*ASCI Journal of Management* 39(1): 55–68
Copyright © 2010 Administrative Staff College of India

**VIJAY KELKAR***

# Financial Inclusion for Inclusive Growth**

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

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, on his visit to the USA for faculty recruitment. What I distinctly remember about the meeting was his passion for India. On my return to India from the United States, ASCI, Hyderabad, was naturally the first place I chose to visit. I was interviewed by a Search Committee, which was chaired by Shri C. D. Deshmukh, Chairman of the ASCI Court of Governors. I joined the college in 1970 as a senior faculty.

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 also 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 more equitable society. At the micro- or enterprise level, he would not accept any inefficiency. However, at 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

* Chairman, Thirteenth Finance Commission, Govt. of India.

** First N. P. Sen Memorial Lecture held at ASCI, Hyderabad, on 13 January 2008. I would like to thank Dr. Nachiket Mor of ICICI and Dr. Rajendra Kulkarni of NABARD and his colleagues for their assistance in preparing the lecture.

"inclusive growth" has recently become fashionable, but the promotion of equity has always been a part and parcel of India's policy goals.

The second reason for choosing this subject is that after leaving the government three years ago, I moved from Delhi to Mumbai. In the financial capital of India, I have had a ringside view of the financial markets. It gave me an opportunity to reflect on the role of markets and particularly on the role that financial markets can play in the advancement of growth and equity.

## Indian Economy: Growth Experience in Recent Years

The Indian economy has witnessed considerable growth acceleration in the post-liberalization period. The economy has been growing at an annual rate of 9 per cent or so during the last four years. Our country now has the potential to become the fastest growing 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 the total factor productivity, the blossoming of entrepreneurship, and India's acceptance of globalization. I should also mention that our vibrant democracy is also a fundamental determinant of rapid growth. This growth acceleration has been accompanied by a reduction in the percentage of people below the 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, a little reflection immediately tells us that 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. India is still home to the world's largest number of poor. What is even more disturbing is that India now has the world's largest number of under-nourished children. The urban-rural gap is getting wider. According to a 2006 report by the National Commission for Enterprises in the Unorganized Sector, chaired by Arjun Sengupta, almost 370 million people are facing some form of deprivation. In particular, those in 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 the present economic growth process is not inclusive enough; and the political economy suggests that the process is not sustainable for maintaining either growth or the stability and unity of the country. Clearly, we need to address this issue urgently.

It is heartening that the 11$^{th}$ Five-Year Plan, which was recently approved, is aimed at promoting more inclusive growth. To achieve this goal, state-led intervention as well as market-based instruments are required. What my three years of stay in Mumbai has taught me is that much greater emphasis may have to be placed 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 at promoting an inclusive pattern of outcomes as they do not differentiate among citizens. Ironically, it is state action that is more differentiating in nature and, therefore, can be non-inclusive. I am mindful that while markets may be caste-, colour-, religion- and 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, the government's role as an umpire is of vital importance towards ensuring the desired outcomes while deploying market instruments. But I sincerely believe that the balance may now have to be shifted towards deploying a much larger measure of market-based instruments for promoting inclusive growth. To paraphrase Saddam Hussain, the financial market is the mother of all markets. Hence, if we can make financial markets more wealth- or income-neutral, this will enormously empower the poor. This is the role of financial inclusion, which brings me to the definition of the term.

## What is Financial Inclusion?

By financial inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. Among the key financial services that are of great relevance here are risk management or risk mitigation services vis-à-vis economic shocks. Such shocks may be an income shock 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*

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 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 the poor face as a result of economic shocks. Providing access to financial services is increasingly becoming an area of concern for policy-makers for the obvious reason that it has far-reaching economic and social implications.

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 as 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 may be different from the standpoint of a typical public good like say defence. However, there is little doubt that financial inclusion meets the above two criteria to a large measure; to that extent, it is a quasi-public good. There are a number of positive externalities of financial inclusion. One of the important effects is that one is able to reap the advantages of network externality of financial inclusion as the value of the entire national financial system increases. 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. Once it is agreed that financial inclusion is indeed a quasi-public good, we are in the realm of public policy. Hence, it is incumbent upon the government to provide it in partnership with other agencies (including private agencies).

What is the present state of financial inclusion in India? A recent National Sample Survey (2007) 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. For the remaining 45 million households who have outstanding debt, more than 40 per cent of the debt comes from non-formal institutions such as moneylenders. Thus, in 2006–07, more than Rs. 1.5 lakh crore was borrowed from traditional moneylenders and not from the formal financial sector. Although we do not have similar detailed data for the urban areas, some estimates show that only 60 per cent of the urban households have bank accounts. This means that 40 per cent of the urban population does not have access to financial services such as savings, credit and payment systems. In the case of migrants, the situation is even worse. The NSS survey also shows that in recent years, the share of the traditional system of credit, such as moneylenders, may be increasing in rural areas and possibly also in urban areas.

This is a challenge to the financial system. The system needs to be reformed to ensure that everyone can access financial goods and services. The promotion of financial inclusion can be done in two major ways: First, by expanding the role of the formal financial system, including banking. Second, through the growth of micro-finance institutions in rural and urban areas. I now proceed to discuss these two instruments.

## Routes to Financial Inclusion

In all fairness, our policy-makers have been cognizant of the role of the financial system in promoting growth as well as equity. In the early 1990s, banking sector reforms were spearheaded by the venerable Mr. M. Narasimham, Chairman of the Court of Governors of the Administrative Staff College of India. By implementing the recommendations contained in his reports, the government initiated a silent revolution in the banking sector. However, we now need a second wave of these reform efforts to promote financial inclusion.

### *Formal Financial System*

The institutionalization of systems for financial inclusion in India started with the establishment of 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. Nationalization of commercial banks in 1969 gave a fillip to increasing the breadth of financial services in rural areas. It was a major step that facilitated the 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’ areas.

Realizing that the rural population, which forms round 75 per cent of our total population, needs simple, flexible and small-sized financial products in very large numbers, the government set up regional rural banks (RRBs) in the mid-1970s. They were conceived as hybrid banks incorporating the technical competency and professionalism of commercial banks and the local feel and low-cost structure of the cooperative credit system. Further, the National Bank for Agriculture and Rural Development (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 cooperative credit institutions.

The impact of all these efforts resulted in extending the coverage of rural banking: By the end of 2007, there are over 32,000 rural branches of public and private sector banks and RRBs, and more than 14,000 branches of rural cooperative banks, which in turn have around 98,000 retail outlets of primary agricultural credit societies (PACS).

### *Initiatives by RBI*

The Reserve Bank of India has recognized financial inclusion as a thrust area and initiated a series of policy measures in recent years. The bank's Annual Policy Statement for 2005–06, while recognizing the concerns in regard to 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, the RBI has asked banks to make available a basic (no-frills) banking account with either nil or very minimal balances or charges to vast sections of the population. This has been an important step forward.

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/his financial requirements, up to Rs. 25,000. In 2007–08, two funds, i.e., the Financial Inclusion Fund (FIF) for promotional interventions and the Financial Inclusion Technology Fund (FITF) for meeting the cost of technology adoption, were also established with NABARD.

Although a number of initiatives have been taken by the financial systems to promote financial inclusion, much more needs to be done. I think our policy has not adequately encouraged private sector banks, whether domestic or foreign, to open new branches in rural areas. Such encouragement will bring new financial products and financial services to the unserved sections of society. It would also be worthwhile to consider to bringing in strategic investors in regional rural banks. This will attract new capital, encourage innovations, and thus promote more efficient and innovative financial services for farmers, artisans and rural households. Similarly, removal of the 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.

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

### *Micro-finance Institutions*

Now let me turn to the new route for promoting financial inclusion, micro-finance institutions (MFIs). Post-1991, many policy changes were carried out, among them deregulation of interest rates. However, interest rates on loans under Rs. 2 lakh are still subject to a cap. The service area approach and 1:4 branch licence rules have been done away with. The post-liberalization period saw banks shying away from lending to rural areas—based on the belief that small and poor borrowers are not bankable and lending to such a target group was not in the interest of banks, especially in a competitive environment. It was this perception that gave a fillip to MFIs, which held a contrary view and saw the poor as bankable and having a business potential. It is only now that commercial banks have started coming around to the same view.

Followed by the success of the Self-Help Group (SHG)-Bank Linkage programme, as also the Grameen Bank model developed in Bangladesh by Dr. Mohammed Yunus, many NGOs engaged in social intervention have taken to financial intermediation for providing financial services to their target clients by adopting innovative delivery approaches. Initially, only a handful of NGOs were into financial intermediation using a variety of delivery methods. Today, their numbers have increased considerably. While there is no published data on private MFIs operating in the country, the total number of MFIs is estimated to be around 800. A large majority of them operate on much smaller scales, with a client base of 500–1,500 per MFI. However, a few big MFIs (non-banking finance companies) have an outreach of over 100,000 clients.

### *Self-Help Group (SHG)-Bank Linkage Programme*

One of the most important programmes for promoting financial inclusion through micro-finance is the SHG-Bank Linkage programme, which aims at improving the access of the weaker and other sections of society to formal financial institutions. The ability of people to pool their micro-savings and provide collective social collateral, for banks to lend against and add to the SHGs' funds, and the collective allocation of funds to meet the emergent credit needs of SHG members and charge rates which reflect the risks and management cost of funds are the unique features of this movement. It has enabled banks to assist in meeting the credit needs of very poor people without sacrificing their funds and has especially helped rural women to empower themselves, both economically and financially. Andhra Pradesh has been a pioneer in the field of MFI initiatives. In the last 15 years, the micro-finance movement in this state has mobilized more than 8 million women.

During 1992–2007, the micro-finance initiative of NABARD assumed the shape of a micro-finance movement in the country by linking around 30 lakh SHGs with the formal banking system. Further, the programme 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 bank is providing a new momentum with their No White Spaces (NWS) initiative. It will cover 450 of the 640 districts which make up rural India so that no individual will be more than 5 km away from a ICICI touch point. Thanks to the initiatives of NABARD and ICICI, India's micro-finance programme has now become the largest in the world in terms of outreach.

### *Joint Liability Groups (JLGs)*

Like self-help groups, the joint liability group (JLG) is yet another interesting institutional invention that is being introduced in India. Absence of the 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 the formal credit cover. Keeping this in view, a pilot project on financing JLGs was initiated for developing effective credit products for such clients. These products not only reduce the risk and transaction costs for banks but also allow a greater degree of flexibility for credit users to determine their credit needs and priorities. A JLG established under the project consists of five to ten member clients who are together informally recognized as a group by the bank. 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 holds great promise.

### *Rythu Mitra Groups*

The Rythu Mitra Groups programme is being implemented at the initiative of the Andhra Pradesh government. The programme envisages bringing about holistic development to improve the lives of small/marginal/landless farmers through collective action. RMGs are expected to serve as a conduit for technology transfer, facilitate access to market information and markets, and assist in carrying out activities like soil testing, training, health camps and input requirements assessment for its members. During 2007 alone, 4,437 RMGs were financed by 18 commercial banks, 9 RRBs and 9 district cooperative credit banks (DCCBs), involving ground-level credit flow of Rs. 28.11 crore. About 62,000 farmers have been assisted under the project.

## ***Innovative Route to Financial Inclusion***

I have a somewhat innovative proposal for promoting financial inclusion as well as improving the delivery of a number of government subsidies. Currently, a number of subsidies are given via multiple channels, such as food subsidy, fertilizer subsidy, kerosene subsidy, power subsidy. 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, which can be made available 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 policy innovation will have several advantages. First, it will reduce transaction costs, including administrative costs. It will also enormously reduce leakages as the present subsidy system essentially leads to the dual pricing of products such as food grain, LPG, kerosene, fertilizers, etc. Dual pricing, i.e., two prices for the same product, is open to an arbitrage possibility and hence results in massive leakages. Dual pricing corrodes administration due to corruption, leads to fiscal losses and misallocates resources, as dual product prices do not encourage 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 that it prefers at any given time. Such a government entitlement, via a negative income tax, has an additional advantage. It can be securitized 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 the family can raise capital to the tune of Rs. 1 lakh from the financial system by securitizing even a part of their entitlement. Access to such capital can help poorer families to increase their income, improve their employment prospects and also offer them recourse to a pool of capital in case of health-related emergencies. In other words, such a fiscal reform measure will go a long way in promoting the financial inclusion of large sections of society and improve the efficiency of the subsidy delivery system. I am mindful of the potential difficulties of such an approach. India can take a leaf out of China's book. The Chinese government often opts for a 'policy experiment', wherein a policy is first implemented on a pilot basis. Once its basic efficacy is established, the policy is expanded on a large scale to the rest of the country.

## Factors Affecting Financial Inclusion

Let me now draw your attention to some of the issues that are hindering financial inclusion and which are in the domain of the real sector. It is well recognized that finance (and credit) can be effective and shall have the desired effect only if it is properly used and the environment where it is sown is conducive for its growth. Credit can become counter-productive if the capacity to absorb it does not exist. 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 by themselves are powerful instruments 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 a larger impact than irrigation in reducing poverty and inequalities in rural areas. Similar multiplier effects are possible if the working of land and water markets in rural India can be improved.

### *Access to Land*

For marginal farmers, access to land also determines access to other resources. In the past, ceiling legislation 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 holdings by purchasing or leasing in land, and *(b)* large farmers should be encouraged to sell or lease out land and be offered opportunities to take up/start non-farm rural enterprises. In many states, this is not permitted; consequently, poor tenants cannot access credit and other inputs from the financial system.

As a group, large farmers have resources, access to institutional support and a better risk-bearing capacity. Hence, it is advisable that they be encouraged to take up non-farm activities like agro-processing and rural industries, involving higher-ticket loans. Banks would be more than willing to finance these as it reduces their transaction costs. Alongside, if steps are taken to create a well functioning and vibrant lease market, it will enable small farms to increase their operational areas. For achieving the objective of 'free lease markets', urgent efforts are required to have a 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 computerization of land records.

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 large farmers and selling it to the small farmers? Similarly, the government can prepare a 'market-friendly' 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*

What is true about improving land markets is also true in the case of other scarce resources, namely water resources. Water users associations (WUAs) were created (in many states) as the primary organizational units of irrigation water users with the key objective of maintaining the physical infrastructure and resolving conflicts over water distribution, etc. The initial cost of setting up WUAs, incurred on holding elections and training sessions, is usually borne by the government, thereby reducing the transaction cost for the new institutions (in this case WUAs) to operate effectively. What are the implications for financial inclusion? WUAs were created with the assistance of state governments in 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 effective functioning of WUAs is crucial for the creation and penetration of viable water markets in rural areas. Only then shall credit through the banking system flow in.

## Financial Inclusion of the Urban Poor

The urban poor population of the country, as per the 2001 census, is estimated to be around 8 crore (one-third of the urban population is poor), and only 50 per cent of them live in slums. Most of the urban poor work in the unorganized sector and have limited sustainable livelihood options. According to some estimates, 40 per cent of the adult urban population in India does not have access to a bank account, thus depriving them of a whole set of financial services—savings, credit, remittances, etc. The poor in urban areas have the same basic financial services needs—secured savings, credit, a mechanism to transfer remittances back home—as their counterparts in rural areas. However, for the urban poor, identification is becoming a significant barrier to access. More generally, this is an issue for the successful operation of credit bureaus. Some banks have already begun issuing biometric electronic cards. If the government can absorb the cost of PAN cards (or more simply, give an option to the client not to ask for one), one big problem will be behind us. The issue of residence proof for migrants is a real challenge. Currently, the requirement is that only a government-issued identification document is valid for the urban poor. Potentially, in collaboration with the Election Commission of India and banks, this problem can be comprehensively addressed.

It is only very recently that some micro-finance institutions have started to address the issue. Banks need to get into the sector more aggressively and see the segment as a business opportunity that exists just under their nose. Naturally, banks have to devise a different strategy while dealing with the urban poor compared to other clients in urban areas.

## Risk Management Measures in Agriculture

We are all aware that farmers in general are exposed to risks arising from various sources—credit uncertainty, rainfall variability, market price fluctuations, adoption of new technology. The diversity in the sources of risk warrants 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.

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

Post-liberalization, after the introduction of the international capital adequacy and prudential norms, the perception of bankers towards agriculture suddenly underwent a change. Public sector bankers started perceiving agriculture as a 'high-risk' business—much of this was due to their high levels of non-performing assets (NPAs). 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. Credit policies should become an important ingredient of the macro-economic management package designed to eventually change the risk profile of agriculture. Credit, both short term and long term, should be viewed both as a growth-enhancing instrument and a risk-reducing instrument. A typical example is investment in irrigation.

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 recognize the huge business potential of the unmet demand for financial services from those who normally tend to be excluded.

The focus on financial inclusion comes from the recognition that it has several externalities that can be exploited to the mutual advantage of those excluded, the banking system and 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

To sum up, I have no doubt in my mind that enhanced financial inclusion will have a 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.

First and foremost, enhanced financial inclusion will drastically reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides. The second important benefit is that it will lead to more rapid modernization of Indian agriculture. New agriculture, by nature, needs more working capital and is capital intensive as it depends on improved seeds, fertilizers and other modern inputs and equipment. Since 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 will be increased growth, as well as more equitable growth, in both rural and urban areas because financial growth will mobilize what Prof. C. K. Prahalad calls "the bottom of the pyramid". By providing greater access to educational loans for all sections of society, improved financial inclusion will also mean India becoming a more equal opportunity nation—a pre-condition for promoting inclusive growth.

Finally, a very positive impact of promoting financial inclusion will be the boost given to grass-roots innovations and entrepreneurship. I am involved with the National Innovation Foundation (NIF), which was set up in 2000 to promote grass-roots innovations. The spirit behind the foundation is Prof. Anil Gupta of Indian Institute of Management, Ahmedabad. NIF recognizes and supports grass-roots innovations by farmers, artisans, housewives and students. The foundation has mapped more than 25,000 grass-roots innovations and has helped our farmers/innovators to secure a growing number of patents, including four US patents. A major constraint is in diffusing their technologies, i.e., commercialization in the absence of micro-venture capital funds. Here, greater financial inclusion will promote micro-venture capital funds and thus reward and mobilize creativity from segments of our society that remain completely untapped.

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

Thank you.