

# Chapter - 1

## Introduction and Overview

1.01 A well functioning financial system empowers individuals, facilitates better integration with the economy, actively contributes to development and affords protection against economic shocks. Inclusive finance - through secure savings, appropriately priced credit and insurance products, and payment services - helps vulnerable groups such as low income groups, weaker sections, etc., to increase incomes, acquire capital, manage risk and work their way out of poverty.

1.02 Notwithstanding the efforts made so far, a sizeable majority of the population, particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector. With a view to correct this situation and extend the reach of the financial sector to such groups by minimising the barriers to access as encountered by them, the Government of India (GoI) vide order no. 6/5/2006/AC dated 22 June 2006 constituted a “Committee on Financial Inclusion” as under :

**Chairman :**

Dr C Rangarajan, Chairman, Economic Advisory Council to the Prime Minister.

**Members :**

Shri Vinod Rai, Secretary (Financial Sector), Ministry of Finance, GoI.

Shri R Bandyopadhyay, Additional Secretary, Ministry of Telecommunications, GoI.

Shri M B N Rao, Chairman & Managing Director, Canara Bank.

Shri Yogesh Agarwal, Chairman & Managing Director, IDBI.

Prof Mahendra Dev, Director, Centre for Economic and Social Studies (CESS), Hyderabad.

Shri Vijay Mahajan, Chairman, BASIX, Hyderabad.

Shri R Gopalakrishnan, Executive Director, TATA Sons, Mumbai.

Shri A P Fernandez, Executive Director, MYRADA, Bangalore.

**Member Secretary :**

Dr Y S P Thorat, Chairman, National Bank for Agriculture and Rural Development (NABARD).

**Permanent Invitee :**

Smt Usha Thorat, Deputy Governor, Reserve Bank of India (RBI).

**Terms of Reference**

1.03 The Terms of Reference assigned to the Committee were :

- To study the pattern of exclusion from access to financial services disaggregated by region, gender and occupational structure.

- To identify the barriers confronted by vulnerable groups in accessing credit and financial services, including supply, demand and institutional constraints.
- To review the international experience in implementing policies for financial inclusion and examine their relevance / applicability to India.
- To suggest :
  - ❖ a strategy to extend financial services to small and marginal farmers and other vulnerable groups, including measures to streamline and simplify procedures, reduce transaction costs and make the operations transparent;
  - ❖ measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial inclusion;
  - ❖ a monitoring mechanism to assess the quality and quantum of financial inclusion including indicators for assessing progress.

### **Approach of the Committee**

1.04 The Committee is of the view that while financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is also important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. In order to improve their level of inclusion, demand side efforts need to be taken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages. However, the primary focus is on improving the delivery systems, both conventional and innovative.

1.05 With a view to set their recommendations within a broad/ empirical framework, the Committee analysed the data presented by the NSSO (National Sample Survey Organisation) Survey (59<sup>th</sup> round) supplementing it with information on credit flow from RBI / NABARD. The NSSO Survey covers 51,770 rural households spread over 6,638 villages and deals with indebtedness among farmer households according to source or purpose of loan and their distribution over different social and economic parameters such as social groups, sources of income, size-class of land possessed, etc. in different States/ Union Territories (UT). An indebted household is defined by the NSSO Survey as one which had any loan in cash or kind from formal and informal sources, provided its value at the time of transaction was Rs. 300 or more. However, the emerging conclusions could be different if the definitional aspect relating to Rs.300 undergoes a change.

### **Structure of the Report**

1.06 The Report has been set out in thirteen Chapters. Chapter II deals with the definition of financial inclusion and draws conclusions on the basis of the data presented in the NSSO Survey (59<sup>th</sup> round). Chapter III recommends the adoption of a National Rural Financial Inclusion Plan (NRFIP) to approach the challenge of financial inclusion on a Mission Mode. Chapter IV to VI deal with the constituents of the multi-agency approach, their strengths and weaknesses and make suggestions for facilitating better credit flow for inclusive growth within the extant framework and by adopting the Business Facilitator (BF) / Business Correspondent (BC) Models. Chapters VII and VIII deal with issues relating to the Self-help Group (SHG) - Bank Linkage Programme and MFIs. Chapter IX outlines the scope for application of technology for cost effective models of BFs / BCs. Remittance mechanism for greater financial inclusion forms Chapter X while issues concerning micro-insurance are

addressed in Chapter XI. The demand side perspectives are covered in Chapter XII. Key learnings from international experiences are featured in Chapter XIII. In Chapter XIV concluding observations are made.

1.07 The Committee held eleven meetings between July 2006 and November 2007. Keeping in view the broad Terms of Reference, the Committee sought the advice of experts having domain knowledge in various fields. The experts consulted included bankers, IT specialists, insurers, micro finance professionals and NGOs. Insurance Regulatory and Development Authority (IRDA) as well as Institute for Development and Research in Banking Technology (IDRBT) provided useful inputs. The Committee is grateful to all these experts for their advice and support.

1.08 The Chairman and Member Secretary held separate discussions with members of Self Help Groups, private corporates, Government officials, bankers, IT corporates, MFIs, etc., during the course of their field-visits as part of the Committee's work. Representatives from the private corporate sector also made presentations before the members on their initiatives in reaching out to the rural poor through innovative delivery mechanisms.

1.09 Smt. Usha Thorat, Deputy Governor, Reserve Bank of India was associated with the Committee as a permanent invitee. She actively participated in the deliberations of the Committee and the Committee wishes to record its appreciation of her contributions particularly in matters relating to commercial banks, RRBs and technology induction.

1.10 The Committee wishes to place on record the contributions and inputs provided to it by Dr K G Karmakar, Managing Director, NABARD.

1.11 Officials of the RBI provided useful inputs to the Committee at various stages while the College of Agricultural Banking shared the findings of studies conducted by them. The Committee is further grateful to the Reserve Bank of India for making available to it the services of Dr Pradeep Maria, Director, DESACS, New Delhi and Dr (Smt.) Praggya Das, Asst. Adviser, DESACS, Mumbai. They assisted the Committee by collating, organising and analysing the voluminous statistical data. Various commercial banks also undertook special studies to field-test several ideas. The Committee is grateful to all of them for their assistance.

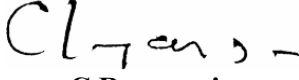
1.12 NABARD set up a separate Secretariat to assist the Committee. While thanking all the members, the Committee would like to make special mention of the contributions made by Shri R. Krishnamurthy, Chief General Manager & Secretary and Shri Manikumar S, Manager. Besides taking care of logistical and operational aspects, they facilitated the work of the Committee by analyzing the inputs received from various sources and preparing the first draft of the various chapters.

Dr V Puhazhendhi, GM, Department of Economic Analysis and Research (DEAR), Dr R N Kulkarni, Executive Assistant to Dr Thorat (Member Secretary) and Shri Ashok Misra, AGM, NABARD were actively associated with the Committee's work, at various stages. Their efforts and inputs are thankfully acknowledged. The Committee also wishes to thank all staff members of NABARD, who have helped the Committee.

Both the New Delhi and Andhra Pradesh Regional Offices of NABARD had played a very significant part in organizing the meetings of the Committee. The Centre for Economic and Social Studies (CESS), Hyderabad had hosted the meetings of the

Committee on quite a few occasions. The Committee recognizes the importance of these efforts and sincerely thanks the officials involved.

1.13 The Committee also wishes to place on record the contributions made by persons not specifically mentioned here, but who have given their counsel to the Committee on various occasions. The Committee is grateful to them for their efforts.

  
**C Rangarajan**



**Vinod Rai**  
Member

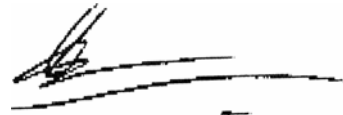


Chairman

**R Bandyopadhyay**  
Member



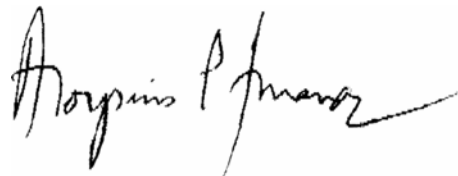
**Yogesh Agarwal**  
Member



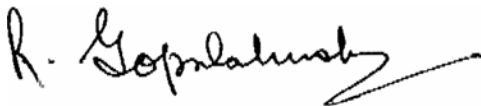
**M B N Rao**  
Member



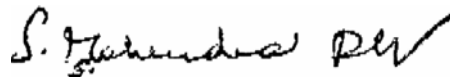
**Vijay Mahajan**  
Member



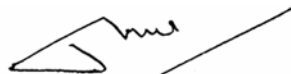
**A P Fernandez**  
Member



**R Gopalakrishnan**  
Member



**Mahendra Dev**  
Member



**Y S P Thorat**  
Member Secretary