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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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ONLINE RESOURCES

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

SUSTAINABLE FINANCIAL INCLUSION: A NEED OF THE HOUR: STUDY OF RECENT INITIATIVES OF RBI & GOVERNMENT OF INDIA

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ABSTRACT

"Financial inclusion or inclusive financing" is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, the under covered in general and rural poor in particular. The objective of financial inclusion programme in India is to create a platform for inculcating the habit of savings, giving access to formal and organized credit. The lower income category is more vulnerable due to the financial duress in the absence of savings. Presence of formal banking products and services aims to provide a critical tool to inculcate the habit of saving and hence unbanked vulnerable population can be saved from the glitches of local money lenders thereby indirectly helping in capital formation. The availability of adequate and transparent credit shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity. This process is continuous and will never get terminated. Once the basic objectives are achieved then comes the retention of the same forever. Sustainability and sustained development with financial inclusion is not a task or scheme, it's a strategy to raise India and its undernourished subjects to the mainstream of the society by providing them the reliable, affordable, accessible sources to generate and improve their livelihood thereby elevating them from poverty and making them self reliable, self dependent and self empowered citizens. Financial inclusion will better achieve its results just not getting their accounts opened but only through the deserved services are rendered by the financial institution and implementing machinery at right time.

KEYWORDS

Financial Inclusion, Formal Banking Services, Organized credit, Sustainable Development.

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INTRODUCTION

India, a country with more than 6 lakh villages and being the seventh largest of the world with just above 2.3% of the total landscape of earth is abode to over 1.21 billion population as per 2011 census which is more than a sixth of the world's population. The most gigantic character of India's population is it has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is expected that in 2020, the average age of an Indian will be 29 years. Having such a huge working force, it's the responsibility of the country to give proper assistance to the energetic youth segment of the country to build the economy by generating self employment and income thereby taking part in the country's overall development and economy.

According to the NSSO 59th round survey, 51.4% of farmer households are financially excluded from both formal/ informal sources. Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources. Overall, 73% of farmer households have no access to formal sources of credit. Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%. Nearly half of the population and a majority in rural Indians do not have bank accounts. Less than 10% of India's 600,000 villages have a bank branch. Nearly 80% of the Indian population is without life or health insurance. Penetration of mortgages, mutual funds and pension products is also very low.

LITERATURE REVIEW

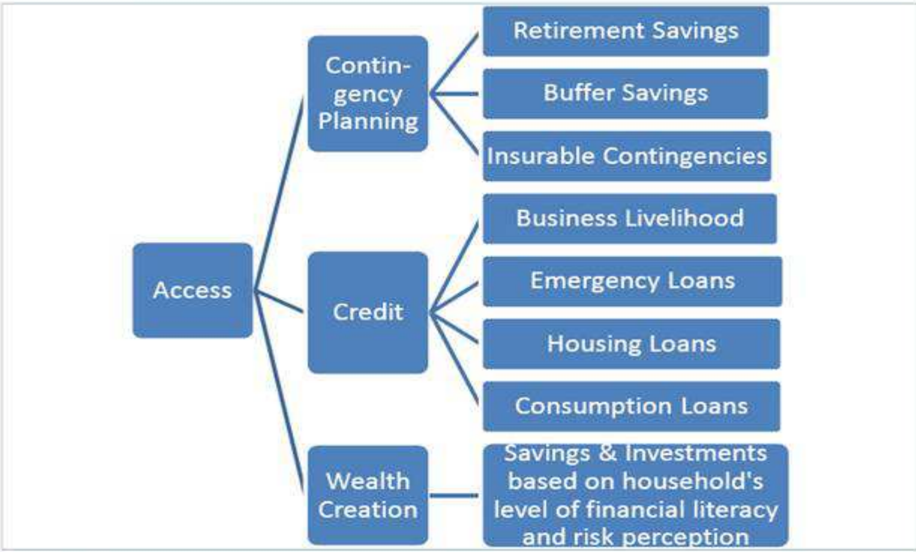
FINANCIAL INCLUSION

The United Nations defines the goals of financial inclusion as access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance; sound and safe institutions governed by clear regulation and industry performance standards; financial and institutional sustainability, to ensure continuity and certainty of investment; and competition to ensure choice and affordability for clients.

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system. Not only have the government and the Reserve Bank of India become very keen to promote inclusion, successful business models have at last emerged to serve the poor in a profitable manner. Capital, both debt and equity, is now available for this sector at reasonable cost even as better technology and Internet connectivity are making it easier and less expensive to reach and reduced participation in society by low-income families[1].

Former UN Secretary-General Kofi Annan, on 29 December 2003, 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." Household access to financial services is depicted in the below figure1.

Figure I: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan),

SUSTAINABLE DEVELOPMENT

The term sustainable development rose to significance after it was used by the Brundtland Commission in its 1987 report Our Common Future. In the report, the commission coined what has become the most often-quoted definition of sustainable development. "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Smith, Charles; Rees, Gareth; 1998)".

It has been suggested that because of rural poverty and overexploitation, environmental resources should be treated as important economic assets, called natural capital (Barbier, Edward B; 2006). Economic development has traditionally required a growth in the gross domestic product. This model of unlimited personal and GDP growth may be over (Korowitz, David; 2012). Sustainable development may involve improvements in the quality of life for many but may necessitate a decrease in resource consumption (Brown, L. R; 2011). In 1987 the economist Edward Barbier published the study "The Concept of Sustainable Economic Development", where he recognized that goals of environmental conservation and economic development are not conflicting and can be reinforcing each other.

The United Nations Millennium Declaration identified principles and treaties on sustainable development, including economic development, social development and environmental protection. It is a road-map, the action plan, for achieving sustainability in any activity that uses resources and where immediate and intergenerational replication is demanded. As such, sustainable development is the organizing principle for sustaining finite resources necessary to provide for the needs of future generations of life on the planet. Humanity has tried many different ways to develop. Some ended in wars, others in economic slumps and economic depression. The Goals have been broken down into a list of targets that are specific, practical and realistic. They are technically feasible and financially affordable. But without social mobilization, we will not progress from concept to achievement. A movement is needed to create awareness, trigger policy reforms, mobilize resources, and motivate actions to meet the goals, both globally and locally. The world cannot remain neutral... Doing nothing is not an option. Each of us can make a difference[2]

RECENT INITIATIVES

Reserve Bank of India along with the support of Government of India has initiated several measures to achieve financial inclusion and Sustainable development. Some of these are explained below.

Opening of no-frills & Basic Saving Bank Deposit (BSBD) accounts : Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card

Know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005; thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, RBI permitted the banks to engage business facilitators (BFs) and BCs as intermediaries for 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. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. For effective cash management, documentation, and redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

[1] Prof. Chitta Ranjan Mishra FI for sustainable development – Research Journal of Commerce and Behavioral Science
[2] From an address by The UNDP Administrator, on the International Day for the Eradication of Poverty, 17 October 2003

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization and Opening of branches in unbanked rural centres: to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions. To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

Financial Literacy Centres (FLCs): Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

Financial Literacy Initiative and SHG-Bank Linkage: Financial education, financial inclusion and financial stability are three elements of an integral strategy, as shown in the diagram below. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Going forward, these two strategies promote greater financial stability. This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. According to NABARD as on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion

Growth of MFIs and Bank credit to MSME: Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs. At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crore as at end Sept 2013. MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations.

Insurance Penetration in the Country: The total insurance (life and non-life) penetration, in terms of the ratio of insurance premium as a percentage of GDP increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration as a percentage of GDP stood at 4.40 in 2010-11 while the non-life insurance penetration remained at 0.71 during the same period. In other words, there is vast untapped potential as regards insurance penetration.

Pradhan Mantri Jan Dhan Yojana: Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kissan Card & in next phase, micro insurance & pension etc. will also be added[3] In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts[4] In this email he categorically declared that a bank account for each household was a "national priority". On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened[5]

CHALLENGES TO THE INITIATIVES

Just having all these policies, programmes and system in place will not be sufficient to achieve the target of financial inclusion and sustainable development. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI is expected to unleash the hugely untapped potential of the bottom of pyramid section of Indian economy, perhaps financial inclusion can begin the next revolution of growth and prosperity and sustainable development[6]. Taking into account the achievements stated above and based on interactions with the stakeholders during our various outreach programmes, and also the feedback received there are many issues which needed to be attended to succeed in the process of financial inclusion and sustainable development[7].

Business Correspondents (BC): For effective functioning of BC model in reaching poor villagers, the following need to be addressed: BCs are not making enough income due to catering of services to low-income customers with low volume transactions. For optimum usage of BCs in reaching the poor villagers, BCs have to be adequately compensated so that they are sufficiently incentivized to promote financial inclusion as a viable business opportunity. The usefulness of BC model is dependent on the kind of support provided by the bank branches. For effective supervision of BC operations and for addressing cash management issues as also to take care of customer grievances, banks should open small brick and mortar branches at a reasonable distance. Further, banks should initiate suitable training and skill development programmes for effective functioning of BCs.

Tailor Made Services and ATM Networks: Designing suitable innovative products to cater to the requirements of poor villagers at affordable rates is an absolute imperative. To wean away villagers from borrowing from money lenders, banks should develop simplified credit disbursement procedures and also flexibility in their work processes. ATM Network in rural areas accounted for only 10.1% of total ATMs in the country as on March 31, 2013. Banks should enhance their ATM network in rural and un-banked areas to serve poor villagers. While doing so, adequate care should be taken regarding safety/ security issues, which have come to the fore in recent times.

KCC/GCCs: To enable farmers to withdraw cash from ATMs anywhere in the country, banks need to convert KCCs/GCCs to electronic credit card. Further, banks may explore the possibility of issuing multipurpose cards which could function as debit cards, KCC and GCC as per the requirements in rural areas. To achieve meaningful financial inclusion, banks should give priority for small farmers as compared to large farmers while sanctioning credit.

Financial Inclusion in Urban Areas and BSBD accounts: Generally, urban financial inclusion leaves vast scope for improvement. Migration from rural to urban centres is also accentuating the problem. It is understood that nearly half of the BSBD accounts are dormant. For effective use of BSBD accounts economic activity needs to be improved.

Migrants are not Adequately Covered: Migrants are facing difficulties in opening bank accounts. Commercial banks need to take care of the needs of the migrant population in their financial inclusion plans. To deal with poor villagers, banks need to initiate training programmes to frontline staff and managers as

[3] Prime Minister to Launch Pradhan Mantri Jan Dhan Yojana Tomorrow". PIB, Govt. of India. 27 August 2014. Retrieved 28 August 2014.
[4] "PM's email to all bank officers". Press Information Bureau, Govt. of India. 25 August 2014. Retrieved 28 August 2014.
[5] "PM 'Jan Dhan' Yojana launched; aims to open 1.5 crore bank accounts on first day". The Economic Times. Retrieved 28 August 2014.
[6] http://www.allbankingsolutions.com/Articles/Articles-AB-Financial-Inclusion.htm
[7] Mr. Raghuram Rajan, the Governor, Reserve Bank of India in his report on financial inclusion

well as BCs on the human side of banking. **:** Remittance facility for migrant population is of paramount importance. Providing of easy and cheap remittance facilities to migrant population is an absolute imperative.

CBS, EBT and Mobile Banking: In order to handle the growing amount of work due to intensive financial inclusion efforts of country, banks/RRBs should ensure scalability of their CBS platforms. The EBT scheme being an important and integral part of the overall Financial Inclusion with its attendant benefits, banks should promote EBT systems effectively for boosting their financial inclusion plans. **:** In rural India, there are 323.27 million mobile subscribers as on March 2012 (TRAI Annual Report, 2012). Under the chairmanship of B Sambamurthy, RBI constituted a committee to examine the options/ alternatives, including the feasibility of using encrypted SMS based funds transfer using an application that can run on any type of handset for expansion of mobile banking in the country.

Low Credit Share and Infrastructure development: Although, in terms of number of branches, rural areas account for nearly 30% of total branches of scheduled commercial banks, the share of rural credit account for less than 10% of total credit. Government/Banks should initiate steps to increase the credit absorption capacity in rural areas by promoting employment and other opportunities. For up-scaling financial inclusion, adequate infrastructure such as digital and physical connectivity, uninterrupted power supply etc is prerequisites. Reportedly, out of six lakh villages in India, around 80,000 villages have no electricity and the constraints of electricity directly impact the working of banks.

Private Sector banks and Post office contribution: In the case of private sector banks, rural branches accounted for just 13.3% of their total branches in March 2013 (while in the case of public sector the same stood at 33.1%). There is an imperative need to ramp up the number of rural branches by the private sector banks. Post offices (POs) are closest to the rural people compared to bank branches. As on March 31, 2011, there are 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas. All round efforts should be made to ensure that Post Offices play a greater and more active role due to known advantages. Progressively, more POs may be engaged to become BCs of banks due to well-known advantages.

Vernacular Languages: Financial inclusion efforts should necessarily be done in vernacular languages. In this context, the need for vernacularisation of all forms (including legal forms) is an absolute must, at least in major languages. There are 10,506 consumer complaints received against financial sector (includes banking, finance, insurance, real estate and construction) during the period January 2013 to March 2013. As part of Financial Literacy initiatives, if banks were to undertake pro-active steps in helping the common public to get over their English phobia, it is felt that the number of complaints would increase manifold.

MSME – Financial Exclusion: The statistics based on 4th Census on MSME sector revealed that only 5.18% of the units (both registered and un-registered) had availed finance through institutional sources, 2.05% got finance from non-institutional sources. The majority of units i.e., 92.77% had no finance or depended on self-finance. SIDBI should go into the reasons for not getting access to formal sources of credit by the majority of MSME units.

SHG-Bank Linkage, Bank Credit and Insurance: Outstanding bank loans against SHGs accounted for only 1.93% of gross bank credit as on March 31, 2011. It was observed that SHGs are not getting loans from banks even after more than one year of its formation and group activities. Certain difficulties are being experienced by SHGs in obtaining bank credit which NABARD should look into and inform RBI of the same. Over 70% of total population resides in the rural areas of the country. However, insurance reaches less than 3% of the total population. Due to high competition and relatively high market saturation in the urban areas, rural areas provide ample business opportunities for insurance firms –both life and non-life.

RESULTS EXPECTED OUT OF INITIATIVES

The measures, plans, programmes, policies and system in place will support the process of financial inclusion and thereby sustainable development with the following outcomes.

Options to live: The basic problem with the rural mass is that, they don't have options to live. The proper implementation of financial inclusion will help them to find such options. An income does not always improve quality of life, but it can help. Social grants are thus supplementing (or substituting for) the trickling down of wealth through economic growth. A Basic Income Grant has been recommended in order to alleviate hardship. This could also relieve the over-harvesting of natural resources in some areas.

Meaningful jobs & Economic reforms: Job is concerned with the psychological aspect of the job holder. Any job cannot serve the purpose. The job has to be meaningful, because the rural jobs are not structured but still demands lot of proficiency and expertness. So, when these jobs are created, they have to take care of the interest and expertness of the person involved, and then only the job becomes meaningful. Efforts to alleviate poverty will not be successful without a complete overhaul of the economic systems that have maintained poverty for so long. We are using outdated economic models that lead to the redundancy of people, and poverty thrives.

Alleviating affluence & poverty: Poor people need to consume more environmental resources. What are the implications for the Earth? Not good, if they were to consume at the same rate as the 'consumer class'. The environmental footprint of a wealthy person is far greater than that of a poor person. Even when we multiply the number of poor, we still find that a mere 20% of the population – the wealthy – is responsible for the bulk of the world's consumption and pollution. These facilities can make them to engage in household business, handicrafts, cottage industries etc. thereby earning descent income through which poverty can be alleviated.

Education and capacity-building: Education and training must help the unemployed, under-employed and youth at risk to move from being unskilled or redundant in one kind of economy to contribute productively to a new economy based on social justice and ecological sustainability. Equally important is capacity-building for government departments, which must deliver on poverty reduction and development. Policies such as the Integrated Rural Development Programme are well intentioned, but lack substance, particularly on sustainable development

CONCLUSION

Financial Inclusion is not a scheme; it is a continuous process which ends only when 100% inclusion is achieved. Achieving sustainable financial inclusion will require a systematic effort, which leverages technology, regulatory framework and appropriate business models cohesively. Information and Communications Technology (ICT) interventions, including mobile and wireless, will enable financial institutions to create disruptive business models to provide mainstream financial services to the poor. In developing countries, including India, IT coupled with the rapid increase in the telecommunication network and service quality has the potential of being the force-multiplier for scaling up financial inclusion. Financial inclusion is the process of ensuring access to mainstream financial services where and when needed by vulnerable social groups at an affordable cost. It is the usage intensity of financial product and services instead of mere ownership of a financial product, which results in sustainable financial inclusion.

Another relevant point regarding financial inclusion is that, even amongst the population that has access to formal financial sector institutions, the majority are often poorly served both quantitatively and qualitatively from the perspective of products and services. Despite broad international consensus on the importance of financial inclusion as a powerful social development instrument, it is estimated that over two billion people continue to be financially excluded from the formal financial sector. With over 135 million financially-excluded households, India is home to the world's second largest financially-excluded population after China. Only 34 percent of the Indian population is currently engaged with the formal financial sector and the urban rural divide is very apparent. If usage intensity of a savings account is considered as a true indicator of financial inclusion rather than mere ownership, then the financial inclusion percentage will certainly be much lower. Till recently, the focus of the financial inclusion interventions has largely been supply oriented and typically driven by government mandates. While progress has been made during the last few years, the formal financial sector continues to treat providing financial services to the poor as a social obligation rather than a viable untapped business opportunity. To achieve a more balanced set of interventions and align the supply-side interventions with the needs of the financially-excluded consumer, it is important to develop an in-depth understanding of the consumer. Some typical challenges faced by the financially-excluded consumer toward accessing the mainstream financial services include complex products, bureaucratic procedures, lack of credit history and lack of collateral. To create a "demand pull" for their products and services, financial institutions will have to architect their products and services radically to address the real, rather than perceived, needs of the financially-excluded consumers.

From the supply-side perspective, the challenges for scaling up financial inclusion include high cost of transactions, huge upfront investments to create the infrastructure, market development expenses and lack of standards. In India, the challenge is exacerbated as IT adoption beyond the national public sector banks is quite low. Ensuring sustainable financial inclusion will require supply-side and demand-side challenges to be addressed simultaneously through systemic solutions. All stakeholders of the financial inclusion ecosystem, including financial institutions, regulatory agencies, technology service providers and civil society organizations, will need to play their individual parts effectively. They will also need to collaborate with each other to architect and implement effective interventions.

ICT interventions can enable financial institutions to create disruptive business models that will provide mainstream financial services to the poor. Mobile and wireless ubiquity coupled with the rapid increase in the telecommunication network and service quality has the potential of being the force-multiplier for scaling up financial inclusion. By leveraging ICT, financial institutions can lower down the cost of transactions, increase their outreach, reduce time-to-market, enable product and service innovation and achieve upstream and downstream integration within the financial ecosystem institutions.

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