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Significance of Financial Inclusion:

Financial inclusion which promises and ensures access to financial services with adequate credit in a timely manner to vulnerable groups. The purpose of financial inclusion is bringing the financially excluded population into the formal financial system to basic financial access. The merits of financial inclusion are strongly rooted in empowerment. Access to credit is a key link between economic opportunity and economic outcome. By empowering individuals and families to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth. Access to basic financial services such as payments, savings and micro insurance holds out the potential which generates huge benefits for the emerging economies. With improved financial access, household’s income generation, social status, asset acquisition, investment in the children education and health will rise and these households are insured against the unavoidable risky situations.

Reserve Bank of India continued its focus on financial inclusion and financial literacy by strengthening the credit delivery mechanisms to the targeted sections of the population under different measures, initiatives and schemes. Financial inclusion has been emphasised as an important policy option aimed at alleviating poverty, minimising social exclusion, enhancing economic growth and is an important process to attain the goal of inclusive growth.

Access to finance and adequate flow of credit to the different sectors has been a policy thrust for achieving the objective of inclusive growth. In the country like India where the majority of the population is dependent on agriculture and allied activities. There are very strong reasons are there, to ensure the flow of credit towards such activities. RBIs primary objective of credit delivery is enabling access to financial products and services from formal financial system to the needy sectors of the economy.

Developing country policymakers have recognised that complex and multi-dimensional factors contribute to financial exclusion and therefore require a
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A comprehensive variety of providers, products and technologies that work within and are a reflection of the socio-economic, political, cultural and geographic conditions in their countries. Financial sector development is an important indicator which contributes to the development of the economy. For financial sector stability inclusive sustainable growth has not only impacts the poverty reduction but also contributes to the economy growth. Various initiatives taken by the stakeholders of the financial system in India addressed the gap and issues in achieving hundred percent financial inclusion. The growth of the Indian economy benefitted growing middle class population, but created disparities between rural and urban areas. To achieve equitable access to credit and financial services various institutions should play an active role in promoting financial inclusion in India.

Review of Literature:

This section covers the review of literature of some of the important studies, research papers and articles on the various aspects of financial exclusion, financial inclusion, women empowerment, microfinance, banking penetration and ICT based financial inclusion.

Financial Exclusion:

The term social exclusion was first used in the 1970s in France to distinguish the excluded people comprised of disabled, suicidal, abused children and elderly persons. Usually these people are ethnic or religious minorities we apply social exclusion concept to study the groups left out of development processes. At the all India level differences between social groups explain only a small share of total consumption inequality in India. But in some states, group differences are important and growing (World Bank 2011)21.

Addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about the financial products, education, savings, investment, affordable credit and advising on money management. Many consequences are there for financial exclusion like difficulties in gaining access to credit, getting credit from informal sources for higher interest rates, decline in investment, increased unemployment, need for travel requirements, delay in
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remittances of money etc. are the consequences why the some part of the population is financially excluded. Delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups without discrimination (Leeladhar 2006)\(^\text{22}\).

According to the report of Government of India on Household Assets Holding, Indebtedness, Current Borrowings and Repayments of Social Groups in India - NSS 59th Round reported that incidence of indebtedness was highest for Other Backward Class (OBC) households, 29% among rural and 21% among urban households. For Scheduled Tribes (ST) the incidence was 18% in rural areas and 12% in urban areas. For Scheduled Caste (SC) households this was 27% in rural areas and 19% in the urban areas. Overall in India among the social groups 27% of the rural households were indebted and 18% of the urban households are indebted. Even in the case of Debt Asset Ratio (DAR) varies among the social groups in India. About 57% of amount of debt was from institutional agencies in rural areas and 75% in the urban areas (Government of India 2006)\(^\text{23}\).

(J. K. Pandey, 2007)\(^\text{24}\) identified number of dimensions of financial exclusion and classified them into access exclusion, condition exclusion, price exclusion, marketing exclusion and self-exclusion. This resulted in denial of financial services. Financial deepening has increased the financial flows but not guaranteed financial penetration savings and investments can be channelled through financial system. (Patrick, 2007)\(^\text{25}\) analysed 160 countries data to find variation in household access to financial services. The analysis explored that better household access to finance is associated with lower inequality, but not that access is casually related to lower poverty headcount.

(Kantor, 2009)\(^\text{26}\) studied women’s exclusion and unfavourable inclusion in informal employment and found that urban women's participation in paid or unpaid economic activities has little influence in the household activities. Households from below the poverty line had little ability to raise their house hold out of poverty.

(Chattopadhyay, 2011)\(^\text{27}\) examined the extent of financial inclusion in west Bengal by comparing Kerala, Maharashtra and Karnataka. The study observed that
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there is an improvement in outreach but outreach is not significant when compared to other states. The study concludes that after taking various measures to promote financial inclusion, the success is not found due to the demand and supply side factors.

(Rama et al. 2012) analysed income related inequality in financial inclusion in India using household survey data. The econometric analysis reveals that financial exclusion is severe in India. Particularly among the poor households. The levels of financial exclusion and income related inequality varies across states and regions. In the case of income related inequality in financial inclusion is higher in urban sectors. The study also determined factors as barriers for financial inclusion such as percapita income, availability of banking services, education, employment status, household size and propensity to use banking services/financial services.

CRISIL Inclusix is a unique tool that measures financial inclusion based on branch penetration, credit penetration and deposit penetration. The report highlights that all India level score is 40.1 (on a scale of 100) which is relatively low. The report also highlights that under penetration of banking facilities in most parts of the country there is a wide disparity exist across India with in the states in terms of access to financial services(CRISIL, 2013).

According to Global snapshot of Financial Exclusion 2014(World Bank, 2014) India has low level of access to all financial products. Informal borrowing from family & friends is very high as formal credit is very limited. Out of 23 countries India has least favourable ratios of formal lending (7.7%) to informal lending (6.6%).

Financial Inclusion:

(Ang, 2008) examined how finance impacts on income inequality in India. The study reveals that under development of financial systems hurts more than the rich resulting income inequality. In India financial sector reforms has not reduced the inequality in accessing the formal source of finance, but study finds that increased banking density and efficiency had impact on income inequality in India.

(Naveen K Shetty & Veerashekharappa, 2009) examined the nature and type of new institutions that emerged in the financial system to include the excluded
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population. The study reveals that large number of institutions not for profit NGOs which not competitive and aggressive in reaching the excluded population in India. Few MFIs are with high concentration in the states like Andhra Pradesh, Tamilnadu, Karnataka & Kerala, in these state the MFIs are transformed into financial institutions and started opening number of branches where the banking sector neglected the untapped population in providing financial services. The study also finds that SHG-Bank Linkage Programme and MFI models are the two dominating approaches in the post financial reforms in India.

(Swamy, 2010)\textsuperscript{33} studied the bank based financial intermediation for financial inclusion through empirical evidence. The study has found that there is a significant impact of priority sector lending on inclusive growth in India. Domestic savings, credit to GDP and percapita income also has significant impact on reducing the poverty. The study concludes that financial sector reforms in India have positive impact in achieving inclusive growth. The study also suggested that to achieve inclusive growth coordinated action between the banks and other financial intermediaries required to facilitate access to finance who are financially excluded.

(Bihari, 2011)\textsuperscript{34} developed a model 'Index of Financial Inclusion' to study the extent of financial exclusion across economies by examining the relationship of financial inclusion and development. The model is based on the indicators like banking penetration, availability of banking services and usage of the banking system based on the data available up to 2008. The result of the model reveals that degree of penetration was 0.185, degree of availability of services was 0.096 and degree of usage was 0.186. That study concludes that financial inclusion in India is low.

(Shiralshetti & K, 2011)\textsuperscript{35} attempted to ascertain the level of customer satisfaction with regard to banking services. The customer satisfaction is studied based on the four factors like convenience, cost, facility and general. The study explored that customers are felt convenient with the timings and procedures to repay the loan. Majority of the customers are not satisfied with the bank services like interest rate, processing fee and charges on other services. In the case of mobile banking, internet banking, RTGS, credit and travellers cheque services, customer
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satisfaction is low. Very few customers are satisfied with the courtesy of staff. The study concludes that success of the bank depends on its customers; banks should provide maximum features in their services.

(Alexander, 2011)\textsuperscript{36} in his article pointed out that to improve financial access, regulators can contribute to promote financial inclusion by removing the regulatory barriers to account opening. Due to the regulatory barriers the usage of no-frills account is low. The poor has to be given an option to use the account with low value amount. (Shafi & Medabesh, 2012)\textsuperscript{37} Indian economy has achieved phenomenal growth resulted from the territory and secondary sectors during the last decade but this growth is not inclusive as the benefits of economic prosperity have not trickled down to all the sections of the society.

(Ghosh, 2012)\textsuperscript{38} explored the factors influencing banking outreach at the national level. The study argues that high share of agricultural out is a proxy for poverty; high poverty would entail lower percapita income and consequently lowers the banking outreach. Another important demand side factor behind financial exclusion is the low-level of literacy. The evidence from the study indicates that significant differences in both geographic and demographic inclusion across high and low income states also suggested that there is a need for improving labour regulations, literacy level, financial infrastructure development which draws the visible impact on banking outreach.

(Rgüç-kunt & Klapper, 2013)\textsuperscript{39} based on the 148 countries data set studied how individuals around use formal and informal financial products by studying the indicators like savings, borrowings, payments and managing risks. The study reveals that majority of the adults in the developing countries use ATMs for withdrawals and makes deposits once or twice in a month. Most of the non-account owners are not having enough income to use bank accounts. Households with low and irregular income opined that usage of the financial products is expensive. In the case of the disbursements of cash transfers by the Government poor or encouraged to open bank accounts for receiving the cash. In the countries like India & Bangladesh approximately 10\% of the adults avail the services of bank agents for depositing and
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(withdrawing the money from bank accounts.

(Shankar, 2013) studied how microfinance institutions addressing access barriers for promoting financial inclusion in India. The study found that MFI penetration in India is uneven but made considerable progress in increasing the access to financial services. The study reveals that in the north eastern region MFI penetration helped to provide financial services where number of bank branches is low when compared to population. The study also observed that in the northern region bank penetration is high and MFI penetration is low. But in the case of southern and western region bank and MFI penetration is very high. MFIs penetration as a barrier to promote financial inclusion where even the banking sector is neglected. The study suggests that MFIs has to consider flexible operating models and portability of accounts.

(Rajeev, 2013) analysed the NSSO 59th round data to understand the problem of exclusion based on the access to credit in the society. The study observed that indebtedness is concerned, especially in the case of urban poor access to formal and informal credit is not adequate as urban poor is facing problems in availing the loans. The study also identified that male headed households availing more loans compare to female headed households. (Bhat, 2013) in his research pointed out that more emphasis should be there in encouraging women entrepreneurs in backward districts should be encouraged to form SHG as they have the credit absorption capacity. (Ramanathan, 2013) highlighted an informal saving method Village Savings and Loan Association (VSLA) pioneered by CARE organization in 1991. In this informal savings method members save the small amounts more frequently and also flexibility in terms of amount as there is no fixation of saving amount. This method helped poor to build savings to meet their emergencies and to improve their livelihoods.

(Mehar, 2014) assessed the progress of banking sector focusing on financial inclusion. The study shows that nearly 63% bank branches are located in the rural urban areas comprising 37% in rural areas and 26% in urban areas in India, but still significant portion of the population lack access to formal source of finance. The study suggest that bank branches which are not viable in urban metropolitan cities operations has to be closed or should be merged with other banks and also suggest
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that banks has to reduce high cost products and poor services.

(Bhave, 2014) discussed the different initiatives taken by the Government and the challenges faced by the demand side of financial inclusion. The study has identified the demand side factors like illiteracy, low income, unemployability, inequality among the rich and poor and lack of customised products as issues for achieving total financial inclusion. The study concludes that apart from quantitative measures Government should concentrate on qualitative measures which will strengthen the objective of financial inclusion.

Urban Poverty:

(Tambunan, 2004) examined the main causes of urban poverty in Indonesia. The study identified the two main causes (1) Economic backwardness as majority of the households are in agriculture/ farm work and most of them are marginal workers. (2) Diversifying the secondary source of income by sending the children to work in the informal sector.

(Grant, 2006) studied the various dimensions of urban economic growth and chronic poverty. The study highlights that urban chronic poverty is characterised by household size, low levels of education, lack of asset ownership, ethnicity, dependence on the informal sector, health, employment, age and female headedness. The study identified the issues faced by the urban poor like unemployment, living in disadvantaged locations, underemployment, lack of sanitation, migration and rising food prices. As most of the urban poor borrow to meet the financial requirements at the time of emergencies from the informal sector, the study suggests that there is a need for access to financial services as it is crucial for sustaining urban livelihoods.

(T. W. Bank, 2011) poverty has been falling in India and declining steadily as India is becoming urbanized. Due to the premium wages in urban town’s rural population is away from the agricultural sector. Greater importance is given to non-farm sector as a sustainable source of poverty reduction. This has resulted in increased urban poor. Currently in India 80 percent of urban poor are living in small and medium size towns and in metropolitans. In India reducing non consumption poverty is mammoth task. Several studies also shows that higher incidence of poverty is
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observed in small and medium size towns and metropolitans.

(Sundaram & Chowdary, 2013) 49 studied the relationship between economy growth, employment and poverty. Identified the factors like economic growth, employment, sectoral composition, sources of growth and inequality in reducing the poverty. The study also concluded that employment intensive growth will reduce poverty when employment is in the higher productive sectors.

Self Help Groups, Women Empowerment and Microfinance:

(Garikipati, 2008) 50 studied the impact evaluation of lending, household vulnerability and women empowerment. The study explores that lending through microcredit strengthen household vulnerability. In the case of the women who are from the poorest of the poor who diverted the loans to manage the crisis’s in the household. The study also explores that women diverted the funds to productive and consumptions needs. As the education and training increases, significantly economic performance increases. SHGs economic performance can be improved when they are provided with high loan to groups intern these groups lend more amount to members (Nagaraj et al., 2009) 51.

(Imai, Arun, & Annim, 2010) 52 examined based on the Indexed Based Ranking (IBR) whether household access to microfinance reduces poverty or not. The study explores that in rural areas access to MFI loans for productive purposes has reduced the poverty whereas in urban areas access to MFIs has reduced the poverty. Community based projects and activities approach which is claimed to increase the social capital. Trust and group coordination is the main reason in this type of approach which leads to women empowerment (Janssens, 2010) 53.

(Bert D’Espallier, 2011) 54 studied gender impact on repayment in MFIs from 350 MFIs in 70 countries. The study finds that, most of the MFIs are targeting women; repayment among the women borrowers in the NGOs, Co-operative banks, individual lenders is very high when compared to MFIs borrowers. (Cull, 2011) 55 collected data from 346 MFIs from 67 developing countries to compare supervised MFIs with unsupervised MFIs and argued that commercially funded MFIs tend to be supervised than non-commercially funded MFIs. Their study has found that there is no significant relationship between supervision and profitability and concluded that non-
commercial MFIs maintain their outreach with profitability.

(Dalla Pellegrina, 2011) 56 using from the world bank data investigated which kind of lending - micro lending, informal lending and bank lending is suitable for promoting investment either in farming and non-farming activities. The study reveals that MF programs are suitable for few sectors. The study also finds that there is no efficient superior credit agreement and concludes that households who belongs to group lending programs invest more in non-agricultural products, households who belongs to agriculture borrow from informal sources and banking are investing more.

(Mallick, 2011) 57 empirically investigated the intervention of MFI programs on the moneylender interest rates in northern Bangladesh. The investigation explores that if the loans provided by MFIs are invested in the productive purpose the borrowers will have capacity to repay the loan. When the repayment is high the MFIs will charge low interest. However if the MFIs coverage is high and demand for loans is not meeting the requirements then MFIs will charge high interest rate on the loans.

(Montgomery & Weiss, 2011) 58 studied Pakistan's first and largest commercial microfinance bank(Khushali Bank) to assess the impact of bank in meeting the Millennium Development Goals (MDGs). The study found that there is no much progress in urban and rural areas, but in rural areas bank made progress in reducing poverty, women empowerment and improving the health of the children.

(Niels Hermes & Robert Lensink, 2011) 59 examined the outreach and efficiency of microfinance institutions by using stochastic frontier analysis. They examined 435 MFIs over the period of 1997-2007. The study found that outreach is negatively related to efficiency of the MFIs. They have also found that MFIs with lower average loan balance, more women borrowers as clients are less efficient. The study suggested that from the view of commercialization of MFIs the emphasis is more on efficiency. Stronger emphasis on efficiency will reduce the outreach of the MFIs. There is strong evidence that trade-off between outreach and sustainability is observed. By focussing on the existing social networks MFIs can improve their operations and outreach. Less impact will be there by transforming MFIs into formalized banks, where banks have to compromise the social goals (Niels Hermes, 2011) 60.
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(P. K. Gupta & Hanagandi, 2012) \(^{61}\) analysed the impact of SHG on women empowerment in Bijapur district of Karnataka State. The study found that most of the SHG members are in the age group of 20-40 years. The main intention of joining SHG is to develop savings habit, majority of the members availed the credit facilities more than Rs. 10000 by saving Rs.300 per meeting. The utilization of the loan amount decision is taken by the member. The purpose of availing loan is for self-employment, acquisition of assets, providing education for dependents and for personal medical treatment. The study also found that majority of SHGs opined that by joining SHG their social awareness, self-employment and to increase income level. The study concludes that the intervention of microfinance through SHG-BLP has positive impact on women empowerment.

(Sivasubramanian & Ali, 2012) \(^{62}\) analysed the flow of credit from the banks and its impact on the entrepreneurial prosperity among the members of the SHGs. The study shows that majority of the SHG members are petty vendors, after joining as member in SHG which helped in sourcing the working capital to take up their discontinued business. Members who are associated with SHG are able to increase their sales. The study made a point that credit flow helped SHGs to take up entrepreneurial activities as most of the members invested loan availed from SHG as seed capital to procure raw material and machinery. The study has concluded that because of the credit flow from the banks to SHGs improved the entrepreneurial prosperity for sustainable development. The study suggests that Government should create interest free fund for microfinance which should be made available for banks, NGOs and MFIs.

(Manjunatha, 2013) \(^{63}\) examined the relationship between SHGs and socio economic development in Karnataka State. The study analysed and found that in most of the districts SHG federations playing an active role in women empowerment. In the state SHGs reduced the poverty and improved the status of the rural poor. The rural poor after joining the SHG as member their consumption, income and asset acquisition has increased. The study also observed that most of the women borrowers belong to economic weaker sections and who are not in a position to understand the
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terms and conditions laid by banks for borrowings. In actual terms SHG members know only how to operate savings bank account. The study concludes that bank linkage programme has made an impact on rural poor to take income generating activities, made women financially strong through savings and investment for future requirements.

(Morgan & Olsen, 2011) explored how rural poor households are accumulating debt through micro finance initiatives. The research explores that the growth of the micro-finance and of SHGs in India has coincided with the growth level in the levels of debt and characteristics of debt in rural areas. SHGs are able to access the formal credit at lower rates and able to invest in petty businesses and farming activities. Investing through borrowings created a class and caste related debt vulnerability among the rural poor households which raised the basic question of type of development.

(Shivaprasada & Anilkumar, 2013) reviewed the spread of credit linkages between SHGs and banks based on the delivery channel STCCS (Short Term Credit Cooperatives) in Karnataka. The study found that in the state STCCS outreach is more effective than PACS (Primary Agricultural Credit Cooperative Societies). STCCS with network of 4700 with more than 603 branches enhanced the capacity building in providing the microfinance products and services. Due to this initiative number of SHGs in the state increased.

(Tamragundi & Ragikallapur, 2013) studied the risk perception of the bank managers on the issues and constraints in microfinance in Karnataka State. The study identified the factors like loan size beyond the capacity of SHG, loan default with increased loan size, political influence, debt waiver policy of the Government, lack of monitoring by MFI/NGOs and field staff of banks as high risk factors exists in the SHG-BLP which leads to some loss to the stakeholders of SHG-BLP.

SHG members with literacy, predetermined savings, members who have equal opportunity in decision making, formulation of SHGs has increased the deposit base of the banks(Dakshayani, 2013). (Dash, 2013) examined the efficiency of microfinance institutions in India using a modified form of Data Envelopment
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Analysis. The study results suggest that MFIs have to incur increased risk exposure to achieve better financial performance and outreach and also suggests that the control efficiency scores is at higher level particularly with respect to outreach and performance. (P. Gupta & Manjunatha, 2013) 69 empirically studied how women are empowered through microfinance and alleviated the poverty in Bangalore Urban. The study reveals that before joining SHG most of the poor are employed in informal sector. After joining as member in SHG, women received micro capital and started micro business. After joining, SHG member’s involvement in the production related and business related activities increased. The study concludes that after joining SHG, member’s income, savings and credit access increased. The study proved that microfinance has filled the gap to access low cost formal financial services.

(Khemnar, 2013) 70 studied the progress of microfinance and analysed the performance of microfinance in Maharashtra State in India. The study reveals that only 23% of SHGs started their own business, majority (77%) of SHGs were started for savings purpose. Members of SHGs used savings for unproductive and domestic consumption purpose. Even the development of the SHGs and microfinance is uneven, high regional disparity is observed in the State.

(Jagadeesh & Madhura, 2014) 71 studied whether availability of finance for the disadvantaged population can lead to the poverty eradication and promote growth. The study identified some of the challenges like lack of SHG quality & leadership, SHG outreach, unskilled staff to recover loans, lack of debt & equity funds with MFIs and restrictive policies with formal agencies. Study pointed out that there is a need to shift the focus from quantity to quality credit; grants to MFIs, supervision of utilization of loan borrowed by SHGs are the strategies which will promote the microfinance among the disadvantaged population. To prosper well in the micro business, SHGs are in need of business education. The basic business education will impart the essential skills to conduct and manage the business activities. Most of the SHG members lack basic skills like managing accounts, book keeping and computer literacy. MFIs, NGOs, Commercial Banks and other service providers should take lead role in providing basic business skills as SHGs are very close to these service providers(Manjunatha & Gupta, 2014) 72.
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(Sharma, 2014)\(^73\) studied empirically the progress of microfinance and SBLP in Karnataka. The study reveals that from the inception of NABARD there is a rapid growth in the number of SHG's credit linked, number of savings accounts with banks increased. Southern region with 46.76% stood top in the region wise spread and Karnataka is the third state. The study result shows that there is a decline of loans outstanding to 13.4% in 2010-11 compared to 34.9% in 2008-09. The study concludes that SBLP is beneficial to the poor in accessing the formal source of credit and resulted in the growth of the SHG in the country.

ICT Based Financial Inclusion:

(Kumbhar, 2010)\(^74\) identified some of the constraints such as mobile service provides connectivity, IT literacy, refund services, break down of mobile banking application, language used in the application, limited range of services, security & trust to achieve financial inclusion through mobile banking. (T. Pandey, Krishna, Vickers, Menzes, & Raghavendra, 2010)\(^75\) pointed out that tapping the mobile phone usage will reduce the social & economic barriers. Application of mobile based technology in the payments & settlement systems which reduces transaction cost and improves the operational efficiency integrating the financial supply chain with physical supply chain increases the greater financial inclusion. Indian banks need to develop strategic action plans to harness the m-banking potential to facilitate unbanked, underbanked and to reach customers to access financial services. The process of computerization in the banking industry significantly changed the structure and texture of urban and metropolitan economy (Patel, 2010a)\(^76\).

(Patel, 2010b)\(^77\) suggested that reduction of the operational cost is possible when both MFI & the customers use mobile banking with the help of the mobile banking with help of the technology MFI’s can reduce the cost operational cost & interest rate which will attract more customers mobile banking helps the customer to save the time & money and for services like deposits & remittances no need to visit branch. Mobile banking is the most happening area of development in banking sector. It has the potential for overcoming the issues like infrastructure, cost & resources. Technology development in the banking sector brought some new issues like increased expenditure on IT, monetary laws, data theft, breach of privacy etc. (Sinha,
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(Doong & Ho, 2012) by taking 136 countries data studied the digital divide among the countries. The empirical study concluded that most of the countries ICT convergent are between 2005-2008. The study also shows that the convergence level occurred at non unique ICT development both at high and low level clusters which reduced the digital divide among the countries. Banks are leveraging technology to provide banking services to the door step of rural customers at low cost. Technology a key enabler in increasing customer reach, operational efficiency and in providing customer centric solutions (Eric, 2012).

(IOS Press, 2012) suggested that to increase the financial inclusion developing innovative methods for retail payments is essential. Delivery of financial services through mobile technology is low cost and brings the unbanked to banking. As in the case of mobile technology remote payments are possible with mobile device. In the case of card payments instrument or additional devices required. In the developing countries good financial infrastructure helped to reach the micro clients in remote areas. Most of the developed countries USA, Japan, Kenya and Srilanka have well developed financial infrastructure with a wide range of payment instruments available with majority people. In the case of India where huge unbanked population with limited instruments is a challenge to provide the financial services to the underserved.

(Prasad and Swathi, 2012) proposed a cash less ecosystem to promote financial inclusion based on the cost and security perspective. The proposed model is based on the smart card technology aimed to provide cashless transactions with security to the unbanked rural people. Cash less payment model which facilitates the branchless banking and reduce the risk of handling the cash.

(Singh, 2012) examined the model of mobile banking based money order by integrating the India post with Banks to identify facts and opportunities to accelerate financial inclusion process. Business growth, convenience to the customers, reduced transaction cost, reduced risk of fraud/malpractice transparency are the opportunities with India Post for increasing outreach by leveraging ICT. The study also concludes
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that the initiatives taken by India Post to transfer the money through mobile are modest. The study also pointed out that the present postal money is inconvenient and there is more demand for mobile money transfers services.

(Mishra & Bisht, 2013) studied the bottom up approach of mobile banking service, identified the key attributes like pricing structure, safety, security & minimum documentation are the acceptable preferences of the rural and urban poor for accessing the financial services through technology. The study also pointed out that if private sector telecom firms & banks participation will achieve the objective of financial inclusion through mobile banking.

(Anong & Kunovskaya, 2013) study reveals that mistrust on non-bank retail agents, mobile thefts, financial losses due money laundering are the major concerns of the unbanked than the cash risk lead to the clients dissatisfaction. In the countries like India where mobile financial services are governed by banking regulations to protect the consumers against the frauds and malpractice. For service providers still there is room for the improvement by providing the auxiliary services like financial literacy programmes, educating the newly opened account holders, educating the rights of the account holder, Highlighting the banking ombudsman and grievance/ redress procedures. Especially in the case of mobile banking services there is need for consumer education. Studied the nature and impact of mobile financial services and consumer protection in South Africa. The study confirms that the country's legal and self-regulatory framework for mobile financial services is ahead when comparing to developing countries.

Need for the Study:

The review of literature on the financial inclusion leads us to make a few conclusions like many gaps are identified in the demand side and supply side for promoting financial inclusion through micro finance institutions. Creating delivery systems, usage of existing network and adopting ICT are some of the channels in promoting financial inclusion. Financial inclusion defined 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
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cost.

With about 19% of the State's population below the defined poverty line, Karnataka has initiated various poverty alleviation programmes both in rural and urban areas. While these programmes have resulted in a marked decline in the number of the state's poor. Incidence of urban poverty is much higher in Karnataka than in India as a whole for all the years. Financial infrastructure in the state is robust with significant improvements being seen in key indicators such as population per branch, credit deposit ration and priority sector advances. With financial inclusion as an important policy initiative adopted by the state, the government has initiated projects for financial inclusion through use of information technology. Karnataka has been among the top three states in the country in SHG-Bank linkage.

According to Census of India 2011 Bangalore is the first place in terms of density of population which is 4,378 per Sq. Km. In Bangalore nearly 246 declared slums and 163 undeclared slums are there. Rising in-migration, urban poor; if not managed well urban poverty may rise. As financial inclusion is considered as tool for alleviating poverty. The reason to select this particular place is that though Bangalore is good in-terms of financial infrastructure to deliver financial services, but still urban poor is excluded from access to financial services.

Urban Financial Inclusion (UFI) has not got the attention of GOI/RBI as a lot of work required to be done to cover all the unbanked villages. However, now the city wards have been allotted to bank branches under the Direct Benefit Transfer (DBT) scheme of GOI. In Bangalore Urban District all wards in Bruhat Bangalore Mahanagara Palike (BBMP) have been allotted by State Level Bankers Committee to various banks, banks already started taking initiatives to move forward Urban Financial Inclusion. That is why; a modest attempt has been made in this research work to study financial inclusion initiatives taken by the different stake holders and its impact. The study is intended to cover the financial inclusion initiatives taken by the Government of India, State Government, Micro Finance Institutions and Non-Government Organizations.
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Scope of the study:

The scope of the study is very wide as financial inclusion means providing access to financial services and non-financial services. The present study covers the extent of financial exclusion in India and current status of financial inclusion in India and Karnataka State. The study also covered various initiatives taken by Government of India, Reserve Bank of India, NABARD, State Government, Micro Finance institutions. The study also highlights how financial inclusion initiatives have improved the economic status of the poor and underserved population.

Objectives of the study are:

1. To examine the extent of financial exclusion in India
2. To understand the framework of financial inclusion policy and the phases of financial inclusion in India.
3. To study various initiatives taken by the stakeholders to address the financial exclusion.
4. To study how microfinance institutions and technology is promoting financial inclusion.
5. To analyse the progress of Self Help Group Bank Linkage Program.
6. To measure the operationalization of Basic Savings Banking Account.
8. Finally to give successful strategies for improving the access to financial and non-financial services to underserved population.

Research Hypotheses:

The main hypotheses formulated for the study are as given below:

H$_1$: Bank branch penetration progressed the objective of achieving hundred percent financial inclusion.

H$_2$: Existence of demand and supply side factors as hurdles in promoting financial inclusion.
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H3: Micro finance institutions promoting financial inclusion has an impact on the economic empowerment of poor people.

H4: Availing credit from the formal financial system has improved the economic conditions of the underserved population.

H5: Financial inclusion initiatives taken by the stake holders have significant impact on operationalization of Basic Savings Banking Account (BSBA).

H6: The most important factors like savings, leadership qualities, credit utilization, repayment, regular meetings and economic activities are significant for the success of the Self Help Group Model.

H7: The delivery channels like bank branches, NGOs, Joint Liability Groups, Self Help Groups, Micro Finance Institutions and Business Correspondents/Facilitators are significant to reach the unbanked and underserved population.

H8: Technology as a significant factor to minimize the transaction and service cost.

H9: Self Help Group – Bank Linkage Program (SHG-BLP) is considered as an important tool for inclusive growth.

H10: The indicators like rapid urbanization, raising population, in-migration, poverty, imbalanced growth in the rural and urban areas are significant factors for the need of Urban Microfinance

Research Methodology:

To study the above research objectives case study and survey methodology adopted. The study is based on both primary and secondary data. The primary data collected through questionnaires and pre designed schedules. Primary data collected by distributing pre designed schedules to self-help groups and micro self-help groups(refer annexure I). By distributing questionnaires primary data collected from bank managers(refer annexure II), joint liability groups and individuals(refer annexure - III). Secondary data have been collected from State Level Bankers Committee, Reserve Bank of India, National Bank for Agriculture and Rural Development, Planning Commission of India, Government of Karnataka, doctoral theses, referred journals, working papers and research edited volumes.

Sampling:
Chapter – II: The Study

Convenience data sampling is used to collect the primary data from the respondents. Bangalore Urban district is taken for the study. Bangalore Urban District comprises of five taluk’s Bangalore North, Bangalore North (Additional), Bangalore East, Bangalore South and Anekal. 60 Joint Liability Groups, 120 micro self-help groups, 120 matured self-help groups 76 bank branches and 40 individuals from all the five taluk’s covered.

Statistical tools used:

The data collected through questionnaires and schedules are properly analysed by applying the tools like ANOVA (Single Factor Analysis), Chi-Square Test, Descriptive statistics and Percentages.

Limitations of the study:

Any research by its inherent nature is bound to have some limitations and this study is not an exception to that rule. The major limitation of the study is that it is restricted to the Bangalore Urban District. However an effort is being made to minimize the impact of this limitation by selecting the sample from all the five taluks. As this study is based on the responses of the beneficiaries and bank managers there is a possibility of personal bias. To minimize this impact cross reference questions asked to the respondents. As financial inclusion is a process of ensuring access to financial and non-financial services needed by vulnerable groups. In this study only few major indicators and stake holders considered for in-depth study. With all these limitations all the efforts are made to evaluate the impact accurately and objectively as possible.

CHAPTERISATION:

Chapter 1: Introduction

This chapter deals with financial inclusion, extent of financial exclusion in India, access to financial services, theoretical framework, financial inclusion in India and demand and supply side factors of financial inclusion.

Chapter 2: The Study

This chapter explains the significance of the financial inclusion, review of literature, scope of the study, objectives of the study and hypothesis. It also describes the
Chapter – II: The Study

research methodology, sampling, statistical tools used and limitations of the study.

Chapter 3: Financial Inclusion Initiatives

This chapter deals with the current status of financial inclusion in India, initiatives taken by Government of India, Reserve Bank of India, NABARD, Government of Karnataka and other stakeholders. The chapter also discussed recent initiatives taken by the stake holders.

Chapter 4: Profile of the Karnataka State and Bangalore District:

This chapter deals with state and district profile in terms of area and administrative divisions, population, GDP growth, agriculture sector, employment, unemployment, industry, services sector, unorganized sector, MSME sector and banking scenario

Chapter 5: Impact of Financial Inclusion on Self-Help Groups and Micro Self Help Groups:

This chapter basically deals with the SHG-Bank linkage program and Progress of SHG-BLP in Karnataka. This chapter deals with detail analysis of Self-Help Groups and micro self-help groups. The analysis of primary data for SHGs and MSHGs are presented in this chapter.

Chapter 6: Impact of Financial Inclusion on Joint Liability Groups and Individuals:

This chapter deals with urban poverty and need for the urban microfinance. How urban poverty is alleviated through urban microfinance has been discussed in detail. Primary data analysis of JLGs and individuals is presented in this chapter.

Chapter 7: Operationalization of Basic savings bank account:

This chapter deals with features of the no-frills savings account, facilities provided, detailed primary data analysis is presented in this chapter.

Chapter 8: Summary and Suggestions

The whole study is summarized and appropriate suggestions are given in this chapter.
Chapter – II: The Study

References:


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