial inclusion was first incorporated in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam Village turns out to be the first village in India where all households were provided banking facilities. Norms were relaxed for those people who were planning to open accounts with annual deposits of less than Rs. 50,000. Generally, credit cards were issued to the poor and the underprivileged with an outlook to help them access easy credit. In January 2006, the Reserve Bank of India allowed commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The RBI asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As an outcome of the campaign, states and Union territories like Pondicherry, Himachal Pradesh and Kerala declared 100% financial inclusion in all their districts. Reserve Bank of India's visualization for 2020 is to open nearly 600 million new customers' accounts and service them through a diversity of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas remain to be an obstruction to financial inclusion in many states and there is inadequate legal and financial structure.

FACTORS INFLUENCING ACCESS TO FINANCIAL SERVICES

The following are the some of the major factors which affect access to financial services -

A. **Legal identity** - Lack of legal identity like voter ID, driving license, birth certificates, employment identity card etc. is a major factor affecting access to financial services.

B. **More terms and conditions** - Since banks are profit making organizations they discourage the non-profitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

C. **Level of income** - Low income people generally have the attitude of thinking that banks are only for the rich.

D. Limited literacy - Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non-Profit Organizations), MFIs and Business Correspondents etc. People do not know the importance of various financial products like insurance, bank accounts, cheque facility etc.

E. Psychological and cultural barriers - Many people willingly exclude themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs which is the most convenient form of banking today.

F. Structural procedural formalities - It is very difficult for people to read the terms and conditions and account-filling forms due to lack of basic education.

G. Types of occupation - Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

H. Attractiveness of the product - Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

I. Place of living - Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in under-developed areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

J. Social security payments-In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

RBI and GoI Initiatives and Policy Measures and Involvement in Financial Inclusion

Reserve Bank of India and Government of India is navigating the path to financial inclusion by means of policies and supervision. To remove all obstacles and hurdles in the way of financial inclusion RBI and GoI has taken a lot of initiatives and policy measures. These initiatives and policy measures are:-

- **No-frills Accounts** - People in the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed. This initiative of RBI proved to be very effective as the banking system has opened 139 million no frill accounts amounting to Rs.126 billion in March, 2012 under the Financial Inclusion Plan (FIP).The figures, respectively, were 105 million and Rs.76 billion in March, 2011 (Table I.2).
- **Overdraft facilities in saving Account** - Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. Banks have been advised and directed to provide small OD in such accounts. Banks had provided 2.7 million ODs amounting to Rs.1.1 billion till March 2012.The figures, respectively, were 0.6 million and Rs. 0.3 billion in March 2011 (Table I.2).
- **Overcoming the language barrier** - Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms.

Banks are therefore required to provide forms pertaining to account opening disclosure, etc. in the regional language as well.

- **Simplification of Know Your Customer (KYC) Norms and Guidelines** - To open a Regular Account, a customer has to provide documents on (a) Proof of identity, and (b) Proof of address, as per RBI guidelines. But customers face difficulties in providing the requisite documentation for opening regular bank accounts. Also, most rural inhabitants do not have any of the identity documents that are required for account opening and compliance with Know Your Customer (KYC) norms. For that reason, the account opening process has been simplified for people who intend to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100, 000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms. In addition to this, a Subgroup of senior officers of some Public Sector Banks (PSBs), constituted by Department of financial services, has suggested uniform KYC guidelines and a common list of documents, for guidance and adoption by the PSBs.

- **Simplification of Savings Bank Account Opening Form** - To ease the opening of bank account by the migratory labour, street hawkers and other poorer sections of the society, "Simplified Account Opening Form" has been designed. Banks have been requested to put in place a system to enable the customer to fill the account opening form on an 'online' mode. This form contains sections for Small Accounts, Accounts with Introduction and Basic Saving Bank Deposit Account.

- **Financial Literacy Program** - Financial Literacy Programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by banks and financial institutions. RBI provides support to Financial Literacy and Credit Counselling Centers (FLCCs).The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling.

- **Simplified branch authorization** - With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI cities with a population less than 50,000 under general permission, consent, subject to reporting (since December 2009).On the other hand, banks can open branches in any center-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

- **General Credit Cards (GCCs)** - Banks have been advised to consider the introduction of a General Purpose Credit Card (GCC) facilities up to Rs.25000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on an assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. The interest rate on the facility is completely deregulated. Banks had offered 2.1 million GCCs with an amount of Rs. 42 billion by the end of March, 2012.The figures, respectively, were 1.7 million and Rs. 35 billion as of March, 2011 (Table I.2).

- **Kisan Credit Cards (KCCs)** - Kisan Credit Cards to small time farmers have been issued by banks. As on March 2012, the total number of KCCs issued has been reported as 30 million with a total amount outstanding to the tune of Rs.2, 068 billion. The figure, respectively, were 27 million and Rs.1, 600 billion in March, 2011 (Table I.2).

- **Business Correspondents (BCs) and Business Facilitators (BFs) Model** -The Reserve Bank of India permitted banks to engage BCs and BFs as intermediaries in providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem. With effect from September 2010, profit companies have also been allowed to be engaged in BCs. Under FIP out of total banking outlets in villages BCs are 1, 41,136 by the end of March, 2012.The figure was 80,802 in March, 2011.The urban locations covered through BCs are 5,891 by the end of March, 2012.The figure was 3,771 in March, 2011 (Table I.2).

- **SHG Bank-Linkage Programme** -The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of the group and dispense small loans for meeting the individual requirements of members. Up to 31-03-2012, 79.60 lakh SHGs were linked and 43.54 lakh SHGs were linked with various banks across the country.

- **Opening of branches in unbanked rural locations** -To target excluded sections of society in rural locations attention was given to the expansion and the opening of bank branches in those centers. Consequently, banks have been mandated in the Monetary Policy Statement to target at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centers (April 2011).

- **Use and promotion of ICT in Banking**-Financial inclusion approach basically focuses on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The Government and the RBI are supporting and promoting commercial and cooperative banks to offer banking facilities to the society by using modern technology, i.e. ATM, micro-ATMs, mobile banking and business correspondents, E-banking, smart cards, Aadhaar Enabled Payment Systems (AEPS) etc.

- **Branch Expansion/Coverage of villages** -Till March, 2012, Banks have opened banking outlets in 1,81,753 villages up from just 1,16,208 as of March,2011.Out of these,37,471 villages have been covered through brick and mortar branches,1,41,136 through BC outlets and 3,146 through other modes like mobile vans etc. providing banking services at the doorstep of villagers through Smart Cards (Table I.2).

- **Rural Infrastructure Development** -Under Rural Infrastructure Development Fund (RIDF), NABARD grant loans to State Governments for the creation of rural infrastructure, broadly under agriculture and related sectors, rural connectivity and social sector. The annual allocation of funds announced in the Union Budget has gradually increased from Rs. 2,000 crore in 1995-96 to Rs. 18,000 crore in 2011-12.The aggregate allocations have reached Rs. 1,52,500 crore. In the Budget speech 2012-13, allocation of Rs. 20,000 crore has been made.

- **Creation of Funds for Financial Inclusion**-Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by the Central Government for meeting the costs of development, and promotional and technology interventions, A fund of Rs.5,000 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.

Present Position of Financial Inclusion in India

- **World Bank Survey Report -** A Financial Inclusion survey was conducted by the World Bank in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north-eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies (Table I.1).The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or send or receive money."

In sync with the objective of inclusive growth, RBI has given priority to the agenda of financial inclusion over the past few years. Initiatives were taken by RBI in recent years to expand banking services to remote areas of the country. Despite all the attempts made by the Reserve Bank of India, the extent of financial exclusion continued to be significant in India, when compared with some of the advanced as well as developing countries.

Table 1.1Key Statistics On Financial Inclusion in India: A Survey (Percent)

	Share with an account at a formal institution			Adult saving in past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past
	All adults	Poorest Income Quintile	women	Using Formal a/c.	Using Community based method	From a formal financial Institution	From Family of friends				
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

(Source: RBI Report)

- **Financial Inclusion Plan (FIP) is in progress-**To strengthen the financial inclusion drive, all public and private sector banks were advised to put in place Board approved a three - year financial inclusion plans (FIPs) from April 2010 onwards. The FIP should broadly contain self-set targets with respect to: (i)opening rural brick and mortar branches; (ii) deployment of BCs; (iii) coverage of villages with a population of more than 2000 as also other un-banked villages with population below.

- **Through branches/BCs/other modes;** (iv)opening no-frills accounts, includes through BC-ICT; (v)issuing Kisan Credit Cards (KCCs) and General Credit Cards (GCCs), and other people specific products designed by them to cater to the financially excluded segments. The progress, so far, by banks in achieving FIP during the last two years has been impressive. A brief analysis of the progress shows that penetration of banking has increased multi-fold in rural areas. As at end- March 2012.villages covered through BCs constituted more than 80 per cent of the total villages covered under the FIP. These indicators move towards the widespread acceptance of the BC model of financial inclusion by banks as well as consumers in rural India. The details of the progress made by banks under FIP are given in Table I.2.

- **Opening of New Bank Branches -** Scheduled Commercial Banks have opened 6,503 branches during 2012-13, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas (Annual Report 2012-13, Ministry of Finance, GoI). In accordance with the efforts put forward by the Reserve Bank of India for opening new bank branches in rural areas, more than two-thirds of total new branches opened during 2011-12 were in rural or semi-urban areas. Expansion of banking network is done through the opening of new bank branches in various regions. The distribution of new branches Region-wise and Population Group-wise is shown in Table. Among the regions, southern region accounted for almost 30 per cent of total new bank branches opened. As at end-March 2012, 99% of the identified villages have been provided with banking outlets. Four States, viz., Uttar Pradesh, Bihar, West Bengal and Andhra Pradesh accounted for more than 50% of these newly opened banking outlets. On a positive note, all identified villages in the north-eastern have been provided with banking outlets. Region-wise analysis of the progress made in banking penetration indicated that significant progress has been made in eastern as well as north-eastern region on this front.

- **"Swabhimaan"- the Financial Inclusion-** Under "Swabhimaan"- the Financial Inclusion Campaign launched in February 2011, banking facilities to over 74,000 habitations having a population of 2,000 and above have been provided by engaging over 62,000 Business Correspondent Agents (BCAs) and opening branches. About 3.16 crore Financial Inclusion accounts have been opened till March, 2012. Further, Public Sector Banks and Regional Rural Banks (RRBs) have operationalized over 43,000 Ultra Small Branches so far. In pursuance to the announcement made by Finance Minister in Budget speech 2012-13, this campaign is being extended to about 45,000 habitations with population of more than 1,000 in North-Eastern and hilly States and to 1600-2000 population in other states.

- **SHG-Bank Linkage Programme and Micro-Finance-**The self-help group (SHG)-bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, viz., the SHGs, banks and NGOs. Though progress under the SHG-bank linkage programme was slow during the initial years of commencement, it started expanding rapidly after 1999.As at end-March 2012; about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with the previous year, the total amount of SHG savings outstanding in banks declined. In recent years, micro-finance institutions (MFIs) have emerged as an important means of channelling credit to the rural parts of the country due to their widespread reach in these areas as well as the ability to offer customized financial products, suited to the needs of average rural customers

- **Setting up of New ATMs:-**Off-site ATMs have more significance than on-site ATMs for banking penetration. Off-site ATMs play an important role by providing the basic banking services like cash withdrawal, transfer of funds even without the presence of full-fledged brick-and-mortar branches. During 2011-12, there was an addition of

14,365 new off-site ATMs. However, metropolitan areas accounted for the maximum number of newly Opened ATMs. Southern region had maximum number of newly opened ATMs, followed by northern region. However, the share of rural areas in the total number of ATMs continued to remain small.

- **Function of Public Sector Banks and Regional Rural Banks in FI Process-** Bank group-wise analysis of new banking outlets in identifying villages showed that public sector banks as well as RRBs played a key role in increasing the banking network in rural India.

THE FUTURE PROSPECTS

With a vision to attain inclusive growth, the Government, RBI and the implementing agencies are required to put mind and hearts together to develop methods and measures to take forward financial inclusion. Though the BC model of the initial stage may not be commercially feasible due to high transaction costs for banks and customers, the proper use of technology can help in reducing this. The need is to develop and apply scalable, platform-independent technology solutions which, if implemented on a large scale, will bring down the high cost of operation. Proper and efficient technology, thus, holds the key for financial inclusion to take place on an accelerated scale. So, there should be implementation of ICT (ATMs, Smart Cards, and Mobile banking). In India, only 55% of the population have deposit accounts and 9% have credit accounts with banks. The numbers showing access to other financial services are even more unsatisfactory. Less than 20% of Indian population have life insurance coverage and only 10% have an access to any other kind of insurance coverage. The number of credit cards has remained stagnant at around 20 million for last 5 years. Thus India has a large number of households and rural population excluded from banking. Financial Inclusion can be seen as a prospect of improving and upgrading the existing working style of banks and financial institutions. There is also an opportunity for banks to improve delivery mechanism and the existing structure of operations. The mass banking with no-frills accounts can become a win-win situation for both the banks and the customers. The financial institutions, especially the banks, can speed up the financial inclusion process by increasing enrollment of SHGs through the bank linkage programme. Rural penetration and banking is the solution to financial inclusion. Population in remote and rural areas have not accessibility and entrance of proper and basic Financial and banking services at present in India. So this untapped and non-penetrated market can be targeted to improve and enhance the bottom line by focusing on the schemes and policies related to rural banking. Mobile banking can be a key tool for rapid up scaling of financial inclusion, targeting and improving quality and tune to deliver for the untapped customers. Thus, there is an opportunity or prospect in the future to achieve 100% financial inclusion.

KEY FINDINGS AND IMPLICATIONS

- It is found that a large number of population and rural households of India do not have access to banking and other financial services. Therefore, to provide access to these services to them RBI and GoI has taken various initiatives. The target of RBI and GoI is to achieve 100% financial inclusion. Many obstacles are there in the path of promoting and achieving financial inclusion. It should not be taken as an obligation by banks and financial institutions, but should be seen as a future prospect and opportunity for growth and for tapping and targeting untapped and unorganized market. For building customer awareness E-banking and mobile banking training and education programmes should be conducted. New bank branches have been opened and new ATMs have been installed for the purpose of achieving financial inclusion. PSBs and RRBs played a key role in the financial inclusion process. Initiatives have been taken for the implementation of EBT in the process of financial inclusion.

Table 1.2 : Progress Under Financial Inclusion Plans

Sl. No.	Particulars	As on March 2011	As on March 2012
I	II	III	IV
1	Total No. of customer service points deployed	60,993	1,16,548
2	Total Banking outlets in villages, of which		
	2.1Branches	1,16,208	1,81,753
	2.2 BCs	34,811	37,471
	2.3 Other Modes	80,802	1,41,136
		595	3,146
3	Urban locations covered through BCs	3,771	5,891
4	ICT Based A/Cs through BCs (No. in million)	32	57
5	ICT Based A/Cs Transactions (No. in million)	84	141
6	ICT Based A/Cs Transactions (Amt.in billion)	58	93
7	Number of No Frills Accounts (In million)	105	139
8	Amount in No Frills Accounts (In billion)	76	120
9	Number of No Frills Accounts with OD (in million)	0.6	2.7
10	Amount in No Frills A/Cs with OD (in billion)	0.3	1.1
11	Number of KCCs outstanding (in million)	27	30
12	Amount in KCCs outstanding (in billion)	1,600	2,068
13	Number of GCCs outstanding (in million)	1.7	2.1
14	Amount in GCCs outstanding (in billion)	35	42

(Source: Report on trends and progress of banking in India for the year ended June 30, 2012, RBI)

SUGGESTIONS

- The RBI and commercial banks should plan a coordinated campaign in partnership with the trainers and professional to educate customers about the basic financial products, services and offerings.
- The MFIs (Micro Financial Institutions) needs to function under and be held answerable to clear regulations that are overseen by a single regulator RBI. In an eco-system for profit, MFIs can play a convincing, dependable and sustainable role. So, there is need to have financial inclusion regulation in our country.
- Financial Inclusion should be taken as a business prospect rather than compulsion so that probable business opportunity can be utilized by tapping and targeting untapped and unorganized market. For building customer awareness, E-banking and M-banking training and education programme should be conducted.

CONCLUSION

It can be concluded that for achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals, but the ball is set in motion!

SCOPE FOR FURTHER RESEARCH

Financial Inclusion or access to financial products and services by the poor is an impressive thought. The thought is that MFIs have delivered on by bringing in more than 23 million disadvantaged people into the financial system. But with the RBI cutting the wings of MFIs, the big query now is who will lend money to the poor? The RBI is approaching banks to drive financial inclusion. But is it the best way out for the poor and banks? What can be further done in this regard is needed to be answered?

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6

Inclusion of Rural Poor through Financial Inclusion

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Abstract

The Indian banking industry has shown tremendous growth in the last few decades. As per 2011 census, the households availing of banking facilities in India is about 58.7 percent, in Tamilnadu, it is 14.48 crore and in Tirunelveli district, 23.41 percent and out of them, 18.06 percent belong to the rural mass, 30.09 percent belong to the urban mass. This scarcity of financial services leads this study highlighting the extent of financial exclusion and inclusion among the rural poor. The present study has been conducted among 500 sample respondents from Tirunelveli District who are being included in the organized channel of finance through financial inclusion measures. The statistical tools like Weighted Average Method, Factor Analysis was used to interpret the opinion of the respondents and the hypotheses were tested with the help of Chi Square. Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation.

Key Words: Educational Loans, Financial Inclusion, Kisan Credit Cards, MGNREGS, Self Help Groups, Students, Unorganised Workers.

The Indian economy is the second fastest growing economy in the world. The majority of the population in India resides in rural areas. Thus, the development of rural India is a key step towards economic development of a country like ours. In India, in spite of having such a strong financial system, it has been evident that financial awareness has not been able to penetrate into the rural sections of the society. Noninstitutional credit givers in the form of money lenders still continue to grasp the poorer in their clutches. This is a matter of concern and needs special attention. But, the credit can be penetrated into rural India through appropriate banking channels. The Indian banking industry has shown tremendous growth in the last few decades. But despite such growth, the banks have been unable to reach a vast segment of the Indian population. This void ultimately led to the emergence of financial inclusion. Financial inclusion refers to the strategy adopted to make banking activities and its benefits reach the unbanked areas. It is a drive to bring the unprivileged people at par with the mainstream. According to Sinclair (2001), on financial exclusion means the inability to access necessary financial services in an appropriate form. Financial exclusion can be seen as a consequence of social exclusion. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. The *Findex survey* asked the unbanked the reasons for not having a formal account. Worldwide, by far the most common reason for not having a formal account— cited as the only reason by 30 percent of adults without an account is the lack of enough money to use one. These adults might be classified as the "voluntarily" excluded, who may not have enough income to warrant an account, or are deterred from using formal financial services for small sums because of high bank and travel costs. (Allen et al., (2012)). Chakrabarty (2007), said that the Kisan Mitra Scheme of the Punjab National Bank succeeded in bringing more than 40 villages under 100% inclusion. The Scheme has been helping farmers in formation of Kisan clubs, Self Help Groups and motivating them to undertake vermin compost units, orchard farming and other such activities. As each of these activities would require finance, it is not surprising that PNB has been able to achieve its target of 100% financial inclusion in the villages where the Scheme has been implemented. As per 2011 census, about 58.7 per cent households had reported availing of banking facilities in India. In Tamilnadu, out of the 24.69 crore households, 14.48 crore reported availing banking services. Nearly 10 crore households were not availing the services. In Tirunelveli district, among the total households 23.41 percent could able to access the banking services and out of them, 18.06 percent belong to the rural mass, 30.09 percent belong to the urban mass. People from the Tirunelveli Municipal Corporation have the accessibility of banking services to the tune of 32.91 percent.

Financial Exclusion in India

According to Chakrabarty (2007) “Financial Exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.” There are three types of exclusions: (a) people who do not have any access to a regulated financial system; (b) people who have limited access to banks and other financial services; and (3) individuals who have inappropriate products. Mostly low income, unemployed and illiterate people, women and the disabled are excluded from the formal financial services. Lack of Banking habits, high transaction cost, lack of banking knowledge and insufficiency of knowledge on banking products prevents the unbanked people from knocking the door steps of banks. Financial exclusion means: No Savings, No Insurance, No access to money advice, No affordable credit, No Bank account and No assets. There are people who desire the use of financial services, but are denied access to the same. In countries with a large rural population like India, Financial Exclusion has a geographic dimension as well. Inaccessibility, distance and lack of proper infrastructure hinder financial inclusion.

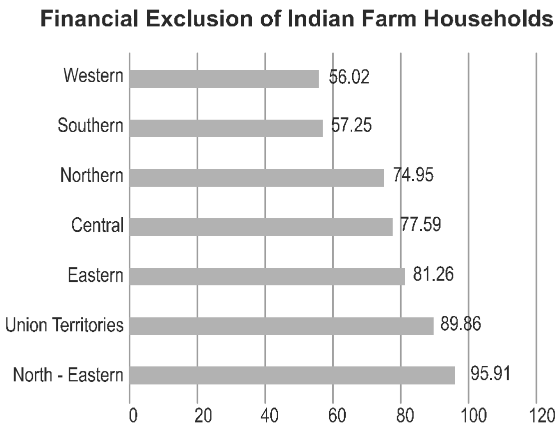
Table 1 Financial Exclusion among Farm Households in India

Region	% of total farm households
Northeastern	95.91
Union Territories	89.86
Eastern	81.26
Central	77.59
Northern	74.95
Southern	57.25
Western	56.02
Average	**76.12**

Source: Reserve Bank of India

The Farm households not accessing credit from formal sources as proportion of total farm households is especially high at 95.91%, 81.26% and 77.59% in the North-Eastern, Eastern and Central Regions. The Southern and Western Regions, on the other hand, exhibit relatively better level of access to formal/non-formal sources when compared with the All India level of 72.7%. This is mainly on account of spread of banking habits and a more robust infrastructure.

Chart a



Extension of Financial Inclusion in India

Globally, Brazil ranks first in the number of bank branches, Australia ranks first in the other banking operations like the number of ATMs, bank loan and in bank deposits. Comparatively India placed in a low position in the number of branches, the number of ATMs, but better placed in case of granting loans and accepting deposits. In the Index of Financial Inclusion (IFI) prepared by the Indian Council for Research on International Economic Relations (ICRIER), India has been placed 50th position in the list of 100 countries. World Bank data shows that a third of India's populace lives in towns and cities and generates about 90 percent of the government's revenue and two-thirds of GDP. Migration from rural to urban India stands at 30 percent, a quarter of the urban population lives in slums. About 70 percent of the population (770 million people) lives in villages, 65 percent of the population is employed in agriculture. The Report of the Committee on Financial Inclusion stated that 72.7 percent of India's 89.3 million farmer households are excluded from formal sources of finance.

As per the Census of 2011, nearly 3 out of every 5 HHs in India availing banking services. In rural areas more than one in two and in urban areas more than 2 out of every 3 HHs availed banking services. Himachal Pradesh ranks first in reaching the people through banking services (89.1%) which is followed by Uttrakhand (80.7%), Kerala (74.2%), Utter Pradesh (72.0%), Jammu and Kashmir (68.9%), Maharashtra (68.1%), Rajasthan (68.0%), Punjab (65.2%), Karnataka (61.1%), Gujarat (57.9%), Jharkhand (54%), Andhra Pradesh (53.1%), Tamil Nadu (52.5%), Chattisgarh (48.8%),West Bengal (48.5%), Madhya Pradesh (46.6%), Odisha (45%), Bihar (44.5%) and Assam (44.1%). At all India level banking accessibility has reached a level of 58.7 percent. The Farm households *not accessing credit from formal sources* as proportion of total farm households is especially high at 95.91%, 81.26% and 77.59% in the North-Eastern, Eastern and Central Regions.

Out of the total bank branches available throughout Tamilnadu, 34 percent has been situated in the Semi Urban area, 30 percent in the rural area, 20 percent in the urban area and 16 percent in the Metro area. In Tamilnadu, there are 12261 unbanked villages under different population categories identified and allotted to various banks by SLBC for coverage under Financial Inclusion. Nearly 95% of the above villages are covered through Business Correspondent model only. The rest of the village is covered through Brick & Mortar branches, Satellite branches, mobile van banking and so on. As of February 2014, 7811 villages have been covered which represents 99.93%. Out of the total measures taken under financial inclusion, 84.63 percent accounts have been opened under No-frills accounts, 1.41 percent under overdrafts on no frills accounts, 1.69 percent under GCCs and 12.26 percent under Smart Cards issued.

The average population per branch office in Tirunelveli district is less than 9500 which compares favourably with the national average of 13000 and the state average of 12000 per branch. After the introduction of the new concept of Service Area Approach, all the village in the 19 blocks have been allocated to 288 bank branches operating in rural and semi-urban areas in the district. Among the total banks in Tirunelveli District, 36 percent situated in the rural area, 39 percent in Semi – Urban area and the remaining 25 percent in Urban areas. The products like No Frills accounts, Business Correspondent Model, Ultra small Branches of Banks, At least one account in a family campign and the like are gaining momentum among the rural mass. The measures like opening accounts for Self Help Groups, MGNREGS workers, Educational Loan and Scholarships for the students, unorganized workers like beedi workers and others working in factories and household industries and to farmers in the form of loans and Kisan Credit Cards make them to have an easy accessibility to banking transactions either voluntarily or compulsorily.

Materials and Methods

The objective of the study is to analyse the banking habit of the rural people and to locate the factors influencing the problems of opening the bank account. The study is empirical in nature, which includes both primary and secondary data. For collecting primary data, Interview Schedule has been prepared and administered among the respondents. The banking sector has taken a lead role in promoting financial inclusion. The present study has been conducted among 500 sample respondents from Tirunelveli District who are being included in the organized channel of finance through financial inclusion measures. They consist of 100 people each from Mahatma Gandhi Employment Guarantee Scheme, Self Help Groups, Unorganised Workers, Students and Farmers. The sample respondents have been selected by Convenience sampling method. The statistical tools like Weighted Average Method, Factor Analysis were used to interpret the opinion of the respondents and the hypotheses were tested with the help of Chi Square.

Key Factors in the Choice of Main Bank

Efficiency of service plays an important role in bank marketing. This dimension includes the overall service, speed of transaction, shorter waiting time, response of personnel and friendliness. It builds faith and confidence in customers. The importance of choosing a bank should not be underestimated. But selecting the right one can have as much to do with the banking habits and personal preferences as it can with the bank's individual attributes, such as low fees, great customer service, or high interest rates on accounts. Customer service can make or break one's experience with a bank. It is noted from the analysis that nearness is a greatest influencing factor which make the sample respondents to prefer a bank branch which is followed by quality of service, recommendations by friends, influence of family members, ATM facility, convenient location of the branch, a number of schemes, the familiarity of the bank staff, safety, relationship with the manager, parking facilities and most competitive package offered.

Table 2 **Factor Analysis of the Key Factors in the Choice of Main Bank**

Variables	Factor I	Factor II	Factor III
Nearness	***.720**	.419	.314
Quality of service	***-.945**	-.230	-.156
Number of Schemes	***.982**	-.081	.115
Familiarity of the bank staff	***-.928**	.339	-.136
Recommendations by friends	.014	***-.999**	.035
Location of branch	.036	***-.943**	.231
Safety	-.586	***.717**	-.035
Most competitive package offered	.183	***.794**	.222
Influence of Family members	-.490	-.205	***-.829**
ATMs	.476	.319	***.808**
Relationship with Manager	.196	.353	***-.906**
Parking facilities	.567	-.392	***.601**
% of Variance	**37.018**	**31.691**	**23.182**
Cumulative %	**37.018**	**68.709**	**91.891**
%	**40.28**	**34.49**	**25.23**

Source: Primary Survey

Accessibility: The accessibility is the basic parameter through which one can access to the banking services. Here, in this analysis the chosen variables which come under the factor accessibility are nearness of bank, quality of service, number of schemes available and familiarity of the bank staff. This factor has a variance of 37.02 percent and has 40.28 percent out of the total.

Safety: Safety of money is the basic criteria which decide the channel of saving by any person irrespective of economic and personal background. Here, the reasons behind the safety of opening the bank account is on the basis of the recommendations by friends, location of the branch, safety and the most competitive package offered by the banks. This factor has a variance of 31.69 percent and has 34.49 percent out of the total.

Feasibility: Generally the attitude of people in opening an account is based on the feasibility of the banking transactions. Here the filtered variables are family members have an account with the bank, availability of ATMs, relationship with the manager and Parking facilities. This factor has a variance of 23.18 percent and has 25.23 percent out of the total.

Reasons for Saving

Without savings, unexpected events can become large financial burdens. Therefore, savings help an individual or family become financially secure. Money can also be saved to purchase expensive items that are too costly to buy with monthly income. Buying a new camera, purchasing an automobile, or paying for a vacation can be all accomplished by saving a portion of income. As per the weighted average, it is noted that the variable to meet family obligations ranks first which is followed by to meet emergencies, old age security, to meet contingencies, higher education, for financial security, travel and recreation and for the purchase of fixed assets.

Table 3 Factor Analysis of the Reasons for Saving

Variables	Factor 1	Factor 2
To meet contingencies	**-.980**	-.152
Higher education	**.889**	-.054
Old age security	**.750**	.282
To meet family obligations	**.655**	.640
To meet Emergencies	**.626**	.661
Purchase of Assets	-.300	**-.930**
For financial security	-.186	**-.834**
Travel and recreation	-.096	**.854**
% of Variance	**40.844**	**40.513**
Cumulative %	**40.844**	**81.357**
%	**50.20**	**49.80**

Source: Primary Survey

Economic Consideration: The variables coming under this head are to meet contingencies, higher education, old age security, to meet family obligations and to meet emergencies. This factor has a variance of 40.84 percent, which forms 50.20 percent out of the total.

Safety Consideration: Meeting family obligations, to meet emergencies, purchase of assets, for financial security and for travel and recreation were the variables identified here and they are collectively specified in the head Safety Consideration. This factor has a variance of 40.51 percent, which forms 49.80 percent out of the total.

Benefits of Bank Account

Having a bank account enables people to obtain cheaper deals on fuel, insurance and credit. Basic bank accounts can also help prevent over indebtedness since they do not offer overdraft facilities. Payment of state benefits directly into accounts has boosted take-up bank accounts. Banks are transforming to become people oriented and customer focused to bring perceptible changes in their business strategies. As per the weighted average ranks, it is ascertained that safety is the major priority for which the sample respondents prefer the banking transactions which is followed by the easy settlement, self-confidence, less risky, easy way to save money, convenience, profitable, cheaper, easy accessibility of credit and boost saving habits.

Table 4 Factor Analysis for the benefits of Bank Account

Variables	Factor 1	Factor 2	Factor 3
Give self confidence	**-.963**	.169	.203
Profitable	**-.962**	-.270	-.009
Less risky	**.940**	-.015	-.150
Convenience	**.707**	-.631	-.186
Safety	**-.643**	.426	.636
Easy settlement	.297	**.877**	-.356
Easy accessibility of credit	.000	**.763**	.302
Cheaper	.300	**-.742**	-.368
Easy way to save money	.060	.186	**.925**
Boost saving habits	.321	-.010	**-.863**
% of Variance	**39.34**	**26.17**	**24.56**
Cumulative %	**39.34**	**65.51**	**90.07**
%	**43.67**	**29.06**	**27.27**

Source: Primary Survey

Risk free: Being risk free in transaction gives the respondents to acquire self-confidence, profitable transactions, convenience and safety for their money at the bank.

An Easy Settlement: The respondents find an easy settlement of their credit transactions, and Easy accessibility of credit for cheaper rates.

Saving Habit: Above all, the respondents feel easy to save their amount and it naturally boosts their saving habits.

Factors influencing the problems of opening the bank account

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. Opening a bank account is not as simple as walking up to a bank teller and handing over crumpled wads of cash; there are lots of decisions to make and confusing banking jargon to wade through. Though the banking facilities are available at the doorsteps of every house, the poor and illiterate still find it difficult to open the bank account. They do some sort of difficulties like keeping a minimum amount of balance, getting an introducer, number of formalities, delay in opening the account, poor customer services and so on. By taking the problems faced by the sample respondents as the base, the researcher test the hypotheses considering the personal profile of them under various perspectives. Out of the total respondents of 500, only 400 are taken into consideration for the analysis here as the student category were not faced with any difficulties in connection with the opening up of accounts in the bank. The analysis is done with the help of Chi Square test.

Table 5 Factors influencing the problems of opening Bank Accounts

Variables	Calculated value	Table Value	Remarks
Personal Factors			
Marital Status	10.82	15.5	Not Significant
Gender	**13.67**	**9.49**	**Significant**
Family Type	3.18	9.49	Not Significant
Family Size	.43	9.49	Not Significant
Education	17.82	21	Not Sig66nificant
Age	**29.28**	**26.3**	**Significant**
Income	**21.69**	**15.5**	**Significant**
Employment Factors			
Employment	45.69	21	Not Significant
Experience	30.81	31.4	Not Significant
Experience with the Banking Transactions			
Name of Bank	**40.73**	**26.3**	**Significant**
Number of Bank accounts	**21.70**	**15.5**	**Significant**
Type of account	**31.22**	**21**	**Significant**
Satisfaction	**26.61**	**26.3**	**Significant**

Source: Derived

As per the consolidated result of the various hypotheses, out of the personal variables, the variables gender, age and income have influence over the problems of opening the accounts. Employment factors have no influence over the problems of opening the accounts. It is the banking transactions and experiences consisting of the name of the bank, number of accounts, account type and the satisfaction derived from the banking transactions have influence over the problems of opening the accounts. Hence it is concluded that the variables related to the banking transactions have more influence in overcoming the problems of dealing with the banking transactions than the personal and employment related variables. Thus the result is when the usage is more, one can accustom to the problems of dealing with.

Conclusion

The survey reveals that the sample respondents could able to save because of the opening of bank account in one way or another. Though they encounter few problems and difficulties in opening the account because of various formalities, they find it useful and viable at the end. The banking experience and number of accounts, account type and the satisfaction derived from the banking transactions have a positive influence over the problems of opening the accounts. The awareness and applications of latest banking technology are comparatively very low among the rural mass and it needs serious concern and execution among the policy makers. Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation. It is suggested from the present study that proper Financial education to eradicate the ignorance of banking transactions, imparting technological awareness to cope up with the changing technological measures, opening more bank branches in the rural area to overcome the proximity hurdle, extension of financial services to shelter more number of people, make the transactions customer friendly by minimizing the formalities, make the customer aware that customer is the king by extending a warm relationship, execution of effective Grievance Mechanisms, creation of viable KYC norms, identification and extension of credit schemes and facilities to the needy and the usage of post offices in the reach of financial inclusion will help in fulfilling the vision of financial inclusion more effectively and efficiently among the rural poor.

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7

The Role of CSR in Micro Finance to Enhancing skills deficiencies to Reduce Defaulters: An Integrated Approach

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Abstract:

Eradication of abject poverty through the financial literacy was aimed to be accomplished under the armoury of Micro-Finance. Financial Literacy for the economically Marginalised people in India have been the core of concern under the perspective of micro- economy. Micro-Finance has been coined a paramount important tool to combat the social evil particularly the mother of social evils called poverty. But owing to the anamolities of different structural loop holes there has been a concern of cloud appears over the process and financial health and hygiene of micro-finance in India. Micro credit in terms of repayment from the borrowers has over shadows the natural flow of Micro-Finance operation across the entire Micro-Finance companies. This hermeneutics study strive to open the logjam of this non-payment mechanism to foster the capital infusion that leads to capacity of lending and further strengthen the micro credit fabrics for holistic social empowerment. In modern times, when globalization, economic liberalization brings the world trade into a single converging point, multi disciplinary role became more dynamic and multi-dimensional to cater the need for each others. Human Resource is one the discipline which has its strategic significance to every sphere.

Methodology

Data sources:

The data collected for the study includes secondary data. The various sources used to collect secondary data include research papers, journals, articles and annual reports of banks. Data from the Microfinance information exchange (MIX) and various other websites.

Methods:

The methodology of study includes collection of secondary data from various research articles, journals, Magazines and the web sites related to Micro finance

Scope of the Study

The scope of the research is limited to the role of microfinance institutions leading to social inclusion in India through CSR way. The skill enhancement Programme (SEP) was used to increase the performance of the recovery of loans sanctioned through MFIs in India. This study does not take into account the MFIs in various other geographical regions in the world.

Objective of the Study

1. To study the process of financial inclusion in India.
2. To study the role of NGOS under CSR initiative in loan recovery.

3. To create a model for ensuring effective recovery for Micro Finance.
4. To examine the mechanism of bring Financial Literacy among rural borrowers
5. To understand the role and significance of CSR in order to bring the rate of defaulters under control in Micro finance Sector

Introduction:

"One small loan enables me to transform the liveli hood of my entire family. I have borrowed enough money to purchase a small cow. In three years i quadrupled my investment by selling cow milk and calves from original cow and constructed a new house for my family"............... Anwar Begam (Bangladesh).

The above statement signifies the success of Micro-Finance in Bangladesh which has been scripted in India to change the economy of rural landscape. Micro-Finance under the ambit of NBFCs (Non Banking Financial Corporations) is an instrument to arrest the financial inclusion that leads to holistic social inclusion for inclusive growth. The Rangarajan committee on Financial Inclusion defined Financial Inclusion as the "process of ensuring access to financial service and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Above definition clearly state that it is time and affordability factors which separate the characteristic of micro credit from other types of macro credits. First noble laureate from Bangladesh Mohammad Yunus and Grameen Bank received the citation stated that "Lasting peace cannot be achieved unless large population groups finds ways in which to break out poverty. Micro credit is one such means." Peace need to convert into pace to remain a substance of sustainability in the liveli hood of economically deprived section of the community. The main idea behind Micro Finance is that marginalised poor people in the rural, urban, semi-urban geography who cannot provides collaterals for seeking loan can facilitate with the provision of small loan to cater their productive and self sustaining activities.. Economic Emancipation of women has been a reality in today's competitive world became a substance of achievement by the catalyst role that Micro Finance has played. United Nation Capital Development Fund (UNCDF) has provided the fund to Bangladesh to project the micro finance on productive purpose such as rice cultivation, cattle fattening, and small scale entrepreneurial initiative. The definition of Micro Finance stands the means by which poor people convert the small sum of money into large lump sum (Rutherford, 1999).

Emergence of Micro-Finance: Global Footprint

"Susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world represents the savings and credit groups entities have been operating since the centuries. As "necessity is the mother of Invention ", so Micro –Finance also emerge as a instrumental tool to alleviate poverty under the influence of widening economic, gender, color, race disparities around the world. Commercial Banking was considered as a striking force to narrowing the disparity gaps; fail to accomplish the desire goal. No of Unbanked people remain outside the boundaries of economic eco-system. Under this perspective formal credit and savings institution come forward to ponder the value delivery system through credit delivery mechanism through co-operative for the said section of unbanked marginalised people. Such initiative of credit delivery without collaterals was initiated by Irish Loan Fund System, in the early 1700 by noted Irish Nationalist Jonathan Swift. This idea made a wave and created 300 found to facilitate 20% of household in Ireland. People Bank, Credit Union, Savings and Credit Co-operatives raised their existence in the decade of 1800 across

Europe. Former World Bank President James Wolfensohn once said "Microfinance fits squarely into the Bank's overall strategy. As you know, the Bank's mission is to reduce poverty and improve living standards by promoting sustainable growth and Investment in people through loans, technical assistance, and policy guidance. Microfinance contributes directly to this objective" .The emphasis on microfinance is reflected in microfinance being a key feature in Poverty Reduction Strategy Papers (PRSPs).

Micro-Credit, a Panacea:

Although agriculture contribution in GPD is in continuing decline, but the impact of agriculture remain standstill in the fabric of Indian Economy. Ever five year plan focus more on agriculture credit which is still in demand particularly for marginalised peasant to irk their live hood. HYV (High Yielding Varity) and Genetic Modified Crop (GM) has augmented the quantity and quality of production, but operational expenses for accessibility to technology being still restricted due to finance ails credit. Therefore, Planning Commission in every five years plan laid down the importance of rapid and progressive institutionalization of timely and sufficient credit support for the easy accessibility of agricultural technology for the deprive marginalised farmers. Financial Inclusion is need of the hour for this section that dwells in the mass landscape of rural habitats. Finance by the name of rural credit is catered to the growing by the Micro-Finance institutes

Review of literature:

Empowerment is a holistic concept comprising multi-dimensional approaches in the different aspect of life. Stromquist (1993) identified four interdependent Dimensions of empowerment – cognitive, psychological, economic, and political. Cognitive empowerment refers to knowledge about, and understanding of, the conditions and causes of subordination. Psychological empowerment relates to the development of self-esteem and self-confidence enabling powerless individuals' or group to recognise their own power and to motivate those into action. Economic empowerment is the ability to earn and control economic resources. Political empowerment involves the ability to analyse one's world and to organize and mobilise for social change. Acharya and Ghirme (2005) identified three dimensions of women's empowerment-economic, social and political. According to them each component of these dimensions reinforces each other. The economic aspects include increasing women's access to, and command over tangible and intangible resources, such as wealth, Property, employment, knowledge and information. Social aspects include changing Discriminatory ideology and culture, which determine the environment for women's Existence. Finally, political process must increase women's presence and influence in the power structure.

However, Garba (1999:131) adopted two genetic concepts of dimensions of Empowerment with respect to women: the static and dynamic. The former emphasizes Women's empowerment in terms of their capacities to participate in decisions making that directly or indirectly affect their lives, and to influence those decisions. This refers to the notion of women having an effective voice. Women are also assumed to be disempowered when they cannot influence decisions that alter their lives. The Static concept of empowerment leads to exogenous empowerment strategies. Exogenous Strategies are those built on the premise that disempowered groups can be empowered by external individuals or groups in the way so that an effective voice could be given to women. The exogenous empowerment strategy implies a top-down approach. . Lastly it can be said that the process of women's empowerment highly depends on the existence of alternatives. Women may be aware of the conditions of their oppression, but if they see no viable alternatives, if there are no choices available, they can only turn their anger inwards, into frustration and bitterness, or into (religious) acceptance of suffering. Such exogenous approach towards the development of the women, there are various sift in the policy approach of GOI(Government Of India) in the last forty years from concepts of "welfare" (1970s), to "Development"(1980s), and now the " Empowerment" in 1990s. (Behuria, 2004). The first noble laureate of Bangladesh Mohammad Yunus has taken the same exogenous approach to hand over the economic power to women through disbursing the micro credit in considering the multiple factors in aiming rural women emancipation. Self Help Group (SHG) movement was one of the steps forward in this direction by becoming one of the first micro lending to women in groups that has been eclipsed by the rise of MFIs in the last decade. India, with 1,270,272,105 (1.27 billion) people is the second most populous country in the world, rural population 68% represent from rural habitats.Economicaly active rural women population contributing 31% out of total women population 35,98,17171. Basically SHG are being part of the micro finance institutions aimed at helping the poor to easily obtain financial service like savings, credit, and insurance. The SHS-Bank linkage Programme (SBLP) is a milestone strategy to improve rural people access to formal credit system in a cost effective and sustainable manner by making use of SHGs. Over ninety percentage of the SHGs link with banks were found to be exclusive women SHGs. There has been much debate in the gender and development literature on how to achieve women's empowerment, with this debate often pointing on whether Microfinance programmes do in fact empower women (Jayaweera, 1997). Does access to credit automatically lead to empowerment? – This question is increasingly being asked by academics who are working on the impact analysis of microfinance on women (Cheston and Kuhn, 2002). Kantor (2003) identified a similar question: opportunity to income earning can improve women's status within the household or do social norms and practices intervene to make access to resources alone insufficient to challenge intra-household gender relations in some contexts? These questions are critical for understanding Changes in gender relations and the contribution of microfinance to women's

Several studies (Chaudhary, 2005; Garba, 1999; Gulati, 1996 etc.) have indicated that access to credit and income cannot lead to the empowerment of women instead those are associated with processes of changes in the power structure. Therefore, it is important to make a conceptual distinction between projects that seek to reduce poverty and enhance productivity and those that seek to empower women, as the strategies adopted could be different. Cheston and Kuhn (2002) pointed out that the ability of a woman to be empowered through access to financial services depends on many factors – some of them linked to her individual situation and abilities, and others dependent upon her environment and the status of women as a group. So Status of women as a group ensure micro credit through SHGs develop the credit delivery mechanism into distinctive dimension to empower rural women in order to eradicates the menace of the society such as gender inequality, child mortality, illiteracy.

So, Professor Muhammad Yunus, the founder of "Grameen Bank" and its Managing Director, reasoned that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder." The above statement signifies the role of rural women is the instrumental catalyst to create a long and sustainable wealth in order to expedite the wheel of rural inclusive social development.

Economic Sustainability and Micro Finance: A Road Ahead:

Sustainability is a word indicates the nature of respective practices of any kind. Micro finance as an instrument of rural development rely on several factors link with socio-economical aspects. Technological progresses, Commercilization, rapid urbanization are the most influential indicators to stir the growth of rural micro economy. Sustainability of Micro credit in appropriate mechanism depends on the said factors. Moreover, to gain the momentum of business it is finance that is imperative or others factors are equally important is area where academician and practioners invest their school of thoughts in several aspect. Economic sustainability has its myriad ways to attain its long standing objective. By only providing finance is barely a means to make the wheel of economic activities run. But the direction of destination can only be guided through the right mechanism of its timely execution makes the road of success into sustainability of success.

"***Give a man a fish he eats for a day, teach a man to fish he eats for a life time"***..... This Chinese proverb has its succinct validity to understand the value of the word" Economic Sustainability". The ethos of Micro Finance and its vital need in developing nations specially those grappling with the changes of poverty alleviation and unemployment. Micro finance is often considered to be just about giving micro credit to the financially challenged population, but essence of Micro finance to attain financial inclusion that is the fundamental conduit for extending financial service to unbanked sections of population. The sector has evolved vastly ever since the noble laureate Muhammad Yunus laid the foundation of modern MFIs with establishment of Grameen Bank, Bangladesh which has transformed the dynamic of rural economy. He was conferred with the noble in the discipline of peace not in the economics on account of his contribution to bring the peace within the rural economy by providing them a weapon of peace called economic stability. Hence, Micro finance can be an instrumental force in developing financial inclusion that leads to '**inclusive growth'** resulted in economic sustainability across all the demographics.

Analysis:

Crises at the bottom of the Pyramid

Back ground of the Crises...

I. The microfinance industry in India is in the mid of the most severe crisis in its 25 year history. The genesis of the crisis lies with the actions taken by the government of the southern state of Andhra Pradesh in October 2010, when it passed legislation by shutting down all private sector microfinance institutions ("MFIs") operating in the state. In the first half of FY2011, MFIs in Andhra Pradesh disbursed Rs 5,000 crore ($1.13 billion) to borrowers; in the second half of FY2011, these same MFIs could only disburse Rs 8.5 crore ($1.9 million)i. The Andhra Pradesh Government's stated aim was to protect the poor although the penultimate actions have resulted in a substantial (600-fold) decrease in financing to the very poorest of India's citizens. The AP Government's actions have eventually shut off finance to these most vulnerable of India's citizens.

II. The direct effect of the enactment of the Andhra Pradesh (AP) Act has been to deny millions of India's poorest citizen's access to basic financial services. The impact of the AP Act has the potential to affect 450 million people creating a severe shortage of much needed finance to the rural poor, India's most vulnerable inhabitants

III. The AP Government's claims that private sector MFIs are exploiting India's poor by charging uneven interest rates and practicing coercive recovery techniques cannot be substantiated Based on numbers from SERP, it appears that the suicide rates amongst MFI borrowers are dramatically lower than the statistical average in the entire state of Andhra Pradesh.

IV. Private sector MFIs have demonstrated to be the most scalable and sustainable way of helping the Indian government meet its stated policy of encouraging "financial inclusion" for the 450 million people in India who are currently "unbanked", i.e., with no access to basic finance.

V. The Malegam Committee's recommendations and their broad acceptance by the RBI give rise to a number of concerns, and the constraints proposed around loan limits, interest rates, provisioning norms and capital requirements must be revisited to avoid unintended and deleterious consequences that could permanently impact private sector MFIs.

Statement of the Problem:

A research paper published international Journal of Management Research Development (IJMRD) titled "A study on recent trend and problem in using Micro Finance service in India" has revealed different cause and factor effect on Micro finance problems that is the indicators of sluggish pace of Micro finance institutes in India. Problems have featured in the following table to further analysis.

Table 1: Problem identify in availing Micro Finance

SL NO	FACTORS	WEIGHTED MEAN
1	Charge more Interest on Loan	4.12
2	Use of undue influence in delay of loan settlement	4.34
3	Unnecessary delay cause in availing service	3.89
4	Document support expected for credit	4.01
5	Low interest for Micro savings	3.78
6	Micro Insurance is not suitable to cover survivals	4.21
7	Charges are very high	3.57
8	Official support is not satisfactory	4.21
9	No involvement of provision on micro finance service	3.57
10	No chance for getting business & technical support	3.82
11	Lack of finance support for starting business	3.92
12	No subsidy offered at worse time	3.99
13	Failed to support live hood	3.43
14	Consumed more productive hrs.	3.73

(Source: Research Published on IJMRD, March 2013)

The above table drawn from the primary data is the testimony of myriad nature of problems being confronted in the centre stage of Micro Finance sector in India. Andhra Pradesh legislation act, 2010 is the result of the core operation impediments that has been a perineal loop holes in MF sector. From the weighted mean it is substantiated that loan repayment, documentation hazards, interest charge, post loan follow up are the areas of profound concern. Data also suggests that, MFI approach is under the confinement of restrictive practices. This study examines the core area of repayment problem generates from the gap of lending and payments. No chance of getting technical and business support is one of the major areas that generate multiple layers of problems which is the main aim of this study to find an win –win solution. In a nutshell, it can be stated that merely lending micro credit produce non productive resource that leads to regular failure of repayment. Failure in repayment creates Non Performing Assets (NPA) for MFIs as well other financial institutes such as banks, NABARD etc. This study seeks a resolution of this core problem to enhance the skill competencies of rural micro credit borrowers to support their business function in right direction in order to facilitates the timely repayment to build trust between borrowers and lenders (MFs) in resulting the sustainability of the Micro-Finance.

Credit Recovery Vs Long Term Sustainability:

Technology that has been changing its functioning in a rapid space under the influence of growing needs and post adaptation across all the countries owing to the impact factor of globalization, is paving the way to foster the pace of financial inclusion. Above problem identifies the areas which need to be nurtured in a right manner to unveil the value delivery system of MF objective in a holistic accomplishment. A whole new way of lending that hinge on a peer-to-peer (P2P) or e-micro finance model has been a widely accepted tool of MF as a websites publishes a list of loan seekers from NGOs or a MFIs. An innovative platform where the prospective lenders chooses the borrowers of his or her choice, makes payment through an online platform and gets monthly or quarterly payment on the loan, with 6-8 per cent returns. The facilitating online platform retains 1-5-2 percent as their own fees. Hence, the end cost for a borrower comes anywhere between 15-16 per cent. Some of the international fame of business fraternities like former CEO of Citibank, Vikram Pandit, Infosys former CFO V Balakrishnnan, Skype co-founder Toivo Annus, Jayprakesh Parekh one of the founder of Sony entertainment has joined in the bandwagon of P2P or e-microfinance as an attracting high profile individuals, both as investors and lenders.

So, long journey of this new breed of micro finance has been a centre of attraction. Social lending platform turns into a mammoth opportunity for MF is going to replace an offshoot of conventional Grameen lending model is need to be seen as a self-regulated and self controlled repayment risk reduction. Cost of borrowing and the cost of repayment with off bite transparency can bring the most desirous result out of the multiple repayment bottlenecks. Social media platform also can contribute to the gain of financial literacy that is a stream roller in reducing the micro credit defaulters and hence boost the financial health of MFIs.This P2P or e-MF model and social media intervention can be a key stepping stone to induce financial literacy through business consultancy among unbanked rural borrowers of micro credit in order to further strengthen the relationship between MFs and borrowers. Moreover, the uncertainty of repayment of loan will reduce significantly on account of in timely and viable business consultation that gives the right direction and dimension of business to the borrowers based on various factorial analysis that help them to pay loan

CSR: Impact and its role to resolve the recovery mechanism:

Analysis:

Corporate Social Responsibility is a social practices exercised by corporate in understanding the business responsibility towards society. Adam Smith, the Father of Economics as we know, is famous for advocating ***"laissez faire"*** or leaving things alone, when it comes to regulate business activities. He argued that there is an "invisible hand" that guide the actions of the individual for, while they strenuously pursue self – interest in the product they make and sell, in the process, they are satisfying other's needs and thereby society's welfare. Social responsibility links with corporate social responsibility as profit evolves from the cluster of the society. Academician as well practioners are in debates in identifying CSR as an integral part of business. But after the enactment of company act, 2013 by GOI (Government of India) to contribute 2% of their profits has widen up the spectrum of CSR value driven proposition. From the cheque book Phrinalthrophy to the core area of business, CSR has evolved across its wings of importance in practising core business activities. It is not mealy a resipocrative responsibility(R-R) to the society, but an imperative business practices.

Social activism becomes an integral part in running business owing to the ever changing dynamics of business environment under the fabric of globalization, liberalization.

Micro Finance and CSR: Hand in Hands:

MF is itself a part of social responsibility draws many debates. Recent incident in AP has raised the question about MF responsibility towards social inclusion. Farmer's suicide in AP and post government legislation amplified the role and significance of CSR in MF. MFIs should initiate another social responsibility under the ambit of CSR, to educate the borrowers and through financial literacy. Moreover, it is imperative for MFIs to understand the demographical factors that influence the rural borrowers to pay their loans in timely and systematic manner. Hence, MFIs social responsibility plays a major and substantive significance in developing the human resource competencies in repaying the loan. CSR as a part of MFI's business activity has a distinctive and transparent accountability towards their borrowers and the society.

A thrush of skill enhancement mechanism: Area of CSR in MFIs:

This study has undergone a slew of factors in identifying the root cause of non repayment of micro credit that overshadows the prospect of MFIs growth and social inclusion. While understanding the core factor behind the growing number of defaulters, it has been found that there is a wide gap of business practice and core skill competencies according to the need of the respective business demand. Hence, bridging this gap is a challenge that every MFIs are facing to facilitate loan recovery mechanism.CSR by MFIs can be a game changer to enhance the scope of skill development that can works as an instrumental tool to drive the right business to the right borrowers and rekindle a right sprit to make actual entrepreneur. MFIs need to energise this CSR activism by outsourcing it through Non Governmental Organizations (NGOs) in the area of skill enhancement through imparting of right training and right advocacy of business practice among rural micro credit beneficial, ascertain the local demographical factors depends on respective rural habitats.

A few facts to nurture:

This study identifies plethora of findings in respect to availability factors and subsequent growing numbers of defaulters in Micro finance sectors. All the problems that MFIs in India are facing are combination of internal as well exogenous factors. Earlier research has shown undue settlement in loan and timely official supports are two core problematic factors in availing MF.On the contrary other secondary data as well AP episode also indicates that there is another piece of puzzle that needs fitting for micro finance to make a real dent in poverty. It is understood that the borrower are least capable of income expansion not only for capital adequacy but also in competencies in knowledge and skills. Hence, proper capital utilization in a right way can further induce capital enrichment.MFIs need to understand the deficiencies in imparting skill enhancement programme among rural borrowers to explore the scope of optimization of their loan in producing and creating social wealth. This onerous responsibility can be paved through wings of corporate responsibility that need to be outsourced and promoted through the hand and hands approaches with NGOS.

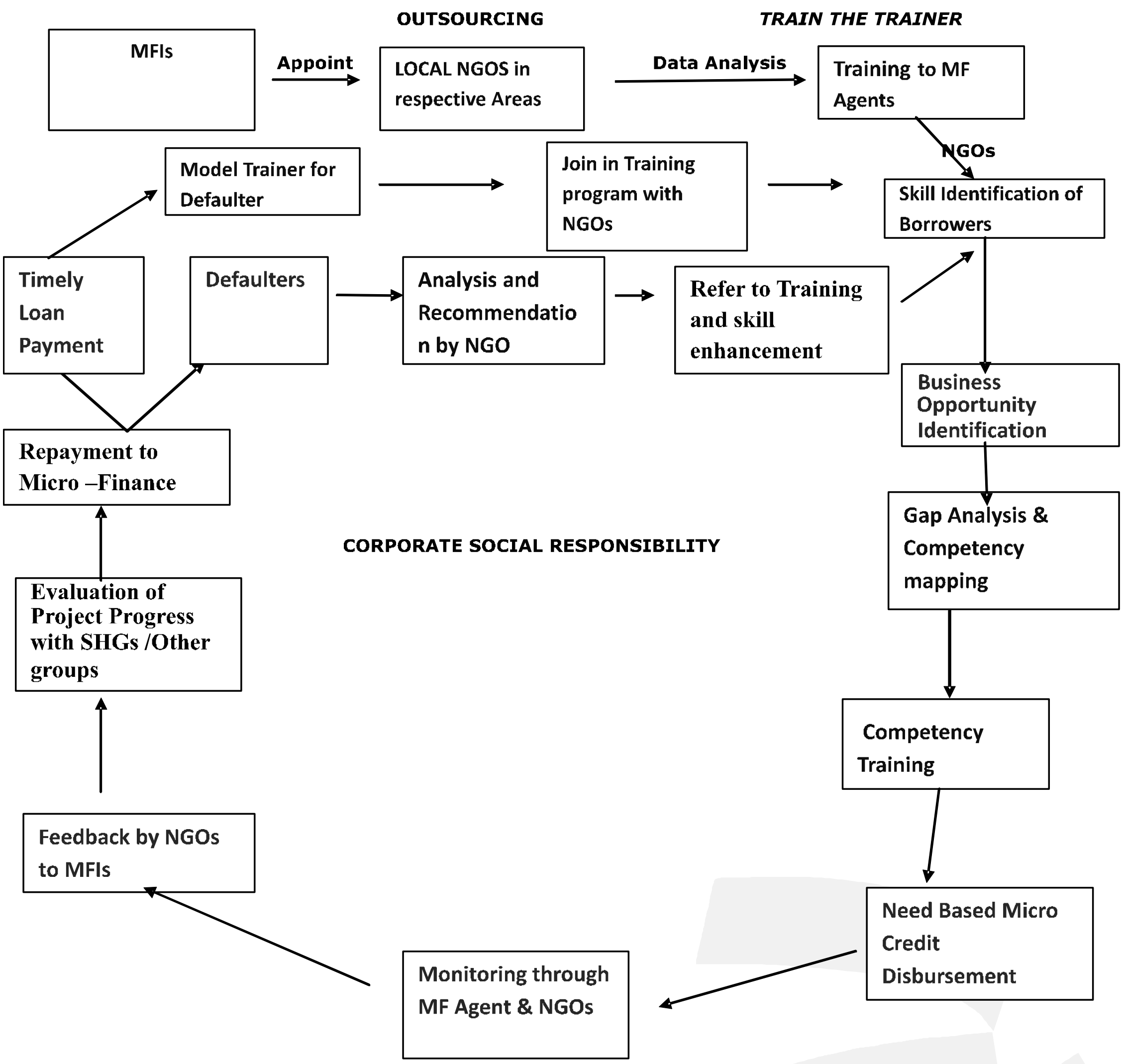
Micro Finance and its Sustainability through value creation: A CSR way

This study depicts the value that can be created through micro credit delivery for the social development under collaborative and collective exchange of responsibilities within MFIs and borrowers. There are numerical hurdles that have been supplicating a road block in the growth path of expansion of MFIs.Value delivery mechanism produce sustainability to unlock the further value proposition. Secondary data from multiple sources substantiate a wide range of value delivery flaws in applying the right mechanism for accomplishing suntentive and sustainable value proposition.NABARD promoted SHG-Bank linkage programme, joint liability groups (JLG) on the line of SHGs are working in a uniform direction to gain collective repayment obligation. But repayment and loan recovery is subject to various risks owing to its nature because repayment period is barely a few weeks or months. So, from this limited tenure of repayment indicates high possibility of payment default. Under this perspective this study suggests an innovation integrated model linking CSR and MF to deliver a value chain delivery system between MFIs and the respective rural borrowers. Micro finance Institutes need to invest in CSR by connecting NGOs in imparting financial literacy training and skill development to enhance the core competencies of borrowers. Over and above under the CSR initiative they should solicit the experts opinion of respective NGOs based on the respective rural area to give business advice depends on the demand of the respective local geographies to catapult the business need. This integrated CSR programme that has been figured out in the below diagram can be antidotes to ascertain the actual problems and subsequent remedies to bring sustainability of micro finance programme.

Summary of the Model: Integration between CSR and Micro Finance

The below diagram of the model depicts the value that can produce by an integrated way linking CSR and Micro finance in aiming to reduce the number of micro credit defaulters as well sustainability of Micro Finance business eco-system. Capacity of income expansion is a major area which jeopardise the payment structure in Micro finance. Infusing capital does not ensure capital expansion until investment of the respective capital goes into right business path. This is the need of the hour of MFIs to ascertain the root cause and develop an action oriented mechanism. This study has suggested through this below model a CSR approach by the MFIs that can resolve this core repayment problem of borrowers. Understanding the existing skills of the borrowers imparting right skill enhancement training along with guiding them to invest in right business according to their (borrowers) skills can ensure the return on investment (ROI). Model shows an integrated association between MFIs NGOs under the ambit of social responsibility to tender skill enhancement programme to the micro credit beneficial for constituting a win-win proposition. Micro finance institute need to outsource this skill enhancement programme (SEP) to local NGOs who has an expertise in skill development in the respective geographies. NGOs will identify the skills from the borrowers through data analysis, followed by identification of business opportunities, gap analysis, competencies training to ensure need based credit disbursement to the loan aspirants. Apart from the training and development NGOs will ensure the business consultancy followed by monitoring and timely evaluation of the borrower's business progress. The third phase of the integrated process will produce timely and systematic repayment of micro loan. Moreover, it will boost up the trust between MFIs and respective Joint Liability Groups (JLG).On the contrary if any groups unable to pay loan on time as a defaulter, NGOs will have a close contact with the group and restructure the group business activities with further enhancement of their skill through another round of training. Meanwhile, the timely repayment borrowers (JLG) will join with NGO to become a role model for the defaulters. They will actively participate in the training programme and share their expertise to the bidding entrepreneurs. This cyclic process is a composite illustration of integrated approach to accomplish the objective of Micro finance Institutes to reduce the level of defaulters and subsequent wealth creation. Implementation of this model not only reduce the number of micro credit defaulters, but also reduce the risk of Non Performing Assets (NPA) to the banks as they lend the loan to MFIs.This model is a another testimony of collective social responsibility of Micro Finance Institutes to improve the productivities across marginalised communities that can be a boon to comprehensive Financial Inclusion leads to social inclusion and Government of India's most sought after accomplishment called " Inclusive Growth"

An Integrated Model: Micro Finance and CSR



Conclusion

This secondary based hermeneutics study has focused different aspect of Micro credit in India. Micro finance is social instruments that need to be nurtured in an appropriate mechanism to make it a sustainable weapons to combat various social menace particularly poverty. But the growth of MF has been a major concern owing to its nature of disbursement of micro credit. It has a unique proposition in disbursing loan to the marginalised section in comparison to Banks. A slew of defaulters as a group has marred the growth prospect of MF in recent past. Vulnerability of MF lies in loan disbursement and loan repayment. So, this study aim to unveil the areas of thrust to minimized this process of financial exchange. The gap between capital infusion and capital recovery has been highlighted through this study and come up with a model that can be a weapon to bring down this gap. An integrated model under the influence of CSR from MFIs is an antidote to gain the viability and sustainability of Micro Finance. Skill enhancement program (SEP) under CSR initiative will be a boon to capital infusion and post capital recovery that can produce trust building as well social inclusion.

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8

Role of Micro Finance and Financial Inclusion in Inclusive Growth

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INTRODUCTION

"*Inclusive Growth*" is not a unique concept and it got importance in 11th five year plan. The architectures of planning have been giving due importance to *Growth with Social Justice and Equal Opportunities for All* in all five year plans. To achieve growth with social justice and equal opportunities for all, the respective governments have been allocating sufficient financial resources to priority sectors since first five year plan. At the very beginning of five year plans, the father of Indian industrial economy and the first prime minister of independent India Pundit Jawaharlal Nehru has given at most importance to agriculture in the first five year plan and allocated nearly 31% of total funds. The planners realized the importance of agriculture for the growth of the nation. Still nearly 63% of the population depends on agriculture for their survival and nearly 70% of the population lives in rural areas. Not only in the first five year plan, but in each five year plan the government has been giving due importance to agriculture by allocating adequate financial resources keeping in mind the importance. Though the government has been giving importance to various priority sectors like agricultural development, small and medium scale industrial development, development of infrastructure, poverty eradication programs and increased expenditure on social sectors like education, health, women development etc., we are unable to achieve the targets laid down in the each five year plan. Let us discuss in detail the areas for not achieving the targeted growth rate.

1. STATE WISE GROSS DOMESTIC PRODUCT:

Gross State Domestic Product is a measure of a state's overall economic output. It is the market value of all final goods and services made within the boundaries of a state in a year. The GSDP of different states from the year 2000 to 2009 is shown below; Growth Rate of Net State Domestic Product (NSDP) is an important indicator of regional disparity observed during the years. We can classify the states on the basis of per capita NSDP (Income) into forward and backward states.

Table – I discloses the Net State Domestic Product at Current Prices of different states in our country for the years 2002 – 03 to 2007 – 08. It is clearly evident that, some of the states are showing good performance and while others poor performance. For instance, Gujarath, Haryana, Karnataka, Kerala, Chattisghar, Maharashtra, Punjab, Tamil Nadu, Uttarakhand, West Bengal, Chandighar, Delhi, are showing good performance and their NSDP is more than 13% over the years. While other states like Arunachal Pradesh, Assam, Bihar, Himachal Pradesh, Orissa are showing weak performance. This is a cause of major concern. Reduction in regional inequalities is imperative not only from the point of view of improving living standards in backward states but also for faster economic development of the country at large. The importance of contribution of our vast man power, specially youth in the development of the country is well established. If anyone or more states of the country remain backward, it affects the development in education, health and other public utilities. In such states infrastructure development is also adversely affected. Per capital income in the backward states is very less due to backwardness of various sectors primarily agriculture and allied sectors. It is clearly shows that those states which are showing poor performance needs boost from the central government in terms of financial resources. The Central Government should take care of those states with special attention by providing more central funds to undertake various employment activities.

2. PER CAPITAL NET STATE DOMESTIC PRODUCTS AS THE INDICATOR OF REGIONAL DISPARITY:

Another important indicator of regional imbalances is Net State Domestic Product. It is obvious that in our country some of the states are showing good performance and others not due to various reasons.

Table Showing Average Annual Growth Rate of NSDP, Rural & Urban Poverty, Urban Population and Literacy Rate

	Name of the State	Average Annual Growth Rate of NSDP (1999 - 2009)	Poverty Rate (2004-05)			Urban Population 2001	Literacy Rate
			Rural Poverty	Urban Poverty	Poverty Rate		
	All India Level		28.3	25.7	27.5	27.8	64.8
1	Andhra Pradesh	6.33	11.2	28	15.8	27.3	60.5
2	Arunachal Pradesh	-5.47	22.3	3.3	17.6	20.8	54.3
3	Assam	3.36	22.3	3.3	19.7	12.9	63.3
4	Bihar	6.65	42.1	34.6	41.4	10.5	47
5	Jharkhand	4.19	46.3	20.2	40.3	22.2	53.6
6	Goa	4.70	5.4	21.3	13.8	49.8	82
7	Gujarat	6.97	19.1	13	16.8	37.4	69.1
8	Haryana	6.73	13.6	15.1	14	28.9	67.9
9	Himachal Pradesh	5.03	10.7	3.4	10	9.8	55.5
10	Jammu & Kashmir	3.08	4.6	7.9	5.4	24.8	55.5
11	Karnataka	5.20	20.8	32.6	25	34	66.6
12	Kerala	6.93	13.2	20.2	15	26	90.9
13	Madhya Pradesh	1.08	36.9	42.1	38.3	26.5	63.7
14	Maharashtra	4.81	29.6	32.2	30.7	42.4	76.9
15	Manipur	2.59	22.3	3.3	17.3	23.88	68.7
16	Meghalaya	2.34	22.3	3.3	18.5	19.6	62.6
17	Nagaland	2.90	22.3	3.3	19	17.2	66.6
18	Orissa	6.40	46.8	44.3	46.4	15	63.1
19	Punjab	3.17	9.1	7.1	8.4	33.9	69.7
20	Rajasthan	4.38	18.7	32.9	22.1	23.4	60.4
21	Sikkim	6.06	22.3	3.3	20.1	11.1	68.8
22	Tamil Nadu	5.30	22.8	22.2	22.5	44	73.5
23	Tripura	6.05	22.3	3.3	18.9	17.1	73.2
24	Uttar Pradesh	2.80	33.4	30.6	32.8	20.8	56.3
25	West Bengal	6.88	28.6	14.8	24.7	28	68.6

From the above table we can see Average Annual Growth Rate of Net State Domestic Product, Rural and Urban Poverty Rates and Urban Population and Rate of Literacy Rate in our country. It is clearly evident that some of the states showing good performance and remaining poor performance. Forward states have high growth rate of NSDP while backward states have low growth rate when we compare with the national level. If we study the growth rate of NSDP, it depends on the literacy rate and percentage of urban population. High rate of literacy and high percentage of urban population drives the growth rate of a state while low rate of literacy and urban population relegates the growth rate of a state.

Table Showing Average Annual Growth Rate of NSDP and per Capital Income of Different states in India

	Name of the State	Average Annual Growth Rate of NSDP (199 - 2009)	Per Capita Income 2003 - 04
	All India Level		11799
1	Andhra Pradesh	6.33	11333
2	Arunachal Pradesh	-5.47	9678
3	Assam	3.36	6520
4	Bihar	6.65	3557
5	Jharkhand	4.19	8247
6	Goa	4.70	
7	Gujarat	6.97	16779
8	Haryana	6.73	15721
9	Himachal Pradesh	5.03	12302
10	Jammu & Kashmir	3.08	
11	Karnataka	5.20	13141
12	Kerala	6.93	12109
13	Madhya Pradesh	1.08	8284
14	Maharashtra	4.81	16479
15	Manipur	2.59	8751
16	Meghalaya	2.34	
17	Nagaland	2.90	
18	Orissa	6.40	6487
19	Punjab	3.17	15800
20	Rajasthan	4.38	8571
21	Sikkim	6.06	
22	Tamil Nadu	5.30	12976
23	Tripura	6.05	
24	Uttar Pradesh	2.80	5702
25	West Bengal	6.88	11612

From the above table it is very clear that per capita income is higher when the average annual growth rate is high and vice versa. Human Development Index is very low in those poor states due to low rate of literacy and high poverty rate. Those backward states are facing numerous problems due to high rate of poverty. They are employment rate will be low due to low industrialization and most of the people depends on agriculture for their livelihood. Due to low industrialization, the industrial growth rate is low in some of the states and one of the important consequences is the flow of FDI is very low in backward states.

Origin of the Concept of Inclusive Growth:

"People's incomes are coming down, which is what we have to think about when we talk about innovation. We have to look at the numbers and quality of life of millions living on less than one – half a dollar per day. We do not have inclusive growth in India, which means we do not have sustainable growth".

- O.P. Bhatt, Chairman of the SBI at Economic Summit

The word "Inclusive Growth" is one of the key messages from the Fifth Plenary Session of the 17th Central Committee of the Communist Party of China. The word first used by Asian Development Bank economists in 2007. In view of the severe differences in the growth rates of different states in our country, the central government wanted to develop all the states equally and it has become the central concept in the 11th Five Year Plan. The National Development Council included the concept in the 11th Plan document titled *"Towards foster and more inclusive growth".* The "major weakness in the economy is that growth is not perceived as being sufficiently inclusive for many groups, especially SCs, STs and minorities.....the lack of inclusiveness is borne out by data on several dimensions of performance". Inclusiveness involves four attributes viz., Opportunity, Capability, Access and Security. By generating more and varied Opportunities to the people to earn sufficient income for their living, the Economy has to enhance the Capabilities of the people to exploit the available opportunities, the economy has to provide an Access to bring opportunities and capabilities together and Security is to be provided by the economy against temporary or permanent loss of livelihood. Inclusive growth is a process in which economic growth is measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of all four dimensions. Inclusive Growth is not possible without uprooting the social tumour of corruption.

Why Inclusive Growth?

"Inclusive Growth" is a little more than just the benefits of growth being distributed equitably and evenly; it is the participation of all sections and regions of society in the growth story and their reaping the benefits of growth". Inclusive growth is imperative for achieving the equity objective. But Why Inclusive growth is now considered essential even to sustain the growth momentum.

A. In many of the emerging market economies, the major chunk of population is based in rural areas. Significant increase in demand for manufacturing and services sectors has to come from the rural population. In average monthly per capita consumption expenditure (MPCE) in urban areas in india is almost double that of rural areas. In some states, the disparities are even more glaring. Therefore, it is important to ensure that growth takes place in agriculture, allied sectors as also in secondary and services sectors in rural areas, and amongst urban poor to provide a growing market for the goods and services products by the expanding sectors.

B. From supply side management, growth in agriculture is necessary in order to keep manufacturing prices under check, provide food security and keep inflation under control. Price stability is not merely as an anti poverty measure but also as an instrument to ensure stable and sustained growth.

C. Higher growth in agriculture and rural areas coupled with demographic dividend will lead to a rise in the savings level for financing the increasing level of investments necessary to sustain the overall growth momentum.

D. The limitations on creasing production and productivity in agriculture are driving migration to urban areas leading to population pressure in urban areas and increase in urban poor. Hence urban development policies have to focus on inclusive investment to deal with the huge armies of low – income population likely to move into these areas.

E. Since in many countries such as India, the growth process is knowledge – based and services – led, the requirement of skilled labour is quite substantial in comparison to the present availability in order to ensure adequate supply of skilled labour force, huge social sector investment is required covering the vast majority of people who may not be able to afford such education and skilled development.

F. In our country, most of the labour force depends on agriculture for their livelihood and this sector has plenty of potential for growth and it lacked sufficient investment.

Thus, there are several factors to be considered for inclusive growth. Upper most among these is the need for raising the allocative efficiency of investment and resource use across different sectors of economy – this can be met by addressing two basic supplies – side issues viz., (A) effective credit delivery system to facilitate productive investment productive investment in employment impacting sectors especially agriculture, micro, small and medium enterprises and (B) Large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, urban/ rural reconstruction and in social infrastructure such as health care, education and sanitation.

Financial Inclusion for Inclusive Growth:

The challenges of achieving more inclusive growth can be met by policies that encourage easier affordable access to financial services. Both theoretical and empirical researches highlight the role of financial development in facilitating economic development. In developed countries, the formal financial sector comprises mainly the banking system serves most of the population, while in developing or backward countries a large segment of the society, mainly the low and poor income groups have little access to financial services, either formal or semi formal. As a result, many people have to necessarily depend either on their own sources or informal sources of finance, which are generally at high cost. Most of the population in developed countries (99% in Denmark, 96% in Germany, 91% in the USA and 96% in France) have bank accounts. However, formal financial sectors in most developing countries serve relatively a small segment, often no more than 20 – 30% of the population, the vast majority of who are low income households in rural areas. Owing to several factors such as sharp increase in urbanization, rural to urban migration as also the increase in urban poverty, the share of poor and the low – income households not having any access to finance in the urban areas is also increasing in several countries.

Financial Inclusion

Country	Composite Index of Financial Inclusion (% of Population with access to financial services)
Denmark	99
Germany	96
USA	91
France	99
India	48
Bangladesh	32
Brazil	43
China	42
Indonesia	40
Korean Republic	63
Malaysia	60
Philippines	26
Sri Lanka	59
Thailand	59

Financial Inclusion – A Major Paradigm Shift:

"Financial Inclusion means delivery of banking services at an affordable cost to the vast sections of disadvantaged and low – income groups who tend to be excluded from the formal financial system"
:- Reserve Bank of India

From an annual average growth rate of 3.5% during 1950 to 1980, the growth rate of the Indian economy accelerated to around 60% in the 1980s and 1990s. In the last four years (2003 – 04 to 2006 – 07), the Indian economy grew by 8.8%. in 2005 – 06 and 2006 – 07, the Indian economy grew at a higher rate of 9.4% and 9.6% respectively. Reflecting the high economic growth and a moderation in population growth rate, the per capital income of the country also increased sustainability in the recent years. An important characteristic of the high growth phase in recent years is its resilience to shocks.

FINANCIAL SECTOR POLICY AND REGULATORY FRAMEWORK IN INDIA FOR INCLUSIVE GROWTH:

After the post – nationalization era of banking sector in our country, we can see a lot of changes occurred in the banking policies giving a robust thrust to branch expansion in the rural and semi urban areas and stepping up of lending to the so called priority sectors viz., agriculture, small scale industry, self employment and small business sectors and weaker sections within these sectors. As a result, the branches of scheduled commercial banks increased from 8, 262 in June, and 1969 to 69, 472 in march, 2006. The average population per branch office decreased significantly from 64,000 to 16,000 during the above period, with the share of rural branches increasing from 22.2% in June, 1969 to a little over 51% in march, 1998. Lending to priority sectors was increased to the mandated target of 40%. Specialized Regional Rural Banks were set up in 1975, especially in backward and tribal districts to cater to the needs of the weaker sections amongst farmers and non – farm small business entrepreneurs.

The financial sector in India has been primarily dominated by the banking system. Scheduled Commercial Banks (SCBs) occupy a predominant position in the financial system. As on march, 2007, the public sector banks (PSBs) accounted for 70% of the total assets of SCBs. Foreign Banks operating in India accounted for about 8% of the assets of SCBs. The RRBs and the Co-operative Banks also form an integral part of the Indian financial system.

Financial inclusion's main target is essentially the poor people who have not yet brought into the mainstream of formal banking culture. How do people get into a formal banking culture? It is the result of a process characterised by knowledge (K) Attitude (A) and Practice (P). The poor people often do not have the right knowledge of the advantages of formal financial practices in the long run, or they are incapable of thinking of the "long run" as such. This gets translated into negative or imperfect attitudes towards formal financial behaviour. As a result, they often keep away from the formal financial system. The term "Financial Inclusion" marks a major paradigm shift from the now well – known concept of micro finance. Basically, micro fiancé is retail banking services for customers excluded by banks that serve the wealthier sections of the market. Recently, it has been seen as an important element in financial inclusion.

State and Population Group - wise distribution of offices opened by Commercial Banks as on 31st, March 2009

	Name of the State	Rural	semi urban	urban	metro politan	Total No of Benches in Urban Areas	Total
1	Andhra Pradesh	2388	1537	1696	1077	4310	6698
2	Arunachal Pradesh	50	27			27	77
3	Assam	788	334	307		641	1429
4	Bihar	2356	846	433	281	1560	3916
5	Chandigarh	24	1	287		288	312
6	Chhattisgarh	654	254	346		600	1254
7	Gujarat	1486	989	649	1357	2995	4481
8	Haryana	691	468	924	118	1510	2201
9	Himachal Pradesh	729	160	72		232	961
10	Jammu & Kashmir	547	192	268		460	1007
11	Jharkhand	974	366	410	0	776	1750
12	Karnataka	2166	1208	1343	1274	3825	5991
13	Kerala	332	2712	1142		3854	4186
14	Madhya Pradesh	1756	977	787	569	2333	4089
15	Maharashtra	2143	1415	1171	3147	5733	7876
16	Manipur	35	21	25		46	81
17	Meghalaya	124	30	51	0	81	205
18	Mizoram	55	14	26	0	40	95
19	Nagaland	35	51			51	86
20	Orissa	1654	514	588		1102	2756
21	Pondicherry	28	33	67		100	128
22	Punjab	1123	965	743	526	2234	3357
23	Rajasthan	1756	993	861	431	2285	4041
24	Sikkim	46	25	0	0	25	71
25	Tamil Nadu	1709	1839	1445	1140	4424	6133
26	Tripura	110	58	51	0	109	219
27	Uttara Pradesh	4806	1776	1731	1568	5075	9881
28	Uttara Khand	570	290	246	0	536	1106
29	West Bengal	2319	626	245	1306	2177	5196
30	Total	31699	19082	16614	15013	50709	82408

Recent strategies for Inclusive Banking:

As the economy began to grow at higher rates, the regional and social disparities called for new strategies to ensure that the banking system met the requirements of inclusive growth. Such strategies needed to be fashioned in a manner that they did not undermine the stability and efficienty of the financial system. Accordingly, over the last four years or so, several measures have been taken by the Reserve bank of India and Government of India to ensure better banking penetration and outreach, particularly that the credit needs of agriculture and small enterprises are met while allowing sufficient flexibility to each bank to evolve its own policies and strategies for the purpose. In January, 2006, the RBI permitted banks to utilise the services of non – governmental organization (NGOs/ SHGs), micro finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of Business Facilitators (BF) or Business Correspondents (BC) models. The BC model allows banks to do "Cash in – Cash out" transactions at a location much closer to the rural population, thus addressing the last mile problem. Banks are also entering into agreements with India Postal Authorities for using the enormous network of post offices as business correspondents for increasing their outreach and leveraging the postman's intimate knowledge of the local population and trust reposed in them.

Gross Credit by Public Sector Commercial Banks in Rural and Urban Areas as on 31st March, 2007 (Amount in Crores)

Name of the State	Gross bank Credit of Scheduled Commercial Banks (As on 31st march, 2007) (Rs In crores)			Average Annual Growth Rate of NSDP (199 - 2009)
Name of the State	Rural	Urban	Total	
Andhra Pradesh	16702	28572	45274	6.33
Arunachal Pradesh			0	-5.47
Assam	4836	2712	7548	3.36
Bihar	3496	5970	9466	6.65
Jharkhand	7187	2510	9697	4.19
Goa			0	4.70
Gujarat	6870	9695	16565	6.97
Haryana	4866	21086	25952	6.73
Himachal Pradesh	2302	3283	5585	5.03
Jammu & Kashmir	6836	1920	8756	3.08
Karnataka	13436	22439	35875	5.20
Kerala	3088	28580	31668	6.93
Madhya Pradesh	7214	9182	16396	1.08
Maharashtra	11290	16042	27332	4.81
Manipur	450	163	613	2.59
Meghalaya	881	334	1215	2.34
Nagaland			0	2.90
Orissa	7300	14176	21476	6.40
Punjab	10022	13548	23570	3.17
Rajasthan	8395	13453	21848	4.38
Sikkim			0	6.06
Tamil Nadu	13164	46574	59738	5.30
Tripura	576	414	990	6.05
Uttar Pradesh	18964	23754	42718	2.80
West Bengal	7405	10106	17511	6.88
Other states		3872	3872	
All India Level	155280	278385	433665	

Financial Inclusion – The Greatest Strength of Low and Middle Income Groups:

Now it is the time to implement Financial Inclusion in our nation. By bringing lakhs of middle and low income sections of the society in the mainstream of the economic activities, their living standards can be augmented. Both RBI and Central Governments are adamant in the implementation of Financial Inclusion. Nearly fifty crores of the population has been denied banking services so far and there is a strong correlation between financial exclusion and poverty. To expand banking operations in the nook and corner of the country, the RBI started to take some reformative measures like the establishment of Business Correspondents and expanding the branches of RRBs etc., though the concept of Financial Inclusion is basically related to RBI and the Gov of India but enormous opportunities are there for the private sector. There are so many ways are there to achieve total Financial Inclusion; they are

1. ***Branch Expansion:*** PSUs are advised to expand the branches in the unbanked areas.
2. ***Business Correspondents:*** It is the time to expedite the scheme of Business Correspondents.
3. ***Financial Literacy:*** To motivate the low and middle income groups about the advantages of financial inclusion, the government should propagate in the schools and colleges about the advantages.
4. ***Telecom Companies:*** For transferring money and for payments and receipts, telecom companies will be allowed to reduce the transaction cost.
5. ***Chit Fund Companies:*** Chit fund companies are growing in our country and they increase the savings and credit habits in our country.
6. ***Post Offices:*** Postal employees will be given training to sell saving, investment and pension products in the unbanked areas.
7. ***Micro Finance Institutions;*** For the last five years, MFIs business reached to 20,000 crores in our country.

Micro Finance – A Way to accomplish the goal of Financial Inclusion:

Realities of Micro Finance:

The concept of micro finance has been emerged from the mind of Dr. Md Younus, a notable person in Bangladesh. He proved that by lending money to women, they can utilize the money for productive purpose and it helps to women economic empowerment. He started a Rural Bank for this purpose and lend money to women of Bangladesh for the last 10 to 15 years. Now he achieved his ambition of women empowerment and he got noble prize also for serving to the rural women. The success story spread all over the world and got acclaim.

Bangladesh's Grameena (Rural) Bank is the base for DWACRA and SHGs in our country.

Over the last decade and a half, micro finance sector India has grown incrementally to reach out to over 50 million clients through home – grown Self – Help Groups Bank Linkage Programs as well as through the alternate channel represented by NGO – MFIs. The growth story is heart – warming, but the expanded outreach and increased loan disbursement needed to be better understood from the client's perspective. Are the poor getting enough and why they need it? How diverse the products and services? Are these services help the poor in acquiring new assets, upscale their livelihood, reduce their vulnerability and help them emerge out of their current state of affairs? How protected the clients from malpractices? How strong is the social resolve of practioners? What is the policy environment in which the sector operates? These are some of the issues to be addressed. The micro finance sector in India in last few years, has witnessed unprecedented growth. India is perhaps the fastest growing market in Microfinance – the efforts of the various stakeholders have facilitated the sector in breaching the 50 million client mark this year. Even though the SHG-Bank Linkage model maintains its dominance in the industry, the 'alternative' MFI channel too has been growing at a fair pace. However, the sector still only covers 20% of the poor and caters to merely 10% of the demand for credit. The key issues that require further attention from the sector include: deeper poverty penetration, dealing with mission drift, looking at the shortage of quality human resources and increasing operational efficiency. There is also a need to work on the accessibility of loan funds, particularly to Tier-2 and Tier-3

Institutions, up scaling microfinance operations using technology and providing livelihood options to the poor.

The state of Micro Finance Institutions in India

Micro finance sector seems to grow and with no full stop in sight. The sector performed creditably in a

year that experienced a widespread liquidity crunch. The Self Help Group (SHG)–bank linkage programe made remarkable progress during the year; provisional data2 indicates that credit to more than 1.716 million SHGs would have been made available during the year3. The outstanding SHG loan accounts were 4.14 million representing an estimated membership of 54 million. The MFIs too have recorded an impressive increase of about 8.5 million clients during the year registering a growth of 60 per cent over the previous year. The data collected from 230 MFIs by Sa-Dhan reveals that despite liquidity constraints faced by some MFIs, expansion in client outreach and loan portfolio was vigorous. The MFIs reported a total client base of 22.6 million as at the end of March 2009. The overall coverage of the sector as narrowly defined (outstanding accounts of members of SHGs and clients of MFIs) is estimated to have reached 76.6 million against 59 million last year. After adjusting for overlaps the net client base of the micro finance sector is estimated at 70 million. The adjusted growth in outreach is estimated to be 14 million clients which is about 50 per cent more than the 9.9 million new clients added during the previous year. This growth story has several positive and some not so positive elements. In terms of sheer numbers, more than 50 percent of low income households of about 130 million are covered by one or the other form of micro finance6. Outstanding loans of MFIs increased from Rs.59.50 billion to Rs.117.34 billion in 2008–09. In the case of loans outstanding loans in the books of banks against SHGs, the provisional information is that it has reached Rs.241.96 billion by March 2009 compared to Rs.170 billion in the previous year. The total outstanding microfinance loans amounted to Rs 359.39 billion posting a growth rate of 30% over the last year's level of Rs 229.54 billion. At the current level, microfinance constituted 1.29% of gross bank credit of Scheduled Commercial Banks; an increase of 0.27% over the last year which is no mean achievement in a year of general economic slowdown. The growth in the size of loans has been significant in the case of MFIs compared to the size of loans given by banks to SHGs. The growth in terms of number of clients with outstanding loans in absolute terms reveal that while MFIs added 8.5 million clients, they also added Rs.57.80 billion to outstanding loans. In the case of banks, the SHG loan outstanding has increased by Rs.71.5 billion with an addition of 6.9 million clients through 0.52 million more SHGs. The vigorous growth of MFIs and that too on a narrower organizational base highlights the potential at the bottom of the pyramid. Possibly the current year is a watershed year in the micro finance sector as the client growth in the MFIs exceeded that of the banking sector in terms of SHG members8. At the current growth rates and higher per capita loans, MFIs might outstrip the SBLP in portfolio volumes in the next few years. The emerging new reality is that the MFI channel is not the poor cousin anymore. There are initial signs that MFIs are crowding out the banks from the sector in southern states. Is this necessarily a good development for the clients will need serious examination in the coming years? The broadly defined microfinance sector including small accounts of commercial banks, small and vulnerable borrowing members of the Primary Agricultural Societies, SHG members and MFI customers had more than 135 million clients by end March 2008, an increase of about 15 million over the previous year. The number of accounts is more than double the number of poor households at 61.4 million. But still many excluded poor households exist on account of multiple accounts being held by some poor households and many non-poor households having greater access to multiple loans.

Micro Finance Institutions in India 2009:

Micro Finance Institutions in the MIX top 50 list		
Name of the MFI	Ranking in 2008	Ranking in 2007
SKS	2	1
Cash Poor	4	Not Ranked
Sarvodaya Nano Finance	12	14
ESAF	14	13
Spandana Spoorty	22	6
Adarsha Welfare Society	46	185
CRESA	48	11

The Top 10 MFIs by Outreach (Rs in Billions)

Name of the MFI	Outreach (In No)	Loans (Outstanding)	Own Funds	Borrowings
SKS Micro Finance	35,20,826	24.6	6.6	19.9
Spandana Spoorthy	24,32,189	18.7	3.1	14.8
Share Microfin Limited	15,02,418	12.2	1.7	9.7
Bandan	14,54,834	5.3	0.5	6.9
Asmitha Microfin Limited	8,78,455	7.1	0.8	7.1
SKDRDP	8,07,170	4.9	0.2	5.4
Bharatiya Samruddi	5,74,293	2.6	0.6	4.0
(ASA)Grama Vidyalaya3	3,62,624	2.0	0.5	1.6
BISWA	3,52,352	1.7	0.5	1.8
Equitas Micro Finance	3,39,158	2.9	1.1	1.8
Total	1,22,24,319	82.0	15.6	73.0

Final data on microfinance sector – to be read with the provisional data provided in the State of the Sector Report – Microfinance India 2010.

SHG-Bank linkage program (as per final data released by NABARD) 31 March 2010 position.

Number of SHGs that had savings with banks 6.95 million

Number of SHGs that had loans from banks 4.85 million

Amount of SHG savings outstanding with banks Rs 61.98 billion

Amount of loans to SHGs outstanding Rs 280.38 billion

Average loan outstanding per group Rs 57795

Average loan outstanding Rs 4445

Growth in clients over the previous year 8.4 million

Growth in loans outstanding over previous year Rs 58 billion

Scope of Micro Finance in India

The sector has witnessed impressive growth in terms of both client outreach as well as lending

- SHG members are growing at a steady pace of 18% and constitute the largest part of the microfinance clientele
- MFI outreach has increased by 40% and crossed the 14 million mark during the last year
- More NGOs are also beginning to function as MFIs and aspire to transform into NBFCs
- Microfinance service providers are focusing more on widening their client base and increasing outreach
- Social performance of MFIs still remains an area of concern that requires greater attention
- One of the key challenges is to mainstream the savings agenda in microfinance
- Flow of funds, including equity, to medium and small MFIs is critical to ensuring growth
- Financial inclusion is 'the flavour-of the month' and is now attracting more attention from all stakeholders

Regulations for the Control of Micro Finance Institutions:

1. It should be redefined the Concept of Micro Finance and Micro Finance Institutions in the name of Non – Banking Financial Companies through the permission of RBI
2. The rates of interest charged by MFIs are to be examined.
3. The government should study the method of giving loans, collecting the instalment amount and the way they collect the amount from the beneficiaries.
4. It should be suggested that the legislative acts of money lending and other acts of different states to be applicable to MFIs.
5. Increase the Transparency and study the role of micro finance institutions in the growth of the nation.
6. Grievance Redressal Cell has to be established to receive complaints on MFIs in view of the recommendations of the RBI.

Poverty and The Extent of Exclusion in Urban Areas

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INTRODUCTION:

In the process of economic development of a nation, people will migrate from rural areas to urban areas in search of employment opportunities, educational purposes, etc., The process of migration of people from rural to urban areas is known as Urbanization. The World Bank, IMF and United Nations Development (UNDP) Program has taken urbanization is one of the tools to measure the rate of economic development. The degree of urbanization has gone on increasing in our country since 1990 due to a number of reasons. In the industrialized nations, most of the people live in urban areas. It is one of the chief characteristics of economic development. Due to a number of reasons people migrate from rural to urban areas, they are; Backwardness of agriculture, lack of infrastructural facilities in rural areas, concentration of business opportunities in urban areas, lack of suitable employment opportunities in rural areas, lack of hospitals in rural areas are some of the reasons on one side of the coin and another side of the coin is development of urban areas, concentration of industries in urban areas, well developed infrastructural facilities in urban facilities, availability of employment opportunities, concentration of industries in the urban areas are forcing the rural masses to migrate to urban areas. In the process of rapid industrialization, there will be a concentration of industries in the urban areas because infrastructural facilities are well developed and quality human resources are available to engage business activities. In advanced countries, the percentage of the population lives in urban areas in high. The table given below shows that the percentage of the population lives in urban areas;

Country	% of Urban Population
Australia	91
England	89
Japan	79
United States	77
Russia	73
China	32
Indonesia	41
India	28

1. TRENDS IN THE URBAN AND RURAL POPULATION IN DIFFERENT YEARS:

Table Showing Total Population, Urban and Rural Population in different years

Year	Population (In Millions)			% of Total Population		% Increase in Urban Population during the decade	Urban Rural Ratio
	Total	Rural	Urban	Rural	Urban		
1901	232.9	207.3	25.6	89.0	11.0	….	1:8.1
1911	246.0	220.4	25.6	89.6	10.4	0.0	1:8.6
1921	244.3	216.6	27.7	88.7	11.3	8.3	1:7.8
1931	270.8	237.8	33.0	87.8	12.2	19.1	1:7.2
1941	309.0	265.5	43.5	85.9	14.1	32.1	1:6.1
1951	361.1	298.7	62.4	82.7	17.3	43.2	1:4.7
1961	439.2	360.3	78.9	82.0	18.0	25.3	1:4.5
1971	548.2	439.1	109.1	80.1	19.9	38.0	1:3.7
1981	685.2	525.7	159.5	76.7	23.3	46.8	1:3.3
1991	844.3	627.1	217.2	74.3	25.7	35.6	1:2.9
2001	1027.0	742.0	285.0	72.2	27.8	31.2	1:2.6

From the above table, it is clearly evident that prior to independence, during the period of 1901 to 1941 the percentage of urban population increased from 11% to 14.1% (compound increase is 28.18%). During the post independence period the percentage of urban population increased from 17.3 to 27.8 (With a compound increase of 60.69%). But there is a little bit of increase in the urban population due to importance has been given to heavy and key industries in the second and third five year plans. We can understand the contribution of different sectors to the national income in different periods.

2. URBAN AND RURAL POPULATION IN DIFFERENT STATES: (According to 2001 Census)

Sl. No.	State/Union Territory	Urban to Total Population	Sl. No	State / Union Territory	Urban to Total Population
1	Tamil Nadu	43.9	19	Uttaranchal	25.6
2	Maharashtra	42.4	20	Delhi	93.0
3	Gujarat	37.4	21	Sikkim	11.1
4	Karnataka	34.0	22	Arunachal Pradesh	20.4
5	Punjab	33.9	23	Nagaland	17.7
6	Haryana	29.0	24	Manipur	23.9
7	West Bengal	28.0	25	Mizoram	49.5
8	Andhra Pradesh	27.1	26	Tripura	17.0
9	Kerala	26.0	27	Meghalaya	19.6
10	Madhya Pradesh	25.0	28	Jharkhand	22.3
11	Rajasthan	23.4	29	Chhattisgarh	20.1
12	Uttar Pradesh	20.8	30	Daman & Diu	36.3
13	Orissa	15.0	31	Dadra Nagar Haveli	22.9
14	Bihar	13.4	32	Goa	49.8
15	Assam	12.7	33	Lakshadweep	44.5
16	Himachal Pradesh	9.8	34	Pondicherry	66.6
17	Jammu & Kashmir	24.9	35	Andaman & Nicobar Islands*	32.7
18	Chandigarh	89.8		All India Level	27.8

Urban population is highly concentrated in advanced states like Tamil Nadu, Karnataka, Maharashtra, Gujarat, Punjab etc., The primary reason for migration of people to urban areas in those states is well developed infrastructure and ample of employment opportunities. Here it is clearly evident that, urbanization is high in industrially advanced states and it is very less in backward states like Orissa (15%), Bihar (13.4%). The national average is 27.8% of the total population is living in urban areas and the remaining people still live in rural areas. The urban population in 16 states is greater than the national average of 27.8% and remaining 19 states' urban population is less than the national average. The rapid migration of people to urban areas increased the population of certain cities. According to 2001 census, there are 35 cities having more than 10 lakh population. Greater Mumbai, Kolkata and Delhi accounted for 4, 23, 76,088 crore population and it is nearly 3% of the total population of our country.

Sl. No.	State/Union Territory	% of Population below the Poverty Line during 2004-05 (Based on URP-Consumption)		
		Rural	Urban	Combined
1	Tamil Nadu	22.8	22.2	22.5
2	Maharashtra	29.6	32.2	30.7
3	Gujarat	19.1	13.0	16.8
4	Karnataka	20.8	32.6	25
5	Punjab	9.8	7.1	8.4
6	Haryana	13.6	15.0	14
7	West Bengal	28.6	14.8	24.7
8	Andhra Pradesh	11.2	28.0	15.8
9	Kerala	13.2	20.2	15
10	Madhya Pradesh	36.9	42.1	38.3
11	Rajasthan	18.7	32.9	22.1
12	Uttar Pradesh	33.4	30.6	32.8
13	Orissa	46.8	44.3	46.4
14	Bihar	42.1	34.6	41.4
15	Assam	22.3	3.4	19.7
16	Himachal Pradesh	10.7	3.3	10
17	Jammu & Kashmir	4.6	7.9	5.4
18	Chandigarh	7.1	7.1	7.1
19	Uttaranchal	40.8	36.5	39.6
20	Delhi	6.9	15.2	14.7
21	Sikkim	22.3	3.3	20.1
22	Arunachal Pradesh	22.3	3.3	17.6
23	Nagaland	22.3	3.3	19
24	Manipur	22.3	3.3	17.3
25	Mizoram	22.3	3.3	12.6
26	Tripura	22.3	3.3	18.9
27	Meghalaya	22.3	3.3	18.5
28	Jharkhand	46.3	20.2	40.3
29	Chhattisgarh	40.8	41.2	40.9
30	Daman & Diu	5.4	21.2	10.5
31	Dadra Nagar Haveli	39.8	19.1	33.2
32	Goa	5.4	21.3	13.8
33	Lakshadweep	13.3	20.2	16
34	Pondicherry	22.9	22.2	22.4
35	Andaman & Nicobar Islands*	22.9	22.2	22.6
	All India Level	28.3	25.7	27.5

URBANIZATION AND SLUM AREAS IN INDIA:

Rapid urbanization creates slum areas when the government unable to provide adequate infrastructural facilities to the increasing urban masses and at the same time, the urban areas unable to provide better employment opportunities to the growing urban masses. For the first time, during the year 2001 census an attempt has been made to collect detailed data regarding slum areas of the country. The towns that were covered were those with over 50,000 populations as per the 1991 census. The towns numbered 607 and their 2001 population is 17. 84 crores. Slums accounted for 4.03 cores or 22.59% of their population. Arunachal Pradesh, Dadra Nagar Haveli, Daman & Diu, Himachal Pradesh, Lakshadweep, Manipur, Mizoram, Nagaland and Sikkim reported no slum population in the census.

Table Showing Number of Slum Areas in Different States, Total Population in Slum Areas and % of Slum Population in total Population

Sl. No.	Name of the State / Uts	No of Reporting Towns	Population of Towns Reporting Slums	Total Slum Population	% of Slum Population in Total Population	% of Urban Population in Total Population
1	A & N Islands	1	1,00,186	16,265	16.23	NA
2	Andhra Pradesh	76	1,57,52,946	51,49,272	32.69	27.1
3	Assam	7	13,47,111	84,644	6.28	12.7
4	Bihar	23	48,17,624	5,07,383	10.53	13.4
5	Chandighar	1	8,08,796	1,07,098	13.24	NA
6	Chattisghar	12	26,92,612	7,88,127	29.27	NA
7	Delhi	14	1,09,79,341	20,25,890	18.45	NA
8	Goa	2	1,75,478	14,529	8.28	NA
9	Gujarath	28	1,14,27,259	13,46,709	11.79	37.4
10	Haryana	22	43,00,013	14,21,839	33.07	29
11	Jammu & Kashmir	5	14,51,995	2,70,084	18.6	NA
12	Jharkhand	11	24,18,755	3,09,557	12.8	NA
13	Karnataka	35	1,10,21,192	12,67,759	11.5	34
14	Kerala	9	25,09,719	45,337	1.81	26
15	Madhya Pradesh	42	98,23,309	23,88,517	24.31	25
16	Maharashtra	62	3,36,24,960	1,06,44,605	31.66	42.4
17	Meghalaya	1	2,67,881	1,10,714	41.33	NA
18	Orissa	15	28,18,455	6,35,150	22.54	15
19	Pondicherry	3	5,12,705	72,275	14.1	NA
20	Punjab	27	56,52,211	11,51,864	20.38	33.9
21	Rajasthan	25	74,53,084	12,06,123	16.18	23.4
22	Tamil Nadu	63	1,41,75,792	25,30,289	17.85	43.9
23	Tripura	1	1,89,327	29,378	15.52	NA
24	Uttarakhand	6	10,20,720	1,95,604	19.16	NA
25	Uttar Pradesh	65	1,87,91,750	41,56,020	22.12	20.8
26	West Bengal	51	1,42,50,720	38,22,309	26.82	28
27	All India Total	607	17,83,93,941	4,02,97,341	22.59	NA

REASONS FOR URBAN POVERTY IN INDIA:

Urban poverty is one of the chronic and persisting of our nation before and after independence. The respective governments have been taking a number of steps to mitigate the problem of urban poverty, it has been going on increasing. Particularly during the past two decades the problem of urban poverty has been going on increasing at a high rate due to rapid industrialization in the urban areas. There are a number of factors which are contributing for the growth of urban poverty; they are

1. Backwardness of Agriculture sector.
2. Unemployment
3. Low level of wages.
4. Exodus of urban population.
5. Low development of industrialization.

GOVERNMENT PROGRAMMES TO ELIMINATE URBAN POVERTY:

1. **SELF – EMPLOYMENT TO THE EDUCATONAL UNEMPLOYED YOUTH – SEEUY**

   This programme has been launched by the Central Government in the year 1983 – 84 with an objective of providing financial assistance to young and educated youth. The government has been allocating 30% out of the total budgeted funds to SCs and STS. The program has been merged with Pradhana Manthri Rojghar Yojana in the 1994.

2. **SELF – EMPLOYMENT PROGRAM FOR URBAN POOR – SEPUP:**

   The central Government has launched this program during the year 1986. The program is applicable to all those who are living under the poverty line in towns, cities and metropolitan cities. The main aim of the program is to provide self – employment to the urban poor by providing subsidies and loans from banks. This program has been merged with Nehru Rojghar Yojana during the year 1992 – 93 as a part of the micro – finance program.

3. **NEHRU ROJGHAR YOJANA:**

   This program has been launched in the year 1989 on October 2nd by the Central Government. The primary objective of the program is to eliminate urban unemployment, underemployment and reducing the level of poverty by creating employment opportunities in the urban areas. Respective state governments identify the beneficiaries under this program. The program has three sub plans. They are;

   A. **Scheme of Micro – Enterprises – SUME**

   The program has been launched in the year 1990 on august 15th. The main goal of the program is to provide financial assistance to establish small enterprises in the urban areas. The program has been merged with Self – Employment Program for Urban Poor – SEPUP in the year 1992 – 93.

   B. **Scheme of Urban Wage Employment – SUWE:**

   The main objective of the program is to provide employment to the urban poor people.

   C. **Scheme of Housing and Shelter Up gradation – SHASU:**

   The program is meant for the towns where the population is less than 2 millions. By under taking the activities of up grading the housing facilities in the urban areas, it provides employment opportunities.

   With the help of above three programs, Nehru Rojghar Yojana provides employment opportunities to one million people every year. 30% is reserved to the women. Importance has been given to SCs and STS. The program has been merged with Swarna Jayanthi Rojghar Yojana from 1st December, 1997.

4. **Urban Basic Services for Poor:**

With a small change in the old scheme of Urban Basic Services program, the government has started the program during the year 1990 – 91. This is centrally sponsored program. The main aim of the program is to organize, coordinate and empower the society. The total expenditure of the program is borne by center and states in the ratio of 60:40. The program is implemented in the slum areas. During the eighth plan period, the target of the program is to provide benefits to 7 million people of 500 towns. By the end of the year 1997, the program has identified 7.5 million poor people in 4, 993 slum areas of 303 towns.

5. **PRIME MINISTER ROJGAR YOJANA: (PMRY)**

Unemployment has been a curse to the development of our nation particularly since independence. The educated unemployed youth has become unproductive and frustrated and they have been attracted towards anti social elements like naxalism, factionism and terrorism etc., It is the need of the time to pay attention on the educated unemployed youth by the government. Small scale and village and cottage industries are suitable to provide better employment opportunities to them to avoid from anti social activities. Creation of self – employment opportunities is the only solution for them. Policy makers and economists thought that establishing small scale units is the best solution to provide employment opportunities with moderate investment and they contribute to the national income and satisfy the unemployed youth.

This program has been started during the year 1992 on October 2nd. Initially, the program was meant for urban areas only later in 1994 year onwards it has been extended to the whole nation. The target of the program for the 8th five year plan is establishing 7 lakh tiny units in industrial estates though which 1 million people will get employment opportunities. Technical training and marketing facilities will be provided to small entrepreneurs under this program to develop their business units. From the year 2003 onwards, the program is extended to Self Help Groups.

6. **PRIME MINISTER'S INTEGRATED POVERTY ERADUCATION PROGRAM – (PMIUPEP):**

This new scheme has been launched during the year 1994 – 95 in class – II towns where the population is in between 50,000 and 1, 00,000. The program encourages to establish small industrial units and business units under self – employment scheme. The government gives a subsidy of 15% and gives a financial assistance up to Rs 1,00,000. In addition to generate self employment opportunities and skill development, the program aims to achieve society development, housing development and empowerment in the society.

This scheme was firstly implemented at Chengnacheri of Kottayam District of Kerala. Under this plan, efforts were being made to create new opportunities of employment. The unemployed persons were trained in handicrafts and were encouraged to adopt self – employment ventures. Enterprise units could be established at the cost of Rs 1 lakh under this scheme. Since December ist, 1997 this scheme has been replaced by Swarna Jayanthi Shahri Rojgar Yojana (SJSRY).

7. SWARNA JAYANTHI ROZGAR YOJANA – (SJSRY)

The Swarna Jayanthi Rozgar Yojana is a unified centrally sponsored program launched instead of the previous Urban Poverty Allievation Programs viz., Nehru Rozgar Yojana, Prime Minister's Integrated Urban Poverty Eradication Program and Urban Basic Services Program for the Poor. The program has been launched according to the recommendations of the planning commission experts. This program is applicable to all towns in India and it takes one town as a unit. It gives utmost importance to urban poverty slum areas. There are two sub programs in the SJSRY;

A. URBAN SELF – EMPLOYMENT PROGRAM:

The program has three layers, they are (1) Individual financial assistance to establish self employment units in urban areas (2) Financial assistance to women to establish self – employment units in urban areas and (3) Financial assistance to poor women groups to establish self employment units in the urban areas and it is known as Development of Women and Children in Urban Areas (DWACUA).

B. URBAN WAGE EMPLOYMENT PROGRAM – (UWEP)

This program is applicable to the towns where the population is less than 5 lakh. It considers those who are living below poverty line in the urban areas. It creates public assets. The three urban schemes already in operation were merged with this new scheme. These were; Nehru Rozgar Yojana. Urban Basic Service for Poor (UBSP). Prime Minister's Integrated Urban Poverty Eradication Program (PMIUPEP).

7. SELF – EMPLOYMENT TO THE EDUCATONAL UNEMPLOYED YOUTH – SEEUY

This program is launched in the year august, 1996. creation of water supply, community toilets, community both rooms, roads expansion, public lights, establishing primary hospitals, providing primary education, adult education, maternity services, heath facilities to the children, providing vaccination are the main objectives of this program. During the year 1996 -97 the government earmarked 250.01 crores, in 2004 – 05 Rs 613.78 crores. By the year ending 2005 – 06 the government provided a total sum of 3,089.68 crores to this program since its inception. The government stopped this program during the year 2006 – 07 and replaced by INTEGRATED HOUSING AND SLUM DEVELOPMENT PROGRAM.

8. VALMIKI AMBEDKAR AWAS YOJANA – (VAMBAY)

This program is launched on December 2nd, 2001 and meant for those who are living in urban slum areas without habitation. The program's main objective is to construct new houses or renew the existing houses. Providing community toilets is also a part of this program is done through Nirmal Bharath Abhiyan. VAMBAY has been subsumed in Integrated Housing and Slum Development Program (IHSDP) launched along with Jawaharlal Lal Nehru National Urban Renewal Mission on 3rd December, 2005.

9. JAWAHAR LAL NEHRU NATIONAL URBAN RENEWAL MISSION – (JNNU0RM)

JNNURM, which is for a seven year period from 2005 – 06, has two main components – Basic Services to the Urban Poor (BSUP) Program and Integrated Housing and Slum Development Program (IHSDP). The program is two sub – plans;

This is a massive urban modernization program launched by the government of India. It envisages an investment of $20 billion over a period of 7 years. Under this program 63 qualifying cities are selected and nine eligble sectors are identified. The main thrust of the program is improve urban governance and services delivery system and therefore envisaged a mandatory reform.

10. SCHEME FOR INTEGRATED DEVELOPMENT OF SMALL AND MEDIUM TOWNS (SIDSMT)

during the sixth plan, this scheme (SIDSMT) was stated in the form of Union Government sponsored program to stop the migration of the population from the rural areas to the urban areas, to create employment opportunities in small and medium towns, and to provide adequate infrastructural facilities in these towns. This scheme was carried on in the Seventh and the Eighth Plan also. In the Eighth plan, an amount of Rs 155 crore was allocated for this program. In the financial year 1998 – 99, an expenditure of Rs 35 crore was made on this scheme. By March, 1998, 920 towns were included under this scheme. Under this program, financial assistance is provided for transport, development of markets and whole sale markets, tourism facilities, park and play – grounds, construction of slaughter – houses, lighting on the roads, construction of drains and other related activities.

11.SCHEME OF INFRASTRUCTURAL DEVELOPMENT IN MEGA CITIES:

A centrally sponsored program was started in 1993 - 94 in five Mega cities of Mumbai, Chennai, Kolkata, Hyderbad and Bangalore for infrastructural development. This program was started on the demand of the state governments to solve the problem of the Mega Cities which resulted due to migration of the people from other places. This program which is administered by the Urban Development Ministry is being implemented with three categories of projects;

1. Remunerative projects.
2. User charge based projects.
3. Basic Service Projects.

CONCLUSION:

Though the various respective governments have been implementing innovative or merging of existing schemes with new schemes, the urban poverty has been on escalation. Where is the mistake, why the government is unable to mitigate the urban poverty, where are the loopholes all those questions need answers. The basic cause for unable to control the urban poverty is lack of political will. The political leaders completely neglected the significance of agriculture sector for the overall development. Instead of giving boost to the agriculture and rural development its not possible to decrease the urban poverty. Once we develop the agriculture and rural areas by allocating sufficient funds, there will be decline of migration to the urban areas. And there is no question of urban poverty and slum areas. Another important cause is quality of education; the government is slowly escaping from its responsibility of establishing primary and secondary schools. Private sector dominated the primary and secondary school education. There is no quality in education and poor people are deprived of basic education and is also one of the reasons for urban poverty. Child labour is to be eradicated and literary rate is to be increased. The government has to allocated sufficient funds for primary health facilities in the rural areas, which is also one of the reasons for migration.

10

Case Study

A Case study of Banking Stability – Financial Inclusion Stability

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Abstract

This Case study focuses on constructive aspect of a Banking Stability Mapping which reduced a link with the financial markets and macroeconomic variables. As it is an ongoing case study it establish the direction of causality between stability of the banking sector and overall financial inclusion stability and it thrown a light on the different dimensions used for the constructive aspect of the banking stability to financial inclusion stability. It reveals the movements in the banking stability indicate that a moderate rise in instability of the banking sector in recent periods where financial inclusion mainly induced it shows that the deterioration in asset quality and also in other aspect of the economy.

Keywords: Banking inclusion Stability, Financial inclusion Stability, Stability Map, Stability Indicator.

I. Introduction

As the banks are the vital components of any financial system, the stability of the banking sector has become a paramount policy initiative worldwide.

The issue of financial inclusion is organically linked with banking stability and its inclusion. In fact the historical evidences demonstrate that this financial crisis which had stronger involvement of the banking sector had more devastating effect on the real sector in terms of the fall in real output and a reduction in employment level. The financial crisis of 2007-08 was no exception. The theoretical analysis of the events that preceded the financial crisis prove amply that whatsoever may the origin of the financial crisis be, its trigger took place in the banking sector. There are also evidences that the financial crisis persisted for a longer period because of weaknesses in the banking sector which went unnoticed for a longer period. In view of these developments there is an additional emphasis to ensure the stability of the banking sector by strengthening regulatory norms, focusing on empirical research on the leading indicators of banking stability and by preparing banking stability inclusion maps and banking stability inclusion indicator.

Banking stability is a yardstick to determine whether an economy is sufficiently strong enough to withstand both the internal and external shocks. On the other side, financial stability is a by-product of stability conditions prevailing in the areas of banking, financial market and the real economy. Out of the three, banking stability conditions emerge as a vital ingredient to financial stability inclusion in our country.

Banking stability in itself relies on the efficiency of the several parameters of individual banks, e.g., asset quality, liquidity, capital, costs and return on assets, etc. for its degree of stability during the period under review and in the days ahead. In this background, an attempt has been made, in this study, to develop a banking stability indicator for India by way of combining some of those indicators which are important in gauging the health of the banking sector.

II. Historical background behind the development of financial inclusion Stability in India

Globally speaking, many central banks have developed or are in the process of developing various methods to identify risk factors linked with the functioning of their banking and financial markets in order to provide early warning signals to the policy makers to enable them to initiate policy measures.

GFSM (Global Financial Stability Map) was introduced as a summary tool for communicating changes in the risks and conditions affecting financial stability in a graphical manner. The GFSM coupled with other financial surveillance tools sought to create a more systematic approach towards monitoring the global financial infrastructure and to improve the understanding of risks and conditions that affect financial institutions and other intermediaries. However, it does not consider certain key sources of financial stability risks, for example, operational risks or micro-structure of asset market.

Judgment & technical adjustments were important in the final assessment of global financial stability and its inclusion. Judgment is made based on market intelligence and related surveillance work in order to determine the final positioning of risk factors in the Map. Technical adjustment is used to account for numerical limitations of the model.

Another attempt by IMF in this direction has been to develop a mechanism called Early Warning Exercise (EWE) jointly with the Financial Stability Board (FSB) to detect risks and vulnerabilities that impact financial stability and its inclusion. As part of the exercise, an Early Warning List (EWL) is prepared and for each risk scenario flagged by the following a) policy actions to mitigate risks and reduce vulnerabilities; and b) suggestions for further analysis in subsequent EWE rounds.

"CAMELS stands for Capital, Asset Quality, Management, Earnings, Liquidity and Systems".

Finally, the conditions prevailing in the financial market segments, viz., debt, equity and foreign exchange exert pressure upon the banking sector; so also realistic economic parameters like export, import, flow of foreign capital, gross domestic product, etc. determines the volume of banking business. However, ultimately, it is the banking sector that keeps itself resilient against all odds and provides a sense of stability not only to the whole banking & financial system but also to the entire economy.

III Methodology

The Banking Stability Map and Indicator represent an overall assessment in underlying conditions and inherent risk factors that impact the stability of the banking sector. The Map and Indicator are based on five indices which represent the five dimensions of:

- Soundness (S);
- Asset-quality (Q);
- Profitability (P);
- Liquidity (L); and
- Efficiency (E).

A composite measure of each dimension is calculated as a weighted average of a set of standardised ratios (Table 1) which are relevant in assessing the dimension. The ratios &weights are also based on the ratios &weights assigned to the different ratios for the CAMELS rating. Each index, representing a single dimension of the functioning of the bank's, takes a value between zero (minimum) and 1 (maximum).

The index represents a relative measure for the sample period used for its construction, with a higher value of the index indicating that the risks emanating to the banking sector when the dimension is higher. Therefore, an increase in the value of the index in any particular dimension indicates an increase in risk in that dimension for that period as compared to other periods. The sample period for assessment was taken at March 2001 to March 2013. The ratios used for construction of each composite index are summarised in Table – 1.

Table 1: Ratios used for construction of Banking Stability Map and Indicator

Dimension	**Ratios**			
Soundness	CRAR *	Tier_I Capital to Tier_II Capital*	Levarage_ratio as Total-Assets to Capital & Reserves	
Asset-Quality	Net NPAs to Total-Advances	Gross NPAs to Total-Advances	Sub-Standard-advances to gross NPAs *	Restructured-Standard-Advances to Standard-Advances
Profitability	Return on Assets*	Net Interest Margin *	Growth in Profit *	
Liquidity	Liquid-Assets to Total-Assets *	Customer-Deposits to Total-Assets*	Non-Bank-Advances to Customer-Deposits	Deposits maturing within-1-year to Total Deposits
Efficiency	Cost to Income (Operating expenses to income – interest expenses)		Business (Credit + Deposits) to staff expenses *	Staff Expenses to Total Expenses

indicates an increase in risk in that dimension for that period as compared to other periods. The sample period for assessment was taken at March 2001 to March 2013. The ratios used for construction of each composite index are summarised in Table – 1.

Negative is related to risk.

For each of the above ratios, a weighted average for the banking sectors is derived, where the weights are the ratio of individual bank's asset to the total assets of the banking system. Each index is standardised for the sample period, using a relative distance measure, as

(Ratio-on-a-given-date – Minimum-value-in-sample-period) divided by (Maximum-value-in-sample-period – Minimum-value-in-sample-period)

The Banking, Financial inclusion Stability Mapping is representative of the over-all conditions in the banking sector, wherein the relative position of the banking; pointing to the fact that the risk factors that impact the banking sector have further accentuated.

This case study reveals that a dimensional increase in risk factors emanating from soundness, profitability, liquidity, asset quality and efficiency. Though, the dimension, Soundness showed the relative deterioration *vice-a-verse* the previous periods, the ratios continue to remain well above the regulatory norms. The Efficiency dimension of the study as derived through cost to income & business, remained more or less at the same level.

As a result, non performing advances (NPAs) declined from a peak of 13 percent of total loans in 2000 to about 2.5 percent in 2011; and the Capital to Risk weighted Assets Ratio (CRAR) steadily improved from 11 percent to

14 percent during the same period. When the current crisis initially hit, it affected mainly banks' trading books, but these losses were easily absorbed by profits. The second-round effects of the crisis resulted in asset quality deterioration.

It established that banking stability is linked with the financial inclusion stability &Continued financial stability improves banking stability and enables the banking sector to absorb the shocks during times of crises, thus minimizing the impact and helping the economy to bounce back with minimum time lag. The good health of the real economy helps to build soundness, efficiency and profitability of the banking system. The impact of shocks in the real economy is reflected in the banking sector through reduced credit growth and deterioration in asset quality. The quantum of the feed-back impact of the banking sector to the real sector is determined by the level of shock absorbing capacity of the banking sector.

The issue of developing a banking stability indicator for India:- The banking stability indicator is based on five parameters which provide insight into the banks' performance and thus could be in a way considered leading indicators of the nature of developments likely to occur in the banking sector as a whole. The movements in the banking stability indicator amply capture the profile of the Indian banks and indicate that there are symptoms of a moderate rise in instability of the banking sector in recent periods perhaps due to the rise in the NPA. Thus, there is a need to exert precautionary measures to improve the overall performance of the banking sector and initiate regulatory measures appropriately. It may however be clarified that banking stability indicator is presently placed at 0.52 as compared to the 0.75 in 2001-02.

It indicates that banking instability has immediate adverse effect on the financial market stability. This analysis in fact provides supporting evidences that the banking inclusion stability indicator, as developed, captures the nuances of the banking sector. These results also indicate that stability in the banking sector is a necessary condition for maintaining financial inclusion stability. Policy makers will need to work towards strengthening the banking sector to enable the banks to bear the shocks resulting from an adverse turn in the real environment. There is a need to build enough safeguard in the banking sector to avoid the negative feedback loop between the banking sector and the real economy, which could lead to the germination and aggravation of a financial crisis.

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11

Book Review

FINANCIAL INCLUSION

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The 'World Bank' research shows that an estimated 2.5 billion working-age adults globally—more than half of the total adult population—have no access to the types of formal financial services delivered by regulated financial institutions that wealthier people rely on. Instead, they depend on informal mechanisms for saving and protecting themselves against risk. They pawn jewelry for their immediate needs, they save with their employer by not withdrawing their salary - partially or fully- without the knowledge of compounding on their income, and they turn to the moneylender for credit at higher costs which they could get at much cheaper cost from banks. These mechanisms are risky and often expensive. The global financial inclusion nurtures the importance of financial literacy, helps building consumer financial capabilities, and consumer protection regimes that take the conditions and constraints of poor families in the informal economy into account. Sameer Kochar, Gursharan Dhanjal and the editors have succeeded admirably in their goal of making the concept clear and understandable. For example, they illustrate on C.B.Bhave's (Chairman, SEBI) remark on whether technology is only for the rich, Bhamashah Financial Empowerment scheme by the government of Rajasthan, the role played by NREGS (National Rural Employment Guarantee Scheme), PMGSY (Pradhan Mantri Gram Sadak Yojana), Skoch model of inclusive growth etc., M.Ramachandran proceeds to explain on the catalytic role played by the Urban local bodies in creating a way ahead in financial inclusion. C.B.Bhave, contributor to the article 'Is Technology Inclusive?', has given examples easy to follow, highlighting on how technology has facilitated the ordinary investor which has freed from the burden of paying higher costs in his transactions that has potential to benefit the poor more than the rich.

M. Ramadoss, Bhimalendu Chakrabarti and Pranav Prasad have extensively discussed on the "Inclusive Insurance" with informative examples and statistical data, that has enabled in bringing down the cost of the insurance policies concerned. R.Chandrasekar, Shankar Agarwal, Narasa Reddy, Anurag Gupta, N.S.Sundar Rajan and Pramod Saxena have thrown light on "Scaling Inclusion", where the more 'unbanked' the banks are able to tap, the more they will prosper, insisting that it is time to scale up for economic growth.

'Smooth Interoperability', of banks and financial institutions is discussed by Karan Bajwa, Sambamurthy, Pathak, and Naresh Chandra Saxena and on 'e-security' by Rajesh Narang, Vijayaditya, Krishnamurthy, Nath and Kumar N.Sivarajan. Other chapters discuss on the topic 'Enhancing Revenues', with regard to the problems and solutions for secure banking by using better CRM by P.P.Mallya, creating mindshare by Samik Roy, adding value to the customer by Tarafdar and moving to the core by Alok Bharadwaj benefitted from customer retention which ultimately translates to growth. The book also contains useful Annexures on effective application of Financial Inclusion by a few banks as illustrations

On every topic the authors have spelled out the benefits, problems and the ways and means of overcoming the constraints and problems faced in the implementation of Financial Inclusion, where we need to reorient the entire approach of financial inclusion and not by only in terms of no-frills account as it is misunderstood. The book has provided a bird's eye view on the pertinent topics covering financial inclusion, prudently edited and converging to understand as an important global development priority.

Call for Papers

AMBER - ABBS Management, Business and Entrepreneurship Review is a referred journal of Acharya Bangalore B School (ABBS), Bengaluru, India (ISSN:0976-3341).

The Theme of the forthcoming issue is "Business History of Karnataka (Connecting Tomorrow with Yesterday)". Future of Business, Commerce, Industry and Economic Development have roots in the past. Understanding the historical development of business in our country over the years provides insight about the challenges and opportunities faced by the business organizations. As a first step the coming issue would focuses on the Business History of Karnataka. This effort is to connect The future with the past.

The Important guidelines for authors are as follows:

1. The article or case study shall be original and empirical using specialized concepts, research methodology highlighting key insights and managerial implications.
2. The submission must be in MS Word 2003.
3. Name of the Author, Designation and Affiliation, and contact e – mail ID must be provided in the first page.
4. The second page must contain the abstract and key words. Ensure that the abstract is not more than 150 words. Abstract should be in fully justified and italicized text. The abstract should elaborate research background and methodology. Maximum 4 – 6 key words, listed alphabetically, separated by commas, and full stop at the end.
5. The third page must contain the title and the body of the article must start here.
6. The body of the article must be center – justified and the entire article must be of font size 10 in Times New Roman font except for headings. The title must be boldfaced with 14 font size in title case. Each of the subheadings must be of font size 12, boldfaced and in Title Case. Section headings can be of font size 10 and boldfaced in title case.
7. The spacing between the lines must be 1.5 and a spacing of 10 points between paragraphs must be given. There must be no tab for the first sentence of every paragraph.
8. All tables must be numbered and must be placed inside the body of text where relevant. The table headings must be placed above the table and be of font size 10 and boldfaced in title case and centered: **Table A: Exports from Karnataka State**. The source of the table data must be given at the bottom of the table in the same font and size as that of the text.
9. All figures must be numbered and must be placed inside the body of text where relevant. The figure headings must be placed above the figure and be of font size of 10 and boldfaced in tile case and centered: **Figure 1: Phases of Economic Development in Karnataka State**. The source of the table data must be given at the bottom of the table in the same font and size as that of the body of the text.
10. Foot notes must be placed on the same page of the main text to which they correspond.
11. Annexures must be numbered and must follow immediately after the body of the text.

12. The body of the text must contain references as follows (WTO,2012) i.e., last name / surname of the author and year.

13. All references have to be arranged in alphabetical order and must be numbered except those of internet sources. The internet sources must be placed after other references and must be separately numbered.

14. The references must be presented as follows:

    For books, reports, manuscripts and unpublished volumes:

    Toffler, A. (1980), the Third Wave: The Classic Study of Tomorrow, Bantam Books, New York, pp 195 – 207.

    For Journals and other periodicals:

    Venkatesha, H.R. (2008), "Dealers' Performance and Customers' Preference in Passenger Car Marketing", Vilakshan, Vol 5, No. 6, pp 222-235.

    For internet sources, web site addresses must be alphabetically arranged and numbered at the end of the reference section.

15. Authors have to submit two hard copies and one soft copy.

16. Hard copies shall be sent to the below address.

Deadline for the submission of the full paper is March 31, 2015.