

India's Efforts in Financial Inclusion

Summary of Key points and Recommendations

*CKG Nair,
Ministry of Finance, India*

The causality between economic growth, financial deepening and financial inclusion has been well recognised in India's development strategy, particularly since the reforms from the early 1990s. However, an accelerated effort through targeted interventions has been a more recent story. The 11th Five Year Plan (2007-12) of the Government of India has further emphasised the initiatives on financial inclusion with its greater focus on 'inclusive' growth.

Inclusive growth and, as a part of it, greater financial inclusion, is desired both from the equity as well as the efficiency angles. The sheer magnitude of the excluded in India (with absolute exclusion of about 52 per cent of the farmer households) and its extreme variations between regions make the task monumental. At the same time with such large numbers being 'outside' the growth process sustainability of growth becomes doubtful. This calls for a multi-agency, multi-pronged approach with innovative initiatives.

The efforts at inclusion are undertaken by a number of agencies: the federal and state governments, the Central Bank (RBI) and its arms like the National Bank for Rural Development, other financial institutions, NGOs, market Regulatory Agencies as well as market intermediaries. They address a host of demand side and supply side constraints as well as try to fill up the 'literacy gaps'. **An issue of concern on the literacy side, however, could be the unbiasedness of the efforts of the market intermediaries and the investment advisers in their eagerness to promote their own products. Similarly the growing product complexities in financial markets make even the reasonably educated relatively 'illiterate'.**

A number of expert committees have studied the issues relating to financial inclusion and have given an array of recommendations. Most of them **focus on availability, access and absorption aspects of credit, particularly from the formal financial sector led by the large commercial banks.** Many of these recommendations have been implemented/under implementation.

A fresh wave of thinking has just been unleashed-that the need for looking at financial inclusion as empowerment of the people- from just getting credit to make them credit worthy through expanding sustained access to financial services. A greater role of the ancillary agencies model (small banks, MFIs, reformed cooperative structures etc) and leveraging technology for cost reduction and greater outreach are the *mantra* of this new thinking.

For sustainable inclusion approaching the 'bottom of the pyramid' from their fears and anxieties rather than getting them on to the commercial platform is needed. This requires efforts from the side of the governmental agencies to empower them in terms of knowledge, capabilities and facilities as the new thinking outlines. This approach could also address the recent concern (emanating from the sub prime, NINJA loans) that the poor need grant, not loans.