CHAPTER III
THEORETICAL PERSPECTIVES AND REVIEW OF LITERATURE

The term financial inclusion was first coined in 1993 by geographers who were concerned about bank branch closures and the resulting limited physical access to banking services. This idea grew but it was not until around 1998 that the term was first used in a broader sense to describe people who have limited access to mainstream financial services. It was in the same year that the Credit Union Task force was created by HM Treasury and the fourteen policy action teams were established as a result of the Social Exclusion Unit report “Bringing Britain Together: a national strategy for neighbourhood renewal”. One of these teams was tasked with developing a strategy to increase access to financial services for people living in deprived neighbourhoods. It was from this point that financial inclusion in its current form really took off in the UK.

The National Sample Survey data (2002-03) revealed that nearly 51 per cent of farmer households in the country did not seek credit from either institutional or non-institutional sources of any kind. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The proportion of rural residents who lack access to bank accounts is nearly 40 per cent, and the figure rises to over three-fifths in the eastern and north-eastern regions of India. Accordingly, our primary objective is to take banking to all excluded sections of the society, rural and urban.

A more focused and structured approach towards financial inclusion has been followed since the year 2005 when Reserve Bank of India decided to

implement policies to promote financial inclusion and urged the banking system to focus on this goal. Our focus has, specifically, been on providing banking services to all the 600 thousand villages and meeting their financial needs through basic financial products like savings, credit and remittance. The objectives of financial inclusion, in the wider context of the agenda for inclusive growth, have been pursued through a multi-agency approach. In 2006, the Government of India constituted a Committee on Financial Inclusion, which made a wide range of recommendations on the strategies for building an inclusive financial sector and gave a national rural financial inclusion plan. Government of India has set up the Financial Stability and Development Council (FSDC), which is mandated, inter alia, to focus on Financial Inclusion and Financial Literacy issues. In order to further strengthen the ongoing financial inclusion agenda in India, a high level Financial Inclusion Advisory Committee has been constituted by RBI. The Committee would pave the way for developing a viable and sustainable banking services delivery model focusing on accessible and affordable financial services, developing products and processes for rural and urban consumers presently outside the banking network and for suggesting appropriate regulatory framework to ensure that financial inclusion and financial stability move in tandem. Financial sector regulators including RBI are fully committed to the Financial Inclusion Mission. This study covered this in more detail in a preceding Chapter.

3.1 Theoretical Foundation:

3.1.1 Finance-Growth Theories:

Serrao (2012)19, according to him theories on the finance growth nexus advocate that financial development creates a productive environment for growth through ‘supply leading’ or ‘demand-following’ effect. Theories also perceive the lack of access to finance as a critical factor responsible for persistent income

inequality as well as slower growth. Therefore, access to safe, easy and affordable source of finance is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty which creates equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks.

Theoretical disagreements do exist about the role of financial systems in economic growth. Some economists see the role as minor or negligible while others see it as significant. The demand following view is supported argues that the financial system does not spur economic growth; rather the financial system simply responds to development in the real sector. The supply leading proponents contrasts the former view. The origin of the finance-led growth hypothesis can be traced back to Bagehot (1873)\(^{20}\). Those who favor the finance-led growth hypothesis argue that the existence of an energetic financial sector has growth-enhancing effects. Schumpeter\(^{21}\) in 1911 posited that banks enable an economy to grow by providing efficient markets for funds.

Goldsmith (1969)\(^{22}\), McKinnon (1973)\(^{23}\), Levine and Zervos (1996)\(^{24}\), and others also emphasized the positive role of financial systems in economic growth as cited by Ndebbio(2004)\(^{25}\). The main argument of proponents of the supply leading theory is that, financial markets evolve in response to increased demands for financial services from an already budding economy. Therefore, the development of financial markets is a reflection of growth in other sectors of the economy.

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In conclusion, majority of the theories have established a positive link between financial development and economic growth. Thus, the evolution of financial development, growth, and intergenerational income dynamics are closely intertwined. Finance influences not only the efficiency of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households.

Financial inclusion attempts to reduce these market frictions. Information asymmetry is a situation where by the one party has more or better information than the other. Information asymmetry causes markets to become inefficient, since all the market participants do not have access to the information they need for their decision making processes. Examples of this problem are adverse selection, moral hazard, and information monopoly. In adverse selection models, the ignorant party lacks information while negotiating an agreed understanding of or contract to the transaction, whereas in moral hazard the ignorant party lacks information about performance of the agreed-upon transaction or lacks the ability to retaliate for a breach of the agreement. Transaction costs if too high lead to higher pricing of products, which is one reason why financial exclusion exists. Financial inclusion initiatives are geared towards reducing the transaction costs. Thus reducing financial market imperfections to expand individual opportunities creates positive, not negative, incentive effects as these theoretical models indicate.

Demirguc Kunt and Levine (2007) argue that reducing financial market imperfections to expand individual opportunities creates positive, not negative, incentive effects. These models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps, as well as lower growth.

3.2 Defining Financial Inclusion

Report of the committee on financial inclusion (2008)\textsuperscript{27} 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 cost.

Financial Inclusion as defined by RBI\textsuperscript{28} is 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 mainstream institutional players. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Mas (2012)\textsuperscript{29}, argues that financial inclusion is the process of bridging three clouds: 1) a physical cash cloud which is the legacy financial system where most poor people operate today; 2) a digital cloud where money is stored in a virtual account; and 3) a psychological cloud (i.e. the brain) through which people interpret and plan their financial lives. Connecting the physical and digital clouds unlocks "access" while connecting the digital and psychological clouds unlocks "usage".

RaghuramRajan Committee (2007)\textsuperscript{30}, views Financial Inclusion, broadly, “as universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products”.

\textsuperscript{27} “Report of committee on Financial Inclusion(2008)” headed by Dr. C. Rangarajan, Chairman Economic Advisory Council to Prime Minister.


\textsuperscript{29} Mas, Ignacio (2012), “Payments in developing countries: Breaking physical and psychological barriers”, Transaction World Magazine.

According to World Bank (2008)\textsuperscript{31}, Financial Inclusion, or broad access to finance, is defined as the absence of price or non-price barriers in the use of financial services

Rangarajan’s Committee (2008)\textsuperscript{32} on financial inclusion defines it as: “Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit was needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.” It is also termed as delivery of banking services at an affordable cost to the vast sections of disadvantageous and low income groups.

Asian Development Bank has also defined the financial inclusive as “Provision of broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income households and their micro enterprises.”

Leyshon and Thrift (1995)\textsuperscript{33} - Financial exclusion refers to those processes that serve to prevent certain social groups and individuals from gaining access to the financial system.

Sinclair (2001)\textsuperscript{34} - financial exclusion means the inability to access necessary financial services in an appropriate form.

Santiago, Gardener (2005)\textsuperscript{35} - inability (however occasioned) of some societal groups to access the financial system

\textsuperscript{32} “Report of the committee on Financial Inclusion” (2008),NABARD
Rakesh Mohan (2006)\textsuperscript{36} signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers.

### 3.3 Measuring Financial Inclusion

#### 3.3.1 Macro Perspective

Mandira Sarma (2008), in his work found out index of financial inclusion for 54 countries. That index of financial inclusion (IFI) is a measure of inclusiveness of the financial sector of a country/region. It is constructed as a multidimensional index that captures information on various aspects of financial inclusion such as banking penetration, availability of banking services and usage of the banking system. The IFI incorporates information on these dimensions in one single number lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion. Accessibility has been measured by the penetration of the banking system proxied by the number of bank A/C per 1000 population. Availability has been measured by the number of bank branches and number of ATMs per 100,000 people. The proxy used for the usage dimension is the volume of credit plus deposit relative to the GDP.

IMF has initiated the “Financial Access Survey” (FAS) in 2009, in an endeavor to put together cross country data and information relating to the issue of financial inclusion and has published the data in July 2012. According to IMF, the FAS are the sole source of global supply-side data on financial inclusion, encompassing internationally comparable basic indicators of financial access and usage. It is the data source for the G-20 Basic Set of Financial Inclusion Indicators endorsed by the G-20 Leaders at the Los Cabos Summit in June 2012. The FAS database currently contains annual data, for the period 2004-2011, for 187 jurisdictions, including all G20 economies. The FAS data covers data on country-wise availability of bank branches and ATMs per 1000 sq.km. And per 100,000

\footnotesize{\textsuperscript{36} Mohan, R. (2006): 'Agricultural Credit in India: Status, Issues and Future Agenda', \textit{Economic and Political Weakly} (March), pp.1013-23.}
adults, number of deposit and loan accounts with banks per 1000 adults and deposit-GDP and credit-GDP ratios.

Asli Demirguc-Kunt Leora Klapper (2012) provides the first analysis of the Global Financial Inclusion (Global Findex) Database. This report presents the first round of the Global F-index database, a new set of indicators that measure how adults in 148 economies save, borrow, make payments, and manage risk. The indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above in those 148 economies during the 2011. The Global F-index data show sharp disparities in the use of financial services between high-income and developing economies and across individual characteristics. The share of adults in high-income economies with an account at a formal financial institution is more than twice that in developing economies. And around the world, men and more educated, wealthier, and older adults make greater use of formal financial services.

The book, Banking the World: Empirical Foundations of Financial Inclusion, shows that the population living on less than $5 a day, adjusted by purchasing price parity, makes up more than two-thirds of those using formal financial services in Africa, Asia and the Middle East. That contradicts the theory that income and urbanization drive the demand for services by banks and other financial institutions.

Kempson and Whyley (1999) have identified a number of dimensions to financial exclusion. These include price exclusion where, quite simply, an individual cannot afford the financial product or the potential charges that could be


incurred. Condition exclusion is where people are excluded through conditions that are attached to products making them unsuitable or undesirable. Additionally, individuals may experience marketing exclusion by which financial products are advertised far less to people who own few if any financial products. In reality the situation is less clear cut, with many financially excluded people experiencing a range of exclusions concurrently.

**Satya R. Chakravarty and Rupayan Pal (2010)**\(^{40}\), paper clearly demonstrates that the axiomatic measurement approach developed in the human development literature can be usefully applied to the measurement of financial inclusion. A conceptual framework for aggregating data on financial services in different dimensions is developed. The suggested index of financial inclusion allows calculation of percentage contributions of different dimensions to the overall achievement. This in turn enables us to identify the dimensions of inclusion that are more/less susceptible to overall inclusion and hence to isolate the dimensions that deserve attention from a policy perspective. The paper also illustrates the index using cross-country and sub-national level data.

**Sangwan (2006)**\(^{41}\), empirically ascertain the determinants of financial inclusion, the state wise percentage adults in terms of saving and credit accounts (dependant variable) were regressed with independent variables like the branch density, level of income, literacy and adults covered under SHGs. The cross section data of 42 Regions/States/UTs for the year 2006 was used. The estimated regression equations revealed that the branch density has positive and significant coefficient with the percentage of adults having saving as well as credit accounts. The coefficient of per capita income was also positive and significant in explaining percentage of adult having saving accounts, though; this coefficient was not significant with level of credit account.

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Mihasonirina Andrianaivo (2010)\textsuperscript{42}, paper studies the impact of information and communication technologies (ICT), especially mobile phone rollout, on economic growth in a sample of African countries from 1988 to 2007. Further, it investigates whether financial inclusion is one of the channels through which ICT influences economic growth. In estimating the model, a wide range of ICT indicators used, including the mobile and fixed telephone penetration rates and the cost of local calls. Financial inclusion is captured by variables measuring access to financial services, such as the number of deposits or loans per head, compiled by Beck and others (2007) and the Consultative Group to Assist the Poor (CGAP, 2009). The results confirm that ICT, including mobile phone development, accounts for economic growth in African countries.

Kurincheedaran Shanmugalingam (2012)\textsuperscript{43}, paper tried to fill the gap through assessing the impact of financial inclusion on economic development through empirical study in OECD countries. In his empirical model the economic development, the dependent variable, is measured by GDP per capita. The level of financial inclusion is measured by variables which assess the dimension of availability, accessibility and usage of electronic banking such as branch penetration, presence of ATMs, domestic credit and household with internet. He also used government expenditure, unemployment and inflation as control variables. The overall result confirms that the financial inclusion has greater impact on economic development especially through availability of financial product and services and the usage of electronic banking. Importantly the usage of electronic banking measured by internet penetration level has highly contributed to economic development compared with other dimensions of financial inclusion as its impact on economic development on average is $322.03 and statistically significant in all four scenarios.


Pranaya K. Swain (2008)\textsuperscript{44}, paper addresses the gap in financial inclusion and also to develop a framework of financial inclusion well within the propositions of the current Union Budget which is expected to work for the Indian scenario. It also tries to hit on several flaws in the current mass debt waiver policy for farmers announced in the Union Budget and its implications. Within such policy frameworks, the paper is an attempt to weave an argument starting from the mismatch of credit and deposit growth of banks, steps taken by the Reserve Bank of India, role of IT as an enabling agent, role of government, future challenges and how all this has shaped the present degree of inclusion in India.

Supravat Bagli (2008)\textsuperscript{45} study seeks to examine the achievement of the Indian states regarding the financial inclusion. Applying the methodology of Rotated Principal Component Analysis this study has computed a comprehensive measure of financial inclusion for each state. For this analysis ten indicators of financial Inclusion have been considered. This study has used the data published by the Reserve Bank of India (RBI) and the Government of India. Ranks of the states in accordance with the Composite score show that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However, the levels of financial inclusion of the states in India have a low mean and high disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the states in India 17

Ramesh S. Arunachalam (2008)\textsuperscript{46}, in his Scoping paper on financial inclusion focused states like Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, a majority of the poor are engaged in agriculture and allied activities. According to him Market imperfections and other factors (like poor infrastructure and production practices) severely constrain them in

\textsuperscript{44} Pranaya K. Swain, Baldeep Singh, October (2008), “Financial Inclusion of Rural Markets: Understanding the Current Indian Framework”, Indian institute of management Calcutta, working paper series, wps No. 630


\textsuperscript{46} Ramesh S. Arunachalam (2008), “Scoping paper on financial inclusion”, The United Nations Development Programme
their efforts to build sustainable livelihoods, and they often fall into a cycle of being financially included and excluded at various times. A key issue here is that while small holder producers bear a major portion of the risk, they are also primarily ‘takers’ of prices handed down by somewhat imperfect markets – in other words, they are not getting profits commensurate with the value they create, risks they bear and efforts they put in. In his paper he emphasized “inclusion” requires working at every level of the value chain and not just credit/loan finance. In other words, it calls for the delivery of bundled financial services integrated with the overall livelihoods framework.

Anant Jayant Natu (2008)\textsuperscript{47}, paper explores an innovative way of achieving financial inclusion — not just in terms of access but in usage as well. It presents the prospect of coupling financial inclusion with social security schemes. The underlying assumption is that the imposition of financial inclusion drives by banks upon prospective clients who have no reliable income stream will simply yield substandard outcomes. A social security scheme such as the National Rural Employment Guarantee Program (NREGP) provides a regular and steady stream of income to the poor, although for a limited period of time in a year. Author believed that the drive towards financial inclusion as defined by the RBI as —a no-frills account for every individual who wants one will be more relevant to the beneficiaries if it is tied to schemes such as NREGP that ensures a reliable stream of income.

Ramu (2011)\textsuperscript{48}, article reviews the growing interest in financial exclusion and inclusion, define them and demonstrate their existence in developing and developed countries. This article empirical focus is on whether financial inclusion has been successfully implemented in four sites in rural South India where banks claimed that financial inclusion is complete. Although many rural people in South India are financially included, the concept of financial inclusion is more complex.


than usually portrayed. Findings show that social and personal deprivation contributes to financial exclusion and should be viewed as key barriers to financial inclusion. We also suggest that financial inclusion is not a monolithic phenomenon and should be studied in a multi-layered fashion, ranging from having a bank account to making full use of modern financial instruments.

Anupama Sharma (2013)\textsuperscript{49}, paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India’s position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Anupama Sharma, documents the link between risk, stability, and access to credit markets in an emerging economy. It presents annual credit loss distributions of Chilean banks for the period 1999-2005, providing the first empirical evidence of the cyclical pattern of expected losses and unexpected losses of bank loan portfolios in emerging countries. The paper provides three main contributions to the debate on bank solvency and access to credit markets. First, it derives nonparametric estimators of expected losses and unexpected losses, free from model error and, in particular, from distributional restrictions. Second, it shows how the distribution of credit losses for portfolios of retail and commercial loans is affected by the lumpiness of bank loans. Finally, it shows that the shape of credit loss distributions helps select appropriate policies to promote broader and sounder access to bank credit for the poor and the unbanked.

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Kumar’s (2012)⁵⁰, financial inclusion mission has gained tremendous relevance in an emerging economy like India. Financial exclusion seems to be more severe in rural and backward locations. In this respect, the current analysis is an attempt to explore the behavior of inclusion/exclusion across varied population groups. The pooled dataset spanning over the period from 1990 to 2008 for rural and urban regions separately has been employed. A set of control variables have been included to disentangle the role of various demographic and institutional factors. Bank group size, as captured by assets, has a direct influence on the number of operating branches. Ownership effect also plays a key role in determining the number of branches operating. Test of convergence has been carried out to examine if lesser branched regions are catching up with their counterparts with higher branch network. Evidence of conditional convergence has been found. Finally, structural change has also been observed in terms of the number of functioning branches. The result is a testimony to the fact that inclusion policies are actually translating into significant improvement of branch density

Sadhan Kumar Chattopadhyay (2011)⁵¹, study seeks to examine the extent of financial inclusion in West Bengal. It is observed from the study that although there has been an improvement in outreach activity in the banking sector, the achievement is not significant. An index of financial inclusion (IFI) has been developed in the study using data on three dimensions of financial inclusion. The study shows that Kolkata district leads with the highest value of IFI followed by Darjeeling. Only one district, viz. Kolkata belongs to the high IFI group with IFI value of 0.5 or more and the rest of the districts belong to the low level of IFI value (i.e. 0-0.3). This implies that the State has to go a long way in achieving financial inclusion. In order to get a comparable picture, state-wise IFI has also been computed and it is found that Kerala tops the list in financial inclusion followed by Maharashtra and Karnataka. Apart from this computation, a survey has also been

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conducted in West Bengal in order to gauge the financial inclusion in rural Bengal and the results reveal that around 38 per cent of the respondents feel that they do not have sufficient income to open an account in the bank. It is also revealed that moneylenders are still a dominant source of rural finance despite wide presence of banks in rural areas

Lakshmi Kumar (2012)\(^{52}\), considered technology as an enabler for financial inclusion even though it has a more significant role—it has the power to reduce cost substantially and can reach out to the unbanked in the most effective manner. It is important to identify which technology has diffused to low-income families and leverage the same for their benefit. We find that in several underdeveloped African countries, changes in regulation and the permeation of the mobile has aided the substantial growth of financial inclusion. In India, technology assimilation among microfinance institutions (MFIs) is not all that simple as its immediate benefit is not clear to them; however, mobile penetration even among the lowest income group is very high. Since MFIs are so widely spread, they seem the best connected to the clients for understanding their needs both in terms of financial services as well as non-financial services. Making them the business correspondent and incentivising them through mobile technology would be the first step towards financial inclusion

Bappaditya Mukhopadhyay (2011)\(^{53}\) address these following issues: identifying the role of MFIs in financial inclusion; the institutional bottlenecks that may prevent financial inclusion; and possible solutions and argue that instead of focusing on financial inclusion as a process, it is better to focus on instruments and institutions that will promote financial inclusion. In particular, it show that a movement towards a cashless economy will attain financial inclusion where the MFIs can be incentivised to develop and maintain the critical network of individuals who will transact cashless.

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Nazuk Kumar (2011), this study was conducted by the Reserve Bank of India, in Chandigarh, India. Financial inclusion in India is very poor with 51.4 percent of 89.3 million farmer households being excluded from any source of credit. A cross-country comparison of India with Sri Lanka, Bangladesh, France, Indonesia and Philippines has been conducted. A door-to-door survey was carried out in three relatively prosperous villages in Panchkula district of Haryana, a state where officially the financial inclusion program has largely been successful. Results show that although most households have a bank account, these are hardly used. Thus the financial inclusion policy, where successfully implemented has addressed access; however comprehensive financial inclusion, including access to services like credit, savings, insurance, pension plans, has not been achieved. Thus right from the policy level the aim should be "usage" with better implementation and not mere "access." A different approach for India has been suggested for tackling this problem.

The Little Data Book on Financial Inclusion (2012), is a pocket edition of the Global Financial Inclusion Database published in Measuring Financial Inclusion: The Global Findex Database by Asli Demirguc-Kunt and Leora Klapper. It provides country-level indicators of financial inclusion summarized for all adults and disaggregated by key demographic characteristics—gender, age, education, income, and rural or urban residence. The book also includes summary pages by region and by income group aggregates. Covering 148 economies, the indicators of financial inclusion measure the use of formal bank accounts, payments behavior, savings patterns, credit patterns, and insurance decisions.

3.3.2 Micro Perspective

Manohar Vincent serra (2008) purpose of his paper is to evolve a research methodology to measure the impact of access to financial services by the poor and marginalized sections of the society. Authors analyze the supply and demand intricacies of financial resources (such as the functional complexities of the formal, informal and semiformal agencies) and the impact of accessibility to

55 Serrao, Manohar Vincent, Sequeira(2012), “Designing a Methodology to Investigate Accessibility and Impact OF Financial inclusion” Available at http://dx.doi.org/10.2139/ssrn.2025521
financial services on the socio-economic life of the rural households’ vis-à-vis the urban households in India. While doing these authors examine the evolving and multidimensional concept of financial inclusion, giving an account of the social banking background, the initiatives of financial inclusion in India, the experiences gained, and the challenges ahead. Research findings point out that in the context of inclusive growth in general and financial inclusion in particular, a quantifiable and pragmatic approach calls for a well designed and executed research methodology. Authors suggest an amalgamation of technological approach and human approach for strengthening the enabling and evaluating mechanisms of financial inclusion.

**Adewale, Abideen Adeyemi (2009)**, study investigated the various factors that impede both the access to and use of the requisite financial resources for entrepreneurial development in Nigeria. Data was collected via a survey questionnaire administered on micro-entrepreneurs in Ilorin, Kwara State, Nigeria. A measurement model using the structural equation modeling approach was adopted. The paper concluded that both the voluntary and involuntary financial exclusion factors significantly account for financial exclusion in Nigeria. However, voluntary exclusion signals more problems. This is because it is a reflection of lack of use, rather than lack of access to financial services by the poor.

**Ravichandran (2009)**, analyses in depth that whether bringing people under banking category by financial inclusion project helps in achieving the ultimate goal of lifting the standard of living of The Poor and reduce poverty in our country.

**Nirupam Mehrotra (2009)**, estimated the total cost and total benefits accruing from the borrowers perspective at the individual level, which have been

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aggregated and the Impact of Financial Inclusion on banks with respect to Profitability and Employment also discussed.

**Minakshi Ramji (2009)**, conducted a study to assess the implementation of the financial inclusion drive and usage of banking services by households in Gulbarga district in Karnataka, one of locations claimed to have achieved 100% financial inclusion. The study finds that the number of households with bank accounts doubled over the duration of the financial inclusion drive. However, 36% of the sample remained excluded from any kind of formal or semi-formal savings accounts. Further, bank accounts have been opened typically to receive government assistance, mostly under the National Rural Employment Guarantee Program (NREGP). Usage and awareness of the accounts remain low. And concluded that while, government programs like NREGP have the potential to include large numbers of low-income households, access to accounts does not often lead to usage.

**Peter Dittus and Michael Klein (2011)**, discussed the Key issues in design and implementation of surveys on financial inclusion. Peter Dittus paper describes one commercially viable initiative in more detail, in Kenya, and analyses in detail the transactions involved. It argues that in order to harness the potential of financial inclusion it is vital to permit experimentation with different business models. Regulation is therefore required that enables such experimentation by being calibrated to the type of service offered, but which can be tightened if and when such schemes become bigger with the potential to impact financial stability: risk-proportionate regulation by service type.

**Rama Pal (2012)**, paper analyzes income related inequality in financial inclusion in India using a representative household level survey data, linked to State-level factors. It shows that the extent of financial exclusion is quite severe among

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60  Peter Dittus and Michael Klein(2011),“On harnessing the potential of financial inclusion”, BIS Working Papers,No 347, Monetary and Economic Department.
households across all income groups, income related inequality in financial inclusion varies widely across sub-national regions in India, but it is quite high in most of the cases, income related inequality in financial inclusion cannot be considered as synonymous to income inequality. A notable result is that greater availability of banking services fosters financial inclusion, particularly among the poor.

Franklin Allen (2012)62, Using data for 123 countries and over 124,000 individuals, this paper tries to understand the individual and country characteristics associated with the use of formal accounts and what policies are effective among those most likely to be excluded: the poor and rural residents. The authors find that greater ownership and use of accounts is associated with a better enabling environment for accessing financial services, such as lower account costs and greater proximity to financial intermediaries. the results suggest that policies to reduce barriers to financial inclusion may expand the pool of eligible account users and encourage existing account holders to use their accounts to save and with greater frequency.

Brigit (2006)63, the Consultative Group to Assist the Poor (CGAP), a multi-donor consortium dedicated to advancing microfinance, is a global resource center for microfinance standards, to provide operational tools, training, and advisory services, committed to building more inclusive financial systems for the poor. Meeting the challenge of placing resources and power into the hands of poor and low-income people themselves is the topic of this paper. It is also the main focus of the CGAP, a vision about inclusive financial systems, the only way to reach large numbers of poor and low-income people. To get there, diverse approaches are needed, reviewed through a look at microfinance, its history, process and progress. This paper offers a compendium of CGAP's learning and experience over the past


decade, opening a new chapter in its ongoing work: to dramatically expand access to financial services.

Gine.Xavier (2005)⁶⁴, paper aim is to understand the mechanism underlying access to credit. The author focuses on two important aspects of rural credit markets in Thailand. First, moneylenders and other informal lenders coexist with formal lending institutions such as government or commercial banks, and more recently, micro-lending institutions. Second, potential borrowers presumably face sizable transaction costs obtaining external credit. The author develops and estimates a model based on limited enforcement and transaction costs that provides a unified view of those facts. The results show that the limited ability of banks to enforce contracts, more than transaction costs, is crucial in understanding the observed diversity of lenders.

Beck (2008)⁶⁵, mentioned that recent data compilations show that many poor and nonpoor people in many developing countries face a high degree of financial exclusion and high barriers in access to finance. Theory and empirical evidence point to the critical role that improved access to finance has in promoting growth and reducing income inequality. An extensive literature shows the channels through which finance promotes enterprise growth and improves aggregate resource allocation. There is less evidence at the household level, however, and on the effectiveness of policies to overcome financial exclusion. The article summarizes recent efforts to measure and analyze the impact of access to finance and discusses the unfinished research agenda.

Tova Maria (2006)⁶⁶, look at the depth of the financial sector in Bogota in terms of the "financial exclusion" of those, particularly poorer citizens, who

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operate without accounts in formal financial institutions—the unbanked. They begin with a review of the overall decline in financial intermediation from 1998 to 2003, which explains, in part, the high percentage of unbanked—61 percent in a recent household survey in Bogota. The authors next look at the banking system today, concluding that the present challenge is to increase financial intermediation overall, especially with the poor. Their analysis shows that Colombia's banks provide costly services mainly catered toward high-income clients. The authors also explore the characteristics and impacts of financial exclusion associated with lower and more uncertain incomes, lower education, and closer links to the informal sector. They cite the household survey conducted in Bogota, showing that 70 percent of the unbanked earn less than one minimum wage per month, are three times more likely to be unemployed than the banked, and have lower education levels. The unbanked save and borrow largely in the informal sector, at greater risk and greater cost. At the same time, however, high home ownership rates show that the unbanked have the capacity to build assets, demonstrating that they have "bankable" characteristics. The authors conclude with recommendations for government and for the financial sector to broaden access for the benefit of public and private sectors, and for the unbanked.

Aurora (2007) examines the country's supply of and demand for financial services and the constraints to increasing access to them. It offers recommendations on how to make the financial sector work for all of Nepal's people, and especially for low-income households and small businesses. It presents the results of an access to financial services survey administered to Nepali households in 2005 and explains what hinders access by low income households and small businesses to financial institutions. The obstacles are identified on the basis of an in-depth analysis of the performance of the microfinance sector and of selected banks. This paper examines the Nepal's supply of and demand for financial services and the constraints to increasing access to them. It offers recommendations on how

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to make the financial sector work for all of Nepal's people, and especially for low-income households and small businesses. It presents the results of an access to financial services survey administered to Nepali households in 2005 and explains what hinders access by low income households and small businesses to financial institutions. The obstacles are identified on the basis of an in-depth analysis of the performance of the microfinance sector and of selected banks.

José (2006)\(^{68}\) examines that despite the deep financial sector reforms undertaken in Zambia in the early 1990s, the expected benefits of establishing a market-based banking system has not materialized. In 2005 the banking system continued to be small and underdeveloped. This paper analyzes the factors that have prevented the development of a large and inclusive banking system in Zambia and highlights possible actions that may help improve access to finance in Zambia in both the short and long terms.

World Bank report (2007)\(^{69}\) was prepared in close collaboration with the Bank of Albania. This report focused on trade, services, and agriculture; however, the limited scope of their operations still leaves a potentially large unmet demand for credit in agriculture. This report focuses on problems related to the operation of Immovable Property Registry System (IPRS) and other institutions and the formalization of property rights and inscription of mortgages. This study believes the reform with most optimum impact on sustainable credit growth will be focused on (i) improving the quality, breadth, and depth of financial intermediation, (ii) growth and development of credit unions and microfinance institutions, and (iii) facilitate the development of new instruments. The authorities will also focus on implementing reforms to become compliant with Financial Action Task Force (FATF) recommendation.


Sriyani Hulugalle (2005)\textsuperscript{70}, This paper assesses the performance of Sri Lanka Post and its potential to bridge some of the most critical gaps in financial services provision by using its vast network of offices and reviews the current status of Sri Lanka Post and Section. It discusses its historical role in the provision of financial services, and examines opportunities for expanding the delivery of financial services through Sri Lanka Post.

World Bank report (2009)\textsuperscript{71} contributed to the continuing policy dialogue on financial sector development. It is intended that the analysis and recommendations from this report will contribute towards the preparation and implementation of the National Development Plan (NDP) and the implementation of the Financial Markets Development Plan. The report suggests both policy and institutional reforms to develop rural and agricultural finance. This report has two parts: improving access to financial services and improving the supply of term finance. The first part focuses on three areas: expanding access through the banking system; developing rural and agricultural finance; and improving payments and remittance systems. The second part focuses on three key areas: reforming the pension system; developing the housing finance market; and increasing the private financing of infrastructure.

Radcliffe (2012)\textsuperscript{72}, depict what digital financial inclusion would look like and present a growing body of evidence which suggests that connecting poor people to a digital financial system will generate sizable welfare benefits. He argued that countries will not bridge the cash-digital divide in one giant leap. Instead, they will likely pass through four stages of market development along the pathway to an inclusive digital economy. The commercial assets required to navigate this pathway vary across the four stages. Financial regulations and business models must therefore be calibrated to harness those assets at each stage.

\textsuperscript{70} Sriyani Hulugalle,(2005),Enhancing the Quality and Outreach of the Rural Remittance infrastructure World Bank Policy Research Working Paper 3789,


\textsuperscript{72} Radcliffe, Daniel and Voorhies, Rodger, 2012 A Digital Pathway to Financial Inclusion ,working paper, SSRN: http://dx.doi.org/10.2139/ssrn.2186926
Dittus (2011)\textsuperscript{73}, in his paper describes one commercially viable initiative in more detail, M-PESA in Kenya, and analyses in detail the transactions involved. It argues that in order to harness the potential of financial inclusion it is vital to permit experimentation with different business models. Regulation is therefore required that enables such experimentation by being calibrated to the type of service offered, but which can be tightened if and when such schemes become bigger with the potential to impact financial stability: risk-proportionate regulation by service type.

Das (2012)\textsuperscript{74}, analyses the existing models of social entrepreneurship available in the literature and develops a modified model incorporating the idea of community based service which provides a better organizational structure for a social enterprise. Social enterprises based on this CBS (Community Based Service) Model are not only economically viable but also socially sustainable and easy to set up, organize and operate. This paper concludes with a recommendation to develop a policy roadmap for encouraging the incubation, growth and development of CBS Model based social enterprises in India.

Ardhendu Shekhar (2012)\textsuperscript{75}, paper discusses its impact on the financial well being of the people and further highlights the steps taken by various stakeholders to provide financial education with an objective of increasing the understanding of consumers about financial services. Even so, these interventions have got result which is less than desired. Given the gigantic task of providing financial education to a large section of a populous country like India, there is a need for committed participation of each stakeholder and a sustainable action plan in place. Through this paper, the authors argue that engaging institutes of higher education in the financial education drive will be a sustainable and cost effective strategy.


Nil Jayasheela (2008)\textsuperscript{76}, paper is to examine microfinance’s role in empowering the oft-excluded sections of society to access financial services in India. The authors examine this issue by looking at the different approaches to financial inclusion, including the formal banking, microfinance and SHG sectors. Finally, the authors provide some policy recommendations focusing especially on MFIs’ duty to improve their systems, management and governance well before branching into new services such as collecting client savings.

Ananth (2008)\textsuperscript{77}, focused on the institutional challenges to financial inclusion in Andhra Pradesh (AP) as they are symptomatic of the problems that the expansion of financial inclusion faces in India. He argued that it is the inability of the formal financial institutions to meet the need for these services that has enabled informal service providers to fill the vacuum in AP. This paper concluded that without a paradigm shift, especially on the part of the banks, financial inclusion will fall short of expectations despite political support and proposed that the banking sector should look at the efforts to expand inclusion not as a capital cost nor as a charitable expense, but as a long-term investment in the future. The soundness of such an investment is borne out in the success of the individual business correspondents in some districts of AP, as it is documented in the paper.

Archana.V.Rao (2012)\textsuperscript{78}, summed up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. Banks should prepare comprehensive plans to cover all villages, through a mix of branchless banking and bricks and mortar branch banking. They should speed up enrolment of customers and opening of UID-enabled bank accounts which enables routing of all social benefits to bank accounts electronically as also seamless cash transfer to the poor, as and when the government replaces the age-old system of subsidy and public distribution system with cash transfers. It is


\textsuperscript{78} Archana V Rao, (20120, “Financial inclusion for Banks in India”, ISSN- 2250-2556; Vol. I ISSUE-1.
important that adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc., is available.

**Arulmurugan (2013)**\(^{79}\), study deliberates about inter-linkages between socio-economic welfare and financial inclusion. The socio-welfare programs like the NREGP, Direct Cash transfer, National Old Age pension Scheme are focused on implementing financial inclusion. This is primarily because it helps to ensure electronic cash transfers.

**Peter Kasprowicz (2013)**\(^{80}\), using demographic window theory, this paper focus on the opportunities and challenges developing countries will face over the next few decades as birthrates fall and life expectancy rises, resulting in an especially large working-age population in many countries. The core findings of this report is that for middle income countries financial inclusion policy should increasingly take into account the needs of mature families and a growing elderly population. The already well-recognized income countries the needs of older populations will require increasing attention. This suggests greater priorities will, of course, vary by country.

**Jacqueline Urquizo (2012)**\(^{81}\), this report provides the financial industry with important recommendations for creating and improving services to rural residents in Latin America. The study – based on market research conducted in Colombia, Dominican Republic, Ecuador, Nicaragua and Peru – provides a detailed portrait of access, use and attitudes towards financial services by rural residents, both farmers and microentrepreneurs. The study offers a unique opportunity to understand the financial choices rural residents make and the attitudes they bring when they interact with banks and microfinance institutions. The study targeted heads of households who work in an independent activity, specifically entrepreneurs.

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and small farmers. The study describes the rural population according to socioeconomic and psychographic variables, social interactions and financial behavior, considering credit, savings, investment and risk management. Financial education and awareness and use of formal financial services are discussed.

Anita Gardeva (2011), this paper presents and analyzes the results of a survey conducted on industry participants from around the world. The survey respondents included financial service providers, investors and members of support organizations, many of whom are from the microfinance sector. The report uses the survey findings to create a ranking, in order of significance, of opportunities and obstacles in financial inclusion. From this ranking, a seven-point action agenda was produced which includes financial education, client protection, and institutional capacity building as key components. The paper also provides details for many of the opportunities and obstacles used in the survey. It also looks at some of the differences in responses between different stakeholder groups and in different regions of the world.

Nalini Subbiah (2012), the main objectives of this study were to know the measures taken by the banks for financial inclusion, to examine the difficulties involved in the adoption of financial inclusion and also to enhance the extent of financial inclusion. The data required for the study was collected from both primary and secondary sources. The total numbers of samples were 50. The study was conducted among the banks in Tiruchendur area of TamilNadu. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the aim of 11th plan of Inclusive Growth.

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82 Anita Gardeva, Elisabeth Rhyne,(2011), “Opportunities and Obstacles to Financial Inclusion”,publication number-12,Centre For Financial Inclusion.

Preetesh Kantak (2011), report examines changes in the growth, expansion, and maturity of the microfinance industry between 2005 and 2008. It highlights the explosive growth that has occurred within the industry, particularly in Asia. It also discusses the structural changes within the industry. The study findings include The deleveraging of higher levered regions versus lower levered regions, Greater financial intermediation, Impacts on competition and interest rates charged by concentration effects, Different methods of managing risk portfolios and Main drivers of profitability.

Josh Goldstein (2010), his note explores how microfinance institutions and disability organizations can best contribute to increasing access to financial services for poor people with disabilities worldwide. After a brief discussion of the challenge and the opportunity, the concept paper advances several working hypotheses about steps the microfinance industry could take. This concept paper was the basis of a roundtable held on June 18, 2010 in Washington D.C. and the ideas presented within were the key areas of discussion.

Amitabh Saxena (2009), paper outlines ten challenges that are holding MFIs back from deploying alternative channels and provides a roadmap for MFIs—and broader stakeholders—who seek to overcome these hurdles. The paper concludes with a description of competitive advantages that MFIs have in this space to make them more effective in reaching low-income groups using innovative channels.

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**ACCIÓN International (2009–2010)** conducted a study about consumer behaviour to execute its rural project, supported by the Inter-American Development Bank (IDB) and executed in five countries: Colombia, Dominican Republic, Ecuador, Nicaragua, and Peru. This work is based on samples taken from rural areas surrounding selected microfinance institution (MFI) branches geographically positioned to reach out to the rural market. It targets heads of household who work in an independent activity: entrepreneurs and small farmers, as opposed to laborers or salaried workers. The report presents information in aggregate and, where relevant, by country describes the rural population according to socioeconomic and psychographic variables (values and attitudes), social interactions, and financial behavior, considering savings, investment, credit, and risk management. Finally, financial education and awareness and use of formal financial services are discussed.

**Elisabeth Rhyne (2009)**, purpose of this paper is to provide information and analysis on the prospects for reaching this goal, information that supports leading businesses, government agencies and non-profit organizations to take steps that will substantially advance financial inclusion. He offers the paper as a focal point for dialogue among analysts and decision makers, in the hopes that it will contribute to building the national agenda. This paper is the first product of the Financial Inclusion 2020 project, an ambitious initiative by the Center for Financial Inclusion to accelerate progress towards full inclusion around the world by 2020. The project will do this by providing information and analysis relevant for decision making and by creating opportunities for dialogue among decision makers. It is designed to address the multiple leverage points for bringing nearly three billion currently excluded people into the formal financial system. In 2009, the Financial Inclusion 2020 team began an in-depth look at Mexico, a country with both great need and great potential. The Mexico work will in turn provide the analytic framework that will be drawn upon to bring Financial Inclusion 2020.

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The Little Data Book on Financial Inclusion (2012)\textsuperscript{89}, is a pocket edition of the Global Financial Inclusion Database published in 2012 in Measuring Financial Inclusion - The Global Findex Database by Asli Demirguc-Kunt and Leora Klapper. It provides country-level indicators of financial inclusion summarized for all adults and disaggregated by key demographic characteristics—gender, age, education, income, and rural or urban residence. The book also includes summary pages by region and by income group aggregates. Covering 148 economies, the indicators of financial inclusion measure the use of formal bank accounts, payments behavior, savings patterns, credit patterns, and insurance decisions.

Rajamohan (2012)\textsuperscript{90} says financial inclusion is the process of ensuring timely and adequate access of financial services and credit delivery for low income group at an affordable cost. The basic aim of financial inclusion is to ensure the ease of access, availability and usage of the formal financial services. The researcher has chosen all four banks in Palacode town where the no-frills bank accounts facilities are in operation. This paper highlights the socio-economic conditions of the beneficiaries, factors influencing the people to open this account, awareness of deposit scheme, opinion of the general utility services and attitude of the customers towards the services of the banks.

Summary:

Financial inclusion felt most important, by economists and policy makers so it gains momentum. As a result there is much exertion to this topic, thus there is no single definition which is accepted worldwide. Actual academic research on this topic is limited and suggests that whether a positive relationship between financial inclusion and financial stability exists likely depends on the existence of an independent and non-corrupt institutional, legal, and regulatory infrastructure to support the financial


system along with efforts to expand financial access. The review of literature chapter summarised findings and commendatory into macro and micro perspective. Macro perspective review includes the analysis done using secondary data or the study conducted to find out the financial inclusion among regions using published data. Micro perspective review includes the studies conducted using primary data collected through structured questionnaire.