Chapter 1
ORIGIN, GROWTH AND PERFORMANCE OF FINANCIAL INCLUSION IN INDIA

1.1 Introduction

Financial inclusion has come up as one of the main development agenda in past few years. To enable poor through financial inclusion have become very popular agenda among developing countries, policymakers and regulatory authorities. It has special significance for multilateral bodies like World Bank, AFI (Alliance for Financial Inclusion), OECD (Organization for Economic Co-operation and Development), CGAP (Consultative Group to Assist Poor), and NGOs (Non-Government Organizations) etc. Ensuring the substantial benefits attached with the financial inclusion, the financial system plays a major role to promote inclusive growth. Therefore, well-functioning of financial system is needed to give equal opportunities to the socially excluded people to ensure the increase in their participation in formal banking system as well as to protect them from economic crisis and also to seek their contribution for the development of the economy. World Bank pointed out that no country, economy or community can achieve its full potential and face the challenges in 21st century until there is equal participation of women and men, rich and poor, rural and urban, girls or boys and every section of the society. Access to finance and financial services by the poor, deprived, disadvantages areas and other vulnerable groups is the key to gear up the economic growth and reduce the disparities between rich and poor, urban and rural (Basu, 2006). Thus, Finance is magnificent tool to spread economic opportunities and fight for poverty.

India is home where 21 percent of the world’s adults are unbanked which includes about two-thirds of South Asia’s. Financial inclusion is not only the philanthropic activity to meet legal obligations but also the opportunity for big businesses because still more than 140 million rural households are unbanked under organized financial system (Bansal, 2011). The committee on medium term path on financial inclusion recommends the key element to accelerate the financial inclusion is to trip up the credit system for the deprived section of society; mainly the millions of poor agricultural households, so as to increase the credit demand from the formal sector (Reserve Bank of India, 2015). Hence, the dearth of access to credit makes it difficult
for the rural poor households, marginal farmers and small entrepreneurs to meet their financial needs for generating high return investments, and adversely impacting the growth of economy. Rural borrower’s prefer to fulfill their credit needs from the informal source despite the fact that they are charging more rate of interest as compared to the formal source of credit because informal sources are easy to access and don’t insist borrower to make regular payments (Pradhan, 2013).

The reason for the exclusion of these rural households is due to the presence of supply and demand constraints present in the financial system ((Mahadeva, 2008) Absence of financial literacy and lack of financial awareness among the rural population is obstructing the growth of the nation. This is serious emerging issue that needs to be addressed by ensuring the maximum participation of the people from different sections of the society (Singh, et al., 2014). The economic growth and social stability of every country using the polices formulated by the government to encourage the nation-wide access to formal financial services, specially meeting the rural credit needs and the other disadvantaged people of the society at an affordable cost. To ensure the inclusive growth of there should be equal level of the participation as well as allocation in the formal financial system by its citizens. To achieve this, well-functioning of the financial system is the need of an hour. It will promote the overall growth of the economy at the grass root level. The formal financial system in developed countries refers to the banking system that serves the most of the population, but in developing country like India, more than half of the population is mainly the low-income people residing in the rural areas has a very little accessibility to the formal financial system.

In recent years, financial inclusion has emerged to make a war against the poverty not only in India but also in more than sixty developing countries. The concept of financial inclusion is related to growth of vulnerable groups (i.e. low income people and weaker section groups) those are still untouched with regard to how to access financial services. From the literature review, it has been identified that the financially excluded groups include landless workers, marginalized farmers, small entrepreneurs, urban slum inhabitants, migrants, backward class, senior citizens, tribal minorities and women (Thorat, 2007). The author further found the major reasons which are responsible for the financial exclusion i.e. low income, residing in the remote areas or tribal areas, poor health, lack of financial literacy. To make financial services accessible
at an affordable fair to vulnerable groups, financial intuitions have to work in transparent way. So, if the economy think about the financial inclusion it should think about those people who are still not been exposed to the benefits derives from financial inclusion. They are not much aware with the concept of money and how to manage it in an appropriate way. Majority of this deprived people are from tribe’s areas; in this perspective they need money and the knowledge for using this money. The banking sector plays an important role in financial inclusion in form of formal financial system.

In the history of India, the financial inclusion of the deprived groups has been pursued to be achieved through three prominent financial institutions which are Rural Cooperatives, Scheduled Commercial Banks (SCBs) And Regional Rural Banks (RRBs), but the success of their business operations has been limited and have been criticized (Mahadeva, 2008).

1.2 Financial Inclusion: Meaning and Concept

The main objective of financial inclusion is to give financial assistance to large number of groups that are excluded from the possibilities and services provided by the institutional players (like commercial banks, cooperative banks and others regional rural banks. According to the Planning Commission (2009), financial inclusion 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.

Financial inclusion, therefore is a big integral part for the uplifting these above mentioned five categories. As a trend is moving towards globalization, liberalization and competitive market in a country like India, there is still up to 69.87% population that belongs to the rural areas as per the census of India 2011. By taking this perspective into consideration, our banking and financial markets have undergone by various reforms since last decades. Many reforms were taken to remove poverty, but still our banking and financial sector are underdeveloped to make the accessibility of financial services to the rural people at an affordable cost. Opening just a bank account is not a sufficient, there is need to make sure that these vulnerable groups become aware of how to use these financial services to its fullest, which is only possible if rural people are financial literate. According to the global forum, AFI represents that nearly 70 % of the world population is unbanked. The concept of financial inclusion is referred as
“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” (Hannig & Jansen, 2010)

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 in a fair and transparent manner by mainstream Institutional players.” (C. Rangarajan, 2008). Further, Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the clutches of local money lenders. To safeguard the interest of these weaker sections, some of our banks have now come forward with general purpose credit cards and artisan credit cards which offer collateral-free small loans (RBI, 2009-10).

Table 1.1: Definition of Financial Inclusion

<table>
<thead>
<tr>
<th>Definition</th>
<th>Objectives</th>
<th>Indicators</th>
<th>Authors</th>
</tr>
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<tbody>
<tr>
<td>Financial Inclusion takes into account the participation of that weaker sections of the society have better financial services like savings, credit facilities, insurance and pensions etc.</td>
<td>To exercise easy availability of financial services which permits maximum investment in education, savings for retirement, insurance to cover risk by rural residents.</td>
<td>Saving and payment accounts, Insurance and credit facilities.</td>
<td>(Singh, et al., 2014)</td>
</tr>
<tr>
<td>It refers to deliver of banking and other financial services to the entire population without any discrimination mainly low income groups at an affordable costs.</td>
<td>To provide formal financial services, particularly banking and credit facilities to rural people</td>
<td>Banking and credit facilities.</td>
<td>(Karmakar, Banerjee, &amp; P, 2011)</td>
</tr>
<tr>
<td>It is an agenda that individuals access to affordable and appropriate financial services</td>
<td>To strengthen the development of financial markets by offering basic banking services through legislative and commercial initiatives</td>
<td>Basic and affordable banking services</td>
<td>(Finmark Trust, 2014)</td>
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<td>Financial inclusion refers to all efforts that make all financial services available, accessible and affordable to all sections of the population</td>
<td>To connect people who are financially excluded</td>
<td>Available, Accessible and Affordability of formal financial services</td>
<td>(Triki &amp; Faye, 2013)</td>
</tr>
<tr>
<td>Financial inclusion is referred to a proportion of the population and firms using financial services</td>
<td>It leads towards the economic development and eradication of poverty</td>
<td>Economic development and poverty reduction</td>
<td>(The World Bank, 2014)</td>
</tr>
<tr>
<td>The theory of financial inclusion is closely related with the minimization of financial exclusion arises due to government and market failures</td>
<td>To minimize the financial exclusion</td>
<td></td>
<td>(Amidzic, Massara, &amp; Mialou, 2014)</td>
</tr>
<tr>
<td>The concept of financial inclusion not only mean to focus on the provision to provide access to financial products and</td>
<td>To evolve focus beyond only access to financial services with an additional emphasis on the excellence how to use.</td>
<td>Enhance the better usage of financial services</td>
<td>(Oncu, 2012)</td>
</tr>
</tbody>
</table>
Financial inclusion embraces the range, quality and the availability of financial services and products to the financially excluded and underserved. It helps economy in equal distribution of income and in alleviation of social exclusion. Range, quality and availability of formal financial services (Urquijio, 2014)

Financial inclusion refers to all initiatives which helps to make all formal financial services available, accessible and affordable to all divisions of the population. To ensure the economic growth and performance, by improving access to credit and savings and risk alleviation products. Availability, accessibility and affordability of financial services (Triki & Faye, 2013)

Source: Literature

### 1.3 Dimensions of Financial Inclusion

From a theoretical viewpoint, the level of financial inclusion is measured on the basis of four basic dimensions of an inclusive financial system i.e. banking services penetration/ accessibility, its availability, usage and quality (Sarma M., 2010; Singh, et al., 2014, Amidzic, Massara, & Mialou, 2014))

#### 1.3.1 Banking Penetration:

It is measured by number of bank branches per one lakh population. This refers to the penetration of branches of commercial banks and ATMs for the endowment of maximum formal financial services to the rural community. It indicates the range of population having bank account. We
consider the number of bank accounts as proportion to adult population is a primary indicator to this dimension (Sarma M., 2010).

1.3.2 Availability of Banking Services:

This dimension can be measured by considering the banking outlets and ATMs (as per 1000 population) in form of bank offices, bank branches and their employees. Further, the services provided by internet/electronic mode can also incorporated in this dimension (Sarma M., 2010; Sarma & Paris, 2008).

1.3.3 Usage of Banking System:

Merely opening an account is not sufficient for an inclusive financial system, the utilization of banking services in proper way should be ensured. This dimension covers two basic banking services ie. Credit penetration and deposit penetration.

- **Credit Penetration**: To measure credit penetration, the average of three aspects on basis of per one lakh population i.e. number of loan accounts, number of small borrowing by small borrow in form of loan accounts, and number of agriculture advances has been taken.

- **Deposit Penetration**: It can be measured on the basis of number of savings deposit account per one lakh population. Hence, these are the main measures which helps to analyze the extent of usage of formal banking system. (Singh, et al., 2014, Amidzic, Massara, & Mialou, 2014)

1.3.4 Quality Dimension:

This dimension measures the range of financial services to meet the needs of the consumers. Apart from all these dimensions, Research also highlighted ease of the transactions and the cost of transactions based on the methodology adopted by UNDP for computing HDI in 2010 are critical dimensions to have a holistic view of financial inclusion as compared to the past studies. Ease of transaction is related to whether it is easy or difficult task for people
to afford financial services like opening of saving or checking accounts or to avail the loans. And, the cost of transaction involves the fees or charges that has been charged to customers on monthly, quarterly or annually basis for ATM cards or accounts, or paying any remittances or transfer of money (Gupte, Venkataramani, & Deepa, 2012)

1.4 Financial Inclusion through Formal Financial System

In developing countries under well-established financial system, financial institutions are capable to finance those individuals, firms and projects that are contributing for the inclusive growth of emerging economies. It’s only a sound financial system which is able to provide the wide range of financial services including savings, credit, insurance and risk management services to the weaker section of the society. Financial development of economy nurtures if the financial system is accessible and affordable to all the citizens and they are equally participating in form of big or small transactions. Without the inclusiveness the low income group or poor people are still rely upon the non-formal financial system to meet their requirements in form of their own limited liability or other informal sources. The inclusiveness in the financial system creates the enabling conditions to this disadvantage and vulnerable groups for the safe savings and appropriate way to get loan and the consultancy to the rural households for their small, medium and large enterprises to generate the income for the self-reliance and sustainable development.

Research revealed that the people with unemployment contributes for low income and poverty. The financial system need to be inclusive for many reasons. First, it enables the efficient allocation of productive resources. Second, more accessibility and affordability to the financial services help to improve the risk management with appropriate management of finance and last, it also reduces the growth of non-financial system (Sarma & Paris, 2008). Thus, formal financial system requires a significant expansion of geographical area and functional reach for the inclusion of the excluded social groups and regions. This gives birth to the nationalization of the major banks in 1969 by setting up new bank branches in those areas which are underdeveloped to extend their services in the rural areas. Further, banks were directed to set a certain percentage of their credit to the segments that are indeed of credit supply from formal
agencies which are very less number (Chavan, 2007). The primary role of financial services is to support individuals and financial institutions to save more and transfer these savings to the individuals those are investing in new projects. This transformation of savings into investment encourages economy to grow, increase the employment opportunities and rising the living standard (Rose & Hudgins, 2010). In an inclusive financial system there is broad-based access to affordable and accessible financial services, and absence of this affordability to the formal financial system can contribute to the income inequality and slow economic growth (Demirgüç-Kunt & Leora, 2013). The easy and safe access to stabilized financial system is only by generating equal opportunities, promoting socially and economically excluded people the to participate in the economy and actively make contribution to development and safeguards themselves against financial shockwaves (Swamy, 2010).

1.5 Role of Formal Financial Institutions in Socio-Economic Development

According to AFI global organization approximately 2.5 billion of world’s adult population lacks the access to formal financial services and about 90 percent unbanked people live in developing countries. If these unbanked people connect with the financial mainstream it will bring positive effect on socio-economic growth and financial stability. Arora (2010), has measured financial access in developed and developing countries by developing a new socio-economic development index. In this index, financial index is considered a main indicator for the contribution of economic growth. From the demand side perspective of financial inclusion, the socio-economic and demographic characteristics includes location, age, income, education, type of house, living space, consumption expenditure, land holding, and social group etc. (Onçu, 2012). In the household survey data, the author examined the significance of gender dimension in financial inclusion in the economic improvement of poor households through micro finance. The economic impact in survey has investigated the level of impact through financial inclusion initiatives on the basis of five parameters i.e. (i) change in annual income, (ii) change in the expenditure incurred on improving living standards, (non-food expenses), (iii) change in annual expenditure incurred on food security (iv) change in annual assets (physical as well as financial assets) and, (v) change in annual production level with three broad social categories (Scheduled Castes/ Scheduled Tribes(SC/ST) categories, Other Backward Classes (OBC) categories and General (GEN) categories in India) (Vighneswara, 2014). The study based on the
experiences of Swarnajayanti Gram Swarozgar Yojana (SGSY), micro financial institutions played a major role to fight with rural poverty. If we talk about social impact the household level of independency to take their investment decisions, their confidence level to talk about financial matter in their social networks, the level of their participation in group activities, exposure to information, able to raise funds in case of emergency (Sthitapragyan, 2015).

Financial inclusion is one of the main key aspects in the inclusive growth of any economy. In a country like India, where the mass population is still poor and fighting to protect their economic risks. The borrowing of the low-income population of Indian is still dependent on informal financial resources because people have very little financial awareness and practical knowledge to know how to use the formal financial services and prevent financial crisis happening from unexpected circumstances.

1.6 Formal Financial Institutions promoting Financial Inclusion

The global financial crisis brought the financial inclusion into an existence on the beliefs that financial exclusion is one of the main indicators that escalated the financial crisis. Here the role of financial institutions plays a major role to overcome financial exclusion. There is a need of new wave which helps to make the formal financial sector reachable to the large population which is still depends on the informal financial sector. The reason behind more dependence on informal source of finance is that people are still relying on their family and friends and other sources to avail credit. The author finds in his study that only 8 % people are taken loan from the formal financial institution (2007-11) (Bansal S., 2014). The formal financial institutions consists of banks, credit unions, post offices and microcredit institution’s acting as a core and supportive players to expand the reach of the financial inclusion (Chakrabarty K. C., 2012).
Recent developments in the country demonstrating that the formal banking system has played the central role in expanding the financial inclusion by taking decision of transferring subsidies like scholarships, pensions, NREGs(National Rural Employment Guarantee Scheme) wages, drought reliefs, and others directly to the bank accounts of the beneficiaries. Hence, this is results in achieving enlarged financial inclusion and acting as an instrument to reduce the leakages and increase the efficiency in the delivery system of the government welfare programmes (Ananth & Ongu, 2013). Across all markets commercial banks are in front line for service delivery or as a refiners of microfinance institutions or partners to mobile network operators to help in extending financial services to backward customer segments.

1.7 Initiatives Taken for Financial Inclusion:

Over a period of time several efforts have been made to ensure that the formal financial services should reach the last mile clients. Continuous attempts have been made to provide basic formal financial services to daily wages workers, monthly wage workers,
seasonal workers and self-employed. The detail of several policies that are initiated at international level, national level and state level are mentioned below:

1.7.1 International Perspectives

Globally, financial sector reforms are considered core international development agenda for policy makers and financial institutions to promote financial inclusion. The United Nations has confirmed 2005 ‘the year of microfinance’. In 2006, the Nobel laureate Muhammad Yunus was awarded with the Nobel Peace Prize for the foundation of microfinance and Grameen bank. International Monetary Fund (IMF) also pays attention to this matter. Along with IMF, International Finance Corporation (IFC) and world bank joined hands with Consultative Group to Assist Poor (CGAP) and Alliance for Financial Inclusion (AFI) to lead financial inclusion G-20 discussion for Small-Medium Enterprises (SMEs) and households (Ardic, Heimann, & Mylenko, 2011). The IMF’s Financial Access Survey and World Bank Global Findex Database 2014 represents supply-side and demand-side worldwide data which shows countries like Brazil, Malaysia and Mexico are heavily investing on the indicators of financial inclusion that are required to be collected, examined and analyzed to enhance financial inclusion. It is estimated over two billion population across the world is currently excluded from having the access to safe financial services. The importance of access to finance is considered as a critical tool to mitigate poverty. In the European countries, the credibility of financial system has been reinforces to make it accessible. New European financial institutions have been established with this goal, working together with its member states and with extensive powers in case of crisis, including the participation of supervisory authorities, the European Banking Authority (EBA) and other authorities. The European commission is strengthening the internal market to provide easier households and enterprises to the cheaper financial services (Urquijio, 2014).

At the early stage, Bank of Indonesia has implemented the financial inclusion programs with main purpose to educate people. The main concern is to change the people’s financial behavior and mindset towards banks. Through these programmes, central bank of Indonesia will be able to observe financial behavior
of households. On the basis of these action plans, banks can build lending programs for the benefit of deprived people (Gitaharie & Soelistianingsih, 2014)

1.7.2 Indian Scenario:

In historical perspective, the numbers of attempts have been made to extend the scope of the financial services to the unbanked areas. Post-independence sincere emphasis is on developing formal financial system specially the formal banking sector. Since 1951-52 RBI has started All India Rural Survey Committee for the expansion of formal financial services to the under privileged and weaker section of the society which was supported by institutional credit to rural economy through the cooperatives and commercial banks (Pradhan, 2013). The term “financial inclusion” is in trend in India since the RBI mentioned the term in its Annual Policy Statement of 2005-06. The government of India and Central Bank of India have been worried about the non-availability of the formal banking system to the under advantaged and weaker section of the society. Consequently, numerous initiatives have been taken to extending the banking services to the rural areas through following measures such as:

- Formation of Agricultural Refinance Corporation by an Act of Parliament in 1963 and its started working in July, 1963. The primary goal of ARDC refinancing agency if to provides financial assistance for promoting the agricultural development in India and also penetrate into backward and underdeveloped areas for improving the regional imbalances.

- Nationalization of 14 major commercial banks in 1969, as per the ordinance having deposits of Rs. 50 crore and above. Again in 1980, the Government of India added 6 more banks having deposits of Rs. 200 crore and above. (Agarwal, 2012)

- National Credit Council held meeting in July 1968, which emphasized commercial banks to increase financing of priority sectors, such as agriculture, small and marginal farmers, micro enterprises.
- Lending to the weaker section of the society at concessional rate of interest. (Reserve Bank of India, 2014)

- In 1969, the Lead Bank Scheme has been introduced to meet the credit needs of the economy, particularly the poor section in each district and each state of the country.

- In the early mid-1970s, it was sensed that commercial banks were not adjust to rural environment in form of rural banking because it involves high costs having some cultural barriers to deal with rural people. Hence, at the same time the cooperative institutions had their roots in rural areas and they were grieving for sufficient resources to meet the credit demand. So, it was believed that no single pattern of financial bodies could handle the diversity of physical, social, regional and economic features for credit dispensation. Thus, to develop rural economy the establishment of RRBs (Regional Rural Banks) was made in 1975 under the RRB Act 1976 with the aim to enlarge credit to the rural people.

- Formation of NABARD, develop a policy of developmental inclusion to serve the poorest of the poor by making advocacy through District Level Review Committee (DLRC)/District Consultative Committee(DCC) or State Level Review Committee conventions to extend the facility of opening of savings bank accounts under financial inclusion to have a benefit of an overdraft. (Karmakar, Banerjee, & P, 2011)

- Establishment of SIDBI

- Evolution of SHG- Bank Linkage Programme: It was started in 1989 as an Action Research Project, which was initiated by NABARD to provide money assistance to Mysore Resettlement and Development Agency (MYRADA) for testing Credit Management Groups. On the basis of early efforts of this programme, RBI led approval of pilot project in 1992 which was designed as a partnership model among three entities, namely banks, NGOs and SHGs. The SHGs are working with two main dimensions. The first one is to alleviate the poverty and second dimension is to empower the poor and women (Swamy, 2010).
• In 2005, RBI initiated the basic banking services like “no-frill account” with very minimum or nil balance requirement to open an account with no banking charges to the vast sections of the poor population.

• On December 2015, Reserve Bank of India has constituted committee which is headed by RBI Executive Director Deepak Mohanty with goal to work out as medium term monitor plan of financial inclusion. The committee was tasked to examine the all earlier introduced policies for financial inclusion and supportive payment system. Prior to this, the government of India have launched Pradhan Mantri Jan Dhan Yojana in Aug, 2014 with the collaboration of the banks for the expansion of financial inclusion. Under this Scheme, about 167.3 million accounts had been opened till July 8 with balance of Rs. 20,000 crore and out of these accounts 51.1 percent account were having zero balance (BS Reporter, 2015).

Other than these above mentioned initiatives, the government of India has taken number of measures for financial inclusion which includes opening of customer care centres, counselling centers how to avail credit, Aadhar Scheme and Mahatma Gandhi Rural Employment Guarantee Scheme. With these improved efforts the wider scope has been covered to understand and analyze the present needs of rural population (Singh, et al., 2014).

In short, the four phases of financial inclusion given by Dangi in chronological order are mentioned as follow:

15
1.7.3 Himachal Pradesh:

Government of India has taken various efforts to expand the outreach of financial inclusion at an affordable cost to the large section of the financially excluded segment of the society. Government of India has recently launched a scheme meant especially for financial inclusion namely Pradhan Mantri Jan-Dhan Yojna (PMJDY). In Himachal Pradesh on 28th August 2014 PMJDY has launched by the Chief Minister and status of this scheme over the period of December 2014 to September 2016 has mentioned as below:

- In rural areas to tap total number of 1, 66,043 rural households 3243 Gram Panchayats were allocated to banks under the scheme as Sub Service Area (SSAs).

- As on September, 2016 total 9, 86,817 number of basic saving banks accounts has been opened under this scheme. There is increase by 3,51,787 in basic saving bank accounts as compared with numbers as on December 2014 (i.e. 6,35,030). Out of these basic saving accounts, approximately 85 percent accounts were opened in rural areas.
• Banks have issued total number of 7, 28,000 RuPay cards to customers.

• Till September 2016, total number of 7, 71,873 accounts were seeded with Aadhaar number.

• To facilitate financial literacy in the state, each district of the state has set up Financial Literacy Centres (FLCs) by the concerned Lead bank.

• As per the roadmap of RBI, banks have covered 18,948 villages with population below then 2000 through Brick and Mortar model as well as fixed located Business Correspondents (BCs) also called as Bank Mitra outlets as on September, 2016.

• Modified Direct Benefit Transfer has been launched by the Government of India in 54 districts across the country w.e.f. 15th November, 2014. In the state of Himachal Pradesh, scheme was started in all districts w.e.f. from 1st January, 2015. Under this scheme LPG customers are linked with bank account to receive their subsidy directly into bank accounts.


1.8 Present Position of Financial Inclusion in India

The phase of nationalization of banks brought a paradigm shift in the banking industry and it transformed the class banking to mass banking. The population group wise number of scheduled commercial bank branches have been increased from 18730 in 1975 to 1,25,857 branches in the end of September 2015. The expansion of these scheduled commercial banks population group-wise among the rural, urban, and semi-urban and metropolitan from period 1975- Sept 2015 is shown in table below:

Table 1.2: Population Group Wise Distribution of the Scheduled Commercial Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1980</td>
<td>15105</td>
<td>8122</td>
<td>5178</td>
<td>4014</td>
<td>32419</td>
</tr>
<tr>
<td>1981-1985</td>
<td>30185</td>
<td>9816</td>
<td>6578</td>
<td>4806</td>
<td>51385</td>
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</tbody>
</table>
The figures in the table reflects that the population group wise distribution of the scheduled commercial banks in rural areas increased by 93468 bank branches in last two decades.

1.9 Concept of Rural Development

The concept of development was synonym of economic growth till 1930s. But during 1940s and 1950s the economic and social problems in developing countries led the people to rethink about the concept of development due to colonial exploitation. Poverty, inequality and unemployment are the non- growth dimensions acknowledged as center stage of development discourse from 1950s to 1960s. The issue of environmental sustainability became important aspect in 1970s and period of crisis in development thinking was occurred in 1980s. From 1990s onwards human development approach brought the new change in development theory (Panda, 2015). Dynamically the concept of overall development is measured in term of both material and non-material aspects. In this sense the effective participation is required in income, capabilities and structure of the economy. Globally extreme poverty still prevails in rural economy despite of urbanization. Thus, promotion of rural economy has been ensured by giving rural population equal access to social services (Anriquez, 2007).

Rural development has been popular agenda across world and there is no universally acceptable definition which defines the concept of rural development. The term “rural development” is defined in different ways in divergent contexts. According to Robert Chambers, “Rural Development is a strategy to enable a specific group of poor rural women and men to gain for themselves and their children more of what they
want and need? It involves helping the poorest among these who seek a livelihood in the rural areas to demand and control more of the benefits of rural development.

The concept of livelihood refers to sources of living which secure the basic necessities of life (Singh, Kalliola, & Hietala, 2014). The group includes small scale farmers, tenants and the landless” (Chambers, 2013). India is a country where the majority of the population resides in rural areas, the rural development is the main concern for the overall development of the economy. The key factors of the rural development process include the appropriate policy alternatives, institutional expansion and efficient implementation of programs (Sharma, 2004).

According to United Nations, Development of Economic and Social Affairs, Population Division, Census 2011, India’s population is (In thousands):-

<table>
<thead>
<tr>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
<th>% urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,88,286</td>
<td>8,53,206</td>
<td>1,241,492</td>
<td>31.3</td>
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</table>

Source: Census2011

According to the latest census 2011, approximately 69.87% population is living in the rural areas with dependence on agriculture as their primary source of earning. The need to improve the life style of India’s rural households motivated the establishment of the wide network of Rural Co-Operative Credit Banks in 1950s which was followed by the wave to nationalization of the commercial banks in year 1967. This wave resulted in new branches of bank across country especially in the rural areas. Over the past decades these measures enhanced the formal banking system by loosening the grip of informal sources of finance and also improved the accessibility to the formal financial services for the rural poor. The main focus of our planning process was to improve the socio-economic conditions of the underprivileged rural households. Hence, to accelerate the economic growth the rural development is the key objective for our policy makers with emphasis on reducing the constraints such as low agricultural productivity, lack of employment opportunities, poor infrastructure and education system etc. faced by rural society. The main solution to overcome all these problems is
equal distribution of income and sustainable development. The Ministry of Rural Development plays the important role in the overall development of the country with the vision of sustainable and inclusive growth of the rural society through numerous programmes for reducing the poverty, providing the healthy life and building infrastructure for growth. The following are the major programmes incorporated by the Ministry:

- SAGY (Saansad Adarsh Gram Yojana)
- MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)
- NRLM (National Rural Livelihoods Mission)
- DDU-GKY (Deen Dayalupadhyaya Grameen Kaushalya Yojana)
- PMGSY (Pradhan Mantri Gram Sadak Yojana)
- NSAP (National Social Assistance Programme)
- PMRDF (Prime Minister’s Rural Development Fellow Scheme)
- IAY (Indira Awaas Yojana).

(Ministry of Rural Development, 2014-15)

As per the latest census 2011, the ‘The rural sector’ refers to any place which bump into the following criteria. i.e.

- A population of less than 5,000
- Density of population less than 400 per sq. km and
- More than "25 per cent of the male working population" is engaged in agricultural activities.

The people residing in these places are called as the rural households. The majority of these households in the least development economy are engaged in agriculture and more or less these are small farmers. Only small number of the proportion of rural households is performing non-agriculture, off-farm and income generating activities as their source of income (Nwanna, 1995). Activities which are allied to agriculture are livestock breeding, poultry farming, dairy, horticulture and floriculture, fisheries and sericulture undertaken by majority of farmers for money-making (Shivamaggi, 2000). During the period of 2003-2012, there is a swing in our agriculture production. At the same time, the growth rate is declined in agriculture and
allied agricultural activities from 4 percent to 1.7 percent in the leading three years of 12th Five Year Plan (2012-17) as compare to 11th Five Year Plan. Repeated failures in the agricultural sector happens due to volatile climate variations leading to the inability of the farmers to meet with rising cost of cultivation as well as increasing debt burden. Over 3 lakh farmers have committed suicide due to excessive distress by exceptional drought. (Vijayshankar, 2016).

At the national level, 87 percent of India’s villages are in group of population of 2000 or below. These villages having less access to small markets and without proficient financing and linkages for the farmers rely on the middlemen and moneylenders. Thus to overcome the challenges of rural development becomes a priority task which is ensured by the structural changes mainly based on land along with the agricultural credit for poor farmers and other infrastructural facilities (Chatterjee, 2007).

1.10 Concept and Need of Rural Finance

Finance helps people to mobilize their savings allocates funds for productive uses, exchange facilities. It acts as tool for risk management by allowing firms and marginal-small farmers to manage risk by protecting against the loss of useful assets and agricultural shocks from drought or flood. It provides rural households smooth consumption and helps them to manage risk related to the death of primary income earner, illness or loss of livestock or housing. Finance accelerates investment in form of investing in children education, purchasing of fertilizers or purchasing of medium size farming instruments. Thus to meet with these goals access to finance is largely considered as critical element to accelerate the growth (Fischer, 2011). The overwhelming dependence of majority of rural people on the agriculture sector as their main and labor wage on the irregular basis as secondary source of income.

As per the International Fund for Agricultural Development (IFAD) “Rural finance is now recognized as an important tool in the fight to reduce poverty and enhance donors’ development effectiveness agenda. As the rural finance sector has matured, the provision of financial services to poor people has moved beyond microcredit to microfinance, encompassing a wider range of financial services such as savings, remittances, leasing and insurance “ (IFAD, 2009).
1.11 Financial Services Providers Network in Rural Areas

In a changing economy the provision to deliver financial services to the rural households involves many challenges comprising of weak infrastructure, limited client education and low density of population (IFAD, 2009). According to the survey conducted by the world bank, the evidence on 1,42,000 people in 123 countries suggested that policies aimed specially to enhance the account penetration and remittance services among poor, youth, poor and rural residents (The World Bank, 2014). The wide-ranging spread linkage of financial institutions in rural areas has arisen up in post-independent India to meet the increasing needs of growth, equity, financial liberalization and building up the rural competence. The main components of financial sector reforms include the liberalization of interest rates, elimination of credit controls, improving the financial health of financial institutions, assuring the better quality of loan portfolio and strengthening the prevailing regulatory process (Sharma, 2004). The current approach to provide finance to the rural population focuses on constructing the sustainability of financial service providers.

In developing economy like India a vast network of rural financial services providers is available which consists of formal financial players (banks, RRBs, post offices on the one side and informal providers ( mainly moneylenders) on the other side and the semi-formal financial players ( NGOs, SHGs) acting as a bridge between these two (Basu, 2006) (Dufhues, 2007)). Rural financial services refers to the process of extending the financial services in rural areas to promote the agricultural and non-agricultural activities, these services include the savings, borrowings, insurance and money transfer etc. The beneficiaries of these financial services are broadly households, entrepreneurs, input suppliers, retail traders, service providers and agro processors. Thus, rural financial services provided in low income households to increase their income, alleviate their financial risk, betterment of future planning and fulfill their other lifecycle financial needs.

India has a wide range of rural financial services providers, on the one side it includes formal financial sector, on the other side informal financial service providers and in between these two there are semi-formal/ micro finance providers playing vibrant role towards target clients.
Table 1.4: Different Types of Financial Service Providers Serving in Rural Areas

<table>
<thead>
<tr>
<th>Rural financial service providers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal financial Providers</strong> (Regulated by RBI)</td>
</tr>
<tr>
<td>• Apex Development Banks</td>
</tr>
<tr>
<td>• Development financial institutions</td>
</tr>
<tr>
<td>• Commercial Banks</td>
</tr>
<tr>
<td>• Regional Rural Banks</td>
</tr>
<tr>
<td>• Co-operative Banks</td>
</tr>
<tr>
<td>• Post Offices</td>
</tr>
<tr>
<td>• Insurance Companies</td>
</tr>
<tr>
<td>• Mutual Funds</td>
</tr>
</tbody>
</table>


1.12 Overview of Banking Industry

Banking industry of any economy is an important division of financial system and it made accessible a variety of savings, borrowings, and other financial products and services to the people. Banks are the main pillar of formal financial institutions that are primarily engaged in accepting deposits from public to make credit operations active. Banks can be in form of commercial banks that are privately owned and other from are development banks which are publicly managed and target their credit to specific activities(Campero & Kaiser, 2013). It allocates resources to vast sections of the economy for asset building, formation of capital, income and purchasing power distribution and so on. With the establishment of banking industry safety has been ensured for hard-earned money saved by the people. In general, these are the following products and services provided by the banking system:
Over the last two decades, Indian economy has been constantly expanding and diversifying the existing banking system. The banking system in India has fairly well developed commercial banking sector which was existed at the time of independence 1947. In 1949, two major actions were taken in banking sector in view of structural reforms. First, the Banking Regulation Act was passed which gave regularity powers to Reserve Bank of India over commercial banks and nationalization of the RBI. These two major actions immediate after independence proved to be the turning points in Indian banking industry. It comprises of both organized and unorganized banks. Indigenous bankers and village money lenders considers as unorganized banking whereas Reserve Bank of India, Commercial Banks, Exim Bank, Co-operative Banks, Exim Banks, Co-operative Banks, Regional Rural Banks, National Bank for Agriculture and Rural Development etc. considers as organized banking (Somashekar, 2009).

The approval of constitution in 1950 and the acting State Reorganization Act in 1956 brought entire banking industry under the authority of Reserve Bank (Reserve Bank of India, 2008). The Reserve Bank of India also known as Central Bank of India was established in 1935. The Central Bank was fully owned by the Government of India in 1960s; and this is the sole body licensed to issue bank notes. It has gone through significant changes during the period of 1969-1991. The Indian Banking System had become one of the important
tool to strengthen the progress of development of the economy and increase the financial accessibility. The nationalization of banks marked a paradigm shift from class banking to mass banking. The rationale was to expand the banking industry by creating a Regional Rural Banks and branches of commercial banks leading towards the upliftment of the weaker section (Leeladhar, 2006). The main objective underpinned for the nationalization of banks is to break the monopsony control of big corporate houses over the country banks, to spread the banking services into untapped suburban and rural areas, to facilitate the deposits and meet the credit needs to priority sector such as agricultural and small scale business (Bhattacharya, Lovel, & Sahay, 1997).

The size of banking industry has grown rapidly during last few decades. On 19th 1969, the government of India has nationalized 14 major commercial banks having deposits of Rs. 50 crore and above as per the ordinance. Again in 1989, the government of India added 6 banks having the deposits of Rs. 200 crore and above (Agarwal, 2012). The classification of Indian banking industry as per the ownership is public banks, private banks, foreign banks, regional rural banks and cooperative banks. Below mentioned table reflects the current numbers of banks till Dec 2016:

**Table 1.5: Current Number of Banks till December 2016**

<table>
<thead>
<tr>
<th>Type of Bank</th>
<th>Number of Banks till Dec 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>26</td>
</tr>
<tr>
<td>Private</td>
<td>25</td>
</tr>
<tr>
<td>Foreign</td>
<td>43</td>
</tr>
<tr>
<td>Regional Rural</td>
<td>56</td>
</tr>
<tr>
<td>Urban Cooperative</td>
<td>1589</td>
</tr>
<tr>
<td>Rural Cooperative</td>
<td>93550</td>
</tr>
</tbody>
</table>

Source: (India Brand Equity Foundation, Dec 2016)
1.12.2 Rural Banking System

Agriculture is the major sector contributing to the national income. The farmers make up the main segment in the rural areas. Generally these farmers are small and marginal farmers, who do not have enough capital to invest in the agriculture. Equally the small and medium enterprises, professionals, rural cottage industry and small entrepreneurs, women’s, retail traders and other weaker sections need the financial assistance in form of rural banking (Swamy, 2010). In the financial structure of the Indian economy, the rural banking hold a significant position because more than 68.87% population is residing in rural areas with dependence on agriculture and its related activities to earn income. In recent decades rural banking has been increased to make the formal financial services accessible to the rural locale.

The need for rural banking is to meet credit need and safe banking services which contributes in the rural development by ensuring various activities performed by rural people such as agriculture, cottage industry and small enterprises (Agarwal, 2012). In addition to this to minimize the exploitation by the local money lenders by charging extra rate of interest is considered one of the main reasons for strengthening the rural banking. To mitigate this vulnerability banking sector has to play an important role for providing better communication networks in term of financial support (Singh, 2014). With the continuous efforts of RBI and Government of India during 1950 to 2002, it is found that the share of rural informal credit in total outstanding dept has been seen a declined shift, which indicates that a lot need to be done to promote the financial inclusion (Pradhan, 2013).

As per RBI statistics from 1970 to 2015, we can see the upward trend in the expansion of the population group wise number of rural bank branches of the scheduled commercial banks in the below mentioned figure 1.3:
1.12.3 Banking Industry in Himachal Pradesh

Himachal Pradesh is situated in the north-western region of Himalaya, covering geographical area of 55673 sq. km. The state shares its boundary with Jammu and Kashmir in the north, Tibet on north east, Uttaranchal in the east, Haryana in south and Punjab in west. The state has divided into 12 districts. It is a hilly state, having a range of altitude from plains to mountain peaks. The major economic activities of the state are agriculture and horticulture (Singh & Hietala, 2014). As per census 2011, the population of the state is 68.56 lakhs person which is merely 0.57 percent of whole population of India. From a survey of 13897 households of Himachal Pradesh during 2007-08, 91.6 percent households live in rural areas. The average household size of population is 4.7 person and median age is 49 years. The state has 98.2 percent electricity connection and 90 percent population have access to improved source of drinking water. Out of total population, 45.5 percent live in pucca house and 71 percent have at least 3 rooms (International Institute for
As per the planning department of Himachal Pradesh, total number of rural households is 10,36,996.

As per the Economic Survey held by Economics & Statistics Department in 12 districts of Himachal Pradesh during 2015-16, reported that the Lead bank responsibility has been owed to three banks. Firstly, Punjab National Bank (PNB) in six districts namely Hamirpur, Kangra, Kinnaur, Kullu, Mandi and Una. Secondly, UCO bank in 4 districts namely Bilaspur, Shimla, Solan, and Sirmaur. Thirdly, State Bank of India (SBI) in 2 districts namely Chamba and Lahaul- Spiti. UCO bank act as convenor bank of state level bank committee. Upto September 2016, the state has a network of 2061 branches and has increased by 202 branches in last two years which shows that the banking industry in the state has been continuously increasing compared to the records of September 2014 reported by the Economic Survey by Department of Economic & Statistics of Himachal Pradesh (Department of Economics & Statistics of Himachal Pradesh, 2015). PNB is having large number of branches in the state consists of 320 branches, followed by SBI and its associates having 359 number of branches and UCO Bank is having 172 number of branches (Economics & Statistics Department Himachal Pradesh, 2017). If we compare these branches figure with the survey report of same department during 2014-15, the outreach of banking sector has been raised up during October 2013 to September 2014 by 153 new branches, and from September 2014 to September 2016 by 192 new branches. Nearly, 80 percent of branches are located in rural areas of the state.

As on September 2016, Regional Rural Banks (RRBs) which are sponsored by PNB namely as Himachal Pradesh Gramin Bank are having 224 number of branches. Cooperative Banks also known as Himachal Pradesh Cooperative Banks having a network of 496 bank branches. Kangra Central Cooperative Banks (KCCBs) having a network of 210 bank branches. In the state, Kangra district is having highest number of bank branches that is 401 banks and Lahaul Spiti is having lowest number of bank branches that is 23 banks as on September, 2016.

If look at the figures of Automated Teller Machines (ATMs), it’s also goes up from October 2013 to September 2016. In Oct, 2013 the outreach of ATMs in
the state was 1,056 and 1,540 ATMs as on September, 2014. Thus, 484 new ATMs were installed during the period of October 2013 to September 2014. Further, from the period of September 2014 to September 2016, the number of ATMs has increased by 278 (Economics & Statistics Department Himachal Pradesh, 2017) (Department of Economics & Statistics of Himachal Pradesh, 2015).

The classification of banking industry in the state of Himachal Pradesh as per the ownership is public banks, private banks, regional rural bank and cooperative banks. Below mentioned table reflects the current numbers of banks branches in the state till September 2016:

**Table 1.6: Current Number of Branches in Himachal Pradesh**

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Type of Bank</th>
<th>Number of Bank Branches upto September 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Public Sector Banks</td>
<td>1,196</td>
</tr>
<tr>
<td>2</td>
<td>Private Sector Banks</td>
<td>125</td>
</tr>
<tr>
<td>3</td>
<td>Regional Rural Banks (RRBs)</td>
<td>224</td>
</tr>
<tr>
<td>4</td>
<td>Co-operative Sector Banks</td>
<td>496</td>
</tr>
<tr>
<td>5</td>
<td>Kangra Central Cooperative Bank (KCCB)</td>
<td>210</td>
</tr>
</tbody>
</table>

Source: (Economics & Statistics Department Himachal Pradesh, 2017)

**1.13 Financial Inclusion through Information and Communication Technology**

Financial inclusion is not only the philanthropic activity to meet legal obligations but also the opportunity for the business on a large scale because still more than 140 million rural households are unbanked under organized financial system (Bansal S., 2014). The entry of information technology in the Indian banking industry has brought many innovations, particularly through internet. However, these changes had started with the suggestions of Narasimham Committee’s for computerization in
1992 and it were followed by the recommendations for Electronic Bank Transfer (ETF), Electronic Clearing Services (ECS) and RBINET, BANKET and internet for banking transactions automatically by Saraf Committee’s in 1994. Information technology will act like bridging the gaps between service providers and last mile customers. The various services that are performed through electronic mode includes mobile banking, Automatic Teller Machines (ATMs), ETF, ECS, Shared Payment Network System (SPNS), Point of Sale (POS), debit and credit cards, electronic data interchange and E-Cheque etc (Pithadia, 2011). Such technology innovations results in significant reduction in the transaction costs and leading the way of financial inclusion (The World Bank, 2014). The use of ICT helping banks to reduce their front-end and bank-end cost. Therefore, reduced costs lowering the transaction as well as maintenance costs, which increases the feasibility of financial inclusion in the rural areas. Technology is leveraged mainly by the Business correspondents (BCs), which are tied up by the banks to provide banking services to the financially excluded people particularly in rural areas by Rural Internet Kiosks and mobile banking (Bansal S., 2011).

RBI provided the detailed guidelines for the growth of internet banking in India. With regard to this the IT Act 2000, also highlights the legal recognition for the formation, transmission and the maintenance of the electronic data. To make the electronic data in safe hands the Institute for Development and Research in Banking Technology as a documentation authority is making digital signature (Singh & Tigga, 2012). Digital financial inclusion gives the integrated platform through which the poor households will experience the benefits through the several channels which offers connected payments platforms, enhanced access to financial services (Digital Savings, credit and insurance services (Radcliffe & Voorhies, 2012). On the suggestion of Rangarajan committee the nationwide electronic financial inclusion system (NEFIS) has been recommended which links bank accounts with national unique ID of people and allows government funds transferred directly into their account electronically. The government funds like scholarships, subsidies and schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) which is targeting towards rural areas are transferred under government Direct Benefit Scheme (DBT). DBT helps in reducing the burden of administration work, cost and misuse of public money.
ICT helps banks to minimize their front-end and back-end costs. This reduction in costs lower the maintenance as well as transaction costs, which further lower the lending cost, and therefore increases the possibility of financial inclusion in rural areas. ATMs are playing a vital role to reduce the front-end cost, and has changed the banking delivery system. Apart from ATM, online banking transaction are also contributing to negligible transaction cost in comparison over the counter transaction where there is too high handling cost. Banks are also adopting Rural Internet Kiosks to carry out smooth banking transactions in rural areas. Below mentioned figure shows the contribution of electronic transactions if higher than paper based transactions and it is gradually increasing in Indian banking system.

![Figure 1.4: Percentage of Paper vs Electronic Transactions](image)

Source: (Bansal S., 2014)

### 1.14 Demand and Supply side indicators of Financial Inclusion

The supply side indicators refers to the banking infrastructure, outreach by existing institutions, security-based procedures and form-filling formalities.

The demand side aspects involve all customers’ consists of all households or individuals.

### 1.15 Barriers in the Path of Financial Inclusion Faced by India’s Rural Poor

There are number of reasons why the weaker section of the society doesn’t have an access to formal financial services, varying from the weak infrastructure, lack of education and very low income. Generally, there are two main important reasons in
access to credit services. First, from the demand side perspective, the poor people have no security and cannot borrow money in contrast to fulfill their future financial needs. Second from supply side perspective, the financial institutions having a high transaction cost issue for maintaining large number of minimum account balances and multiple documents requirements while dealing with small transactions (Beck & Demirguc-Kunt, 2008; Fischer, 2011; Finmark Trust, 2014). In simple words, it is supposed the formal financial institutions are not likely to finance the migrants because they are very poor individuals with having no collateral (Anzotegui, Kunt-Demriguc, & Martine Soledad, 2013). These barriers are negatively correlated with financial services outreach measured by bank branches, loans and deposits. The nonexistence of appropriate delivery system and products which will satisfy the financial needs of the poor families is also the main reason for the slow inclusion (Bansal S., 2011).

Apart from these barriers, the cost, travelling distance covered by individual and the documentation required to avail the banking services are also responsible for financial exclusion (The World Bank, 2014). The misspelling of products and high commissions are also reasons for the exclusion of individuals from financial services (Oncu, 2012). Hence, addressing with supply side constraints is division of social responsibility of the banks and to tackle demand side constraints the policymaking bodies (government partnership with banks, NGOs and Voluntary agencies etc.) (BS Reporter, 2015).

Banks are reluctant to lend money to rural poor because of uncertainty about repayment. The rural poor have irregular income streams and expenditure patterns. Rural people are highly exposed to systematic risks like crop failures or fall in commodity prices. Therefore, banks have legitimate reasons while dealing lending to rural segment (Basu, 2006).

1.16 Need of the Study

In Indian perspective, most of the studies (Sarma M., 2010; Sarma & Paris, 2008; Mahadeva, 2008) add studies has used publicly available data to analyze the extent and dimensions of financial inclusion. However, the research using primary data is very scare and limited. Thus, the present study is an attempt to examine the effectiveness and impact of financial inclusion in growth of rural expansion and growth. The study will also highlight the positive and the deficiencies in financial inclusion services.
which may be as a result of external environment or due to internal situations and suggest corrective measures which if taken may result in improvement in services, high rural population satisfaction level and more outcome for pastoral growth. The study will also be helpful in the future planning, as well as in analyzing the potential of financial inclusion including policy level planning and procedural changes, if any, required in consonance with the changing times bringing more and more challenges.

1.17 Objectives of the Study

This section of the study consists of objectives outlined to study the impact of financial inclusion on the status of rural households. The specific objectives of the study are:

- To study the different factors determining the financial awareness level among rural households with regard to financial inclusion.
- To explore the various elements contribute for the growth of financial accessibility in rural areas.
- To investigate the usage of banking services among rural households
- To study the impact of financial inclusion on the socio-economic status on rural households
- To suggest some policy measures and highlight some guidelines for rural growth through financial inclusion to make this study more result oriented

1.18 Structure of the Study

The detail work of present study has been organized into six chapters in the following way:

The **first chapter** of the thesis, “Origin, Growth and Performance of Financial Inclusion in India”, includes introduction part, meaning and concept of financial inclusion, various definitions given by different researchers, the key dimensions of financial inclusion. Role of formal financial institutions to promote financial inclusion and socio-economic development has also be discussed here. In addition to this, overview of number of initiatives taken for
financial inclusion at international level, national level and state level has given in the same chapter. Similarly, the concept of rural finance and rural development, brief outline about Indian banking industry, rural banking system, and banking industry in Himachal Pradesh has presented. At the end of this chapter, brief profile of the study area has been also described in detail.

In the second chapter, “Review of Literature”, studies related to different aspects of financial inclusion has revealed which comprises of financial inclusion and economic growth, financial awareness, financial accessibility, usage of financial services, role of technology promoting financial inclusion, and studies quoting impact of socio-economic status and rural phenomena with respect to financial inclusion have stated in various sub sections.

In the third chapter, “Research Methodology”, the research approach, data collection methods and research tool used for data collection, sampling design, pilot survey and hypothesis framed to fulfill the objectives of the study has mentioned in detail. Further, profile of respondents and several tools and techniques that has been used for the data interpretation and analyses briefly described in this chapter.

In the fourth chapter, “Awareness, Financial Accessibility and Usability of Financial services”, the whole chapter was divided into three main sections. Section-A evaluated the financial awareness level of rural households about the regular financial services provided by banks and additional services provided by formal financial institutions under various government schemes, such as Pradhan Mantri Jan Dhan Yojana etc. Section-B described the availability of financial services (formal, semi-formal and informal) to rural households. Section-C analyzed the extent of usage of financial services by rural households.

In the fifth chapter, socio-economic impact of financial inclusion on rural households was analyzed. To study the impact of impact on social as well as economic status, respondents were asked to rate their agreement or disagreement on statements.
At the end of each chapter, conclusions were drawn, with reference to the surveys performed and results obtained. The conclusions and recommendations were summarized in the last chapter (i.e. Sixth Chapter), along with the limitations of the study and possible future area of research was specified.