N.P. Sen Memorial Lecture

Financial Inclusion for "Inclusive Growth"

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FINANCIAL INCLUSION FOR "INCLUSIVE GROWTH"*

1. I want to thank the NP Sen Memorial Trust and the Administrative Staff College of India for giving me this opportunity to pay my tribute to Shri N.P. Sen, the distinguished Principal of the Administrative Staff College of India.

2. I seek your indulgence and allow me to begin on a personal note. I met Shri N.P.Sen in 1969, almost 40 years ago in Berkeley, where he was visiting USA for faculty recruitment. What I distinctly remember about the meeting is his passion for India. Naturally, for me on my return from the United States, Hyderabad was the first place to visit. I was interviewed by a Search Committee which was chaired by Shri C.D. Deshmukh, the Chairman of the Committee of Governors and I joined the College in 1970 as a senior faculty.

3. Potlada, as Shri N.P.Sen was fondly called, was not only the Principal of the College but also my mentor. Potlada and Nanditadi were full of great affection for me and the young bride Lata who came to Hyderabad in 1971 when we got married. Lata was promptly adopted by the Sen family and this further elevated my status with the entire family! I learned a lot from Potlada. He was not only a distinguished manager but an exceptional human being. He nurtured the younger colleagues and encouraged them. He was a true liberal in thought and in action and was committed to promote our country's pursuit towards building a better and equitable society. At the micro-level or on an enterprise level, he would not accept any inefficiency but on the macro-level, he felt that efficiency without equity is not sustainable and equity without efficiency is not possible. Hence, I have chosen for today's lecture the topic 'Financial Inclusion' for inclusive growth. The expression inclusive growth has now become fashionable but the promotion of equity has always been a part and parcel of India's policy goals.

4. The second reason for choosing the topic 'Financial Inclusion' is that after my leaving the Government three years ago, I moved from Delhi to Mumbai, the financial capital of India. In Mumbai, I have had a ring side view of the financial markets and it gave me an opportunity to reflect on the role of markets and particularly on the role that financial markets can play in advancement of growth and equity.

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Indian Economy - Growth Experience in recent years

5. The Indian economy, in the post-liberalisation period has witnessed considerable growth acceleration and the economy has been growing at an annual rate of 9 per cent or so in the last 4 years. Our country has now the potential to become the fastest economy in the world in the coming decades. The major drivers of the growth acceleration are demographic dividend, greater domestic and international competition, sharp increase in total factor of productivity, blossoming of entrepreneurship and India's acceptance of globalisation. I should also mention that India's vibrant democracy is also a fundamental determinant of rapid growth. This growth acceleration is accompanied by reduction in the percentage of the people below poverty line. With the current growth momentum, almost one million of our citizens are moved above the poverty line month after month. Although these achievements are indeed impressive, little reflection immediately tells us this is not the full story. This growth process is also accompanied by growing inter-regional, intra-regional and inter-personal inequalities in wealth and income. We are still a home for world's largest number of poor and what is even more disturbing is that India has now world's largest number of under-nourished children. The urban-rural difference is getting wider and according to a recent report of Arjun Sengupta, almost 370 million people are facing some form of deprivation. In particular, rural and tribal areas are becoming acute victims of deprivation. So, we should not be surprised by the growth of naxalism in these areas. What is clear is that present economic growth process is not inclusive enough and the political economy suggests that this is not sustainable for maintaining growth or stability or unity of the country. Clearly we need to do something urgently.

6. It is heartening that 11th Five Year Plan approved recently is aimed at promoting greater inclusive growth.

7. To achieve this goal, State led intervention as well as market based instruments are required. What my 3 years of stay in Mumbai has taught me is that much greater emphasis may have to be on market based instruments. Unlike state-driven measures, markets are gender, caste, region and religion-blind or neutral. In other words, as policy instruments, markets are better in promoting inclusive pattern of outcomes as they do not differentiate among citizens. Ironically, it is a State action which is more differentiating in nature and, therefore, can be non-inclusive. I am mindful that while markets may be caste, colour, religion, gender-blind, they are not income or wealth neutral and there is a need for regulation to ensure that markets are transparent and competitive. Therefore, Government's role as an umpire is of vital importance towards ensuring the desired outcomes while deploying market instruments.

But I sincerely believe the balance may now have to be shifted towards deploying much larger measure of market-based instruments for promoting inclusive growth and to paraphrase - Saddam Hussain financial market is a mother of all markets. Hence if we can make financial markets also more wealth or income neutral this will enormously empower the poor. This is the role of financial inclusion. This takes me to the definition of "financial inclusion".

What is Financial Inclusion?

8. By financial inclusion, we mean delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low-income groups. The various financial services would include access to savings, loans, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded. One of the key financial services that is of great relevance here is that of "risk management" or "risk mitigation" services vis-à-vis economic shocks which may be an income shock via loss of income due to adverse weather conditions or natural disasters or an expenditure shock due to health emergencies or accidents leading to a high level of unexpected expenditure. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families.

Financial Inclusion as a Quasi-Public Good

9. It is well recognized in the literature that finance performs the important functions of mobilizing savings, allocating capital and transforming risk by pooling and repackaging it. There is a growing evidence that a well-functioning financial system fosters faster and more equitable growth. Access to financial services allows the poor to save money outside the house safely, prevents concentration of economic power with a few individuals and helps in mitigating the risks that poor face as a result of economic shocks. Providing access to financial services is increasingly becoming an area of concern for the policymakers for the obvious reason that it has far reaching economic and social implications.

10. Increasingly, in developing countries access to finance is positioned as a public good, which is as important and basic as access to safe water or primary education. The pertinent question to ask here is whether 'Financial Inclusion' can be construed a public good? A good is considered a 'public good' if it meets the conditions of non-rivalness in consumption and non- excludability. The degree of 'publicness' in 'financial inclusion' maybe different from the stand point of a typical public good like say 'defense', but there is little doubt that financial inclusion meets the above two criteria to a large measure and to that extent is a

"quasi public good". There are a number of positive externalities of financial inclusion. One of the important effects is one is able to reap the advantages of network externality of financial inclusion as the value of the entire national financial system increases. Yet another reason why Financial inclusion is a quasi-public good is that the consequent fuller participation by all in the financial system makes monetary policy more effective and thus enhances the prospects of non-inflationary growth.

11. Hence once it is agreed that financial inclusion is a 'quasi public good' we are now in the realm of public policy and hence it is incumbent upon the government to provide it in partnership with other agencies (including private agencies).

12. What is the present state of financial inclusion in India? A recent National Sample Survey reveals that out of 89 million farm households in our country,more than 40 million households have no access to finance whether formal or informal. Out of the remaining 45 million households who have outstanding debt, more than 40% of these outstanding debt comes from non-formal institutions such as moneylenders, etc. Consequently, in 2006-07 more than 1.5 lakh crores have been borrowed from the traditional moneylenders and not from formal financial sector. We do not have similar detailed data in urban areas but some estimates show that only 60% of the households in urban population have bank accounts. Which means rest of the urban population do not have access to financial services such as savings, credit, payment system and in case of migrants, the situation is even worse. NSSO survey also shows that in recent years, the share of traditional system of credit such as moneylenders may be increasing in rural areas and possibly in urban areas also. This is a challenge to the financial system. Financial system needs to be reformed to ensure that everyone can access financial goods and services. The promotion of financial inclusion can be possibly done in two major ways. Firstly, by expanding the role of formal financial system including banking and secondly, through the growth of micro-finance institutions in rural and urban areas. It is these two instruments which I would now proceed to discuss.

Routes to Financial Inclusion

13. In all fairness, our policy makers have been cognizant of the role of financial system in promoting growth as well as equity. In the early 1990s, banking sector reforms was spear-headed by the venerable Dr. Narasimham, the Chairman of the Court of Convenors of the Administrative Staff College. Through his reports, the Government had initiated a silent revolution in the

Banking Sector but we now need a second wind to these reform efforts to promote financial inclusion.

14. I will take a quick look at the past efforts to promote the financial inclusion in India.

Past efforts at financial inclusion in India

15. The institutionalisation of the systems for financial inclusion in India started with the establishment of the credit cooperatives following the enactment of the Cooperative Societies Act in 1904. After Independence, these efforts were intensified following the recommendations of the All India Rural Credit Survey Committee of 1954. Nationalisation of Commercial Banks in 1969 gave a fillip to increasing the breadth of financial services in rural areas and was a major step that facilitated rapid expansion of the banking system to hitherto unbanked areas, bestowing on them the special responsibility of stepping up advances for all the areas identified as 'priority sector'.

16. Realising that the rural population, which forms round 75% of our total population, needs simple, flexible and small-sized financial products in very large numbers, the Govt. set up the Regional Rural Banks (RRBs) in the mid-seventies, which were visualised as hybrid banks incorporating the technical competency and professionalism of the Commercial Banks and the local feel and low cost structure of the cooperative credit system. Further, NABARD was established in 1982, as an apex level institution to deal with all issues related to agriculture and rural development. Thus, a multi-agency approach to address the needs of the poor was adopted through the wide network of Commercial Banks, Regional Rural Banks and the Cooperative credit institutions. The impact of all these efforts resulted in extending the coverage of rural banking – there are over 32,000 rural bank branches of public and private sector banks and RRBs, more than 14,000 branches of rural cooperative banks which in turn has around 98,000 retail outlets of Primary Agricultural Credit Societies (PACS).

Financial Inclusion – RBI initiatives

17. The Reserve Bank of India has recognized financial inclusion as thrust area and initiated a series of policy measures in recent years. The Bank's Annual Policy Statement for 2005-06, while recognising the concerns in regard to the banking practices that tend to exclude, rather than attract, vast sections of the population, urged banks to review their existing practices to align them with the objective of financial inclusion. With a view to achieving greater financial inclusion, RBI has asked banks to make available a basic banking "No Frills" Account with either Nil or very minimum balances or charges that would make

such accounts accessible to vast sections of the population. This has been an important step.

18. Similarly, banks are encouraged to provide a General purpose Credit Card (GCC) facility, at their rural and semi-urban branches. The facility is aimed at providing revolving credit to the cardholder to meet his financial requirements, upto Rs. 25,000. In 2007-08, two Funds, i.e., Financial Inclusion Fund (FIF) for promotional interventions and Financial Inclusion Technology Fund (FITF) for meeting cost of technology adoption were also established with NABARD.

19. Incidentally, although a number of initiatives have been taken by the financial systems to promote financial inclusion, more needs to be done. I think our policy has not adequately encouraged private sector banks whether domestic or foreign in opening new branches at rural areas. Such an encouragement will bring new financial products and financial services to serve un-served sections of the society. It would be also worth-while to consider to bring strategic investors in the regional rural banks (RRBs). This will bring new capital and innovations and thus promote more efficient and innovative financial services for the farmers, artisans and the rural households. Similarly, the removal of interest rate ceiling by the RBI will encourage our banking sector to supply credit to new borrowers with or without collateral and thus enormously improve access to financial services.

20. Equally, in my view, the time has come for revisiting our policy on "priority sector" lending requirements imposed on banks. One option that would allow the most competitive lender to emerge in rural areas is by making the priority lending obligation tradeable. This would be beneficial both to the banks and to the rural poor by making available financial services from the most efficient and competitive institutions. Similarly, as the transaction costs of the banks' correspondents, such as NGOs, MFIs, cooperatives or carefully chosen individuals are much lower than the banking sector, the banks should be encouraged to utilize the services of banking correspondents more extensively. This would improve access to a vast section of our society.

MFI (Micro-Finance institutions) Route

Now let me turn to the new Micro-Finance route which is promoting financial inclusion.

21. Post 1991, many policy changes were carried out, a few of them being deregulation of interest rates, although interest rates on loans under 2 lakhs are still subject to cap and the service area approach and 1:4 branch license rules have been done away with. The post liberalization period saw banks shying

away from lending to rural areas as it was based on a belief that small and poor borrowers are not bankable and lending to such a target group were not in the interest of banks especially in a competitive environment. Although, it is ironic that this became the starting point for the MFI which held a contrary view and saw the poor as bankable and having a business potential. It is only now that the banks have started coming around to the same view.

22. Followed by the success of Self Help Group(SHG)-Bank Linkage programme as also Bangladesh Gramin Model, many of the NGOs engaged in social intervention have taken to financial intermediation for providing financial services to their target clients adopting innovative delivery approaches. Though initially only a handful of NGOs were into financial intermediation using a variety of delivery methods, their numbers have increased considerably today. While there is no published data on private MFIs operating in the country, the number of MFIs is estimated to be around 800. A large majority of MFIs operate on much smaller scales with clients ranging between 500 to 1,500 per MFI. However, a few big NBFC MFIs have an outreach of over 100,000 clients.

Self Help Group (SHG)-Bank Linkage Programme

23. One of the most important programme for promoting financial inclusion through micro-finance is the SHG-Bank Linkage programme which aims at improving access of the weaker and other sections of the society from formal financial institutions. The ability of people to pool their micro-savings, provide collective social collateral for banks to lend against and add to the SHGs' funds and the collective allocation of Funds to meet emergent credit needs of the SHG members, charge rates which reflect risks and management cost of funds, are the unique feature of this movement which has enabled banks to assist in meeting the credit needs of very poor people without sacrificing their funds and has helped rural women especially to empower themselves both economically and financially.

24. Over the last 15 years, the Micro-Finance initiative of NABARD has assumed the shape of a micro finance movement in the country by linking around 30 lakh SHGs with the formal banking system by March 2007. Further, the programme has enabled an estimated 394 lakh poor households to gain access to funds from the formal banking system. Studies conducted by various experts show that the programme has indeed helped in the social and economic empowerment of rural folk, especially women, causing significant up-scaling of social capital while at the same time delivering crucial financial services. In this emerging micro finance movement, ICICI is providing a new momentum with their "No White Spaces(NWS)" initiative which will cover 450 of 640 districts which make up rural India so that no individual will be more than 5 kms away

from the ICICI touchpoint. With the initiative of the NABARD and of the banks like the ICICI, India's micro-finance program has now become largest in the world in terms of the outreach.

Joint Liability Groups (JLGs)

25. Like self help group the Joint Liability Group (JLG) is yet another interesting institutional invention that is being introduced in India. Absence of ability to provide adequate collateral security works as a major hurdle for landless/tenant farmers in securing loans. The inability of this section of farmers to provide collateral often excludes them from the purview of formal credit cover. Keeping this in view, a pilot project on financing Joint Liability Groups (JLG) was initiated for developing effective credit products for such clients, which reduce risk and transaction costs for the banks and also introduce a greater degree of flexibility for the credit user to determine their credit needs and priorities. Joint Liability Groups (JLG), established under the project, comprise a group of 5-10 member clients who are together informally recognised by the bank as a group. The group members offer an undertaking to the bank that enables them to jointly receive such amounts as deemed eligible by the bank for pursuing any activity, individually or jointly, as found suitable by the group. This is of great promise.

Rythu Mitra Groups

26. The State of Andhra Pradesh has been a pioneer in the field of MFI initiatives. In Andhra Pradesh more than 8 million women have been mobilized in the last 15 years by NGOs like SEWA, the DHAN Foundation, SEWA Mandir and Pradan in the micro-finance movement. With the initiative of the State Government, the programme called Rythu Mitra Groups is being implemented, which envisages bringing about holistic development in the lives of small/marginal/land less farmers through collective action. RMGs are expected to serve as a conduit for technology transfer, facilitate access to market information and markets, assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc., for its members. During the last year alone, 4437 RMGs were financed by 18 commercial banks, 9 RRBs and 9 DCCBs involving ground level credit flow of Rs. 28.11 crore. About 62,000 farmers have been assisted under the project.

27. I have a somewhat innovative proposal for promoting financial inclusion as well as improving the delivery of a number of Government subsidies. Today, a number of subsidies are given via multiple channels such as food subsidies by fair price shops, fertiliser subsidies, kerosene subsidy, power subsidies, etc.

Given the reach of information technology, it is now possible to deliver subsidies more efficiently and effectively to the target groups. One can now think of unifying all these subsidies into a single subsidy or an entitlement and could be given to a targeted individual or family through a smart card. This will be equivalent to an annual negative income tax that can be given to a targeted family. Such a procedure will have several advantages. Firstly, it will reduce transaction cost, including administrative costs, and it will also enormously reduce leakages as the present subsidy system essentially leads to "dual pricing" of products such as foodgrains, LPG, kerosene, fertilisers, etc. Dual pricing i.e. two prices for a same product is open to an arbitrage possibility and hence the massive leakages. Consequently, dual pricing corrodes administration due to corruption, leads to fiscal loss and misallocates resources as "dual" product prices do not lead to an efficient use of resources. President Lula of Brazil has successfully implemented a version of such an entitlement system**.** Given our IT prowess, it would be even easier and less expensive to implement such a policy in India. This approach will also give much greater consumer choice to an individual family in choosing the goods and services which it prefers at any given time. Such a government entitlement via negative income tax has an additional advantage. It can be securitised through the banking sector by a family and they can have access to larger capital. Quick calculations suggest that the annual amount of such negative income tax or an entitlement could be as much as Rs.20,000 per family. This means that such a family can raise as much as Rs.1 lakh of capital from the financial system by securitising even a part of their entitlement. An access to such capital can help poorer families to increase their income, employment and also offer them access to a pool of capital in case there are health related emergencies. In other words, such a fiscal reform measure will go q long way in promoting financial inclusion of large section of the society and improve the efficiency of the subsidy delivery system. I am mindful of the potential difficulties of such an approach. What can be done is what in China they call a 'policy experiment' which is implemented first on a pilot basis and then expand it on a large scale.

28. Let me now draw your attention to some of the issues, which are hindering financial inclusion and which are in the domain of the real sector. One is aware that finance (and credit) can be effective and shall have the desired effect if only it is properly used and the environment where it is sown is conducive for its growth. Credit can become counterproductive if capacity does not exist to absorb it and this aspect has implications for the health of the financial system itself. I am now discussing the demand side factors that affect financial inclusion. For example, Rural Roads are a powerful instrument by itself of financial inclusion. Physical access to growth centres for the people living in

rural areas unleashes the productive capacity and generates positive externalities. Some studies have even shown that rural roads have larger impact than irrigation in reducing poverty and inequalities in rural areas. Similar multiplier effects are possible by improving the working of land and water markets in rural India.

Access to land

29. For the marginal farmers, access to land also determines access to other resources. In the past, ceiling legislations were enacted with the objective of sequestering land from large holdings and distributing the same to landless labourers or marginal farmers. But this policy met with very limited success. There is a need to have in place a market friendly land reforms policy wherein (a) small farmers should be encouraged, and enabled to expand their holding by purchasing or by leasing – in land, (b) Large farmers should be encouraged to sell or lease out land and be offered opportunities to take up / start non-farm rural enterprises. As Dr Bandhopadhyay mentioned yesterday, in many states, this is not permitted and consequently the poor tenants cannot access credit and other inputs for the financing system.

30. The large farmers as a group have resources, access to institutional support and a better risk bearing capacity. Hence, it is advisable that as a group they be encouraged to take up non-farm activities like agro-processing and rural industries involving higher ticket loans and banks would be more than willing to finance these as it reduces their transaction cost. Alongside if steps are taken to create a well functioning and vibrant lease markets it shall enable small farms to increase their operational areas. For achieving the objective of 'free lease markets' urgent efforts are required for having proper record of rights, Clear enunciation of the rights and obligations of the landowner and the tenant, effective IT enabled machinery for monitoring and adjudication at the ground level and computerisation of land records

31. On their own, small farmers may find it difficult to negotiate land purchase deals. Is it possible for some state agency to undertake this role by purchasing land at market prices from the large farmers and selling it to the small farmers? Similarly, government can prepare a "market" leasing contract to ensure that the tenants receive a fair deal. Credit agencies can be made partners in this arrangement by offering financial support to small farmers to expand their holdings.

Water Markets

32. What is true about improving land markets is also true in the case of other scarce resources, namely water resources. Water User's Associations (WUAs)

were created (in many states) as the primary organisational units of irrigation water users with the primary objective of maintaining the physical infrastructure and resolving conflicts over water distribution etc. The initial cost of setting up the WUAs by holding elections and training is usually borne by the government thereby reducing thee transaction cost for the new institution (in this case WUAs) to operate effectively. What are the implications for Financial Inclusion? These WUAs were the new institutions created with the assistance of the state governments with the hope that they would in due course of time become an economic agent (entity) and shall be able to deal, interact and transact business with other economic agents (entities) in the area (say banks) which shall be beneficial for both. The functioning of WUAs is crucial for creation and penetration of a viable water markets in rural areas- credit through the banking system then only shall flow in.

Urban Poor- Financial Inclusion

33. The urban poor population of the country is estimated to be around 8 crore (one-third of the urban population is poor) and only 50% of them live in slums. Most of the urban poor work in the unorganised sector having limited sustainable livelihood options. Some estimates have put that 40% of the adult urban population in India do not have access to a bank account thus depriving them of the whole set of financial services starting from savings, credit, remittance etc. The poor in urban areas too have the same basic financial service needs such as secured savings; credit and additionally mechanism to transfer remittances back home like their counterparts in rural areas. However, identification for the urban poor is becoming a significant barrier to access and more generally this is an issue for the successful operation of the credit bureau. Some banks have already started on the issuance of electronic cards, which are biometric. If now the Government can absorb the cost of the PAN card (or more simply give an option to the client not to ask for one) one big problem would be behind us. Secondly, the issue of residence proof for migrants is a real challenge and currently the requirement is that only a government issued identification process would work for the urban poor. Potentially in collaboration with the Election Commission and Banks, this problem could be comprehensively addressed.

34. It is only very recently that some MFI or micro-finance institutions have started functioning in addressing the issue, but banks need to get into the sector more aggressively and see the segment as a business opportunity, which exists just under their nose. Naturally, the strategy of the banks while dealing with the urban poor has to be devised differently compared to other clients in urban areas.

Risk Management Measures in Agriculture

35. We are all aware that farmers in general are exposed to risks arising from various sources eg, credit uncertainty, rainfall variability, market price fluctuations, and that those arising from adoption of new technology. The diversities in the sources of risks require a variety of instruments for protecting the farmers. In India, these include crop insurance, rainfall insurance, farm income insurance and a calamity relief fund. Except for crop insurance, the others are in the experimental stage.

36. To address the issue head-on, a system should be placed in place whereby the small farmers can **access the commodity markets and benefit directly** from it. Presently this is not possible. Further, the RBI should allow Banks to take positions in the commodity markets and hedge on behalf of the farmers or farmers organisations.

37. Post-liberalization, after the introduction of the international capital adequacy and prudential norms, the perceptions of the bankers towards agriculture suddenly underwent a change. The public sector bankers started perceiving agriculture as a 'high risk' business – much of this was due to the high NPA levels. This perception was reflected in bankers shying away from lending to agriculture. Such a policy stance has done more harm to the banking system/bankers because in a developing economy like India, it should be the medium term objective of monetary and credit policies to seek to change the risk profile of the agricultural sector itself; and credit policies should become an important ingredient of the macroeconomic management package designed to eventually change the risk profile of agriculture. Credit - both short term and long term - should be viewed as both growth-enhancing and risk-reducing instrument. A typical example is investment in irrigation.

38. Considering the proportion of our population that still remain 'excluded', what has been achieved so far pales into insignificance in comparison to what remains to be done. The formal financial system has to recognise the huge business potential coming from the unmet demand for financial services from those who normally tend to be excluded.

39. The focus on financial inclusion comes from the recognition that financial inclusion has several externalities, which can be exploited to the mutual advantage of those excluded, the banking system and the society at large. Banks need to understand the market and develop products suited to the clientele. They need to develop data sets to evolve risk assessment models for proper rating and pricing. Financial inclusion has to be viewed as a business strategy for growth and banks need to position themselves, accordingly.

Impact of greater financial inclusion

40. To sum up, I have no doubt in my mind that the enhanced financial inclusion will have significant impact on our economy. I have already argued that because of the economy and community-wide, positive spillover effects of financial inclusion, it is a quasi-public good.

41. First and foremost, enhanced financial inclusion will drastically reduce the farmers indebtedness which has been one of the main cause for farmers suicides. The second important benefit is it will lead to more rapid modernization of Indian agriculture. The new agriculture, by nature, needs more working capital and is capital intensive as it depends on improved seeds, fertilizers and other modern inputs and equipments. As the enhanced financial inclusion means better risk management tools for the farmers, they will be encouraged to adopt new technologies at a faster rate. Yet another benefit would be increased growth, as well as more equitable growth both in rural and urban areas as it will mobilize what Prof Prahlad calls the bottom of the Pyramid. By providing greater access to educational loans to all sections of the society, improved financial inclusion will also mean India becoming more equal opportunity nation, a pre-condition for promoting inclusive growth

42. Finally, one of the most important positive impact of promoting financial inclusion would be to promote grass root innovations and entrepreneurship. I am involved with National Innovation Foundation which was set up in the year 2000 to promote grass root innovations. The spirit behind the Foundation is Prof. Anil Gupta of Indian Institute of Management, Ahmedabad. The Foundation encourages, by recognizing and supporting the grass root innovations from farmers, artisans, housewives and students. The Foundation has mapped more than 25,000 grassroot innovations and has so far helped our farmers/innovators to secure growing number of patents including four US patents. One major constraint is in diffusing their technologies i.e. commercialization is the absence of micro-venture capital fund. Here, greater financial inclusion will promote micro venture capital funds and thus reward and mobilize creativity from segments of our society which remain completely untapped.

43. Given the vital importance of the issue, I am confident that in the coming years we are going to see many strides in the reforms of the financial system to make the system more efficient and much more inclusive.

I thank you all for your attention.