The Development of India's Financial Inclusion Agenda—Some Lessons for Pakistan

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SECTION I: INTRODUCTION

Financial Inclusion has assumed a vital position in the Public Policy discourse of developing economies. Provision of financial services to the otherwise excluded strata of the society enhances their potential to climb the economic ladder of opportunity and prosperity. Access to financial services to the otherwise excluded impacts their quality of life and enables the less privileged to increase and diversify their incomes, improve their social and economic conditions. Due to lack of access to financial services, most poor households have to rely on their meagre savings or money lenders which limit their ability to actively participate and benefit from the development process. The main theoretical arguments that economic theory postulates regarding the failure of financial markets in percolating poor and rural areas are of informational asymmetries, difficulties in contract designing and enforcement, greater transaction costs. The demand side aspects may be low demand for such services, arising from illiteracy, less investment opportunities in rural areas and difficult loan contracts [Basu (2006)]. When households are access constrained with respect to financial services, it becomes one of the important reasons for persisting inequalities. Economic theory suggests that unrelenting inequalities has a negative impact on the long term growth prospects of an economy [World Bank (2007)]. While establishing causality between financial development and economic growth has been quite tedious, with no simple answers, the evidence of a strong link between financial development and economic growth has continued to rise [Gattoo and Akhtar (2014)]. The interest in the financial inclusion discourse across developing and developing world stems from the recognition that a strong and vibrant financial system does not necessarily imply increasing financial to all across the societal divide [Honohan (2003)].

Financial Development and Financial Inclusion and Consumption Smoothening

A modern financial sector is characterised by liberalised financial markets, however, on the other hand, financial inclusion depicts the processes that relate to enhancing access to financial sector to the section of society not served so far on a sustainable basis. Financial inclusion focuses on redistributive aspects of financial development and deals with the phenomena of enhancing access to financial services to the traditionally unserved strata of population. If efficiency is the focus of Financial development, it is the notion of social justice and equity that lies at the heart of the discourse of financial inclusion. Pertinent to mention here is the fact that financial inclusion has different aspects, which include, credit services, savings, insurance, remittances and payments etc. However, the first three form the most vital part of the

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system, at least for those economies where financial inclusion as a development strategy is yet to take off properly. One more thing that needs proper elucidation is that financial inclusion should not be made synonymous to access to credit. Financial inclusion is much bigger in its concept, scope, usage and impact. In the ambit of financial inclusion, it is not just credit but all the major financial services that have been otherwise left un-served to the poor strata of society. Consumption smoothening is associated with the credit usage of a poor household, instead of or in addition to the credit usage for productive investments. Hence, the notion of consumption smoothening is very well a part of financial inclusion, through one its dimensions i.e., credit services.

There are different approaches with which we may describe financial inclusion. Leyshon (1995) highlights that exclusion of some groups and individuals from gaining access to formal financial system, while Sinclair (2001) emphasises on the inability to access appropriate financial services in a suitable form. Financial inclusion as defined by Sarma (2008), incorporates different aspects of inclusion. Sarma (2008) views financial inclusion as a process that ensures the ease of access, availability, and usage of financial services of all members of society. Sarma builds the concept of financial inclusion based on several dimensions, including accessibility, availability, and usage, which can provide some meaningful insights into different aspects of financial inclusion[1]. The 2015 ADB working paper[2] using Sarma (2008) methodology to calculate IFI for 176 countries places Pakistan at a dismal 134 position with an index score of 12.40, even behind countries like Nepal, Bhutan and Kenya. India is at 104 position, with an index score of 24.14.

The present paper is an attempt to present the trajectory of India's financial inclusion discourse since 1947 to present times and relates it to Pakistan's financial inclusion regime. The basic underlying theme of the paper is to showcase the evolution of the financial inclusion discourse in both India and Pakistan and to highlight how India's financial inclusion regime can have some important policy prescriptions for Pakistan in its attempt to further the agenda of Financial Inclusion. Section II highlights the importance of financial inclusion for promoting inclusive growth. Section III provides a retrospective outlook of the financial inclusion discourse in India post 1947 till date. Section IV throws light on the contours of Financial Inclusion in Pakistan. Section V tries to relate India's financial inclusion initiatives to Pakistan's setting to draw some policy perspectives. Section VI provides some concluding remarks regarding the debate.

SECTION II

2.1. Inclusive Growth and Financial Inclusion

Inclusive growth fundamentally refers to broad based or balanced growth which will benefit the poor and the underprivileged. It has the potential to impact the poverty

[1]In fact during the presentation of this paper, the discussant had suggested the author to probe into the discourses of financial in India and Pakistan through the prism of this index. However due to lack of the relevant data at present, this point could not be entertained in this paper. The author(s) strongly believe that comparing India and Pakistan in terms of index of financial inclusion [Sarma (2008)] very well qualifies for a separate research paper. The author(s) intends to probe the above mentioned question in a separate paper in future.

[2]Sarma (2008), first computes a dimension index for each of the three dimensions of financial inclusion and then aggregates each index as the normalised inverse of Euclidean distance. The distance is calculated from a reference ideal point, and then normalised by the number of dimensions included in the aggregate index. The obvious advantage of this approach is its ease of computation. Also it does not impose varying weights for each dimension viz-a-viz accessibility, availability, and usage.

levels in a country and enhance the involvement of people into the growth process of the country. Inclusive growth basically implies an equitable allocation of resources or providing equitable opportunities to all in accessing resources such that it benefits the society at large. In Inclusive Growth is embedded the idea of equality of opportunity for all in terms of access to markets and resources, an unbiased regulatory environment for employment, standard of living etc. Inclusive growth should ideally ensure the economic and financial progress cutting across the different sections of the society resulting in balanced, democratically sustainable and optimal growth.

The current state of Indian economy presents a strong case of an economy gaining some momentum out of poverty and destitution. The growth rates have been very impressive (more so for pre- global slowdown period), with the growth rate approaching 10 percent during some years of last decade[3], post financial crisis scenario has lowered the growth rates, but there are encouraging signs of recovery now as far as India is concerned. Such a phenomenal growth rate places India among those developing economies that have enormous prospects to emerge out of poverty and destitution in a time bound framework, provided the benefits of growth are translated across the societal divide on equitable terms. If growth percolates into the so far excluded sections of the society, only then shall the Indian dream of a developed economy may be realised.

The reality of India's growth story however has been its 'exclusivity', for in reality it has accentuated the imbroglio of 'shining India' and 'rural Bharat'. The growth story is embedded in the deep social exclusion phenomenon. The growth process is accompanied by growing inter-regional, intra- regional and interpersonal inequalities of wealth and income. The urban- rural divide with respect to any development variable is getting widened. India is still the country with largest number of mal nourished children in the world. According to a 2006 report[4] almost 370 million people are facing some form of deprivation. In particular, those in rural and tribal areas continue to be acute victims of deprivation. What is clear is the fact that the growth process has been quite exclusive, bypassing a large section of the population. The political economy of growth suggests that such a growth process not only is unstable but it has potential to increase tensions in the society, threatening unity of the country.

Recognising this, the government of India right from top to bottom has been involved in various initiatives and policy prescriptions that aim at enhancing inclusiveness in the growth process. The 11th and 12th five year plans have inclusive growth as the central agenda.[5] The inclusive growth agenda of the government was complimented by various national level measures resulting in huge investments in social sector[6] during the 11th 5 year plan period and continues unabated in the 12th 5 year plan as well. In the scheme of things, Financial Inclusion fits in as one of the important policy perspectives that can promote inclusiveness in growth phenomenon of the country. The Rangarajan Committee describes financial inclusion as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups*

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

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

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

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

such as weaker sections and low income groups at an affordable cost. Credit may be one of the important components of financial inclusion, but most certainly financial inclusion is not synonymous with access to credit alone. In fact financial services such as saving facilities may be preferred more by the poor households over credit services (World Bank, 2007). Thus, financial inclusion has to be a comprehensive package encompassing credit, savings, insurance, payment services on a sustainable basis that have both short term and long term implications for household welfare. The next session details on the development of financial inclusion discourse post 1947 scenario.

SECTION III

Financial Inclusion in India—A Retrospective Recourse

The policy in the country has substantially evolved over the past six decades without the nomenclature of Financial Inclusion. Initially the development of financial policy invariably focused mostly on credit than on any other financial service [Rao (2007)]. Since 1947, the development of India's financial sector has resulted in impressive upgradation and consolidation of access to banking services (credit) in rural areas. The first of its kind, All India Rural Credit Survey- 1951(AIRCS) was conducted to assess the rural indebtedness. The survey was conducted by the central bank of the country, RBI. The survey concluded that more than 90 percent of rural credit needs were being met by moneylenders or other informal sources. The share of banks in total credit was too low as 1 percent in total rural debt (Table 1). This type of limited access to credit services called upon the government forces to arrest this trend and intervene with regards to rural financial markets.

Table 1

Break-up of Institutional and Non-Institutional Rural Credit ((Percent)

	1951	1961	1971	1981	1991	2002
Institutional Agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64**	**57.1**
Government	3.3	5.3	6.7	4	5.7	2.3
Co-op. Society/Bank	3.1	9.1	20.1	28.6	18.6	27.3
Commercial Bank incl. RRBs	0.8	0.4	2.2	28	29	24.5
Insurance	–	–	0.1	0.3	0.5	0.3
Provident Fund	–	–	0.1	0.3	0.9	0.3
Others Institutional Agencies*	–	–	–	–	9.3	2.4
Non-Institutional Agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36**	**42.9**
Landlord	1.5	0.9	8.6	4	4	1
Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10
Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6
Relatives and Friends	14.2	6.8	13.8	9	6.7	7.1
Others	1.9	8.9	2.8	4.9	2.5	2.6
Total	***100***	***100***	***100***	***100***	***100***	***100***

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

In 1955, the State Bank of India (SBI) was established to extend banking facilities on a large scale, particularly to the rural and semi-urban areas in the country, and also to serve various other public purposes. To strengthen financial access to the poor, the Indian government nationalised the commercial banks in July 1969 when a major portion of the banking system (i.e. fourteen big Commercial banks) were brought under the public sector to better serve the development needs of the economy in conformity with the country's national policies and objectives. Further, six more banks were nationalised in April 1980. India undertook a colossal drive for bank branch expansion, particularly in the rural areas in the 1970s and 1980s. In addition to SBI, Regional Rural Banks (RRBs) were established to cater to the need of rural farmers. As a result, India witnessed a phenomenal growth in its formal rural banking system not only in terms of geographical spread, but also with regards to deposit mobilisation and disbursement of credit. Public sector banks accounted for more than 90 percent of the commercial banking business. Number of bank branches expanded quite robustly leading to (more than six times) reduction in population per office reaching 10,000 people per office in 2012 from 64 thousand per office in 1969. [Basu and Srivastava (2006)], Trend and Progress of Banking in India, 2013). Following bank nationalisation, the share of banks in rural household debt increased to about 29 per cent in 1981 and 1991 while the share of formal or institutional sources in total debt reached 61.2 per cent before declining in 1991. Correspondingly, the share of moneylenders apparently declined steadily over these four decades, from 69 percent in 1951 to less than 16 percent in 1991 [AIDIS (1991)]. However the same figure rose to about 30 percent for the year of 2002 [AIDIS (2002)].[7]

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

While the economic strategies post 1991 dominated by the notion of liberalisation, where markets took the centre stage of economic policy, the acceleration of growth was given primary importance and re-distribution and social aspect of economic policy however took a back seat. The economy took off in terms of impressive growth statistics since then all the way till the most part of the first decade of this century. However the enigma surrounding this growth imbroglio had been its "exclusionist" tendencies. This

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

impressive growth did not translate into the larger social good. The lack of "redistribution" or "trickle down" effect of this growth trajectory was now being considered a big drawback. This led to a policy alteration in Indian economic development focusing on *inclusiveness* in its growth phenomenon. The agenda of Financial Inclusion fits in this framework of India's larger development discourse. Increasing inclusiveness in India's growth process, which also benefits lower strata of society, can only be achieved by promoting inclusiveness in the provision/access to financial services [Gattoo and Akhtar (2014)].

Financial Inclusion—A Decade Long Trajectory

For almost a decade now, the GoI has been involved in extending the provision of a whole set of financial services to those who have been historically left out of the sector. RBI, in the year 2010, took a lead and made it mandatory on the part of banks to provide no-frills savings accounts without no minimum balance requirement. The transaction charges involved were quite negligible and small overdrafts were allowed for such accounts. However from august 2012, RBI asked the banks to shun away with the tag "no-frills", as the nomenclature had been stigmatised. RBI asked the banks to convert the existing "no-frills" accounts to Basic Savings Bank Deposit Account. This initiative of RBI has proved to be quite effective as the banking system has opened 182 million such accounts amounting to Rs.183 billion by March, 2013 under the Financial Inclusion Plan (FIP). The figures, respectively, were 139 million and Rs 120 billion in March, 2011 (Table 3). The table below gives a holistic picture of what RBIs drive with regards to financial inclusion has achieved so far. There is a clear progress being made on account of different aspects of financial inclusion in India.

With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI centres with population less than 50,000 under general permission consent, subject to reporting (since December 2009). On the other hand, banks can open branches in any centre-rural, semi-urban or urban—in the North-east without applying for permission each time, again subject to reporting. Banks have been advised to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs 25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. Banks have offered 4 million GCCs with an amount of Rs 76 billion by the end of March, 2013.

Kisan Credit Cards to small time farmers have been issued by banks. As on March 2013, the total number of KCCs issued has been reported as 34 million with a total amount outstanding to the tune of Rs 2,623 billion. The figures respectively, were 30million and Rs 2,060 billion on March, 2012 (Table 3).

Table 2

Outstanding Cash Debt of Major States as on June 30, 2002 – Credit Agency Wise

(percent)

States	Govern-ment	Coop. Society Bank	Commer-cial Bank	Insurance	Provident Fund	Commer-cial Instn.	Financial Company	Other Institu-tional Ag.	Landlord	Agricul-turalist Money-lender	Professional Moneylender	Traders	Relatives and Friends	Others
Andhra Pradesh	0.7	11.7	13.3	0.4	0	0	0.8	0.4	3.3	27.7	29.7	5	1.5	5.6
Assam	15.4	5.2	23	0.1	7.3	2.2	0.8	3.9	0.2	2.4	23.8	1.4	12.4	1.9
Bihar	2.3	6.2	27	0.2	0	0.1	0.1	0.6	1.1	18.7	27.8	1.4	7.4	7.1
Chattisgarh	2.5	23.9	56.5	0.1	1.1	0	0.9	0.2	1.2	1.4	6.6	1.2	3.5	0.7
Gujarat	2.9	40.1	22.4	0	0.1	1.2	0.2	0.5	0	0.3	8	3.9	20.5	0
Haryana	0.4	22.7	25.7	0	0	1	0	0	1.3	15	26.5	1.4	3	2.9
Himachal Pradesh	4.5	25.1	40.3	0	0.7	0.2	2.3	0.5	0.2	0.2	3	0.5	17.6	4.8
Jammu and Kashmir	0.7	11	60.9	0	0	0	0	0	0	0.8	0	0	26.5	0
Jharkhand	10.5	9.5	46.9	0	3.3	0	0.1	0.3	0.7	3.5	13.6	0.7	10.7	0.2
Karnataka	1.2	35.3	28.9	0.1	0	0.8	0	0.3	1.8	9.5	14	2	5	1
Kerala	4.8	46.2	23	0.5	0.1	5.2	0.2	1.3	0	0.1	7.8	0.1	9.1	1.6
Madhya Pradesh	0.9	33.6	23.8	0.1	0	0	0.1	0.1	0.3	9.8	21.1	3.3	1.8	5.1
Maharashtra	1	60.3	20.9	0.8	0.3	0.7	0.3	0.5	0.1	2.4	4	0.3	6.6	1.8
Orissa	1.4	29.3	31.8	0	1.6	9.5	0	0.4	0.1	4.4	18.2	0.1	2.4	0.7
Punjab	1.1	19	28.6	0.1	0	1.2	6.3	0.2	2.6	16.5	7.8	1.5	13.9	1.4
Rajasthan	0.6	11.8	21	0	0	0.1	0.2	0	0.5	16.8	32.1	10.6	4.5	1.7
Tamil Nadu	2.8	23.8	17.2	0.9	0.6	0.1	0.4	0.9	0.6	4.2	42.2	0.6	4.3	1.4
Uttaranchal	1.4	12.2	44.9	0	0	0.1	0	0	0	1.9	12.8	0.1	25.3	1.3
Uttar Pradesh	2.5	11.7	38.6	0	0.1	0.1	0.1	2.8	0.5	9.3	20.2	1.5	9.9	2.7
West Bengal	11.9	14	35.6	0.2	2	2.7	0.3	0.8	0.4	2.1	10.8	2.9	14.2	2.1
All India	**2.3**	**27.3**	**24.5**	**0.3**	**0.3**	**1.1**	**0.6**	**0.7**	**1**	**10**	**19.6**	**2.6**	**7.1**	**2.6**

Source: All India Debt and Investment Survey, 2001-02.

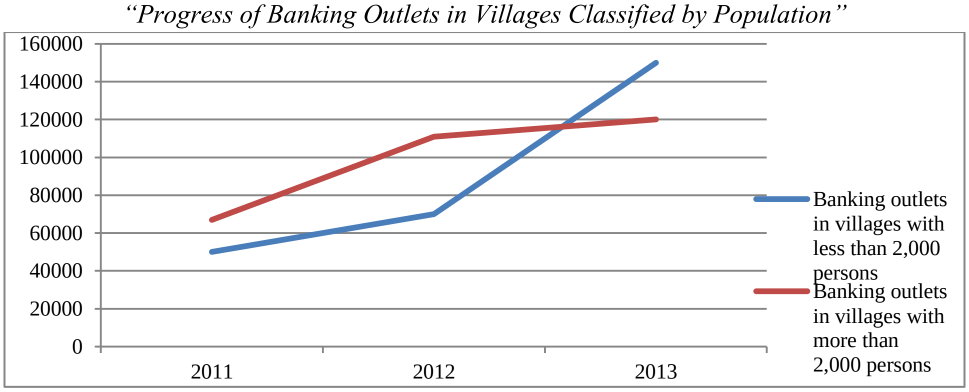
Table 3

No.	Variable	Max-10	Max-11	Max-12	Max-13	Absolute Change (2010-2013)	Percentage Change (2010-2013)
1	Banking Outlets in Villages > 2,000	37,949	60,605	1,12.288	1,19,453	81,504	214.8
2	Banking Outlets in Villages <2,000	29,745	49,603	69,465	1,49,001	1,19,256	400.9
3	Banking Outlets in Villages – Branches	33,378	34,811	37,471	40,837	7,459	22.3
4	Banking Outlets in Villages – BCs	34,174	80,802	1,41,136	2,21,341	1,87,167	547.7
5	Banking Outlets in Villages – Other Modes	142	595	3,146	6,276	6,134	4,319.7
6	Banking Outlets in Villages – Total	67,694	1,16.208	1,81,753	2,68,454	2,00,780	296.6
7	Urban Locations Covered through BCs	447	3,771	5,891	27,143	26,696	5,972.3
8	Basic Savings Bank Deposit Account (BSBDA) through Branches (No. in million)	60	73	81	101	41	67.5
9	Basic Savings Bank Deposit Account (BSBDA) through Branches (Amt. in	44	58	110	165	120	271.5
10	Basic Savings Bank Deposit Account (BSBDA through BCs (No. in million)	13	32	57	81	68	512.4
11	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in billion)	11	18	11	18	8	70.4
12	BSBDA Total (in million)	73	105	139	182	109	147.9
13	BSBDA Total (Amt. in billion)	55	76	120	183	128	232.5
14	OD Facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	1	3	4	4	2,094.4
15	OD Facility availed in Basic Savings Bank Deposit Account (Amt. in billion)	0.1	0.3	1	2	1.5	1,450.0
16	KCCs Total (No. in million)	24	27	30	34	9	39.0
17	KCCs Total (Amt. in billion)	1,240	1,600	2,068	2,623	1,383	111.5
18	GCCs Total (No. in million)	1	2	2	4	2	161.2
19	GCCs Total (Amt. in billion)	35	35	42	76	41	117.4
20	ICT A/Cs-BC Total Transactions (No. in million)	27	84	156	250	224	844.4
21	ICT A/Cs-BC Total Transactions (Amt. in billion)	7	58	97	234	227	3,279.8

As an innovative financial inclusion scheme, the Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem. With effect from September 2010, profit companies have also been allowed to be engaged in BCs. Under FIP out of total banking outlets in villages BCs are 2,21,341 by the end of March, 2013.The figure was 1,14,136 in March, 2012.The urban locations covered through BCs are 27,143 by the end of March, 2013.The figure was 5,891 in March, 2012 (Table 3).

Table 4

"Progress of Banking Outlets in Villages Classified by Population"

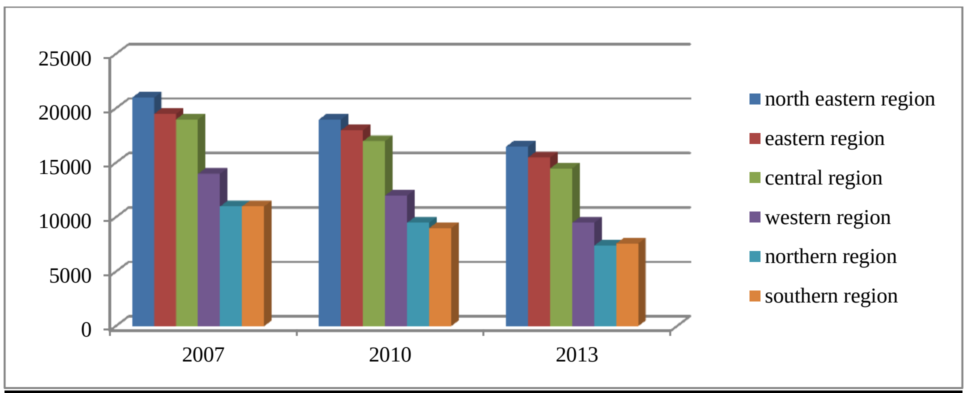


Source: "Report on Trend and Progress of Banking in India 2012-2013"

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

Probably one of the most fulfilling aspects of financial inclusion policy initiative are the signs of narrowing of regional gap in terms of banking penetration (Table 5). On account of the increased penetration of branches, the major beneficiaries have been the under-banked regions, viz., the north-eastern, eastern and central regions. Consequently, the regional gap in terms of banking penetration has narrowed over recent years as shown by a steady decline in the range (maximum-minimum) in the population per bank branch.

Table 5



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

The Ministry of Rural Development, Government of India has restructured the self-employment initiative, Swarnajayanti Gram Swarozgar Yojana (SGSY) as the National Rural Livelihood Mission (NRLM) with effect from April 1, 2013. NRLM is implemented through scheduled commercial banks (including RRBs). NRLM will ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the SHG network in a time bound manner. The scheme will further ensure that the poor are provided with requisite skills for: managing their institutions, linking up with markets, managing their existing livelihoods, and enhancing their credit absorption capacity and credit worthiness. NRLM will work towards achieving universal financial inclusion from both the demand and supply side. On the demand side, it will promote financial literacy among the poor and provide catalytic capital to SHGs and their federations. On the supply side, it will coordinate with the financial sector and encourage use of ICT based financial technologies, business correspondents and community facilitators like ‘Bank Mitras’. NRLM is expected to reach all districts by the end of 12th Five-Year Plan i.e., 2017. With regards to financial inclusion in the country, noteworthy is also the role of civil society.[8] The civil society has mainly played role at two levels. First is the generation of financial knowledge base to the rural populace. The second being the role of facilitators and mediators, between the banks and the rural customers.

Indian Financial Inclusion Progress in 2014

For the six months period from April 2014 to September 2014, an increase of 62,948 banking outlets during the first half of 2014 fiscal taking the total number of banking outlets to 446,752 as at the end of September 2014. BSBDAs were 305 million by the end of September 2014 implying an increase of 62 million accounts during this period. Business Correspondent-ICT transactions in BSBDAs showed some progress with 220 million transactions for the half year ended September 2014 as against 329 million transactions recorded for year ended March 2014. KCCs which are indicative of flow of credit to agriculture and allied sectors enhanced by 1.2 million during the first half of 2014 fiscal. GCCs reflecting flow of credit to non-farm sector entrepreneurial activities increased by 1.3 million during the half year ended September 2014. As at end September 2014, 8.8 million accounts were outstanding with a balance of 1,165 billion.

SECTION IV

Financial Inclusion—The Case of Pakistan

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

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

Pakistan has successfully implemented significant financial sector reforms over the past about 15 years, starting with grant of licenses to a number of new private banks in the early 1990s, modernisation of the governance and regulatory framework of the banking sector in the late 1990s, and the privatisation of major public sector banks since the early to mid-2000s. The authorities have taken steps to phase out and reorganise most of the government-owned development finance institutions, have put in place several initiatives to promote the growth of the microfinance sector, and have allowed more

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

freedom to insurance companies. In line with these reforms, the private sector credit touched the figure of Rs 2,523 billion in May 2008, as compared with Rs 356.3 billion a year earlier. SME credit has increased from Rs 18 billion in fiscal 2000 to Rs 403 billion on March 31, 2008, though the increase is entirely accounted for by medium, not small enterprises [SBP (2008)]. Consumer credit accounted for 14 percent of total outstanding advances at the end of March 2008. Agriculture credit rose from less than Rs 40 billion in fiscal 2000 to Rs 200 billion in fiscal 2008. The aggregate number of borrowers has risen, from 2.7 million in 2003 to about 5.5 million by December 2006. House building loans stood at Rs 64.94 billion in May 2008 whereas the total housing finance market of Pakistan stood at Rs 126 billion on December 31, 2007 [SBP (2008)], doubling its size from 2005. Microfinance loans (microcredit, microsavings, and microinsurance) worth Rs 22.6 billion were disbursed in 2007 through extension of 1.8 million microloans. Presently, the active clients of microcredit are around 1.7 million.

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

SECTION V

Enhancing Financial Inclusion in Pakistan—Some Lessons from Indian Experience

India presents a worthy case for Pakistan to peep into its financial inclusion discourse to draw some finer policy perspectives. Although it needs to be stated that the issues related to financial inclusion discourse in India are far from over. But in comparison to Pakistan, India has most certainly accelerated ahead with its policy perspective both in terms of geographical spread and quantum of financial services to rural unserved locations (Table 3). The first and foremost issue that Pakistan continues to face is the fact that the commercial banks continue to be off from lending in rural areas and SME's.

Commercial banks in Pakistan mostly provide credit facility to corporations, with less than 20 percent for consumer and agricultural finance together (Table 6). What is more disturbing is the fact that Most of the bank lending is concentrated in a few large manufacturing companies. Aggregate data for all credit by borrower size shows a skewed distribution: 0.4 percent of bank borrowers account for 65 percent of all bank credit—and more than 5 million borrowers account for the remaining one-third of loans [SBP (2008)]. This kind of exclusion and skewness in the provision of finance (credit) does not augur well, more so for a country that is deeply rooted in the tradition of landlordism, with all powers converging in them.

Table 6

Breakdown of Loans (Domestic Operations) by Sector

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

Source: SBP figures for March 2008.

In spite of government efforts, commercial banks have not shown the level of involvement in Microfinance sector. Commercial banks in Pakistan have somehow failed to view Microfinance as a business opportunity that serves social policy objectives as well. The dominant view point among commercial banks with regards to Microfinance seems to be one of liability and economically least remunerative.

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

The Dynamics of Microfinance in India and Pakistan

Microfinance in India started almost a decade later as compared to Pakistan[9]. But with time the phenomenon has become more deep rooted and effective in India as compared to Pakistan. The self-help group (SHG)-bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, viz., the SHGs, banks and NGOs. Though progress under the SHG-bank linkage programme was slow during the initial years of commencement, it started expanding rapidly after 1999. At end-March 2012, about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. In recent years, micro-finance institutions (MFIs) have emerged as an important means of channelling credit to the rural parts of the country due to their widespread reach in these areas as well as the ability to offer customised and flexible financial products, suited to the needs of average rural customers. The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks has emerged as one of the major initiatives to bring low income poor people into the banking stream. Along with SHG's , Joint liability groups (JLGs) too have emerged as successful non-collateralised credit instruments for financing livelihood activities for small farmers in general and tenant cultivators in particular.

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

However, the SHG-bank linkage continues to be a more dominant mode of microfinance with banks financing over 1 million SHGs in 2012-13. However, by contrast, in recent years, there has been a decline in the number of microfinance institutions (MFIs) financed by banks. In part, this could be attributed to concerns about the operations of certain MFIs in Andhra Pradesh and the regulatory initiatives in response to these concerns in the recent past (Trends and Progress in Banking 2012-13).

With regards to the regulation of MFI's Malegam Committee Report [RBI (2011)] was constituted to study issues and concerns in the MFI sector in the wake of Andhra Pradesh micro finance crisis in 2010. The Committee, inter alia, recommended (i) creation of a separate category of NBFC-MFIs; (ii) a margin cap and an interest rate cap on individual loans; (iii) transparency in interest charges; (iv) lending by not more than two MFIs to individual borrowers; (v) creation of one or more credit information bureaus; (vi) establishment of a proper system of grievance redressal procedure by MFIs; (vii) creation of one or more "social capital funds"; and (viii) continuation of categorisation of bank loans to MFIs, complying with the regulation laid down for NBFC-MFIs, under the priority sector. The Reserve Bank has accepted the broad framework of regulations recommended by the Committee Report.

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

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

Although India has no specialised microfinance banks like Pakistan, the country has been comparatively better placed in enhancing access of financial services to rural unserved. Various estimates of potential market demand for microfinance in Pakistan place potential client figures in the tens of millions, as compared with actual client figures of 1.7 million currently (out of a total population of over 160 million).

Microfinance penetration in the region is much higher,[10] than what it is in Pakistan [Bringing Finance to Pakistan's Poor (2009)].

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

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

SECTION VI

CONCLUSION

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

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

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[10]Bangladesh-35 percent, India- 25 percent, and 29 percent in Sri Lanka.

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Comments

It is amazing to see a Scholar from Aligarh University. We as students, read a lot about Aligarh movement, Sir Syed Ahmad Khan and Aligarh University. Believe, almost every matriculate student in Pakistan knows about Ali Garh University. Welcome to Pakistan.

Your paper provides a detailed review of Indian financial sector development. But, this manuscript needs a lot of improvement.

(1) Is financial inclusion is different from financial development? Or financial inclusion is just a new nomenclature of financial development
(2) I can't find the theoretic link between financial inclusion and macroeconomic indicators. I mean, why financial inclusion is important to discuss?
(3) Different studies used different indicators of financial inclusion. Specifically, Sarma (2008) proposed a measure by which the level of financial inclusion can be measured. You also can think about those financial inclusion indices. Sarma (2008) did for India. What you can do. Plot the financial inclusion index with macroeconomic indicators to motivate the researchers.
(4) There is concept of consumption smoothening and investment smoothening through financial sector development. What is the difference between financial inclusion and consumption smoothening? How your work is different that consumption smoothening concept? I think these concepts are closely related.

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