

Strive towards Achieving MDGs Employing Indian Banking System

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ABSTRACT

India's endeavour of achieving Millennium Development Goals (MDG) primarily needs support of a robust financial system, by ensuring inclusion and active participation of all section of population. In this context, the term 'Financial Inclusion' is nowadays become globally widespread. Financial inclusion may be understood with insight about the situation of its exclusion; wherein an individual is deprived of state's mainstream financial system, exposing deprived population to high cost debt exacerbating the poverty cycle. Financial Inclusion has now been accepted globally as the primary and most critical component for sustainable development of a nation. It was however never part of the Millennium Development Goals (MDG 2000). It took long time to arise as crucial agenda of developing countries, including at G20 in 2011. Subsequently in 2012, the alliance for Financial Inclusion (led by central banks of 35 emerging & developing countries) tendered commitment for financial inclusion. The level of inclusiveness in India was at dismal for a prolonged period after independence. Indian government had traditionally established Banks/FI to provide formal financial services. Apex FIs (viz. NABARD, IDBI and SIDBI) have well supported nation building in various ways, but government had miserably failed to address the necessity of financial inclusiveness in this developing nation. As per India's Census 2011 data (population 1.22 billion), 65% of adults were not having access to formal financial system. Another report of World Bank reveals that merely 9% Indian adults had availed credit from banking system. This level of exclusion of a larger population had been accentuated as serious hindrance to the economic progress of India. Financial inclusion has gradually emerged as obligatory medium to implement various policies for achieving MDGs. During the last 20 years, Indian government had framed diverse strategies relying on the unwavering support of banking channels. India has traversed a long journey to ensure inclusiveness across the country. This article dealt with key policies, implemented through banking system that has made significant impact towards inclusive & sustainable development in India.

Keywords: MDG, Financial Inclusion, Sustainable Development, Financial Services, World Bank.

Introduction

The Millennium Development Goals (MDGs) "helped India in bringing out a much needed focus and pressure on basic development issues, which in turn led the governments at national and sub national levels to do better planning and implement more intensive policies and programmes" (MOSPI, 2017) – Thanks to steady support of Indian banking system. During the last 20 years, banking channel played a pivotal role to implement various strategies, policies and schemes rolled out by government to ensure inclusion and active participation of all section of population across the country.

On the above context, the term 'Financial Inclusion' is nowadays become globally widespread, which may be understood with insight about Financial Exclusion that basically describes the situation; wherein individual do not have access to mainstream financial services. Major population remained financially excluded in unbanked area and deprived of uncomplicated and affordable financial services that suit the requirement of low-income households. Due to lack of easy access to formal financial system, rural population is inclined to informal sources of finance and trapped to high cost debt, exacerbating the cycle of poverty.

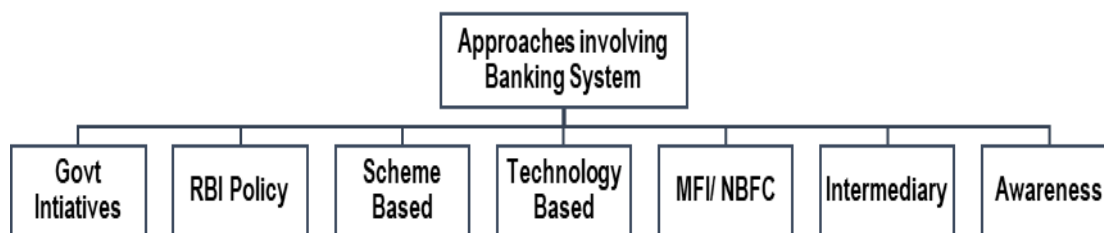
Financial Inclusion (FI) is the medium through which individual gets the opportunity to access mainstream banking system, can avail credit to generate additional income streams; may channel surplus into investments or assets. It opens up chance to arrange fund for marriage, education and other household consumptions. Individual can avail insurance coverage to protect their hard earned savings at times of any unforeseen loss, medical exigency, any types of disabilities, or demise.

The concept of FI basically aims to deliver need based financial services & products, at an affordable cost, and on timely basis to unprivileged sections to achieve equitable and inclusive growth of a society. FI and its forward linkage to social security schemes is the most essential milestones for any developing nation towards achieving sustainable development goals. It may also contribute to 'Financial Stability' by increasing the diversity, and thereby decreasing the risk of bank assets and by increasing the stable funding base of bank deposits (Morgan, 2014).

The objective of this is article is to study various approaches taken up by Indian governments and regulator to ensure inclusive development, by traversing through unwavering support of banking channel. This study takes into consideration different initiatives in synergy of Indian government and regulator. In order to gather practical insights, non-verbal cue and emotional responses for the need of this study, authors undertook face-to-face discussions with senior executives of banking, NBFC and MFI to have better understanding on sector dynamics.

Initiatives Involving Banking System

In general, involvement of banking system assessed in limited terms unto opening savings bank account, discounting further dimensions and scopes. Access to formal banking system actually opens up various opportunities for all section of population. Individual can access business opportunities, avail subsidies & subventions, fund education, create assets, retirement planning, insurance coverage etc. Financial inclusion has been taken up on priority and as challenging agenda by the government, realizing that majority of the rural population is left out from economic growth process for a longer period of time after independence. Indian governments, regulator and commercial banks have thus joined hands to ensure inclusive development across the country through various approaches, which have been discussed in this article.



Introduction Basic Savings Bank Account or No-frills Accounts

Government of India gave thrust to banks for opening 'no-frill-accounts' in campaign mode. These are primarily a Basic Savings Bank Account that an Individual can maintain without any compulsion to keep balance, nor have to bear charges for non-maintenance of monthly/quarterly average balance in the account. These no-frill accounts were envisages to attract vast sections of the unprivileged population to formal banking channel. The "Centre for Microfinance" at the "Institute for Financial Management and Research" in Chennai, conducted a study on the impact of the FI drive in Gulbarga district. It was reported that the drive by itself is *"not accepted either by its beneficiaries or by the banks with enthusiasm. Bankers took it as a part of professional duty, which they are forced into making, while beneficiaries are not able to comprehend the utility of a savings bank account and hardly ever use it."*

Relaxation of KYC Norms (2005)

In view of the constraints faced by villagers for opening bank accounts in absence of requisite documents, the laid down KYC (Know-Your-Customer) norms for opening basic bank accounts were relaxed for opening Small Savings Bank Accounts in the year 2005. RBI introduced simplified provisions so as to enable banks to open basic accounts accepting relaxed KYC. As per revised norms, banks were then allowed to consider introduction of an existing bank account holder, who has already complied with full KYC norms, for opening small savings bank accounts of an individual. RBI had also permitted commercial banks to accept any of the Officially Valid Documents (OVD) for authenticating identity & address of an individual. This was further relaxed by including the 'letters issued by UIAI' as acceptable documents.

Simplified Branch Authorization (2009)

The unavailability of commercial bank network in villages, even after prolong duration after bank nationalization, remains India's primary adversary towards inclusive development. In order to address this issue, RBI permitted domestic scheduled commercial banks to spread network in rural and semi-urban centres with, under general permission and subject to reporting. For north-eastern states and Sikkim, this exemption was made applicable for all centres. Furthermore, to accelerate opening of bricks & mortar retail bank branches in villages for improving inclusivity, domestic banks have been mandated to allocate minimum 25% of branches in unbanked rural centres, out of new branches opened during a year.

Setting up of Ultra Small Branches (2011-2012)

Gol vide its letters dated 28/12/2011 and 09/02/2012, directed all banks to open Ultra Small Branches (USBs) in the villages covered under Financial Inclusion Plan. RBI reported that over 43000 USBs were set up in the country by December 2012. USBs were planted in villages with key objective to ensure close monitoring of Business Correspondent Agents (BCAs), by the respective banks. USBs are intended to cater a range of banking services to villages covered through BCAs. USBs are generally set up in 100-200sq.ft premise area, where bank staffs are available with a laptop on pre-determined days. The designated bank staffs offer various other services, while the cash transactions are made through BCAs. Bank also undertakes field verification and follow up the banking transactions made through BCAs. Periodicity of such field visits are progressively enhanced based on business potential of the area.

As per laid down guidelines, a bank official has to visit USB atleast once a week (during fixed hours on a fixed day) along with a laptop and data card, which will have secured VPN connectivity to bank's system so that basic services (viz. a/c balance information) may be provided to villagers.

Introduction of Intermediaries (2006)

In view of constraints to reach remotest corner of the country through banking network, RBI permitted scheduled commercial banks to engage intermediaries for providing financial and banking services. On Jan 2006, RBI introduced individual Business Facilitators (BF) and Business Correspondents (BC) channel with an endeavour to extend basic banking services to villages at low cost. The BC/BF model enabled doorstep delivery of basic services like deposit & withdrawal, attempting to address last mile difficulties.

BCs are individuals or entities who act as extended arms of the Bank for providing banking services in the unbanked & under-banked areas both rural & urban. Entities involved in BC services are known as Corporate BCs. These Corporate BCs, in turn, appoint field BCs i.e., individual BCs, who are known as BC Agents (BCAs) or Customer Service Points (CSPs). Under Kiosk model these BCs are known as Village Level Entrepreneurs (VLEs). BC or the CSPs, works in identified village as authorized representative of the base branch and as such the BC is under the overall control & monitoring of the base branch for all banking transaction. The major role & responsibilities are as under;

- Identification of customers/ households for opening account.
- Collection of forms and preliminary verification of primary information/ data.
- Issue & activate the smart cards to the customers in presence of the bank official.
- Processing and submission of applications to the base branch on a weekly basis.
- Collection of small value deposits and disbursement of small value credit.

Dr. Soumen Sarkar: Strive towards Achieving MDGs Employing Indian Banking System

- Receipt and delivery of Small Value remittances/ other payment instruments.
- Post Sanction monitoring and loan recovery
- Sale of Micro Insurance/ Mutual Fund Products/ Pension products.
- Provide financial services on behalf of the bank to the customer it includes lead generation for PSL, identification and other help in security creation etc.
- Sourcing & screening of Aadhaar seeding application forms.
- Active participation in the area for financial literacy among villagers.

Usage of Information and Communications Technology

In India, banks were nationalized in 1969 mainly with the objective to extend financial benefits to poor by providing loans. The strategy thereby failed to address key aspects of developing nation viz. Opening bank accounts for all, encourage villagers to embrace savings culture, or building payment network etc. Subsequently, technology came up as the potential mode to outreach in a viable manner. RBI advised all scheduled banks to imbibe 'Information and Communications Technology' (ICT) effectively and widely to provide doorstep services through BC/BF channel. ICT facilitates illiterate villagers to operate accounts using biometrics. While technology protected security of transactions, it has also boosted confidence and offered transparency to villagers about banking system. Technology Service Provider (TSP) are technical partners of Banks, who roll out the technology platform for connecting the Hand Held Terminals (HHT) and Point of Sale (PoS) devices to Bank's CBS. Additionally, these providers also provide smart cards/ magnetic stripe cards to customers acquired through BC model. TSPs are the technology partner, who provides end-to-end solution on ICT platform. Services offered by TSPs are both offline & online modes. TSPs either provide technology support or provide end-to-end solution to any Bank as per terms of agreement.

Adoption of Direct (Electronic) Benefit Transfer

Gol extends various benefits like scholarships, pensions, subsidies, MNREGA wages, etc. to the intended beneficiaries under its various welfare schemes. However, reportedly there are widespread leakages before the final rupee reaches the intended beneficiary. To cut these leakages, Gol introduced the Direct Benefit Transfer (DBT) scheme, under which, government transfers the eligible amount directly into the Bank or Post Office account of identified beneficiary. Concerned Govt. dept/agency is supposed to provide details of beneficiaries' alongwith amounts to be credited.

Banks have been tasked with responsibilities to open bank accounts of beneficiaries covered under various state sponsored schemes. Banks were mandated to ensure that all households should have at least one bank account within their allotted service areas in rural centres or within the allotted wards in urban areas. Since seeding of Aadhaar numbers in bank account is made mandatory for getting transfer of benefits, banks were advised to develop their Core Banking Solution (CBS) accordingly to capture the Aadhaar number. Further, wherever the account holder has an Aadhaar number, the same needs to be seeded into the bank's CBS so that the bank account can be accessed using the Aadhaar number. Banks were asked to provide access points (Branch/ATM/BC/CSP) to enable withdrawal of money in ease. DBT has undoubtedly transformed socio-political dynamics in rural India as it has brought transparency and reduced corruption.

Aadhaar Enabled Payment Systems (AEPS)

The AEPS architecture has been designed by "Unique Identification Authority of India" (UIDAI) in collaboration with the NPCI. AEPS is a platform that banks can leverage upon for expanding their payment network. The key objective of AEPS is to enable one BC/CSPs to cater service to customers of multiple banks, based on the 'unique biometric identification data' stored centrally in the Aadhaar database. The AEPS platform enabled an individual to use Aadhaar as identity to access the respective Aadhaar seeded bank account for basic banking transactions viz. balance enquiry or cash withdrawal/deposit. The unreached rural population are severely cash-constrained. Cash-based transactions impose several costs and risks. Bulk transactions can entail carrying large amounts of cash, possibly over long distances in remote areas, which raise obvious issues of safety.

Approaches towards Credit Flow

Finance Minister during Union Budget Speech 2007-08 has stated FI as 'the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost' (Chidambaram, 2007). This statement clearly reveals the biasness of government that has historically existed towards provision of credit services ignoring other financial services. The exclusive thrust on credit has meant that policy and practice has thus far ignored the provision of a safe place for savings for rural households (Mohan, 2006). This credit drive was later by implemented in three ways (i) targeting a major fraction of credit directly to credit-starved poor households, (ii) setting regulatory disbursement targets to all Indian banks for lending to Micro, Small, Medium enterprises (Micro, 2006) under Priority Sector Lending category; and (ii) creating specialized entities, such as regional rural banks and cooperative banks. This strategy had however seen limited success, as public sector banks in India couldn't reach intended beneficiaries in remote areas.

RBI was persistent to ensure adequate & timely the delivery of credit to all contributory sectors of Indian economy. Special policy framework and incentive structure to encourage credit flow in Agriculture and Micro, Small and Medium enterprises (MSMEs). RBI formed an 'Expert Committee on MSME' and 'Internal Working Group' to review credit flow to all productive sectors.

RBI has also prepared the 'National Strategy for Financial Inclusion (NSFI) 2019-24' under the aegis of the 'Financial Inclusion Advisory Committee (FIAC)', to ensure access to financial services to all the citizens in a safe and transparent manner. The primary objective of these steps is to extend financial services from financial institutions to unprivileged populations in India. In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved 'Financial Inclusion Plans' (FIPs) to report their achievements on network expansion, PMJDY, KCCs, General Credit Card and Micro Pension Schemes.

Priority Sector Guidelines (PSL)

In order augment adequate and timely delivery of credit and to incentivize productive sectors of Indian economy, RBI has rolled out disbursement targets under PSL guidelines for all banks operating in the country. Apart from supporting Agri & MSME sectors, the objective of regulatory target for PSL is to enhance credit flow to those vulnerable sections of the society. This excluded population or sector, despite having eligibility is deprived of credit assistance from banking system, in absence of special dispensation. RBI reviews the performance of banks against the targets and levy penalty to defaulting banks. It is found that RBI revised its PSL guidelines on several occasions in view of the need of economy. Government of India has been fixing targets every year to all banks operating in the country for lending to agriculture & allied activities, as sub-target of overall PSL targets. Lead bank has been assigned to monitor the performance and reporting to DLBC. The focus to strengthen Agribusiness and MSME sector is crucial both in terms of its employment generation capacity and reducing social economic imbalances. The strategies adopted by Indian policy makers to ensure low-cost credit flow to Agribusiness and MSME sectors have resulted in robust increase of start-ups and entrepreneurs in the country.

Microfinance Institutions

It's a known reality that like private sector banks, even public sector banks were reluctant to spread their network in remote location. In order to meet the regulatory targets of priority sector lending, Indian banks instead found an easy way of bulk lending to microfinance institutions, for on-lending to SHG/JLG members, which classifies under priority sector lending. Microfinance industry in India has emerged vastly over the last decade mainly by grabbing the lending opportunities, charging high rate of interest, created due to the gross failure of Indian government to promote financial inclusion through scheduled banks. After the turbulent year 2010, MFI sector has adopted considerable amendments in the regulations. The crisis period in the sector basically surfaced due to multiple lending to single household and exceedingly high/usurious pricing. Subsequently in 2011, RBI intervened and rolled out regulated pricing and tenures of loans with repayment flexibility. MFIs were for the first time mandated to frame Customer Grievance redress mechanism.

RBI has also introduced self-regulatory initiatives such as 'Industry Code of Conduct' and introduced Credit Bureau to control microfinance sector in the country. The industry bodies of MFIs in

Dr. Soumen Sarkar: Strive towards Achieving MDGs Employing Indian Banking System

India, namely 'Microfinance Institutions Network' and 'Sa-Dhan' are now recognized as self-regulated organizations by RBI. On discussion with NBFC-MFI leaders, it is understood that these self-regulated organizations are effective in aligning pricing of members with their costs. This regulation would also lead to price differentials across MFIs to exert downward pressure on interest charges, and lead to greater operating efficiency.

Mor Committee (2014)

The committee submitted a comprehensive blueprint on "Comprehensive Financial Services for Low-Income Households and Small Businesses". The recommendation of the said committee has however faced wide criticism as the timelines, in respect to the following targets set by the committee were aggressive. Committee suggested;

- *that every individual above 18 yrs age should get access to all banking services.*
- *to have access of electronic payment access points widely for offering withdrawal and deposit facilities, at a reasonable cost;*
- *provision to each low-income household of convenient access to formally regulated & suitable credit products, investment & deposit products and insurance products at a reasonable price; and*
- *to have provision to every customer of the legally protected right for suitable financial services.*

RBI accordingly identified 4.9 lakh villages across the country, and these villages were allotted to various banks. This drive also entailed Indian commercial banks to open 80,000 additional rural branches during FY2013 to FY2016. Nevertheless, as per published data, 'only 7459 rural branches were opened during this period' across the country. The committee's recommendations were majorly exploited to mobilize deposit, and meagre efforts of banking sector deployed to enhance credit delivery or customizing products for the poor.

Conclusion

The conditions of financial exclusion in India have substantially improved after the launch of 'Pradhan Mantri Jan-Dhan Yojana' (PMJDY) on August 2014. Policy makers have realized that mere holding of a basic savings account can be the initiating step towards rural development, but is not enough to include the rural poor in the mainstream financial stream. Govt's agenda towards MDGs has thus seen a paradigm shift to a comprehensive approach towards extending financial services to remotest corner of the country, subsequent to the launch of PMJDY.

As per the first 'Global Findex Database' released by World Bank in 2011, only 40% of Indian adults had bank accounts. Only after 6 years, 'Global Findex Database' (Findex Database, 2018) has reported that almost 80% of Indians got access to bank accounts. As per the report of 'CRISIL Inclusix 2018', the FI score of India was rated at 58 on a scale of 100 for FY2015-16. As per 'SDG India Index 2019', more than 90% of Indians are having bank accounts. According to rating agency (CRISIL, 2018), PMJDY was recognized as the primary driver of financial inclusion in India.

Financial Inclusion and its forward linkage to social security have been taken up as essential milestones for achieving MDGs by Indian government. PMJDY had created further platform to launch three ambitious social security schemes viz. 'Pradhan Mantri Jeevan Jyoti Bima Yojana' (PMJJBY), 'Pradhan Mantri Suraksha Bima Yojana' (PMSBY) and 'Atal Pension Yojana' (APY). It has also opened up opportunities to customize loan products like 'Pradhan Mantri Mudra Yojana' (PMMY), 'Stand-up-India' etc. The impact of PMJDY and its linkage with social security schemes however varies across the country, depending on the socio-political condition and participation level of its target beneficiaries.

As these foundation agenda have been addressed successfully within the country, Indian government and private sectors players have got suitable platform to reform a superstructure for economic prosperity and inclusive development in the nation. India is enjoying the strength of having largest share of global youth. The soaring ambition of this young population is no longer satisfied with the status quo. Thus, an aggressive agenda towards sustainable development must be at the core of India's economic strategy to meet these aspirations.

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