THE UNFULFILED PROMISE OF FINANCIAL INCLUSION

A Study of Financial Inclusion for the Adivasis in Central India

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Introduction

World Bank has been using "financial inclusion" as a trope for both poverty reduction and fueling economic growth. Policymakers globally have explored different strategies for ensuring greater financial access to the marginalized and formal-finance[1] deprived sections of society. Accordingly, there is an implicit role for greater financial inclusion as an enabler for other developmental goals in the 2030 Sustainable Development Goals. Against the backdrop, the paper wishes to assess the status of financial inclusion for the Adivasis, especially those from the Central India. The paper has three sections. The first section focuses on the background, themes and financial inclusion in the county. The second section presents an overview of the various initiatives that the Government put in place to promote an inclusive growth strategy for addressing the plight of the socially and economically marginalized sections of the society. The third section is on the status of financial inclusion in rural India, especially for the Adivasis using both primary and secondary data. The last section has concluding remarks and policy recommendations for addressing financial inclusion in India for rural marginalized sections of India, especially for the Adivasis of the Central Indian Tribal Belt.

Section I: Unbundling Financial Inclusion

"Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way." (World Bank)

Measuring financial inclusion is a complex process as there are the dimensions of supply and demand. On the supply-side, providing access to formal financial services to socio-economically and geographically marginalized sections of society by ensuring that the services become more affordable, accessible, safe, and dependable through technological innovations (Leyshon and Thrift 1995; Sinclair 2001; Conroy 2005 in Mukhopadhyay 2016, p.47). In India, through financial inclusion the Government strive to address the issue of last mile connectivity in accessing various financial products and borrow from the formal channel, when he or she need to borrow (Ministry of Finance, September 1, 2017). Consequently, the Government has taken several steps to accelerate financial inclusion, including the setting up of regional rural banks (RRBs), mandatory priority sector lending (PSL) by Commercial Banks, Lead Bank Scheme, introduction of "no-frill" account, linking Self-Help Groups (SHGs) to banks, Kisan Credit Cards, providing doorsteps delivery of financial services through approved banking correspondents (Mukhopadhyay 2016, p.46).

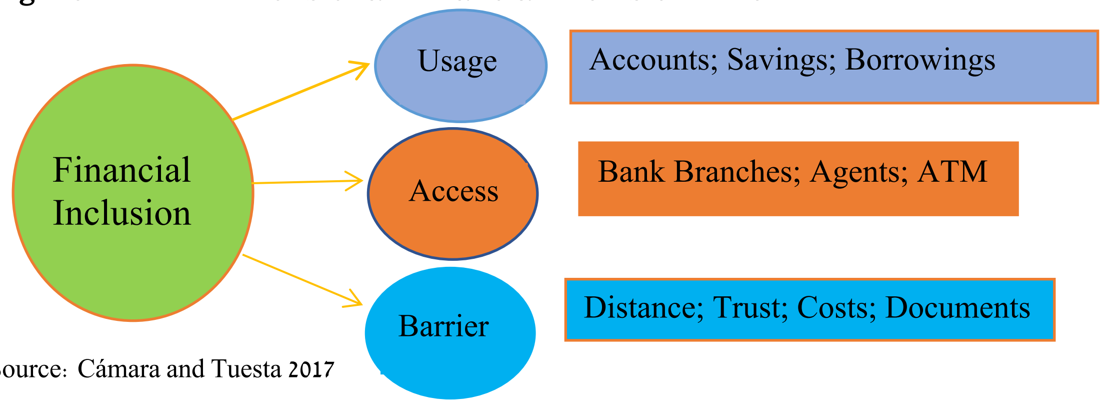
Following the Global Recession (2008), academics have also started focusing on the demand-side of financial inclusion. The works of Lusardi and Tufano (2015) identify financial literacy as an indicator for understanding the demand-side of financial inclusion. Financial literacy encompasses adequate knowledge of basic economic concepts such as interest rates,

[1] The term "formal-finance" deprived sections of society was used by the Hon'ble Prime Minister's Address at Delhi Economics Conclave, 6 November 2015.

compounding, inflation or financial risk diversification, equipping the individual with making financial decisions that incur lower transaction fees, reduce outstanding debts by ensuring lower interest rates and get better returns on their investment (Lusardi and Tufano 2015). Lahi and Kuri (2014) argued that the growing demand for financial services provide an additional incentive for formal financial sectors to implement the strategy for inclusive financial systems (Lahi and Kuri 2014, p.5). The demand for financial inclusion is highly correlated with the supply of financial services. The *Rangarajan Committee on Financial Inclusion* (2008) suggests that even if financial inclusion can be enhanced through improved supply side for financial services, to improve financial inclusion, it is imperative that the demand-side efforts are undertaken, including "improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages" (MoF, February 5, 2008).

The work of Cámara and Tuesta (2017) measure the degree of inclusiveness of financial systems using a composite index that uses demand and supply-side datasets at an individual level using three dimensions – usage (the extent of usage of the formal financial services for making and receiving payments, savings or seek credit), access (the possibility to use automatic teller machines (ATMs) per 100,000 adults, Commercial Bank branches per 100,000 adults and banking agents per 100,000 adults) and barriers (the obstacles that prevent unbanked individuals voluntarily or involuntarily from participating in the formal financial services) (Cámara and Tuesta 2017, p.5-7). Applying the multidimensional inclusion index, India scored poorly in terms of usage (88 out of 137), access (84 out of 137) and barriers (73 out of 137). Globally, developed countries such as Japan, Germany and United States have the most inclusive financial systems, low income countries (including some of the neighbouring countries) such as Brazil, Bangladesh, Sri Lanka and Thailand, outperformed middle-income countries such as India.

Figure 1: Multidimensional Financial Inclusion Index



Source: Cámara and Tuesta 2017

Table 1: India vis-a-vie Other Countries-Ranking of Degree of Financial Inclusiveness (Usage, Access and Barriers)

Countries	GDP (Nominal) (Billions in $)	Usage	Access	Barriers
United States	21,482.41	20	9	34
China	14,172.20	46	40	36
Japan	5,220.57	7	16	8
Germany	4117.07	15	26	20
India	2,957.72	88	84	73
Brazil	1,929.71	37	2	47
Thailand	524.25	-	29	37
Bangladesh	314.66	97	1	87
Sri Lanka	278.02	24	100	25
Pakistan	84.16	102	50	132

Source: IMF; Cámara and Tuesta 2017

In fact, the financial inclusion indexing strategy developed by Cámara and Tuesta (2017) is based on the World Bank's Global Findex (2011 and 2014), which offers the demand-side dataset at an individual level, using standardized set of indicators based on individual's use of financial products across economies. The latest round of the Global Findex survey (2017) reveal that India made enormous strides on usage (account ownership) and reducing barriers (setting up "zero balance accounts" through biometric identification cards) for marginalized groups in rural India to participate in the formal financial services. As a result of the Central Government's mobilization efforts (launched in 2014), adults with an account has doubled since 2011, to 80%. Between 2014 and 2017, the survey reports, account ownership in India increased by 30 percentage points among women and the poorest 40% of the households. Similarly, the gender gap with access reduced from 20% to 6% (between 2014 and 2017) due to increase in account ownership through biometric identification cards (Global Findex Survey 2017, p. xii). But one must remember that China and India, despite having relatively high account ownership, claim a large share of the global unbanked population due to large population size. There are 225 million (22.5 Cr.) and 190 million (19 Cr.) unbanked adults in China and India, respectively (Ibid, p.35). Twice as many unbanked adults represent the poorest households. The survey further found that 60% of the unbanked population in India have access to mobile phones. Yet, the country reported low use of mobile money accounts – a third of account owners in India reported making/receiving at least one digital payment in the past year. India also reported low debit card ownership and usage compared to the other developing countries such as China, Malaysia, Brazil, Russian Federation, Turkey and Venezuela (Ibid, p.59).

From the savings perspective, account ownership need not translate to improved savings behavior. In India, 80% of the population have account ownership, but 20% of those account owners reported having saved at a financial institution in the past 12 months. In comparison, globally (38%) and in high-income economies (58%) account holders reported having saved at formal financial institutions (Ibid, p.71).The savings behavior in countries such as India and the ones in Sub-Saharan Africa indicate that saving semi-formally, using family, friends or informally organized *chit funds* (organized by family, friends, relatives or neighbors) continue to be popular (Ibid, p.72). Moreover, account ownership did not translate to increase in savings. In India, majority (60%) did not save at all, since 659 million (65.9 Cr.) Indians live in extreme poverty earning less than $3.20 a day (Global Findex Survey 2017, Poverty and Equity-World Bank).

To understand the extent of financial inclusion in post-independent India, CRISIL Inclusix has also developed an index for measuring the extent of financial inclusion across 666 districts. The Index combines the four critical parameters of basic financial services-branch penetration, deposit penetration, credit penetration, and insurance penetration (CRISIL website). As for the end of fiscal year 2016, the all-India CRISIL Inclusix registered an above average performance with score of 58.0 propelled by the success of the Jan-Dhan initiative[2] and the increase in credit accounts across India.[3]

[2] From 2013 to 2016, 600 million (60 Cr.) was set up-twice the number of accounts opened between 2010-2013. Nearly one-third of all accounts were under the Jan Dhan Initiative. To read more, check https://www.crisil.com/content/dam/crisil/our-analysis/reports/Research/documents/2018/march/crisil-inclusix-financial-inclusion-surges-driven-by-Jan-Dhan-yojana.pdf

[3]There was strong growth in setting up of credit accounts for the FY 2016, but 200 million (20 Cr.) have access to credit. Consequently, the CP remained much lower that the DP. To read more, check: https://www.crisil.com/content/dam/crisil/our-analysis/reports/Research/documents/2018/march/crisil-inclusix-financial-inclusion-surges-driven-by-Jan-Dhan-yojana.pdf

Table 2a: CRISIL Inclusix Index

CRISIL Inclusix Score	Level of Financial Inclusion
>65.0	High
Between 50.1-65.0	Above Average
Between 35.0-50.0	Below Average
<35.0	Low

Table 2b: Trends as per Basic Financial Services: 2010-2016

Basic Financial Services	2010	2011	2012	2013	2014	2015	2016
Branch Penetration	38.9	41.0	42.7	52.4	53.5	55.4	57.2
Credit Penetration	34.8	36.8	38.7	45.7	49.9	50.4	56.0
Deposit Penetration	43.4	48.3	53.2	60.3	62.1	70.5	78.3
Insurance Penetration	N/A	N/A	N/A	N/A	N/A	N/A	54.3

Source: CRISIL

Currently, 1,646 million (164.6 Cr.) Indians have deposit accounts with 310 million (31 Cr.) set up following the launch of the *Pradhan Mantri Jan-Dhan Yojana* (August 2014). Yet, 20% population saved at any forms of formal financial institutions with 8% relying on banks and Micro-Finance Institutions (MFI) for credit (Ghosh 2019; CRISIL Inclusix 2017). In both the parameters of borrowing and savings from the formal financial institution, the country fared poorly when compared to the global average. This indicates that even if large sections of the population have bank accounts, they were unlikely to use it due to lack of awareness, poverty and illiteracy (CRISIL Report 2017, p.12). The additional barriers of extensive documentation process, inadequate penetration of the Commercial Banks in rural India, inconvenient branch timings, poorly designed financial products, language barriers, staff attitudes and inadequacy of BC/BS, were significant roadblocks against financial inclusion.

Section II: History of Financial Inclusion in India

The existence of professional banking in India can be traced to Kautilya's *Arthashastra* (dating back to the 400 BC) containing reference to terms such as creditors, lenders and lending rates.[4] In colonial India, W.E. Preston, member of *Royal Commission of Indian Currency and Finance* (1926), observed, "……….it may be accepted that a system of banking that was eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England."[5] An extensive network of private banks (organized as joint stock companies) existed across the country, connecting cities and villages, to cater to the credit needs of the trade, agriculture and individual needs of the economy.[6] However, the indigenous bankers and the money lenders continued to remain outside the purview of the institutional part of the system, even after the banking structure was regulated under the *Companies Act* (1919) and the *Reserve Bank of India Act* (1935).

In newly independent India, the Government opted for a cautious approach towards expansion of branch banking against the backdrop of indiscriminate growth of branch banking since the Second World War.[7] The *Banking Companies (Restriction of Branches) Act*, (1946) attempted to regulate the indiscriminate growth of branch banking that the nation had witnessed since the Second World War. The *Banking Regulations Act* (1949) required banks to obtain permission from the RBI for opening a new place or change the existing location of business. This branch authorization policy aimed at increasing regulatory oversight on the banking expansion strategy pursued by the Commercial Banks. The policy also tried to ensure that branch distribution was more dispersed to cover rural, semi-urban and unbanked locations.[8] Shah, Rao and Shankar (2007) refers to the *historic* all India rural credit survey (AIRCS) held in 1954, which confirmed that 9% of rural credit needs were served by formal financial institutions (Shah, Rao and Shankar, 2007, p. 1353).

In 1962, Commercial Banks were expected to set up branches in rural and semi-urban areas, including unbanked centers in a ratio of 1:2 (RBI website). The efforts for increasing the coverage of Commercial Banks was intensified by the late 1960s. In 1968, Commercial Banks were urged to develop a scaling-up strategy (that is, increase branch expansion by 30% from the preceding two years) for addressing the growing banking needs of different groups across the country (RBI website). All-India and large Regional Banks were expected to increase their operations by 25% in the unbanked center. After bank nationalization in 1969, the Government continued to facilitate the expansion of banking facilities in unbanked areas (RBI website). Even so, till 1971, the share of banks in rural credit was less than 3% and most of

[4] For more details on "Evolution Of Banking In India" check: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86727.pdf

[5] Quoted by the *Indian Central Banking Enquiry Committee* (1931) Report, Chapter II p. 11.

[6] Reserve Bank of India. Retrieved on October 9, 2019 from https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=572

[7] Reserve Bank of India . *Milestones*. Retrieved on October 9, 2019 from https://www.rbi.org.in/scripts/briefhistory.aspx

[8] The Census defines a location with fewer than 10,000 persons as rural. The same holds for rural and urban poverty definitions. For more details, check: https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=572#SE2

these loans were provided to plantations (Shah, Rao and Shankar, 2007, p.1353) The new branch licensing policy of 1977 mandated that a bank could secure a license to open a new branch in an "already banked area," only if they set up branches in four unbanked locations (Burgess and Pande 2005, p.781). Consequently, between 1969 and 1990, the Government and the RBI policy of expansion of the rural bank branch network and secure individual equity in being able to access formal financial services, promoted the setting up of rural branches in 30,000 rural unbanked locations (Ibid, p.782). The study by Burgess and Pande (2005) found that the expansion of the state-led rural branch expansion in unbanked locations was associated with reduction in rural poverty – a 14-17 percentage point decline in rural poverty headcount across the period (Ibid, p.793).

The state-led expansion of formal financial institutions for rural and semi-urban India, stopped after the liberalization reforms of 1991. In 1992, National Bank for Agriculture and Rural Development (NABARD) launched a pilot project linking 500 SHGs (84% of the groups were entirely driven by women) to the formal financial institutions, which has become the largest community based microfinance initiative in the world, both in terms of client base and outreach – covering 100 million households.[9] In India, there are two broad approaches adopted by the micro-finance sector-self-help groups (SHG)-bank linkage and microfinance institutions (Shah, Rao and Shankar, 2007). But the country opted for the SBL program, as opposed to the internationally more established MFI model (Ibid, 2007). In 2011, the *National Rural Livelihoods Mission* (NRLM)[10] was launched as a flagship program of the *Ministry of Rural Development* (MoRD) with the goal of reducing poverty by enabling efficient and effective institutional platforms for increasing household income through generation of sustainable livelihoods and improved access to financial services.[11] The NRLM facilitated universal access to the affordable cost-effective formal financial institutions, and accordingly work on both demand and supply side of financial inclusion. On the demand side, the NRLM promotes financial literacy among the socio-economically marginalized and provide *catalytic capital* to the SHGs and their federations.[12] On the supply side, the Mission coordinates with the formal financial institutions and encourage the use of technology, business correspondents (BCs) and community mobilizers (Bank Mitras). The NRLM provides *Revolving Fund*[13] and *Community Investment Fund*[14] to SHGs. NRLM further expects that the

[9] NABARD website. Retrieved on October 9, 2019 from https://www.nabard.org/content1.aspx?id=518&catid=8&mid=489

[10] The NRLM was restructured Swarnjayanti Gram SwarozgarYojana (SGSY) launched in 1999. On March 26, 2016, the NRLM was renamed as Deendayal Antayodaya Yojana (DAY-NRLM) and is the flagship program of Govt. of India for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services and livelihoods services. To know more about it, please check: https://aajeevika.gov.in/content/genesis

[11] The was a flagship programme of the Ministry of Rural Development. It was started in 1999 and was restructured in FY 2010-11 for implementation as the National Rural Livelihoods Mission. The SGSY aimed at providing sustainable income to rural BPL households through income generating assets/economic activities in order to bring them out of poverty.

[12] NRLM-Mission Document. Retrieved on October 10, 2019 from https://aajeevika.gov.in/sites/default/files/resources/NRLM-Mission-Document.pdf

[13] Revolving Fund (RF) provide corpus funding to SHGs (INR 10,000-15,000) that have been practicing 'Panchasutra' (Regular meetings; Regular savings; regular inter-loaning; Timely repayment; and Up-to-date books of accounts) to meet both the member's credit needs and provide capital for leveraging repeat bank finance (Aajeevika website).

[14] The Community Investment Fund serves as seed capital to SHG Federations at the Cluster level to meet both the member's credit needs through the SHGs/Vos and to meet the working capital needs for collective activities

investments in such institutions will allow these institutions to leverage INR 100,000 from banks, and thereby improve the access of economically marginalized groups to institutional credit, repeatedly for the next five years. The NRLM also works towards increasing access of the rural population to various financial products, including savings, credit, insurance (life, health and assets) and remittances for the poor, directly or in partnership with various formal financial institutions (Aajeevika website). As per the latest MoRD data, there was a 50 percentage-point increase in setting up SHG-Bank linkage. During the FY 2018-19, the banks disbursed INR 83,410.80 Cr., recording 19% increase over the last year. The total bank loan outstanding to SHGs also increased by 24% and stood at INR 58,043.68 Cr. against INR 44,177.03 Cr. as on March 31, 2018 (NABARD website).

Table 3: SHG Achievement-All India

Financial Year	Target					Achievement			Achievement (Percentage)		
	SHGs			Total Disbursement Amt.	Total Outstanding Amt.						
	Fresh SHGs	Repeat/Renewals/ Enhancement	Total SHGs			SHGs	Total Disbursement Amt.	Total Outstanding Amt.	SHGs	Disbursement Amt.	Outstanding Amt.
2017-18	328,083	1,737,108	2,065,191	3,096,487	5,606,028	2,754,577	4,417,703	7,002,078	100	100	100
2018-19	617,448	2,485,135	3,102,598	5,067,060	8,475,260	3,014,131	5,804,368	8,341,080	97	100	98

Source: MoRD

Following the Self Help Group-Bank Linkage Program (SHG-BLP), the country's Gross Non-Performing Asset Ratio (GNPA) improved from 38% in early-1990s to 2% post-implementation of the SHG-Bank linkage program. By banking types, the NPA dropped by 43 percentage points for public sector banks, 26 percentage points for Regional Rural Banks, 97 percentage points for Private Sector Banks (considering few Private Sector Banks operated in rural India) and 78 percentage points for Co-operative Banks.

at different levels through the SHGs/Village Organizations and to meet the working capital needs of the collective activities at various levels.

Table 4: Performance of NPA following the setting up of the SHG-Bank Linkage Program

Bank Types	Before NRLM	After NRLM
Public Sector Banks	45.25	2.42
Regional Rural Banks	26.07	1.49
Private Sector Banks	99.15	2.10
Co-operative Banks	80.75	2.43
Total	37.70	2.13

Source: MoRD

Today, three crore rural poor women have been mobilized through 2,690,000 SHGs across the country between April 2014 and November 2018 (Cumulatively, 5.63 Cr. women were mobilized across 4,970,000 SHGs). This community institution building efforts have mobilized about 9 Cr. households into SHGs and linked them to sustainable livelihood opportunities by building their skills and providing direct access to formal sources of finance from the private and public sectors (PIB, January 24, 2019).

To further the goal of financial inclusion, the Government introduced the *Kisan Credit Card* (KCC) (1998) to provide agricultural households[15] with easy access to short-term credit[16] to purchase agricultural inputs – seeds, fertilizers and pesticides and financing other crop production requirements. As per the NABARD All India Financial Inclusion Survey (NAFIS), the KCC scheme penetration among agricultural households have been poor. Almost two decades after the scheme was introduced, overall 10.5% agricultural households held a valid KCC. Only 8% agricultural households with less than 2 ha. possessed a valid KCC. The limited availability of valid KCCs for agricultural households have been attributed to the predominance of subsistence farming, and dependence on other sources of income which would reduce the need to seek agricultural credit from institutional sources – Commercial Banks, Cooperative

[15] Agricultural households comprise of small farmers, marginal farmers, share croppers, oral lessee and tenant farmers. The Self Help Groups (SHGs) or Joint Liability Groups (JLGs) are also eligible for availing benefits under the said scheme. (MoF, January 5, 2018).

[16] Agricultural households with KCC could receive agricultural credit at reduced rate of 7% per annum, the Government of India, is implementing an interest subvention scheme of 2% for short term crop loans up to INR 300,000. The scheme is implemented through public sector banks and private sector banks {reimbursement through Reserve Bank of India (RBI)}, Regional Rural Banks and Cooperatives {reimbursement through National Bank for Agriculture and Rural Development (NABARD)}.Currently, besides 2% interest subvention, the farmers, on prompt repayment of crop loans on or before the due date, are also provided 3% additional interest subvention. Thus, in case of prompt payee farmers the short-term crop loans are provided at an effective interest rate of 4% per annum. The benefit of interest subvention is extended for a period of up to six months (post-harvest) to small and marginal farmers having KCC on loan against negotiable warehouse receipts with the purpose of preventing distress sale of produce. For more details, check: http://pib.nic.in/newsite/PrintRelease.aspx?relid=187304

and Regional Rural Banks (NAFIS 2016-17, p.72). In contrast, the latest figures released by the RBI reveal that close to majority of the agricultural households (47%) have operational KCCs, though the proportion of agricultural households with operational KCCs, have dropped from previous year. In CITB, majority of agricultural households reported having operational KCCs. The outstanding loans against operational KCCs continued to be on the rise across majority of the states.

Table 5(a): Progress of Kisan Credit Cards in Central Indian Tribal Belt

States	Total Number of Households engaged in Agriculture across all Social Group (000)	Percentage of Agricultural households with operational KCCs (000)	
		2017	2018
Andhra Pradesh	8524	48.3	50.0
Chhattisgarh	4011	46.0	34.8
Gujrat	5321	52.1	46.2
Jharkhand	2803	36.7	35.3
Madhya Pradesh	10003	75.6	79.2
Maharashtra	15285	45.8	40.9
Odisha	4866	97.3	84.4
Rajasthan	7655	78.6	79.9
Telangana	5948	59.8	64.5
West Bengal	7243	44.1	39.7
ALL INDIA	146454	48.8	47.3

Source: The estimate of rural households as per the results of the Land and Livestock Holdings Survey of NSS 70th round; RBI.

Table 6(b): Kisan Credit Card Scheme: Progress across the Central Indian Tribal Belt

States	Co-operative Banks		Regional Rural Banks		Commercial Banks	
	Amount outstanding under Operative KCCs		Amount outstanding under Operative KCCs		Amount outstanding under Operative KCCs	
	2017	2018	2017	2018	2017	2018
Andhra Pradesh	68.6	73.3	65.7	81.3	235.9	242.9
Chhattisgarh	11.6	15.7	10.2	10.3	42.6	45.8
Gujrat	78.2	85.6	36.0	42.9	266.7	295.8
Jharkhand	0.3	0.3	12.3	14.1	27.6	28.2
Madhya Pradesh	122.0	149.7	63.7	69.1	344.1	381.8
Maharashtra	181.5	192.1	33.8	24.2	380.4	331.0
Odisha	77.7	90.9	23.1	24.7	45.0	48.5

Rajasthan	97.9	117.6	109.8	127.3	505.3	538.2
Telangana	27.0	30.3	68.9	82.1	195.1	177.1
West Bengal	34.8	35.5	23.6	13.6	53.4	73.6
All India	1122.0	1244.8	1024.2	1133.6	4350.0	433.1

Note: Amount in INR billion and number of cards issued in '000 at end of March 2018
Source: RBI

Considering the extent of financial exclusion, the *Eleventh Five Year Plan* (2007-12) envisaged inclusive growth as strategy for economic development. Consequently, the *Committee on Financial Inclusion* (2008) was set up and headed by Dr. C Rangarajan. This Committee defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". The Committee considering the extent of the problem recommended that financial inclusion be taken up on a "mission mode"- *National Mission on Financial Inclusion* (NaMFI) and a financial inclusion plan - *National Rural Financial Inclusion Plan* (NRFIP) be devised at the national level to provide access to institutional financial services to 5.58 Cr. financially excluded households by 2012 through rural/semi-rural branches of Commercial Banks and Regional Rural Banks (MoF, April 23, 2008). The Committee further recommended that the Regional Rural Banks should be given separate targets for micro finance and financial inclusion of a minimum 250 new cultivators and non-cultivator households per annum per branch, with an emphasis of financing marginal cultivators and poor non-agricultural households (MoF, February 6, 2008). While the Committee prioritized the supply dimension of financial inclusion, it acknowledged that in many regions with certain segments of the population and sub-sector of the economy, there was poor demand for financial services that should be addressed as well (MoF, February 6, 2008).

The other key recommendations of the Committee, include

- the constitution of two funds with NABARD- the *Financial Inclusion Fund* (FIF) and *Financial Inclusion Technology Fund* (FITF) for extending financial inclusion to the socially and economically marginalized sections of the population who resided in rural India.
- Leveraging technology for extending financial inclusion.
- Adoption of procedural changes including merging of the RRBs with Scheduled Commercial Banks to widen and deepen the process of financial inclusion.
- Extending the *Self-Help Groups-Bank Linkage Scheme* in urban areas as well, considering their role in providing access to credit among the marginalized groups in sustainable manner.
- Reviving the rural credit cooperatives system that played a key role in delivering agricultural credit to the farming communities across the country.
- However, an important recommendation by this Committee was to recognize the role *of Micro Finance Institutions* (MFI) in facilitating financial inclusion for the rural poor including those living in areas with poor connectivity (MoF, February 6, 2008). The Committee proposed securing greater legitimacy, accountability and transparency for

the MFIs to source adequate debts and equity funds, and enable them to take and use savings as a low-cost source for credit lending (MoF, February 5, 2008).

On February 2011, the Government of India and the *Indian Banks' Association* (IBA) jointly launched the *Swabhimaan Scheme* (MoF, May 21, 2012). This nationwide Scheme aimed to bring the socio-economically marginalized sections of society into the banking sector. Accordingly, the Scheme promoted basic (no-frill) banking services (setting up of bank accounts, provide a need-based credit and remittance facilities) using the services of *Business Correspondents* (BCs) also known as *Bank Saathi* (BS) to unbanked populations of 2000 and above. The then Union Finance Minister, informed that the Government would set up *Ultra Small Branches* across 70,000 habitations out of 73,000 habitations till March 2012 (PIB, May 21, 2012).

Recognizing that financial literacy,[17] is a key component of financial inclusion. A large number of stakeholders, including the Central and the State Governments, financial regulators (Reserve Bank of India (RBI), *Securities Exchange Board of India* (SEBI*), Pension Fund Regulatory and Development Authority* (PFRDA) and *Insurance Regulatory and Development Authority* (IRDAI), civil society, financial institutions and educationists launched the *National Strategy on Financial Education* (NSFE) (2012). The NSFE focused on money management, budgeting, saving and investment, banking, credit, insurance and protection related products and services (Ministry of Finance (MoF), March 10, 2017). As part of the NSFE, the *National Center for Financial Education* (NCFE) was set up under the guidance of the Technical Group of the *Sub-Committee of the Financial Stability and Development Council* (FSDC), Ministry of Finance (PIB, March 10, 2017). One of the key goals of the NCFE was to sensitize and communicate the need for including financial literacy as part of school curriculum (MoF, March 10, 2017). Another key initiative in this regard has been the setting up of the *Financial Inclusion Fund* (FIF) and *Financial Inclusion Technology Fund* (FITF) by RBI, Government of India and NABARD in 2007-08 (RBI Notification, October 15, 2015). One of the central objectives of the FIF was to address the demand side issues of financial inclusion by supporting "development and promotional activities" through Financial Literacy Awareness Camps, Street Plays and Demo Vans for financial literacy (NABARD website).

"By January 1, 2016 each resident, above the age of 18, would have an individual, full-service, safe, and secure electronic bank account," Mor said in a report by the *Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households* (Economic Times, January 7, 2014). This Committee was set up with the key objective of securing financial inclusion and deepening across the country, since 90% of small businesses did not have links to formal financial institutions - 32% rural residents and 45% urban residents have bank accounts (Mor Committee Report, 2014, p.31). The key recommendations of the Committee were to be achieved by January 1, 2016 including, provisions for complete coverage of full-service, safe and secure electronic banking system for all Indians residents above the age of 18 years; setting up of the *Electronic Payment Access Points* offering deposit and withdrawal facilities at reasonable costs; provision for greater

[17] Organization for Economic Cooperation & Development defines Financial Literacy as "a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. People achieve financial literacy through a process of financial education" (PIB, July 16, 2012).

access to institutionalized sources[18] of credit to small businesses and low income households; credit, investment and deposit products along with insurance and risk management products at reasonable prices; provide every customer the legally protected rights for suitable financial services (PRS Report Summary, January 10, 2014).

Reiterating the significance of financial inclusion in prompting economic growth, in August 2014, the Government of India launched the *Pradhan Mantri Jan Dhan Yojana* (PMJDY), the world's largest financial inclusion scheme that covered the demand and supply dimensions of financial inclusion. This flagship program organized financial literacy camps and encouraged every household to open bank accounts and accordingly be able to access a range of financial services, including savings bank accounts, credit, remittances, insurance and pension.[19] The Scheme covered rural and urban India, and all beneficiaries were eligible to open "zero balance" savings account in any bank branch with assistance of the Business Correspondents (*Bank Mitra)* (PM India Initiatives website). Once an account has been set up, the beneficiaries received a Debit Card (RuPay card) with INR 5,000 overdraft facility for Aadhar-linked accounts and INR 100,000 accidental insurance coverage. As on December 26, 2018, 33.7 Cr. "no frill" accounts were opened under the PMJDY (MoF, January 8, 2019).

[18] Setting up Payments Banks that will be restricted to holding a maximum balance of INR 50,000 per customers and required to have minimum capital entry of INR 50 Cr. *See for more details*: https://www.prsindia.org/sites/default/files/parliament_or_policy_pdfs/1389355167_Nachiket%20Mor%20Comm%20Report.pdf

[19] Pradhan Mantri Jan Dhan Yojana. Retrieved on October 9, 2019 from https://www.pmindia.gov.in/en/major_initiatives/pradhan-mantri-jan-dhan-yojana/

Section III: Status of Financial Inclusion

To assess the status of financial inclusion rural India, and then with regard to the Adivasis living in Central India, we start by looking at the findings from the latest RBI report on performance of the banking sector in India (including Scheduled Commercial Banks, Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks (SFBs) and Payments Banks (PBs). The NAFIS (conducted by NABARD) (2018) combining the Survey Situational Analysis (SAS) and All India Debt Investment Survey (AIDIS of NSSO, 2014) focused on different aspects of financial inclusion (for e.g., savings, debt, income, expenditure and investment, financial literacy, the composition and patterns of consumption, insurance and use of financial inclusion technology).[20]

As per the latest *Report on Trend and Progress of Banking in India,* while 80% of adult Indian have a bank account today (powered by the PMFBY scheme), the response of the banking sector towards promoting financial inclusion has been discouraging. This is evinced from the decline in number of brick-and-mortar branches and branches in BC mode following the merger of the State Bank of India (SBI) and its associate banks, high costs of operations but lower volume of businesses, along with the disengagement of Commercial Banks with corporate BCs due to non-performance (RBI Report 2017-18, p.79). In FY 2017-18, there is 5% drop in banking outlets in rural India, while there was a 39% increase in urban locations covered by the BCs. There was no improvement (less than 1 percent) in basic savings bank deposit accounts despite the drive to mobilize account ownership among unbanked adults through the PMFBY scheme. With regard to various banking services, there were significant decline of Overdraft facility (OD) availed through bank deposit accounts by 33% (number of OD) and 77% (amount of OD) for the FY 2017-18. This is surprising considering that the PMFBY extended the OD facility to all the *Jan Dhan* account holders in an attempt to make the scheme more attractive to the beneficiaries. Similarly, no progress has been made in extending the OD facility to the *Kisan Card Holders* (KCC) for the FY 2017-18. For the FY 2017-18, the promise of ICT playing a key role in enabling and supporting financial inclusion dissipated. The share of ICT-based accounts through BCs decreased by 12 percentage points, even if the transaction amount for the ICT-based accounts improved from the previous year.

[20] Rural area in NAFIS is defined as a centre having population up to 50000

Table 4: Progress under Financial Inclusion Plans, All SCBs and RRBs

Particulars	Mar-10	Mar-17	Mar-18	Y-O-Y growth in percent (2016-17)	Y-O-Y growth in percent (2017-18)
Banking Outlets in Rural Location-Branches	33,378	50,860	50,805	-1.9	-0.1
Banking Outlets in Rural Location-Branchless Mode	34,316	547,233	518,742	2.4	-5.2
Banking Outlets in Rural Location-TOTAL	67,694	598,093	569,547	2.0	-4.8
Urban Locations covered through BCs	447	102,865	142,959	0.3	39.0
BSBDA-Through Branches (No.in Million)	60	254	247	6.7	-2.8
BSBDA-Through Branches (Amt.in INR Billion)	44	691	731	45.8	5.8
BSBDA-Through BCs (No.in Million)	13	280	289	21.2	3.2
BSBDA-Through BCs (Amt.in INR Billion)	11	285	391	73.8	37.2
BSBDA-Total (No.in Million)	74	533	536	13.6	0.6
BSBDA-Total (Amt.in INR Billion)	55	977	1,121	53.1	14.7
OD Facility availed in BSBDAs (No.in Million)	0	9	6	0.0	-33.3
OD Facility availed in BSBDAs (Amt.in INR Billion)	0	17	4	-41.4	-76.5
KCC-Total (No.in Million)	24	46	46	-2.1	0.0
KCC-Total (Amt.in INR Billion)	1,240	5,805	6,096	13.1	5.0
GCC-Total (No.in Million)	1	13	12	18.2	-7.7

GCC-Total (Amt.in INR Billion)	35	2,117	1,498	41.8	-29.2
ICT-A/Cs-BC-Total Transactions (No. in Million)	27	1,159	1,489	40.1	28.5
ICT-A/Cs-BC-Total Transactions (Amt. in INR Billion)	7	2,652	4,292	57.2	61.8

Note: Sr. No. 1-16 consist of cumulative data from the inception. Sr. No. 17-18 consist of data from the start of corresponding financial year.
Source: FIP returns submitted by banks.

The AIDIS reported that rural indebtedness posed a bigger problem for rural (31.4%) than urban (18.9%) households as on 30.06.12. The proportion of indebtedness worsened over the past ten years (2002-2012) by 5 percentage points among rural and urban households. Across India, 61% of the Indian households depend on agriculture and allied sector for livelihoods. This is also reflected in their borrowing patterns with 53% agricultural households reporting indebtedness that is, 10 percentage points higher than those belonging to non-cultivator households (43%) (NAFIS 2018). The average outstanding debt size for agricultural households (INR 104,602) was much higher than the non-agricultural (INR 76,731) households.

Table 5: Incidence of Indebtedness (IOI) and the Average Amount of Debt (AOD): ALL-INDIA

Indicators	Agricultural Households	Non-Agricultural Households	All Households
Incidence of Indebtedness (in percentage)	52.5%	42.8%	47.4%
Average Outstanding Debt per Indebted HH (in INR)	104,602	76,731	91,407
Percentage of HH that took any loan in the last year (in percentage)	43.5%	37.2%	40.2%

Source: NAFIS

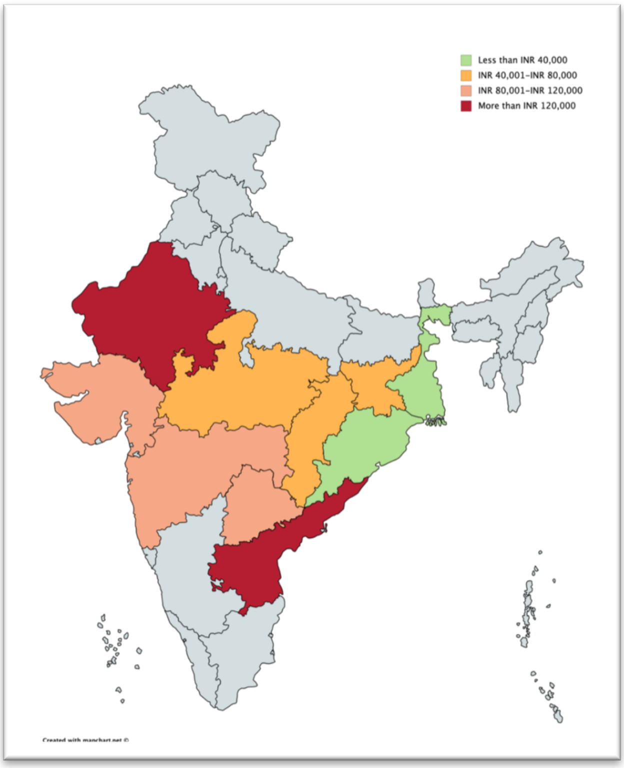
In terms of incidence of indebtedness and average debt size among social groups (Table 6), the proportion of indebtedness was higher for the Other Backward Classes than Scheduled Castes, Scheduled Tribes and all the other social groups. But with regard to volume of debts, Adivasis living in urban India faced a debt size that is much higher than all the other social groups. On an average, Adivasi household experienced debt that is five times more than the Adivasis living in rural India. Although 90% of the Indian Adivasis live in rural India, but 55% of the tribal population live outside the 809 tribal majority blocks (MoTA, December 17, 2018). A comparison between Census 2001 and 2011, revealed that the proportion of tribal cultivators dropped by 10%, while the proportion of tribal agricultural laborers increased by 9% (Down To Earth, November 22, 2018). A significant proportion of Adivasis are engaged in seasonal migration outside their blocks, districts or states for income or marriage (women traveling with their husband, and often working as casual manual labor). The MoTA (December 17, 2018) estimated that 35 Cr. Adivasis left agriculture and agriculture-related activities to enter the informal labor market. Displacement and forced migration have forced the Adivasis to work as construction laborers and domestic workers in major cities-55% of the country's Adivasi population live outside their traditional habitats (Down To Earth, November 22, 2018).

Table 6: Incidence of Indebtedness (IOI) and the Average Amount of Debt (AOD) per household by social group of households: ALL-INDIA

Social Groups	Rural		Urban	
	IOI (%)	AOD per HH (INR)	IOI (%)	AOD per HH (INR)
(1)	(2)	(3)	(4)	(5)
Scheduled Tribe	16.9	9610	16.4	48048
Scheduled Caste	30.9	24458	23.5	48556
Other Backward Class	35.7	36091	26.0	77809
Others	31.4	44565	18.9	106964
All	31.4	32522	22.4	84625

Source: AIDIS

Figure 2: Extent of Indebtedness-ALL INDIA



Central India is home to large tracts of forests and vast deposits of mineral resources. The region is also home to 81% of the total Adivasi population, and known as the Central Indian Tribal Belt. To study the extent of financial inclusion in this region, we also look at the average outstanding debts by states in the CITB. Across all-India, an average household has an outstanding debt of INR 91,000. In West Bengal and Odisha, the average outstanding debt was among the lowest (less than INR 40,000) in the country. For Gujrat, Maharashtra and Telangana, the average indebtedness at the household level were closer to the all India figures (INR 80,001-120,000). However, Rajasthan and Andhra Pradesh have among the highest outstanding debts of over INR 120,000.

For understanding the ground realities of financial inclusion in Central India, especially with regard to the Adivasi population, field studies were conducted in Odisha and Jharkhand. Among Schedule Five states, Odisha (23%) and Jharkhand (26%) has significant Adivasi presence, but experiencing higher levels of poverty and exclusion in terms of literacy levels, health accessibility and benefits of development. The present study was conducted in early-April 2019 in Jamankira and Kuchinda blocks of Sambalpur district in Western Odisha. Some of the key Adivasi groups in this area include, Gond, Kisan, Oraon and Soura. As part of the study, several structured interviews were conducted with more than two hundred Adivasis in tribal villages of Barbhalucho, Chandiposh, Jemamal, Kuturachuan and Kalapat. Jharkhand study was conducted in mid-May in Chattarpur and Manika blocks of Palamau and Latehar districts, comprising of tribal members of the Oraon, Kharwar and Chero.

In the study, we focus on the supply and demand dimensions of financial inclusion. The supply dimension of financial inclusion focuses on access to institutional sources of finance and financial products. Following the inception of the PMJDY initiative, 34 Cr. accounts have been set up across the country as on 26.12.2018. We interviewed more than 300 Adivasis from the villages across Jharkhand and Odisha, on various issues of financial inclusion. In Odisha, when asked about access to bank account/account, the response was overwhelmingly affirmative, as all the household reported having bank accounts to avail subsidies from prominent Government Schemes (for e.g, *Pradhan Mantri Ujjwala Yojana, Pradhan Mantri Awas Yojana-Gramin, Cash Transfer of Food Subsidy* or *Maternity Benefit Program*) through *Direct Bank Transfer* (DBT). In Jharkhand, all the respondents claimed to have bank accounts as it is a mandatory requirement for availing Government Schemes. In Jharkhand, having a bank account was mostly associated with being a MGNREGA beneficiary. In Jamho village of the Manika block, bank officials would charge fees (unauthorized) every time a respondent would go to the bank to withdraw money received under the MGNREGA. The respondents (mostly illiterate) also mentioned having to pay money (INR 10-20) to the bank officials each time they were required to submit some form of documentation. In Ucchwanal, a Parhaiya,[21] women would receive INR 600 per month under the *Adim Jan Jati (AJJ) Yojana*, a Direct Benefit Transfer (DBT) scheme launched by the State Government. However, for availing this scheme, the Parhaiya women were expected to have a bank account and not benefits from any other Government schemes. At the time of the interviews, it became clear that women in the village failed to benefit from the scheme. While majority of them have bank accounts, these accounts were either inactive or dormant since the nearest bank branch was twenty-two kilometers away from the village. The high costs (each trip to the bank would costs INR 50) associated with travelling to the bank, made it impossible for the women to benefit from the scheme and reverse the financial vulnerabilities.

But the Government attempts to greater financial inclusion did not lead to increase in usage of the financial institution or products. Today, nearly half of the Indian bank accounts are rarely used - 48% of the bank accounts have not seen any transaction in the past one year, as per the Global Findex database. Today, 80% of rural household have bank accounts but tend not to use banks and banking services due to geographical exclusion.

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[21] Parhaiya are classified as Primitive Tribal Group, who reside across Jharkhand and Bihar. Traditionally, Parhaiya tribe relied on hunting and gathering for their subsistence. To know more about the Parhaiya and other PTG groups of Jharkhand, please check: http://www.pksingh.in/web/TheNeglectedTribesofJharkhand.php

In India, from the 1990s, there has been a steady decline in the proportion of brick-and-mortar branches by SCBs. But unlike some of the African counterparts, India lags behind in using the technology to leverage financial inclusion - ATMs or mobile-banking. While ATMs remain a significant part of India's drive for financial inclusion, there appears to be a dearth of ATMs especially in rural areas. In Table 7, we present a breakdown of ATM deployment in rural and urban areas (including metro, urban and semi-urban centers), and in each banking categories the share of ATM in urban areas exceed the rural counterparts.[22] The only exception is the share of White Label ATMs (WLAO), which are relatively new players in the banking sector (introduced in March 2017) and have witnessed considerable growth in rural India. Unlike regular ATMs that are owned directly by banks, the WLAOs are owned and operated by non-banking entities on behalf of banks. While customers of any banks can use the white-label ATMs, they are expected to pay a transaction fee of INR 15 each time.

Table 7: Rural Versus Urban Deployment of ATMs for the Quarter ended in December 2018:

	Public Sector Banks	Private Sector Banks	Foreign Banks	Small Financial Banks	White Label ATMs	Total
Rural	20%	8%	2%	16%	48%	19%
Urban	80%	92%	18%	84%	52%	81%

Source: RBI

In Odisha, during interviews with the respondents of Chandiposh, Kuturachuan and Kalapat villages, almost no one used ATMs for either for deposit inquiry or withdrawing cash. The lack of ATM usage by the groups could also be linked to the lack of knowledge on how to use an ATM. In the Barbhalucho village, out of a group of 30 members, 3 reported having Debit Cards but relied on deposit slips and checks for depositing/withdrawing money rather than ATMs. In Jharkhand, physical access to bank and bank services posed a major challenge. None of the respondents across twelve villages have access to ATMs through their banks. In Ucchwanal, the nearest bank was located 22 kilometers from the village. Many other respondents reported having bank branches that are 14-15 kilometers from their residence.

The introduction of Kisan Credit Card (KCC) is regarded as an important tool for furthering financial inclusion to the rural poor by providing agricultural households[23] with easy access to short-term credit[24] to purchase agricultural inputs – seeds, fertilizers and pesticides and

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[22] To get more detailed breakdown by centers and banks. Please check: https://rbidocs.rbi.org.in/rdocs/STATEREGION_ATM/PDFs/ATMDA55CB48E96464319B3E7DD59F9737B30.PDF

[23] Agricultural households comprise of small farmers, marginal farmers, share croppers, oral lessee and tenant farmers (MoF, January 5, 2018).

[24] Agricultural households with KCC could receive agricultural credit at reduced rate of 7% per annum, the Government of India, is implementing an interest subvention scheme of 2% for short term crop loans up to INR 300,000. The scheme is implemented through public sector banks and private sector banks {reimbursement through Reserve Bank of India (RBI)}, Regional Rural Banks and Cooperatives {reimbursement through National Bank for Agriculture and Rural Development (NABARD)}.Currently, besides 2% interest subvention, the farmers, on prompt repayment of crop loans on or before the due date, are also provided 3% additional

financing other crop production requirements. During the field visit, we tried to gauge the degree of awareness about the KCC and what it does, and whether the Adivasis in the area have access to it. In the case of Barbhaluchao, the community members especially the women knew about the KCC and its use. 16% reported using the KCC to secure agricultural credit. One of the respondent asked if they could use their land title secured through the FRA to be able to access credit through the KCC**.** Through our discussions with subsequent communities of other villages, we realised that FRA is not accepted as a legal land documents for securing the KCC**.** Across India, tribal communities have always depended on forests and forest land for their lives and livelihoods. Unlike Adivasis of the CITB, through the mobilization efforts of *Sambalpur Integrated Development Institute* (SIDI), majority of the Adivasis have secured Individual Forest Rights under the Forest Rights Act. But beyond the legal provisioning of land, the utility of IFR appears to be severely restricted in terms of its usage in securing institutional final credit. In Chandiposh village, all the respondents knew of the KCCs, but none of them have used it to secure credit. 17% reported having the KCCs in the Kuturachuan village, but none of the KCC holders were women. While all the other respondents knew of the KCC, they were unable to secure one, since the IFR title under the FRA was not recognized as valid document. In Hetkhamar, 12% reported having the KCCs, but for the remaining they were unable to secure KCCs because they could not use the IFR titles as land documents (one of the documents required for securing the KCCs).

In Jharkhand, the performance of the KCCs has been more dismal and worse than Odisha. This became clear during the field visits conducted in mid-May of this year. In Jamho, one out of 100 households have KCCs in the entire village. No single KCC were issued for 90 households in the PVTG dominated village of Ucchwanal and Sewdhara. For the Ucchwanal community, this was in sharp contrast to the neighbouring Yadav village, where majority of the households have access to KCCs. Hutukdag was an exception with 60% tribal households owning KCCs. Greater financial literacy allowed tribal households to own KCCs, and drive away the Mahajans, who charged very high interests. For instance, an INR 100 loan secured from a Mahajan would be charged an interest of INR 110. In contrast, loan secured through the KCCs would be charged nominal 9-10% interest, annually.

Today, *Farmers Producers Organization* (FPOs)[25] are playing a critical role in generating sustainable livelihoods across India, in an attempt to double the income of small and marginal farmers. During our visit to Sambalpur, we met with the members of one such newly formed *Producer Group* for Vegetable Production in the Barbhaluchao village. As per the regulations of NABARD, a Producer Group needs to set up three accounts with the bank for institutional building, working capital and business transactions. The Producer Group in question would have to approach the SCB, and with the help of a *Bank Mitra* (assigned to every rural branch by the Odisha Livelihoods Mission, to help customers, including individuals, SHGs and

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interest subvention. Thus, in case of prompt payee farmers the short-term crop loans are provided at an effective interest rate of 4% per annum. The benefit of interest subvention is extended for a period of up to six months (post-harvest) to small and marginal farmers having KCC on loan against negotiable warehouse receipts with the purpose of preventing distress sale of produce. For more details, check: http://pib.nic.in/newsite/PrintRelease.aspx?relid=187304

[25] In 2011-12, under the *Small Farmers Agri-business Consortium* (SFAC) mandated by the Department of Agriculture and Cooperation, Ministry of Agriculture, respective State Governments received funding support to form Farmer Producer Organizations (FPOs).

Producer Groups with banking services and products) complete the application process for setting up of accounts. It is pre-decided on which bank the account of a respective village should be opened. But in the case of this Bank, the banking officials or the Bank Mitra had no idea about the mandates and regulations of setting up of the Producer Group accounts. In fact, the bank officials refused to let the Producer Group set up three accounts as per the NABARD requirements. Evidently, the information asymmetry experienced by the Bank Officials or Bank Mitras about the procedural requirements of various government Schemes, has been a major challenge of financial inclusion for the socio-economically marginalized sector of rural India, especially the Adivasis. There are no such FPOs or Producer Groups in Jharkhand, even if the Adivasi cultivators were engaged in the production of vegetables at a large scale. The individual cultivators mostly relied on local markets without no or limited bargaining power.

On the demand side of financial inclusion, low levels of income and lack of literacy were identified as factors causing low demand for financial services (Singh and Naik, 2017). In all the villages that we conducted the study, all respondents reported low income dependence on subsistence farming, who would depend on forests for sourcing food and selling Non-timber forest products (NTFP), including Kendu, Mahua, Amla, Harda, Bahra, Lac, Mammer, Salji, Raifal, Char, Juna, and Siali leaves. While the respondents demonstrated basic financial literacy, such as how to operate bank accounts, they have no or limited knowledge of financial products, including insurance, Pension System, Bank Fixed Deposits or any other products. The Banks were used for receiving various Government subsidies, withdraw cash and the rest of the money were deposited in to the savings account. In Jharkhand, respondents were aware of the need for setting up bank accounts. However, lack of physical access to the banks contributed to financial exclusion for Adivasis in the state. For the tribal community of Sewdhara, information asymmetry and reluctance prevented them from applying for KCCs. According to Sampatya Devi, an Adivasi woman from Sewdhara, “we do not want to get involved with Banks, and therefore do not want the Card….if we get involved with Banks, we will end up with more loans and debts.”

In Jharkhand, money lenders (mostly non-tribals) continue playing a prominent role in meeting the credit needs of the Adivasi community. For the Bihra community, short-term loans were secured mainly through the Mahajans, who charged 12-15% as interests. This was also the case in Patna village, where larger loans (more than INR 10,000) were secured through the Mahajans. There were several instances, where the villagers reported having secured high-interest loans from the Mahajans. In order to repay such loans, tribals would be forced into seasonal migration to neighbouring districts or states, where they worked as casual manual laborers. Against the loans secured, they would settle up by paying monthly instalments (often deduced directly from their wages). There were other instances, when the high-interest loans represented the gross wages from engaging in seasonal migration. In the Sardandag, *Vikas Sahyog Kendra* (VSK) set up the *Kisan Sansadhan Kendra* (KSK), which allows the community to take short-term loans for farming (for e.g, buying HYV seeds, pesticides and fertilizers). The KSK operations were similar to an SHG, as community members have access to low-interest loans.

When the respondents were asked about how to access finances, majority of the respondents mentioned SHGs, which has been regarded as one of the main pillars of financial inclusion in

India. The SHG movement in India started gaining momentum after 1992, when NABARD realised its potential and started promoting it. Odisha became the first state in the country to adopt the SHG based model for financial inclusion to extend banking services in the unbanked areas through SHGs. For majority of the respondents, they would go to SHGs for securing personal and agricultural loans. According to a female respondent from Barbhaluchao, they took a loan of INR 25,000 from the SHG at the Gram Panchayat Level, which she has already repaid. Today, the SHG has proven to be the backbone of financial inclusion for the Barbhaluchao, Kalapat and Jemamal villages. Short term loans for agriculture, education of children, healthcare facilities are some of the reasons for which SHGs mobilise funds and assist its members. In Chandiposh, when the respondents are in urgent need of any financial assistance, they mobilized the savings of every member in the SHG and provided it to the ones who need it the most. The SHG in Chandiposh is referred to as a *Mahila Sabh*a. Loans are handed out at the community level, even without the involvement of SHG or Mahila Sabha. For the respondents of Jemamal, SHG is the primary source of finance for the community. In fact, community relies on SHG rather than banks for loans and other financial assistance in emergency situations. Today, the villagers have been assisted by the SHG through short term loans. On an average, the SHG has handed out INR 15,000-20,000 as loan per household. In addition, a community loan of INR 15,000-20,000, have been disbursed through the SHG. Most of the disbursed loans were small in size, and dealt with matters of personal emergency and securing agricultural loans. Given the crucial role of SHGs, the community came to rely less on informal sources, including landlords, moneylenders, traders and relatives. Two group loans were issued to the villagers of values INR 25,000 and 35,000 respectively. Such, group loans are mainly taken to support agricultural activities. Today, SHGs have played a critical gap in addressing access to institutional credit in the area. While there was unanimous agreement that they have access to bank facilities, the access to credit never gets addressed by the banks. Many of the respondents felt that they would not approach the banks because of extensive documentation requirements and information asymmetry.

In the case of Jharkhand, the SHG performance was variable. As a relatively new state (November 15, 2000), the SHG movement was gaining momentum. The typical size of SHG was 10-15 members and they saved INR 10-15 per week. The average size of individual loan ranges from INR 2,000-4,000, while charging nominal interest rates (1-2%). The SHG members continue meeting and discuss the size of loans and the terms of repayment. Higher the savings by respective SHGs, the volume of loan sizes increases. The interviews further revealed that Group Loans (comprising of 3-4 women) have become increasingly popular, since the members use the loans to start cultivating vegetables or livestock farming. Across the 12 villages (with the exception of Ucchwanal and Bisaipur) where the study was conducted, there were multiple operational SHGs or Mahila Sabhas, set up for disbursing short-term loans (ranging from INR 1,000 to 10,000) charging nominal interest rates. These SHGs have become the lifeline of the Adivasi community, serving the financial needs for meeting personal or emergency needs (for e.g., marriages, social functions, health emergencies or household expenses). This is particularly the case for the tribal women with no or limited access to institutional credit (distance of banks from villages, lack of documentation and the nature of borrowing to meet the personal needs). The SHGs help to build the member capacities by increasing their financial literacy and management skills.

In Jharkhand, the levels of financial inclusion are dismal (when compared to Odisha) due to lack of physical access, lengthy documentation processes, apathy of banking officials and corruption. In Hulsam village, four SHGs were formed as the closest bank was located 12-14 kilometres from the village. In Chero Tola, a hamlet of the Patna village, set up six or seven SHGs to help members (each member contributed to INR 10 each month) secure short-term personal (for e.g., wedding and medical emergencies) loans between INR 2,000 and INR 10,000 (interest charges one to two percent per month). Kurid village set up 8-10 SHGs with the sole purpose of distributing short-term loans with minimal (1%-2%) interest charges. But following the setting up of the SHGs, loans were yet to be disbursed. In the PVTG dominated village of Ucchwanal, SHGs or Mahila Sabhas were yet to be formed due to lack of financial literacy. When the respondents were asked about how they access funds for meeting personal emergencies, they mentioned having sought money from friends, relatives or neighbours. Considering illiteracy posed a major challenge for the villagers, the nature of their interaction with banks was negligible. In Doky village, there were 20-22 operational SHGs. Set up with an initial funding of INR 15,000, the SHGs has been meeting the needs of the community by providing loans (INR 2,000 to INR 10,000). Each member of the SHG is expected to contribute INR 10 each month. This was also the case with the Baraitu village with 10-12 SHGs that were set up over the years. For the SHGs in Bisaipur village, where SHGs were set up with an initial funding support of INR 15,000 from the Government, but were disbanded after the members failed to repay the loans. In Bihra, low literacy levels among women prevented them from managing the SHG. There was general feeling of distrust among the members of the SHG, which finally led to the collapse of the institution.

The promise of financial inclusion provides an opportunity to the financially weak to change their current economic standing and lead better lives.[26] But in rural India, despite the growing impetus for ensuring improved access to a range of Government schemes, as well as financial services, success has been limited in Odisha and Jharkhand, especially in the tribal dominated districts. In Odisha, an Adivasi household would depend on family and neighbours for short-term loans for meeting personal or emergency needs. While their need for monetary credit is limited (as they engage in subsistence farming and are denied access to institutional credit), they continue to depend on local retailers for purchasing seeds, fertilizers and pesticides. These local retailers supply all forms of inputs to the cultivators, without engaging in actual cash transaction. While the nature of the agreement is informal, tribal cultivators borrow seeds, fertilizers and pesticides (as per their needs). Once the crops are harvested, the tribal household takes back the entire produce to the retailers, serving as traders and setting the price of crops that is lower than the Government supported the Minimum Support Price (MSP). More importantly, for the tribal household selling the produce, they never secure full price for selling the crops. The retailers would deduct the price of these inputs that they loaned out, initially along with interests. In addition to supplying agricultural inputs (that is, seeds, fertilizers and pesticides), the traders would also own the only village stores from where the household could secure the basic necessities, including food grains and clothes. Consequently, the tribal household will never be able to escape the poverty trap as they continue to rely on a single individual for meeting the personal and agricultural credit needs

[26] World Economic Forum. Retrieved on May 31, 2019 from https://www.weforum.org/agenda/2019/01/financial-inclusion-in-india-is-soaring-heres-what-must-happen-next/

– a situation described as one of “inter-locked market or inter-locked modes of exploitation”. During our interview with the respondents from Chandiposh, it became evident that respondents continued to rely on such informal sources of credit. Interestingly, when we asked the respondents to identify the challenges associated with such forms of credit arrangements, they were unable to do so. For them the reliance on one individual for meeting the agricultural and personal credit needs, did not land them in the so-called “debt trap.” As they could also sell their crops to them and get paid, even if it was far less than the Government announced MSP.

Section IV: Conclusion and Recommendations

As India attempts to trigger economic growth fuelled by financial inclusion, as many as 1,910 Cr. Indians over the age of 15 years do not have access to a bank account (second only to China with 2,240 Cr. Chinese above the age of 15 years and without bank accounts) (Global Findex Report 2017). Those without account constitute the socially and economically marginalized sections of the population living in rural India. Adivasis are overrepresented among India's unbanked. While schemes between late 1960s and 1990s, and the more recent PMJDY (2014) aided financial inclusion. India's financial inclusion strategy has been mostly restricted to opening new bank accounts-four-fifth of the country's population has a bank account. But setting up a bank account does not always led to greater usage of the formal sources of finance and financial products. 48% of the country's bank accounts remain unused due to high transaction and opportunity costs associated with bank usage. In fact, India's financial inclusion strategy has hit a roadblock as rural branches of SCBs-operating in brick-and-mortar establishments and ATMs have declined over the past few years. On the credit-side, socio-economically vulnerable groups are finding it very difficult to access credit from institutional sources, especially SCBs. For the Adivasis of Central India, financial inclusion has meant setting up of bank accounts with the SCB under the PMJDY, and access to credit for personal loans through SHGs. While there are challenges associated with the supply dimension of financial inclusion, including access to institutional sources of finance and access to financial services and products. On the demand side, even if socio-economically marginalized sections of society, especially Adivasis have knowledge of the basic operations of banking services-how to open bank account or withdraw cash, they experience high levels of information asymmetry as bank officials and Bank Mitras fail to inform them about financial services and products. The financial literacy camps that were promised under the PMJDY, are non-existent that further complicates the issue of financial inclusion.

Given the status of financial inclusion in India, particularly for the Adivasis living in the CITB region, we make the following recommendations:

Enabling Access to credit will help to close the gap in inequality between rural-urban, different social groups and regions. Currently, there is a huge gap in the credit industry due to geographical inaccessibility and the lack of institutional mechanism for informing the financial institutions on whether to lend credit to the rural poor, especially the Adivasis. To enable access to credit, the Government and financial stakeholders need to invest in innovative technology in mapping the socially and economically vulnerable groups, especially the Adivasis living in geographical isolation. The financial institutions should also develop an alternative credit decision-making framework that allows them to make informed decisions and connect customers with the suppliers of credit.

Enabling access to banking facilities: With fewer rural branches and inadequate BCs to inform the customers about financial services and products, India is home to 190 million unbanked population and 48% inactive bank users (The Hindu, April 19, 2018). In Jharkhand, typically, the villager has to travel 14-15 kilometres (on an average) to access the banks. To avoid the costs of travelling, majority of the villagers never go to the bank, or use the account. Consequently, the Savings or Current accounts that have not witnessed any transaction for the past one year, is rendered inactive. On exceeding two years, the bank account is declared dormant or inactive (Financial Express, August 29, 2016). With 69% of the population constituting the rural population, banks have continued to prioritise opening of new branches in urban centres. In 2017-18, 40.3% growth in new branch opening were noticeable for Tier 1 areas (centres with population of 100,000 and above), while 15.8% new branches were opened in Tier 6 areas with population less than 5000.[27] The RBI data further revealed that failure to set up rural bricks-and-mortar branches, did not automatically lead to the setting up of ATMs in rural India. By the end of March 2018, there was 17% growth in setting up of ATMs in rural centres compared to 28% in urban centres (RBI) .To address the gaps in access public sector banks (Economic Times, January 2, 2019). Considering this dearth of banking services, there is need to revisit the current model of financial inclusion to address questions of access by setting up brick-and-mortar branches manned by banking staff or trained banking correspondents (BCs). If the cost of setting up bank branches prove to be financially and logistically challenging, banks should operate through branchless banking model that extensively relies on technology using mobile phones and ATMs.

FRA as a valid document for KCC: As reported by majority of the respondents, one of the key challenges faced by rural population (especially the Adivasis), is their inability to access agricultural credit. In 1998, the Central Government introduced the KCC to provide agricultural households with easy access to short-term credit to purchase agricultural inputs- seeds, fertilizers and pesticides and financing other crop production requirements. Adivasis in Odisha are denied the KCCs. When the Forest Act was passed, it allowed the tribal communities to become rightful owners of forestland. But many states, including Odisha, failed to take concrete steps to officially register the title holders in the state land records (Down To Earth, August 15, 2015). On the other hand, bank officials failed to recognize the IFR title as valid land document, which is required for issuing KCC card. To aid Adivasi financial inclusion, the KCCs should be provided to them. State Government should take concrete steps to officially register the IFR title holders in the state land records, and banks should also consider the IFR as legal land document.

Livelihood Finance for Vulnerability Reduction and Addressing Structural Issues of Poverty: As part of UNDP's livelihood promotion work in the UNDAF states, a Livelihoods Vulnerability Reduction Challenge Fund (LVRCF) could be established as a mechanism for various stakeholders – including State Livelihood Missions, MFIs, producer organizations, commercial banks, Regional Rural Banks (RRBs), Development Finance Institutions (DFIs), financial institutions, wholesalers, NGOs, the private sector, Governments and others – to experiment, innovate and upscale financial products/processes, specially tailored to enhancing the staying power of the poor and reducing the livelihood risks/vulnerabilities. The focus would be on vulnerable groups such as Adivasis, Dalits, minorities (e.g. Muslims), women and migrant/ BPL households, in several sub-sectors and contexts in the seven focus state.

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[27] For more details, please check "Tier-wise Break-up of Newly Opened Bank Branches of SCBs." Retrieved on June 4, 2019 from: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CHAPTER043846D5694CD4400083553D7CBEC9C2D6.PDF

SHG-Bank Linkage (SHG-BLP): Considering the success of SHG-BLP, it is important to scale-up the model in systematic manner. In 1992-93, the NABARD introduced a pilot programme for linking around 500 SHGs of poor to the formal financial institution. As cited in the NABARD website, the SHG-BLP has now become the largest microfinance programme of the world. Consequently, through the SHG-BLP, the country's Gross Non-Performing Asset Ratio (GNPA) improved from 38% in early-1990s to 2% post-implementation. The SHG-BLP can also guarantee 100% loan recovery performance, significant reduction in the transaction costs for both the banks and borrowers, along with gradual increase in the income of the SHG members.[28]

[28] For more details, please check:
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/07MC02072018C997CA4CEDE640B68D605466460B7650.PDF