

FINANCIAL INCLUSION - A GATEWAY TO SUSTAINABLE DEVELOPMENT FOR THE IMPOVERISHED

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ABSTRACT

Inclusiveness is the growth mantra for policymakers today - not just in India, but the world over. In India, the Government has engineered a major directional change in public policy and stressed on inclusive growth for reduction in deprivation and disparities and for sustainable economic growth. In this direction, financial inclusion is in the top priority for policymakers and it is argued that inclusive growth cannot happen without ensuring banking services at affordable costs to the weaker sections of society who do not have any access to the formal financial system. India has a long way to go to ensure financial inclusion. The Reserve Bank of India, NABARD, Government Departments and numerous civil society organisations should make collaborative efforts to attain the mission of financial inclusion. With a more enabling environment, the next few years promise to be exciting for the delivery of financial services to attain sustainable development for the impoverished.

Introduction

World over there has been increased emphasis on inclusiveness in economy, society and polity. In India, the Government has engineered a major directional change, in public policy by its focus on inclusive growth. It was argued that the verdict of the election was against the urban-biased economic development policies pursued earlier (Monaij: 2005). The Government wants to focus more on agriculture, rural development, employment, and social sector (Dev : 2007). Creation of legal entitlements for an individual's right to work has added to resilience and dynamism in rural economy. The

right to information (2005) and the right to education (2010) are effective tools of empowerment for removing social imbalances. The Government's flagship programmes have been the principal instrument for implementing its agenda for inclusive growth. For the year 2011-12, Bharat Nirman, which includes Pradhan Mantri Gram Sadak Yojana, Accelerated Irrigation Benefit Programme, Rajiv Gandhi Grameen Vidyutikaran Yojana, Indira Awaas Yojana, National Rural Drinking Water Programme and Rural telephony have together been allocated ₹ 58,000 crore. This is an increase of ₹ 10,000 crore from the 2010-11 (Union Budget : 2011-12).

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Financial Inclusion for Inclusive Growth

The inclusive growth as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. Apart from addressing the issue of inequality, the inclusive growth may also make the poverty reduction efforts more effective by explicitly creating productive economic opportunities for the poor and vulnerable sections of the society. The inclusive growth by encompassing the hitherto excluded population can bring in several other benefits as well to the economy. The key challenge, therefore, is to make economic growth more inclusive. Different studies have accepted that inclusive growth cannot happen without affordable access to financial services. Theoretical and empirical researches highlight the role of financial inclusion in facilitating inclusive development (Rajan and Zingales: 2004). Evidence indicates that various measures of financial accessibility are positively related to economic growth (King and Levine: 1993; Levine and Zervos: 1998). An efficient and diversified financial accessibility is important for promoting savings and channelling them into investment and creating opportunities to achieve faster rate of economic growth (Kodan et al: 2010). Dr. Rangarajan Committee on Financial Inclusion (2006) suggested a national mission on financial inclusion.

Venkataramaraju and Ramesh (2010) defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost. According to Mandira Sarma and Jesim Pais (2008), financial inclusion refers to a process that ensures the ease of access, availability and

usage of the formal financial system for all members of an economy. Financial inclusion means inclusion of all sections which do not have much access to financial institutions or financial products to a well-functioning financial system. More broadly, it refers to a movement that envisions a society in which as many poor as possible have permanent access to an appropriate range of high quality financial services, including savings, credits, insurance and money transfer. In other words, this would include:

- * Easy and safe access to bank accounts.
- * Extending timely and cheap credit for poor and low income households and small entrepreneurs.
- * Provision of financial and banking services at an affordable cost to disadvantaged and low-income groups.

Financial inclusion is the buzz word today and it can be measured in terms of access to institutions such as banks, insurance companies and micro-finance institutions (MFIs) and their services. Selected countries of the world are also looking to provide specific financial products such as debit cards, credit cards, life and health insurance and home mortgages. On 29 December 2003, former UN Secretary-General Kofi Annan said: "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." (wikipedia-Kofi Annan). India has a long way to go to ensure financial inclusion. About half of the population of the country do not have any types of banking facilities while three-fourths are not covered by any form of insurance. The people who do not have much

access to financial services or financial products are the poorest and most marginalised communities - women and female-headed households, dalits/scheduled castes, scheduled tribes, people with disabilities, widows and destitute women, coastal fisher-folk and landless artisans, etc.

Objectives of the Study

The objectives of the present study are:

- (i) To clarify the concept of financial inclusion;
- (ii) To analyse status and concerns of access to finance;
- (iii) To analyse policy intervention of the RBI; and
- (iv) To suggest measures towards achieving total financial inclusion.

Methodology and Significance

The present study is based on secondary sources of data gathered from different sources, like, RBI website, NABARD website, newspapers, different issues of 'The Journal of Indian Institute of Banking & Finance', etc. It is divided into different sections namely; introduction, present status and concerns, RBI's policy intervention, suggestive measures and conclusion with bibliography.

The study throws light on various dimensions of financial inclusion in India. It will be helpful for decision makers in formulating new policies/amending the existing policies regarding rural oriented financial system in the country. The RBI and NABARD in particular may benefit by implementing the measures suggested in the study by improving access to finance for the poor.

Literature Survey

There is plenty of research work on financial inclusion, micro-finance/credit, inclusive banking conducted by research scholars in different ways (Dasgupta: 2005, Vasimalai and Narender: 2007, Peachy and Roe: 2004) and these studies found that financial inclusion has long way to go towards sustainable development for the impoverished. In fact, scholars may attempt to study different new dimensions and issues on the area of financial inclusion. A review of a few important and relevant literatures in this area has been made in this study.

Venkataramaraju and Ramesh (2010) focused on various aspects of financial inclusion in India, UK and USA in conjunction with an analysis of its outcome in India. Kapoor (2010) pointed out that by integrating the specific needs of the bottom of the pyramid markets and working backward to develop suitable solutions different from the existing ones; we can help the financially excluded. Nagayya and Rao (2010) highlighted the reports of the Committee on Financial Inclusion (2008). Mehta (2010) pointed out how financial inclusion has become part of performance evaluation criteria for banks. Khan (2010) analysed the government decision to permit the entry of new private banks in India. He advocated preventing return of the pre-1969 era of banking.

Muhammad Yunus (2008) popularised the concept of micro-finance and is of the view that structural change to increase access to finance will result in creating self-employment for poor. Mahajan (2010) said that micro-finance institutions should be judged by their median and best, not according to the black sheep that hurt the cause of the poor who have helped the sector

grow. Kabeer (1999) threw light on social impact of micro- credit in rural areas in India. Rao and Linnemann (1996), Dev (2007), Sainath (2004), and Kannan (2007) emphasised the need for economic reforms with equitable development. The present study highlights on various dimensions and challenges of financial inclusion in India.

Status of Access to Finance

Access to financial services, particularly credit, has been a priority agenda for the Government since the early days of Independence for all-round development of the economy. One of the important steps in this measure was the revival of the cooperative

credit structure in the mid-1950s and the decades of the 1960s also continued to focus on institutional credit flows and cooperatives. Following the nationalisation of banks in 1969, the decade of the 1970s was marked by introduction of lead bank scheme and directed lending. In the decade of 1990s, there have been many significant State initiatives in the institutional and policy spheres to facilitate access to financial services by poor, downtrodden, dalits and tribals. The evolution of the Indian Banking sector in India and its role towards the growth and development of the country has been distinct and definitive (Ahuja : 2010).

Table 1 : Access to Finance- Major Milestones

Year	Achievements
1921	Establishment of Imperial Bank of India.
1949	Government of India nationalised Reserve Bank of India.
1955	Imperial Bank of India was partially nationalised and it was named as the State Bank of India.
1969	Nationalisation of 14 large commercial banks by Indira Gandhi Government.
1971	Establishment of priority sector credit norms.
1975	Establishment of Regional Rural Banks (RRBs).
1980	Six private sectors banks were nationalised.
1982	Establishment of National Bank for Agriculture and Rural Development (NABARD), an apex institution in rural credit structure.
1990	Establishment of Small Industries Development Bank of India (SIDBI) to provide micro-credit.
1992	Development of self-help group (SHG) methodology in Karnataka to link the unbanked rural population.
1993	Establishment of Rashtriya Mahila Kosh (RMK).
2005	Establishment of Rural Infrastructure Development Fund (RIDF) to assist State Governments/State owned corporations.
2006	Establishment of Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan.
2008	Waiving of farm loans amounting to ₹ 65,000 crore.
2010	Successful listing of SKS Micro-finance in stock exchange.

The Government of India has taken several steps to strengthen rural credit system. The rural branches of commercial banks have been expanded and certain policies have been taken in order to ensure greater flow of credit to agriculture and allied sectors. The Integrated Rural Development Project (IRDP) was initiated to ensure supply of credit and subsidies to marginalised and landless cultivators. The Reserve Bank of India (RBI) guidelines stipulate that the commercial banks are required to ensure that 40 per cent of total credit is provided to the priority sectors, which include agriculture, small scale industries, education and advances towards weaker sections. Within this limit, banks have to carve out 18 per cent in the form of direct finance

to agriculture and set aside 10 per cent in favour of weaker sections (Mohan 2004). In 2008, the Government of India introduced Agriculture Debt Waiver and Debt Relief schemes and waived farm loans amounting to ₹ 65,000 crore (Mahajan: 2010). Such lending done under the poverty alleviation schemes left little sustainable impact on the economic condition of the beneficiaries. A large section of farm households borrow from informal sources, despite doubling of agricultural credit in recent years and the others were consequently excluded from the scheme's purview. Although these steps have helped to bring rural masses to institutional credit system, vast majority of the rural households still have to bring in the financial systems.

Table 2 : Status of Financial Inclusion

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- * Considerable gap between demand and supply.
 - * Majority of poor are excluded from financial services.
 - * Rural India accounts for just nine per cent of total deposits.
 - * Rural India accounts for just seven per cent of total credit.
 - * Rural India accounts for just 10 per cent of life insurance business.
 - * About 56 per cent of the poor still borrow from informal sources.
 - * Very negligible numbers have access to health insurance (0.4 per cent) and crop insurance (0.2 per cent).
 - * 70 per cent of the rural poor do not have a deposit account.
 - * 87 per cent have no access to credit from formal sources.
 - * High transaction costs and bankers feel that it is fraught with risks and uncertainties.
 - * Unfavourable policies like caps on interest rates which effectively limit the viability of serving the poor.
 - * Lack of an appropriate legal vehicle.
 - * Limited access to equity market.
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Data Source : Different issues of "The Journal of Indian Institute of Banking & Finance".

Concerns

India is one of the fastest growing economies of the world, yet the poor state of financial inclusion remains a stark reality for policymakers, putting a question mark on the objective of inclusive growth (Gupta: 2011). The challenges of achieving more inclusive growth can be met by policies that encourage easier and affordable access to financial services (Thorat: 2008). The number of farmers borrowing from moneylenders has risen to levels not seen since Independence, despite having amongst the world's largest network of about 79,000 banking outlets. Access to saving bank accounts is the very basic indicator of financial inclusion but we have just 15 crore saving accounts for a population of 118 crore (Venkataramaraju and Ramesh: 2010). The main reason for financial exclusion is lack of a regular or substantial income and that's why most of the people with low income do not qualify for a loan. Most of the excluded households are not aware of the banking products, which are beneficial for them. Getting money for their financial requirements

from a local moneylender is easier than getting a loan from the bank. Most of the banks need collateral and it is very difficult for a low income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit.

A large number of small loans are needed to serve the poor, but formal moneylenders prefer dealing with large loans in order to minimise transaction costs. Bankers also tend to consider lending to low income households a bad risk as it is very difficult for low income individual households to find collateral for a bank loan. Although much progress has been made, the problem has not been solved yet, and the overwhelming majority of people in the country, who are living on less than \$1.25 a day, especially in the rural areas, continue to have no lending access to formal sector finance due to the absence of a lending product to serve the needs of the very low income group.

Table 3 : Key Challenges to Access to Finance

- * To minimise operational costs of micro-transactions.
- * Moving from micro-credit to micro-finance such as savings, credits, insurance and money transfer.
- * Reforms of RRBs.
- * Awakening the cooperative structure in real sense of the term.
- * Lack of financial services-savings, micro-insurance, micro-pensions, Remittances, micro-housing loans in rural areas.
- * Low levels of grants to proper functioning of MFIs.
- * Establishment of substantial banking infrastructure in rural areas.
- * Ability to access loan funds at reasonably low rates of interest to low-income households.
- * Appropriate financial services for different segments of the society.
- * Bringing 60 per cent of the financial excluded population in the financial services.
- * Capacity to provide backward linkages or create support structures for marketing.

Policy Intervention

Financial inclusion as defined by RBI is providing banking services at affordable costs to low-income households or the unbank segment who do not have any access to the formal banking system. Public commercial banks captured nearly 70 per cent of the market share in terms of credit and deposits and have a wide network of branches and therefore, have greater responsibility towards RBI's drive on financial inclusion. The RBI guidelines to banks show that 40 per cent of their total bank credit should be lent to the priority sector and this mainly consists of agriculture, small scale industries, retail trade etc. It is to be noted that 60 per cent of the total workforce engaged in agriculture generates only 17 per cent of total GDP of the country. The Finance Minister in his budget speech in 2010 had advised banks to provide banking facilities to habitations having a population of over 2000 by March 2012 (Economic Survey: 2011). The banks have identified about 73,000 such inhibitions for providing banking facilities using appropriate technologies (Venkataramaraju and Ramesh: 2010). A multi-media campaign, "Swabhimaan", has been launched to inform, educate and motivate people to open bank accounts (Union Budget: 2011). A number of policy initiatives have been taken by the RBI/ Finance Ministry to make the banking system more responsive to the needs of the market as well as to strengthen its role in making growth more inclusive. Some of the measures initiated to widen the credit delivery include:

- (i) permitting the use of banking facilitators/correspondents;

- (ii) augmentation of credit flow to the agriculture and other priority sectors;
- (iii) simplification of systems and procedures;
- (iv) information technology to address the last mile problem; and
- (v) providing greater operational flexibility to the Regional Rural Banks (RRBs).

According to RBI, India has about 350 million bank accounts. The actual number of people with bank accounts is far lower since many households in the bigger cities may have more than one bank account, but thousands of villages in India do not even have a bank branch. Around 60 per cent of the population do not have any types of formal banking facilities and out of the six lakh villages, only 30,000 villages have bank branches. Despite widespread expansion of the banking sector after nationalisation of banks in 1969 and 1980, a significant proportion of the households, especially in rural areas, are still outside the coverage of the formal banking system. These households have been dependent up on the informal credit sources for their credit needs and had few avenues for keeping their savings. It has been noticed that people without bank accounts are often the most vulnerable and impoverished. In order to increase financial inclusion in India, the RBI has been prodding banks to launch 'no-frill accounts' - especially, savings accounts with zero balance, limited withdrawals every month and no overdraft. Yet, banks have not aggressively covered the unbanked.

Table 4 : Number of 'no-frills accounts' Opened by SCBs

Bank Group	End-March 2007	End-March 2008	End-March 2009
Public Sector Bank	5,865,419	13,909,935	29,859,935
Private Sector Bank	860,997	1,845,869	3,124,101
Foreign Bank	5,919	33,115	41,482
Total	6,732,335	15,788,919	33,024,761

Source : Hand Book, RBI.

The banks have failed to achieve the dream of financial inclusion because the products designed by the banks are not satisfying the low income households. The need of the hour is to bring uncomplicated, small, affordable products to bring the low income families into the formal financial sector. The present banking infrastructure is not sufficient to reach directly to the low income consumers, therefore correspondents can be considered to be an excellent channel which banks can use to distribute their product information. Financial literacy can prevent a person from falling into a financial hole and educating the unbank section about the financial benefits and products of banks will be beneficial to low income groups. Banks are now permitted to utilise the service of NGOs, SHGs and other civil society organisations as intermediaries through correspondent models for using new technologies like mobile phones to reach low income consumers to achieve progressive financial inclusion. It is possible that the telecom sectors themselves will start basic banking services like savings and payments as telecom consumers have few links to financial institutions.

The number of farmer borrowings from non-institutional sources has risen to levels not seen since Independence, despite doubling of farm credit in recent years and several efforts from the stakeholders towards financial inclusion. Just one in every seven marginal

farmers has access to institutional credit, says a study on agricultural indebtedness, which results in impoverishment, distress migration and, sometimes, suicide. Government waived farm loans of ₹ 65,000 crore in 2008 under Agricultural Debt Waiver and Debt Relief Scheme but only a small portion of farm householders borrow from formal sources, and all others were subsequently excluded from the scheme's purview.

Table 5 : Farmer Borrowings from Non-Institutional Sources (Moneylenders' Hegemony)

Farmers	Landholding size	Percentage
Near-landless	Less than 0.01 ha	77
Sub-marginal	0.01-0.4 ha	57
Upper-marginal	0.4-1.0 ha	47
Small	1-2 ha	42
Large	10 ha and above	32
Farmers holding	2-10 ha not stated	

Source : The Economic Times, 11 Sept. 2010.

Table 6 : Farmers by Share of Landholdings

Farmers	Landholding size	Percentage
Marginal	Less than 1 ha	60.6
Small	1-99 ha	20.0
Semi-medium	2-4.99 ha	12.4
Medium	5-9.99 ha	5.9
Large	10 ha and above	1.1

Source : The Economic Times, 11 Sept. 2010.

PSU banks have a wide network of branches and account for nearly 70 per cent of the market share in terms of credit and deposits and therefore, initiatives by PSU banks could impact RBI drive on financial inclusion. Banks were initially given a target of extending 15 per cent of the total advances as direct finance to the agriculture sector to be achieved by March 1985. This target was subsequently raised to 18 per cent to be achieved by March 1990. In terms of the guidelines issued by Reserve Bank of India in October 1993, both direct and indirect advances for agriculture are taken together for assessing the target of 18 per cent, with the condition that for the purpose of computing their performance in lending to agriculture and lending to indirect agriculture should not exceed one-fourth of the total agriculture lending target of 18 per cent of net bank credit so as to ensure that the focus of banks on direct lending to agriculture is not diluted. However, all agricultural advances under the categories 'direct' and 'indirect' will

be reckoned in computing performance under the overall priority sector target of 40 per cent of the net bank credit. The public sector banks have been formulating Special Agricultural Credit Plans (SACP) since 1994-95 with a view to achieving distinct and marked improvement in the flow of credit to agriculture. Under SACP, banks are required to fix self-set targets for achievement during the financial year. The targets fixed by banks show an increase of about 20 to 25 per cent over the disbursements made in the previous year.

Micro-finance Movement

Micro-finance is defined as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas so as to enable them to raise their income levels and improve their living standard (Joshi: 2006). Micro-finance refers to a movement that wants to provide low-income households a wide range of financial services, including not just credit but also savings, insurance and fund transfer. Foreseeing the need for structural change to increase access to finance, Muhammad Yunus popularised the concept of Micro-finance and today Grameen Bank of Bangladesh is successfully serving over 7.34 million people with a recovery rate of 98.35 per cent (Yunus: 2008). The Indian Micro Finance Institutions (MFIs) are among the fastest growing sectors (see Table-7) and most efficient in the world today and will continue to develop into an important delivery mechanism to reach out to the poor and empowering women. The role of MFIs is to enhance human capital and to evolve the bankable clients to make poverty irrelevant.

Table 7 : MFIs- on the Growth Path

Top seven MFIs	Active borrowers 2009 (million)	Growth (%)	Return of assets (%)	Return on equity (%)
SKS	5.75	139.4	5.0	21.6
Spandana Sphoorty Financial	3.66	56.8	9.0	55.7
Share Microfin	2.35	44.9	5.5	45.2
Bardhan	2.30	124.6	3.5	38.2
Asmitha	1.34	60.0	4.3	40.1
Basix	1.11	65.4	3.1	23.3
Ujjivan Financial Services	0.56	498.8	3.2	9.5

Growth is compounded annualised for five years.

MFIs arranged in decreasing order of active borrowers.

Source : Mix Market.

Micro-finance is under-nourished today and the task is almost limitless - inclusion of 60 per cent of India's population in the financial services and to provide finance to over 2.2 crore poor households that are financially excluded. The funds MFIs have today can take them to just 20 per cent households and about 80 per cent of funds are disbursed through profit oriented MFIs registered with RBIs as Non-Banking Financial Corporations (NBFCs), which are not allowed to use the banking system to lend loans. If the central bank considers the NBFC-MFI demand to allow them to function as business correspondents for banks, they will directly contribute to the financial inclusion in the strict sense of the term.

The first significant breakthrough in financial inclusion came from an NGO (MYRADA) working in Karnataka, which developed the Self-Help Groups (SHG) methodology in 1992 to link rural population to the formal financial system and now about

8.6 crore households have access to banking through SHGs. The SHGs-bank linkage programme continued to be the main micro-finance model by which the formal banking system reaches the micro-entrepreneurs. Since launching it as pilot project, it has proved its efficacy as a mainstream programme for banking by the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small business like hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep saving and credit facility for poor and exploitation of the untapped business potential of the rural areas.

SHGs are playing a very active role in the process of financial inclusion and it is clear from the facts that there are 61 lakh savings-linked SHGs and 42 lakh credit-linked SHGs as on March 31, 2009 (Kapoor: 2010). The SHG model with bank lending to groups of women

without collateral has become an accepted part of rural finance. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period, SHG-based micro-finance have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operational costs. The RBI, NABARD, state governments and numerous civil society organisations have recognised the SHG approach in their initiatives. In spite of the impressive figures, access to finance is grossly inadequate in India to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector.

Suggestive Measures

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through inclusive growth. Sustainable livelihood opportunities can be provided to the deprived sections by means of deposit, insurance, access to affordable credit and the payment system. As we move to greater gross domestic product (GDP) growth rates, the challenge we face is to ensure that all of us, especially the most disadvantaged groups benefit from this economic growth.

- * It is important that all the participative stakeholders like, RBI, NABARD, state governments, numerous civil society organisations and other developmental agencies, need to work together in tandem to drive the efforts towards achieving total financial inclusion and have to recognise the SHG approach in their initiatives.
- * The biggest challenge in financial inclusion is how to provide banking services in the hinterland and how to minimise high operational costs associated with the low value large

volume transactions. The best way to address this challenge is by riding piggy-back on some existing technical and commercial infrastructure. It is important that there are adequate road, rail, digital connectivity and adequate power and infrastructure facilities which are important pre-requisites for operation of banking services.

- * The commercial banks, as per RBI guidelines, are required to ensure that 40 per cent of total credit is provided to the priority sectors. The bank tries to achieve these targets indirectly instead of trying to meet these targets on their own. The government must not allow banks to buy priority sector lending of RRBs sponsored by them.
- * The financial intermediaries are not uniformly geared up to include all households in the financial services. While the commercial banks have taken significant initiatives in this direction, the RRBs and the cooperative banks need to gear up their efforts in this area.
- * Any regulatory framework for MFIs must check corporate misgovernance and ensure that micro-finance agencies do not indulge into predatory lending. Micro-finance can be attributed to the principle of solidarity lending, which happens through self-help groups, which lower the cost to a financial institution related to assessing, managing and collecting loans.
- * The RBI should take steps to allow profit-oriented MFIs to be business correspondents of banks for financial inclusion and this would enable their clients to access insured deposits, national payments system and remittance services.

- * Our fiscal policies should continue to strengthen the framework of Indian banks. Pro-poor monetary and financial liberalisation policies should improve agriculture credit to small and marginal farmers and also informal sector. Monetary policy should contain inflation particularly food prices and also reduce spread between lending and deposit interest rates.
- * The Government has exuberantly expanded resources into 'flagship schemes' and other expenditure programmes. The important thing today is to shift focus from spending to obtaining a better return for the investment.
- * For inclusive growth, private enterprises should develop customised and cost-effective products and services for low-income households. It is important that simple and flexible products and services are provided at affordable cost for the people.

India has reaped the benefit of economic reforms after the opening up of the economy in 1991, reflected in the fact that the economy of India is the eleventh largest economy by nominal GDP and the fourth largest by purchasing power parity in the world. However, there is quite a distance to be travelled when it comes to reforms, in the financial sector. The financial sector reforms started in early 1990s to ensure financial institutions operate on the basis of flexibility and autonomy with a view to ensuring efficiency, productivity and profitability. Over the past two decades, there have been significant reforms, especially allowed FDI up to 26 per cent in insurance companies in 1999 and 74 per cent in private sector banks. There is a broad view among economists, policymakers and financial sector players that the government should precede further to

reforms in the financial sector as now there is no resistance from left parties. The roadmap for financial sector reforms has been defined by P.H. Patil, Percy Mistry and Raghuram Rajan in their report and this report needs to be tabled in the Parliament and passed, otherwise the intention of the Government will be questioned. The key reforms which the Government ought to focus in coming days need a big push for financial sector reforms, the bill to increase maximum foreign shareholding in insurance companies, increase the share of India's largest life insurer, LIC, and create a pension fund regulator and to reform archaic banking laws, which has been pending for the last six years. At present, 26 per cent FDI is allowed in the insurance sector. The Insurance Bill, when enacted, would allow rising the FDI cap for the industry to 49 per cent. However, it has been awaiting approval since 2008 as it was delayed by strong opposition from the left parties. Increase in FDI will have multiple benefits, which includes a boost to the insurance sector and will channelise household savings into long-term investments.

Conclusion

India has been emerging as a superpower against all odds. Despite the relative satisfactory performance in some of the macro-economic variables and spending thousands of crores of rupees on subsidising foodgrain and other social welfare programmes aimed at improving the nation's social indicators, India ranks 119 among 169 nations in human development index (Miller 2010). Financial inclusion is in the top priority for policymakers today to achieve inclusive growth and that cannot happen without ensuring banking services at affordable costs to the weaker sections of society who do not have any access to the formal financial system. Unless we are able to meet the credit needs of our people, we can never hope to grow in a sustainable way. Despite multiple agencies

giving credit to the rural sector, the critical gap in rural credit still exists resulting in the exploitation of the rural masses by money-lenders. People without bank accounts are often the most vulnerable and impoverished (Nath: 2010). Many studies have found that the lack of knowledge is important reason for financial exclusion. Credit counselling services in addition to financial literacy and financial education are being perceived as important tools to enable people to overcome the problem of indebtedness and seek re-access to banking system (Throat: 2008). The knowledge, capital and technology to address these challenges is not fully aligned and used. In order to give financial education and reach the maximum number of people in an efficient manner, banks need to have credit counselling centre, robust risk management practices, technology, skilled manpower and very sound marketing practices. All the key departments of the government and the regulators of the

concerned sectors should make a collaborative effort to attain the financial inclusion through financial literacy so that we have a population aware of the need to appropriately save, invest and insure and also stay debt free.

To conclude, financial inclusion is a great step to alleviate poverty and to ensuring that the financial system plays its due role is one of the biggest challenges facing the emerging economies like India. However, if all stakeholders realise that 'financial inclusion' is good business ground in which the majority of her people will decide the winners and losers, then regulatory and policy frameworks that promote accessibility and responsible banking can definitely lead to the desired results. With a more enabling environment, the next few years promise to be exciting for the delivery of financial services to attain sustainable development for the impoverished.

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