Micro Finance a Financial Inclusion – Insights into Indian Condition

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Abstract— Building financially inclusive system is, therefore, an integral and core pillar of financial sector reforms. India has made steady progress towards financial inclusion. However, large numbers of the population are still excluded from the formal banking system. Furthermore, the financially included people may not get all or right kind of the products which they require. While there is no "one-size-fits-all" financial inclusion strategy or approach, it is important to recognize few core or necessary and sufficient conditions that are needed to maximize the benefits derived from such a strategy. In a nutshell, evidence suggests that poverty reduction strategies are successful in countries which adopt inclusive policies. In the Indian context, Reserve Bank has always sought to balance the risk of partnerships and product innovations with the ability to achieve greater penetration in a safe, secured and prudentially sound manner. Financial Services for the poor people like primarily credit, Insurance services, and Small savings are termed as Microfinance. This Microfinance can help in put resources and power into the hands of low-income peoples, but they cannot solve all the problems caused by poverty. The underlying belief is that only sound and strong institutions can promote financial inclusion in a sustainable manner and, towards this end, prudent regulations have to be in place to achieve inclusion while protecting financial stability and consumer interest. The institutional vehicles help to improve the efficiency and productivity of all credit institution. Microfinance institutions are taking various efforts to economic development. They mainly contribute to solve the problem in inadequate housing and urban services as part of rural development. The main challenge is to find the credit level which matches their requirements. If the solution for the multipurpose credit has identified there will be the success of rural development by alleviating poverty. This paper offers insights about importance of financial inclusion, causes of financial exclusion; its implications and adoption of remedial strategic initiatives to ensure basic banking facilities to the underprivileged Indians.

Keywords: Bank-led Model, Business Correspondence, Financial Inclusion Index, SHGs, Financial Exclusion, Sustainable Growth; Economic Development

I. Introduction to Financial Inclusion

Financial inclusion efforts are not new; both the Government and the Reserve Bank have been pursuing this goal over the last several decades through building the rural cooperative structure in the 1950s, the social contract with banks in the 1960s and the expansion of bank branch networks in the 1970s and 1980s. These initiatives have paid off in terms of a network of branches across the country. Just about 40 per cent of the population across the country had bank accounts. The proportion of people having any kind of life insurance cover was as low as 10 per cent and proportion having non-life insurance was an extremely badly low 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent. The National Sample Survey data revealed that nearly 51% of farmer households in the country did not seek credit from institutional or non- institutional sources of any kind.

These statistics, staggering as they are, do not convey the true extent of financial exclusion. Even where bank accounts are claimed to have been opened, verification has shown that these accounts are dormant. Few conduct any banking transactions and even fewer receive any credit. Millions of people across the country are thereby denied the opportunity to harness their earning capacity and entrepreneurial talent, and are condemned to marginalization and poverty. Though some measures resulted in impressive gains in rural outreach and volume of credit, the structure built up was 'quantitatively impressive but qualitatively weak'. It is still have a long way to go to fully realize the original objectives of inclusive growth.

A. *Meaning of financial inclusion*

Financial Inclusion 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."

K.C. Chakrabarty (2012), Deputy Governor, Reserve Bank of India (RBI), has defined that, "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players".

B. *Why Financial Exclusion?*

Access of financial products is constrained by various factors like, lack of awareness/literacy about the financial products & services, absence of reach and coverage, lack of technology, lack of appropriate business model, poverty, ignorance, unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customized and of low quality. In short, financial Perspectives on Financial Markets and Systems exclusion is the result of high demand and supply side gap in financial service industry. Addressing these factors effectively, we may overcome the financial inclusion challenges.

C. *Twin Aspects of Financial Inclusion*

Financial Inclusion and financial literacy are twin pillars. Financial inclusion is not possible unless focus be given to the demand side, i.e. on financial literacy. Financial Inclusion (Supply side) – Financial Inclusion from supply side involves providing the financial market/services as per what people demand/need. Financial inclusion focuses more on designing appropriate products and services, creation of financial market through reach and coverage to satisfy the basic financial needs of unbanked households.

Financial Literacy (Demand side) – Financial literacy stimulates the demand, making people aware of what they can demand. It is a set of skills and knowledge that allows an individual to understand the financial principles to make informed decisions through understanding of finance (Charles, 2012). The financial literacy is concerned with understanding of basic financial concepts, ability to understand the key financial products, to make good financial choices. The ignorance or lack of financial literacy may lead to voluntary financial exclusion, poor financial management due to lack of proper financial judgment, poor financial and retirement planning, poor investment decision, chances of mis-buying of financial products, and poor borrowing behavior, which can negatively affect the financial well-being of individuals.

D. Phases of Financial Inclusion

1) 1960-1990 – the aim was on channeling credit to weaker sections of the society and neglected sectors of the economy.
2) 1990-2005 – aimed at strengthening the financial institutions as part of financial sector reforms
3) 2005 onwards – the 'Financial Inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits.

II. Approach to Financial Inclusion

A. Bank led Model

In India, we have adopted a bank- led model for financial inclusion, which seeks to leverage on technology. The FI initiatives would have to be ICT based and would ride on new delivery models that would need to be developed by the market participants to best suit their requirements. Our experience shows that the goal of financial inclusion is better served through mainstream banking institutions as only they have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion. Other players such as mobile companies have been allowed to partner with banks in offering services collaboratively.

B. Minimum bouquet of products and services:

To meet the criterion of availability of banking services, a minimum of four basic products must be offered to customers, namely a check-in account with emergency credit facility, Payment services and remittance facility, a pure savings product such as a recurring deposit and Facility of entrepreneurial credit to deserving people

C. Technology driven but technology platform neutral:

The task of Financial Inclusion is gigantic and cannot be done without actively leveraging technology and without the involvement of society as a whole. The Financial Inclusion strategies and delivery models being developed by banks are primarily technology driven. However, the models adopted by banks are technology neutral, which facilitates easy up-scaling and customization, as per individual requirements.

D. Combination of Branch and BC Structure:

A combination of Brick and Mortar structure with Click and Mouse technology will be helpful in extending financial inclusion, especially in geographically dispersed areas. Banks need to make effective use of technology to provide banking services in remote areas through the BC model. The BC model allows banks to provide doorstep delivery of services, especially cash transactions. To ensure increased banking penetration and control over operations of BCs, more Brick and Mortar branches are needed. In April 2011, banks have been mandated to allocate at least 25 per cent of all new branches to unbanked rural areas.

E. Structured, planned approach:

All banks have prepared a structured and planned approach to financial inclusion Board approved Financial Inclusion Plans (FIPs) with a three year horizon extending up to 2013, containing self-set targets which are congruent with their business strategy and comparative advantage. The initial goal of providing access to banking services to all villages with population more than 2000 by March 2012 has been successfully met. The focus has now shifted from just opening of accounts to the volume of business transacted in these accounts, which is the key for making the FI model a success.

III. BC Based Delivery Model

Delivery of financial services through the BC model would be a key to the success of our financial inclusion initiatives. If the bank-led model is to succeed, it is imperative that it is able to leverage upon BCs to deliver efficient and cost effective access to services. The BC model has faced challenges from various sources such as viability issues resulting from delays in payment of remuneration to field BCs, technology and connectivity issues, turnover of BCs and building up faith and acceptability of BCs among the targeted population. Two basic issues that need to be understood while helping people walk the first mile into financial inclusion are:

– Financial Inclusion program should be implemented on commercial lines and not on a charity basis, in order to ensure its sustainability. It is important that banking with the poor is perceived and pursued as a viable business model.
– While poor need not be subsidized, it is important to ensure that they are not exploited. The need is to ensure that poor people who deserve credit are provided access to timely and adequate credit in a non-exploitative manner.

IV. Importance of Financial Inclusion

– In majority of the developing countries, access to finance is now being as perceived as a public good, which is as important and basic as access, say, to safe water or primary education.
– One of the important effects of financial inclusion is that the entire national financial system benefits by greater inclusion, especially when promoted in the wider context of economic inclusion.
– Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the Bottom of the Pyramid (BoP) population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks.

- Concerns relating to Account Maintenance and customer database get addressed through financial inclusion efforts without compromising the basic KYC requirements.
- From the perspective of the Reserve Bank of India, greater participation by all the economic agents in the financial system makes monetary policy more effective and, thereby, enhancing the prospects of non-inflationary growth. It also reduces reliance on the informal sector which tends to dent the impact of monetary policy decisions.

V. MICROFINANCE

The broad range of Financial Services, Primarily Credit, Small Savings, and Insurance Services made available to people who economically disadvantaged segment of society is referred as Microfinance. Recently microfinance is defined as provision of thrift, credit and other financial services and product of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income level and improve their living standard. At present a large part of microfinance activity is Micro credit and saving services. Women's are the vast present customers for microfinance.

Financial services for the poor, often referred to as Microfinance, cannot solve all the problems caused by poverty. But they can help put resources and power into the hands of poor and low-income people themselves and chart their own paths out of poverty. This paper reviews how micro financial institutions and banks combined together to develop the rural.

A. *Microfinance Services Contribution:*

Microfinance services have been part of the development and alleviation of poverty. Microfinance is the delivery of loans, savings, Insurance and other financial services to low income groups which helping them to build assets and protect themselves against risk. Microfinance institutions will provide the financing to the poor, those who don't have collateral securities, which have unable to provide by traditional banks and state-run development programs.

Microfinance organizations also offer non-financial services such as education, training and healthcare in order to reinforce economic and social development capacities among their clients. Microfinance services have the potential to help the world's poor by providing poor individuals and households by accumulating and managing the assets. Assets like financial, physical, human, social and natural can enhance by microfinance services through direct income effects or indirect income effects. The main types of microfinance links to asset accumulation can be described.

- Micro-credit: Focuses on lending fund to poor people, so they are able top exploit their capacities for income production is about asset building and diversification. Loans are also offered for non-Productive purpose such as emergency loans, education loans and home improvement loans.
- Micro-Insurance: Provides poor people with protection against specific in exchange for regular premium payments. It pursuer profit without fear, which increased income production.
- Micro-Savings: Which is small business deposits for the safe of money to meet predictable and

B. *The Institutional Vehicle:*

Cooperatives, Commercial Banks and Regional Rural Banks (RRBS). The cooperative as the sole providers of rural credit to the multi-agency approach. Regional Rural Bank as low cost institutions mandated to reach the poorest in the credit deficient areas of the country. It is helped to build to broad based institutional infrastructure for the delivery and deployment of credit. It ensures a wider physical access of financial services to the poor. The basic aim of Financial Sector reforms was to improve the efficiency and productivity of all credit institutions including rural financial institutions.

C. *Formal Sectors:*

The formal sector banking institution in India have been serving only the needs of commercial sector and providing loans for middle and upper income groups. For housing the HFIs primarily perceived risk of lending to this sector. Risks generally perceived by formal sector, Financial Institutions are credit risk, High transaction and services cost, Irregular flow of income due to seasonality, Lack of tangible proof of assessment of income, Absence of land tenure of financing housing.

Formal Financial Institutions are concerned are Commercial Banks, Housing Finance Institution (HFI), NABARD, Rural Development Banks (RDB), Land Development Banks and Cooperative Banks (CBs).

The government has taken several initiatives to strengthen the institution rural credit system. The rural branch network of commercial banks have been expanded and certain policy prescriptions imposed, in order to ensure great flow of credit to agriculture and other preferred sectors. The commercial banks are required to ensure that 40% of total credit is provided to priority sectors out of which 18% in the form of direct finance to agriculture and 25% to priority sector in favor of weaker sections besides maintaining a credit deposit ratio of 60% in rural and semi urban branches. Further IRDP introduction in 1979 ensure supply of credit and subsidies to weaker section beneficiaries.

D. *Informal Sectors:*

Informal sectors generally include funds available from family sources or local money lender. Local money lenders charge exorbitant rates, generally ranging from 36% to 60% interest due to their monopoly in the absences of any other source of credit for non-conventional needs.

NGOs engaged in activities related to community mobilization for their socio-economic development have initiated saving and credit program for their target groups. Community based financial system (CBFS) can be categorized into two models. Group base financial intermediary and NGO linked financial intermediary.

NGOs like SHARAN in Delhi, FEDERATION of THRIFT AND CREDIT ASSOCIATION (FICA) or SPARC have adopted first model where they initiate groups and provide necessary management support. SEWA pertain to second model.

Experience of these informal intermediaries shows that although saving of group members, small in nature do not attract high returns, it is skill practiced due to security reasons. Most of loans are unsecured. Personal or group guarantees or other collaterals like jewellery is offered as security. There are some agencies which provide bulk funds to system through NGO. Organization engaged in micro finance activities in India may be categorized as wholesaler, NGOs supporting SHG and NGOs directly retailing credit borrowers or group of borrower. Wholesalers will includes agencies like NABARD, Rashtriya Mahila Kosh, New Delhi and Women's world Banking,ASA in Trichy, RDO Layalam Bank in Manipur.

VI. FINANCIAL INCLUSION: INDIA'S POSITION COMPARED WITH OTHER COUNTRIES

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, and credit and debit cards. The following table summarizes India's performance in the area of financial inclusion as compared with other developing as well as developed countries.

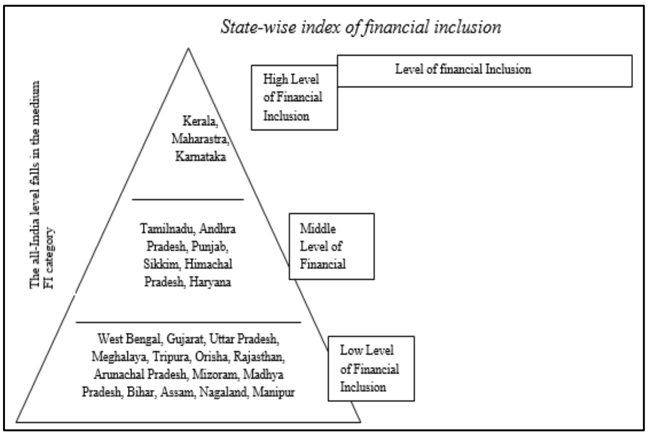
Country	No of Branch	No of ATMs	Bank credit	Bank deposits
	(per 0.1 million adults)		(as per cent of GDP)	
India	10.91	5.44	43.62	60.11
Austria	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK	25.51	64.58	467.97	427.49
United States	35.74	173.75	46.04	53.14
Korea	18.63	250.29	84.17	74.51
Afghanistan	2.25	0.50	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Table 1: Select indicators of Financial Inclusion - Cross Country Analysis

Source: World Bank, Financial Access Survey

A. *Measuring Financial Inclusion*

One of the measures of the level of financial inclusion is the Financial Inclusion Index. This index is based on three basic dimensions of an inclusive financial system –banking penetration, availability of the banking services and usage of the banking system. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.



According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. Though the index and findings of the report in reference are based on empirical study, they are possibly not way off the ground realities.

VII. BANKING SYSTEM AND MICROFINANCE FOR POVERTY ALLEVIATION

A. *SHG _ Bank Linkage Programme:*

The pilot project was designed as partnership model between 3 agencies the SHG, BANKS and NON GOVERNMENT ORGANISATION (NGO).

- SHG – Facilitate collective decision making by poor
- BANK – Provide credit resources
- NGO – Agencies to organize the poor build their capacities and facilitate process of empowering the people.

The impacts of this program are microfinance has reduced the incidence of poverty through increase in income, enabled the poor to build assets and reduce their vulnerability. It enabled household to spend more on education and reduce child mortality, improved maternal health and ability of the poor to have better nutrition and health. It has empowers women by enhancing their contribution to household income, increasing value of their assets which alleviation poverty.

B. *Banking Partnership Model:*

It is an innovation way of financing MFIs. The bank as lender and MFI act as agent for credit monitoring, supervision and recovery. This model increase the amount of funding the MFIs can leverage on relatively small equity base.

C. *The Grameen Bank in Bangladesh:*

This concept is framed by Dr.Muhammad Yunus of chittagong University who felt concern at the pittance earned landless women after a long arduous day's work laboring for other people. This system is simple by effective. To obtain loan, potential borrower must form a group of five gather once a week for loan repayment meeting and to start with learn the bond rules and 16 Decision. The key unit is to receive credit. Loans are initially made to two individuals in the group, who are then pressure from rest of the members to repay in the good time. The loan repayment is in weekly installments spread over a year and simple interest of 20% p.a.

It indicates important of credit as an entry point for upliftment program for rural poor. Have an appeal in poverty area which will leads to economic development.

D. HDFC:

HDFC making sub-stained efforts to reach the lower income groups of society, especially the weaker section, thus enabling them to realize their dreams of possessing own house.

HDFC's response to need for housing and living environment for poor both in rural and urban sectors materialized in collaboration with German Development Bank. It also ensures newly constructed houses are within the affordability of beneficiaries and promotes the usage of innovative low cost technologies and locally available material for constructing house. Purpose of implementation of low cost having projects, HDFC collaborate with Government and Non-Government. Security for loan is mortgage of property being financed. Construction work is regularly monitored by coordinating agencies and HDFC. The loan is disbursed depending upon the stages of construction.

Microfinance operation experience poor repay their loans, saving and loan facilities. It also contribution to solving problem of inadequate housing. It has hot to contribute to this by building financial discipline and educating borrower about repayment requirements.

VIII. Major Issues and Challenges in Relation to Partnerships, Processes, Policies and Products Microfinance Role in Financial Inclusion

The unique aspect of micro finance in India is that it is delivered through a variety of channels. These include branches of commercial banks and Regional Rural Banks (RRBs) directly dispensing micro credit and through their Business Correspondents (BCs), Self Help Groups (SHGs) linked to bank branches, cooperative banks and primary cooperative societies, micro finance institutions (MFIs) as NBFCs and in other forms, obtaining funds from a variety of sources, domestic and external. Ultimately, it is an issue of reaching out to low-income families in a cost-effective, hassle-free and sustainable manner, particularly to those who, otherwise, would not have had such access to financial services. Indirectly, microfinance improves schooling, health and women's empowerment. Microfinance services, both by SHG model as well as the retail lending model, have been contributing to this agenda. Microfinance has been found to facilitate three main developmental outcomes:

- It enables poor households to access services at the time of need
- It is associated with improvement in economic welfare of households
- By supporting women's economic participation, it helps to improve livelihood, empower women and promote gender equity

A. SHG-Bank Linkage Programme

In the last two decades, the major institutional innovation in India for expanding financial system access and usage for the poor and marginalized sections of the population has been the SHG-Bank Linkage Programme (SBLP). This was an outcome of pilot projects during the 1980s for improving access of rural poor to formal institutional financial services. For the banks, it was a way of reducing their transaction costs by dealing with groups of people rather than individuals, reducing the credit risks through peer pressure and making people save. Being a 'savings-first, credit later' model, credit discipline became a norm for SHGs and 'social collateral' made them bank able. The model was also successful in providing solution to the twin problems faced by banks, i.e., low recovery of loans in rural areas and high transaction costs in dealing with small borrowers at frequent intervals. One of the major positive impacts of the SBLP was social and economic empowerment of the membership.

SHG-Bank Linkage Programme (Number in Millions)

Particulars	2009-10	2010-11
Total number of SHGs savings linked with banks	6.95	7.46
Total savings amount of SHGs with banks	61.98 Billion	7.016 Billion
Total number of SHG credit linked during the year	1.58	1.19
Total amount of loans disbursed to SHGs during the year	144.53 billion	145.47 billion
Total number of SHGs having loans outstanding	4.85	4.78
Total amount of loans outstanding against SHGs	280.38 billion	312.21 billion
Estimated number of families covered	97.00	97.00

Source: Status of Micro Finance in India, NABARD

B. Microfinance Institutions (MFIs)

Semi-formal financial sector service providers like the MFIs fill this niche space and, to that extent, play a critical role in the financial inclusion. The MFIs have served the underserved/un-served populace in the last few years and improved access to credit though there have been quite a few debatable issues on the style of corporate governance and ethics of conducting business on part of some of the MFIs. MFIs will have to work hard in pursuit of transparency and responsible finance, shaking off the perception that their motto is profiteering at the cost of the poor but not profitability for sustainable and viable growth. MFIs will also have to take initiatives to retool the product redesign for garnering new customers and acquiring more share of the market. At the same time they need to re-engineer the customer responsive processes so as to create a favorable climate for doing business.

C. Business Correspondents (BCs)

Business Correspondents bridge the connectivity gap between the service seekers, i.e., under-served populace, and the service providers, i.e., the banks. Banks, being regulated entities, are governed by prudential regulations and supervisory rules, e.g. adherence to KYC/AML, consumer protection laws, etc. In the BC-oriented model of financial inclusion, pursuit of higher volume of business for revenue maximization may dilute prudential requirements exposing the banks concerned to whole host of risks like reputation risk, strategic risk, compliance risk, operations risk besides the risk of contaminated asset portfolio. Due to the constraints involved in going for a full-fledged brick & mortar branch model, the Reserve Bank, based on the recommendations of the Internal Group on Rural Credit and Microfinance, adopted the ICT based agent bank model through Business Facilitators (BFs)/ Business Correspondents (BCs) for ensuring door step delivery of financial products and services. In January 2006, the Reserve Bank permitted banks to engage BFs and BCs like NGOs/MFIs set up under the Societies/Trust Acts, Section 25 companies, post offices, etc. as intermediaries for providing financial and banking services, thus, addressing the proverbial last mile problem. The approach adopted has been technology and delivery model neutral. Initially, the BC retail outlets were being created by the banks themselves.

IX. Emerging Area of Business Correspondence in Financial Inclusion

Over the last few years, however, a number of innovations, in particular with regard to the universe of entities that can work as agents of banks like

– individuals like retired bank/government employees,
– kirana /fair price shops,
– insurance agents, operators of common service centres, etc.,

All have been brought in under the BC model so as to scale up the financial inclusion drive in a sustainable manner, latest being the use of corporate entities as BCs of banks.

X. Issues and Challenges in ICT Based Financial Inclusion

A. *Use of Technology*

For the success of the ICT-based models, resolving technology related issues is the key. One of the major constraints of the ICT based BC model has been the technical problems associated with the model.

– It has been reported that devices, such as, hand held machines, smart cards, PoS terminals and utilities which are crucial to the functioning of the model are not properly functioning in many areas of the country.
– Limited number of technology service providers to cover the unbanked villages of all banks as well as limited service centres for servicing devices has resulted in banking operations coming to a halt in many villages.
– Given the literacy level of the rural population, availability of trained manpower in the villages to ensure that transactions are carried out in a user friendly manner in the local language and that the customers smoothly transit from assisted model to self-service model in using technology, wherever feasible. (e.g. ATMs/ mobile/ internet banking).

B. *Security Concerns*

Given the increasing reliance on technology to deliver banking services to customers, it is essential to that adequate attention is paid to security, especially IT security. Security related issues resulting in frauds have the potential to undermine public confidence in the use of electronic payment products. Further, they could also lead to reputation risks. While preventing fraud through robust security measures, one should not lose sight of the fact that the ease and efficiency in operations for the customers is not unduly eroded. Cumbersome security procedures would deter customers from using the product and carrying out electronic transactions.

C. *Infrastructural Limitations*

Power supply and network connectivity are issues in most parts of the country, especially, so in the rural/remote areas. While banking transactions are enabled on a real-time basis in urban centres, it often takes more time to complete a transaction in remote areas due to poor internet connectivity and frequent power failures.

D. *Multiplicity of Models*

Multiple technologies and delivery models could be used based on the geographical peculiarities, infrastructure availabilities, etc. Too many disparate technologies, however, may prove counter-productive as there will be several challenges like integration with CBS, support issues and people at the operating level may not fully apprehend all the products and technologies. So it may be a better idea to narrow down to a few stable and scalable technologies and delivery channels and build the financial inclusion products around them with inter-operability being the key theme.

XI. Way Forward

A. *Meaningful Collaborations*

Financial inclusion calls for significant investment in technology based applications, related research and development efforts, comprehensive MIS and monitoring and evaluation systems. Banks, especially those who desire to have much longer exposure to under-banked/unbanked population could collaborate with technology service providers (TSPs), mobile network operators (MNOs), corporate houses and various categories of BCs to develop efficient delivery models. It is heartening to note that a few banks have also started taking initiatives with couple of them appointing Mobile Service Providers (MSP) to act as their BC.

B. *Innovative Product Lines & Processes*

Banks have to look at their policies and procedures to develop new product lines rather than merely adopting the complex products of urban India in the rural milieu. Providing simple and basic banking services in the form of deposit account with remittance services and small credit facility would ideally suffice for bringing the unbanked into the folds of banking system. This will require easy-to-understand documentation process, preferably in the vernacular language, sufficient to meet the legal requirements of the banking entity or the service provider.

C. *Financial literacy and awareness*

Campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified. This can be done through innovative dissemination channels including films, documentaries, pamphlets and road shows. Stakeholders, including the regulators and policy makers, may launch large scale awareness programmes. Reserve Bank of India is in the process of launching electronic Banking Awareness and Training (e-BAAT) programmes to increase awareness about technology enabled financial services. Initiatives need to be taken for including financial literacy as a regular curriculum in school syllabus. Training programmes for bank staff, particularly for the frontline staff, should include aspects relating to financial education of the customers. There is also a great need for certain amount of standardization of services/facilities extended by the Financial Literacy and Credit Counseling Centre (FLCC) being set up at several centre by the Lead Banks.

Customer service and consumer protection -Along with financial literacy and education, customer service is another issue that needs closer attention. In recent years, the Reserve Bank has worked towards improving customer service through better dissemination of information to customers and also by improving the mechanisms for redressing the grievances. Mind-set, cultural and attitudinal changes at the grass-root levels and user friendly technology at the level of branches of banks and BC outlets are needed to extend holistic customer service to the new entrants to the banking system.

XII. RBI'S POLICY INITIATIVES

Financial inclusion gained importance in India since early 2000, when financial exclusion came into light and it was found that it has direct correlation to poverty (Saravanakumar, 2010). In its annual Perspectives on Financial Markets and Systems policy statement 2004-05, RBI mentioned that "…banks should be obliged to provide banking services to all segments of population on equitable basis (Reddy, 2005)."

During November 2005, RBI has advised banks to provide basic banking 'no frills'accounts either with 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population. In January 2006, with an objective of ensuring greater financial inclusion and increasing outreach of banking services in the country, RBI permitted banks to use the services of Non-Governmental Organisations/Self Help Groups (NGOs/SHGs), MFIs and other Civil Society Organisations (CSOs) as intermediaries and Business Facilitators (BFs) or Business Correspondents (BCs) for providing banking and financial services (RBI, 2006). The BCs were appointed as agents of the banks to conduct banking business at the places other than bank premises and allowed to do "cash in-cash out" transactions. As a result, 431 districts out of 623 districts in the country have been identified for financial inclusion (Chandrasekhar, 2011).RBI has advised banks to provide small Over Drafts in these 'no frills' accounts.

XIII. MICROFINANCE AND POVERTY ALLEVIATION-DEVELOPMENT STRATEGY:

As discussed earlier financial services could enable the poor to leverage their initiative, according the process of building incomes, assets and economic securities. Successful experience in providing finance to small entrepreneur and producers demonstrate the poor people. NGOs and microfinance services around the world have shown that these microenterprise loans can be profitable for borrower and the lenders making microfinance one of the most effective poverty reducing strategies.

Micro finance institution have expanded frontiers of institutional finance and have brought the poor, especially poor women into formal finance system and enabled them to access credit and fight poverty. Some significant strides have made in upscalling the large quantities of microfinance, observed that microfinance had an asymmetric growth across country with diverse rate of interest being charge to member which are area of concern.The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institution and the economic characteristics and financing needs of low-income household. The income of many self-employed households is not stable, regardless of it size. Large numbers of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look collateral with a clear title which many low-income households do not have.

To the extent that Microfinance Institution becomes financially viable, self-sustaining and integral to the communities in which they operate, they have the potential to attract more resources and expand services to clients. Despite the success of microfinance institutions only about 2% of world's roughly 500 million small entrepreneurs is estimated to have access to financial services. Microfinance institution can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. Saving facilities to tap small saving in a flexible manner.

Microfinance institution are engaged in deposit taking in order to mobilize household saving, they became financial intermediaries. Consequently financial regulations become necessary to ensure the solvency and financial soundness of institution and to protect the depositors. Excessive regulations that do not consider the nature of microfinance institution and their operation can hamper their viability.

In view of small loan size, microfinance institution should be subjected to minimum capital requirement which is lower than the applicable to commercial banks. More stringent capital adequacy rate should be maintained because microfinance institution provide uncollateralized loan.

Microfinance institution could also serve as intermediaries between borrowers and formal financial sector and on lend funds backed by public sector guarantee. Business like NGOs can offer commercial banks ways of funding micro entrepreneur at low cost and risk. There are many on-going researches on this line but context specific research is needed to identify the meet appropriate model.

Microfinance Institutions are taking various efforts to alleviate poverty, it faces multi problems. Offering financial services to the poor individual is complex process and it leads to various challenges for entrepreneurs and providers.

The microfinance entrepreneurs faces various challenges such as Less marketable collateral for loans, Poor institutional viability of micro enterprises, Lack of

Knowledge about the sources, Shortage of capital and poor governance. The challenges faced by the providers are high risk, high cost for small transaction, lack of fund, lack of customized solution, lack of training etc...

XIV. Bank Account for Female

Findex 2017 estimates that 77% of Indian women now own a bank account against respective 43% and 26% in 2014 and 2011.On this basic measure of financial inclusion, females are more financially included than before. The male-female difference, or the gender gap, in account ownership narrowed to 6.4 percentage points in 2017, it was 19.8 in 2014.A bank account is the gateway to other financial services, but doesn't automatically translate into actual use of or access to these. The evidence on broader inclusion of women into formal finance is disappointing. Women trail behind even more in access to formal credit markets. The extent of their access to bank loans and dependence upon informal sources remained unchanged between 2014 and 2017 as per two Findex rounds in these years.

Female exclusion in finance exis: In India, most factors unite to accentuate gender inequalities in finance: Gender gaps are large and persistent in unemployment, wages, average years of schooling, unpaid care work; Female labour force participation rates are amongst the world's lowest, falling;

Safety concerns, socio-cultural restrictions prevent their empowerment, bargaining and decision-taking strength; These inherent disadvantages discourage many from approaching banks, who in turn, do not often inspire their confidence. Gender inequalities in access to formal credit have long manifested in India's scarce gender-wise financial statistics. In its financial inclusion report (2015), RBI noted the All-India Debt and Investment Survey suggests interest rates paid by female household heads are on average higher than their male counterparts; The gender differential reduces with per capita income improvements, showing poverty accentuates gender divisions.

Considering that about 10% of India's total entrepreneurs are women, and that 98% of women are concentrated in micro-enterprises and informal (99%) segments, the virtual lack of access to formal credit is a huge constraint. Indian women are less financially included than men by other metrics as well. They are half as likely to own debit cards (22% versus 43% of men), comparing poorly with 63% of Chinese women who do with lower gender gap (7 points) and the 35% in developing countries and 43% globally who too face lower gender gaps (10 and 11). Account usage for remittances, including digitally, by women is low (22%) while credit-card ownership (2%) and use (6%) abysmal.

XV. Conclusion

The recent crisis has, in fact, underscored the need for reducing banks' reliance on wholesale deposits and borrowed funds and cultivating a retail portfolio of assets and liabilities for financial stability. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion.

Microfinance can contribute to solving the problems of inadequate hosing and urban services as a part of rural development. The main challenges are to find the level of credit that matches the credit requirements of the low-income people. There should be solution for the multipurpose loans i.e. credit for income generation, housing, managing assets and consumption security. Microfinance operation has to focus on the poor repayment of loan and willing to pay higher market interest to non-formal institutions. They also focus on providing the security of saving and loan facilities. Micro Finance have more opportunity if the state Reduced direct involvement, increased outlays, Structuring of outlays and finding right outlets, Creating incentives and regulatory environment for implementation. The micro-finance also proved it to the success of women empowerment. In the recent years micro-finance programs have confined themselves to distribution of loan to women, but the receipt of loan and utilization of loan helps in improving the economic status of women.

Above discussed challenges for the providers and entrepreneurs has to be overcome. Microfinance institutions have lot to contribute on these financial disciplines and challenges to have rural development.

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