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ROLE OF MICRO FINANCE AND SELF HELP GROUPS IN FINANCIAL INCLUSION

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ABSTRACT

The purpose of this paper is to examine the role of micro finance in the empowerment of people and the realisation of financial inclusion in India. While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements demand attention and appreciation. Today the MFIs want the government to empower them for mobilising savings. With increasing demand for rural finance, and the inadequacies of formal sources, the MFIs have immense opportunities in the new avatar of micro credit in India. However, in the light of recent experiences, and the need for qualitative growth, we suggest that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility. This is of utmost importance in order to upgrade MFIs from thrift and credit institutions to capacity-building and livelihood- sustaining associations of people. NGOs have played a commendable role in promoting Self Help Groups linking them with banks. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas.

KEYWORDS: Financial Inclusion, Micro finance, NGO, Self-Help Groups(SHGs)

INTRODUCTION

"Nearly forty years after nationalization of banks, 60% of the country's population do not have bank accounts and nearly 90% do not get loans," India has been currently the second-highest number of financially excluded households in the world. While, 40% of India’s population have bank accounts, and about 10% have life insurance cover, a meagre 0.6% has non-life insurance cover.

Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services popularly called **“Financial Inclusion**”.

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial products & services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities & also life & non life insurance services. The following are the denotation & connotation of financial inclusion in India.

1. Affordable credit
2. Savings bank account
3. Payments & Remittance
4. Financial advice
5. Credit/debit cards
6. Insurance facility
7. Empowering SHGs(self help groups)

An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. An all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services like easy dayto-day management of finances, safe money transfer etc. The govt. of India as well as the banking industry has recognized this imperative and has undergone fundamental changes over the last two decades. In fact, in order to address the issues of financial inclusion, the Government of India constituted a "Committee on Financial Inclusion" under the Chairmanship of Dr. C. Rangarajan. Not only in India, but financial inclusion has become an issue of worldwide concern, relevant equally in economies of the underdeveloped, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives instead of a select few.

Objectives

The objectives for this paper are as follows:

• To explain the role and importance of financial inclusion in Indian Financial System.
• To analyse the different approaches of financial inclusion.
• To examine the role of banking system in extending banking services for financial inclusion.
• To enumerate the achievements and problems of SHG microfinance in including the excluded section of the society.
• To suggest some policy prescriptions

I. Role and importance of financial inclusion in Indian Financial System.

The concept of financial inclusion and its implementation has come a long way since the last two decades and the results are also quite fair. There have been much technological advances that have transformed the banking industry from traditional brick –and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines, debit and credit cards, internet banking, online money transfer etc. The moot point, however, is that access to such technology and services are restricted to only certain segments of the society.

There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed as "**Financial exclusion".**
Financial exclusion can be geographical exclusion, exclusion on the grounds of charges, exclusion due to ignorance & also self exclusion.

Causes of Financial exclusion.
Some of the important factors responsible for financial exclusion are given as under

1. **Terms & conditions**.
Different types of terms & conditions imposed by the bankers often deter people with low income & rural areas from opening bank account. In Canada, USA, France & India strict regulation is imposed on Opening balance & Minimum balance required for an account. This often goes beyond the budget of the low income people. Another area of obstacle is the conditions relating to the use of accounts. In Belgium for instance, accounts have been closed by banks because customers either use them too little or withdraw money too often.

2. **Identity Requirements**.
Primary requisite of opening bank account is identity proof & witness. People mostly from rural areas don't have driving license or passport. In many cases, wrong information are given in their ration cards & voter I-cards, which make them illegible as proof. This problem is rife with the refugees & slum dwellers.

3. **Psychological& cultural barriers.**
Rural people & low income people think transacting through banks is a cumbersome affair & banks charge highly. Sometimes they think that services offered by the banks are not meant for them. Such type of "Self exclusion" is far more important than direct exclusion by banks refusing to opening accounts.In England the Pakistani & Bangladeshi communities face religious barriers to banking, because, accounts overdrawn (even if inadvertently) is harmful under Islamic law.

4. **Bankers' approach**.
Bankers' attitude towards the rural folk & the marginalized mass is also not conducive. Sometimes these people are distracted by difficult financial terms used by the bankers & sometime by the apathetic attitude of the bankers. Absence of banks in the vicinity of rural area is also one of the causes of exclusion.

Effects of financial exclusion:
Living without financial service & products is disadvantageous when the contemporary world is moving on cashless system depending on credit cards, debit cards, ATMs &Core Banking Solution (CBS systems). Exclusion imposes real cost on the excluded lot. The implication of the financial exclusion is much greater when the excluded mass is entrapped in the hydra headed cycles of poverty. This causes further social exclusion which is very much detrimental for the

equitable growth of the world community. The following points describe disadvantages to the financially excluded mass:

- They pay higher charges in the absence of financial transactions like money transfer & cheque cashing etc.
- They take credit from non- institutional creditors at exorbitantly higher rate which exacerbate the harm already caused due to poverty.
- Lack of security in holding & storing money.
- The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs and delays in remittances of money.
- Saving potential remains unexploited & unproductive from social point of view.
- General decline in investments.
- Increase in unemployment.

Who are the excluded?

The financially excluded sections largely comprise of:

· Marginal farmers
· Landless labourers
· Self employed and unorganized sector enterprises
· Urban slum dwellers
· Migrants
· Ethnic minorities and socially excluded groups
· Senior citizens and women, etc.
· Large pockets of population in North East, Eastern, and central regions of India.

THE NEED FOR FINANCIAL INCLUSION

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGO's and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of the loan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.

BENEFITS OF FINANCIAL INCLUSION

Financial inclusion has many benefits. Following are some of the benefits summed up.

· It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan products for housing , consumption, etc.

· An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.

· This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged. From the bank's point of view, having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates.

· Access to appropriate financial services can significantly improve the day-today management of finances. For example, bills for daily utilities (municipality, water, electricity, telephone) can be more easily paid by using cheques or through internet banking, rather than standing in the queue in the offices of the service.

· Transfer of money can be done more safely and easily by using the cheque, demand draft or through internet banking.

· A bank account also provides a passport to a range of other financial products and services such as short term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.

· Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in200 districts in the country would bring in large number of people through their savings accounts into the banking system.

TOOLS OF FINANCIAL INCLUSION AND THE METHODS TO ACHIEVE

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. These services are:

(i) no-frills banking account for making and receiving payments,
(ii) savings product suited to the pattern of cash flows of a poor household,
(iii) Money transfer facilities,
(iv) small loans and overdrafts for productive, personal and other purposes, &
(v) micro-insurance (life and non-life)

II. Approaches of Financial Inclusion:

According to C. Rangarajan there are six approaches in the system of Financial Inclusion, they are, as follows.

- First, credit to the farmer households is one of the important elements of financial inclusion among them providing credit to the marginal and sub marginal farmers as well as other small borrowers is crucial to the need of he hour.
- Second, rural branches must go beyond providing credit and extend a helping hand in terms of advice on a wide variety of matters relating to agriculture.
- Third, in district where population per branch is much higher than the national average commercial banks may be encouraged to open the branches.

- Fourth, there is need for the simplification of the procedures in relation to granting of loans to small borrowers.
- Fifth, the further strengthening the SHG-Bank Linkage Programme (BLP), as it has proved to be an effective way of providing credit to very small borrowers.
- Sixth, the business facilitator and correspondent model needs to be effectively implemented.

III. Inclusive Growth: Role of banking system in extending banking services for financial inclusion.

Indian banking system has exhibited tremendous growth in extending its reach,coverage & delivery of financial products to the mass ever since 1881. The All India Rural Survey committee in 1954 recommended the creation of a state sponsored bank to promote rural penetration. Accordingly, SBI was established in 1955. Another step in this direction was taken in 1969 when 14 major commercial banks were nationalized followed by six more in 1980. This strengthened the concept of socialistic & welfare state stature of the country. Lead bank scheme was launched in 1970 to increase banking penetration with special focus on the districts. The emergence of RRBs in 1976 blended the skills of commercial banks with the grass root presence of the co-operative banks helped the mass to access to institutional credit. NABARD established in 1982 regulated institutional credit for agriculture & rural development. Talwar committee & Goiporia committee in the early eighties have made many recommendations to improve the customer services in India. Following are some of the steps undertaken by RBI:

- The RRBs have been advised to allow limited overdraft facilities in no-frill accounts without any collateral. The idea was that provision of such overdraft facilities provides a ready source of funding to the account holders who are thereby inducted to open such accounts.
- Banks also have been advised to provide a General Purpose Credit Card (GCC) at their rural & semi urban branches. From this revolving card system the customer can withdraw money to a limited amount from the concerned branch.
- Bhumuheen' credit card facility has been arranged apart from Kisan credit cards for the rural & semi urban tenant farmers, landless labourers whereby they can be allowed hassle free credit limit up to 0.25 lac per person.
- Special Agricultural branches have been opened by the PSBs to meet the financial needs fore agricultural & allied activities.
- On the behest of the RBI, SHG & bank linkage programme has been initiated which has been a major micro finance programme in the country.

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Mahendra S, 2006).

In India, the drive for financial inclusion, initiated by the Reserve Bank of India, has thus far involved ensuring access to at least one zero minimum-balance 'no frills' savings bank account to every household. In this context, at least one district in each state has been brought under the purview of this drive with public sector banks in the region taking the lead to open at least one bank account per family in the district.

The broad objective of Financial Inclusion (FI) is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempts must be to lift the poor from one level to another so that they come out of poverty (Rangarajan, op. cit.). Inclusive growth encompasses ideas related to basic needs and equity. It focuses on broad – based growth so that growth covers all strata of society. It seeks to bridge the various divides that may fragment the society. Reduction in poverty and disparities of income and ensuring every one a basic minimum standard of living are the objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a pre requisite for poverty reduction and social cohesion. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

Thus, limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, FI imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence FI is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women.

Inclusive financial system, one that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. Increasingly, with the proliferation of micro finance initiatives, there is evidence that inclusive financial systems can empower poor households socially as well in other words financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (Thorat, 2007a). Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (S. Mahendra, op. cit.). In the context of India becoming one of the largest micro finance markets in the world especially in the growth of women's savings and credit groups such as Self Help Groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.

ACHIEVEMENTS OF FINANCIAL INCLUSION IN TAMILNADU

- **2505** villages have been covered by Banks up to **June 2011** against the targeted level of **4385 villages** by **March 2012.** Banks have still to cover 1880 villages by 31.03.2012. (Source: SLBC report)
- But it is a matter of grave concern that many banks are yet to cover even a single village. This is pulling down the overall performance of the state and nullifying the excellent work done by other Banks.
- Chairman & Managing Director, Indian Overseas Bank and Chairman, SLBC, Tamil Nadu said in his inaugural address reviewed the progress made by the Banking system in Tamil Nadu that he would take up the matter with CMDs of respective banks and also advised the local chiefs of these Banks to ensure **100% coverage by October 2011,** though it is originally decided by this forum to complete on or before December,2011.
- Ministry of Finance, Government of India has already initiated steps for coverage of villages with population above 1000 in the next stage.4430 villages having population between 1000 and 2000 have been identified through respective DCCs and allotted to Bank Branches for extension of Banking Services. However no roadmap has been drawn for coverage of these villages. Banks are requested to prepare their action plans for covering these villages, for which the given deadline is 31st March 2013.
- The Ministry has advised all the SLBC convenors to ensure that all the subsidies / grants in 35 Centrally Sponsored Schemes are credited directly to the accounts of the beneficiaries electronically through bank accounts. The request is already made to the State Government. Banks are requested to open hassle free no-frill accounts, to facilitate smooth transition to 100% Electronic Benefit Transfer mechanism in our State.
- CMD, IOB acknowledged the initiatives taken by Government of TamilNadu towards achievement of the above goal. A pilot project has already been launched in three taluks of Tamil Nadu for payment of Tamil Nadu Governments Old Age Pension through the Smart Cards operated by Business Correspondents of various banks. The Honorable Chief Minister of Tamil Nadu inaugurated the scheme on 2nd September, 2011 at Chennai.
- The state government is also contemplating routing of grants under Dr. Muthulakshmi Maternity benefit Scheme, through bank accounts. He expressed confidence that all the payments of subsidies /grants/pensions etc would be routed electronically through Bank accounts in the State.
- It is also desired by Union Finance Ministry that under Financial Inclusion, all villages in a particular Panchayat can be allotted to One Bank and one Business Correspondent in the long term. The same strategy is to be adopted also for the 4430 villages which have population below 2000 . “One Panchayat- One Bank- One BC” has to be the model for implementation of Financial Inclusion Plan. If more than one bank is allotted with different villages in a particular panchayat, then those villages can be swapped subject to

willingness and convenience of both Banks. All the DCCs have been advised to initiate action in this regard.

- On October 2, 2011 **Pallavan Grama Bank, Regional Rural Bank (RRB)** sponsored by Indian Bank, has launched a pilot project on **mobile-enabled Kisan Credit Card** aimed at the farming community. This pilot project is funded by Nabard (National Bank for Agriculture and Rural Development). This project with a Rs 44.66 lakh grant assistance from Nabard taken up in Villupuram district, Tamil Nadu, aims at facilitating a paperless, doorstep banking transactions by farmers, who can use their mobile phones for various services such as purchase of farm inputs, cash withdrawal and deposit, The bank organised a 'sensitisation workshop' for bankers and farmers on the use of the card.

IV. Micro finance: Meaning and Issues of Concern

Microfinance programmes are intended to reach poor segments of society as they lack access to financial services. It, therefore, holds greater promise to further the agenda of financial inclusion as it seeks to reach out to the excluded category of population from the banking system. The predominant micro finance programme namely SHG bank linkage programme has demonstrated across the country its effectiveness in linking banks with excluded category of poor segments of population. In this process, the role of development NGOs is quite pronounced in providing the last mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the banks. This is also supplemented by the MFIs delivering credit.

Since 1992, another popular movement i.e. Self Help Groups is being implemented. The SHG movement is a popular one thereby financial inclusion is achieved to a considerable extent. The following table will explain the success of the programme. RBI wanted banks to extend credit card facilities to Farmers to carry out their agricultural operations uninterruptedly. For this, during 1998-99 a scheme called 'Kissan Credit Cards' was launched and as on 31st March 2008-76 million cards were issued (Source: CMIE publication 2007-08).

Progress of SHG bank linkage program in India: (Source: NABARD)

Parameter	**As on**			
	March 1993	March 1996	March 2006	March 2007
SHG Linked	255	4757	2238525	2924973
% of women groups	70	74	90	90
Families assisted (million)	0.005	0.08	32.98	40.95
Banks participating	14	95	501	498
SHG Promoting partners	32	127	4323	4896
Districts covered	26	157	572	587
Cumulative Bank Loan (Rs. In million)	**2.58**	**53.32**	**113974.01**	**180407**

The success of few Non Governmental Organisations (NGOs) like Mysore Resettlement and Development Agency (MYRADA) in-group lending, made the government in shifting the strategy of women development and empowerment. The linkage between "self help groups" and banks has been highly successful in furthering financial inclusion. The cooperation between the formal banking system and micro-finance organisations has also been encouraging. Micro finance (MF) in the recent past has emerged as a potential instrument for poverty alleviation and women empowerment. MF intervention refers to provision of access to small loans without physical collateral to the poor, especially the women, while encouraging them to save regularly in order to combine thrift and self-help for their own development. MFIs consist of Refinance Institutions, Banks, Non Government Organisations and Self Help Groups dealing with small loans and deposits in rural, semi urban or urban areas enabling people to raise savings, productive investments and thereby their standard of living (Nadarajan and Ponmurugan, 2006). As already told one of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups (SHGs) with banks. SHGs are groups of usually women who get together and pool their savings and give loans to members. Usually there is a NGO that promotes and nurture these groups. National Bank for Agriculture and Rural Development has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHG is given loan against guarantee of group members. The recovery experience has been very good. Banks provide credit to such groups at reasonable rates of interest. However the size of loans is quite small and used mostly for consumption smoothening or very small businesses. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHG.

Microfinance has drawn attention to an entire sector of borrowers who had been previously poorly served by the formal financial sector - and MF has demonstrated how to make lending to this sector a viable proposition. However the rates of interest charged are quite high, typically 12 to 30 per cent, mainly on account of the high transaction cost for the average loan size that can be quite small. Compared to the informal sector, perhaps the rates are lower, but issues are raised whether these rates are affordable - in the sense whether they would leave any surplus in the hands of the borrowers and lead to higher levels of living. For commercial banks, the lower cost of funding, advantages of size and scale gives scope for cross subsidization and their interest rates are more competitive compared to the MFIs, but they have not been as successful in dealing with the last mile issue. The partnering with SHGs and MFIs with reasonable cost of funding by the banks has been seen as a more optimal approach till now (Thorat, 2007b).

The financial inclusion attained through SHGs is sustainable and scalable on account of its various positive features. One of the distinctive features of the SHGBLP has been the high recovery rate. However the spread of SHGs is very uneven and is more concentrated in southern states. This regional imbalance needs to be corrected and special efforts in this regard may have to be made by NABARD. SHGs also needed to graduate from mere providers of credit for non-productive purposes to promoting micro enterprises. However, there is no need to provide interest rate subsidy to the SHGs. Banks do provide them credit at reasonable rate of interest (Rangarajan, 2007).

The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to
be the predominant Micro-Finance (MF) model in the country. It represents the union of the banking system comprising the public and private sector commercial banks, Regional Rural banks (RRB), and Co-operative Banks with several organizations in the formal and semiformal sectors to facilitate the provision of financial services to a large number of poor clients. It is a proven method of financial inclusion, providing un-banked rural clientele with access to formal financial services from the existing banking infrastructure.

Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65 per cent in Bangladesh) with significant variation exists across the states (Basu and Srivastava, 2005). Financial inclusion is not just credit dispensation, its about connecting the people with the banking system for availing bouquet of financial services including access to payment system. The critical issue, in the first place, is to connect and the SHG bank linkage programme since the 90s ranks, by far, the major programme initiative without parallel in any parts of the world for the financial inclusion. The uniqueness of the SHG Bank Linkage programme lies in the fact that it is not mere delivery of financial services but has an inherent design for promoting financial literacy. As the financial literacy increases, the financial inclusion gets more sustainability and stability in terms of being inclusive on a long haul. With more than 2.3 million SHGs reaching more than 30 million poor households the first small but significant step has been taken in financial inclusion.
The SIDBI engagement with Microfinance institutions has proved to be a significant step forward with MFIs chipping in effective compliment for the banking system as a vehicle for delivery and connectivity. Interestingly, there have been many development interventions on livelihoods, watershed and tribal development in the country with the initiative of development NGOs, which have been furthering the financial inclusion by linking the programme participants with the banking system.

SHG and Bank linkage

- SHG bank linkage by far is an effective instrument for financial inclusion.
- Considering the importance of linkage the bank accounts of SHGs provide the first link for the members of SHG for graduation to individual family accounts in due course. This process need to be respected and encouraged to facilitate informed inclusion process.
- That opening of bank accounts (Savings) is the beginning of beginning of the financial inclusion process, that is means to achieve larger end of financial inclusion.
- That the federation of SHG as an apex body play a an effective complemental role to spread the financial inclusion
- To achieve faster spread of financial inclusion, it is vital that the stake holders and it particular commercial bank recognize the need to take the banking services with the technological support to the people rather than waiting for the people to reach out to the banks.

V. Policy Prescriptions

It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. According to Prof. M.S. Swaminanthan, the noted agricultural scientist, “SHGs, will however, become sustainable only if they have backward linkages with technology and credit and forward linkages with processing and marketing organisations” (Swaminanthan, 2006). ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas.

Our banking system must be prepared to deal with the opportunities of higher growth, and the challenges of ensuring more equitable growth. In dealing with the needs of rural enterprises and of small and medium enterprises in urban areas, banks have to look for new delivery mechanisms. These must economize on transaction costs and provide better access to the currently under-served. To serve new rural credit needs, innovative channels for credit delivery will have to be found. A key requirement of greater “financial inclusion” would be a reduction of transaction costs. (PM's Address at the Canara Bank Centenary Celebrations, June 23, 2006 Bangalore). Till now, micro financing has been a grey area in the finance sector as the current laws allow only the entities registered with RBI to raise deposits and lending activities. In view of the rising micro-financing activities in the country, a need has been felt to regulate the unregulated business in this sector and also provide legal framework to facilitate the credit flow in rural areas (Tiwari, 2006). The Micro Financial Sector (Development and Regulation) Bill 2007 has been tabled in the Parliament (The Hindu Business Line, March 2007).3 MFIs fear that regulation might stifle growth, but analysts say that it is important to put them under scanning (Patnaik, 2006). Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well off. It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. (GOI, 2008).

Our study reveals that micro credit is not always the final answer or the best solution for unemployment or poverty or any other situation. Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of the loans. Financial inclusion is but one species of a large genus of human capacity building. Prof.Swaminathan also suggests the establishment of SHG Capacity Building and Mentoring Centres (Swaminanthan). While the functioning of MFIs at the grassroots level ensures economic decentralisation, for a complete empowerment such a measure must be supported by a broader human rights framework. Also, financial inclusion as a policy measure should be followed up by building up suitable database, which could serve as a guide to assess the impact of credit policies from time to time and reorient schemes of financial assistance to the targeted groups. The MFIs should be strengthened with the tools of managerial expertise, user-friendly technology and with the principles of good governance and social responsibility.

Conclusion:

The Micro Finance Institutions are an integral part of financial inclusion and instrumental in providing 'last mile connectivity'. But there need to be a balance. 'They should be kept viable but within certain boundaries'. At present, these MFI across the country is under stress. The Reserve Bank of India has set up a committee under the chairmanship of Mr. Y. H. Malegam to examine the issues confronting the microfinance industry, including their interest rate structure and suggest recommendation.

While working on this direction of bringing awareness among public, the Government should focus on creating an environment by

- ✓ **Providing public infrastructure** that reduces transaction cost in remote areas like connectivity, Unique Identification Code, etc.
- ✓ **Encouraging competition** among financial providers by giving more bank licences. Policy on new bank licences will be announced by RBI by January 2011.
- ✓ **Focusing on rules** based regulation to minimize political risk.
- ✓ **Using quality** research to assess long term implications of big policy decisions like loan waiver.
- ✓ **Wide publicity and strictly implementing the** concept of **Financial Literacy and Credit Counselling** to educate the public in proper utilization of financial services offered by the service providers.

Financial inclusion will be real and successful only when the small and marginal farmers and landless labourers have unhindered access to the financial services like Savings, Credit, Micro insurance and remittance facilities.

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