CHAPTER-1
INTRODUCTION

“Poverty is the worst form of violence.”
- Mahatma Gandhi

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”
- Franklin D. Roosevelt

Introduction

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India have been pushing the concept and idea of financial inclusion.

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades including - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the hitherto financially excluded Indian population.

Government of India and RBI have taken various steps to include vast segment of unbanked people in to mainstream banking such as Micro Finance- Self Help Group Model (1992), Kisan Credit Card (1998), No Frill Accounts (2004), Business Correspondents and Business Facilitators (2006, 2009) Swabhimaan (2011) financial inclusion model but the path of financial inclusion is continuous to be challenging. The United Nations (UN) had raised the basic question, “why so many bankable people in rural and urban areas are unbanked?” NSSO data revealed that 45.9 million farmer households in the country (51.4 per cent), out of a total of 89.3 million households do not
access credit, either from institutional or non institutional sources. Various financial experts argue that bank account is the most basic step of bringing such people under financial mainstream. So the primary objective of financial inclusion should be to open bank accounts of unbanked people. These people have remained aloof from financial and banking mainstream and they don’t possess bank account, don’t have knowledge about financial and saving instruments and are unable to reap benefits on whatever large or small amount of money they have at their disposal. In simple language financial inclusion stands for including the people lying on the lowest strata of our social pyramid into the financial mainstream.

But financial inclusion also implies a very important point. It is felt that a majority of the unbanked people are not used to frills, now normally associated with modern banking. These people require the most basic banking facilities which are free of frills. That means financial inclusion is no-frill banking. The policy makers have already initiated some positive measures aimed at expanding financial inclusion. However, the efforts are opined by many as not commensurate with the magnitude of the issue. There is also a need on the part of the academicians and researchers to study the issue of financial inclusion with a comprehensive approach in order to highlight its need and importance.

By financial inclusion, we mean delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups. The concept of financial inclusion is not new in India. The concept has been prevailing in India from past 44 years. Beginning with the nationalization of commercial banks in 1969 and 1980, another major step taken was the establishment of Regional Rural Banks in 1975 and banking sector reforms after 1991. As a result of these three major policy changes, the number of branches of commercial bank have increased from 8262 in June 1969 to 102343 in 2013 (Economic survey 2012-2013) and population per branches decline rapidly from 65000 to 13756 (RBI 2008).

Financial inclusion is a very useful tool for financial growth of India. When compared to the developed world, the coverage of our financial services is quite low. Then the Reserve Bank of India has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted
the banks with a view of achieving greater financial inclusion to make available a basic “no-frills” banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K C Chakrabarty, the Chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. In addition to this KYC (Know Your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than 50,000 rupees. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit.

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Reserve Bank of India in collaboration with the Government of India had formulated a policy namely Financial Inclusion Policy (2005) for financially including of the excluded. The policy was framed with the objective of employment generation, asset creation and income increase which would help in the upliftment of the weaker or poor people. Formal financial institutions, NGOs and SHGs help in the inclusive growth through financially including the low income and weaker section of the population.

Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The objective of financial inclusion is to deliver banking services at an affordable cost to vast sections of the low-income groups. Indian Finance Minister has set the ball rolling by articulating the Government's decision to provide essential financial services like savings, credit, micro insurance and remittance, for all villages with population over 2,000 by March 2012.

Financial Inclusion is a process or concept formulated with an objective of providing financial products and services to every constituent of our society, especially economically backward people. This concept has been developed and implemented keeping in mind the mainstream banking service providers. This is because it was felt that burden of financial services to downtrodden and poor people has been made a prerogative
of rural banks and cooperative banks, who are not the mainstream players. And if mainstream players are not involved in this initiative it would be the traditional quasi-banking establishments, who would again take undue benefit of this situation.

Financial inclusion also includes the objective of providing cheap loans to the most downtrodden people because their essential requirement from banking system is get access to funds to sustain their livelihood.

Financial inclusion has indeed far reaching positive consequences, which can facilitate many people to come out of the abject poverty conditions. It is widely believed that financial inclusion provides formal identity, access to payments system and deposit insurance, and many other financial services. Universally, it is accepted that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit the people with low incomes. In India, there is a need for coordinated action amongst the banks, the government and related agencies to facilitate access to bank accounts to the financially excluded. In view of the need for further financial deepening in the country in order to boost economic development, there is a dire need for expanding financial inclusion. By expanding financial inclusion, inclusive growth can be attained by achieving equity.

Financial inclusion may be 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Financial Inclusion, broadly defined, refers to 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 (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Financial inclusion means and includes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups in a given society. Access to finance by the poor and vulnerable groups is a prerequisite for achieving inclusive growth in any given economic system. The entire world economies try varied methods and mechanism to achieve this. Their experiences are so different from each other that they provide valuable reference points and help as practical
examples. However, they point out the need for country specific studies, as Financial Inclusion depends on the social and economic conditions which vary from country to country. The need for working towards complete financial inclusion is more pronounced that it has become rather a compulsion than a choice in emerging economies like India. Financial Inclusion basically measures the efficacy in which financial resources are pooled and bartered. Simply stated that it covers the financial literacy level of the population, their banking habits and the coverage of the entire financial system.

The United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) defines financial inclusion as universal access to, and use of, to a wide range of reasonably priced financial services, provided by a variety of sound and sustainable institutions. Financial inclusion is an enabler and accelerator of economic growth, job creation and development. Affordable access to, and use of, financial services helps families and small enterprise owners generate income, manage irregular cash flow, invest in opportunities, strengthen resilience to shocks, and work their way out of poverty.

Various financial services would include access to savings, loans, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded. Savings and investments help in poverty alleviation and also add to GDP growth in any economy. But accessing of formal financial system is still a distant dream to a vast section all over the world, and India is not an exception to it.

One of the key financial services that is of great relevance here is that of risk management or risk mitigation services visa-a-vise economic shocks which may be an income shock via loss of income due to adverse weather conditions or natural disasters or an expenditure shock due to health emergencies or accidents leading to a high level of unexpected expenditure.

This aspect of financial inclusion is of vital importance in providing economic security to individuals and families. Financial inclusion is important simply because it is a necessary condition for sustaining equitable growth. There are few, if any, instances of an economy transiting from an agrarian system to post-industrial modern society without broad-based financial inclusion. As people having comfortable access to financial services, economic opportunity is strongly intertwined with financial access. Such access
is especially powerful for the poor as it provides them the opportunity to build savings, make investments and avail credit. Importantly, access to financial services also helps the poor insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. Needless to add, financial inclusion protects the poor from the clutches of the usurious money-lenders. Financial inclusion will make it possible for governments to make payments such as social security transfers, National Rural Employment Guarantee Programme (NREGA) wages in the bank accounts of beneficiaries through the Electric Benefit Transfers (EBT) method. This will minimize transaction costs including leakages. In parts of the country where such EBT has already taken off, the results are impressive and the experience of both payers and recipients is extremely satisfying. There are enormous benefits at the aggregate level too. The first and more obvious benefit is that financial inclusion provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channelizes them into investments. Second, the large number of low cost deposits will offer banks and opportunity to reduce their dependencies on bulk deposits and help them to better manage both liquidity risk and asset-liability mismatches.

Financial Exclusion

The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). Throughout the 1990s there was also a growing body of research relating to difficulties faced by some sections of societies in gaining access to modern payment instruments and other banking services, to consumer credit and to insurance. There was also concern about some people lacking savings of any kind.

It was in 1999, that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999).

Since then, a number of commentators have added their views of how financial exclusion should be defined. These include both academics (for example, Anderloni, 2003; Anderloni and Carluccio, 2006; Carbo et al, 2004; Devlin, 2005; Gloukovitzoff, 2004; Kempson et al, 2000; Sinclair, 2001); and policy makers (Treasury Committee, 2006a, 2006b; HM Treasury, 2004).
The general consensus is that it refers to people who have difficulty accessing appropriate financial services and products in the mainstream financial services market. Two aspects of this definition are important: First the reference to appropriate products and secondly to the mainstream financial services market – as much of the exclusion appears to arise from a failure of the mainstream commercial providers to supply a range of products and services that are appropriate to the needs of all sections of society.

Financial exclusion leads to social exclusion. The excluded section comprise of the marginal farmers, landless laborers, self employed, and unorganized sector, enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded group, senior citizens and women (Rangarajan Committee Report).

There is also a widespread recognition that financial exclusion forms part of a much wider social exclusion, faced by some groups who lack access to quality essential services such as jobs, housing, education or health care. The policies for tackling financial exclusion offers integrated solutions for social exclusion also (Marshal 2004).

Financial exclusion is, however, a complex concept and the following key issues need to be considered:

- Exclusion from which financial services and institutions?
- Do we need to draw a distinction between access to financial services and usage of them?
- Are there degrees of financial exclusion and, if so, how to express these?
- For whom do we measure access: the individual, the family or the household?

Today, 2.5 billion adults—more than a third of the world’s population—are excluded from the formal financial system. Financial exclusion is greatest among poor people and in emerging and developing countries, including the rural households that account for more than 70% of global poverty. This hampers people’s ability to earn, protect themselves in times of crisis, and to build for the future. In addition, more than 200 million formal SMEs in emerging markets alone lack access to finance, limiting their ability to grow and thrive.

**Are there degrees of financial exclusion?**

There are two aspects to be considered in this regard. First, as we discussed earlier, people may have varying levels of engagement with banking services. So they may have a deposit account but not a transaction one. They may have access to some, but
not all the transaction banking facilities that would be appropriate to their circumstances. It is for this reason, that the terms unbanked, marginally (or under-) banked and fully-banked have been coined (Anderloni and Carluccio, 2006; BMRB, 2006; Barr, 2004; Corr, 2006; Kempson, 2006).

There is, however, another important dimension to this debate which is the extent to which people have access to transaction banking services but not through mainstream providers – in this case the banks and other similar organisations. In some countries there are a range of alternative providers or fringe banks that cater to the needs of people without a transaction bank account. These include organisations specialising in offering cheque cashing, bill-payment or remittance services. Generally, people who use these are considered unbanked if they lack a transaction bank account or marginally banked if they have one but do not use it (Barr, 2004; Caskey, 1994; Kempson and Whyley, 1999).

Likewise some people may be able to get a cash loan from a high cost sub-prime lender but not an overdraft or a credit card in the prime credit market, while others might be denied all forms of credit, even in the sub-prime market. Both are usually considered credit excluded but the term ‘completely credit excluded’ has only been used to describe the second of these two groups (Kempson and Collard, 2005).  

**Financial Inclusion-Inclusive Growth Model**

The concept of inclusive growth has gained wide importance in several countries including India (Bolt, 2004). Inclusive growth implies participation in the process of growth and also sharing of benefit from growth. Growth is considered to be pro-poor as long as poor benefit in absolute terms, as reflected in some agreed measure of poverty (Ravallion and Chen, 2003). Growth with equity is the only road to success. It has been globally recognized that high national income growth alone does not address the challenge of employment promotion, poverty reduction and balanced regional development. Nor does growth in itself improve human development. Consequently, all the efforts of government – in agricultural and rural development, in industry and urban development, in infrastructure and services, in education and health care – sought to promote inclusive growth.
Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the disadvantaged population. Financial inclusion is also considered to be a business opportunity for the formal financial institutions. It would help them in penetrating into unbanked areas and thereby attaining profit. Besides the bankers, the developmental authorities also have a major role in developing the supportive infrastructure, both physical and social. Literacy, health and communication are some of the essential ingredients needed for inclusive growth. To conclude, the four pillars of inclusive growth are productivity, employment, financial inclusion and infrastructure development.

A rapidly modernizing economy needs effective social, economical and financial policies for those who had left behind. From 2006-2010, the growth rate was arranged at 8.6 per cent making India as one of fastest growing economies in the world, but the growth is not equitable. The Eleventh Five Year (2007-2011) Plan provides “an opportunity to restructure policies to achieve a new vision based on faster, more broad-based and inclusive growth. It is designed to reduce poverty and focus on bringing the various divides that continue to fragment our society” (GOI, 2006: 1). The policies aim at increasing the income and employment opportunities on the one hand and on the other hand it tries to finance programmes which are capable of making the growth more inclusive.

Rural areas, where 70 per cent of Asia’s poor live, continue to lag behind and the reasons identified were (1) limited access to financial services; (2) poor infrastructure, notably power, transport, and communications; (3) limited information about market opportunities; (4) a lack of education and training; and (5) limited access to new technologies, including information and communication technology. Hence greater efforts are required for them to participate in inclusive growth.

Inclusive growth as the literal meaning of the two words refers to both the pace and the pattern of the economic growth. The inclusive growth approach is long term in nature which focuses on the productive employment which increases the means of incomes of the excluded section. Inclusive growth allows people to contribute and to get benefit from economic growth. The eleventh five year plan (2007-2012) envisions inclusive growth as the key objective.
Financial inclusion helps in striking a balance by channelizing the surplus to deficit units and brings the poor and disadvantaged one under the growth allegory. The concept “Inclusion” should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process, and not simply as welfare targets of development programme (Planning Commission, 2007). Financial inclusion has two major objectives:

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<th>Economic Objectives</th>
<th>Social and Political Objectives</th>
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<td>• Equitable Growth</td>
<td>• Poverty Alleviation</td>
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<td>• Mobilization of Savings</td>
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<td>• Effective Direction of Government Programmes</td>
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The focus of economic policy in India has shifted to issues of equitable growth. This implies that the economy should not only maintain the tempo of growth but also spread the benefits of growth to all sections of the population of the country. In India, where rapid economic growth has become a national goal, analysis of the sources of growth assumes special importance to formulation of the macroeconomic strategy and policies that affect the future growth rate. This change in approach is significant for the hilly regions of the country, as they constantly struggle with underdevelopment, even when the rest of the economy is doing well. There has been a significant shift in the focus of economic policy in India in the last few years, with issues of equitable growth getting more importance. This is clearly revealed in the change in the Planning Commission’s perspective – from high growth during the Tenth Five Year Plan to inclusive growth in its Approach Paper to the Eleventh Five-Year Plan. With sustained fertility decline and growing survival chances, India is likely to face many new challenges in the realm of its population management strategies especially those relating to life situations or the quality of human life and their key socio-economic determinants. Some of the economic literature clearly indicates a growing strain on many of these factors affecting the quality
of human life and its determinants. Such literature and data sources also highlight the disparities and emerging mismatch between the post liberalization high GDP growth in the country and the quality of life experienced by a large segment of population in India (Dev and Ravi, 2007; UNICEF, 2005; NSS 61st round).

Financial Inclusion 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. The States like Bihar, Orissa, Rajasthan Uttar Pradesh, Chhattisgarh, Jharkhand, West Bengal and North-Eastern States are under-banked.

According to the UK Financial Inclusion Taskforce, there are three main concerns in financial inclusion; access to banking, access to affordable credit and access to free face-to-face financial advice.

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks. Despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services (United Nations, 2006a). In most developing countries, a large segment of society, particularly low-income people, has very little access to financial services, both formal and semi-formal. As a consequence, many of them have to necessarily depend either on their own or informal sources of finance and generally at an unreasonably high cost. The situation is worse in most least developed countries (LDCs), where more than 90 per cent of the population is excluded from access to the formal financial system (United Nations, 2006a).
Financial services can help small farmers tap into the formal economic system for two-way flow of information and income. Entire economies can grow more quickly and in ways more favorable to poor people.

**Important features of Financial Inclusion**

a) Financial inclusion means the process of availing a minimum set of financial and banking services to the people residing in the lowest ladder of social paradigm

b) Financial inclusion presses upon including the mainstream banking and financial initiatives in this initiative

c) Opening a bank account is the most popular and simple tool of attaining objectives of financial inclusion

d) Financial inclusion is being promoted as an important tool to achieve the target of “sustainable growth”

e) Mangalam village of Puducherry became the first village to achieve 100 per cent financial inclusion

**Factors Affecting Access to Financial Services**

Financial Inclusion, on the one hand, is a process aiming at providing banking services like saving account, credit facility, and insurance product to weaker sections of
the society. While on the other hand, it refers to the objective of ensuring financial services (banking, insurance, and capital market services) and timely and adequate credit to every section of the society as well as of the economy. Access to financial services has been recognized as an important aspect of development and more emphasis is given to extending financial services to low-income households as the poor lack the education and knowledge needed to understand financial services that are available to them. The lack of financial access limits the range of services and credits for household and enterprises. Although there is some evidence that access is improving but still there are multiple factors which have affected the access to financial services.

**Gender Issues**

Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow.

**Age Factor**

Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

**Legal Identity**

Lack of legal identities like identity cards, birth certificates or written records often exclude women, ethnic minorities, economic and political refugees and migrant workers from accessing financial services.

**Limited literacy**

Limited literacy, particularly financial literacy, i.e., basic mathematics, business finance skills as well as lack of understanding, often constraints demand for financial services.

**Place of living**

Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (i.e., highly mobile people with no fixed or formal address), insurgency in a location, etc., also affect access to financial services.
Psychological and cultural barriers

The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low income groups. However, cultural and religious barriers to banking have also been observed in some of the country's Social security payments.

Bank charges

In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other hidden charges that have a disproportionate effect on people with low income.

Terms and Conditions

Terms and conditions attached to products such as minimum balance requirements and conditions relating to the use of accounts often dissuade people from using such products/services.

Level of Income

Financial status of people is always important in gaining access to financial services. Extremely poor people find it impossible to access financial services even when the services are made for them. Perception barriers and income discrimination among potential members in group-lending programmes may exclude the poorer members of the community.

Type of occupation

Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

Attractiveness of the Product

Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

According to Report on Currency and Finance 2006-08 the critical dimensions of Financial exclusion include access exclusion, condition exclusion (conditions attached
to financial products), price exclusion and self exclusion because of the fear of refusal to access by the service providers. The financial exclusion process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas.

One of the successes in the last few years is supposed to have been the Mahatma Gandhi National Rural employment Guarantee Scheme. It has increased financial inclusion because it is mandated into the scheme that payments are made through the job cards, through bank accounts. Prior to this scheme of ‘No frills accounts’, as directed by the RBI, paved the way for Financial Inclusion. It is mandatory for state agencies to make the payments under various social security schemes through bank account.

**Committees on Financial Inclusion (CFI)**

Financial inclusion, of late, has become the business world in academic research, public policy meetings and seminars drawing wider attention in view of its important role in aiding economic development of the resource poor developing economies. In the Indian scenario, the term ‘financial inclusion’ is popular in financial circles, especially after the Reserve Bank of India (RBI) announced a series of measures in its credit policy for 2006-07 to include many of the hitherto excluded groups in the banking net.

Government of India constituted a Committee to enhance financial inclusion in India on 22 June 2006. The Committee presented its report in January 2008. The report has analyzed financial inclusion in detail. CFI has initiated a mission called National Rural Financial Inclusion plan. It has set targets to increase FI in the country across regions and across institutions (banks, rural regional banks etc). It has suggested measures to address both, supply and demand constraints in increasing financial inclusion. The report suggested measures to address demand constraints in all the other forms of capital as well. To address human capital it stressed on health and education; for natural capital - enhance access to land which could provide collateral; for physical capital- improve infrastructure; social capital- develop institutions like gram panchayats etc.

The interim report was presented before the Budget (2007-08). The Finance Minister in the Budget decided to implement, immediately, two recommendations. The first was to establish a Financial Inclusion Fund with NABARD for meeting the cost of
developmental and promotional interventions. The second was to establish a Financial Inclusion Technology Fund to meet the costs of technology adoption. The overall corpus for each fund was Rs.500 crore, with initial funding to be contributed by the Central Government, RBI and NABARD. In the 2008-09-budget statement, the Finance Minister proposed two more measures: one to add at least 250 rural household accounts every year at each of their rural and semi-urban branches of commercial banks (including regional rural banks) and two, to allow individuals such as retired bank officers, ex-servicemen etc to be appointed as business facilitator or business correspondent or credit counselor. The Finance Minister also proposed to expand the reach of NABARD, SIDBI and NHB. According to Indian institute of banking and finance, “financial inclusion is delivery of banking services at an affordable cost (‘no frills’ accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.”

According to Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India, financial Inclusion 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.

The Reserve Bank of India (RBI) constituted a committee under SH Khan to give recommendations on Financial Inclusion. On recommendations of this committee, RBI appealed to all commercial banks to come out with a no-frill bank account that would attract the downtrodden unbanked masses of the country for its simplicity of operations. However, financial inclusion as a formal banking policy was implemented from 2005 on recommendations of Kamlesh Chandra Chakrabarty committee’s report. After this report, the terms and conditions to open bank account by marginalised people were eased by banks.

According to V. Leeladhar, Reserve bank of India bulletin, January 2006, financial inclusion is delivery of banking services at an affordable cost to the vast sections of advantaged and low income groups. Unrestrained access to public goods and services
is the *sine qua non* of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

According to committee of financial inclusion, “The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.”

According to M.K.Samantaray, General Manager, Reserve Bank of India, Large segment of population remaining excluded from formal payments system & financial markets when financial market developing & globalizing – Obvious market failure – Government & financial sector regulators creating enabling conditions for inclusive & affordable market.

Rangarajan Committee (2008) on financial inclusion stated that: “Financial inclusion may be 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.” The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty.

A perusal of literature on finance and economic development reveals that the earlier theories of development concentrated on labor, capital, institutions, etc., as the factors for growth and development. There have been numerous researches analyzing how financial systems help in developing economies. A great deal of consistency exists among economists regarding financial development prompting economic growth. Many theories have established that financial development creates favorable conditions for growth through either a supply leading or a demand-following channel. According to Rajan and Zingales (2003), development of the financial system contributes to economic growth.
**Importance of Financial Inclusion in India**

A purpose of financial inclusion is to help people and communities meet basic needs such as nutritious food, clean water, housing, education, and healthcare and more by supporting the businesses that provide these services, and enabling clients to have more reliable and affordable access to them. An inclusive financial system is essential infrastructure in every country.

While financial inclusion alone cannot bring people out of poverty, it can help people build better lives. It can help individuals to start businesses, and help small businesses grow into larger ones. Financial services can help small farmers tap into the formal economic system for two-way flow of information and income. Entire economies can grow more quickly and in ways more favorable to poor people.

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

1. Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

3. Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is, therefore, pushing for direct cash transfers to beneficiaries through
their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government’s subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

Financial Inclusion is necessary for India mainly due to agrarian nature of Indian economy and her huge population. People belonging to this sector suffer a lot due to high interest rates, uncertain nature of agriculture, absence of sufficient agricultural insurance services, rising production costs and exorbitant amount of interest paid by them to traditional moneylenders. And these are the primary reasons that banking sector is also look upon with suspicion by agriculturists as they have been looking at moneylenders through ages. It was, therefore, important to put a better picture of banking industry before them to break their perceived notions about this sector. Financial inclusion, therefore, was formulated with the main objective of providing basic hassle free financial services such as bank account. Bank accounts are perceived as first important step in providing financial empowerment to the downtrodden and policies of financial inclusion were envisaged keeping in mind the target of bringing more and more people under mainstream banking and financial services. Initiatives under financial inclusion have been pressed upon as they are perceived as major tools in achieving sustainable growth.
Finance has come a long way since the time when it wasn't recognized as a factor for growth and development. It is now attributed as the brain of an economic system and most economies strive to make their financial systems more efficient. It also keeps policymakers on their toes as any problem in this sector could freeze the entire economy and even lead to a contagion. The policymakers have set up their task force/committees to understand how financial inclusion can be achieved including advanced economies like United Kingdom.

Conclusion

A series of innovations are making it possible to provide low-cost and convenient financial services to all those who need them. Mobile phones and digital technology are changing how people bank and pay for things, in part by leveraging existing communications infrastructure and retail networks such as stores, airtime agents, post offices, and banks. And financial service institutions are reaching out to clients in new ways, such as through converted trucks with ATMs and tellers that take banking services to remote villages.

Financial products for agriculture, health insurance, and others are inspiring scalable solutions through careful design that meet client needs within their local contexts. Governments are encouraging these and other new models through policies that encourage innovation, partnership, and responsible finance. At the same time, new data efforts are enabling countries and service providers to know more about unbanked markets and client needs, and to measure progress against nationally determined targets.
REVIEW OF LITERATURE

The review of literature is likely to provide bird’s eye view of the study conducted on the subject matter. Review of literature is helpful in gaining background knowledge of the research topic and identifying the various issue related to it. In this way, it prepares the ground for justification of research plan. Economics growth theory and economics inequalities both provide a starting point for understanding importance for the new path of economic growth policies to sustain the nations.

A large numbers of studies have been made so far on financial inclusion in India, yet some gaps still persist. There are still problems of access to finance; credit, poverty and indebtedness have not been adequately examined. Just to open an account in the bank is not the only solution of the problem. Financial literacy is required for the overall achievement of the objective of financial inclusion. The present study is an attempt to find out of regional disparity, indebtedness and status of financial inclusion in India.

After a period of more than sixty years of independence with planned development, several transects are still facing impoverishment in India. Inspire of planner’s motivation to achieve growth with equality known as ‘inclusive growth; the country has been facing wide regional disparity between both of urban and rural regions. Poverty, which is a consequence of underdevelopment, is a continuing issue to be tackled with rural indebtedness, has been an agenda of discussion right from the time of independence. Safer, easy and affordable credit, and other financial services to the poor and valuable groups, disadvantaged areas and lagging sectors are recognized as pre-conditions for accelerating growth and reducing income disparities and poverty. Accesses to the financiering of better finance system by creating equal opportunities enables economics and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks (RBI, 2009).
Studies Based on Linkages between Finance and Economic Development

Waiter (1873) and Hicks (1969) argued that finance played a crucial role in ushering in industrialization in England by facilitating mobilization of capital. Schumpeter (1912) contended that well-functioning banks spur technological innovation by identifying and funding potential entrepreneurs. Economists like Robinson (1952) opined that, “where enterprise leads, finance follows”, thereby taking a positions that economic development create demand for particulars type of financial arrangements and the financial system responds automatically to these demands. Especially, in the context of India, Bell and Rousseau (2001) have shown how financial intermediaries in India have played a leading role in influencing its economic performance. The financial sector, among other things, not only led to promote aggregate investment and output but also to attain finance-led industrialization. Studies by Burgess and Pande (2003) and Burgess et al. (2004) have shown that rural branch expansion in India was associated with non-agricultural growth and has helped in reducing rural poverty. This has been termed by the some as supply-leading strategy.

Studies Based on the Inequalities and Economic Growth

Nicoals (1955) reported that in the initial days inequality theories incorrectly stated that inequality had a positive effect on economic development, later it was determined that the marginal tendency to save was to increase with wealth and inequality increases savings and capital accumulation. Therefore, the analysis based on comparing yearly equality figures to yearly growth rates was flawed and misleading because it takes several years for the effects of equality changes to manifest in economic growth changes (Berg & Ostry, 2012).

Rodriguez (2000) studied the relationship between income distribution and economic development which has been subjected to dramatic transformation in the past century. While the Classical economists advanced the hypothesis that inequality is beneficial for economic development, the neoclassical paradigm, which subsequently dominated the field of macroeconomics, dismissed the Classical hypothesis and advanced the viewpoint
that the study of income distribution has no significance in the understanding of the growth process.

**Atkinson and Audretsch (2008)** indicated that innovation was a much effective driver of growth than capital. In the old economy, where large amounts of capital were needed to construct an emergent factory economy, and before the emergence of the kind of sophisticated global capital markets, of today, neoclassic list’s overriding focus on capital accumulation may have made some sense.

**Atkinson (2008)** emphasized in his article that Global major economies have been transformed by the forces of technology, globalization, and entrepreneurship and that the doctrines guiding economic policy makers have not kept pace. Robert Atkinson explored innovation economics framework for the 21st century to build a framework for poverty alleviation. In the world, billion poor can be the engine of the next round of global trade and prosperity.

**Atkinson (2011)** tried to argue that today’s economy, trying to stimulate the supply of an item that the economy has plenty of investment capital –does not make much sense. The problem in the new economy is not a lack of investment capital but a lack of good investment opportunities. Supply side tax cuts on individuals do not make much difference in the availability of capital; and even if they did, the supply of capital is not the key factor driving economic growth in today’s knowledge based economy.

**Studies Based on the Economic Growth**

**Greenwood et al. (1990)** tried to introduce two important issues in economic growth theories in a single model. They were relationship between economic growth and inequality, and relation between financial structures and economic growth as it has given a high return on capital. On the other hand economic development has also provided means to financial development.

**Kirkpatrick (2000)** emphasized on the finance as an essential part for the human development. Financial development was considered to be an integral factor in the
economic growth of a country. So far, many studies have noted that a well-functioning financial system, that mobilized savings, allocated resources, and facilitated risk management contributed to economic growth by supporting capital accumulation, improving investment efficiency, and promoting technological innovation.

**Beck et al. (2000)** tried to evaluate empirically the relationship between level of financial intermediary development and economic growth. They observed a positive impact of financial intermediary development on the growth of total factor productivity which would lead to economic development institutional agencies.

**Calderon and Liu (2003)** used data on 109 developing and developed countries - and showed that the direction of causality was generally from financial development to economic growth. Moreover, economic growth is likely to be beneficial to the poorest segment of the population, as indicated by the result of a study by Becket et al. (2007). They used data from a sample of 72 developed and developing countries for the period 1960-2005 and found a positive relationship between financial depth [as measured by the ratio of private sector credit to gross domestic product (GDP)] and the change in the share of the lowest quintile in total national personal income.

**Bekaert et al. (2004)** examined a positive impact of equity market liberalization on real economic growth. Further, they also observed the positive impact of capital account liberalization and quality of financial institutions on economic growth.

**World Bank (2008)** proposed Economic Growth Theories of development advocating that financial development created enabling condition for growth through either a ‘supply-leading’ (financial development spurs growth) or a ‘demand-following’ (growth generates demand for financial products) channel. Earlier theory of development hypothesized that rise in inequality was inevitable in the early stages of development. The earlier literature did not focus on the need to develop an extensive financial system that could tap saving and then channel the funds so generated to a wide spectrum of activities. The modern development theory perceived the lack of access to financial as a critical factor responsible for persistent income inequality as well as slower growth. A large body
of improving access to fiancé might accelerate economic growth along with a reduction in income inequality and poverty. Without an inclusive financial system, poor individual and small enterprises had to rely on their own limited savings and earnings to invest in their education and entrepreneurship to take advantage of growth opportunities.

Blackemore and Herrendorf (2009) concluded in their report that Economic growth is critically important for individual well-being. Specifically, even small differences in growth rates over long horizons led to large differences in living standard. Economists learned a great deal about growth and development and a consensus was forming.

**Studies Based on the Concept of Financial Inclusion**

Sharma and Pais (2008) analyzed the Indian history with the concept of financial inclusion started in the year of 1904 as cooperative movement, and then it gained momentum in 1969, when 14 major commercial banks of the countries were nationalized and lead bank scheme was introduced shortly thereafter from that year the majority of bank branches were opened in large number across the country and even in the areas which were hitherto being neglected. However, there was severe gap in financial assessment which needed special attention. Many studies have proved that lack of inclusion was rather exclusion from the banking system which resulted in a loss of 1 percent to the GDP. Thus, the Reserve Bank of India concluded that the financial inclusion was not just a socio-political imperative but also an economic one and realized the gravity of the problem. Finally, the Reserve Bank of India made the Mid Term Review of Monetary Policy (2005-06), urged the banks to make financial inclusion as one of their prime objectives.

Suryanarayan (2008) proposed to define inclusion/exclusion with reference to an outcome scenario for broad-based growth as reflected in estimates of production, income, and consumption distribution. This should facilitate a sketch of occupational, social, regional profiles of the excluded in the mainstream growth process. This study, therefore, made an attempt to provide a perspective, a measure of inclusion, and finally an
evaluation based on the available estimates of consumption distribution for the year 2004-05 for India.

**Hanning and Jansen (2010)** found that reliable and comprehensive data capturing various dimensions of financial inclusion was a critical condition for evidence-based Policymaking. This presented several challenges ranging from the basics of what financial inclusion was and what it entailed especially because it was a concept that varied with level of countries’ economic development and geographical reasons. The definition of financial inclusion and its components was important for setting a clear direction for policymaking by translating the concept of financial inclusion into operational terms but also allowing tracking progress and measuring outcomes of policy reforms. This study attempted to articulate the definition of financial inclusion and its components in the context of Kenya.

**Singh (2012)** discussed that as the poverty level declined and households have greater levels of discretionary incomes, they would be first time financial servers. They would, therefore, need to have easy access to formal financial systems to get into the banking habit. Banks would need to innovate and devised newer methods of including such customers into their fold. Innovation in the form of business facilitators and correspondents would be needed for banks to increase their outreach for bank to ensure financial inclusion. He emphasized the financial inclusion as a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks were free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them. New entrants to the banking, system need household at their doorstep. There has been a burst of entrepreneurship across the country, spanning rural, and semi-urban and urban areas. This has to be nurtured and financed. It was only through growth of enterprises across all size and that competition would be fostered. With the increasing liberalization and higher economic growth, the role of the banking sector was poised to increase in the financing pattern of economic activities within the country. Financial inclusion would strengthen financial depending and provide resources to the banks to expand credit delivery. He
concluded that financial inclusion would lead to financial development in our country which will in turn help to accelerate economic growth.

Aggarwal (2012) made an attempt to understand the financial inclusion from the behavioural perspective both on supply and demand end. There were risks and return associated with every transaction that we needed to quantify but certain behavioural motives failed the implementation of economics but can be as marketing proposition to gain high level of inclusion. The study was based on the personal interaction and opinion survey. This evaluation from the behavioural perspective provided the scope for the policy-makers and marketers to strategically align their approach with the behavioural aspect, without confining their thoughts to the economical evaluations.

**Studies Based on the Definition of Financial Inclusion**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Author Definition</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>ADB (2000)</td>
<td>Provision of a board range of financial services such as deposits, loan, payment services, money transfers and insurance to poor and low income households and their micro-enterprises.</td>
<td>Deposits, loans, payment services, money transfer and insurance.</td>
</tr>
<tr>
<td>Stephen P. Sinclair (2001)</td>
<td>Financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing, or self-exclusion in response to negative experiences or perceptions.</td>
<td>Basic banking services for money transmission, credit, and insurance, debt and debt assistance, long–term savings and financial literacy.</td>
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<tr>
<td>Source</td>
<td>Definition</td>
<td>Examples</td>
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<td>-------------------------------------------------</td>
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<tr>
<td>Chant Link and Associates, Australia (2004)</td>
<td>Financial exclusion is back of access by certain consumers to appropriate low cost, fair, and safe financial products and services from mainstream providers. Financial exclusion becomes a concern in the community when it applies to lower income consumers and/or those in financial hardship.</td>
<td>Deposit accounts, direct investments, home loans, credit cards, personal loan, building insurance and home insurance.</td>
</tr>
<tr>
<td>Treasury Committee, House of Commons UK (2004)</td>
<td>Ability of individuals to access appropriate financial products and services.</td>
<td>Affordable credit and savings for all and access to financial advice.</td>
</tr>
<tr>
<td>Scottish Government (2005)</td>
<td>Access for individuals to appropriate financial products and services. This includes have the capacity, skills, knowledge and understanding to make the best use of those products and services. Financial exclusion by contrast, is the converse of this.</td>
<td>Access to products and services, and/or capacity, skills, knowledge and understanding.</td>
</tr>
<tr>
<td>United Nations (2006)</td>
<td>A financial sector that provides ‘access’ to credit for all ‘bankable’ people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.</td>
<td>Access to credit, insurance, savings, payment services.</td>
</tr>
<tr>
<td>Report of the Committee on Financial Inclusion in India Chairman: C. Rangarajan,</td>
<td>The process of insuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at</td>
<td>Access to financial services and timely and adequate credit.</td>
</tr>
<tr>
<td>Year</td>
<td>Description</td>
<td></td>
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<tr>
<td>------------</td>
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<td></td>
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<tr>
<td>2008</td>
<td>an affordable cost.</td>
<td></td>
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<tr>
<td><strong>Word Bank (2008)</strong></td>
<td>Board access to financial services implies an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimensions. Access to financial services such as deposit, credit, payments, insurance.</td>
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**Treasury (2004)** concluded that particularly those living on low income, could not access mainstream financial products such as bank accounts and low cost loans, which, in turn, imposed real costs on them, often the most vulnerable people in urban and rural India.

**Meadows et al. (2004)** argued that the focus narrowed down mainly to the products and services provided by the mainstream financial services providers. But just providing the services for poor is different from the actual need to design particular products or services at the affordable cost-effective products.

**United Nations (2006)** defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society. But this definition encompassed concept’s primary dimension. Firstly, financial inclusion referred to a customer access to a range of formal financial services, from simple credit and saving services to the more complex such as insurance and pensions. Secondly, financial inclusion implied that customers have access to more than one financial services provider, which ensured a variety of competitive options. Following from this definition, financial exclusion would mean the inability of the disadvantaged to access financial services. A range of obstacle could lead to financial exclusion; barriers including geography (limiting physical access), regulations (lack of formal identification proof or of appropriate products and poor households), psychology (fear of financial institution’s staff, structures, complicated financial products, etc.), information (lack of knowledge regarding products and procedures), and low financial acumen (low income and poor financial discipline), among others.

**World Bank (2008)** reported that access to financial service implied an absence of obstacles to the use of these services, even though there were some obstacles as price or
non-price barrier to finances. The majority of the developing countries had failed to make this distinction could complicate effort to define and measure access. Financial market imperfections, such as information asymmetries and transaction cost, were likely to be especially binding on the talented poor and on micro and small enterprises that lack collateral, credit histories, and connections. Without inclusive financial systems, these individuals and enterprises with promises opportunities were limited to their own savings.

Studies Based on the Financial Exclusion

Kempson et al. (2000) analysed the range of physical and geographical barriers to financial inclusive factor that can contribute to financial exclusive for different products and individuals under certain circumstances. There are a number of ‘dimensions’ or ‘forms’ of financial exclusion that have been identified. The critical dimension of financial exclusion include: (i) access exclusion – restriction of access through the process of risk management (by financial services providers); (ii) condition exclusion – conditions attached to financial products which make them inappropriate for the needs of some segments of population; (iii) price exclusion some people can only gain access to financial products at prices they cannot afford; (iv) marketing exclusion – some people are effectively excluded by targeted marketing and sales; and (v) self exclusive – people decide not to opt for financial product of the fear of refusal access by the services providers. However, in many countries, many non-poor individuals, micro, small and medium entrepreneurs also have difficulty in accessing financial services.

Sinclair (2001) indicated that the nature and forms of exclusion and the factors responsible for it are varied for it is varied and, thus, no single factor could explain the phenomenon. So the principal barriers in the expansion of financial services are often indentified as physical access, high charges, and penalties, conditions attached to products which make them inappropriate or complicated and perceptions of financial service institutions which are thought to be unwelcoming to low income people.

Reserve Bank of India (2008) emphasized that the Financial Exclusion was broadly defined as the lack of access by certain segments of the society (SC, ST, OBC, and women) to suitable, low-cost, fair, and safe financial products and services from
mainstream providers”. Thus the essence of financial inclusion was to insure that a range of appropriate financial services was available at affordable price to every individual and access those services. In reality, the reserve bank of India found that the main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side it was the distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. The RBI found that due to all these procedural hassles people felt it easier to take money from informal credit sources, in spite of high cost of credit. It resulted in compromised standard of living and higher costs. Informal credit increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. The RBI concluded that financial inclusion did not mean merely opening of saving bank account but signified creation of awareness about the financial products, education, and advised on money management, offering debt counseling, and etc. by banks. Every society should ensure easy access to public goods. Therefore, banking service being a public good should also be aimed at providing service to the entire population.

Sharma (2010) distinguished between five factor that account for the lack of financial inclusion (exclusion);’ (1) Access exclusion due to geography and “risk management of financial system”, (2) Condition exclusion “due to conditions that are inappropriate for some people” (3) Price exclusion due to non affordability of financial services, (4) Marketing exclusion due to the non attractiveness of conducting business with certain groups within society (lending risk), and (5) Self exclusion, due to “fear of refusal due to psychological barriers”

Studies Based on the Global Financial Exclusion

Kempson (2006) showed that in Sweden lower than two percent of adults did not have an account in 2000 and in Germany, the figure was around three percent. Another research by (Buckland et al (2005) showed that less than four percent of adults in Canada and five percent in Belgium, lacked a bank account. Therefore, it is also mentioned in academia that a better way to analyze financial inclusion in developing economies is to actually see financial exclusion.
World Bank (2010) reported that in the largest share of the unbanked live in Sub-Saharan Africa (12 percent banked) and South Asia (24 percent banked), East Asia, Middle East and North Africa, Latin America and Eastern Europe and Central Asia are also low-access regions with less than 50 percent of their population banked. Among the unbanked a large proportion survived on less than $5 dollars a day. Finally the report concluded that financial inclusion needs to leverage all financial services providers, for example micro-finance industry as well as from recent innovations to deliver financial service outside of conventional bank branches. However, filling the financial service gap would require significant commitment from a wide variety of bank and non-bank financial institution, including commercial bank, credit unions, savings banks, microfinance institutions, postal banks, and mobile banking operators.

Diniz et al. (2011) presented an interesting case study of how the ‘banked people’ (i.e., people having a checking or saving account) of Autazes (an Amazon county) found it extremely expensive and time consuming to use their bank facilities before 2002 when banking facilities were not locally available. This study was a peculiar case where the people of Autazes were financially included while Autazes, as a region itself, was financial inclusion that only counts number of people having a bank account will not reflect the lack of adequate financial services as in the case of Autazes before 2002. Further, adequate utilization of financial service was also an important aspect of financial inclusion.

Studies Based on the Structural Disclamaation of Exclusion in India

The extent of exclusion was pointed out as under during the 59th round of NSSO Survey:

(a) General

- The majority of farmer households, 51.4 percent, were financially excluded from both formal and informal sources.
- The total farmer households, only 27 percent, access formal sources, but one third of this group also borrowed from non-formal sources.
- Overall 73 percent of farmer households had no access to formal sources of credit.
- Exclusion was most acute in Central; Eastern and North-Eastern regions have a concentration of 64 percent of all financially excluded farmer households in the country.
- Overall indebtedness to formal sources of finance alone was only 19.66 percent in these three regions.

(b) Occupational Groups
- Marginal farmer households constituted 66 percent of total farmer households. Only 45 percent of these households were indebted to either formal or non formal sources of finance.
- Only 20 percent of indebted marginal farmer households had access to formal sources of credit.
- The majority 80 percent of the non-cultivator households had not accessed credit from any source.

(c) Social Groups
- The majority 36 of ST farmer households were indebted (SCs and Other Backward Classes –OBC -51%) mostly to informal sources.
- Analysis of the data provided by RBI through its Basic Statistical Returns revealed that critical exclusion (in terms of credit) was manifest in 256 districts, spread across 17 State and 1 UT, with a credit gap of 95 percent and above. This was in respect of commercial banks and RRBs.

Studies Based on the Present Scenario of Financial Exclusion in India

Roy (2012) emphasized that out of 6,00,000 habitations in the country; only about 5 percent had a commercial bank branch. Also only about 57 percent of the population across the country had bank account (savings), and this ratio was much lower in the North-Eastern states. Further, 13 percent of the population had debit cards and 2 percent had credit cards. India had a significantly low level of financial penetration compared with OECD countries. In India, access to finance access to credit was worse off when compared with China, Malaysia, and Thailand. However, in terms of financial access
through ATMs for rural population, India fared poorly compared to select Asian peer group countries (RBI, 2010).

**Khan (2012)** indicated that the Habitation in the country which has a commercial bank branch is: 30,000 (out of 600,000).

### Table 1.1
**Financial Inclusion: Snapshot**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank Account (savings)</td>
<td>57</td>
</tr>
<tr>
<td>2</td>
<td>Life Insurance</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Non-life insurance</td>
<td>0.6</td>
</tr>
<tr>
<td>4</td>
<td>Debit Cards</td>
<td>13</td>
</tr>
<tr>
<td>5</td>
<td>Credit Cards</td>
<td>2</td>
</tr>
</tbody>
</table>


The above table provides a set of summary statistics relating to penetration of various categories of financial products. First, the relatively low penetration of bank branches must be highlighted – only 30,000 out of 6,00,000 habitations have a banking presence. As is well understood, the goal of having physical banking facility in every habitation is unrealistic, which is why the inclusion strategy is largely based on the use of Information and communication technology (ICT) to expand banking access virtually through the mechanism of a Business Correspondent (BC), who carries a handheld device networked to the bank systems. This is enormous technological discontinuity enabled by the spread and efficiency of the mobile telephone network and, clearly, the inclusion strategy must take full advantage of this resource.

### Studies Based on the Financially Excluded Groups

**FATF (2011)** emphasized that disadvantaged and other vulnerable groups such as SC, ST and Women, including low income households, handicapped, individuals in rural communities and undocumented migrants, in both developed and developing jurisdictions, were more likely to be excluded from the formal, regulated financial sector,
because of other barriers such as problems in meeting the documentary and other requirements, non-awareness, wrong perceptions, limited knowledge, high cost, etc. Underserved clients represent a very heterogeneous category with very different risk profiles in different jurisdictions. As a consequence, they could not be classified as low risk clients on the sole basis that they were financially excluded.

**Studies Based on the Consequences of Financial Exclusion**

**RBI (2008)** explained the long history of sound banking system developed by RBI after Independence, which could support planned economic development through mobilization of resource/deposits and channel them into productive sectors. Hence, in order to overcome the exclusion RBI wanted to expand the credit and financial services to the wider sections of the population and a wide network of financial institutions had been established over the years. The organized financial system comprising commercial banks, regional rural banks (RRBs), urban co-operative bank (UCBs), primary agricultural credit societies (PACS), and post offices catered to needs of the financial services of the people besides MFIs, self help group. Furthermore, development of the institutional framework during that period had focused on new strategies of expanding financial service involving credit dispensation using multiple channels such as civil society organizations (NGOs), post offices, farmers’ clubs, and panchayats as business facilitators/correspondents. Specific financial instruments/products were also developed in order to promote financial inclusion.

However, the RBI had taken various initiatives that could broadly be categorized into three phases. The first phase was started in the late year of 1960s through the 1980s. In this year the main focus was on gateway of credit to the neglected sectors of the economy. So the RBI emphasized on weaker sections of the society. In the year 1990 second phase was started through March 2005. The RBI had focused mainly on strengthening the financial institutions as part of financial sector reforms. In this phase financial inclusion was encouraged mainly by introducing SHG-bank linkage programme and Kisan Credit Cards (KCCs) for providing credit to farmers. The final phase was beginning in April 2005. In this phase ‘financial inclusion’ was explicitly made as a
major policy objective and trust was on providing safe facility of savings deposits through ‘no frills’ accounts.

Agrawal (2011) indicated that financial exclusive was a serious concern among SC, ST, OBC and women households as well as small businesses, mainly located in semi-urban and rural areas. The main consequences of financial exclusion being financial excluded the absence of access to bank accounts and other saving opportunities result in lack of savings, low investments and lack of financial planning, then it became difficult in gaining access to credit getting credit for informal sources at exorbitant rates resulted in increased unemployment due to lack of self-employment opportunities as well as higher incidence of crime etc. Therefore, small business might suffer due to loss of access to middle class, and higher-income consumers, higher cash handling costs, delays in remittances of money, lots of reliance on private money lenders for small credits. He concluded that financial exclusion not only widens the ‘Rich-Poor divide’, it also led to ‘Social Exclusion’.

Studies Based on the Status of Financial Inclusion in India

Pahuja (2007) analyzed the historical and the then state of the rural financial system in India. The study was divided into three major segments where Segment (1) presented the background of the rural financial system and also studied the problem of financial exclusion, segment (II) dealt with the institutions working for the rural financial system, segment (III) focused on Micro Finance Institutions and deals with the analysis of the overall paradigm as it hold for the Micro Finance Institutions in India.

Noman (2013) conducted a district level study on the model of Financial Inclusion Index (FII) between 2007 and 2010 to analyze the changes of FII in Bangladesh. Though FII ranking of 19 districts had shown positive changes but ranking of 10 districts had not shown changes where 35 districts had negatively changed among the 64 districts of Bangladesh. Some of the reasons of slow financial information, and high account maintenance balance were low income of people and high cost of banking product. This study shown the status, problems and key points of financial inclusion in Bangladesh by using three dimensions of financial inclusion to measure the FII value which indicated the
coverage, availability, input and output of banking services to compute the status, level and magnitude of financial inclusion in division/district of Bangladesh and to give a better idea for making fruitful decision to ensure stable and equitable economic growth of the country.

Sahu (2013) reviewed the status of India’s financial inclusion, to estimate the financial inclusion index for various states in India and to study the relationship between financial inclusion Index and Social-economic Variables. It was found that no state in India was belonging to high IFI group. Two states namely; Chandigarh and Delhi were belonging to medium IFI, and rests of the states had low IFI values. The coefficient of PNSDP was positively associated with financial inclusion. Regression results revealed that 34 percent of the change in financial inclusion was explained by per capita net state domestic product. In a country like India with diverse social and economic profile, financial education was particularly relevant for people who were poor and who operated at the margin and were vulnerable to persistent downward financial pressures. Banks should be asked to take up financial inclusion as a business opportunity to help the poor come under the banking operation net.

Arulmuran et al. (2013) reviewed the current status of financial inclusion in India and the world in general and highlighting the measures taken by the Govt. of India and RBI for promoting financial inclusion and the inter-linkage between social-economic welfare and financial inclusion. During last 40 years huge infrastructure that has penetrated even remote rural areas has been able to serve only a small part of the potential customers. In order to achieve the goal of total financial inclusion, policy makers, MFI, NGOs and regulators have to work together.

Studies Based on the Efforts Made for Financial Inclusion in Past

Leeladhar (2005) observed that despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there were concerns that banks had not able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services.
However, in 2003, the RBI policy of financial inclusion was to provide access to financial service to the poor could be earmarked as another bold initiative in serving the rural transects targeting inclusive growth. Committee on financial inclusion in 2008 (Rangarajan Committee) observed that financial inclusion to hitherto excluded segments of the population was critical to sustain and accelerate growth momentum. For achievement of the same, the committee had put forward multi-pronged strategies include establishment of National mission on financial inclusion, revitalizing the RRBs and Cooperatives, introducing MFI model (SHG-bank linkage) and Business Facilitator and Business Correspondents Model.

Studies Based on the Role of Banks in Financial Inclusion

Gundannavar (1992) highlighted the role of banks in implementing social banking schemes to keep pace with changing social needs. He strongly opposed any move to reduce resources allocation to priority sectors, which would have an adverse impact on the agricultural credit. He suggested to increase higher interest rate on commercial lending and to continue concessional rate of lending to priority sectors.

Burgess and Pande (2005) studied the effect of the rural bank branch expansion which took place in India during the period 1977 to 1990, as a result of specific rule. The rule was that a bank could open a branch in an area with other existing bank branches, only if it also opened branches in four other areas with no bank branches. It was found that there was a significant fall in rural poverty and there was an increase and increase in non-agricultural output.

Anand and Saxena (2012) focused on all the initiatives taken so far by the Indian commercial banks in terms of technology, distribution channels and initiatives for financial education for the unbanked masses. Initiatives analyzed would actually benefit to those banks that had not yet implemented any of the initiatives, and would also be beneficial to the general public to make them aware about the steps which were being taken for them and to spread out the reach of the banks to the unbanked masses. This study was based on exploratory study in which secondary data was used for collecting information. They concluded that banks needed to redesign their business strategies to
incorporate specific plans to promote financial inclusion of low income group treating it both at business opportunities as well as a corporate social responsibility.

**Pal and Pal (2012)** analyzed in their study the income related inequality in financial inclusion in India using a representative household level survey data, linked to State-level factors. This study also provided estimates of the effect of various socio, economic and demographic characteristics of households on propensity of a household to use formal financial services, and compare that for rural and urban sectors. A notable result was that greater availability of banking services fosters financial inclusion, particularly among the poor.

**Mukherjee and Chakraborty (2012)** critically examined and highlighted the role and efficiency of the commercial banks doing business in the state of Jharkhand in connection with their responsibility towards promoting financial inclusion. The study also aimed at examining the capacity and role of institutions like regional rural banks (RRBs), self help groups (SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion in the state.

**Mukherjee & Chakraborty (2012)** reviewed the primary responsibility of ensuring financial inclusion lies with the Central Bank (RBI). However, due to the huge size and diversity of population the commercial banks have been taking the assistance of various social and financial entities like co-operative banks, regional rural banks (RRBs), self-help groups (SHGs), joint liability groups, and other non-banking finance companies. The objective was critically examined and highlighted the role and efficacy of the commercial banks doing business in the state of Jharkhand in connection with their responsibility towards promoting financial inclusion. The study also aimed at examining the capacity and role of other institutions mentioned above for the purpose of promoting financial inclusion in the state. They suggested that every bank, be it in the public sector or private sector, reports to the RBI on its achievement on financial inclusion more frequently as a statutory requirement.
Shroff and Prasadarao (2012) studied the financial inclusion Initiatives undertaken by Reserve Bank of India/NABARD/Government of India, etc. Primary data collection was through questionnaire, face to face meeting in order to study the issue of financial inclusion in the select village and from the findings for the data collected – analysed the same and suggested BCs/BFs Model from implementation by Banks. They remarked that to sum 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.

Kuppan (2012) found that the main reason for financial exclusion was lack of regular or substantial income. He found that in most of the cases people with low income did not qualify for a loan. The proximity of the financial service was another fact. The loss was not only the transportation cost but also the loss of daily wages for a low income individual. Most of excluded consumers were not aware of bank products, which were beneficial for them. Getting money for their financial requirement from a local money leader was easier than getting loan from the bank. Most of the banks required collateral for their loans. It was very difficult for a low income individual to find collateral for the bank loan. Moreover, banks gave more importance to meeting their financial targets. So they focused on larger accounts. It was not profitable for banks to provide small loan and make a profit. Financial inclusion was a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovation necessary to reach low income consumer and still make a profit. Financial service providers should learn more about the consumers and new business models for them.

Thapar (2013) tried to study the financial inclusion programme in the selected bank branches within Ludhiana districts in Punjab (India) and to find out the steps taken by the banks in the area of financial inclusion. The study concluded that though the banks were complying with RBI norms but still a lot of efforts were to be put in for financial inclusion progress.
Studies Based on the Credit

**Ansari (2007)** revealed that reaching the poorest, whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. to the poor to meet their simple requirements. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest.

**Rath (2008)** expressed his concern on farmer’s suicide and debt burden by various reasons influencing the life of the poor in this study. Poor farmer’s death due to the unbearable burden of debt was the matter of concern. It highlighted how loan waiver would lighten the burden of the farmer though. In the long run, it adversely affected the rural credit institutions that extended loans to farmers. Since the bulk of the loans would be from outside institutions, there was a strong possibility of the demand for writing off loans in times to come.

**Bhattacharjee et al. (2009)** conducted a study of the informal Credit in West Bengal addressing two important issues relating to credit market in developing countries i.e., household’s accessibility was concerned it was observed that the urban poor faced grater problems accessing credit. The receiving fewer loan from both formal and informal lending credit markets. Further, analysis of interest rate formation in credit markets and found that the developed districts of West Bengal (WB) are characterized by the presence of less formal lending (by total number of loan outstanding), accompanied by a higher probability of exorbitant interest rates in market of professional money lenders. Thus, there was excess demand for credit in the developed districts of West Bengal. It was also observed that the professional and non-professional moneylenders (as a result of having less information about borrowers) faced higher risks of default charge and thus charged higher rate of interest.

**Sriharsha (2011)** studied the flow of credit to small borrowers with the objective to evaluate the extent of financial inclusion based on credit to small borrowers with special
reference to agricultural credit in Andhra Pradesh. This study attempted to fill this gap by evaluating the extent of financial inclusion in Andhra Pradesh based on the penetration of credit to small borrowers.

**Bhavani and Bhanumurthy (2012)** pointed out the access to financial service in the agriculture sector enables farmers to financial short-run input costs, long-run investments, and to take care of production uncertainties due to weather and/or other factors. They found financial access enabled micro and small enterprises to have the financial resources required for running their operations. In addition to this, access to financial services such as savings, credit, payments and insurance are necessary conditions in the modern times of increasing leverage of finance for the individuals/households to manage themselves and to explore available opportunities to improve their economic position further.

**Dutt and Samanta (2012)** conducted a study on the livelihood of people on the chars of the Damondar River in deltaic Bengal in eastern India. Different phases of this self-funded intensive field-based empirical research were carried out from 2002 to 2010. This paper explores the multiple sources of informal credit that poor have created. Investigates how these sources are mobilized and accessed by individuals, and highlights the role of informal credit in livelihoods and the overall well-being of individuals, households and communities. The poor often have more faith in moneylenders than they do in banks, especially as they need quick access to money. They also value personal relationships which often help them to survive through extreme crisis. The diversified livelihood base developed through social relationships should not be beyond understanding of policymakers who need to think about ways a bottom up approach can be developed to understand what poor people do, what they need and when they need it to sustain their livelihoods. They found that before we connect the poor to the mainstream financial systems through Bank Linkage or other policy instruments, it was also required to look at the specific contexts in which the poor lived and managed money ingenuously through informal networks. Such as the need to marry off daughters comprise a significant reason for running into debt. The first household illustrated this and suggested that just financial inclusion. The implication of the study was that policy interventions that aimed to tag the
poor to the bottom rung of the formal monetary system as micro partners need re-thinking.

**Shankaraiah and Kumar (2012)** conducted a study on rural credit in Andhra Pradesh assessing the performance of financial institutions. They thoroughly discussed the repayment performance of the borrowers and suggested measures for the recovery of over dues from the borrowers.

**Lakshmi and Visalakshmi (2013)** reviewed that there was lack of assessment of the extent of financial inclusion based on credit flow to small borrowers in Indian economy. The liberalized, increasingly global, market driven economy of India today, has failed to facilitate inclusion and emphasised the active participation of Co-operatives as important tools of financial inclusion in India.

**Studies Based on the Saving**

**Murdoch and Aghion (2005)** argued that the poor had no savings because the desire to borrow (to consume) was greater than the desire to save. Though this might be the case, but many studies shown that the poor actually had a high marginal propensity to save. The fact that microfinance was inherently risky could not be discounted because of the target clientele; there existed risk of borrower payment default. It was, however, observed that microfinance institutions had good repayment rates in the past few years because of the structure of microfinance itself. With the employment of group lending that highly imposed personal collection effort as well as social pressure as collateral loan port folio risk was minimized.

**Ramasubbian and Duraiswamy (2012)** suggested in their study that though over the past six years the Financial Inclusion strategy had improved the life style of BPL, but missing focus on savings and credit improvement strategies degrades the benefit of financial inclusion. This study analyzed the issues pertaining to implementation of financial inclusion in economically down trodden districts of Tamil Nadu (India). SPSS (SPSS 2011) was used to analyze the data collected from the districts.
Studies Based on the Financial Literacy Programme

**Dutta & Dutta (2011)** reviewed the effect on literacy percentage and branch density on financial inclusion in 35 states on union territories in India. They used quintile regression to evaluate the significance of the impact of these two factors. The data on adult population (above 19 years) and literacy percentage for each state/union territory was obtained from 2001 Census report. Data on the number of bank offices and total number of deposit (saving/current/term deposit) account for each state/union territory were obtained from the Reserve Bank of India and BSR Report 2009. They concluded that branch density in a state measured the opportunity for financial inclusion in that state. Literacy was observed as a prerequisite for creating investment awareness, and hence intuitively it seemed to be a key tool for financial inclusion. But the above observations also implied that literacy alone could not guarantee high level financial inclusion in a state. Branch density had a significant impact on financial inclusion. It was not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in a state. It was observed that if a state/union territory was among the top 20 percent in terms of financial inclusion, with a given level of literacy, then increase in literacy percentage could further improve the level of financial inclusion in that region.

**Nalini (2011)** reviewed that financial literacy was a primary step for financial inclusion which made people seek and receive financial services and promote the financial literacy among micro, small and medium enterprises by relaxing procedures and establishing customer care.

Studies Based on the Self Help Group Programme

**Rangappa et al. (2008)** shown that the self help group (SHG) bank linkage programme had increased the flow of institutions credit to households and discourages non-institutional borrowing through the thrift creation. The study was based on the primary data collected in Davangere district of Karnataka State. Though the district was being served by 87 branches of commercial bank and 42 branches of regional rural banks besides a large number of credit cooperative societies financial inclusion continued to be
a major challenge. In this study arithmetic mean values of borrowing during 1-7-2006 to 1-6-2007 from institutional and non-institutional sources were computed separately for the households ‘without SHG’ and households ‘with SHG’. Results of this study were clear that the SHG-Bank linkage programme had increased the flow of institutional credit to landless and marginal farm households and discouraged no-institutional borrowing through the thrift creation.

Sarma and Pais (2010) reported that literacy was positively and significantly associated with financial inclusion. Several empirical studies (Adhikary and Bagli, 2010, 2011) conducted in West Bengal have shown that SHGs created a smooth path of financial inclusion for the rural poor. The number of total deposit accounts had increased to 734.8 million and credit account to 118.6 million in 2010 for all banks and the number of no-frill accounts in all public and private banks had increased to 33 million in 2009 from seven million in 2006 (RBI, 2010). Besides, KCC scheme had brought 95 million farmers under the purview of the banking system in 2010 as against 84.6 million farmers in 2009 and the SHG bank linkage programme had helped seven million rural people to have access to formal savings and formal credit (Government of India, 2011).

Badgar (2012) revealed that more than 65 percent of the Indian population was still ‘unbanked’ and did not have access to basic banking facilities. As a mission to sustain the economic development of the country it is imperative that these people be brought, initially, into the banking fold, which subsequently could act as a base for providing other services? The movement of financial inclusion had been one of the real hopes for inclusive growth. The poor and the excluded have successfully organized themselves in 25 lakh self help group (SHGs). With the phenomenal growth recorded by microfinance in recent year-62 percent p.a. in terms of number of unique clients and 88 percent p.a. in terms of portfolio over the past five years and around 27 million borrowers accounts, the SHG linkage programme had achieved a phenomenal growth over the years but there was still a larger segment of society that was denied access to financial services. SKS Microfinance Ltd., India.
Maiti et al. (2012) pointed out that there were number of traditional and informal ways of forwarding credit before the emergence of the SHGs. All of them provided very little attention to the question of both empowerment and sustainability. Along with this there was a casual approach towards the accountability of the credits leading to adverse impact on both repayments as well as further outreach. The conclusion that emerged from this study was that SHGs were playing a vital role in the rural empowerment, although most of SHGs were formed as a female group.

Uma and Rupa (2013) highlighted the role of SHGs in financial inclusion. The primary data was collected through random sampling method and reflected the positive relationship between SHGs membership and financial inclusion. The study shown after the membership to SHGs there was increase in the number of bank accounts by members to the extent of 82.7 percent from 17.3 percent before membership. The credit availed by the members and annual repayment of the loan also shown positive trend. SHGs helped the deprived section of the people to enter into formal financial sector and given boost to social and economic empowerment.

Studies Based on the Micro Finance

Ghosh (2007) examined the role of microfinance in improving the financial inclusion vulnerable groups of the society such as marginalized farmers, low income group etc. The study used the time series data from 1991 to 2007 on selected variables like bank branches, financially excluded population and impact of SHGs linkages programmed with banks. Data were obtained from various sources such as Hand Book of Statistics on Indian Economy, Reserve Bank of India and Economic Survey. Banks (POSBs), SHGs and microfinance could be used to cater the financial needs of rural India.

Kumar and Saxena (2011) reviewed that microfinance was being pursued through self helping group-bank linkage model and microfinance institutions. The broad objective of policy innovations was to enlarge its coverage and ensured provisions of timely and adequate credit at reasonable rate of interest to a large segment of population as possible. They studied the extent of financial inclusion in India through microfinance enlightened
the areas to be worked upon and discussed the required means for people empowerment and financial inclusion.

Badar (2012) pointed out that microfinance was a promising alternative which offers funds at the door steps of the poor and weaker section of the population in rural areas. For this system to operate upon, it had to have very low defaults. The success of microfinance was based upon local mechanism that offered a great deal of flexibility that allowed for lending decisions based on knowledge about specific individuals. What immediately required was to strengthen the voice of borrowers and curb that of national and global capital? As the global recession had hit investment potential and opportunities elsewhere in the world, lending to Indian poor population could be extremely attractive option for private firms from the developed economics.

Choudhary (2013) reviewed the various issues which had been addressed in the literature of microfinance. Data deficiency and non-availability of reliable literature had been a major constraint in the pursuance of this study. An attempt had been made to examine the microfinance institutions and the self help group’s role in examining the case of scheduled tribes in the districts of Hoshangabad, Shore & Raisen (Madhya Pardesh). Efforts had also been directed towards suggesting some effective practical measures for alleviating the conditions of this major section of the society. Both primary & secondary data was used in the study to perform the research. The study had followed both qualitative and quantitative methods. She concluded that microfinance services would surely lead to achieve the motive of poverty reduction. Efforts were required to spread awareness among people regarding the microfinance services available and their uses.

Shanker (2013) analysed the microfinance institutions (MFI) adequately breaking down the barriers of financial services access in India. Two lines of enquiry were followed: the spread of microfinance penetration in the country was analyzed and field interviews of 103 MFI field officers were conducted. It was found that while MFIs broke down many barriers to financial inclusion, there were limitations in the extent of their outreach to those excluded. First, MFI penetration in the country was skewed and excluded some areas neglected the banking sector, suggesting a need for policy incentives to encourage
expansion to those areas even in areas in which MFIs operated they were able to provide services to some financially excluded individuals on account of their methods of operation. To provide greater and more lasting access to more individuals there was a need for MFI to consider adopting more flexible operating models and to offer portability of accounts. The study found that microfinance penetration in the country was known uniform with state specifics factors playing a major role in micro finance growth while MFI broke down many barriers to financial inclusion there were limitations in that MFI penetration in the country skewed and excluded some areas neglected by the banking sector suggesting a need for policy incentives.

Studies Based on the Inclusive Growth

World Bank (2008) reported that access to financial service implied an absence of obstacles to the use of these services, even though there were some difficult obstacles is price or non-price barrier to finances. The majority of the developing countries, failed to make this distinction, could complicate effort to define and measure access. Financial market imperfections, such as information asymmetries and transaction cost, were likely to be especially binding on the talented poor and on micro and small enterprises that lacked collateral, credit histories, and connections. Without inclusive financial systems, these individuals and enterprises with promises opportunities were limited to their own savings.

Asian Development Bank (2011) reported that in the 20th century, particularly ADB adopted inclusive economic growth as one of its three critical strategic agendas in Strategy 2020, ADB bank strategy was supporting for inclusive growth in the region through financing, policy advice and knowledge solutions, and technical assistance and capacity building, with particular on building infrastructure, providing basic public services such as water and sanitation and education developing the financial sector and fostering financial inclusion, and enhancing food security.

Asian Development Bank (2011) emphasized that the concept of inclusive growth was economic growth that aimed at high and sustained growth while ensuring that all members of the society benefited from growth in a high, efficient, and sustained growth
to productive job and economic opportunity with equality of life. There were three policy pillars supported by good governance and institutions identified as requirement for a strategy anchored on inclusive growth. The importance of three policy pillar expansion of economics opportunities, and social safety nets supported by good governance and strong institutions, could promote inclusive growth where all members of the society could benefit from and contribute to the growth process.

**Sharma et al. (2011)** reviewed that increase in GDP alone was not the solution of the deep rooted problem of poverty. Inclusion growth could be a solution for poverty removal. It was concluded from the study that inclusive growth was necessary for sustainable development equitable distribution of wealth and prosperity.

**Balbir (2012)** found that inclusive growth would act as source of empowerment and allowed people to participate more effectively in the economic and social process. Banks that had global ambitions must meet local aspiration. Financial access would also attract global market players to our country that would result in increasing employment and business opportunities. If we look at the progress that had been achieved, banks were able to scale up and sustain their efforts. India was quite hopeful that the targets set by banks and objective of achieving universal financial inclusion was attainable.

**Makarand (2012)** revealed that the objective of inclusive growth with stability emphasized in the Eleventh Plan (2007-2012) was not possible without achieving universal Financial Inclusion. The concept of inclusion should be seen as a process of including the excluded agents whose participation was essential in the very design of the development programmes. The bank would really have to gear up in the near future for successful implementation of Financial Inclusion plans. If they were successful in executing the plans, then India could be a role model to the world. Thus, Financial Inclusion was no longer a policy choice today but a policy compulsion.

**Soummya et al. (2012)** suggested that in order to make financial inclusion successful, a win-win solution set was to be provided to both the parties – the provider and beneficiary. In other words it should be a viable investment alternative to the financial institutions and
should also be an attractive option to the borrowers. Financial inclusion was a strategy to achieve the inclusive growth provided it was supported by various factors like real initiatives from and financial institutions, technological development, financial literacy and so on. The role of Central Government and RBI regarding policy making and role of state governments with respect to land settlement rights, providing economic and social infrastructure etc. were very crucial. The time had come to implement policies and schemes adopted by various authorities for rural India to uplift its standards of living and to include it within the periphery of basic financial services. Attempts, therefore, should be made at the grass root level to implement those ideas keeping in mind the panoramic view of inclusive growth prevailing in India.

**Studies Based on the Initiatives Taken for Financial Inclusion in India**

Chattopadhyan (2011) examined the extent of financial inclusion in West Bengal. The study revealed that there had been an improvement in outreach activity in the banking sector, but the achievement was not significant. An index of financial inclusion (IFI) had been developed in the study using data on three dimensions of financial inclusion-vis-banking penetration (BP), availability of the banking services (BS) and usage of the banking system (BU). The study provided a comparable picture between different states on the basis of IFI rankings.

**Studies Based on the Problems in Implementation of Financial Inclusion**

Collins (2009) studied more than 250 financial diaries of low income individuals in Bangladesh, India, and South Africa. His findings showed that each household used at least four types of informal financial instrument (such as interest free loan and informal savings clubs) in a year, with the average being just under ten. He suggested that low income individuals needed access to financial services, and the existence of barriers that prevent their use of formal sector services. There were many complex factors that prevent rapid progress towards the goal of financial inclusion task force (which monitored access to basic banking services) had differentiated between supply and demand side factors of financial exclusion, in its action plan for 2008-2011. The supply side factors included non-availability of suitable products, physical barriers, and non-eligibility on account of
documentation issues. On the demand side, financial literacy and capability were regarded as important sectors by the task force. While financial literacy referred to the basic understanding of financial concept, financial capability referred to the ability and motivation to plan financials, seek out information and advice, and apply them to personal circumstances.

The Financial Action Task Force (FATF), (2011) report summarized the main obstacles to financial inclusion can be summarized as follows:

A. **Supply side**
   - Outreach: low density areas and low income populations were not attractive for the provision of financial services and were not financially sustainable under traditional banking business strategies and corresponding regulatory requirements
   - Regulation: framework were not always adapted to local contexts
   - Business strategies: mostly with high fixed costs
   - Providers: limited number and types of financial service providers
   - Services: non adapted products and services for low income populations and the informal economy

B. **Demand side**
   - Irregular income
   - Frequent micro-transactions
   - Lack of trust in formal banking institutions
   - Literacy level, lack of awareness and/or knowledge/understanding of financial products
   - Cultural obstacles (e.g., gender and cultural values)

**Manoharan and Krishnavenimuthiah (2010)** stated that limited access to affordable financial services such as savings, loan remittance and insurance services to the vast majority of the population in the rural area and unorganized sector was believed to be a constraint to the growth impetus in these sectors. The study was conducted in ten villages of Vadipattipanchayat of Madurai District, Tamilnadu (India). The heads of the family of hundred households were interviewed personally. The behavioral pattern showed that many people were not comfortable using formal financial services. The reasons were
difficulty in understanding language, various documents and conditions that come with financial services.

Chhattopadhyay (2012) pointed out that the need for financial inclusion in India perhaps required to be implemented at the earliest and rank next to the priority list of basic infrastructure like good health sanitation and hygiene. Most of our villages were not having bank branches and are still using local post offices for keeping their money in either post office savings schemes or term deposits. Even where the banks and insurance companies had opened their branches, this was used by the rich and influential people depriving other of getting the benefits of such facilities. To such people net transfer, credit cards, plastic money etc. were weird words having no practical meaning to them.

Unnikrishnan et. al (2012) analyzed the importance of financial inclusion in economic empowerment. This study identified the variables in enabling financial inclusion, analyzed the barriers to effective financial inclusion and the prerogative steps to be taken to overcome the barriers and enable inclusive growth. The study concluded by identifying the variables that empowered the masses financially and stating the importance at the bottom of the economic pyramid.

Research Gap

Financial inclusion is required to uplift the poor and disadvantaged people by providing them the customized financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. This study intends to look at the changes occurred in conditions of India by considering the appropriate variables to test. Back in the 1980’s, then Prime Minister Late Shri Rajiv Gandhi stated that of every one rupee spent on development only 15 paise reach the poor. Reserve Bank of India set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the Commission were incorporated into the mid-term review of the policy (2005-06) and urged banks to review their existing practices to align them with the objective of financial inclusion. In 2005, the Planning Commission found that for every rupee the government spends on the Targeted Public Distribution System only 27 paisa reaches the poor. However, the progress is far from satisfactory as evidenced by the
World Bank Findex Survey (2012). According to the survey findings, only 35 percent of Indian adults had access to a formal bank account and 8 percent borrowed formally. Only 2 percent of adults used an account to receive money from a family member living in another area and 4 percent used an account to receive payment from the Government. The introduction of a universal and targeted public distribution system (PDS), the provision for employment in rural areas through the National Rural Employment Guarantee Scheme (NREGS), the implementation of the project to bring the population under a unique identification number (AADHAR) and the Direct Benefit Transfer (DBT) Scheme in 2013 are the most recent measures by the government to realize inclusive growth targets. The present study attempts to assess the financial inclusion in India and analyses the trends and patterns of economic inequality across Indian states. The basic objective here is to understand the dynamics of growth in the country which is resulting in regional imbalances and propose measures for alleviating the problem.
RESEARCH METHODOLOGY

The present study is an attempt to find out regional disparity, indebtedness and status of financial inclusion in India. The present study covers the period from 2000 to 2010. This chapter delineates the statement of problem and research objectives of the present study. It, also, provides insights into the framework to operationalise the research objectives of the present study. Finally, this chapter outlines the research methodology employed, the way the data for the study has been collected and the statistical tools used for data analyzation.

Statement of the Research Problem

It is widely known that there are pockets of poverty and financial exclusion in both urban and rural areas, particularly among slum-dwellers. As per the Census of India 2001, India had a slum population of 4.26 crore, which constituted 15 per cent of the total urban population. In the rural areas, the common reasons of financial exclusion include non-existence of bank branches in an area, physical distance of the bank from the people, fixed and limited timings of the banks, lack of awareness of advantages of having a bank account, and above all, low income that made it difficult to save.

In the case of the urban poor, the reasons are different. There are lots of banks in the urban areas which are not very far away from the slums. Hence, the distance of the bank from the slums cannot be a factor for financial exclusion.

Against this background, it was felt that a study on financial inclusion in India would give important clues to understand the nature, causes and determinants of financial inclusion. The objective of the study is primarily to study the causes and determinants of financial inclusion in India.

Research Objectives

Present study is taken up to achieve the following research objectives:

RO₁: To study the determinants of financial inclusion in India.

RO₂: To assess the regional inequality of financial inclusion in India.

RO₃: To evaluate the initiatives taken by the Reserve Bank of India in financial inclusion.

RO₄: To study the issues and challenges of implementation of financial inclusion in India.
Operationalisation of Objectives

In this section, operationalisation of objectives is discussed as follows:

- To attain the first objective, i.e. to study the determinants of financial inclusion in India, the researcher studied the important determinants of financial inclusion which are responsible for inclusive growth of India.
- To attain the second objective, i.e. to assess the regional inequality of financial inclusion in India, the statistical tool ‘ANOVA’ (Analysis of Variance) is applied.
- To attain the third objective, i.e. to evaluate the initiatives taken by the Reserve Bank of India in financial inclusion, Reports of Reserve Bank of India and other relevant studies are discussed.
- To achieve the last objective, i.e. to study the issues and challenges of implementation of financial inclusion in India, various studies has been discussed and suggestions have been made to overcome these problems.

Research Methodology

This section shall describe the methodological tools adopted in order to fulfill the research objectives of the present research. Properly conducted research reduces the uncertainty level for the top management in making critical decisions. Hence, it is extremely important to describe the research methodology here.

Research methodology of the present study is as follows:

Research Design

A research design is the specification of methods and procedures for acquiring the needed information. Design to be adopted here is descriptive research. It basically seeks to extract information about financial inclusion in India.

Data Collection

The present research study is based on secondary data. The data is collected from the different websites, as well as different articles, published by the Reserve Bank of India, Government of India, other institutions, research journals and internet. Data from research projects, books and magazines is also discussed. In order to achieve the objectives of the study, secondary data is collected from the Basic Statistical Return of
Scheduled Commercial Banks in India (RBI), RBI Monthly Bulletin and Status of Micro Finance in India (NABARD) etc.

**Tools of Data Analysis**

The data so collected is analyzed with help of various tools and techniques to fulfill the research objectives. These include ANOVA and Regression Analysis. The use of these techniques at different places has been made in the light of nature and suitability of data available and requirement of analysis. To conduct the statistical techniques, PASW (Predictive Analytics Software) version 19 for windows is used.

**Chapterization Plan of Study**

The present study is structured around nine chapters. A brief description of each chapter is as follows:

**Chapter 1: Introduction**

The first chapter highlights the nature and need of the financial inclusion in the process of inclusive growth and explains the importance of financial exclusion in India. This chapter also contains an exhaustive review of the existing literature pertaining to the area of research. The studies have been presented in chronological order so that the latest studies are presented first followed by the subsequent studies. Research gaps have been identified and a case for the present study has been built in the end. Research Methodology proposed to be adopted to fill the research gap has also been defined in this chapter. It defines the statement of problem and research objectives of the present study. It also provides insights into the framework to operationalise the research objectives of the present study. This chapter also outlines the research methodology employed, the way the data for the study has been collected and the statistical tools used for data analyzation.

**Chapter 2: Status of Financial Inclusion in India**

The second chapter is focused on the status of financial inclusion in India. The purpose of this chapter is to present an outline of the concept of financial inclusion and its major milestones in India. It also deals with the present scenario of financial inclusion in India.
Chapter 3: Determinants of Financial Inclusion in India

The third chapter discusses the relationship between financial inclusion and economic development of the country with the help of Index of Financial Inclusion and also explores the factors associated with financial inclusion with the help of Regression Analysis.

Chapter 4: Regional Inequality of Financial Inclusion in India

The fourth chapter analyses the trends and patterns of economic inequality across the Indian states. The basic objective here is to understand the dynamics of growth in the country which is resulting in regional imbalances and proposes measures for alleviating the problem. The inter-state inequality in bank branches, credit accounts, saving accounts and credit deposit ratio show a clear picture of regional inequality in India.

Chapter 5: Role of Reserve Bank of India in Financial Inclusion

The fifth chapter critically evaluates the initiatives taken by the Reserve Bank of India for attaining of financial inclusion.

Chapter 6: Issues and Challenges of Financial Inclusion in India

The sixth chapter discusses the issues and challenges being faced by banks for achieving a better level of financial inclusion in India.

Chapter 7: Conclusion and Suggestions

The conclusion and suggestions emerging from present research are explained in the last Chapter Seven.

Bibliography