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Reaching Out to the Unbanked in Jharkhand State:

Achievements & Hindrances in the Drive to Increase Financial Inclusion

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Abstract

To better understand Jharkhand's challenges in achieving financial inclusion and economic growth, this study gathers a wide range of perspectives on the status and future potential of expanding the outreach of financial services in both the banking and non-banking sectors in the state. We include the perspectives of apex institutions, public and private banks, microfinance institutions (MFIs) and NGOs. We hope, in aggregate, to provide an overview of who is working towards poverty alleviation in the state and what are the challenges they face.

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Acronyms

AB	Allahabad Bank
B2C	Business to Consumer Services Model
BCs	Business Correspondents
BDO	Block Development Officers
BFs	Business Facilitators
CBS	Core Banking System
CMF	Centre for Micro Finance
CSC	Common Service Centres
DDC	District Development Commissioners
DRDA	District Rural Development Agencies
FI	Financial Inclusion
GCC	General Credit Cards
IFAD	International Fund for Agriculture Development
KCC	Kisan Credit Cards
KYC	"Know Your Customer"
LDM	Lead District Managers
MFI	Microfinance Institutions
NABARD	National Bank for Agriculture and Rural Development
NeGP	National e-Governance Plan
NGO	Nongovernmental Organizations
NREGA	National Rural Employment Guarantee Act
NSSO	National Sample Survey Organization
PRA	Participatory Rural Appraisal Technique
PRADAN	Professional Assistance for Development Action
RBI	Reserve Bank of India
REDP	Rural Entrepreneurship Development Programme
RRB	Regional Rural Banks
SAA	Service Area Approach
SBI	State Bank of India
SC/ST	Scheduled Castes and Scheduled Tribes
SCA	Special Central Assistance
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHG	Self-Help Group
SIDBI	Small Industries Development Bank of India
SKS	Kalanga Bazar Educational Trust
TSPs	Technical Support Providers

1. Introduction

1.1. What is Financial Inclusion?

"Financial inclusion" (FI) is one of the emerging frameworks for addressing poverty alleviation and economic development. In broad terms it is defined as the process of ensuring access to financial services for all segments of society, particularly vulnerable populations, at an affordable cost. For the purposes of this paper, FI includes everything from providing training to promote sustainable livelihoods to opening bank accounts to offering small loans.[1] Implicit in the FI approach is the idea that having access to the formal banking system is a necessary part of improving one's livelihood through increased income.[2] Furthermore, research in the last decade has shown that a well-functioning financial system is linked to faster and more equitable growth.[3] Campaigns for better rates of financial inclusion among the unbanked are currently taking place around the world, particularly in regions where microfinance and pro-poor banking is well established.

In 2006, the Government of India launched a nationwide campaign to bring India's millions of unbanked poor into the formal banking system. With only 35 percent of its population engaged in the formal financial sector, India has the highest number of financially excluded households in the world—135 million.[4] The campaign has highlighted the need to simultaneously expand the country's banking infrastructure so that poor people can be more easily included. A central part of India's economic development strategy, therefore, is to extend the benefits of formal banking to all of its citizens and to eventually attain 100 percent inclusion rates.

However, the proliferation of banking facilities for the poor in pursuit of this goal has been uneven across India. Where some regions boast high rates of financial inclusion, others lag behind. One of these slower-to-progress regions is the state of Jharkhand.

1.2. Context: Background on the State of Jharkhand

[1] Instead of providing an exhaustive list of activities that the term "FI" encompasses, we have chosen to list a few of the prevalent products offered in the industry.
[2] Demetriades & Luintel, p. 318.
[3] Honohan, 2004.
[4] Boston Consulting Group. The Next Billion Consumers: A Roadmap for Expanding Financial Inclusion in India, p. 6.

After the Jharkhand Party agitated for a state dedicated to tribal interests, "South Bihar" became the independent state of Jharkhand in 2000, with self-drawn borders and a clearly articulated political vision. Jharkhand poses a unique development conundrum insofar as it remains remarkably poor despite possessing an abundance of natural resources, which should, in theory, increase its prospects for growth. The state boasts 40 percent of India's mineral reserves including iron ore, coal, kyanite, and copper, as well as the country's three largest steel plants.

[5]

Map of India with Jharkhand Highlighted (Source: India National Family Health Survey)

While Jharkhand's economic and social indicators are higher than those in Bihar, the state from which Jharkhand won independence, by almost all accounts they are still far from reaching their potential. Jharkhand has low average income levels, very high incidences of poverty and inequality, and low levels of social development in certain districts. Indeed, at 40.3 percent, Jharkhand has one of the highest rates of poverty in all of India.[6] It also has high levels of inequality between the urban and rural areas: the urban areas have a lower poverty rate than many developed countries (at 23 percent) while the rural population has the highest rate of poverty in the country (at 49 percent). Education levels, literacy rates and access to health care are also all well below the national average.

[5] The map is from India National Family Health Survey Fact Sheet 2005-06
And can be found at: http://luke.asmallorange.com/~a2zorg/files/map-india-jharkhand-051408.jpg
[6] Statistics from 2004-05.

The financial infrastructure in Jharkhand is, as one might expect, notoriously underdeveloped. The World Bank's baseline study shows that between 2005 and 2006, only 20 percent of loans were being used for productive purposes, while the rest were used for consumption. Additionally, rural Jharkhand is characterized by lack of access to credit. Only 17 percent of rural households had taken credit from any source in the year preceding the survey. Of those loans, 39 percent came from non-institutional, informal sources, i.e. money lenders. Lack of access might be a function of the small number of banks in these regions. According to the 2002 survey carried out by the National Sample Survey Organization (NSSO), banks are present in only 5 percent of villages in Jharkhand, compared to 11 percent in Orissa, and 80 percent in Kerala and the Indian overall average of 24 percent.[7] Further, local nongovernmental organizations (NGOs) are present in only 3 percent of villages. Sixty percent of these villages are located at a distance of 5 km or above from the nearest bank, with 27 percent at a distance of more than 10 kilometers.[8]

1.3. The Purpose of this Study

To better understand Jharkhand's challenges in achieving financial inclusion and economic growth, this study gathers a wide range of perspectives on the status and future potential of expanding the outreach of financial services in both the banking and non-banking sectors in the state. We include the perspectives of apex institutions, in their dual roles as drivers and regulators of the financial inclusion campaign, public and private banks, microfinance institutions (MFIs) and NGOs.[9] We hope, in aggregate, to provide an overview of who is working towards poverty alleviation in the state.

First, we describe the initiatives in which prominent institutions are engaged, as well as the challenges they face and the potential solutions they suggest. The second section will cover the banking sector and the third section will cover the non-banking sector. The penultimate section four examines some of the overarching challenges faced by the two sectors, provides the authors' insights as third-party observers in Jharkhand, and gives an overview of the geographical, cultural and historical barriers to improving financial inclusion,

[7] NSSO, 2003 quoted in World Bank, "Jharkhand: Addressing the Challenges of Inclusive Development", p. 51.
[8] World Bank, "Jharkhand: Addressing the Challenges of Inclusive Development", p. 51.
[9] Apex institutions are mechanisms that channel funds to MFIs and banks without necessarily supporting technical services.

which we accept to be largely beyond the impact of the current initiatives. We conclude the paper with final thoughts.

2. Apex Institutions

2.1. RBI Initiative

Under the guidance of General Manager and Officer-in-Charge Dr. Rabi N. Mishra, Reserve Bank of India (RBI) Ranchi launched an initiative in January 2008 towards 100 percent financial inclusion in Jharkhand. Although RBI only set up operations in Jharkhand in November 2007, it shortly thereafter began soliciting banks and government officials to join the FI drive, with the help of the State Level Bankers Committee (SLBC).

Dr. Mishra has coined the term "Team Jharkhand" to encompass the various members of the state government of Jharkhand, bankers and regulators who are working together in the FI drive. The Team includes:

- Members from the government of Jharkhand, such as
  - the District Development Commissioners (DDCs) of the five target districts
  - the Secretary of Rural Development
  - the Secretary of Institutional Finance, Officer on Special Duty
- Lead District Managers (LDMs) and Zonal Managers from Jharkhand's most prominent public banks (State Bank of India, Bank of India, Vananchal Gramin Bank, Allahabad Bank, and Union Bank), and
- Prominent RBI and National Bank for Agriculture and Rural Development (NABARD) staff members, including the Chief General Manager of NABARD.

On July 14, 2008, Team Jharkhand convened at the RBI headquarters in Ranchi to discuss (1) the progress of the FI drive in each of five districts, (2) the challenges that lie ahead, and (3) the potential for partnerships with Technical Support Providers (TSPs). RBI outlined the three separate stages of FI:

Stage 1: All households without at least one bank account must be identified and targeted. They should be educated about financial services and open an account, usually a "no-frills account"—no-minimum balance accounts that offer basic deposit and withdrawal services, with a limited number of transactions allowed per month.

Stage 2: Remittances should be processed.

Stage 3: Loans can be disbursed.

RBI has decided to focus on the first stage for now, and has set a goal of attaining 100 percent FI in five target districts in Jharkhand by December 2008. The five districts are: Ranchi, Hazaribagh, Dumka, Jamtara and Pakur. They were selected based on the likelihood for success and presence of financial culture.[10] The initiative is about 70 percent complete, and members of Team Jharkhand hope to achieve 100 percent FI by September, at which time they plan to start surveying households to get a sense of how effective the drive has been.

To ease the process of opening new accounts for Jharkhand residents, RBI has allowed for a relaxation of the "Know Your Customer" (KYC) requirements in rural areas for opening accounts with a balance of less than Rs. 50,000 or for loans of less than Rs. 1,00,000.[11] This allows most rural clients who do not have enough identification to open a regular bank account under the normal KYC guidelines, to open a no-frills account. Having a no-frills account also enables villagers to receive payments more quickly through the National Rural Employment Guarantee Act (NREGA), which guarantees each rural household 100 days of government work per year.[12]

2.1.1. Adopting a Village

Perhaps the largest and most ambitious RBI initiative is the adoption of villages and the launch of a door-to-door campaign to promote financial literacy and disseminate information. The RBI has asked all branches of commercial banks and the two regional rural banks (RRBs) to "adopt" three villages. Most of the public banks have already begun this initiative, and some private banks are in incipient stages. The interventions in unbanked villages include:

[10] Other districts were cited as having a larger number of inherent barriers i.e. tribal populations or were hard to access.

[11] Report of the Working Group on Improvement of Banking Services in Jharkhand, p. 83

[12] There has also been a restriction on the original RBI mandate of April 1, 1989 which said that when public banks expand into rural areas they must use the Service Area Approach (SAA). As per SAA, each bank is designated a particular district in the area and is responsible for providing banking services for all villages within its jurisdiction. These rules were relaxed in 2004 in order to encourage the activities of public banks in the rural areas.

- Opening at least one no-frills account per household
- Offering General Credit Cards (GCCs) or Kisan Credit Cards (KCCs) to farmers [13]
- Forming SHGs and determining their eligibility under the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme [14]

2.1.1.1. Adoption Profile: Saparam Village

Allahabad Bank (AB), Ranchi's lead bank, chose to adopt Saparam, a village in the Kidri block, about 30 km from Ranchi. In Saparam, bankers used the Participatory Rural Appraisal (PRA) technique to target potential beneficiaries. The PRA is an increasingly popular technique used by development organizations in the process of devising and implementing new schemes and interventions. It hinges largely on local knowledge to generate a list of potential beneficiaries. The Bank started the initiative in June 2008 and hopes to teach farmers how to cultivate tea, roses, and medicinal plants. AB selected Saparam as the trial district because, despite its proximity to Ranchi, farmers in the area still engage in traditional styles of farming. There is great potential for alternative farming projects in Saparam such as lac cultivation. This farming process involves the rearing of the insect *Laccifer Lacca,* which feeds off the sap and resin of trees, and is lucrative for the pharmaceutical and food industries.

Furthermore, as formal bankers acknowledge, if banks fail to provide services to the rural poor then they may migrate to urban areas, resulting in even more abject poverty. The goal of the program is to promote sustainable development by forming an "ideal" village, one in which extra income can be earned to ultimately bolster the standard of living. Eventually the village will become self-sustainable and will no longer need bank loans for livelihood promotion. In the short term, AB is focused on cultivating short-duration crops so that villagers can earn a higher income in just three months. If the program is successful, AB will encourage villagers to cultivate long-duration crops.

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[13] KCCs are offered to farmers to fulfill their short-term credit needs to purchase agricultural equipment or products (such as fertilizer). A small portion of the loan can also be used for consumption purposes (http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=1962).

[14] Under the SGSY scheme, the government subsidizes loans to SHGs. To qualify for the scheme, at least 80percent of the SHG members must be identified as "Below Poverty Line" (BPL) through the BPL census, and the remaining members must be only marginally above the poverty line. Furthermore, the group must meet the Minimum Skill Requirement, which includes bookkeeping, cost evaluation, as well as skill in the key activity for which the loan is taken. Additional training expenses will often be covered by the local District Rural Development Agencies (DRDAs). The funds are distributed through Block Development Officers (BDOs), who are state government employees. (http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=3697#the).

As part of the inclusive process of drawing on local knowledge and abilities, AB held a meeting in Saparam in July 2008, inviting NABARD's Chief General Manager, Mr. KC Shashidhar, AB bank officials, and a local NGO. Mr. Shashidhar told the residents of Saparam that for the project to be sustainable, they must take action and make action plans themselves. He also clarified that NABARD and AB's role would extend to facilitation but not decision making. The reason for this limited role was that, in his experience, development projects often fail due to decision-maker turnover rather than inherent flaws in the project. Therefore, to ensure the continuity and uniformity of the program's goals, only the villagers should make decisions. Mr. Shashidhar used the word "shramdan" (work yourself) to urge villagers to be active participants in the development process. He argued that development cannot happen with money alone; otherwise, it would have been successful already. Along those lines, he requested that villagers form a committee of about 15 members which will decide what economic activities will be undertaken. Since most villagers desired to cultivate wheat and dairy, AB vowed to help to establish these schemes. AB will determine the costs and potential income of each scheme and subsequently determine the loan characteristics. The villagers will receive revolving loans, contingent upon timely repayment.

2.1.2. Other Bank Initiatives

In addition to the aforementioned initiatives, bank branches have been instructed to:

- "Adopt" two girls per village and pay their school fees through twelfth standard;
- Encourage SHG linkage. SHGs are linked to banks either directly or, after they've matured and established a good credit history, through the help of NGOs. In the meantime, branch managers sometimes help them to manage their ledgers. Some banks may give SHGs grades to determine whether they will be offered credit. SBI, for example, grades SHGs on various dimensions, such as how often they meet, how they manage their ledgers (whether they use outside help) and their lending activities (repayment, etc); and
- Form at least two farmer's clubs—groups formed to market the benefits of SHG formation and inform others that microcredit can improve their livelihoods. Each farmer's club receives a sum, generally around Rs. 3,000 a year for five years, to market SHG formation on behalf of NABARD. One branch manager of a rural branch of State

Bank of India (SBI) near Ranchi has even started a campaign making free life insurance compulsory for all KCC holders so that they learn the importance of insurance.

2.1.3. Common Service Centres

Given that the bank network is not expansive enough to financially include everyone, RBI is encouraging banks to use Common Service Centres (CSCs) as nodes through which Business Correspondents (BCs) or Business Facilitators (BFs) can operate. The CSC scheme is part of the National e-Governance Plan (NeGP) which involves the establishment of 100, 000 CSCs across the country—one per every six villages—at the cost of US$1.4 billion over four years. The NeGP is a plan developed by the Government of India's Department of Information Technology to bring basic government services to all areas through centres where the "common man" can affordably access them.[15] It uses the public-private partnership model and will provide funding for each CSC for four years. The CSC is locally known as a Pradya Kendra (knowledge centre). There are over 4,500 CSCs in Jharkhand, with each serving 7 villages, on average.

RBI suggests that banks should utilize the Business to Consumer Services model (B2C), which brings banking to everyone at local-level CSCs using IT solutions. Under the B2C model, the CSC is established at the local level of government and is overseen by a local villager. Services include opening bank accounts, managing micro-deposits, promoting the formation of SHGs, and collecting loan repayments. Since the person who operates the CSC is a member of the community, and is often chosen by a bidding process, he/she has a high stake in the community. Therefore, using CSCs as BFs is attractive to banks because it reduces the flight risk inherent in using other parties who do not have any preexisting social ties to the community.

2.1.3.1. Pilot Program in Ranchi

HDFC has already begun a pilot program in the Ranchi district using Social Infrastructure, a Jharkhand-based NGO, as its BC (NeGP had also identified Social Infrastructure as a potential BC). HDFC approached the organization because of its large network of CSCs in the state. In Ranchi, Social Infrastructure has identified 15 CSCs for its pilot program. Initially, HDFC is using its own technology, a debit card reader, but it will

[15] For more on this plan visit: http://india.gov.in/outerwin.htm?id=http://mit.gov.in/default.aspx?id=115.

eventually implement a biometric system once the pilot proves successful. In an initiative that began in mid-July, approximately 50-60 no-frills bank accounts were opened in a two-week period. Due to the KYC requirements, the account paperwork is still being processed at HDFC's headquarters, but HDFC hopes to be able to process deposits and withdrawals very soon. Since Social Infrastructure is responsible for handling HDFC's money, it has a "runner" who collects cash from each CSC at the end of each day and also brings cash to each CSC every morning. In this way, HDFC is simultaneously able to minimize security risks in terms of theft as well as avoid processing counterfeit currency.

2.1.3.2. Technology Service Providers

Dr. Mishra convened the July 14th meeting of Team Jharkhand to facilitate the partnership of banks with Technology Service Providers (TSPs). He had no intention of endorsing any particular company, but to simply introduce them to the bankers. The four TSPs that attended the meeting were FINO, A Little World, HCL Infosystems, and Integra Micro Systems. Each one explained their systems and Dr. Mishra personally requested that they offer banks a "no profit/no loss" cost structure to implement a pilot program as a BF in the five target districts. All four TSPs agreed. All of the TSPs except for FINO already have projects in Jharkhand. A Little World has the largest presence, servicing Vananchal Gramin Bank in Dumka and providing Smartcards for SBI in their partnership with the Post Office.

2.1.4. Role of State Governments

The District Rural Development Agencies (DRDAs) promote SHG formation as well as marketing efforts to link SHGs with distributors outside of their region. For example, the local DRDA aided a SHG linked to Jharkhand Gramin Bank with its marketing of wooden handicrafts in Patna and Delhi. The DRDA also coordinates its efforts with NABARD (please see the NABARD section below for more details).

According to RBI, the role of the state government should be to facilitate banks' efforts to expand outreach in the following ways:

- The government can identify potential beneficiaries by surveying households. This data can then be provided to banks.

- Circulars can be distributed to block development officers (BDOs) to inform them of bank initiatives.
- The government can provide sites for banks to open branches, so that banks can achieve the RBI goal of opening 500 new branches in three years. For example, rural development projects can improve the quality of road conditions and make travel to unbanked populations possible.
- Local governments can identify BFs to help open no-frills bank accounts and help cover the initial costs that banks would normally incur. This can be done in two ways:
  - The government can launch pilot programs for banks to use CSCs as BFs. The government should be willing to pay the fees to CSCs. These costs should be covered until banks feel comfortable using BFs.
  - The government can encourage banks to use TSPs as BFs to offer improved technology to clients, such as Smartcards. The Smartcard fees should initially be paid by the government.
- The DDCs should prioritize financial education and account opening, and should evaluate their BDOs' performance based on their fulfillment of these goals.
- Local governments should facilitate meetings of all bank branch managers in each of the five target districts. DDCs and BDOs should also attend these meetings.

2.2. NABARD

NABARD has played a prominent role in promoting SHG formation in Jharkhand. By working with NGOs, ranging from nationwide or statewide NGOs to grassroots NGOs, NABARD has worked to rate SHGs and to link them to banks. NABARD also ensures that the NGOs with which it works have been registered as a Trust/Society for at least three years. Finally, NABARD has undertaken some unorthodox techniques in Jharkhand, such as bringing SHG members to observe well-developed, progressive farms in Maharashtra and Karnataka. By inculcating a culture of empowerment, NABARD has worked to improve the efficiency of farming techniques in Jharkhand.

In Jharkhand, NABARD has focused on marketing, through farmer's clubs and rural marketing outlets, to promote FI. The organization cites its greatest challenge in Jharkhand as creating awareness about FI among have-nots, thus farmer's clubs help to educate newcomers. Furthermore, it is working in conjunction with local DRDAs to set up rural marketing outlets in Deoghar and Hazaribagh, where SHGs can sell the handicrafts that they make. NABARD also fosters the growth of entrepreneurship, which is especially deficient in Jharkhand. Through its Rural Entrepreneurship Development Programme (REDP), NABARD canvasses villages to identify potential training opportunities, provides training to entrepreneurs and then if necessary, links entrepreneurs with banks for access to credit. It also provides incentives for NGOs by offering Rs. 2,000 for each entrepreneur that is linked to a bank.

3. Microfinance and Service Providers

Simultaneous to the aforementioned initiatives, non-banking entities in Jharkhand, including MFIs, national, regional and local NGOs, and the Post Office, have been working in various ways to increase financial participation among the poor and marginalized populations.

In general, non-banking entities focus on livelihood improvement and therefore encourage financial activities as one component of improving well-being. While the strategy of banks is to launch financial inclusion in stages, first by opening accounts then later by offering more comprehensive financial services, the NGO/MFI strategy tends to be to offer comprehensive livelihood products at the same time. This includes income-generating project ideas, skills training, business training, bank accounts, loans, insurance policies, partnership opportunities and sometimes funding or grants. Therefore, the FI drive launched by the RBI in the last year was not relevant to, or inclusive of, the framework of the non-banking entities in the state.

The following section outlines the activities of many of the larger non-banking entities active in Jharkhand, highlighting their motivation for working in the state, the nature of their products, any partnerships they have and the main barriers they see to scaling up.

3.1. Professional Assistance for Development Action

Professional Assistance for Development Action (Pradan) has been active in FI initiatives in Jharkhand since 1983, when the region was still part of Bihar. Jharkhand was targeted by Pradan, along with regions in six other Indian states, because of its significant tribal population, a historically financially excluded population. Pradan's primary goal is to improve livelihoods by fostering sustainable income-generating activities among the rural poor.

Pradan works with more than 83,000 families through the SHG network to provide training and financing. It promotes livelihoods through three intertwining strands: livestock rearing, natural resource management and building rural micro enterprises. Pradan's main objective is to build the *capacity* for credit absorption through microloans. The main strategy is to improve productivity of agriculture by encouraging better practices (such as poultry cooperatives), providing better quality inputs (such as seeds), and introducing alternative crops to rice patty. One of its best known projects is tasar silk production, a unique type of silk grown from the Antheraea mylitta worm and specific to certain parts of the world. With financial and technical support from the Central Indian Silk Board, Pradan offers training and start up materials to many SHGs.

Pradan's funding stems mainly from government programs, including the Government of Jharkhand's Special Central Assistance (SCA) and the International Fund for Agriculture Development (IFAD)-aided Integrated Tribal Development Programme. NABARD is also funding watershed development in Petarbar, Bokaro, West Singhbhum and Banka districts.[16] Despite these resources, however, Pradan's biggest barrier to scaling up is funding.

Pradan has had mixed success in terms of developing partnerships with other organizations. Although it does not partner with other, smaller NGOs, it does hope to share ideas based on its own success in Jharkhand. In this regard, Pradan has worked with NEEDS on two occasions: to offer training for tasar silk production and to introduce a system for rice intensification. Conversely, although banks such as SBI, Bank of India, and AB have been operating in the area since 1995, Pradan says it has had little success in linking SHGs with banks in Jharkhand due banks' indifference. In an effort to combat this mindset Pradan organized workshops on the bankable poor during the late 1990s with NABARD to attract bankers. It faults the nationalized attitude of bank staff for the lack of a pro-business culture in the banking sector, which leads to a lack of initiative to include the poor.

[16] Pradan Annual Report, 2007-8 p. 9.

3.2. NEEDS

NEEDS is an NGO with a focus on health, livelihood and education. It has been operating in the area that is now Jharkhand since 1997. NEEDS is the "Mother NGO" for health and education in the state, which means it has been appointed to support local NGOs in the implementation of health and education related programs. Among its accomplishments in healthcare are the distribution of health insurance to tribal populations through the Life Insurance Corporation of India and the promotion of safe motherhood and childhood survival services. NEEDS has also taken measures to combat child labour, which it sees as a primary cause of Jharkhand's poverty. It has done this by offering ½ day school days to child labourers, at flexible times, in convenient locations, so they can maintain their jobs. After a few months of these classes, if able, these children can be mainstreamed into the education system. In total, NEEDS operates in 10 rural districts, as well as Ranchi, and works with approximately 300-400 SHGs across the state.

NEEDS provides financial support to livelihood activities for Below Poverty Line (BPL) segments of the population. Concentrating in the poorest districts, NEEDS experts first assess the land and the local market, and make suggestions for possible economic activities. NEEDS staff then work with SHGs to set up the preferred project. They offer technical and vocational training, and provide the startup materials and hand-holding until the project is off the ground. Types of industries, in addition to agriculture, include: food processing, piggery, dairy, poultry, candle making and vermiculture.

NEEDS has recently initiated a partnership project with Jaipur Rugs, a carpet company in Jaipur, that outsources its labor to SHGs in the Deoghar region of Jharkhand. The SHGs were able to buy the needed materials with loans from Allahabad Bank. This initiative sprung from the observation that the market in the Deoghar region for small-scale industrial products, like dairy, was saturated and an external industry linkage could provide a more stable economic environment. This is currently NEEDS' only bank partnership. When it requires a loan, either for its clients or directly, it obtains funding from Ajiwika or NABARD. When asked about partnerships it has forged, NEEDS explained that is has not yet been approached by a bank or a MFI for partnership initiatives.

NEEDS' largest barrier to scaling up is the ad hoc nature of project creation. Each partnership is designed, created and overseen entirely by the Executive Director and Founder of NEEDs, Mr. Tanay Chakravarty. This makes scaling up or replication virtually impossible. There is currently no vision for a down-sourcing of project management.

3.3. Ajiwika

Ajiwika, a MFI and subsidiary of NEEDS, began operations in Jharkhand in 2004 also under the leadership of Mr. Chakravarty. It was created in response to a perceived need for microfinance in Jharkhand. Currently Ajiwika operates out of 22 branches, concentrated in the districts of Dumka and Pakur, and with a staff of 67.

Ajiwika is focused on livelihood promotion and therefore offers comprehensive products to the rural poor including: skills training, financial products such as loans, credit, health insurance, and life insurance and general hand-holding in all activities. Working directly with the Santal communities, Ajiwika engages SHGs within the traditional tribal structures and distributes its products through local NGOs.

Loan sizes and insurance programs vary based on clients' needs and loans are distributed in bulk through the local NGO. Ajiwika relies heavily on Small Industries Development Bank of India (SIDBI), from whom it borrows funds at a partly subsidized rate of 6 percent interest, on-lending it to NGOs at 11 percent. Loan sizes are tailored to individual needs after business plans and financial literacy training have been completed. Ajiwika supports the client at all stages of livelihood improvement.

A new health insurance scheme has recently been introduced wherein a family of five receives cashless health coverage, meaning that he or she has access to health care without having to put any money down in advance. It includes care related to pregnancy, for Rs. 346/year to a maximum of Rs. 20,000. The scheme also offers compensation for missed work days after illness at Rs. 100/day (starting after the third day up to Rs. 1500/year), and Rs. 300/year for travel costs. In the case of accidental loss of life, the scheme pays Rs. 25,000.

The speed of scaling up has been very slow. Among its main challenges, Ajiwika cites demographic factors (such as land and remoteness). However, the key barrier is the difficulty of operating as an MFI, as funding is difficult to obtain. Luckily, SIDBI fills the void as a funder for MFIs in the absence of help from other apex organizations, such as NABARD. SIDBI has provided capital to Ajiwika to improve its infrastructure, including computers, desks, and basic hand-holding training, even though it is not designed to serve MFIs. Mr. Chakravarty states that business interest in the area is low as a result of high opportunity costs, low margins and a very small customer base. Ajiwika is critical of SKS, a national MFI (see below), for example, claiming it is profit-driven, inflexible in its product offerings, and minimally effective due to the incentives it gives its staff for targeting large loan sizes (which leads to less lending to the poor). Furthermore, the high salaries that SKS offers its loan officers is prohibitively expensive compared to what smaller, less profit-driven MFIs like Ajiwika can offer.

3.4. SKS

SKS, India's third-largest MFI, and the largest venture capital backed MFI in the world, is among the newcomers to Jharkhand, beginning operations in July 2007. It has since acquired 50,000 clients through 48 branches. With an organizational mission to reach 8,000,000 clients across India by 2010, SKS requires the pre-existence of financial culture in a region before it begins operations. Therefore its entry into Jharkhand took place after a number of MFIs and NGOs were already established. SKS offers standardized loan products to its clients through the joint liability model, where groups of 5 or 6 take out a small loan and collateral is based on the mutual risk of the group. SKS is known for its partnerships with private banks. Part of its work in Jharkhand is funded by Citibank as part of the Citi-SKS lending program launched in October 2007. This program targets 49 rural districts across some of India's poorer states and while each loan is administered by SKS it is purchased by Citibank, with resultant shared credit risk.

SKS reports that the most significant barrier to scaling up in Jharkhand is poor infrastructure; power outages, often caused by the interference of pro-Mao Naxalites, and road conditions make expansion difficult. The "forest regions" are cut off from potential inclusion, SKS reports, because there are no viable roads by which to reach them. Projections for scaling up projections cannot include these regions until infrastructure improves. The second major barrier cited is inadequate markets to sell the products for which loans are disbursed. Even when SKS or other entities offer alternative income projects, there is often no market for the goods. Idle or unused loans are therefore more common in Jharkhand than in other parts of India. As a result, SKS focuses on the regions of Jharkhand that are easily accessible and have appropriate-sized markets.

3.5. BASIX

BASIX, India's sixth-largest MFI, is a non-bank financial institution that prides itself on being the first organization to have offered microfinance services in Jharkhand, having begun in 2001. Although NGOs were already operating to mobilize SHGs, BASIX introduced microfinance as a large-scale model and a tool to promote livelihood development. Like Pradan, BASIX offers a bundle of services to consumers at one time; however, it believes in the revenue model and charges clients for every service it offers.

BASIX began in Jharkhand under the aegis of a UNDP project to promote livelihood activities such as dairy and vegetable production, lac cultivation, and tasar silk production. Currently, BASIX offers livelihood financial services, including credit and insurance (enterprise, livestock, weather, and life). Additionally, BASIX provides agriculture and business development services that seek to enhance product quality, institute measures to mitigate risk, create urban market linkages by eliminating the "middle man" and provide local value addition to products. Currently, BASIX serves approximately 10,000 clients in Jharkhand, with a staff of about 50.

It is worth mentioning BASIX's unique position of engaging with the aforementioned Naxalites. In Basix's view, because Naxalites actually have a strong bond with the community and since the organization does not discriminate or exclude any portions of the population, some of their clients are Naxalites.

When asked to comment about the RBI FI drive, a BASIX representative in Deoghar criticized the push for no-frills accounts as the purported impact on clients was unclear. He argued that if the accounts are used infrequently, such as once every six months, then the effect will simply be reflected in increased costs to the bank and the community as a whole.

Furthermore, BASIX believes that once loans are operationalized, as the third stage of the RBI FI drive intends, the future of banking will lie in the hands of organizations that operate at the local level, such as BASIX. These organizations can even take repayment and recovery on the banks' behalf. Unfortunately, thus far banks have not been willing to cooperate or partner with BASIX.[17] It has, however, forged a partnership with Nav Bharat Jagriti Kendra, a local NGO that began in Hazaribagh.

The greatest challenges to expansion that BASIX cited included a general lack of credit culture in Jharkhand, a lack of awareness due to poor infrastructure, the inapproachability of the government and poor irrigation facilities and the resultant swaths of barren land. Given that 95 percent of Jharkhand's agricultural land depends on rainfall, farmers are constrained in their ability to generate steady income streams. Additionally, BASIX states that the willingness to repay loans on time is less reliable in Jharkhand than in other states. This, compounded by BASIX's capacity constraints which limit the size of its staff, make scaling up financially infeasible.

3.6. Kalanga Bazar Educational Trust (KBET)

As an NGO that converted to a MFI in 2006, KBET is one of the few non-banking institutions that focuses on the urban poor dwelling in slums of Ranchi. According to its founder and executive director, Ms. Sakina Abjal Ahmed, KBET's mission is in reaction to the disproportionate focus by NGOs on the rural poor at the expense of the urban poor of Ranchi. Operating through SHGs, KBET offers small loans to groups of women and helps them to set up livelihood activities such as sewing shops, shoe shops, STD (pay telephone) booths, grocery stores, and stationery stores. Currently, KBET serves over 300 SHGs, with 15-20 women in each, for which it provides bookkeeping services, since most members are illiterate. In addition to providing loans to SHGs, it has also built two formal schools ("brick-and-mortar") for children of slum dwellers and about 20 informal schools ("open-air") for children of service sector professions, such as rickshaw drivers and maid servants.

KBET helps to form SHGs by taking the following steps in a community:

[17] Although BASIX has not yet proposed this kind of agreement, it has not been successful in working with banks on any projects in the past.

- KBET staff members conduct surveys in the village to determine which women are willing to take loans for business activities.
- Staff members form the groups by neighborhood, so the women are already acquainted with each other.
- Staff members hold a formal meeting in the community, inviting both men and women. At this meeting, staff members introduce the organization, and explain its role in promoting health, education, and income generation. Those who have agreed to form SHGs are given training, including gender sensitivity training for the husbands.
- Once groups are formed, each member attends training for five days to learn skills such as how to save money, form a group, be a leader. At the culmination of the training, they take a Group Recognition Test.

KBET prides itself on the longevity of its operations. For example, one SHG consisting of eight women has been with KBET since 1999. The eight women share two "addas," an apparatus on which to weave saris, dupattas, etc. KBET not only provided the group with a loan to obtain the addas and other necessary material, but also gave each member training for two years, covering skills as simple as how to use a measuring tape and how to cut fabric, to more advanced skills such as henna painting and embroidery. The training was funded by external sources, so it was provided at no cost to the women. Additionally, KBET acts as an intermediary with local wholesalers, who are not willing to deal directly with the poor women. The materials are provided for free from the wholesaler, given to KBET, and KBET gives it to the women. Finally, KBET brings the ready-made clothes back to the wholesalers. The women in the SHG felt empowered by their activities—most of the women who participate in the vocational training are unmarried because their families cannot afford dowries. Therefore, the training that KBET provides allows the women to pay for their own expenses, rather than depending on their brothers and fathers to support them.

KBET has also fostered improvements in the health of the community by informing community members of their rights under the Right to Information Act and teaching them how to ask for rights from the government (through the petition process). The leader of an SHG in the Lac Factory urban slum region of Ranchi had successfully obtained services for the removal of trash, and the provision of ration cards for rice for her entire community.

The main barrier to scaling up is funding. Most SHGs we visited were waiting at least six months for their next loan cycle, and Ms. Ahmed expressed disappointment in her inability to keep her word to her customers—who were promised another loan upon the repayment of their current 46-week loan. Funding from ICICI Bank and Friends of Women's World Banking (FWWB) was recently diminished and Ms. Ahmed has had to support some of her programs with her own savings. MFIs have a hard time being taken seriously by banks, which prefer to fund their own programs, she says. The exception is Union Bank, who has recently agreed to provide an initial loan of Rs. 3 lakhs and will hopefully increase up to Rs. 2 crore. However, KBET will need to procure larger and steadier streams of funding if the organization plans to continue operations.

3.7. Local NGOs

There are hundreds of local NGOs across Jharkhand State, most of which operate in a single community or district. These small organizations tend to be religiously affiliated and operated by members of the community itself. They are the first line of support in SHG formation, and are therefore the closest source of information and support for larger NGOs and other entities seeking to introduce banking and/or income-generating activities. Pradan, BASIX, Ajiwika and NEEDs rely on partnerships with the local NGOs when engaging with a village.

3.8. The Post Office: Postal Saving Banks

The Post Office has been engaged in banking across India since its formation in 1873. As the largest postal network in the world, post offices have exceptional access to the whole population of the sub-continent. As FI has become a greater priority in the banking sector, the post office's drive to increase the number of households with a savings account has rapidly increased.[18] For example, the Post Office launched a prosperity scheme to motivate women to start saving. The scheme allowed women to deposit up to Rs. 300 a year with a 25 percent interest rate.

[18] It currently has 16 lakh savings accounts across the country which means, in theory, that every household in India currently has access to an account. Of course the distribution of accounts means that this statistic is not precise.

About half of the Post Office's revenues actually come from postal banking services, including 16 services related to savings, checking, mortgages, credit cards, money transfers and remittance collection. Insurance products include health insurance, life insurance, and house insurance.

There are 3,300 postal savings bank branches in Jharkhand, housing 40 lakh accounts, and employing around 5,000 agents. The agents, trusted members of the villages, go door-to-door explaining the various schemes and products to potential clients, and soliciting them to open accounts. The agents are paid a commission for new accounts and tend, therefore, to explore more rural, un-banked areas. Postal banks are also particularly client friendly. For example, post offices are located in every village and operated by a respected member of the community. Further, in lieu of formal identification, thumb prints are accepted as an identifier.

According to the Director of Postal Services in Ranchi, Mr. Anil Kumar, the Post Office has approached every bank to solicit partnerships, but it is usually declined. The partnership model he promotes is one where loans and other services the post office does not offer are available through a linkage with a bank but administered by the post office worker. The post office's position in this matter is that banks should not try to replicate what the post office has managed to do, over the course of 125 years, namely to access every village in every district in Jharkhand. Mr. Kumar also acknowledges that friction between banks and the Post Office may be due to competing banking services, which creates a power struggle. The few partnerships that the Post Office has forged have led to the creation of partnered NREGA accounts that are used for automatic payments from the government.

Because postal banks do not have the facility to offer loans, but have great access to the entire population as well as experience dealing with finances, public and private banks are beginning to use postal banks as BCs. Postal workers are in the unique position of personally knowing all their clients. Therefore, access such robust information could be useful for banks to reduce the risks attributed to moral hazard in lending. Some banks are beginning to capitalize on this potential. SBI has announced plans to employ the Post Office as a BC, and in Jharkhand, in just three months, 22,000 postal accounts were opened at SBI through the Post Office. The hope is that opening accounts is only the first step, and other services are expected in the future. HDFC is also taking part in these partnerships in rural areas, using the Post Office for loan processing and disbursement. Negotiations between the Post Office and NABARD are also currently underway.

4. Hindrances to Increasing Inclusion

Financial inclusion initiatives in Jharkhand by the banking and non-banking sectors face a number of challenges, some of which are unique to the sector, and some of which are a function of the interactions between the sectors. Finally, there are a number of geographic, cultural and historical challenges that are inherent to the region. These challenges will be the most difficult to overcome.

4.1. *The Banking Sector: Myopic Aspects of Approach*

Although both banks and the RBI agree that opening no-frills accounts is part of the first stage of FI, banks seem less focused on whether clients understand how to use the accounts. Instead, they are playing the "numbers game," and trying to open as many accounts as possible before the September 2008 deadline. This contradicts with RBI's vision to educate customers in this first stage. It is unclear at which stage financial education fits into the RBI Financial Inclusion drive. While bank accounts do provide the initial, crucial linkage to banking systems, they may prove worthless if customers do not understand the benefits of their use. Therefore, what may be more useful is to know how frequently people use no-frills accounts and for what purposes.

Given that the RBI FI drive has been pioneered from Ranchi, it appears that the progression in the rest of the state is lagging behind the progress in and around the Ranchi area. At the July 14th meeting of Team Jharkhand, the DDC of Pakur, Dumka, and Hazaribagh stated that banks were not willing to participate at the block level, and were not attending block level meetings. While these sorts of concerns should rightly be addressed at the Team Jharkhand meetings in Ranchi, the RBI must ensure that the drive is promoted successfully throughout Jharkhand, not just in Ranchi. Dr. Mishra has taken initial steps, by addressing all bankers in regional meetings, but block-level officers must also be just as involved.

4.1.1. Weighing Benefits of Public versus Private Banks

In comparing the performance of public and private banks, private banks are lagging behind for obvious reasons. First and foremost, the increased costs that banks incur in rural areas make rural banking less profitable. Considering that the rural areas targeted by social banking are not densely populated, there are inherently higher costs in serving these populations. Furthermore, the transaction costs associated with managing accounts with small balances is relatively high. Second, many banks, such as ICICI Bank, aim to provide uniform services, regardless of where the branch is located. Therefore, opening rural branches with sufficient infrastructure to implement the core banking system (CBS) is virtually impossible. Despite these barriers, HDFC and ICICI Bank are among the private banks that have plans to expand in rural areas, but only after Dr. Mishra urged them to join the FI drive.

HDFC has launched its B2C campaign, which many public banks have been hesitant to pursue. It also has plans to launch an initiative in its adopted village about 15 km outside of Ranchi. However, ICICI Bank, the largest private bank operating in Jharkhand, continues to lag behind. It has just opened seven branches in Jharkhand and plans to adopt four villages. Considering the higher cost structures private banks face, it is unclear whether they should be expected to participate as of yet. Perhaps it makes more sense to allow public banks to promote financial literacy and lay the groundwork before private banks can effectively operate in these rural areas. Otherwise, the higher costs of private banking may be borne by poor consumers, who may not have alternative banking options. The role of private banks may be to increase competition in the future, forcing all banks towards greater efficiency.

Looking at the demand side of FI, bank clients linked through their SHGs appreciate access to finance, but do show signs of dependence on revolving loans. Many clients of KBET voiced concerns that they had been waiting six months for their next loan cycle. One woman mentioned that the business that she had started with the first loan was suffering due to the lack of funding available for her second loan. First and foremost, MFIs should avoid overextending themselves before achieving financial self-sustainability. However, this is a warning sign not only for MFIs, but also for banks that provide funding to MFIs. Since banks cannot reach all clients themselves, they should be willing to fund other organizations, like MFIs and NGOs, with similar goals of FI.

4.2. The Non-banking Sector: Small Scope & Little Hope for Scaling Up

The efforts of NGOs and MFIs to increase financial inclusion are held back by three things. The first is scalability. Even Pradan, one of the most admired NGOs in the country, whose work is solely focused in Jharkhand, does not have a comprehensive strategy or the means for significant expansion of its work. It has a very small staff working on a limited number of project; 11 teams cover 14 districts. It can only focus on a few areas at time, reaching a limited number of clients. Because NGOs/MFIs tend to offer their clients project ideas, skills training, hand-holding, and financial education, in addition to a bank account, the process is slower and more resource intensive than the initiatives of most banks, thus limiting the speed and financial capacity of reaching a wider swathe of people.

A second major constraint is funding. Every NGO interviewed for the study cited funding problems. Funding from banks is generally affixed to a single project and does not cover operational costs. Furthermore, it is difficult enough to negotiate with banks that many NGOs have given up trying. Government funding, at both the state and federal levels, is more reliable, they reported, but there is not enough of it. NABARD often failed to fulfill its promises, and all funding partnerships were initiated by the NGO or MFI.

Third is the lack of cooperation among NGOs/MFIs. The larger NGOs and MFIs say they work closely with local groups, especially in tribal areas where there is a language barrier, but none have worked with each other. Most justified this by saying that NGO's organizational cultures and ethos' were different and incompatible. For instance, where BASIX charges for its services, asserting that clients place more value on services for which they pay, charging for services offends Pradan, which offers *all services* free of charge. Furthermore, other NGOs met SKS' arrival with suspicion, and are critical of its profit-making, expansion-oriented approach to microfinance.

4.3. Tensions between the Banking and Non-banking Actors: Potential for Partnerships

The banking and non-banking sectors have competing definitions of what financial inclusion entails. While the RBI initiative officially characterizes financial inclusion as multi-phased, the first of which is having access to a bank account, its policies, or at least its rhetoric, confuse the first phase with the entire process. There is already a plan to celebrate 100 percent financial inclusion in the targeted districts in December 2008, as this is the month by which all families should have been offered a bank account. But, does that mean they are financially included?

NGOs and MFIs view financial inclusion as a comprehensive undertaking wherein a bank account is a small part of increasing one's livelihood prospects. The most important element of the outreach is devising an income-generating activity. Without this, NGOs assert, there is little use for a bank account or other banking services. They are critical of the phase-approach insofar as financial literacy and other educational dimensions to banking are left to the later phases, after a bank account has been opened or rejected.

For their part, many banks admitted they were hesitant about partnering with NGOs. The Chairman of Vananchal Gramin Bank in Dumka was particularly skeptical about the quality and honesty of the NGO sector, suggesting that most NGO workers chose the field for the money. Furthermore, many other bankers in the area, including the Assistant General Manager at Allahabad Bank's Deoghar office, share the view that NGOs cannot be trusted. Despite the fact that NGOs and other non-banking entities (including the Post Office) have been operating in Jharkhand far longer than banks, Dr. Mishra made clear that if there were to be collaborative efforts, it would have to be clear that RBI was the lead and the NGOs were working under their auspices. Furthermore, in their view, NGOs must promise not to compete with banks in any way.

The overarching problem is that financial inclusion, a campaign motivated by the banking sector, encompasses what all of the *non-banking entities* have been working towards, but under a different name and driven by a different rhetoric. If the banks are to consider working with NGOs and MFIs they claim they would prefer to be the leaders of these efforts. That is, the vision and project would be developed by RBI and delivered by its network of banks, and NGOs would be called on to assist, which usually has meant making the direct link with clients.

While the RBI is concerned about the competition that these organizations would bring, increased competition could actually be beneficial for the consumer. Furthermore, the truth is that NGOs do not even compete with the products and services offered by banks. NGOs not only cannot offer banking services, but they also do not operate in the same locations, preferring more rural locations. Banks might do well to leverage these rural-based NGOs to attract future customers. The same is true for the Post Office, which cannot offer lending services except through banks. Similarly, MFIs target unbanked populations with the hope that they will eventually graduate up to the formal banking sector. Therefore, rather than worry about potential competition from NGOs, MFIs, and the Post Office, perhaps the RBI should incorporate them into the stages of the FI drive.

4.4. Jharkhand's Inherent Barriers to Increasing Financial Participation

Outside of the obstinacy and issues of the various actors described above, many of the greatest barriers to improving financial inclusion rates in Jharkhand are *outside the control of financial service providers*. The following are some of the unique features of the state that help to explain why it lags behind other parts of the country.

4.4.1. Infrastructure

The road system in Jharkhand is one of the worst in India. Only 36 percent of villages in the state have access to all-weather roads. Consequently, the poorest villages, often referred to as the "forest" or "hill" communities, are isolated both from markets and from potential banking engagements. Further, access to power is the lowest in the country on a per capita basis and telecommunications density is the second lowest. These features make it harder for banks and other institutions to interact with the far-flung regions of the state, requiring a greater financial investment to pursue FI initiatives in these areas. Bankers and NGOs agree that improvements to infrastructure are the responsibility of the government and are one of the greatest hindrances to poverty alleviation.

4.4.2. High Concentration of Tribal Populations & The Tribal Land Laws

Jharkhand has a very large population of Scheduled Castes and Scheduled Tribes (SC/ST) (28.8 percent[19])—indeed this was the demographic on which the state was formed—

[19] Speech by: Sri Arjun Munda, Chief Minister, Jharkhand, 27-8 June, 2005.

and some of the poorest tribal communities in the country. Language barriers, geographic access, and cultural differences make it particularly challenging for the financial sector to engage with these communities. In addition to being physically remote, tribal communities are culturally distinct; some of them are nomadic, moving every three months, while some rely on the barter system and are therefore further remote from the formal financial sector. Banking, therefore, is not a natural sequitur for these communities and requires NGOs, MFIs and banks to provide tailored support. Inclusion goals (such as the RBI FI drive) often exclude remote tribal populations because the financial culture is so underdeveloped.

Additionally, the Two Land Tenancy Acts that make it illegal to sell or mortgage tribal land constrains Jharkand's development. Remnants from the Nehru Era, the Acts were designed to protect tribal populations from exploitation through the preservation of their natural territories. However, their impact and legacy are debated. It can be argued that the non-salability of the land restricts the options of poor tribal areas. Representatives from NEEDS and Pradan cited the Acts as a barrier to increased industrialization and employment opportunities in the areas. Tribal districts have some of the lowest rates of economic participation in the state and many people believe that with economic initiatives introduced from the outside, the people who live on these lands could begin to engage in the economic sector.

4.4.3. Limited Agricultural Options

Dependency on agriculture as a source of income is exceptionally high in Jharkhand. Yet, the agricultural techniques used remain some of the most primitive in India. Only 11 percent of viable land has adequate irrigation facilities, in contrast to the national average of 40 percent.[20] Due to the lack of adequate irrigation facilities, most farmers are forced to use mono-cropping patterns. Furthermore, over 90 percent of agricultural enterprises produce food crops rather than cash crops. The stunted potential in the agricultural sector dampens the potential for employment among the poor. Without access to a means of employment or income generating activities, access to credit and other financial services has little value. NGOs are working to devise non-agricultural livelihood schemes for the off-season and for regions where only rice is a viable agricultural option. Alternative agricultural processes would open up a world of entrepreneurship among the rural poor in Jharkhand.

[20] Ibid.

4.4.4. Political Instability

Jharkhand is second only to Andhra Pradesh in terms of the incidence of violence by left-wing extremist groups. Maoist, Naxalites, the Jharkhand Liberation Tigers, and other splinter groups of the Indian Communist Party, actively agitate for political allegiance. Electricity outages and road blocks are frequent and general area strikes (bandhs) regularly paralyze all economic activity. The banking system has been specifically targeted by extremists groups. In June 2008, an Allahabad Bank money truck was held at gunpoint and robbed as it was delivering money to its branches.

4.4.5. Weak Financial Culture

Bankers and other actors in the financial and development sectors have observed that people in Jharkhand are particularly risk-adverse (declining loans and new business ideas), not prone to entrepreneurship and generally unmotivated to engage in income-generating activities. In other words, there is a decided absence of financial culture that many NGO representatives describe as an atmosphere of resignation. It is hard to say what accounts for this: perhaps a combination of low education rates,[21] tribal culture, destitution, distrust of outsiders. But the implication for the FI drive is that livelihood activities that accompany opening bank accounts will require extra support and handholding.

5. Conclusion

While there is room for greater coordination and collaboration between the banking and non-banking sectors in the mission to improve financial inclusion in Jharkhand, on the whole, the speed and enthusiasm of the efforts to widen financial participation in Jharkhand is impressive. A new baseline survey would likely reveal much different numbers in terms of access to credit and other banking products than the World Bank's 2005-06 numbers show. While it is possible for members of the banking sector to overcome some of the geographical and political challenges that Jharkhand poses, such as finding a way to reach the remote tribal

[21] Literacy in Jharkhand is only 53.6, the second lowest in the country after Bihar and more than 10 percent below the national average of 65.4 percent (cite RBI). NSS data indicates that the income of those who have completed primary education is only 10 percent higher than those who have no education. This indicates that even with education, income levels are not positively affected.

communities even when the roads are closed it is ultimately the Indian government and the state government of Jharkhand that will need to address these obstacles.

In the interim, to circumvent some of Jharkhand's economic limitations, the distribution of goods through wholesalers outside of Jharkhand can offer a short-term solution. Still, the government must address these problems in order to improve Jharkhand's long-term growth prospects. While banks and other institutions' lack of interest stunt financial inclusion rates in other states, Jharkhand is lucky to have leadership, vision, and the resources to bring large segments of the population into the formal financial system. These features have only recently coalesced and it is the authors' view that in the very near future Jharkhand will join the ranks of the highly financially included states.

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