## The Development of India's Financial Inclusion Agenda- Some lessons for Pakistan


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**Abstract;** Access to financial services (Financial Inclusion) to all the sections of society is considered vital for inclusive growth. However, in Pakistan, the access to finance presents a very worrying picture, with less than 20% of population accessing formal financial services. The same ratio is 50% for India, which off late has witnessed a fairly successful story regarding its efforts to make financial services accessible to all. Although the context might differ, the goal of Financial Inclusion most certainly remains the same. The paper explores the strategies and processes through which India has pushed through its agenda of Financial Inclusion and has been fairly successful so far. It is hence argued that the trajectory of India's financial inclusion agenda may offer interesting insights for Pakistan's efforts to enhance financial inclusion in the country.

**Section I:-**

**Introduction:-** Financial Inclusion has assumed a vital position in the Public Policy discourse of developing economies. Provision of financial services to the otherwise excluded strata of the society enhances their potential to climb the economic ladder of opportunity and prosperity. Access to financial services to the otherwise excluded impacts their quality of life and enables the less privileged to increase and diversify their incomes, improve their social and economic conditions. Lack of access to financial services, most poor households have to rely on their meagre savings or money lenders which limits their ability to actively participate and benefit from the development process.

The present paper is an attempt to present the trajectory of India's financial inclusion discourse since 1947 to present times and relate it to Pakistan's financial inclusion regime. The basic underlying theme of the paper is how India's financial inclusion regime can have some important policy prescriptions for Pakistan in its attempt to further the agenda of Financial Inclusion. Section II deals with the concept of Financial Inclusion viz- a-viz inclusive growth in India. Section III provides a retrospective outlook of the financial inclusion discourse in India and its current scenario. Section IV throws light on scenario of Financial Inclusion in Pakistan. Section V tries to relate India's financial inclusion initiatives to Pakistan's setting to draw some policy perspectives. Section VI provides some concluding remarks regarding the paper.

**Section II:-**

**2.1 Inclusive Growth and Financial Inclusion:-** Inclusive growth fundamentally refers to broad based or balanced growth which will benefit the poor and the underprivileged. It has the potential to impact the poverty levels in a country and enhance the involvement ofpeople into the growth process of the country. Inclusive growth by its very definition implies an equitable allocation of resources or providing equitable opportunities to all in accessing resources such that it benefits the society at large. In Inclusive Growth is embedded the idea of equality of opportunity for all in terms of access to markets and resources, an unbiased regulatory environment for employment, standard of living etc. Inclusive growth should ideally ensure the economic and financial progress permeating through the cross sections of the society resulting in balanced, democratically sustainable and optimal growth.

The current state of Indian economy presents a strong case of an economy gaining some momentum out of poverty and destitution. The growth rates have been very impressive (more so for pre- global slow down period), with the growth rate approaching 10 percent during some years of last decade[1]. Such a phenomenal growth rate places India among those developing economies that have an enormous potential to emerge out of poverty and destitution in a limited time frame, provided the benefits of growth are translated across the societal divide on equal terms. If growth percolates into the so far excluded sections of the society, only then shall the Indian dream of a developed economy be realised. But the reality of India's growth story is disturbing to say the least, for it has two countries within one- *the shining India and the dark rural Bharat.* The growth story is embedded in the deep social exclusion phenomenon witnessed in India. The growth process is accompanied by growing inter-regional, intra- regional and interpersonal inequalities of wealth and income. The urban-rural divide with respect to any development variable is getting widened. India is still the country with largest number of mal nourished children in the world. According to a 2006 report[2] almost 370 million people are facing some form of deprivation. In particular, those in rural and tribal areas are becoming acute victims of deprivation. What is clear is the fact that the growth process has been quite exclusive, bypassing a large section of the population. The political economy of growth suggests that such a growth process not only is unstable but it has potential to increase tensions in the society, threatening unity of the country.

Recognising this, the government of India right from top to bottom has been involved in various initiatives and policy prescriptions that aim at enhancing inclusiveness in the growth process. The 11$^{th}$ and 12$^{th}$ five year plans have inclusive growth as the focal point[3]. The inclusive growth agenda of the government was complimented by various national level measures resulting in huge investments in social sector[4] during the 11$^{th}$ 5 year plan period and continues unabated in the 12$^{th}$ 5 year plan as well. In the scheme of things, Financial Inclusion fits in as one important policy perspective that can promote inclusiveness in growth phenomenon of the country. The Rangarajan Committee describes financial inclusion as *the*

[1]In the four years (2003-04 to 2006-07), the Indian economy grew by 8.8 per cent. In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 per cent,(Planning Commission) respectively.

[2]National Commission for Enterprises in the Unorganized Sector, chaired by Arjun Sengupta, 2006.

[3] The policy document of 11$^{th}$ 5 year plan (2007-2012) read , " towards faster and more inclusive growth" and the same document for 12$^{th}$ 5 year plan (2012-2017) read, " towards faster, sustainable and more inclusive growth".

[4] The national flagship programmes like MGNREGA, Bharat Nirman, PMGSY, NRLM, NRHM etc. are a case in point.

*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*. Credit may be one of the important components of financial inclusion, but most certainly not the whole of it. In fact financial services such as saving facilities may be preferred more by the poor households over credit services (World Bank, 2007).

## Section III:-

**Financial Inclusion in India- a Retrospective Recourse:-**Since 1947, the credit policy discourse of the government has been in line with the Financial Inclusion policy of the present regime, though with most of the focus on credit services alone. This policy in the country has substantially evolved over the past six decades without the nomenclature of Financial Inclusion (Rao, 2007). Since 1947, the development of India's financial sector has resulted in impressive up gradation and consolidation of access to banking services (credit) in rural areas. The first of its kind, All India Rural Credit Survey- 1951(AIRCS) was conducted to assess the rural indebtedness. The survey was conducted by the central bank of the country, RBI. The survey concluded that more than 90% of rural credit needs were being met by moneylenders or other informal sources. The share of banks in total credit was too low as 1% in total rural debt (Table 1). This type of restrained access to credit services called upon the government forces to arrest this trend and intervene with regards to rural financial markets.

**Table 1: Break-up of Institutional and Non-Institutional Rural Credit ((Per cent) )**

| | 1951 | 1961 | 1971 | 1981 | 1991 | 2002 |
|---|---|---|---|---|---|---|
| ***Institutional Agencies*** | **7.2** | **14.8** | **29.2** | **61.2** | **64** | **57.1** |
| Government | 3.3 | 5.3 | 6.7 | 4 | 5.7 | 2.3 |
| Co-op. Society/bank | 3.1 | 9.1 | 20.1 | 28.6 | 18.6 | 27.3 |
| Commercial bank incl. RRBs | 0.8 | 0.4 | 2.2 | 28 | 29 | 24.5 |
| Insurance | -- | -- | 0.1 | 0.3 | 0.5 | 0.3 |
| Provident Fund | -- | -- | 0.1 | 0.3 | 0.9 | 0.3 |
| Others institutional agencies* | -- | -- | -- | -- | 9.3 | 2.4 |
| ***Non-Institutional Agencies*** | **92.8** | **85.2** | **70.8** | **38.8** | **36** | **42.9** |
| Landlord | 1.5 | 0.9 | 8.6 | 4 | 4 | 1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Agricultural Moneylender | 24.9 | 45.9 | 23.1 | 8.6 | 6.3 | 10 |
| Professional Moneylender | 44.8 | 14.9 | 13.8 | 8.3 | 9.4 | 19.6 |
| Traders and Commission Agents | 5.5 | 7.7 | 8.7 | 3.4 | 7.1 | 2.6 |
| Relatives and Friends | 14.2 | 6.8 | 13.8 | 9 | 6.7 | 7.1 |
| Others | 1.9 | 8.9 | 2.8 | 4.9 | 2.5 | 2.6 |
| ***Total*** | ***100*** | ***100*** | ***100*** | ***100*** | ***100*** | ***100*** |

*: includes financial corporation/institution, financial company and other institutional agencies.
-- denotes not available.
***Source***: All India Rural Credit Survey (1954); All India Debt and Investment Survey, Various Issues.

In 1955, the State Bank of India (SBI) was established to extend banking facilities on a large scale, particularly to the rural and semi-urban areas in the country, and also to serve various other public purposes. To strengthen financial access to the poor, the Indian government nationalized the commercial banks in July 1969 when a major portion of the banking system (i.e. fourteen big Commercial banks) were brought under the public sector to better serve the development needs of the economy in conformity with the country's national policies and objectives. Further, six more banks were nationalized in April 1980. India undertook a massive drive for bank branch expansion, particularly in the rural areas in the 1970s and 1980s. In addition to SBI, RRBs were created to cater to the needs of rural farmers. As a result, India witnessed a phenomenal growth in its formal rural banking system not only in terms of geographical spread, but also with regards to deposit mobilization and disbursement of credit. Public sector banks accounted for more than 90 percent of the commercial banking business. Number of bank branches expanded quite significantly resulting in (more than six times) reduction in population per office reaching 10,000 people per office in 2012 from 64 thousand per office in 1969. (Basu and srivastava, 2006, Trend and Progress of Banking in India, 2013). Following bank nationalization, the share of banks in rural household debt increased to about 29 per cent in 1981 and 1991 while the share of formal or institutional sources in total debt reached 61.2 per cent before declining in 1991. Correspondingly, the share of moneylenders apparently declined steadily over these four decades, from 69 percent in 1951 to less than 16 percent in 1991 (AIDIS, 1991). However the same figure rose to about 30% for the year of 2002 (AIDIS, 2002)[5].

These surveys do point towards the fact that lot of affirmative action has been done by various institutional agencies to percolate the rural credit markets, more so till economic reforms were initiated in 1991. Till the reforms a strict government policy did ensure the development of rural credit markets, however at the cost of the financial efficiency. After 1991 economic reforms the state phased out of rural credit markets paving way to competition and efficiency regime. India being such a vast country geographically, variations in access to credit and rural indebtedness with respect to various regions and even within various regions has long been witnessed and continues even today. Each region has its own developmental problems and peculiar specificities in relation to rural financial markets. Money lenders thus continue to be an important source of providers of credit services in rural areas. Moneylenders have advantage over formal financial institutions, such as banks because they know their clients much better than formal institutions. Therefore, they are in a better position to enforce contract with clients and offer more flexible financial services in line with the needs of the borrowers (Basu and Srivastava, 2006).

**Table 2 : Outstanding Cash Debt of Major States as on June 30, 2002 – Credit Agency Wise (percent)**

| **States** | Government | Coop. Society Bank | Commercial Bank | Insurance | Provident Fund | Commercial Instn. | Financial Company | Other Institutional Ag. | Landlord | Agriculturalist Moneylender | Professional Moneylender | Traders | Relatives And Friends | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 0.7 | 11.7 | 13.3 | 0.4 | 0 | 0 | 0.8 | 0.4 | 3.3 | 27.7 | 29.7 | 5 | 1.5 | 5.6 |
| Assam | 15.4 | 5.2 | 23 | 0.1 | 7.3 | 2.2 | 0.8 | 3.9 | 0.2 | 2.4 | 23.8 | 1.4 | 12.4 | 1.9 |
| Bihar | 2.3 | 6.2 | 27 | 0.2 | 0 | 0.1 | 0.1 | 0.6 | 1.1 | 18.7 | 27.8 | 1.4 | 7.4 | 7.1 |
| Chattisgarh | 2.5 | 23.9 | 56.5 | 0.1 | 1.1 | 0 | 0.9 | 0.2 | 1.2 | 1.4 | 6.6 | 1.2 | 3.5 | 0.7 |
| Gujarat | 2.9 | 40.1 | 22.4 | 0 | 0.1 | 1.2 | 0.2 | 0.5 | 0 | 0.3 | 8 | 3.9 | 20.5 | 0 |
| Haryana | 0.4 | 22.7 | 25.7 | 0 | 0 | 1 | 0 | 0 | 1.3 | 15 | 26.5 | 1.4 | 3 | 2.9 |
| Himachal Pradesh | 4.5 | 25.1 | 40.3 | 0 | 0.7 | 0.2 | 2.3 | 0.5 | 0.2 | 0.2 | 3 | 0.5 | 17.6 | 4.8 |

[5]The institutional shift after 1991 economic reforms withered away institutional finance channels in rural areas to a considerable extent, providing the exploitative money lenders greater scale and scope of operation once again.

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jammu & Kashmir | 0.7 | 11 | 60.9 | 0 | 0 | 0 | 0 | 0 | 0 | 0.8 | 0 | 0 | 26.5 | 0 |
| Jharkhand | 10.5 | 9.5 | 46.9 | 0 | 3.3 | 0 | 0.1 | 0.3 | 0.7 | 3.5 | 13.6 | 0.7 | 10.7 | 0.2 |
| Karnataka | 1.2 | 35.3 | 28.9 | 0.1 | 0 | 0.8 | 0 | 0.3 | 1.8 | 9.5 | 14 | 2 | 5 | 1 |
| Kerala | 4.8 | 46.2 | 23 | 0.5 | 0.1 | 5.2 | 0.2 | 1.3 | 0 | 0.1 | 7.8 | 0.1 | 9.1 | 1.6 |
| Madhya Pradesh | 0.9 | 33.6 | 23.8 | 0.1 | 0 | 0 | 0.1 | 0.1 | 0.3 | 9.8 | 21.1 | 3.3 | 1.8 | 5.1 |
| Maharashtra | 1 | 60.3 | 20.9 | 0.8 | 0.3 | 0.7 | 0.3 | 0.5 | 0.1 | 2.4 | 4 | 0.3 | 6.6 | 1.8 |
| Orissa | 1.4 | 29.3 | 31.8 | 0 | 1.6 | 9.5 | 0 | 0.4 | 0.1 | 4.4 | 18.2 | 0.1 | 2.4 | 0.7 |
| Punjab | 1.1 | 19 | 28.6 | 0.1 | 0 | 1.2 | 6.3 | 0.2 | 2.6 | 16.5 | 7.8 | 1.5 | 13.9 | 1.4 |
| Rajasthan | 0.6 | 11.8 | 21 | 0 | 0 | 0.1 | 0.2 | 0 | 0.5 | 16.8 | 32.1 | 10.6 | 4.5 | 1.7 |
| Tamil Nadu | 2.8 | 23.8 | 17.2 | 0.9 | 0.6 | 0.1 | 0.4 | 0.9 | 0.6 | 4.2 | 42.2 | 0.6 | 4.3 | 1.4 |
| Uttaranchal | 1.4 | 12.2 | 44.9 | 0 | 0 | 0.1 | 0 | 0 | 0 | 1.9 | 12.8 | 0.1 | 25.3 | 1.3 |
| Uttar Pradesh | 2.5 | 11.7 | 38.6 | 0 | 0.1 | 0.1 | 0.1 | 2.8 | 0.5 | 9.3 | 20.2 | 1.5 | 9.9 | 2.7 |
| West Bengal | 11.9 | 14 | 35.6 | 0.2 | 2 | 2.7 | 0.3 | 0.8 | 0.4 | 2.1 | 10.8 | 2.9 | 14.2 | 2.1 |
| **All India** | **2.3** | **27.3** | **24.5** | **0.3** | **0.3** | **1.1** | **0.6** | **0.7** | **1** | **10** | **19.6** | **2.6** | **7.1** | **2.6** |
| ***Source*: All India Debt and Investment Survey, 2001-02**. | | | | | | | | | | | | | | |

While the economic strategies post 1991 dominated by the notion of liberalization, where markets took the centre stage of economic policy, the acceleration of growth was given primary importance and re-distribution and social aspect of economic policy however took a back seat. The economy took off in terms of impressive growth statistics since then all the way till the most part of the first decade of this century. However the enigma surrounding this growth imbroglio had been its “exclusionist” tendencies. This impressive growth did not translate into the larger social good. The lack of “redistribution” or “trickle down” effect of this growth trajectory was now being considered a big drawback. This led to a new discourse in Indian economic development focusing on *inclusiveness* in its growth phenomenon. The agenda of *Financial Inclusion* fits in this framework of India’s development discourse. Increasing inclusiveness in India’s growth process, which also benefits lower strata of society, can only be achieved by promoting inclusiveness in the provision/access to financial services (Gattoo, Akhtar, 2014)

**RBI and GoI Initiatives and Policy Measures for Financial Inclusion- Progress Thus Far.**

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 (Basic saving bank deposit account (BSBDA)-**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. However from august 2012, RBI asked the banks to shun away with the tag "no-frills", as the nomenclature had been stigmatised. Hence RBI asked the banks to convert the existing "no-frills" accounts to Basic Savings Bank Deposit Account. This initiative of RBI has proved to be quite effective as the banking system has opened 182 million such accounts amounting to Rs.183 billion by March, 2013 under the Financial Inclusion Plan (FIP).The figures, respectively, were 139 million and Rs.120 billion in March, 2011 (Table 3).
- **Overdraft facilities in saving Account-**Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in BSBDA accounts. Banks have been advised and directed to provide small OD in such accounts. Banks had provided 4 million ODs amounting to Rs. 2 billion till March 2013. The figures, respectively, were 3 million and Rs. 1 billion in March 2012 (Table 3).
- **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 Sub-Group 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.

***Table- 3***

| No. | Variable | Mar-10 | Mar-11 | Mar-12 | Mar-13 | Absolute change (2010-2013) | Percentage change (2010-2013) |
|---|---|---|---|---|---|---|---|
| 1 | Banking Outlets in Villages >2,000 | 37,949 | 66,605 | 1,12,288 | 1,19,453 | 81,504 | 214.8 |
| 2 | Banking Outlets in Villages <2,000 | 29,745 | 49,603 | 69,465 | 1,49,001 | 1,19,256 | 400.9 |
| 3 | Banking Outlets in Villages - Branches | 33,378 | 34,811 | 37,471 | 40,837 | 7,459 | 22.3 |
| 4 | Banking Outlets in Villages - BCs | 34,174 | 80,802 | 1,41,136 | 2,21,341 | 1,87,167 | 547.7 |
| 5 | Banking Outlets in Villages - Other Modes | 142 | 595 | 3,146 | 6,276 | 6,134 | 4,319.7 |
| 6 | Banking Outlets in Villages - Total | 67,694 | 1,16,208 | 1,81,753 | 2,68,454 | 2,00,760 | 296.6 |
| 7 | Urban Locations covered through BCs | 447 | 3,771 | 5,891 | 27,143 | 26,696 | 5,972.3 |
| 8 | Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million) | 60 | 73 | 81 | 101 | 41 | 67.5 |
| 9 | Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in ₹ billion) | 44 | 58 | 110 | 165 | 120 | 271.5 |
| 10 | Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million) | 13 | 32 | 57 | 81 | 68 | 512.4 |
| 11 | Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in ₹ billion) | 11 | 18 | 11 | 18 | 8 | 70.4 |
| 12 | BSBDA Total (in million) | 73 | 105 | 139 | 182 | 109 | 147.9 |
| 13 | BSBDA Total (Amt. in ₹ billion) | 55 | 76 | 120 | 183 | 128 | 232.5 |
| 14 | OD facility availed in Basic Savings Bank Deposit Account (No. in million) | 0.2 | 1 | 3 | 4 | 4 | 2,094.4 |
| 15 | OD facility availed in Basic Savings Bank Deposit Account (Amt. in ₹ billion) | 0.1 | 0.3 | 1 | 2 | 1.5 | 1,450.0 |
| 16 | KCCs Total (No. in million) | 24 | 27 | 30 | 34 | 9 | 39.0 |
| 17 | KCCs Total (Amt. in ₹ billion) | 1,240 | 1,600 | 2,068 | 2,623 | 1,383 | 111.5 |
| 18 | GCCs Total (No. in million) | 1 | 2 | 2 | 4 | 2 | 161.2 |
| 19 | GCCs Total (Amt. in ₹ billion) | 35 | 35 | 42 | 76 | 41 | 117.4 |
| 20 | ICT A/Cs-BC Total Transactions (No. in million) | 27 | 84 | 156 | 250 | 224 | 844.4 |
| 21 | ICT A/Cs-BC Total Transactions (Amt. in ₹ billion) | 7 | 58 | 97 | 234 | 227 | 3,279.8 |

**Note:** Absolute and percentage variation could be slightly different as numbers have been rounded off to million/billion.
**Source**: Reserve Bank.

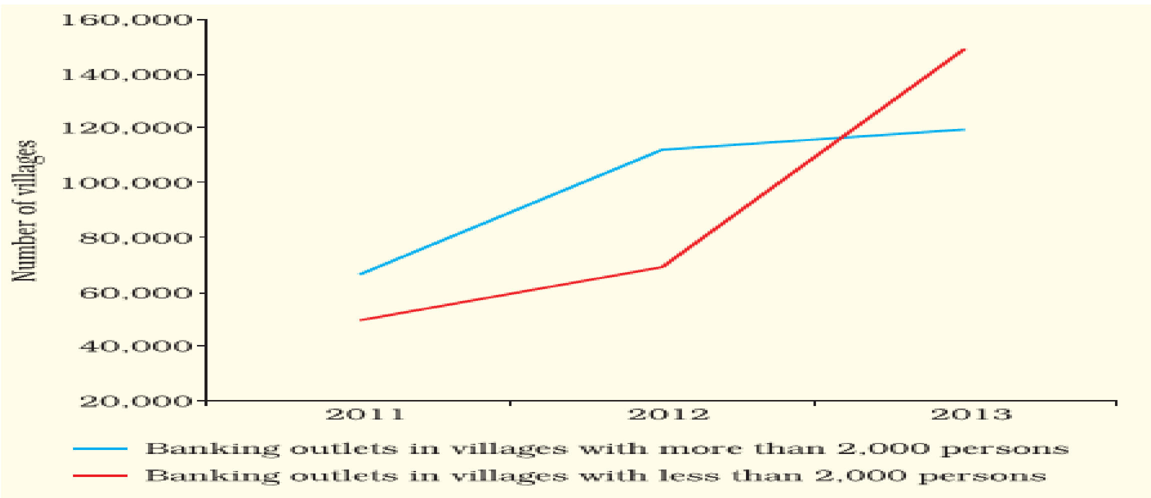
*"Report on Trend and Progress of Banking in India 2012-2013"*

- **Overcoming 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 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 in 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 Centres (FLCCs).The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling. In every state state level bankers committee co-ordinates these financial literacy programmes.
- **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 centres with 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 centre-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 introduction of a General Purpose Credit Card (GCC) facility up to Rs.25,000/- 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 assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. Banks have offered 4 million GCCs with an amount of Rs. 76 billion by the end of March, 2013.
- **Kisan Credit Cards (KCCs)-** Kisan Credit Cards to small time farmers have been issued by banks. As on March 2013, the total number of KCCs issued has been reported as 34 million with a total amount outstanding to the tune of Rs.2,623 billion. The figures respectively, were 30million and Rs.2,060 billion on March, 2012(Table 3).
- **Business Correspondents (BCs) and Business Facilitators (BFs) Model-** As an innovative financial inclusion scheme, the Reserve Bank permitted banks to engage

BCs and BFs 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. 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 2,21,341 by the end of March, 2013.The figure was 1,14,136 in March, 2012.The urban locations covered through BCs are 27,143 by the end of March, 2013.The figure was 5,891 in March, 2012 (Table 3).

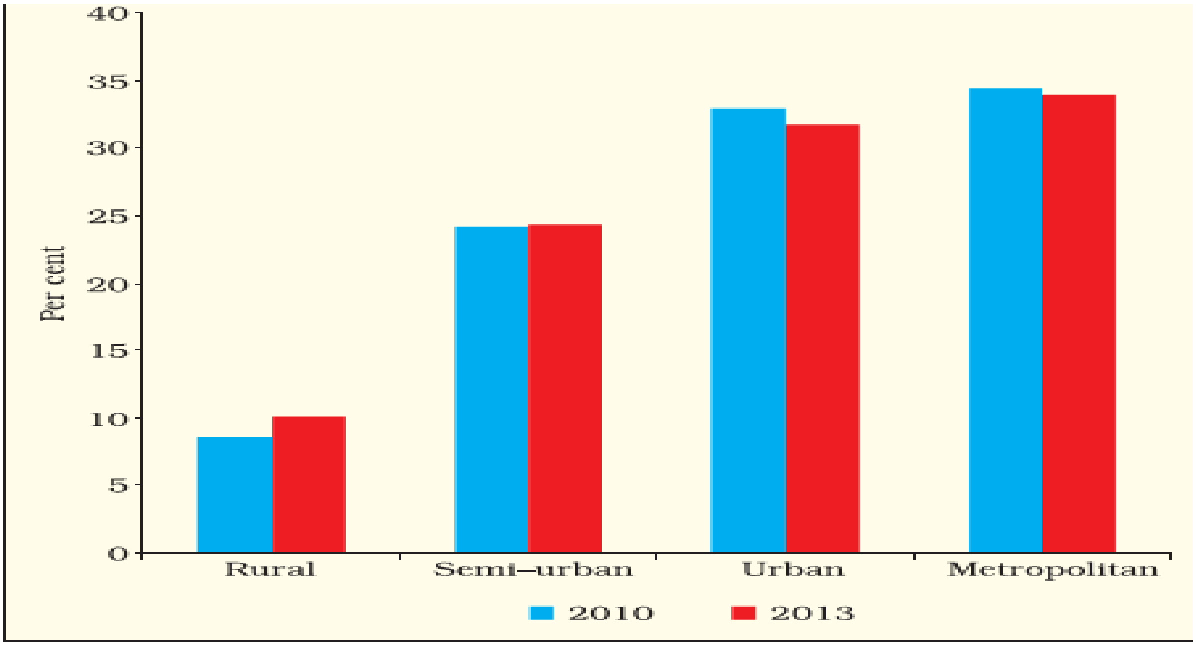
- **Opening of branches in unbanked rural locations-**To target excluded section of society in rural locations attention was given to expansion and opening of bank branches in those centres. Consequently, banks have been mandated in the Monetary Policy Statement to target at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centres (April 2011). With the completion of three years of financial inclusion plans, there have been signs of considerable progress in terms of expanding the outreach of banking through both branch and non-branch means. There was a steady rise in the number of newly opened branches in Tier 5/6 centres with a population of less than 10,000 during 2010-13. While banking outlets were provided in almost all identified unbanked villages with a population of more than 2,000, the process of bringing in unbanked villages with a population of less than 2,000 was in progress during the year. The share of ATMs in rural and semi urban centres was on a rise. This trend should be seen as a positive step towards inclusive banking in the country.




<u>**Table-4:-**</u> <u>**"Progress of Banking outlets in villages classified by population"**</u>

***Source- "Report on Trend and Progress of Banking in India 2012-2013"***

➢ **Use and promotion of ICT in Banking-**Financial inclusion approach as a policy hugely emphasizes on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The Government and the RBI are promoting 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. Enhanced use information technology in the banking system of country, more so to enhance the agenda of inclusive banking system in rural areas, has surely been a step that needs appreciation.




**“ Table- 5 Distribution of ATMs by centres”**

***Source- “Report on Trend and Progress of Banking in India 2012-2013”***

➢ **Branch Expansion/Coverage of villages-** Till March 2013, Banks have opened banking outlets in 2,68,454 villages up from just 1,81,753 as on March,2012.Out of these, 40,837 villages have been covered through brick and mortar branches, 2,21,341 through BC outlets and 6,276 through other modes like mobile vans etc. providing banking services at the door step of villagers through Smart Cards (Table 3).

➢ **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. 20,000 crore in 2013-14.The aggregate allocations have reached Rs. 1,72,500 crore. In the Budget speech 2013-14, again, an allocation of Rs. 20,000 crore has been made for the purpose.

- **Creation of Funds for Financial Inclusion-**Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by 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.

  Probably one of the most fulfilling aspects of financial inclusion policy initiative are the signs of narrowing of regional gap in terms of banking penetration (Table- B). On account of the increased penetration of branches, the major beneficiaries have been the under-banked regions, viz., the north-eastern, eastern and central regions. Consequently, the regional gap in terms of banking penetration has narrowed over recent years as shown by a steady decline in the range (maximum-minimum) in the population per bank branch.

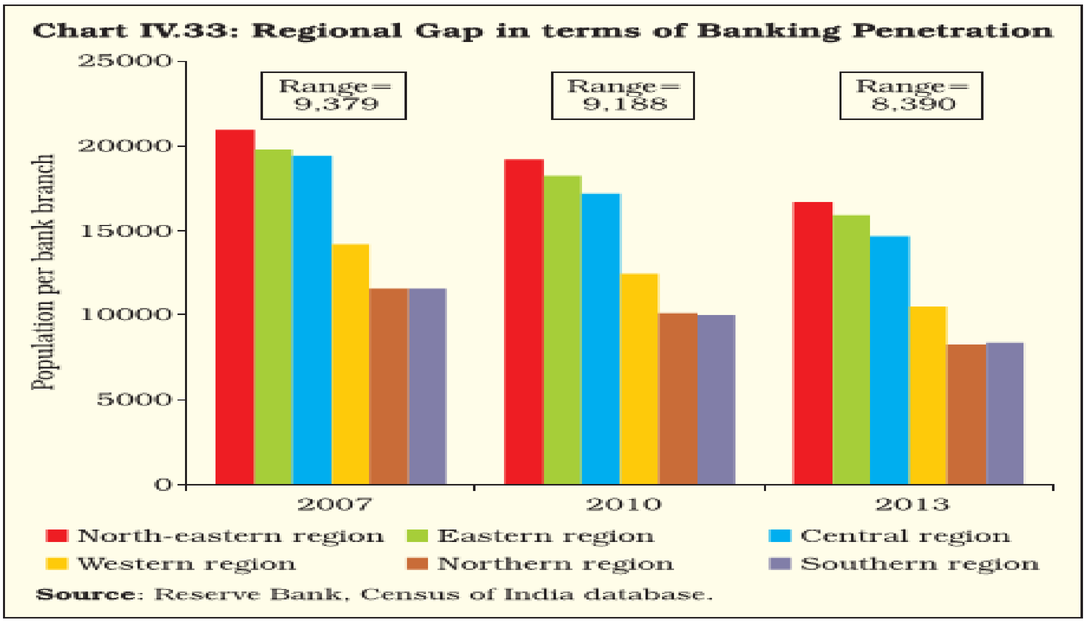



**Table- 6**

***Source- "Report on Trend and Progress of Banking in India 2012-2013"***

**Integration or rural livelihood schemes with financial inclusion:-**

The Ministry of Rural Development, Government of India has restructured the Swarnajayanti Gram Swarozgar Yojana (SGSY) as the National Rural Livelihood Mission (NRLM) with effect from April 1, 2013. NRLM is implemented through scheduled commercial banks (including RRBs). To begin with, NRLM will ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the SHG network in a time bound manner. The scheme will further ensure that the poor are provided with requisite skills for: managing their institutions, linking up with markets, managing their existing livelihoods, and enhancing their credit absorption capacity and credit worthiness. NRLM will work towards achieving universal financial inclusion from both the demand and supply side. On the demand side, it will promote financial literacy among the poor and provide catalytic capital to SHGs and their federations. On the supply side, it will coordinate with the financial sector and encourage use of ICT based financial technologies, business correspondents and community facilitators like 'Bank Mitras'. NRLM is expected to reach all districts by the end of 12th Five-Year Plan i-e 2017.

With regards to financial inclusion in the country, noteworthy is also the role of civil society[6]. The civil society has mainly played role at two levels. First is the generation of financial knowledge base to the rural populace. The second being the role of facilitators and mediators, between the banks and the rural customers.

**Section IV:-**

**Financial Inclusion- the case of Pakistan;-**

Pakistan presents a very interesting case of a developing economy- battling not only poverty, unemployment and population growth but has huge security concerns as well. For quite some time now the annual growth rate has been very modest, hovering around 3%. Government on its part has been involved in various policy initiatives to reduce poverty and enhance access to poor and underserved sections of the society. The establishment of Agricultural Development Bank of Pakistan (ADBP) in 1961. Federal Bank for co-operatives was formed in 1976. Apart from this, mandatory indulgence of commercial and co-operative banks in agricultural lending since 1972 were all meant to improve the rural institutional financial landscape. Thus, initially the policy of the government was to provide cheap and subsidized credit to small farmers to modernise agriculture and raise their standard of living (Qureshi, Akhtar 1995). However, the social and political power structure deep rooted in rural Pakistan led to the cheap and subsidized credit in the service of big landlords, defeating the very purpose of cheap credit. This further led to the growing inequities in the Pakistani society while at the same time financial markets grew weaker due to inefficient allocation of credit.

[6] Sewa, Myriad, MFA (Microfinance Academy) are some examples.

It was in early 1990's that Pakistan ushered into a new era dominated by liberalisation and privatization, leading to financial sector reforms as well.

Pakistan has successfully implemented significant financial sector reforms over the past about 15 years, starting with grant of licenses to a number of new private banks in the early 1990s, modernization of the governance and regulatory framework of the banking sector in the late 1990s, and the privatization of major public sector banks since the early to mid-2000s. The authorities have taken steps to phase out and reorganize most of the government-owned development finance institutions, have put in place several initiatives to promote the growth of the microfinance sector, and have allowed more freedom to insurance companies. In line with these reforms, the private sector credit touched the figure of Rs 2,523 billion in May 2008, as compared with Rs. 356.3 billion a year earlier. SME credit has increased from Rs 18 billion in fiscal 2000 to Rs 403 billion on March 31, 2008, though the increase is entirely accounted for by medium, not small enterprises (SBP 2008). Consumer credit accounted for 14 percent of total outstanding advances at the end of March 2008. Agriculture credit rose from less than Rs 40 billion in fiscal 2000 to Rs 200 billion in fiscal 2008. The aggregate number of borrowers has risen, from 2.7 million in 2003 to about 5.5 million by December 2006. House building loans stood at Rs 64.94 billion in May 2008 whereas the total housing finance market of Pakistan stood at Rs 126 billion on December 31, 2007 (SBP 2008), doubling its size from 2005. Microfinance loans (microcredit, microsavings, and microinsurance) worth Rs 22.6 billion were disbursed in 2007 through extension of 1.8 million microloans. Presently, the active clients of microcredit are around 1.7 million.

In spite of recent achievements, access to financial services remains quite limited in Pakistan. The predominant share of the financial system, the banking sector, is mostly focused on large enterprise lending, with an increasing interest in consumer financing (though still on a very small scale), to the relative neglect of SMEs, rural areas, microfinance, and the poor. There is little understanding of the main barriers to wider provision of financial services, or the opportunities that exist for financial companies in underserved market segments. One of the reasons for the lack of improvements in access provision is the limited availability of data on patterns of access to and usage of financial services among different population groups.

## Section V:-

## Enhancing financial inclusion in Pakistan- some lessons from Indian experience:-

India presents a worthy case for Pakistan to peep into its financial inclusion discourse to draw some finer policy perspectives. Although it needs to be stated that the issues related to financial inclusion discourse in India are far from over. But in comparison to Pakistan, India has most certainly accelerated ahead with its policy perspective both in terms of geographical spread and quantum of financial services to rural unserved locations (Table A). The first and foremost issue that Pakistan continues to face is the fact that the commercial banks continue to be off from lending in rural areas and SME's.

**<u>Table 7:-</u> Breakdown of Loans (Domestic Operations)by Sector**

| | Loans Outstanding | | Number of Borrowers | |
|---|---|---|---|---|
| | Amount (Rs Bn) | Share (%) | Number (Rs 000) | Share (%) |
| Corporate sector | 1647.1 | 58.4% | 25.9 | 0.6% |
| SMEs | 409.5 | 14.5% | 198.4 | 4.3% |
| Agriculture production | 147.6 | 5.2% | 1354.3 | 29.3% |
| Consumer finance | 365.3 | 12.9% | 2918.5 | 63.1% |
| Commodity operations | 182.0 | 6.4% | 3.0 | 0.1% |
| Staff loans | 53.8 | 1.9% | 92.0 | 2.0% |
| Other | 17.1 | 0.6% | 34.4 | 0.7% |
| Total | 2822.5 | 100.0% | 4626.4 | 100.0% |

*Source:* SBP figures for March 2008

Commercial banks in Pakistan mostly provide credit facility to corporations, with less than 20 percent for consumer and agricultural finance together (Table 7). What is more disturbing is the fact that Most of the bank lending is concentrated in a few large manufacturing companies (Figure 1.2). Aggregate data for all credit by borrower size shows a skewed distribution: 0.4 percent of bank borrowers account for 65 percent of all bank credit—and more than 5 million borrowers account for the remaining one-third of loans (SBP, 2008). This kind of exclusion and skewness in the provision of finance (credit) does not augur well, more so for a country that is deeply rooted in the tradition of landlordism, with all powers converging in them. In spite of government efforts, commercial banks have not shown the level of involvement in Microfinance sector. Commercial banks in Pakistan have failed to view Microfinance as a business opportunity that serves social policy objectives as well. The dominant view point among commercial banks with regards to Microfinance seems to be one of liability and economically least remunerative.

India on other hand has broadened its access to formal financial sources in a more holistic manner. As per All India Debt and Investment Survey, NSSO 59th Round, 57% of the outstanding cash-debt was from institutional sources, comprising mostly of commercial, co-operative and regional rural banks. Since 2005, when financial inclusion was adopted as a national policy, RBI, the central bank has been encouraging the commercial banks to open branches in rural unserved areas. This has led to an impressive increase in the percolation of banking services in rural areas. Pakistans central bank needs to work proactively when it comes to financial inclusion agenda. Not only the already functional microfinance banks, but the commercial banks need to be involved in the process with a more specified operational dynamics as has the case been in India.

**The dynamics of Microfinance in India and Pakistan:-**

Microfinance in India started almost a decade later as compared to Pakistan[7]. But with time the phenomenon has become more deep rooted and effective in India as compared to Pakistan. 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. At end-March 2012, about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. 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 customised and flexible financial products, suited to the needs of average rural customers. The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks has emerged as one of the major initiatives to bring low income poor people into the banking stream. Along with SHG's , Joint liability groups (JLGs) too have emerged as successful non-collateralised credit instruments for financing livelihood activities for small farmers in general and tenant cultivators in particular. However, the SHG-bank linkage continues to be a more dominant mode of microfinance with banks financing over 1 million SHGs in 2012-13. However, by contrast, in recent years, there has been a decline in the number of microfinance institutions (MFIs) financed by banks. In part, this could be attributed to concerns about the operations of certain MFIs in Andhra Pradesh and the regulatory initiatives in response to these concerns in the recent past (Trends and Progress in Banking 2012-13).

With regards to the regulation of MFI's Malegam Committee Report (RBI, 2011) was constituted to study issues and concerns in the MFI sector in the wake of Andhra Pradesh micro finance crisis in 2010. The Committee, inter alia, recommended (i) creation of a separate category of NBFC-MFIs; (ii) a margin cap and an interest rate cap on individual

[7] AKRSP in Pakistan was started in 1982, while SHG-BANK linkage was initiated in 1992 in India.

loans; (iii) transparency in interest charges; (iv) lending by not more than two MFIs to individual borrowers; (v) creation of one or more credit information bureaus; (vi) establishment of a proper system of grievance redressal procedure by MFIs; (vii) creation of one or more “social capital funds”; and (viii) continuation of categorisation of bank loans to MFIs, complying with the regulation laid down for NBFC-MFIs, under the priority sector. The Reserve Bank has accepted the broad framework of regulations recommended by the Committee Report.

The Micro Finance Institutions (Development and Regulation) Bill, 2012 envisages that the Reserve Bank would be the overall regulator of the MFI sector, regardless of legal structure. The Reserve Bank has provided the views on the Bill to the Government of India. The aims of the Bill are to regulate the sector in the customers interest and to avoid a multitude of microfinance legislation in different states. The proper balancing of the resources at the Reserve Bank to supervise these additional sets of institutions besides the existing regulated institutions could be an important issue. Requiring all MFIs to register is a critical and necessary step towards effective regulation. The regulation of MFI’s directly by RBI shall go a long way in institutionalising the microfinance movement in India. The institutionalisation and the reach of microfinance in rural India has a huge potential to be one of the most successful rural development initiatives aiming at inclusiveness.

However, the case of Pakistan provides a different story when compared to India’s microfinance regime. Pakistan’s NRSP is one such initiative that resembles to some extent with India’s SHG-Bank linkage programme. The Aga Khan Rural Support Programme (AKRSP) in 1982, which eventually lead to the government, adopting the methodology of AKRSP programme at a national level through National Rural Support Programme (NRSP) in 1992 was the first such rural development initiative in Pakistan. It has a presence in 46 districts in all the four provinces including Azad Jammu and Kashmir. NRSP is currently working with more than half a million poor households organized into a network of more than 55,366 community organizations. With sustained incremental growth, it is emerging as Pakistan’s leading initiative for poverty reduction and rural development. NRSP manages one of the largest microcredit portfolios in Pakistan, with 282,421 active loans as of March 2007, and holds 25 percent of the microfinance market (SBP, 2008).

Although India has no specialized microfinance banks like Pakistan, the country has been comparatively better placed in enhancing access of financial services to rural unserved. Various estimates of potential market demand for microfinance in Pakistan place potential client figures in the tens of millions, as compared with actual client figures of 1.7 million currently (out of a total population of over 160 million). Microfinance penetration in the region is much higher[8], than what it is in Pakistan (Bringing Finance to Pakistan's Poor, 2009).

The SHG-Bank linkage has been able to reach to a much larger proportion of unserved rural poor in India, as MFI's continue to evolve in India, they seem to be incrementally increasing their influence on rural credit markets- much larger than what MFI's have been able to do in Pakistan. India's SHG-Bank linkage programme thus provides a very interesting case for Pakistani policy makers to anaylse its relative merits and its channels of operation.

Another important policy lesson for Pakistan from India's financial inclusion discourse is the integration of various livelihood generation programmes and rural development initiatives with the banks, with the payments being directly transferred to the bank account of beneficiaries, covering an aspect of financial inclusion.

**Section VI:-**

**<u>Conclusion:-</u>**

India has been registering impressive statistics in terms of annual growth rates. The concern however has been of economic inclusion that has a direct relevance for social inclusion of various strata of the society. To enhance inclusiveness in growth, financial inclusion assumes all the more relevance in development discourse of the economy. For Financial Inclusion to evolve as universal phenomenon across regional divide of the country, both the state and civil society has been actively engaged in the process. The results may not be too satisfactory thus far, but without a doubt India has traversed a long way in its pursuit of financial inclusion. Not only the state, the private sector civil society and has played an active role in provision of financial services.

On the contrary, Pakistans journey of financial inclusion so far has not been as proactive as Indias, and has lot to learn and apply as per its contextual demands. The state with respect to its central bank has not vigorously involved its commercial banking network in microfinance sector. The civil society also has not been much active either in enhancing financial inclusion in the country. The evolution of Self Help Groups with regards to microfinance, the involvement of commercial banks in Financial Inclusion and the integration of various rural development initiatives are some important policy perspectives that Indian indulgence with financial inclusion provides to Pakistan.

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[8] Bangladesh-35%, India- 25%, and 29 % in Sri Lanka

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