

# MODI-JAITLEY DUO GETS THE PROBLEM STATEMENT RIGHT

Independence Day to address access to credit issue for financial inclusion

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There seems to be a cloak and dagger effort to derail the forthcoming announcement by the Prime Minister Narendra Modi on a National Mission on Financial Inclusion during his maiden address to the nation on Independence Day. If you have been a scholar of financial inclusion at the grassroots as well as at the policy level for the past fifteen years as I have been, you too would come to the conclusion that the RBI specialises in making terrible policy choices and even poorer implementation monitoring when it comes to financial inclusion and non-performing assets (NPAs).

It has been nearly 10 years since the NSSO survey data revealed that 51.4 per cent of cultivator households do not have access to credit either from institutional or non-institutional sources. This spurred the UPA government into action and started the financial inclusion plan that quickly degenerated into the opening of only no-frill bank accounts that were hardly used by anyone. Everyone (specially technology companies) has benefitted on financial inclusion initiatives thus far barring the poor for whom it was targeted at.

In his preface to my book *Speeding Financial Inclusion (2009)*, Dr C Rangarajan wrote, "The criterion for being bankable should not be interpreted narrowly to exclude the vast majority. The objective of financial inclusion is to extend the scope of activities of the organised financial system to include, within its ambit, people with low incomes. Through graduated credit, attempts must be made to lift the poor so that they come out of poverty."

RBI has mastered the art of denying credit to the poor and the powerless under the guise of security risks or 'non-performing assets'. On the other hand, a riot of money laundering, ponzi schemes and non-performing assets seem to be operating right under its nose involving only the super rich, the powerful and some corrupt bankers.

It has also been responsible for 'policy gems' like financial inclusion should be not-for-profit and run by retired teachers, public servants and sons of the soil who will include the unbanked millions only for the love of the country, or, there should be a different (read poor) technology platform for the poor so that a city worker can not use his bank

Development Authority (IRDA) still continues to pursue some of this legacy.

Unless you discount the American education background of the top economists in the RBI - they are trying to induct a few more, disguised as OSDs - and make allowances for them being therefore divorced from the Indian ground reality, you may come to a conclusion that there may be a systemic attempt to keep millions of Indians in perpetual poverty and outside the formal credit system.

Conspiracy theorists go as far as suspecting a hand of telecom and technology companies, and differentiated bank license aspirants in the current high decibel opposition led by journalistic mercenaries to the yet to be announced financial inclusion mission.

In my first book *Financial Inclusion (2009)*, I had proposed a Model of Inclusive Growth encompassing both the supply-side and demand-side actions required to achieve the goals. The model defined savings, pensions, investments, insurance, credit and payments as essential components of a financial inclusion product. It also proposed the role of additional bank branches, common services centers, post-offices, banking correspondents, local bodies, MFIs, NGOs and co-operatives as distribution channels enabled by technology, and the borrowers to be enabled with financial literacy. The book also highlighted the role that *Panchayats* can play in this area and recommended setting up a national mission on financial inclusion without further delay for financial inclusion to become a reality.

Ever since, we have organised four conferences every year on the subject, have spent months visiting villages in a pursuit to understand demand-side issues and impart financial literacy to elected panchayat members (project *Samavesh* conducted in Gujarat and Uttarakhand). Innumerable issues of *INCLUSION* have argued for it and practically all my books, including *ModiNomics (2014)*, have elaborated and championed this model.

All these inputs include the combined wisdom of an entire community and not just my work alone. This includes some good, well-meaning government officers at the center as well as the states; pioneering work in Madhya Pradesh by Aruna Sharma, Additional Chief Secretary looking after Rural Development and Panchayati Raj; e-Gram project in Gujarat; Bhamashah Financial Empowerment Scheme in Rajasthan by Vasundhara Raje Scindia; the relentless efforts of Dr K C Chakrabarty - the odd man out from the RBI lineup - S S Tarapore, Deepak Parekh, Rana Kapoor, Mohan V Tanksale, R K Dubey, V R Iyer, Arun Kaul and many other committed bankers. This, in addition to a number of other such case studies, that have been documented and promoted. Hopefully with S S Mundra taking over as the Deputy Governor some passion for the poor will return to the RBI.

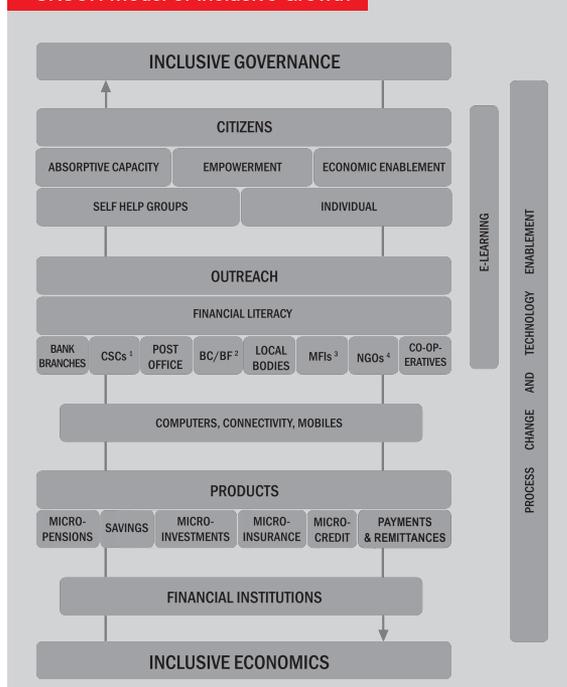
Skeptics, as usual, may have already dismissed the proposal of a 5,000 rupee overdraft limit as a 75,000 crore "loan mela". Little do they realise that an overdraft is offered after one year of satisfactory account operation. This is the same account in which the direct benefit transfer money would also land. This, over a period of time, will inculcate a banking and saving habit. Also, insurance linkage is something that will provide security to the bottom of the pyramid, which has always been missing. It is common wisdom that one small incident of a family needing medical care can put it back at the mercy of moneylenders and poverty. There are several such nuances, which need to be looked at in totality rather in a piecemeal fashion. Must I add - domain knowledge is lacking.

It is the Modi Government that is proposing to adopt the much-needed, holistic approach to financial inclusion, and to take the access-to-credit bull by the horns. This, of course would upset an entire ecosystem that is gainfully employed in pretending to deliver financial services to the poor, so a glut of naysayers to the financial inclusion plan should obviously be expected.

It is also time for the government to appoint a homegrown banker and institution builder as the RBI Governor to refocus it on the felt needs and development priorities of India.

The proposed national mission on financial inclusion is a light at the end of the tunnel for all those who have relentlessly worked for this cause and most of all for the poor of India who need credit the most. It is our earnest hope that, it is implemented in letter and spirit, as another move to realise "acchhe din".

## SKOCH Model of Inclusive Growth



account to transfer his salary directly to his poor family's bank account. Indian Banks' Association (IBA), on its part, claimed to have spent 100 crore rupees on advertising the *Swabhimaan* scheme under which barely an equivalent amount of overdraft was provided in the no-frill accounts. A long list of follies has already been documented in two books that I have authored in addition to writing several papers. It has taken several years of painful advocacy efforts to undo many of the policy wrongs that RBI had committed on financial inclusion. Insurance Regulatory