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Tara Nair

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Tara Nair. Addressing Financial Exclusion in France and India: A Review of Strategies and Institutions. 2017. halshs-01451918v1

HAL Id: halshs-01451918

<https://shs.hal.science/halshs-01451918v1>

Preprint submitted on 1 Feb 2017 (v1), last revised 8 Feb 2017 (v2)

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Addressing Financial Exclusion in France and India: A Review of Strategies and Institutions

Tara Nair

N°124 | février 2017

Despite the significant differences with respect to coverage of bank accounts, India and France have experienced exclusion of large sections of the population from banking and financial services. While India has been trying to accelerate the pace of coverage of bank accounts through several initiatives, France has been fighting to bridge the gap between extensive coverage of bank accounts and limited access to banking services with the help of institutional arrangements within and outside the banking sector. In India the recent policies have opened up avenues for players like MFIs and technology-driven businesses to be part of the mainstream financial inclusion drive. The drive towards greater private participation in financial activities is visible in France too, despite the country's rich history of solidarity based approaches to social inclusion and constitutional right granted to its citizens to hold bank accounts. The experience of France clearly shows that ensuring the right to have bank accounts by itself will not lead to inclusive banking or increased financial capability of individuals, especially, the economically vulnerable.

Working Papers Series

Addressing Financial Exclusion in France and India: A Review of Strategies and Institutions

Tara Nair

Février 2017

The author

Tara Nair's research mainly concerns policy and institutional issues in the areas of pro-poor financial services, rural innovation, women and development, and livelihoods. She has contributed to the discourse on Indian microfinance and financial inclusion since the late 1990s through research studies and policy critiques. Particularly, she has looked at the connections between the moral, social and economic aspects of the working of microfinance in India. She co-authored the Inclusive Finance India Report 2014 and has edited a volume of essays titled, *Microfinance in India: Approaches, Outcomes and Challenges* (Routledge India, 2015).

The text

A significant part of the background research for this paper was carried out during April-May 2016, when I was a visiting exchange scholar in France under the India-France Cultural Exchange Programme jointly administered by the Indian Council of Social Science Research (ICSSR), New Delhi and the Fondation Maison des Sciences de l'Homme (FMSH), Paris.

Citer ce document

Tara Nair, *Addressing Financial Exclusion in France and India: A Review of Strategies and Institutions*, FMSH-WP-2017-123, février 2017.

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Informations et soumission des textes :

wpfmsh@msh-paris.fr

Fondation Maison des sciences de l'homme
190-196 avenue de France
75013 Paris - France

<http://www.fmsch.fr>

<http://halshs.archives-ouvertes.fr/FMSH-WP>

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Abstract

Despite the significant differences with respect to coverage of bank accounts, India and France have experienced exclusion of large sections of the population from banking and financial services. While India has been trying to accelerate the pace of coverage of bank accounts through several initiatives, France has been fighting to bridge the gap between extensive coverage of bank accounts and limited access to banking services with the help of institutional arrangements within and outside the banking sector. In India the recent policies have opened up avenues for players like MFIs and technology-driven businesses to be part of the mainstream financial inclusion drive. The drive towards greater private participation in financial activities is visible in France too, despite the country's rich history of solidarity based approaches to social inclusion and constitutional right granted to its citizens to hold bank accounts. The experience of France clearly shows that ensuring the right to have bank accounts by itself will not lead to inclusive banking or increased financial capability of individuals, especially, the economically vulnerable. Stability of income and security of livelihood are critical to achieving inclusion. Both India and France face the prospect of rise in livelihood insecurity of the working class in the face of economic restructuring. This has serious implications for the banking behaviour of the poorer sections of population, which cannot be addressed by sheer extension of coverage of modern banking facilities. Along with effective labour market strategies, social safety measures need to be strengthened to benefit those sections of population who are economically vulnerable and, hence, cannot negotiate the market for financial services to make benefits. Both countries also need national policy on financial inclusion integrating the roles of diverse institutional resources and operational models and clearly articulating the links between financial inclusion and inclusive social development.

Keywords

India, France, financial exclusion, banks, microcredit, indebtedness

S'attaquer à l'exclusion financière en France et en Inde : Une étude des stratégies et des institutions

Résumé

Malgré les différences importantes quant à la couverture des comptes bancaires, l'Inde et la France ont été victimes de l'exclusion de larges segments de la population des services bancaires et financiers. Alors que l'Inde tente d'accélérer le rythme de couverture des comptes bancaires par le biais de plusieurs initiatives, la France s'efforce de combler le fossé entre la couverture étendue des comptes bancaires et l'accès limité aux services bancaires grâce à des arrangements institutionnels au sein et en dehors du secteur bancaire. En Inde, les politiques récentes ont ouvert des voies aux acteurs de la microfinance et aux entreprises axées sur la technologie pour faire partie de la campagne d'intégration financière. La tendance à une plus grande participation du secteur privé aux activités financières est également visible en France, en dépit de la riche histoire des approches solidaires de l'inclusion sociale et du droit constitutionnel accordé à ses citoyens de détenir des comptes bancaires. L'expérience de la France montre clairement qu'assurer le droit d'avoir des comptes bancaires personnels ne conduira pas à un système bancaire inclusif ou à une capacité financière accrue des individus, en particulier des personnes économiquement vulnérables.

Mots-clefs

Inde, France, exclusion financière, banques, microcrédit, endettement

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The modern development theories consider imperfections in financial markets as major factor that influences human development and labour market outcomes. The ability of poor households to invest in human capital augmenting activities like schooling of children or making medical treatment available to earning members depends on their ability to mobilize financial resources timely and at affordable costs. Similarly, access to finance critically influences the capacity of entrepreneurial individuals from these households to initiate micro enterprises or income generating activities. In other words, financial development is important not only from the point of view of efficient economy-wide resource allocation, but also from the angle of ensuring comparative economic opportunities for individuals (The World Bank, 2008). This indeed is a departure from the earlier belief that some degree of inequality is inevitable for growth and, hence, a trade-off between growth and social justice, especially, in the initial stages of development is almost inevitable (Kuznets, 1955). Growth requires substantial investment resources that are generated out of the savings of the rich, who have a higher marginal propensity to save than the poor. Growth-centric economic policies necessarily spur social inequality, which necessitate governments' intervention in designing appropriate redistributive public policies to counter the negative effects of wealth concentration.

The more recent theories have put access to financial services at the core of the development process. They have argued that well-functioning financial systems can be inclusive in that they can offer savings, payments, and risk-management products to a variety of households and enterprises including that of the poor. Also, good growth opportunities are available at every stratum of the economic pyramid and financial resources only need to seek them out. Departing significantly from the earlier wisdom of an inherently iniquitous financial market spurring growth, these theories have argued that the major cause of the perpetuation of inequalities is lack of access financial markets for all. Galor and Zeira (1993) showed that in the presence of credit market imperfections and indivisibilities in investment in human capital, the initial distribution of wealth affects aggregate output and investment in short and long terms. Due to frictions in the

financial market poor people cannot invest in their education despite their high marginal productivity of investment.

Studies by Banerjee and Newman (1993) and Aghion and Bolton (1997) also pointed to the exclusionary impact of credit constraints in the presence of informational asymmetries. In such situations credit constraints become particularly binding on the poor who lack the necessary endowments – equity, collateral, or social capital – to set up their own projects by accessing bank credit. The constraints in the credit market not only are exclusionary in an ethical sense, they also arrest the course of economic growth “by keeping capital from flowing to its highest value use, a poorly functioning financial system will also produce higher income inequality by disproportionately keeping capital from flowing to “wealth-deficient” entrepreneurs” (Levine, 2005). Haber et al. (2003) and Rajan and Zingales (2003), among others, also established that well-functioning financial systems can be inclusive in that they broad-base access to financial services rather than patronise ‘entrenched incumbents’. The crux of the process, according to them, lies in ameliorating information and transactions costs.

Experience the world over, however, shows that financial market development more often than not benefits major economic actors, mostly large firms, wealthy households and the state apparatus. The disadvantaged segments including poor households, micro enterprises, and socially marginalized communities tend to be bypassed by the developments in the financial markets because of cultural factors, information deficit on the part of the excluded segments, and inadequate capacity on the part of financial institutions to deliver products and services appropriate to these segments. Hence, in order to converge the goals of financial sector development and financial inclusion it is important that special strategies are designed to address the question of access to financial services for the poor and low-income population.

Several European countries have experimented with innovative approaches to include the poor and disadvantaged sections in their financial sector development agenda. These efforts have ranged from building partnerships with non-government organizations to establishing postal banks, setting up credit guarantee funds for microenterprises and recognizing the right to a bank account of all citizens. The lessons from these

experiments can immensely inform the bank-led financial inclusion phase that is steadily unfolding in India. It is true that strategies of financial inclusion developed to suit the peculiar contextual factors in distinct countries may not easily be transplanted to others. However, national strategies could build on the lessons learned in other country contexts and the resulting considerations of good practices.

In this paper an attempt is made to analyse in a comparative perspective the nature and extent of financial exclusion in India and France and review the institutions, policies and practices developed in both the countries to redress the phenomenon. The paper is divided into 4 sections. Section 1 presents an overview of the definition financial inclusion followed in India and France as also the broad indicators. In sections 2 and 3, respectively, the cases of India and France are discussed in detail, with specific focus on the extent of financial exclusion and the major institutional initiatives that have been evolved to counter it. Some conclusions based on the experiences of the countries are provided in section 4.

Defining Financial Inclusion

In one of the earliest attempts to describe financial exclusion Leyshon and Thrist (1995) defined it as “those processes that prevent poor and disadvantaged social groups from gaining access to financial system. It has important implications for uneven development because it amplifies geographical differences in levels of income and economic development” (p.312). According to the European Commission (2008), financial exclusion refers to ‘a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong (p 9). Lack of access to mainstream financial services and the existence of barriers to their effective use define the phenomenon of financial exclusion according to these definitions.

The Reserve Bank of India (RBI) has defined financial inclusion as the “Process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an

affordable cost in a fair and transparent manner by regulated, mainstream institutional players” (Chakrabarty, 2013). This definition emphasises that only the mainstream, regulated financial players are capable of bringing about meaningful financial inclusion as they have the ability to make the necessary investment in the build-up phase, to cross-subsidize the services in the initial stages till they become self-sustaining and to offer the entire suite of products to facilitate meaningful financial inclusion.

The Global Findex database¹ provides comparative statistics relating to different indicators of financial inclusion for India and France. As evident from Table 1, almost half of the adult population (above 15 years of age) India does not have bank accounts and, hence, are unable to engage in formal financial transactions involving banks. In the case of France, the percentage of population without bank account is only 3 per cent. Even among the poorest 40 per cent of the population, as high as 94 per cent have accounts in France. In India only 44 per cent of the bottom poorest population has bank accounts. Importantly, between 2011 and 2014, India has dramatically improved the share of population with bank accounts – from 35 per cent to 53 per cent. In the case of France there has been marginal decline in this percentage.

There is virtually no gender difference in account holding in France, while in India the difference is significant. Women with accounts form about 43 per cent as against 63 per cent men. However, the gender gap has come down perceptibly between 2011 and 2014 for India and increased marginally for France.

As regards borrowings, it is interesting to note that in France, the country that has almost universalized bank accounts, only 15 per cent of the population has borrowed from a financial institution. Moreover, between 2011 and 2014 this percentage has declined by close to 4 percentage points. The decline is more pronounced in the case of males. In India with much lower bank account penetration, 6 per cent of the population had borrowings from a financial institution

1. The Global Financial Inclusion Database provides 800 country-level indicators of financial inclusion summarized for all adults and disaggregated by key demographic characteristics—gender, age, education, income, and rural residence. Covering more than 140 economies, the indicators of financial inclusion measure how people save, borrow, make payments and manage risk.

in 2014 – women fared somewhat worse than men. There was a marginal decline in the overall percentage too between 2011 and 2014.

Table 1 Access to Finance: India and France Compared

Indicators	India		France	
	2011	2014	2011	2014
Account (% age 15+)	35.23	53.14	96.98	96.58
Account, female (% age 15+)	26.49	43.13	96.57	95.47
Account, male (% age 15+)	43.74	62.76	97.49	97.79
Account, income, poorest 40% (% ages 15+)	27.34	43.91	94.29	94.90
Account at a financial institution (% age 15+)	35.23	52.75	96.98	96.58
Account at a financial institution, female (% age 15+)	26.49	42.64	96.57	95.47
Borrowed from a financial institution (% age 15+)	7.70	6.37	18.65	15.11
Borrowed from a financial institution, female (% age 15+)	6.74	4.93	17.35	14.65
Borrowed from a financial institution, male (% age 15+)	8.63	7.75	20.24	15.61
Borrowed from a private informal lender (% age 15+)	6.63	12.57	0.17	0.24
Automated teller machines (ATMs) (per 100,000 adults)	8.86	..	108.93	..

Source: Global Findex (Global Financial Inclusion Database), <http://databank.worldbank.org/data/reports.aspx?source=1228#>

Case of India

Financial Exclusion: Nature and Extent

Several estimates have shown that the access to banking by adult population in the country is far from satisfactory. The Census of India provides some idea about the percentage of households that avail banking service. A comparison of 2001 and 2011 data suggests that the share of banked households increased from 36 per cent to 59 per cent over the decade (Table 2). The increase in the share was more in the case of rural households – from 30 per cent to 54 per cent – as compared to urban households (from 49 per cent to 68 per cent).

Table 2 Banking Access by Households: 2001 and 2011

	Census 2001			Census 2011		
	Total no. of households	Number of households availing	%	Total no. of households	Number of households availing	%
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: <http://financialservices.gov.in/Banking/Overview/wofefforts.pdf>

Measures of financial inclusion based on households obviously hide some important dimensions of exclusion of banking resources like gender inequality in access to bank services. Moreover, as mentioned earlier, the commonly understood definition of financial inclusion focuses on formal bank accounts held by individuals. As shown in Table 1, the Global Findex (2014) survey of the World Bank reported that 53 per cent of adults in the country have a formal account (as against 35 per cent in 2011), whereas only 15 per cent use an account to make or receive payment, which is the lowest among BRICS countries (The World Bank, 2014; Demirguc-Kunt et al., 2015). With high dormancy rate of 43 per cent, the country is home to about 42 per cent of all dormant accounts in the world. The gender gap in account holding is also significant; only 43 percent of the women have bank accounts as against 63 per cent men.

Table 3 Regional Variation in Access to Banks and Bank Accounts

Region	Bank penetration		Credit penetration		Deposit penetration		Inclusiv	
	2013	2012	2013	2012	2013	2012	2013	2012
Southern Region	69.7	57.1	88.7	80.8	83.1	71.8	76.0	66.1
Western Region	54.1	45.4	37.3	30.6	60.5	52.5	48.2	40.9
Northern Region	49.0	42.4	32.8	29.2	59.1	53.2	44.0	39.5
Eastern Region	43.1	31.0	35.1	24.3	44.8	39.5	40.2	30.8
North-eastern Region	41.2	30.9	35.8	24.1	45.9	41.0	39.7	30.9
India	52.4	42.7	45.7	38.7	60.3	53.2	50.1	42.8

Source: CRISIL (2015)

Apart from regional dimension, distribution of banking resources also has sectoral dimension. There has been a general crisis in formal rural credit to livelihood activities relevant to small producers (small and marginal farmers, micro producers) despite the general expansion of overall business of commercial banks in the country.

Institutional Initiatives to Address Financial Exclusion

Financial exclusion has been an important 'development concern' in India since the late 1960s. Since then banks have been directed to assume a 'social banking approach' by extending progressively to rural areas as also support the fiscal system in delivering directed credit-subsidy programmes to the designated target groups. Several initiatives followed through the 1980s, 1990s and 2000s. The approach to financial inclusion until 1990 stressed the involvement of the formal financial sector, which was translated into measures such as bank nationalization (1969, 1980), introduction of lead bank scheme (1969) and service area approach (1989), incorporation of regional rural banks (1975), setting up of specialised apex agencies (AFC [1968], NABARD [1982], SIDBI [1990] etc.), and recapitalisation of cooperative banks to make them stay afloat. Since the early 1990s (the time when banking reforms ushered), the approach changed somewhat to foster growth of an informal institutional system within the financial sector. The SHG bank linkage model and support to microfinance institutions could be seen as exemplifying this approach. Since the mid-2000s, the state directed programme of bank linked financial inclusion has come to be the official financial inclusion approach of India.

The bank nationalization in the 1960s and 1980s helped broad-base the banking network in the country, especially, among the rural populations. But the banking reform measures introduced from around the early 1990s somewhat arrested the pace of advance of branch-led social banking phase (Nair and Tankha, 2015). The self-help group (SHG)-bank linkage programme generated considerable hype in the 1990s, but it largely concerned women and their groups. Since the objective of the programme was to help the poor to collectively build their savings, which could then be leveraged for bank credit, individual banking engagement was not considered a priority. Even when the programme expanded its reach to

several regions, only a minuscule proportion of ordinary women members got the opportunity to directly deal with commercial banks or learn about commercial banking.

Innovation in Pro-poor Banking – Microcredit Initiatives

A distinct phase of financial inclusion was ushered around the early 1990s in the midst of significant changes in the policy outlook regarding banking. The subsequent decade and half have witnessed the emergence of several innovative institutional arrangements in the financial services sphere, especially, in rural areas, guided by the imperatives of economic liberalization (Nair, 2015). These innovations mainly aimed at externalizing the economic burden of extending outreach that the banks have been made to internalize during the previous decade. The major approach to achieving this has included linking banks up with informal institutions such as SHGs and MFIs, who mobilise poor households, aggregate small demands and manage timely repayment.

The documentation done by NABARD in the late 1980s of groups that work on the principle of self-help summarised their key attributes of success as homogeneity of members in terms of caste and economic activity, trust-based lending, informality in working, democratic decision making based on deliberation and collective consensus, creation of common funds out of savings, internal lending, small loan size, provision of loans in successive doses and small amounts, exclusive women membership and involvement in development agencies in formation and promotion of groups (NABARD, 1989). The SHG bank linkage programme (SBLP) anchored by NABARD generated considerable momentum since the mid-1990s as a hybrid credit delivery strategy to serve the needs of the rural poor, which combines 'the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions'². The objective of the programme as envisaged in the guidelines is to help the poor to collectively build their savings, which could then be leveraged for bank credit. The pace of SBLP particularly

2. NABARD, 'Guidelines for the Pilot Project for Linking Banks with Self Help Groups', Ref. No. NB.DPD. FS.4631/92-A/91-92 Circular No. DPD/104, 26 February 1992.

accelerated in the late 1990s. The number of bank linked SHGs increased from 81,780 in 1999-2000 to 620,109 in 2005-06, while the amount of bank loan sanctioned to these groups went up from Rs. 114,775 to Rs. 2,238,565.

The progress of SBLP has remained significantly skewed towards the southern states, which are better-off in terms of banking resources endowment and income per capita, whereas the states that have higher proportion of poor population have made slow progress in bank linkage of SHGs. It may be noted that spread of banking has historically been lopsided with the states in southern, northern and western regions accounting for most of the bank branches as compared to those in the north-eastern, central and eastern regions. This disparity had worsened since the mid-1990s (Kumar and Golait, 2009).

SBLP being a group-based approach to bank linkage, individual banking engagement was not considered a priority within the programme. Even as the programme expanded its reach to several regions, only a minuscule proportion of ordinary women members got the opportunity to directly deal with commercial banks or learn about commercial banking. This has eventually led to a situation where thousands of women SHG members have been counted out of the financial inclusion calculus as they do not own individual bank accounts. This is despite the fact that the small thrifts of these women have made their way to the banks in the form of collective savings of SHGs. For most of the bankers, poor women's savings kept with them come handy when a group defaults on loan repayment. In other words, for them these savings function as security deposits that reduce lending risk.

Parallel to the SBLP, the microfinance institutions model or MFI model has also been in operation since the early 1990s. The early stage MFIs were all non-profits. Starting from early 2000s, most of them have transformed into for-profit non-banking finance companies (NBFC) mainly to diversify and expand capital base to achieve faster growth. These MFIs did grow at dramatic rates through the first half of 2000s expanding their client base across several states, though southern India remained their major bastion. Despite a slew of crises mainly in the state of Andhra Pradesh that nearly damaged their pro-poor image, MFIs could continue their growth story, thanks to the collective efforts of sector networks and

continued bureaucratic patronage. The RBI recognized NBFC-MFIs as a special class of non-banking companies in 2011 and granted banking license to one of the largest MFIs – Bandhan – in 2014. In 2015 the apex bank extended in-principle license to eight more MFIs to transform to small finance banks, the niche bank category introduced in 2014. Thus unlike the SBLP, through definite policy measures, commercial microfinance model has been co-opted into the larger institutional canvas of financial inclusion.

Bank-led Financial Inclusion Mission: Role of the Government and the Central Bank

It was around the mid-2000s that bank-centered financial inclusion became a focused and structured project led by banks and actively supported by the state. In terms of design and approach the financial inclusion drive started around the mid-2000s and accelerated towards the end of the decade has been significantly different from the social banking phase that lasted till the early 1990s. While the central government took initiatives to spatially reach out to un-banked and under-banked regions, the RBI, on its part, focused on expanding the scope of competition in the banking space to accelerate financial inclusion³.

Government Strategy

In 2006 the central government appointed the *Committee on Financial Inclusion* (Chairman: C. Rangarajan) to suggest strategy to deal with financial exclusion after studying the patterns of exclusion from financial services of vulnerable sections of population and the barriers they confront to accessing credit and financial services. It was also asked to draw some lessons from international experiences (GoI, 2008). The Committee defined financial inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost” (*ibid*: 3). Its recommendations were founded on the position that banking services are in the nature of public good and, hence, financial inclusion should be viewed as availability of banking and payment services

3. For a detailed discussion of the financial inclusion plans, see, Nair and Tankha (2015).

to the entire population without discrimination of any kind. It prescribed a basic individual bank account as the central instrument that can coordinate multiple fund flows – savings, small credit, overdraft, payments, money transfer etc. – from and into excluded households. The report made a specific reference to the 1984 Banking Act of France, which made access to a bank account legal right in the country:

The government launched a scheme Swabhiman (translated as ‘self respect’) in 2011 with the idea of establishing at least one banking channel – either a branch or in most cases a banking correspondent – in every village. It also promised to spare the villagers from exploitative middlemen by directly crediting benefits, payments and subsidies to their bank accounts and facilitating easy and safe money transfer for migrant workers. The Union budget 2013-14 paved the way for a few other initiatives such as the setting up of the first Women’s Bank in the public sector, extending the coverage of the national health insurance scheme (*Rashtriya Swasthya Bima Yojana* or RSBY) targeted at poor households to several categories of unorganised workers, making interest subvention scheme applicable to private sector commercial banks for short term crop loans, and acceleration of IT modernization project of post offices.

A new phase of financial inclusion was unravelled in August 2014 when the newly elected government at the centre launched the *Jan Dhan Yojana* (JDY). The JDY scheme is projected as ‘the big push’ strategy of the new government to accelerate the pace of financial inclusion. It must, however, be acknowledged that in content and spirit the scheme is a continuation of what the earlier regime had launched around 2011. The numerous features added in the new dispensation (such as focus on households and individuals rather than villages, extending to urban areas, simplified account opening process enabled by technology, emphasis on financial literacy etc.) apparently have evolved from the learnings of the earlier initiative, Swabhiman. The scheme, however, has envisaged more aggressive leveraging of the possibilities of the electronic technology revolution, especially, the unique citizen identification project that has been underway since 2009 and create a converged platform for banking and citizen services/entitlement transfers. Thus the JDY bank accounts are mandated to be *Aadhar*⁴-linked.

4. An Aadhar card is a biometric card with a unique 12-di-

Each functional account is also offered additional facilities like overdraft, debit card and accident/life insurance cover subject to certain eligibility conditions. The JDY scheme thus promises to impact households in three ways: (1) secure transactions (digital banking with no leakage), (2) secure household economy (bank accounts to channelise credit and subsidies to support economic activity and livelihoods); and social security (insurance, pensions).

It needs to be acknowledged that the sheer pace of account opening under JDY has been unparalleled. According to the latest data published by the Department of Financial Services the number of accounts opened under the scheme as on end March 2016 is Rs. 214.3 million. Of these 61 per cent accounts have been opened in rural areas⁵. A little above one fourth of these accounts are ‘zero balance’ accounts. Debit cards (the domestic RuPay cards launched in 2012 by the National Payments Commission of India) have been issued to 177.5 million accounts. The outstanding balance in all the accounts is reported to be Rs. 356,720 million.

RBI Strategy

As mentioned earlier, the central bank’s approach to financial inclusion has come to rest predominantly on enhancing banking competition among public and private sector banks rather than branch expansion of existing ones. In 2009 the Committee on *Financial Sector Reforms* (2009; Chairman: Raghuram Rajan) suggested the setting up of small finance banks in the private sector to cater to the small-sized and excluded segments by providing them with both savings and credit products (GoI, 2009). RBI brought out a discussion paper in 2013, titled ‘Banking Structure in India – The Way Forward’ wherein the idea of small banks was underscored and their potential role in accelerating financial inclusion, reemphasized. The paper indicated that overall a differentiated banking system with distinct tiers of banking institutions – international, national, regional, and local – would serve the purpose of financial inclusion more effectively. The concept of differentiated banking structure was elaborately discussed by the Committee on *Comprehensive*

git universal identification number issued to every Indian citizen. It stores personal details of every individual in a centralized database of the government. The state increasingly promotes linking of Aadhar number with all types of welfare transfers and payments and citizen services.

5. <http://www.pmjdy.gov.in/account>

Financial Services for Small Businesses and Low Income Households (2014; Chairman: Nachiket Mor), which provided plausible designs of a differentiated banking system in its report (RBI, 2014). The Committee identified a few designs as relevant in the Indian context for the provision of payment/savings services as also provision of credit. For the former, the recommended banking designs included national banks operating through branches or through agents, regional Banks, payment network operators (PNO), and payment banks. On the credit front, national banks operating as branch-based lenders or working through agents, wholesale banks, consumer banks, and regional banks operating through branches have been recommended.

These recommendations substantively informed the vision of the central bank for initiating the movement towards a differentiated banking structure and formed the basis for a set of guidelines issued by the RBI in November 2014 for setting up of two new classes of banks: payments banks and small finance banks. The primary objective of small banks (with minimum paid-up equity capital of Rs. 1 billion) is to further financial inclusion by (i) provision of savings vehicles primarily to unserved and underserved population sections, and (ii) supply of credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector entities, through high technology-low cost operations. As for the payment banks, they would be required to provide payments and/or remittance services to migrant labour workforce, low income households, small businesses and other unorganised sector entities⁶. Both small and payments banks are expected to develop operational models that are high on technology and low on costs.

In August 2015 'in-principle approvals' were granted to 11 out of the 41 applicants to set up payment banks. This was followed by granting approval to 10 applicants (out of 72) to establish small finance banks in September 2015, eight of which are NBFC-MFIs, who, collectively account for about 40 per cent of the gross loan portfolio as of March 2015⁷. The RBI has already granted

two preliminary licenses in April 2014 to Infrastructure Development Finance Corporation or IDFC Limited and Bandhan Financial Services (one of the largest MFIs in India then) to set up new banks in the private sector. With the largest MFI transforming to a universal bank and eight large MFIs gearing up to becoming SFBs, the outreach of the microfinance sector might shrink by about a third of its size in the coming years. At the same time, credit flow to small economic players might improve significantly as the small banks evolved out of MFIs start their lending operations⁸.

The above measures have ushered a phase of transformation in Indian banking system in line with the recommendations of experts and advocates of market-led financial sector development and differentiated banking structure. How in reality these reforms would pan out as inclusive banking strategies will be a subject matter of close and systematic scrutiny in the coming years.

Financial Inclusion and Distribution of Entitlements

The agenda of direct transfer of subsidies to beneficiaries of government schemes has become the mainstay of bank-led financial inclusion. It may be noted that since 2008 the central government, followed by several state governments, has been experimenting with linking of social safety net programmes (NREGS wages, scholarships, pensions, health benefits and other types of income support) to banks in an effort to ensure that benefits and payments flow transparently to the right targets without wastage, duplication and leakages⁹. The identification infrastructure of Aadhar and the electronic fund transfer technology together were to form the backbone of the basic architecture of the direct benefit transfer (DBT) system (Government of India, 2012). *The Task Force for Direct Transfer of Subsidies* (June 2011; Chairman: N. Nilekeni) proposed a general

6. RBI, 'Guidelines for Licensing of "Small Finance Banks" in the Private Sector', November 27, 2014, <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/SMFGU271114.pdf>; 'Guidelines for Licensing of "Payments Banks"', November 27, 2014, <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/PAYMENT271114.pdf> (both accessed on 14 August 2015).

7. 'Cross-Market Analysis', <http://www.mixmarket.org>

8. The major challenge before these MFIs is that of equity. According to RBI norms, small banks should have initial promoter stake of not less than 40 per cent (locked for five years) and domestic shareholding of minimum 51 per cent. Currently, foreign shareholding is very high in all the leading MFIs. Namrata Acharya, 'Microfinance Institutions to Scout for Domestic Equity', *Business Standard*, 18 September 2015, Ahmedabad.

9. In his budget speech of 2011, the then Finance Minister referred explicitly to the intention of the government to "move towards direct transfer of cash subsidy to people living below poverty line in a phased manner".

solution framework for the direct transfer of subsidies to beneficiaries, and made specific recommendations for household fuel and fertilizer subsidies. “Just as a real-time transfer of funds takes place when people top up their mobile talk time, the Government, through the CSMS will transfer the cash component of subsidies directly and in real-time to the bank accounts of beneficiaries. Beneficiaries may then access these funds through various banking channels such as bank branches, ATMs, business correspondents, internet, and mobile banking. Achieving full financial inclusion is crucial for direct transfer of subsidies”¹⁰.

The current approach to financial inclusion has come to rest almost singularly on the platform of ‘JAM number trinity’—Jan Dhan, Aadhaar, Mobile - which it considers would offer “exciting possibilities to effectively target public resources”... “allow prices to be liberated to perform their role of efficiently allocating resources and boosting long-run growth” (Government of India, 2016: 21). The philosophy of growth that underlies this conviction is all too evident. As the Economic Survey of 2015 puts it, “Economic growth is good for the poor, both directly because it raises incomes and because it generates resources to invest in the public services and social safety nets that the poor need. Growth – and the prospects and opportunities that it brings – also encourages individuals to invest in their own human capital... However, growth must be complemented with effective state-delivered programs that raise the living standards of the most vulnerable in society. To be successful, anti-poverty programs must recognise that policies shape the incentives of individuals and firms, and also acknowledge the limited implementation capacity of the state to target and deliver public services to the poor” (p.22).

The 2016 Economic Survey has simplified the problem of financial exclusion by deconstructing it into three straightforward challenges: the challenge of identification, transfer and access. The solutions too are straightforward - use technology to replace human discretion, open bank account for every individual beneficiary and deepen mobile penetration and agent network along with creation of new banking entities. As per the Survey the spread of JAM is limited only by problems in establishing bank-beneficiary connections. With the focus of inclusion discourse

squarely placed on the rather mundane details of technical and managerial solutions, the politically informed debates around the deep-rooted structural bottlenecks perpetuating marginalization and exclusion of regions and populations in social and economic spheres seem to have lost their salience.

As per the data presented in 2016 Economic Survey (Government of India, 2016), a fifth of the country’s population received some cash transfer into their bank accounts in 2014-15. A total of Rs. 440,350 million has thus been transferred to 296 million individual accounts. MGNREGA constituted 41 per cent of these transfers, followed by LPG subsidy (37 per cent) and National Social Assistance Programme (14 per cent). The 29 scholarship programmes formed 7 percent of the cash transfer. Bank linked benefit transfers, to a large extent, have helped the state address problems of leakage and corruption rampant at the level of delivery and access.

Progress of Bank-led Financial Inclusion

An overall review of the progress of bank-led financial inclusion reveals that the parameters of spread in banking have indeed changed over 2010-15 due to the concerted efforts of the state and the banking sector (Table 4). The progress made in spreading banking infrastructure has been highly impressive relative to the status in 2010. The expansion in rural coverage has largely been through branchless mode. The total number of outlets including ATMs and kiosks rose by about 470,000 over 2010-15. About 325 million Basic Savings Bank Deposit Accounts were added over this period, 54 per cent of them through business correspondents. The matter of concern, however, is the apparent low utilization of these facilities. This is reflected in the low volumes of actual transactions in the accounts created.

10. CSMS refers to Core Subsidy Management System.

Table 4 Change in Financial Inclusion Parameters: 2010-15

Particulars	2010	2013	2014	2015	Increment in 2015 over
Banking Outlets in Villages – Branches	33,378	40,837	46,126	49,571	16,193
Banking Outlets in Villages – Branchless mode	34,316	227,617	337,678	504,142	469,826
Banking Outlets in Villages – Total	67,694	268,454	383,804	553,713	486,019
Urban Locations covered through BCs	447	27,143	60,730	96,847	96,400
BSBDA through branches (No. in million)	60.2	100.8	126	210.3	150
BSBDA through branches (Amt. in Rs. billion)	44.3	164.7	273.3	365	321
BSBDA through BCs (No. in million)	13.3	81.3	116.9	187.8	175
BSBDA through BCs (Amt. in Rs. billion)	10.7	18.2	39	74.6	64
BSBDAs (No. in million)	73.5	182.1	243	398.1	325
BSBDAs (Amt. in Rs. billion)	55	182.9	312.3	439.5	385
OD facility availed in BSBDA (No. in million)	0.2	4	5.9	7.6	7
OD facility availed in BSBDA (Amt. in Rs. billion)	0.1	1.6	16	19.9	20
KCCs (No. in million)	24.3	33.8	39.9	42.5	18
KCCs (Amt. in Rs. billion)	1,240.10	2,623	3,684.50	4,382.30	3,142
GCC (No. in million)	1.4	2.6	7.4	9.2	8
GCC (Amt. in Rs. billion)	35.1	76.3	1,096.90	1,301.60	1,267
ICT A/Cs BC Transaction (No. in million)	26.5	250.5	328.6	477	451
ICT A/Cs BC Transactions (Amt. in Rs. billion)	6.9	233.9	524.4	859.8	853

Source: RBI (2014, 2015).

Note: KCC – Kisan (Farmer) Credit Card; GCC – General Credit Card.

Case of France

Overview of Financial Exclusion

The French banking system was highly regulated and controlled by the state until the early 1980s. It underwent the first wave of liberalisation and deregulation in 1984 (Banking Law of 1984) when the legal and regulatory framework governing banking and credit institutions was considerably relaxed. Banking groups in the country were made free to expand into a range of business areas within the sector (investment banking, asset management and insurance) with the adoption of the concept of universal banking. Moreover, as an EU Member State and a Member State participating in the Economic and Monetary Union (Eurozone), France's legal and regulatory framework for banking and investment services is highly influenced by the rules formulated at the EU level. As a result, the banking system in the country has undergone transformation since the financial and sovereign debt crisis which impacted banking supervision and regulation in the Eurozone significantly. The latest the Law of 2013 (no. 2013-672 on the separation and regulation of banking activities) too has endorsed universal banking by restricting banks only from

engaging in “pure proprietary trading activities” as part of their core activities¹¹.

Since the early 1980s, French banks have followed the path of consolidation, which resulted in market concentration. As high as 85 per cent of the banking market is accounted for by six banking groups: BNP Paribas; Société Générale; Crédit Agricole; group BPCE; Crédit Mutuel and La Banque Postale. It may be noted that Crédit Agricole, BPCE and Crédit Mutuel are cooperative institutions. The current trend is towards further relaxing the banking monopoly rules and extending the circumstances in which non-banking institutions or entities (such as insurance or mutual companies, debt funds and commercial companies) may engage in credit and lending activities.

Banque de France (BF), the central bank of the country, plays the key role in promoting banking inclusion as mandated by the ‘right to a basic account’ introduced in 1984. The French law provides that all physical persons residing in the country the right to open a bank account with a credit institution in order to have access

11. <http://www.globallegalinsights.com/practice-areas/banking-and-finance/global-legal-insights---banking-regulation-3rd-ed/france>

to basic banking services. It also guarantees that credit institutions operating in the country facilitates banking mobility for the benefit of and on request from their retail customers. Individuals or organisations who have been refused an account by the banks can appeal to the Banque de France, which will designate a credit institution to provide basic, free banking services to them. The BF spearheads several specific tasks aimed at preventing over-indebtedness and promoting financial inclusion. It manages three large registers – the Central Cheque Register (FCC), the National Database on Household Credit Repayment Incidents (FICP), and the National Register of Irregular Cheques (FNCI). The FICP records payment incidents related to loans awarded to individuals as well as methods for resolving over-indebtedness. The near universal ownership of bank accounts in France can be attributed to the granting of legal right to bank account.

Further, France has a robust social security programme, which covers the elderly, people without a minimum level of subsistence income and the differently abled¹². The solidarity allowance for the elderly (Allocation de solidarité aux personnes âgées or ASPA) depends on depends on resources of the individual and family status (single or couple). Revenu de solidarité active (Income from Active Solidarity or RSA) provides resources to people without a minimum level of variable income depending on the composition of the household. RSA is open, under certain conditions, to persons at least 25 years old and those 18 to 24 years if they are single parents or justify a certain period of professional activity. The allowance for disabled adults (Allocation aux adultes handicapés or AAH) is a financial aid that ensures a minimum income. This aid is granted subject to compliance with four criteria: disability, age, nationality and resources¹³.

However, starting from 2011 many development organisations have been voicing concerns about a growing contradiction between universal access

to bank accounts and lack access to financial services. This contradiction is clearly evident in the Global Findex data presented in Table 2. The manifesto prepared by under the joint authorship of le Secours Catholique, la Croix Rouge and l'Union nationale des centres communaux (*Manifeste pour l'inclusion bancaire en France des populations fragiles* or the manifesto for banking inclusion of fragile populations) called for wider public consultations involving citizens, sector associations, banking professionals, academic actors, think tanks, government, parliamentarians, regional collectives, governments, major state services and political parties to craft concrete solutions and mutually agreeable measures to address latent banking exclusio as a latent from of social exclusion and an impending social crisis.

According to the Manifesto, while vast majority of the population in the county has a bank account and 'modern' means of payment, there is considerable inequality in the use of banking products and services. The state claimed that it had achieved banking accessibility by 2010 in a ministerial report¹⁴, based solely on the statistics relating to issuance of accounts¹⁵. Thus it may appear that the country's position is ideal with 99 per cent poor households had deposit accounts. However, the more critical fact is that only 81 per cent had access to any payment cards compared to 93 per cent in the population. In terms of usage, a quarter of the poor households still made payments in cash (as against 8 per cent overall population) and another quarter had never used cards.

More importantly, the Manifesto noted that nearly 1.7 million individuals were banned from banking in the country as in 2010 as their debt levels were high. The repayment due from them amounted to \$2.5 million. The number of cases of over-indebtedness filed annually with the Bank of France increased steadily since the 1990s, averaging about 200,000 in 2010. At the end of September 2010, more than 780,000 households were in the process of getting deleveraged. Importantly, 82 per cent of indebtedness cases reported in 2010 involved revolving credits.

12. As Debeauf et al (2014) point out previous research has shown that financial exclusion is closely linked to low income. The financially excluded typically consists of people who were not in paid work and households without any wage earning members like the unemployed, old parents living alone and disabled individuals. In terms of age it has been found that very young and very old people are more likely to face financial exclusion compared to others. Financial exclusion is found to be correlated with age with low education levels and migrant status.

13. <https://www.service-public.fr>

14. In Ministère des Solidarités et de la Cohésion Sociale, Décembre 2010, Rapport au parlement-Suivi de l'objectif de baisse d'un tiers de la pauvreté en cinq ans - Synthèse.

15. Based on a study by Credoc (February 2010), 'Rapport réalisé pour le Comité Consultatif du Secteur Financier, les conditions d'accès aux services bancaires des ménages vivant sous le seuil de pauvreté'.

Some of the recent research has expressed anxiety over the imminent emergence of new facets of social insecurity in France thanks mainly to the efforts at restructuring the economy (Caisses d'Épargne, 2011). The proposal to reform labour laws has become a major source of anxiety and disaffection among a section for its anticipated negative impact on labour security. It is argued that the general rise in inflation and the ever increasing cost of living has already made survival difficult for people with modest means. New categories of vulnerable individuals have emerged including young people, elderly, and poor workers, who require the services of social service organisations. They are added to the ranks of non-bankable eventually.

In its study exploring the causes of over-indebtedness in the country, Banque de France (2014) reconfirmed 'the multi-causal nature of over indebtedness, which combines – in variable proportions according to the profiles identified – vulnerability factors linked to the personal and professional circumstances of the persons in question and behavioural factors relating to the management of household income and expenditure and the use of credit' (p.11). The study also emphasised the impact of external shocks resulting from unexpected life events (loss of the borrower's or spouse's job, illness or accident of the borrower or a related person). More often than not over-indebted households run with constrained budgets and unpredictable events contribute to the deterioration of their existing vulnerability. The study has profiled the over-indebted households with several parameters (Table 5).

Table 5 Distribution of Over-indebted Households in France, 2013

Total number of applications (2013)	195126
% living alone (single, separated, divorced, widowed)	64.4
% without any dependents	51.4
% tenants	77.8
% unemployed	28.7
% white collar jobs	34.8
% blue collar jobs	25.1
% monthly income less than € 2000	77
% monthly income less than minimum maintenance wage (SMIC)	50

Source: Banque de France (2014).

The paradox of access and use of banking services clearly show that only access criteria are not sufficient to measure the level of banking inclusion as the possibility of having a bank account, a payment option, or credit line is not enough to enable an individual to lead a normal life in society with dignity. Over-indebtedness and non-use of bank accounts are important aspects of exclusion, which cannot be examined in isolation.

Measures to Counter Banking Exclusion

The publication of the Manifesto was succeeded by several initiatives aimed at reducing social and banking exclusion. For one, a platform was created in 2012, L'Initiative contre l'exclusion bancaire (The initiative against banking exclusion) to bring together the different actors in the social and voluntary sector who wish to develop new initiatives against banking and financial exclusion. The members include ADIE or Association pour le droit à l'initiative économique, L'Armée du salut (Salvation Army), L'Association Nationale des Directeurs de Missions Locales (National Association of the Directors of Local Mission), ATD Quart Monde, La Banque Postale (the Postal Bank), Crésus, la Croix-rouge française (Red Cross of France), Emmaüs France, Habitat et Humanisme, les Restos du cœur, Secours catholique, le Secours populaire, Soliha et l'UNCCAS.

The Manifesto was also instrumental in the creation of the 'Observatory of Banking Inclusion' (OIB) as part of the Law of 26 July 2013 with the mission to follow the practices of credit institutions in banking inclusion, especially, with regard to people in financial fragility¹⁶. Chaired by the Governor of the Banque de France, the observatory brings together representatives of governments, credit institutions and consumer associations to fight against exclusion. The Government enacted La loi Consommation (the Law of Consumption) in March 2014 that protects financially fragile consumers and ensure them access to information to make proper choices¹⁷. Further, in June 2014 the French President launched a special drive 'La France s'engage' ('France Commits'), which is an experimental fund to finance social and solidarity economy

16. <http://www.economie.gouv.fr/installation-de-l-observatoire-de-l-inclusion-bancaire>

17. <http://www.economie.gouv.fr/loi-consommation>

initiatives¹⁸. One of the 15 initiatives identified is l'Appui ('the Support'), an advisory and banking support platform created by la Banque Postale (the postal bank) for the benefit of financially fragile clients. The objectives of l'Appui are to help customers of la Banque Postale to manage recurring financial difficulties and improve their capability to prevent such situations.

The above measures to address exclusion are going to be implemented as part of a larger framework of economic revival being crafted by the government, called the Responsibility and Solidarity Pact. The Pact includes goals like revitalizing companies, SMEs, very small companies, crafts and retailing sector. Paradoxically, it hopes to achieve these goals, among other things, by lowering labour costs and simplifying administrative procedures¹⁹.

Helping the Excluded to Access Credit: Microcredit Models

The microcredit in Europe has been developed within the frameworks of the Lisbon Strategy (2000)²⁰ and the growth strategy for the subsequent decade, Europe 2020. If the goal of Lisbon Strategy was to promote an economy based on knowledge, services and new technologies, Europe 2020 talks about building a smart, sustainable and inclusive economy for the EU that delivers high levels of employment, productivity and social cohesion (EC, 2010). In implementing the Lisbon Strategy for growth and jobs, development micro credit (loans less than € 25 000) in Europe was seen as very critical as it promotes transition from unemployment to self-employment²¹. Such credit can support micro-enterprises (enterprises employing fewer than 10 people) and disadvantaged persons (unemployed or inactive people, those receiving social assistance, immigrants, etc.) who wish to go into self-employment, but do not have access to traditional banking services. In order to develop the market for microcredit, the EU proposed many

initiatives such as improving the legal and institutional environment in the Member States, changing the climate in favour of entrepreneurship and promoting the spread of best practices, particularly in relation to training.

Two types of microcredit products are available to the banking excluded in France. The first is 'personal or social microcredit' targeted at financially fragile persons whose resources are insufficient to claim a credit for consumption like youth in vulnerable circumstances, workers with precarious contracts, single women with children, single parents, elderly persons without support etc. The loan amount is generally below € 3,000. The second is personal microcredit which is offered to individuals to finance personal projects that enable them to find employment (learning skills, for instance) or to finance the purchase of utility goods and services mainly related to transport (mobility), housing, and education. Professional microcredit, typically below €25,000, is available to individuals who wish to create or take over a business but whose resources are insufficient to qualify for a conventional loan either because of its small size or absence of a formal business plan. To avail such credit, the borrower must be guaranteed by a specialized and competent support network such as France Active and France Initiative.

It may be noted that the concept of microcredit was defined officially for the first time in France in 2010 thanks to the consumer credit reforms law No. 2010-737 of July 2010 (Caisses d'épargne, 2011). The law has delineated the features of microcredit as advances made to people excluded from consumer credit due to low income or other difficulties, to finance purchasing of goods intended to facilitate her social integration or job placement, partially guaranteed by the Fonds de Cohésion Sociale and supported by associations and local authorities. It was stipulated that the quantum of credit must be compatible with the target borrowers' ability to repay.

We will discuss below three different institutional arrangements that work with the concept of personal and professional microcredit in Paris and surrounding areas - La Caisses d'épargne, Credit Municipal, Paris and ADIE - especially to help financially fragile persons.

18. <http://www.gouvernement.fr/en/la-france-s-engage-project-the-first-15-initiatives-identified>

19. <http://www.gouvernement.fr/en/savings-plan-detailed-measures>

20. The Lisbon Strategy (known also as the Lisbon Agenda or Lisbon Process) was devised in 2000 to guide the development planning of the European Union economy during 2000-10.

21. <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=URISERV:n26115>

La Caisse d'épargne, Ile-de-France

La Caisse d'épargne Ile-de-France, the French Savings Banks, has a special arrangement to assist individuals in debt (and hence unbankable) to access formal financial support. By creating the network of associations *Parcours Confiance* and *Créa-Sol*, the *Caisses d'Épargne* built a service platform based on the combination of reinforced banking support, suitable products, and concrete educational support through the setting up of *Finances* and *Pédagogie*, an association specialized in financial education. Relying on the expertise of trained and specialised microcredit advisors, the *Caisses d'épargne* reach 90 per cent of the French territory. They also rely on the services of 800 partners (associations, local authorities, and social businesses) in order to offer the most comprehensive support possible to their borrowers. In 2009, *Caisses d'épargne* financed 40 per cent of the personal microloans distributed in France (la Caisse d'épargne, 2011).

The business model of Caisse d'épargne has been tailor-made to suit the needs of over-indebted persons or persons whose incomes do not match their liabilities. The French law defines over-indebtedness as a situation characterised by "the manifest impossibility of the debtor meeting, in good faith, all his non-business debts due and falling due and the commitment that he gave to guarantee to pay off the debt of an individual entrepreneur or company where he was not, in law or de facto, a manager of that company"²².

The normal loan appraisal processes are not followed by Caisse d'épargne while working with fragile borrowers. Such individuals are referred by banks to Caisse d'Épargne (or *Parcours Confiance*), which counsels each as a distinct case and offers customised advice. For this purpose it enlists the support of volunteers – individuals and associations – to prepare loan application documentation, which is reviewed by the internal credit committee. The committee members have to unanimously agree on the merit of the demand for it to be forwarded to partner banks. The typical demands are for housing and related amenities. Loans are extended usually for a maximum period of 4 years and carry an interest rate of about 4 per cent.

Even with such liberal terms many loans have been rescheduled several times as the borrowers

find it difficult to service them regularly²³. Given this challenge, the officials of the institution try to keep very close relationship with their clients. Despite the policy empathy towards those who are excluded or in excessive debt, banks still hesitate to extend loans to such clients. Out of about 1000 loan proposals presented to banks in 2015, only 230 received positive response.

The idea of a specific institutional set up to deal with indebted households is noteworthy. These are households whose creditworthiness has been eroded, but who are in dire need of financial resources to carry on with their lives and businesses. It may appear a difficult proposition to initiate a similar institution in India given more widespread poverty. However, one cannot but observe that such an arrangement tied to the decentralised financial structures like the Regional Rural Banks (RRBs) and cooperative banks in India may help reduce the distress of indebted households, like, for instance, agrarian households, that have witnessed primary earners taking their lives in despair.

Crédit Municipal de Paris

Crédit Municipal de Paris is one of the oldest French financial institutions started off as a pawn broking establishment. Its history goes as far back as to the first half of the 17th century. Over its life that spans close to 400 years, the institution has undergone several functional transitions under diverse systems of governance, until it became a full bank under the Banking Act of 1984. Another major reorganization happened in 2004, when it was bifurcated into two establishments. While Crédit Municipal de Paris retained the original activity of pawn broking along with solidarity savings and personal microcredit, the lending activity was delegated to its subsidiary, CMP-Banque. The pawn broking activity of CMP has been thriving over the years, whereas the economic model of CMP-Banque came under severe strain as competition from big private institutions increased. It finally stopped its business in September 2015.

The personal microcredit function of CMP offers support for over-indebted people and those who fight against banking exclusion. The cost of administration of the activity is met by grants from

22. Quoted in Gloukoviezoff (2007).

23. Personal Interview with Emmanuelle Maury, Veronique Aellig and Marie Mouche, *Caisses d'épargne*, Paris, 4th May, 2016.

the Municipality of Paris. The activity is targeted at individuals who have a specific project to be financed (vehicle purchase, training, housing, health, legal fees for a divorce, etc.) and have the ability to repay, but have no access to bank loans. Loan amount varies from € 300 to € 3,000 and the loan duration, from 6 to 36 months. The interest rate is about 4 per cent. Any individual who wishes to avail personal microcredit has to approach the CMP or any of its partner organizations (or social workers in the case of recipients of social benefits) who help them prepare the loan documents. The applications are reviewed by a committee and submitted to any of the four partner banks – la Banque Postale, le Crédit Coopératif, BNP PF and la Caisse d'épargne, Ile-de-France).

The experience of CMP with respect to applications for microloans is quite revealing. It is reported that there has been an absolute reduction in the number of loan applications between 2014 and 2015 from 800 to about 600. Along with this the proportion of proposals accepted for support by banks also came down from 82 per cent to 78 per cent²⁴. These figures suggest that lesser number of individuals now approach CMP for microloans and banks extend support to even lesser number of applicants. The former could be a reflection of the weakening economic condition on the already fragile individuals and the latter, increasing fatigue on part of banks with respect to extending social microcredit.

ADIE

Set up in 1989, ADIE was inspired by the Bangladesh Grameen Bank. It is a non-profit micro credit association (registered under the Association Act of 1901) working to help business creators who do not have access to bank credit, the unemployed and the beneficiaries of social security benefits, and the precarious workers whose financing needs are not covered by banks. It offers both social and professional microcredit. For the enterprises, apart from loans (up to € 10,000), it also offers support in the form of group and personal training in areas as diverse as management, administrative procedures, business development, legal advice and taxation²⁵.

ADIE also offers insurance service in partnership with AXA (a leading private insurance company) and la Macif insurance mutual) and covers risks such as professional liability, business premises, inventories and equipment, and financial protection in the event of stoppage of business. Personal microcredit (up to € 5,000) is extended to salaried workers and to unemployed who wish to return to paid employment. It usually finances driver's licenses, trainings, vehicles (or repair), etc. The majority of the loans (about 80 per cent) fall in the professional (or business) microcredit category, and the rest personal microcredit²⁶. The professional microcredit is guaranteed up to 50 per cent by the Fonds de Cohésion Sociale or the Social Cohesion Fund through France Activ.

A recent study by KPMG (2016) shows that ADIE's professional microcredit activity generates an income of € 45.3 million against an investment of € 24.4 million and prevents social costs amounting to € 16.7 million. This means that the social return on investments of the association is € 2.38.

Conclusion

The concept of 'inclusion' as different from the concepts of integration or mainstreaming acknowledges and accepts diversity. It conveys the ability of the system to change in order to meet the needs of all citizens which includes forging new relationships. The role of the government and the central bank is to help build relationship between financial institutions and people before the latter are encouraged to enter the system including institutional arrangements to ensure bank accounts as a fundamental right of citizens and a comprehensive financial inclusion policy. Awareness on the part of the citizens about their entitlements is the other major prerequisite. And this is fundamentally different from the process of integration. While integration addresses needs of special citizens, inclusion recognizes rights of all. Integration refers to changing remedying gaps in customer contracts; inclusion refers to changing the system per se and benefits all. Informal support and extension of expertise from mainstream bankers is central to making inclusion possible. In short, financial inclusion means good banking for all. All individuals, despite having small credit/saving needs, must be banked by the same

24. Ibid.

25. Personal Interview with Mr. Berangere, Manager, 2 May 2016, Paris.

26. Personal Interview with Mr. Berangere, Manager, 2 May 2016, Paris.

institutions that deal with 'bankable' individuals. All should be able to bank in the normal environs of the banking institutions and have access to the necessary support measures that ensure active participation and opportunities for meaningful interactions with banks and financial institutions. These are difficult goals that underscore the transformational nature of inclusion. They also convey that inclusion cannot be achieved in a short time span. Appropriate institutions including laws and policies need to evolve and mature. The players need to experiment, learn from each other and consolidate their learnings.

Despite the significant differences with respect to coverage of bank accounts, India and France have experienced exclusion of large sections of the population from banking and financial services. While India has been trying to accelerate the pace of coverage of bank accounts through several initiatives, France has been fighting to bridge the gap between extensive coverage of bank accounts and limited access to banking services. The experience of France clearly shows that ensuring the right to have bank accounts by itself will not lead to inclusive banking or increased financial capability of individuals, especially, the economically vulnerable. Stability of income and security of livelihood are critical to achieving inclusion. Both India and France face the prospect of rise in livelihood insecurity of the working class in the face of economic restructuring. This has serious implications for the banking behaviour of the poorer sections of population, which cannot be addressed by sheer extension of coverage of modern banking facilities. Along with effective labour market strategies, social safety measures need to be strengthened to benefit those sections of population who are economically vulnerable and, hence, cannot negotiate the market for financial services to make benefits.

It is also important to recognize that within economically dynamic settings, there are pockets of exclusion created by institutional infirmities or sheer gaps that characterize informality. The micro entrepreneur in an urban slum in India has a buoyant business to fall back on in case she applies for a bank loan. But her business is not 'formal' and hence risky for the lender. Or a farmer group may be capable enough to organise their production collectively and face up to market challenges, but they cannot borrow from a formal institution as the latter has no instruments

to appraise them. Similarly there are migrant workers who are forced to get trapped in illegal money transfer corridors, despite their willingness to pay, as there is no easily accessible legal alternative. The discourse on financial inclusion must concentrate on these aberrations – regulatory failures, institutional fissures, and capacity differentials – as having caused pools of exclusion within 'growing' economies.

The renewed interpretation of financial inclusion, no doubt, has expanded the scope of action and ideation by a host of financial market players. New players have emerged in both India and France, especially, who can combine technological prowess with knowledge of the financial system. It is increasingly emphasised that no single programme or strategy is adequate to achieve the task of financial inclusion. In India, whereas the recent policies have opened up avenues for players like MFIs and technology-driven businesses to be part of the mainstream financial inclusion drive, whole-hearted and innovative efforts are yet to be made to leverage the un-utilised capacities of the vast network of grass-root level organisations that work as solidarity-based collectives such as primary co-operative societies and self-help groups. The drive towards greater private participation in financial activities is visible in France too, despite the country's rich history of solidarity based approaches to social inclusion. What is critically lacking in both the countries is a national policy on financial inclusion which integrates the roles of diverse institutional resources and operational models - old and new, pro market and community centric – and spells out unambiguously the links between such inclusion and inclusive social development.

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