EduTap

SUMMARY SHEET

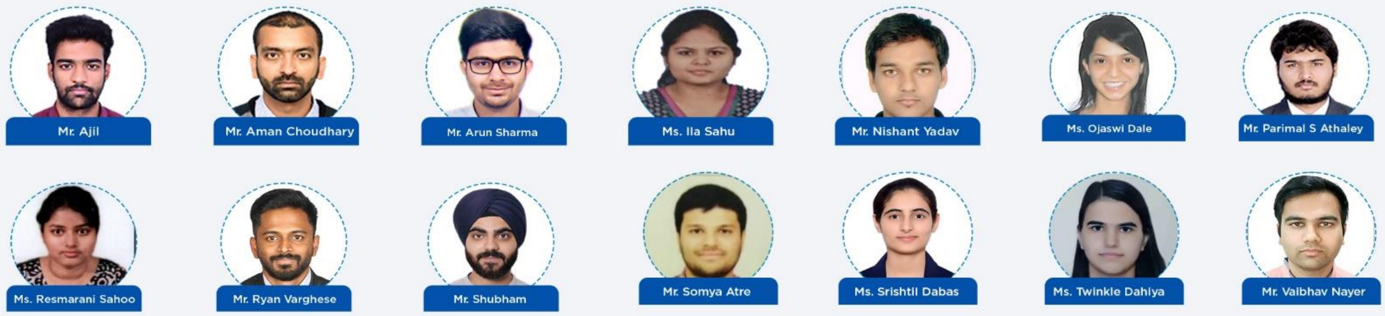
Financial Inclusion

EduTap

EduTap Hall of Fame

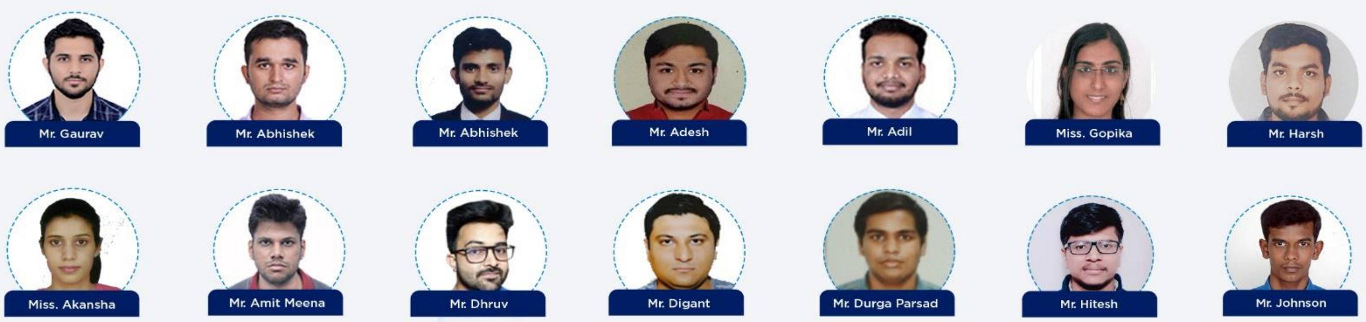
RBI Grade B 2020 - 21

198 Selections Out of 257



SEBI Grade A 2020

63 Selections Out of 80



NABARD Grade A 2020

65 Selections Out of 69

Important Points

1. This Summary Sheet shall only be used for Quick Revision after you have read the Complete Notes

2. For Building Concepts along with examples/concept checks you should rely only on Complete Notes

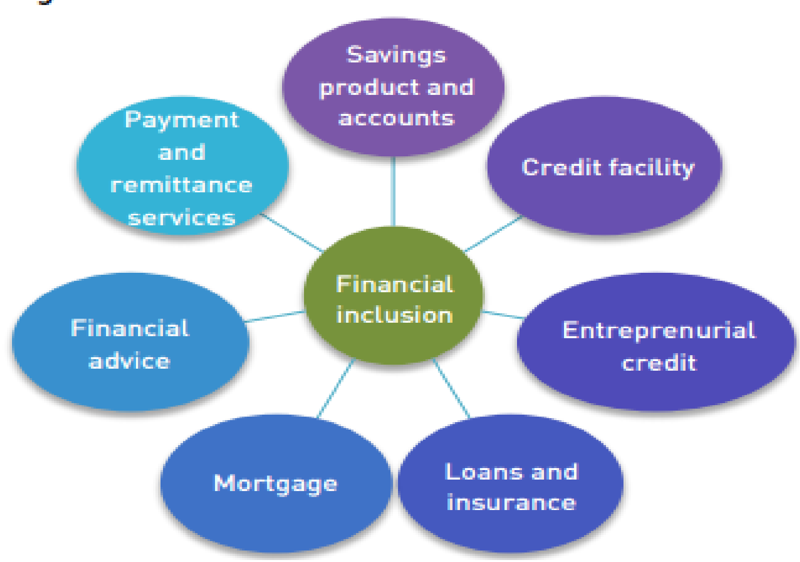
3. It would be useful to go through this Summary sheet just before the exam or before any Mock Test

4. Questions in the exam are concept based and reading only summary sheets shall not be sufficient to answer all the questions

1 Summary Points

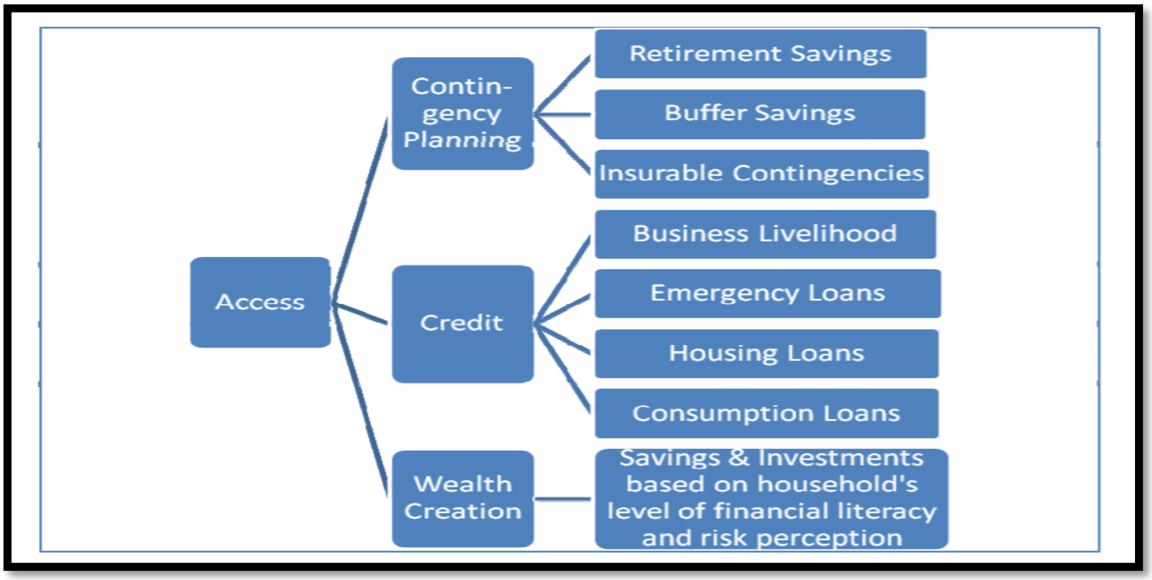
- **Financial Inclusion** is the availability of financial services to the poor people in the urban as well as rural parts of the country. The list of services which are included in the ambit of financial services is given below

Figure 1: Facilities Identified Under Financial Inclusion



Sources: Rangarajan Committee Report on Financial Inclusion, 2008, RBI; IMaCS Research

- Financial Inclusion can also be defined as providing access to below classified services,



- Definition of Financial Inclusion as per **United Nations**,
  - ✓ Access of financial services at a reasonable cost for all households
  - ✓ Sound and safe institutions governed by clear regulation and industry performance standards
  - ✓ Financial and institutional sustainability
  - ✓ Competition among institutions
- **UN** has partnered with **National Bank for Agriculture and Rural Development (NABARD)** in India to bring financial inclusion amongst poor by **creating financial products**, **bringing awareness** and **strengthening financial literacy** in the country, especially in women

- As per **NSSO 59th Round Survey Results, 51.4% of farmer households** are financially **excluded from both formal/ informal sources** and **73% of farmer households** have **no access** to formal sources of **credit**
- As per **Population Census 2011,** only **58.7% of households** are availing banking services in the country and **65 per cent of adults** across the country are **excluded** from the formal financial system

- In Feb 2018, CRISIL published a comprehensive financial inclusion index (viz., **Inclusix**). The data that was used to develop the index belonged to for the year ended March 31, 2016. For constructing the index, CRISIL **identified FOUR critical parameters** of basic **banking, Insurance and micro-finance services** shown below. Among these Insurance Penetration was included for the First time

- Branch penetration (BP)
- Credit penetration (CP)
- Deposit penetration (DP)
- Insurance penetration (IP)

➢ Definition of various Parameters is given below

Dimensions and parameters used to measure financial inclusion

	Parameters	Significance	Interpretation
Branch penetration (BP)	No. of branches per lakh of population in a district	Measures the ease with which people in a particular territory can access financial services	The higher the better
Credit penetration (CP)	No. of loan accounts per lakh of population in a district	Measures the extent of access to loan products offered in a particular territory	The higher the better
	No. of loan accounts classified in "personal loans" occupation group as per the RBI's definition or number of microfinance loans per lakh of population in a district	Measures access to credit for retail borrowers, who typically face financial non-inclusion	The higher the better
	No. of agricultural advances per lakh of population in a district	Measures farmers' access to credit	The higher the better
Deposit penetration (DP)	No. of deposit accounts per lakh of population in a district	Measures the extent of access to deposit products offered by banks in a particular territory	The higher the better
Insurance penetration (IP)	No. of life insurance policies per lakh of population in a district	Measures the extent of access to insurance services offered by insurance companies in a particular territory	The higher the better

➢ **Key Points of Crisil Financial Inclusion Index are**

- ➢ Kerala is the Top State with the highest score on financial Inclusion Index
- ➢ Manipur is at the bottom with the lowest score on financial Inclusion Index
- ➢ There are 14 Districts in India with Financial Inclusion score of 100
- ➢ Overall India's Financial Inclusion score is 58 on scale of 100
- ➢ The Region wise Financial Inclusion Score is as below

IMF ‘Financial Access Survey’ Results

The Financial Access Survey (FAS) is a survey which helps us know on access to and use of financial services, including digital financial services and gender-disaggregated data. It covers 189 jurisdictions, with more than 100 data series and historical data from 2004.

Major Findings

The use of digital financial services expanded considerably during the pandemic - Social distancing and lockdowns have reinforced the use of digital financial services, and the latest FAS data confirm this development. Mobile money usage increased significantly in low- and middle-income economies, **with the value of mobile money transactions as a share of GDP increasing by 2 percentage points on average for low- and lower middle-income economies** in 2020

Outcomes were mixed for women’s access to and use of financial services - The latest FAS gender-disaggregated data show mixed results in terms of women’s financial inclusion. Female-owned deposits and loans at commercial banks remained stable or even increased in some countries.

Data with respect to India is Shown below

Country (India)

Key FAS Indicators

	2020	2021
Number of ATMs per 100,000 adults	21.50	21.44
Number of commercial bank branches per 100,000 adults	14.75	14.58
Number of depositors with commercial banks per 1,000 adults		
Number of borrowers from commercial banks per 1,000 adults		
Outstanding deposits with commercial banks (% of GDP)	70.85	66.40
Outstanding loans from commercial banks (% of GDP)	53.12	46.85
Outstanding small and medium enterprise (SME) loans from commercial banks (% of GDP)	7.14	6.28
Number of registered mobile money agent outlets per 1,000 km2		
Number of registered mobile money accounts per 1,000 adults	1,671.55	1,938.90
Value of mobile money transactions (during the reference year) (% of GDP)	0.92	0.64

1. The number of commercial bank branches per 100,000 adults; and
2. The number of automated teller machines (ATMs) per 100,000 adults

- **Financial Inclusion measures taken in the past**
    1. Foundation of financial inclusion was done by Nationalisation of banks (1969 and 1980), introducing Priority Sector Lending (PSL), Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76), Service Area Approach (1989), Self-Help Group Bank Linkage Programme (1989-90), and setting up of Local Area Banks etc.

2. Introduction of **Basic Saving Bank Deposit (BSBD)** accounts: Account with common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card
3. **No- Frills Account:** Such accounts in which 'NIL' or very minimum balance is needed to be maintained as well as minimum charges are placed
4. **Simplified KYC Norms:** KYC for opening bank accounts was simplified to the extent possible.
   a) **Small Accounts**: S**mall accounts** can be opened on the basis of a self-attested photograph and putting his/her signatures or thumb print in the presence of officials of the bank. Such accounts have limitations regarding the **aggregate credit**s (not more than Rupees one lakh in a year), **aggregate withdrawals** (nor more than Rupees ten thousand in a month) and **balance in the accounts** (not more than Rupees fifty thousand at any point of time). These accounts would be valid normally for a period of twelve months.
   b) Further, **Aadhaar**, the unique identification number allotted by the Unique Identification Authority of India (UIDAI), Government of India was allowed to be used as one of the eligible documents for meeting KYC requirement for opening a bank account.
5. Usage of information and communications technology (ICT) solutions to provide banking services in rural areas through BC model
6. All domestic Scheduled Commercial Banks (SCBs) – both in the public sector and private sector are needed to draw up board-approved **Financial Inclusion Plans (FIPs)** which need to be submitted to the Reserve Bank and implemented over blocks of **three years**
7. Introduction of a **general-purpose credit card (GCC)** facility by Banks up to 25,000 (50%) at their rural and semi-urban branches
8. Introduction of **Kisan Credit cards (KCCs) Scheme** where banks issue **smart cards** to the **farmers** for providing timely and adequate **credit support** from single window banking system for their farming needs
9. Under the **Swabhimaan financial inclusion campaign**, banking services in villages with **population more than 2,000** has been provided using various models and technologies including branchless banking through BCs
10. **Setting up of Ultra Small Branches**: These comprises of a small area of 100-200 sq. feet where the officer designated by the bank is available with a laptop on pre-determined days. Mostly done in unbanked areas or villages with low population.
11. **Financial Inclusion Fund**: An exclusive fund viz., Financial Inclusion Fund (FIF) has been created by RBI by merging Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) to support adoption of technology and capacity building with an initial corpus of ₹2000 crore. It will provide support for funding the setting up and operational cost for running financial inclusion and Literacy Centers.

12. **Assignment of Lead Bank Responsibility:** The Lead Bank Scheme is a scheme which aims at providing adequate banking and credit in rural areas through a 'service area approach', with one bank assigned for one area. The assignment of lead bank responsibility to a designated bank in every district is done by the Reserve Bank.

- **Financial Inclusion-Recent Measures**
    1. **Financial Literacy Centres (FLCs**) conduct tailored financial literacy programmes designed specifically for five target groups viz. farmers, small entrepreneurs, self-help groups (SHGs), school students and senior citizens
    2. RBI has also started project '**Financial Literacy**' who objective is to disseminate information regarding central bank and general banking concepts to various target groups such as schools, colleges, women, rural and urban poor, defense personal and senior citizens
    3. Financial education-based curriculum in schools for students of VI to X is in the process of getting approved by respective boards of the states and CBSE
    4. RBI has designed **framework for graded certification/training programme for BCs**
    5. RBI has mandated that any entity which is given new license to open a bank have to open at least 25% branches in the rural areas
    6. In August 2016, RBI has given 11 licenses for payment banks to the entities to encourage financial inclusion
        - **Payment Bank:** It is a differentiated bank that undertakes only certain **restricted banking** functions that the Banking Regulation Act of 1949 allows. These activities include acceptance of **deposits, payments and remittance services but cannot lend money**
    7. In September 2016, RBI gave in-principle licenses to 10 entities to set up small finance banks
        - **Small Finance Banks:** Small finance bank offers basic banking services, accepting deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries, and entities in the unorganized sector
    8. Measures like Direct Benefit Transfers (DBT) and Aadhaar seeding have been taken to tackle financial inclusion
    9. Introduction of "**Pradhan Mantri Jan-Dhan Yojana (PMJDY)**" Scheme
    10. Reserve Bank's extant guidelines on lending to priority sector, a target of **40 per cent** of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE)
    11. **Jan Dhan-Aadhar-Mobile (JAM) Trinity:** The combination of Aadhaar, PMJDY, and a surge in mobile communication has reshaped the way citizens access government services.
    12. **Government Flagship Initiatives:** The government has also launched many flagship schemes to promote financial inclusion and provide financial security to

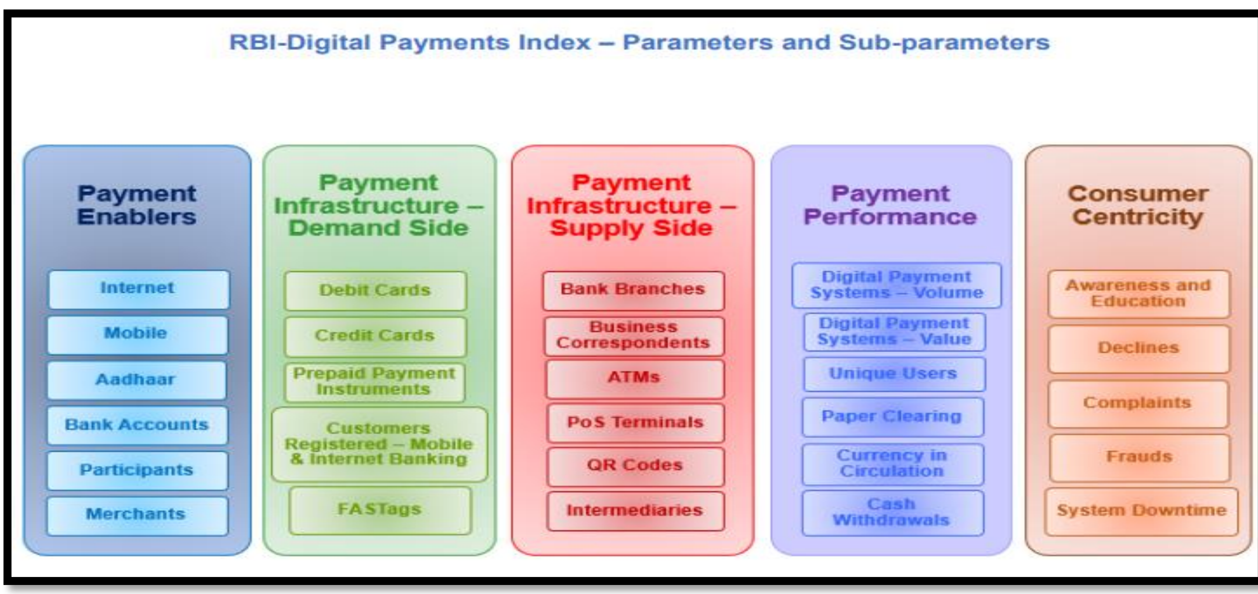
empower the poor and unbanked in the country. These include the Pradhan Mantri Mudra Yojana, Stand-Up India Scheme, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bema Yojana, and Atal Pension Yojana

13. **Promotion of Digital Payments:** With the strengthening of the Unified Payment Interface (UPI) by NPCI, digital payments have been made secure, compared to the past. The Aadhar-enabled payment system (AEPS) enables an Aadhar enabled bank account (AEBA) to be used at any place and at any time, using micro-ATMs. The payment system has been made more accessible due to offline transaction-enabling platforms, like Unstructured Supplementary Service Data (USSD), which makes it possible to use mobile banking services without internet, even on a basic mobile handset.

    In January 2021, The Reserve Bank of India (RBI) has unveiled a composite **Digital Payments Index (DPI)** to capture the extent of digitisation of payments across the country.

What is Digital Payment Index (DPI)?

The RBI has constructed a composite Digital Payments Index (RBI-DPI) to measure the extent of digitisation of payments across the country. It is based on multiple parameters and reflects the expansion of various digital payment modes accurately. The RBI-DPI is a first-of-its kind index to measure the spread of digital payments across the country. It contains five broad parameters that measure the deepening and penetration of digital payments in the country over different time periods.



14. **Deepening of Digital Payments Ecosystem:** With a view to expanding and deepening of digital payments ecosystem in the country, the Reserve Bank advised all SLBCs/ UTLBCs in October 2019 to identify one district in their respective States/UTs and allot the same to a member bank having a significant footprint. The allotted bank will endeavor to make the district 100 per cent digitally enabled within one year.
15. **National Strategy for Financial Education (NSFE)**

The Reserve Bank of India (RBI) has released the National Strategy for Financial Education (NSFE): 2020-2025 document for creating a financially aware and empowered India. It is the second NSFE , the first one being released in 2013.
It has been prepared by the National Centre for Financial Education (NCFE) in consultation with **Financial Sector Regulators viz. RBI, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA**), etc. for creating a financially aware and empowered India.
NSFE has recommended a '5 C' approach for dissemination of financial education in the country:

- **Content:** Financial Literacy content for various sections of population**.**
- **Capacity:** Develop the capacity and 'Code of Conduct' for financial education providers.
- **Community:** Evolve community led approaches for disseminating financial literacy in a sustainable manner.
- **Communication :** Use technology, media and innovative ways of communication for dissemination of financial education messages.
- **Collaboration :** Streamline efforts of other stakeholders for financial literacy.

16.Financial Literacy Material:

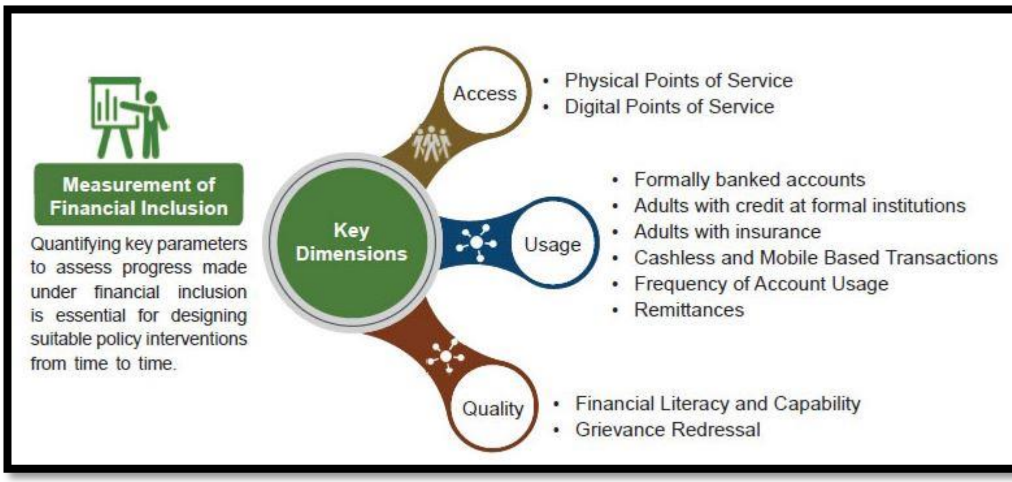
- **FAME Booklet**: The Reserve Bank of India releases the FAME (Financial Awareness Messages) booklet that intends to provide basic financial literacy messages for the information of the public. This book Propagates relevant messages across the four themes of **Financial Competencies, Basic Banking, Digital Financial Literacy and Consumer Protection.**

- **Specific Books for Target Groups**: The RBI has developed tailored financial literacy content for five target groups' viz. **Farmers, Small entrepreneurs, School children,**

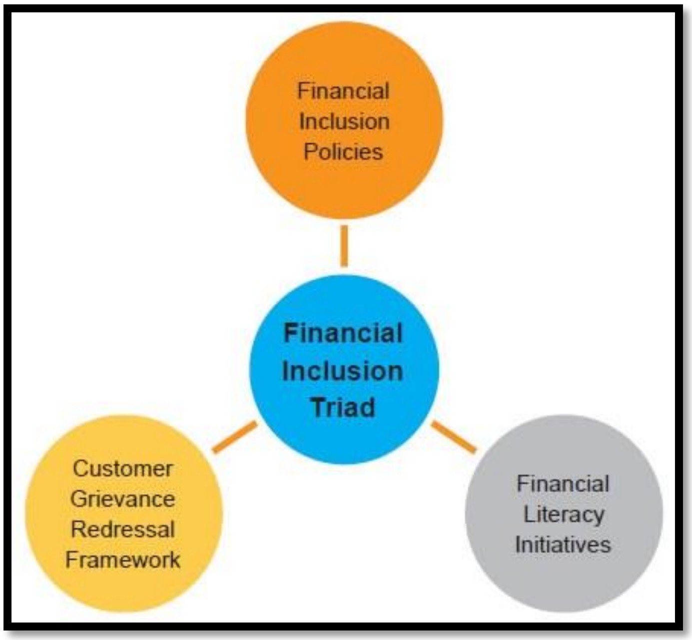
Self Help Groups and Senior Citizens that can be used by the trainers in financial literacy programmes

- **'BE(A)WARE – Be Aware and Beware!' -** The booklet, BE(A)WARE aims to enhance public awareness about financial frauds perpetrated on gullible customers while carrying out digital payments and other financial transactions. It also mentions the general precautions and the digital hygiene to be taken while carrying out various financial transactions. It lays emphasis on the need for always keeping one's personal information confidential, being mindful of unknown calls / emails / messages, etc.

17. **Financial Inclusion Index -** The Reserve Bank of India had constructed a composite Financial Inclusion Index (FI-Index) **to capture the extent of financial inclusion across the country.** It captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.



- **National Strategy for Financial Inclusion:** The National Strategy for Financial Inclusion for India 2019-2024 has been prepared by RBI under the aegis of the Financial Inclusion Advisory Committee and is based on the inputs and suggestions from Government of India, other Financial Sector Regulators. The areas of focus under this strategy are given below



The major recommendations of NSFI are given below

- **Universal Access to Financial Services**
  Every village to have access to a formal financial service provider within a reasonable distance of 5 KM radius.

- **Providing Basic Bouquet of Financial Services**
  Every adult who is willing and eligible needs to be provided with a basic bouquet of financial services that include a Basic Savings Bank Deposit Account, credit, a micro life and non-life insurance product, a pension product, and a suitable investment product.

- **Access to Livelihood and Skill Development**
  The new entrant to the financial system, if eligible and willing to undergo any livelihood/ skill development programme, may be given the relevant information about the ongoing Government livelihood programmes thus helping them to augment their skills and engage in meaningful economic activity and improve income generation.

- **Financial Literacy and Education**
  Easy to understand financial literacy modules with specific target audience orientation (e.g., children, young adults, women, new workers/ entrepreneurs, family person, about to retire, retired etc. in the forms of Audio-Video/ booklets shall be made available for understanding the product and processes involved.

- **Customer Protection and Grievance Redressal**
  Customers shall be made aware of the recourses available for resolution of their grievances. About storing and sharing of customer's biometric and demographic data, adequate safeguards need to be ensured to protect the customer's Right to Privacy.

- **Effective Co-ordination**
  There needs to be a focused and continuous coordination between the key stakeholders viz. Government, the Regulators, financial service providers, Telecom Service Regulators, Skills Training institutes etc. to make sure that the customers are able to use the services in a sustained manner.

- **Financial Inclusion Models – BF Model**
  1. **BF Model:** Under the 'Business Facilitator' model, banks may use intermediaries, such as below for providing facilitation services
     1. NGOs/farmers' Clubs,
     2. Cooperatives
     3. Community-based organizations
     4. IT enabled rural outlets of corporate entities
     5. Post offices,
     6. Insurance agents
     7. Well-functioning Panchayats
     8. Village knowledge centers
     9. Agri clinics/Agri business centers
     10. Krishi Vigyan Kendra and KVIC/KVIB units,

     The facilitation services by BFs can include the following.

     - identification of borrowers and fitment of activities.
     - collection and preliminary processing of loan applications including verification of primary information/data.
     - creating awareness about savings and other products and education and advice on managing money and debt counselling.
     - processing and submission of applications to banks.
     - promotion and nurturing self-help groups/joint liability groups.
     - post-sanction monitoring.
     - follow-up for recovery.

  It must be noted that these services are not intended to involve the conduct of banking business by business facilitators. No approval is required from RBI for using the above intermediaries for facilitation of the services

- **Financial Inclusion Models – BC Model**

  Under the 'Business Correspondent' model the following can act as BCs

  1. NGOs/MFIs set up under the Societies/Trust Acts

2. societies registered under the Mutually Aided Cooperative Societies Acts
3. NBFCs not accepting public deposits
4. Post offices

In addition to activities listed under the business facilitator model, the **scope of activities to be undertaken by the business correspondents will include:**

1. disbursal of small value credit.
2. recovery of principal/collection of interest.
3. collection of small value deposits.
4. sale of micro-insurance/mutual fund products/pension products/other third-party products.
5. receipt and delivery of small value remittances/other payment instruments

The agreement with the business facilitators/correspondents should specifically prohibit them from charging any fee from the customers directly for services rendered by them on behalf of the bank

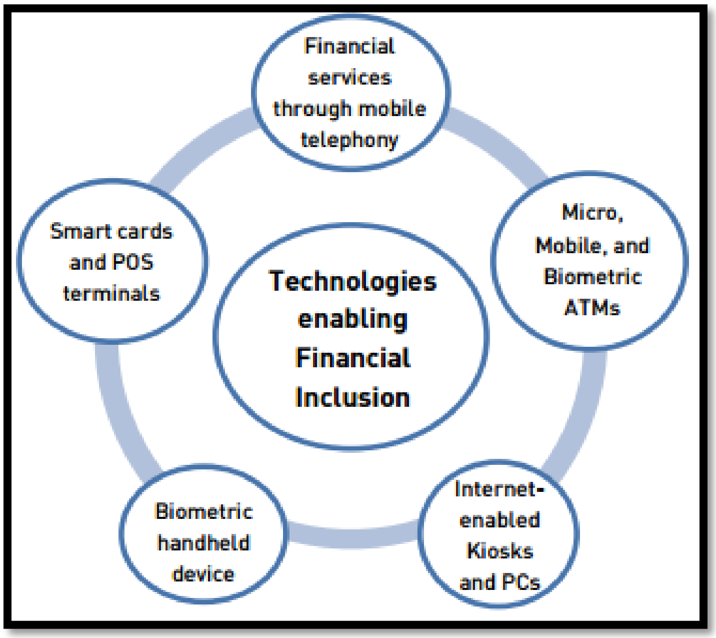
- **RSETI:** RSETIs are Rural Self-Employment Training Institutes, an initiative of Ministry of Rural Development (MoRD) to have dedicated infrastructure in each district of the country to impart training and skill upgradation of rural youth geared towards entrepreneurship development. RSETIs are managed by Banks with active co-operation from the Government of India and State Government

  Objectives of RSETis are:
  1. Rural BPL (below poverty line) youth to be identified and trained
  2. The trainings are often demand driven as per needs of economy
  3. Assessment of candidate is done to decide area of training
  4. Support to be provided for assured credit linkage with banks once they complete their training
  5. The candidates are provided free training with food and accomodation

  Funding: Ministry of Rural Development provided one-time grant of 1 crore to the lead bank in every area to set up one RSETI

  Selection of Trainees & Batch Size
  1. At least 70% of the trainees should be from the rural BPL category
  2. An ideal size of a batch should be 25-30 candidates
  3. **Certificates issued by an RSETI will be recognised by all banks for purposes of extending credit to the trainees**.

- **Financial Inclusion through use of Technology**



- **Internet Enabled Kiosks and PC's: Small and self-operated IT-enabled regional language based centres** located in villages that provide customers with banking features such as cheque or cash deposit, internet banking, non-cash ATM transactions and other enquiries
- **ATM's (Automated Teller Machine)**
  1. **Micro ATM's:**
     - ✓ It's a **small handheld device,** portable to carry, cheap in cost compared to usual ATM's and connected through the internet to bank servers
     - ✓ Used by **business correspondents**
     - ✓ The business correspondent acts as the cash cache for the ATM. He collects deposits and feeds in data and also pays out from his pocket and debits the account
  2. **Biometric ATM**: Specifically designed for **illiterate and semi-literate customers** to avail ATM facilities. It works like normal ATM only difference being that it uses **thumb impression of the cardholder** for verification of the account holder
  3. **Mobile ATM:** These are the Vans that carry mobile ATM's which run on predetermined days at various locations in a region to enable customers to avail basic banking facilities
  4. **Biometric Handheld Device:** Micro ATM's which comes with a feature of biometric authentication
  5. **Mobile Banking:** Helps users to access financial services (transfers, payments, receipts or investment) from mobile devices either through mobile browsers or mobile applications based on username and password authentication method
  6. **Mobile Payments:** Refers to making payments through mobile devices like by sending SMS, paying through prepaid instruments, UPI, payment banks apps
  7. **USSD based Mobile Banking:** The mobile banking has been used mostly by people having smartphones and poor people not having smart phones could not use this

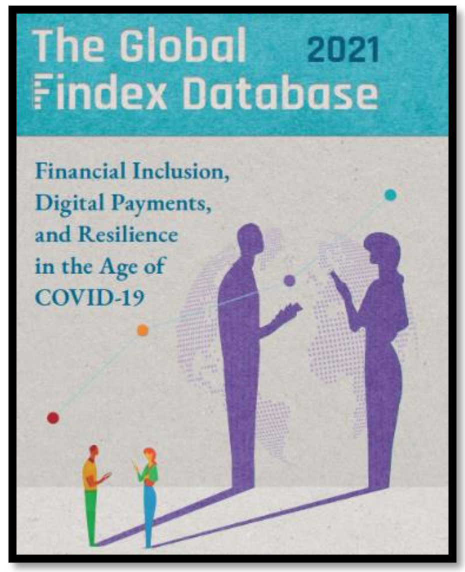
banking on mobile facility for many years. The answer to this problem is the USSD based mobile banking. One can dial the *99# and one can do all those things which are available to a person with smartphone and 3G data

8. **Near-field communication (NFC):** Set of communication protocols that enable two electronic devices to establish communication by bringing them within 4 cm (2 in) of each other. Used in contactless payment systems
9. **Smart Cards and POS:** It is just like normal debit or credit card that stores customer account information, fingerprints and his photo and also the account transaction details. It doesn't require usage of internet at the time of transaction. POS transfers the transaction details to the bank servers when connected to internet
10. **Technological Developments in the Banking:**
    - ✓ **CBS(Core Banking Solution):** It is networking of branches, which enables customers to operate their accounts and avail of banking services from any branch of the Bank on CBS network, regardless of where the customer maintains his/her account
    - ✓ **White Label ATM's:** These are the ATM's that are set up, owned and operated by the non-banks to provide ATM services to customers of all banks. These requires RBI's authorization under the **Payment and Settlement Systems Act 2007**
    - ✓ **Paper Based Payment Systems:** Use of paper-based instruments (like cheques, drafts) which covers maximum non-cash transactions
    - ✓ **Magnetic Ink Character Recognition (MICR)** technology is used for speeding up and bringing in efficiency in processing of cheques
    - ✓ **Speed Clearing of Cheques:** Denotes local clearance of outstation cheques drawn on core-banking enabled branches of banks
    - ✓ **Cheque truncation system:** Denotes restriction of physical movement of cheques and enables use of images for payment processing
    - ✓ **Electronic Fund transfer system:**
        - **NEFT (National Electronic Funds Transfer):** In this, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country. Works on a **Deferred Net Settlement (DNS)** basis. Operates in hourly batches - twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays
        - **RTGS (Real Time Gross Settlement):** Denotes the continuous (real-time) settlement of funds individually on an order by order basis without netting. Meant for **large value transactions**. The minimum amount to be remitted through RTGS is 2 lakhs with no upper ceiling for RTGS transactions
        - **ECS (Electronic Clearing Service):** Mainly for credit and debits of **low value transactions which are in large or frequent transactions**.

ECS is of two types: **ECS Debit**, which involves a transfer of funds from your account and **ECS Credit** which takes place when money comes into your account

- **Global Emphasis on Financial Inclusion:** Many initiatives have been taken at Global level for the Financial Inclusion of the Unbanked world. We are going to discuss some of these here in this section

1. **Global Findex:**
   - The Global Findex database by **world bank** is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. Launched with funding from the Bill & Melinda Gates Foundation, the database has been published every three years since 2011. The data are collected in partnership with Gallup, Inc., through nationally representative surveys of more than 150,000 adults in over 140 economies.



Key Findings -

1. Account ownership has reached 76 percent of adults—and 71 percent of adults in developing economies (Account ownership around the world increased **by 50 percent in the 10 years spanning 2011 to 2021**, **from 51 percent of adults to 76 percent of adults)**
2. In India, account **ownership more than doubled in the past decade, from 35 percent in 2011 to 78 percent in 2021**. **This outcome stemmed in part from an Indian government policy launched in 2014 t**hat leveraged biometric identification cards to boost account ownership among unbanked adults.
3. The growth or decline of the gender gap (in account ownership**)** adheres to different patterns, depending on the economy. In India, due to various measures, **the gender gap reduced from 17 percentage points in 2011 to insignificant in 2021.**

2. Financial inclusion has been identified as an enabler for **8 of the 17 Sustainable Development Goals**

3. **Alliance for Financial Inclusion (AFI)**
    I. A network of financial inclusion policymakers. **Headquarters:** Kuala Lumpur, Malaysia
    II. Founded in 2008 as a **Bill & Melinda Gates Foundation**-funded project
    III. **Core Mission:** To encourage the adoption of inclusive financial policies in developing nations, to lift 2.5 billion citizens out of poverty
    IV. Utilizes a **peer-to-peer learning model** to connect, encourage and enable financial policymakers to interact

4. **One of the three** implementing partners for the **Group of 20 Global Partnership for Financial Inclusion (GPFI)**
    I. Through GPFI, it helps non-Group of 20 developing country policymakers participate in the GPFI work
    II. In 2011, AFI members collectively adopted the **Maya Declaration**, a statement of intent to make financial inclusion a centerpiece of national efforts for poverty reduction and economic stability

5. **G20** commitment for financial inclusion is based on digital approach, financial innovation & risk, enabling legal & regulatory framework, building digital financial services framework, protecting consumers, strengthening financial literacy & awareness and tracking progress

6. **Commitment by World Bank:** It has **two institution-wide specific** initiatives to promote financial access and inclusion
7. **Universal Financial Access (UFA) by 2020:** In 2015, the World Bank Group committed to extending access to financial services to 1 billion adults through the UFA, which envisions those adults worldwide will be able to have access to a transaction account to store money, send or receive payments
8. **Financial Sector Assessment Programs (FSAPs):** Assessment programs done by World bank to help strengthen countries' overall financial systems and cover a range financial sector issues also covers financial inclusion measures

- **Challenges to Financial Inclusion:**

  1. Non-Universal Access to Bank Accounts: Bank accounts are a gateway to all financial services. But, according to a report by the World Bank, about 130 – 230 Million adults in India and China do not have formal banking because of their size.

  2. Digital Divide: According to a report, India has the world's second-largest pool of internet users, about 600 million, comprising more than 12% of all users globally. Yet half its population lacks internet access.

1. **Inadequate Infrastructure:** Limited physical infrastructure, limited transport facility, inadequately trained staff etc., in parts of rural hinterland and far-flung areas of the Himalayan and Northeast regions create a barrier to the customer while accessing financial services.

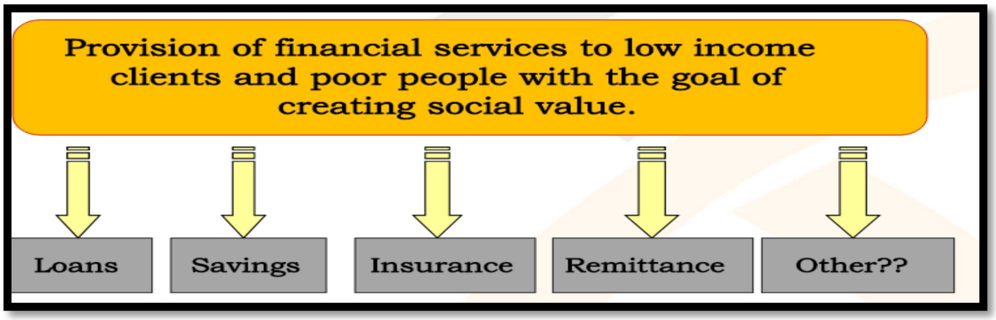
2. **Socio-Cultural Barriers:** Prevalence of certain value system and beliefs in some sections of the population results in lack of favourable attitude towards formal financial services. There are still certain pockets wherein women do not have the freedom and choice to access financial services because of cultural barriers. According to the 2017 Global Findex database, 83% of males above 15 years of age in India held accounts at a financial institution in 2017 compared to 77% females.

3. **Payment Infrastructure:** Currently, majority of the retail payment products viz., CTS, AEPS, NACH, UPI, IMPS etc. are operated by National Payments Council of India (NPCI), a Section (8) Company promoted by a group of publics, private and foreign banks. There is a need to have more market players to promote innovation & competition and to minimize concentration risk in the retail payment system from a financial stability perspective.

4. **Informal and Cash-Dominated Economy:** India is the heavily dominated cash economy; this poses a challenge for digital payment adoption. According to the International Labour Organization (ILO), about 81% of the employed persons in India work in the informal sector.

- **Need of Microfinance:** A large section of the Indian population is not covered by the formal financial system even after decades of nationalization of banks. The government nationalized and expanded the banking system to enlarge its coverage to a larger segment of the population, using targeted low-priced loans. For the banking institutions, the transaction cost inherent in servicing small loans to many borrowers and the perceived risk cost in the absence of appropriate risk-management system are barriers to financial inclusion. Still, a large section of the population, particularly in rural areas, remained excluded with no access to formal financial services

- **Microfinance is a holistic concept**- it includes not only micro-credit but also support services such as **savings, insurance, payments, market and technical assistance, and capacity building**. The clients of microfinance are landless laborers engaged in agriculture, mining and construction; self-employed in non-farm activities; small and marginal farmers; rural artisans and weavers; self-employed in urban informal sector; and women.



- **NGOs: Voluntary organization** established to undertake social intermediation like **organizing SHGs** of micro-entrepreneurs and entrusting them to banks for credit linkage or financial intermediation, like borrowing bulk funds from banks for on-lending to SHGs
- **SHGs:** A registered or unregistered group of 15-20 members, who have a relatively homogeneous, social and economic background and have voluntarily come together to save small amounts regularly to a common fund and to meet their emergency needs on mutual-help basis.
  - ✓ Many SHGs have women as their members
  - ✓ Microfinance is used by SHGs to meet the survival needs, meet working-capital requirements

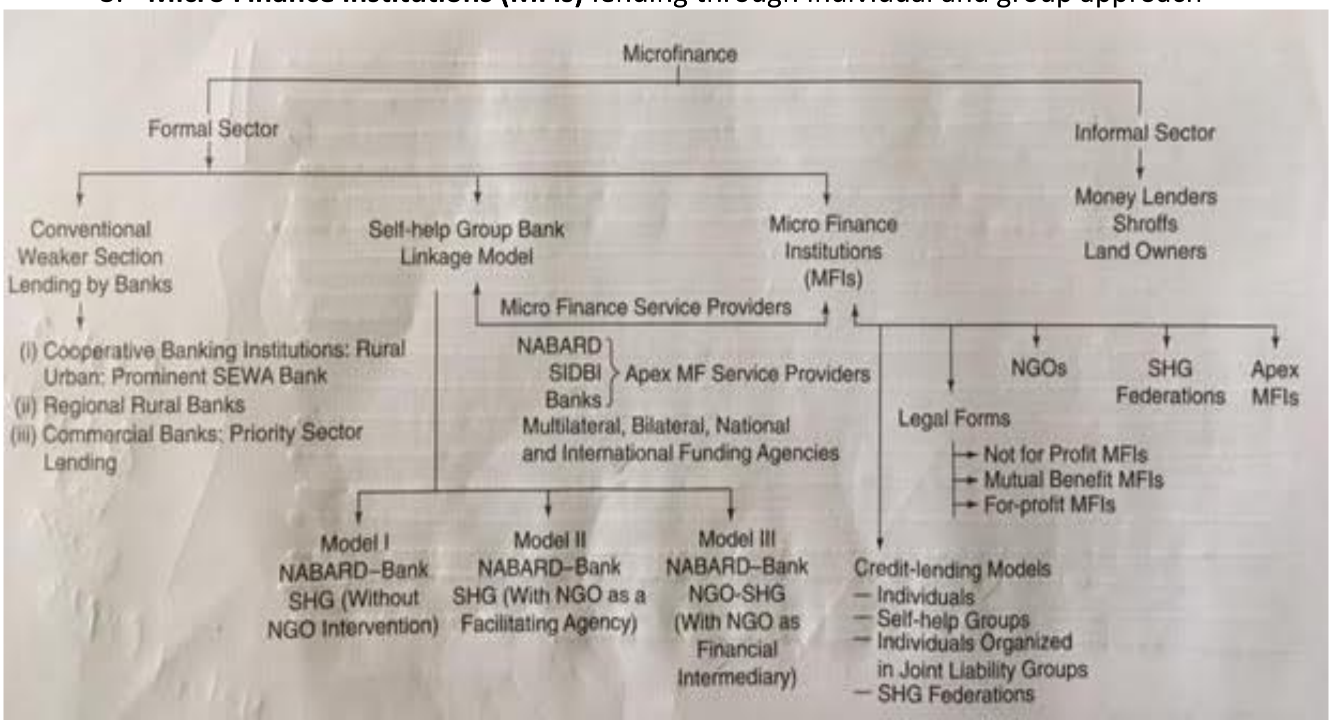
- **SHG Group Formation Guidelines**
  1. Normally, the number of members in a group should not exceed twenty; otherwise, registration becomes compulsory
  2. Generally, a self-help group may consist of **ten to twenty** persons. However, in difficult areas like deserts, hills, and areas with scattered and sparse population and in case of economically weaker and/or physically disabled persons, this number may be **from five to twenty**
  3. Generally, all members of the group should belong to families below the poverty line. However, if necessary, a **maximum of twenty per cent and in exceptional cases, where essentially required, up to a maximum of thirty per cent** of the members in a group may be taken from families marginally above the poverty line living contiguously with BPL (Below Poverty Line)families and if they are acceptable to the BPL members of the group
  4. The BPL families must actively participate in the management and decision making, which should not ordinarily be entirely in the hands of APL (Above Poverty Line) families.
  5. Further, APL members of the Self-Help group shall not become office bearers (Group Leader, Assistant Group Leader or Treasurer) of the group
  6. The group shall not consist of more than one member from the same family. A person should not be a member of more than one group

7. The group corpus fund should be used to advance loans to the members. The group should develop financial management norms covering the loan sanction procedure, repayment schedule and interest rates.
8. The group should maintain simple basic records such as minutes book, attendance register, loan ledger, general ledger, cash book, bank passbook and individual passbooks

➢ **Function of SHG**
  - ✓ Conducting Regular meetings on fixed days and at common place
  - ✓ The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB A/c with the bank. This resolution is filed with the bank
  - ✓ The SHG should authorize at least three members, any two of whom, to jointly operate upon their account. The resolution along with the filled in application form duly introduced by the promoter may be filed with the bank branch.

➢ **Microfinance Delivery Mechanism(3 Approaches):**

1. Conventional **weaker-section lending by banks**
2. Banking system through the SHGs under **SHG-Bank Linkage Programme** (SHG-BLP)
3. **Micro Finance Institutions (MFIs)** lending through individual and group approach



➢ **Conventional Weaker-section Lending by Banks:** Cooperative and Regional Rural Banks were set up with the motive reaching to the rural customers of the country. Similarly, even commercial banks are required to provide microfinance under PSL guidelines

➢ **SHG-Bank Linkage Programme:**

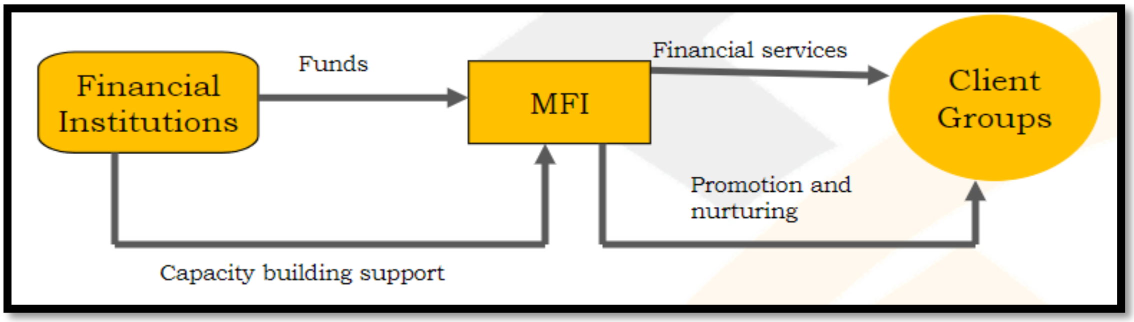
1. Most popular mode of providing microfinance

2. Launched by **NABARD in February 1992** with the support of the RBI
3. In this, small groups of the poor were encouraged to pool their savings regularly and from this pool, small interest-bearing loans are made to members as well as bank credit is also made available to the group to augment its resources for lending to its members
4. **The SHG-Bank Linkage Programme is a partnership model between three agencies, namely, the SHGs, banks and the NGOs**. NABARD operates 3 models under this program. They are:
    i. **Model I:** NABARD-Bank-SHG: SHGs are formed and financed by banks. There is no NGO intervention. NABARD supports banks and banks in turn, support SHGs.

    ii. **Model II:** NABARD-Bank-SHG (with NGO as a facilitating agency): The NGOs will promote SHGs and link them with banks. SHGs formed by NGOs are directly financed by banks.
    iii. **Model III:** NABARD-Bank-NGO-SHG (with NGO as the financial intermediary): Funds flow from NABARD to banks and from banks to NGOs. The SHGs are financed by banks through NGOs

5. **RBI/NABARD Guidelines on SHG-BLP Program**
    - **Part of Planning Process of Bank**: Credit to SHGs need to part of planning process of the bank in the state credit plan, district credit plan, block credit plan and so on. No specific targets are defined for this
    - **Margins and Norms**: As per guidelines by NABARD, the credit to SHG shall be given in between 1:1 to 1:4 ratio. In case of matured SHGs the ratio may be increased beyond this.
    - **Presence of Defaulters in SHGs**: The default by any of the members of SHG should be a roadblock in giving credit to SHG as a group entity.
    - **Total Financial Inclusion and Credit Requirements**: Banks should meet the entire credit need of SHG members such as
        1. income generating activities
        2. social needs like housing, marriage
        3. debt swapping

- **Microfinance Institutions (MFIs):**
    1. Accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor



2. Helps to bridge the gap between the formal financial institutions and the rural poor
3. The MFIs can be classified into the following 3 categories based on their legal structure:

Table 1: MFIs by Type of Registration

Category	Type of MFI	Registration
Not for Profit	NGO MFIs: Societies &	Registered under Societies Registration Act, 1860 and / or Indian Trust Act 1882
	Section 25 Companies (10)	Section 25 of Companies Act, 1956
Mutual Benefit	Cooperatives (100)	Registered under State Cooperative Societies Act or Mutually Aided Cooperative Societies Act (MACS) or Multi-State Cooperative Societies Act, 2002
For-Profit	NBFC (50)	Companies Act, 1956 & registered with RBI
	NBFC-MFI	RBI Circular, May 2011

- The NABARD and the SIDBI are the apex-microfinance service providers. **NABARD is the promoter and regulator of the SHG-BLP**
- **Credit Lending Methodologies in MFIs:**
  1. Direct lending to individuals organized in joint-liability groups
  2. Lending to SHGs
  3. Lending to SHGs Federations
- **Note: Microfinance Institutions (MFIs) cannot access public deposits and hence, have to rely on bank deposits to fund their growth. They are also deprived of equity capital**
- **Joint Liability Groups:**
  1. Established in India in 2014 by the National Bank for Agriculture and Rural Development (NABARD) to provide institutional credit to small farmers
  2. **Group of 4-10 people** of same village/locality of homogenous nature and of same Socio-Economic Background who mutually come together to form a group for availing loan from a bank **without any collateral**
  3. **A bank can finance a JLG in 2 ways**, either financing to **group directly or individual** in the groups but in both of the cases all the members of JLG are responsible for repaying the loan amount
  4. First needs to be promoted by any individuals/institutions (JLGs Promoting Institutions). Thereafter, bank requires KYC, Loan Application, Inter Se Agreement and DPN
- **Difference between JLGs and SHGs model of Microfinance**

SHGs	JLGs
Community based Savings-Oriented Group	Supply driven Credit-Oriented Group
Comprised of only Women	Comprised of both Men & Women
10-20 people per Group	Group of 4-10 people
Loans for consumption, income generation, and community development etc.	Loans are offered only for income-generation purposes
Quantum of Loan is based on the Savings of the Group	Being a credit based model, savings don't have any effect on the loan process
A formal structure with a proper hierarchy like Animator, Representative, Secretary etc.	An informal group of individuals from the same socio-economic background who seek loan for business
Promoted mainly by NABARD	Promoted mainly by MFIs
Eligible for loans from financial institutions only after 6 months	Eligible for microloans from the very next week of the formation
Community-driven model; the rules and regulations are sketched out by the members themselves	Agency-driven model; rules and regulations are formed by Financial Institutions which promote JLGs
Best for empowering homogenous community of rural women	Best for regions with heterogeneous enterprising populations

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- **Assistance for SHG under PMRY**

PMRY stands for Pradhan Mantri Rozgar Yojna

Self-Help Groups (SHGs) are considered for assistance under PMRY provided

1. Educated unemployed youth volunteer to form SHG to set up self-employed ventures
2. A Self-Help Group may consist of 5 to 20 educated unemployed youth
3. No upper ceiling on loan.
4. Required margin money contribution (i.e. subsidy and margin to be equal to twenty per cent of the project cost) should be brought in by the SHG collectively
5. The exemption limit for obtaining collateral security will be Rs. 5 lakh per borrowing account for projects under the Industry Sector. Exemption from collateral will be limited to an amount of Rs. 1 lakh per member of SHG for projects under service and business sectors