CHAPTER 2
REVIEW OF LITERATURE AND RESEARCH DESIGN

2.1 Statement of problem

One common indicator of financial inclusion is the percentage of adult population having access to bank account. In India 59 percent of adult population have access to bank accounts while rest of the population is still unbanked. The coverage in rural areas is 39 percent against 60 percent in urban areas. The scenario of north – eastern region (NER) is particularly depressing as only 37 percent of adult population have access to bank account whereas in Northern region the coverage is 80 percent. In NER, the extent of credit exclusion is highest as only 7 percent of the adult population in NER has access to formal credit market and loan accounts (Thorat, 2007). According to NSSO Survey 59th Round, around 50 million (on average 51.4 percent farmer households out of 89 million) Indian households do not have access to credit either from institutional or non-institutional sources. Around 73 percent of total farmer households in the country do not have access to formal credit (Rangarajan, 2008). The scenario of farmer households not having access to formal credit as a proportion to total farmer households is particularly gloomy in the NER (above 95 percent), followed by eastern region (above 80 percent), central region (above 77 percent) and southern region (above 30 percent) (Government of India, 2003). Considering the fact that NER is one of the slow progress regions in the country, RBI in
the year 2006 constituted the Committee on Financial Sector Plan for NER under the chairmanship of Smt. Usha Thorat to deal with the exclusion problem (Thorat, 2006)\textsuperscript{xxi}.

On April 28, 2006, RBI advised the convener banks of the State Level/ Union Territory Level Bankers’ Committees (SLBC/ UTLBC) to identify at least one appropriate district in each State/ Union Territory for attaining 100 percent financial inclusion. In Assam, Sonitpur was the first district to be identified for 100 percent financial inclusion and subsequently the Lead Bank of Sonitpur (UCO Bank) declared the achievement of 100 percent financial inclusion of the households in the district\textsuperscript{xxii}. The 11 more districts identified for 100 percent financial inclusion includes Bongaigaon, KarbiAnglong, N C Hills, Chirang, Baksa, Udalguri, Barpeta, Goalpara, Lakhimpur, Golaghat and Nagaon. Further, it has been more than seven years since initiatives have been placed for financial inclusion and it is now high-time to see effectiveness of the initiatives in NER especially in rural areas. Hence, the present study aimed at examining the progress of the initiatives and hindrances, if any. Further, there are some districts which are not identified by the SLBC for achieving 100 percent financial inclusion. The study also aims to study the status of financial inclusion in those unidentified districts.

Moreover, the implementation of RBI financial inclusion drive opened lot of scope for evaluative study in the area. It is important to note that the following aspects are not found to be investigated:

- To verify the claim of the Lead Bank of achieving 100 percent financial inclusion

\textsuperscript{xxi} Please refer to Page 16 for further details  
\textsuperscript{xxii} State Level Bankers Committee, Assam, 2007, Quarterly Meeting For June, 2007, p 4
➢ To look at the demand side performance and the extent of usage of financial services offered to the poor and disadvantaged under the financial inclusion initiatives

➢ To assess whether the identification of some districts for achieving 100 percent financial inclusion is actually making any difference in changing the lives of the poor, in the identified and unidentified districts

2.2 Review of Literature

Plethora of action researches has been conducted at national and international arena. Limited access to financial services is a major cause of concern for the policy makers in both developed and developing countries. A major concern of European Union (EU) policy since the early 1990s has been to fight against financial and social exclusion. European Commission constituted a working group under the leadership of Justyna Pytkowska with the objective of drawing a map of social and financial exclusion by combining the experiences of Microfinance institutions (MFIs) in both Western and Eastern Europe. The mapping exercise focused on the activities of MFIs in the year 2005 in fighting social and financial exclusion in the Western and Eastern Europe and to see which of the good practices can be exchanged between MFIs in both parts of Europe. The report opines that financial exclusion may be a cause or consequence of social exclusion, or both and unemployment being the major cause for both the types of exclusion in both parts of Europe. Microcredit can be an effective tool for tackling both social and financial exclusion and every country throughout Europe have been tackling these two issues by providing microfinance/ microcredit enabling the unemployed to gain access to micro
loans for self-employment and micro enterprise through the co-operation among the EU member nations, NGOs and private corporations. The MFI clients in EU are minority (unlike in the developing countries where they are in majority) and it leads to difficulty in reaching them as a result the cost of service might be comparatively high (Pytkowska, 2007).

Around 90 percent of the population of the developing countries is unbanked. A survey was conducted in nearly 80 central banks and other policymaking bodies in Africa, Asia and Latin America in late 2009 and early 2010 by Alliance for Financial Inclusion (AFI). The study was undertaken to take a note of the initiatives of the policymakers/ regulators/ central banks and conducting a high-level analysis on the existing policies and practices for financial inclusion of the poor in developing countries. The study with a sample of 20 countries revealed that some of the strategic initiatives by regulators/ central banks of different counties includes-reaching unbanked through the publicly owned banks (El Salvador), using macroeconomic measures and promoting the inter-bank and bond markets (Jordan), strengthening channels for delivery of new products (Brazil and Egypt), and focusing on empowerment of the people to enable them to make better usage of already existing products (Peru and Indonesia). Some of the initiatives undertaken by central banks/ regulators of the developing countries includes adopting innovative policy measures, particularly the technology based solutions (Kenyan m-pesa, Philippines and Pakistan-mobile money); including financial inclusion in their agenda of financial sector plans (Thailand, Kenya, Peru and Malaysia); considering microfinance as the entry point (Bolivia, Indonesia and Uganda); regarding savings as an important force for financial
inclusion of the poor (Russia, Cambodia and Indonesia); admire Banks as the backbone of the system that reaches the poorest of the poor (South Pacific, India, Indonesia, Egypt, Pakistan and Kenya); giving importance to financial education, consumer protection, and financial transparency for greater financial inclusion (Peru, Malaysia and Indonesia); scaling and measuring the level of financial inclusion (Mexico and Thailand). The report concludes that to support the developing countries a global policy response, closer international cooperation, and strong and coordinated partnerships between relevant public and private sector stakeholders at national and international level is desirable (Alliance for Financial Inclusion, 2010).

A report prepared by McKinsey identifies key areas of innovation which can encourage financial inclusion to a greater extent and advocated for a collaborative approach involving greater participation of private sector players, and complete participation and cooperation between the public, private and social sectors is needed. It identified five areas of innovation needed to serve the low income groups and bring them to formal financial system. The first area pertains to overcoming information barriers i.e. to get a clear data base about the potential customers. This can be done by investing in technologies such as in Kenya, the United Kingdom’s Department for International Development co-invested with Vodafone in the M-Pesa project. The product allows people to make deposits into an e-money account through airtime sellers. The service providers can provide innovative and useful products for the customer as in Malawi, the World Bank worked with the National Smallholder Farmers’ Association of Malawi, the Opportunity Bank of Malawi, and the Malawi Rural Finance Company to pilot drought insurance. The
second innovative area recommended by the report is to leverage the non-financial distribution channels to reach low-income markets. The business correspondent model started by Brazil to distribute credit, savings and insurance products through grocery stores, retailers and local centers. This model was later adopted by Bolivia and India. Financial services through mobile gain huge impetus where telecom companies have huge advantages over traditional banks in terms of physical reach, customer base and transaction costs. In 2004, the South African Bank of Athens launched WIZZIT, its own ‘virtual bank’. WIZZIT customers use their cell phones, as well as their debit cards, to make purchases at stores, transfer funds to other customers, withdraw funds from any ATM, and make deposits at Absa and Post bank branches. The third area pertains to promote industry standards and efficiency by adopting standardized MIS. Fourth innovation recommended was to develop management talent by launching new training programs, institutes, centers. The last innovative areas advocated for increasing financial inclusion was to enact pragmatic regulations with a focus on consumer protection by creating proper regulation and customer protection bureaus (McKinsey and company, 2008).

Anson, Berthaud, Klapper and Singer (2013) documented and analysed account ownership patterns at post offices in comparison to traditional financial institutions such as banks and regulated MFIs to show the role that post offices might discharge in enhancing financial inclusion. The study used data from the Global Financial Inclusion Indicators database, which collected data on account ownership at post offices for 60 countries where postal accounts were offered for the calendar year 2011. Data from the Universal Postal Union was also analysed to study the degree to which different postal business models and
the size of the postal network help in account ownership patterns. The empirical results suggest that post offices are relatively more likely than traditional financial institutions to provide accounts to individuals who are most vulnerable to financial exclusion which includes the poor, less educated, and those out of the labor force. The results suggest that the size of the postal network bears significance. The larger the network–relative to the network of traditional financial institutions– the more likely it is that adults have an accounts at the post office (Anson et al, 2013). Post offices around the globe are witnessing financial difficulties because of economic recession, electronic diversion and increased competition leading to decreasing mail volumes, which in turn have weakened the economic viability of many postal administrations in many countries. It has necessitated the need to boost, innovate and expand the postal services to improve their financial viability. Countries like Brazil, France, Italy and Switzerland have started leveraging their postal network for enhancing the financial outreach (http://www.cupw.ca).

Post offices in other nations including U.K., U.S. and Japan have also started augmenting banking services to customers to prevent themselves from being obliterated or rendered redundant with the advent of comparatively faster and cheaper alternative modes of communication. To overcome these challenges Postal department can leverage on the inbuilt trust of people and the existing huge network of Post offices particularly in rural areas to offer financial services. Post offices can function as Bank of the poor and attract their small savings. Postal departments of different countries have adopted three different models for offering the financial services- Agent model, Separate entity model and Hybrid model. They are functioning as Bank’s agents (U.K. and France) to offer free of cost basic
banking services and sell insurance products on commission basis. In some countries they are working as a separate entity or subsidiary under the Postal department (Japan and Germany) and offering banking and insurance services. Under Hybrid Model (Korea) the Post offices offer its own banking services as well as facilitate transactions related to other banking entities (Murthy and Vani, 2013). However, the Postal banks might witness challenges because of their inexperience or more experience of their competitors i.e. banks and insurance companies in this regard.

In Brazil, more than 10 million bank accounts were opened between 2002 and 2011 after the post established Banco Postal in partnership with an existing financial institution. However, leveraging the large physical network of the post is not without challenges. Posts generally have little or no expertise in running a bank and the business model that a government pursues in providing financial services through the postal network may be critical to its success (http://blogs.worldbank.org).

The report by United Nations (2006) ‘Building Inclusive Financial Sectors for Development’ highlighted the importance of inclusive financial sectors for developing countries. The report was an outcome of global multi-stakeholder consultations in the Middle East, Africa, Asia and Latin America held during 2004 and 2005. It was reported that in many developing countries majority are deprived of the basic financial services. The providers consider certain factors while selecting the potential customers which includes-cultural norms, gender, age, legal identity, limited financial literacy, proximity to formal financial institution, type occupation, level of income. Again, the potential customers consider some issues in choosing the providers which includes- personal relationships of
the staffs with customers, confidence of the customers on financial institutions, attractiveness of the product. It reports that retail financial institutions can serve the poor in better way (United Nations, 2006).

The report by CGAP/ World Bank (2009) entitled ‘Financial Access- Measuring access to financial services around the world’ provided data collected from central bank officials of 139 countries. It was found that the number of bank deposits per adult and the value of bank deposits (percent to GDP) is high in developed than the developing countries. But the average bank deposit (percent of GDP per capita) is higher in developing countries. Further, the amount of loan per capita in developing countries is a quarter of the loans per person of developed countries. The rich has easy access to financial services even in poor countries. Statistics reveals that countries with the highest number of households below international poverty line normally have lowest access to deposit account. The banking sector caters mainly to the richest population leaving aside the poorest with fewer options. The report reveals that some of the countries with large proportion of population suffer from lower financial access in terms of deposits and/ or loans (per 1,000 adults) and/ or lower outreach of bank branches and low density of branches per 1,00,000 adults with varying degrees. The poor are mainly served by non-bank suppliers of deposit and credit services (which includes mainly Cooperatives, specialised state financial institutions and MFIs). Simplified know your customer norms are needed for financial inclusion of the poor in developing countries. The most common alternative source of credit for the poor is relatives, friends, vendors, money lenders, and savings clubs. Countries with better credit information systems about the prospective clients and their repayment behavior provide

\[\text{xxiii}\] However density of bank branches acts as initial but crude indicator of access to financial services.
more loans to individuals. As developing countries have double the number of post offices compared to bank branches, the former may prove to be a powerful tool of distributing financial services especially in rural areas. The Financial Access Survey revealed that India’s Post Office Savings Bank has one of the largest retail networks extending payment and saving services through 1,55,000 branches of which 90 percent are located in rural areas. However, it is still not very successful (CGAP/The World Bank, 2009).

Study conducted by AT Kearney reveals that around 50 percent of the world’s population is using mobile communications. The number of mobile subscribers increased from around 2.3 billion in 2008 to 3.2 billion in 2012. A large number of adults and young people are there who would value the social and economic benefits of mobile technology but are unable to access it. This presents a huge potential for future growth and a challenge to all players for tapping the untapped market by enhancing the scope of products and services. AT Kearney in its study projected that the coming few years will witness continued growth and 700 million new subscribers will be added by 2017 and the 4 billion mark will be crossed by 2018. The report also revealed that emerging markets are the main drivers of mobile growth particularly in the Asia Pacific region. It can play a key role in social development and economic growth, if banking facilities can be made available via this innovative route. If the operational challenges, lack of enabling regulations and issues relating to under investment are properly addressed and some best practices are adopted than the growth of mobile money can be paced up (AT Kearney, 2013).

Deloitte and the GSM Association performed a detailed analysis of the role that basic mobile phone services discharge in enhancing economic growth in a country. It
aimed to study the impact on GDP per capita growth of consumers substituting a 3G connection for a 2G connection. In addition, it also aimed to analyse the impact of increasing the usage of mobile data per 3G connection, based on data from Cisco Systems. A panel of 96 countries was set up with data covering 2008 through 2011 for the study. The study revealed that, as more-developed 3G technology substitutes for 2G technology, a strong incremental impact on economic growth is observed. Further, it indicated that mobile data usage per 3G connection has a positive effect on the growth rate of GDP per capita. This effect grows linearly with the initial level of data usage per 3G connection in the country. However, countries with a higher average level of mobile data consumption per 3G connection experience a larger impact on GDP per capita growth from increasing this consumption. Whereas, limited effect was observed for developing countries like China, India, Mexico, and South Africa (Williams et al., 2013).

While presenting an overview of status of financial inclusion in India, Smt Usha Thorat highlighted that exclusion can be of two types, one by exclusion from the payment system-i.e. not having access to bank account; other exclusion from formal credit markets- i.e. forcing the excluded to approach informal sources and exploitative money lenders. Smt. Thorat opines that financial inclusion demands higher level of financial penetration through the banking system. In Indian context, financial inclusion largely implies access to a bank account combined with deposit, insurance, easy access to credit at reasonable cost. The key regulatory initiatives of RBI for furthering financial inclusion in the country through financial regulation includes- higher capital requirements for converting an MFI into NBFC; SHG-bank linkage where by banks were allowed to open savings account of
SHGs in early 90’s; requirement of lending 40 percent and 32 percent of their total advances by the domestic banks and foreign banks respectively to priority sector; emphasis on opening of bank branches in unbanked areas through branch licensing approvals; direction to the banks for opening of no-frills accounts; relaxing Know Your Customer Norms; integrating UID with opening of bank accounts; branchless banking; deregulation of interest rates and permitting the telecom players in the country to enable ‘m-wallet’ facilities up to Rs. 5000 (around $100) in the interest of small retail payments; financial literacy and education; along with fair and transparent code of conduct for consumer protection (Thorat, 2010)

In order to examine the progress of the initiatives made for 100 percent financial inclusion, RBI carried out a few studies in 26 districts that had reported 100 percent financial inclusion, through external agencies. The states in which the study was carried out were Gujarat, Karnataka, Orissa, Himachal Pradesh, West Bengal, Andhra Pradesh, Punjab and Rajasthan. The studies revealed that although the SLBCs have declared several districts as 100 percent financially included, the actual usage of these accounts was very low in the Ganjam district (Orissa), Rajsamand district (Rajasthan), Hooghly district (West Bengal), Srikakulam District (Andhra Pradesh), Bagalkot, Chamrajnagar, Davangere, Gulbaraga, Haveri, Kodagu and Koppal (seven districts of Karnataka), and Gandhinagar district (Gujarat). Various reasons cited for the low usage of the accounts includes lengthy procedures, distance from the bank branch, illiteracy, lack of interest, non-availability of pass books, reluctance of the banking staff in opening the accounts etc. However, majority of the respondents in twelve districts of Chamba, Bilaspur, Hamirpur, Kangra, Kinnaur,
Kullu, Lahaul & Spiti, Mandi, Shimla, Sirmaur, Solan and Una (Himachal Pradesh) and in two districts of Gurdaspur and Mansa (Punjab) were satisfied with different aspects of quality of services in terms of opening and closing timings of bank branches, ease in use of banking services and convenient location of bank branches. Further, the study revealed that the actual rate of financial inclusion in the districts surveyed was less than 100 percent. Again, the account holders were not provided with all the services and the accounts usually remained inactive (RBI, 2009).

In the “Scoping Paper on Financial Inclusion”, Arunachalam presented a framework on promoting financial inclusion in the focus states to help United Nations Development Programme (UNDP) to identify its niche in this area and guide its work of UNDP’s country programme. Focus states included-Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. The study highlighted lack of easy access to financial services as one of the major constraints faced by the poor in increasing their income and building sustainable livelihood in the focus states. Exclusion from payment system, lack of access to bank account and formal sources of credit forces them to resort to informal and exploitative financial sectors. The poor in these states live in a cycle of inclusion, exclusion, re-inclusion and re-exclusion. To counter the problem of temporary inclusion, a new approach to financial inclusion in the focus states is required whereby the poor should be facilitated with a variety of risk/vulnerability management mechanisms and not just opening of bank accounts and/or access to consumption/consumer credit. Reasons for higher financial exclusion in these seven focus states are:

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xxiv The other important impediments relates to over dependence on agriculture, limited scope of diversifying in non-farm sector, market imperfections (Imperfections exist in raw material, intermediate product, final product, labour/skill and financial markets), poor infrastructure
existence of pioneer programmes with a strong microfinance component, difficult terrain, unsuitable microfinance methodology, unsuitable microfinance products, lack of robust government support, remoteness, illiteracy, poor infrastructure, weak social infrastructure, inadequate number of bank branches, high distance of bank branches, unsuitable bank working hours, high documentation, complex procedures, high dependence on agriculture, lack of opportunity to diversify to non-farm sector. Recognizing the importance of ‘financial inclusion’, the paper advocates that it should be made an important part of the overall livelihood program, high number of excluded groups, higher incidence of poverty, self exclusion from SHGs/ MFIs for different reasons. The major recommendations and suggestions are establishment of Financial Inclusion Centers for information provision and protection of low income clients\textsuperscript{xxv}; establishment of Livelihoods Vulnerability Reduction Challenge Fund (LVRCF)-to experiment, innovate and upscale financial products/processes, for vulnerability reduction and addressing structural issues of poverty. For ensuring financial deepening of products and processes, UNDP may support demonstration pilots on financial deepening Multi-Stakeholder Platform for Learning/Sharing (Arunachalam, 2008).

Minakshi Ramji conducted a study in Gulbarga district of Karnataka - one of the locations claimed to achieve 100 percent financial inclusion - to have a deeper understanding of the financial inclusion drive of RBI. The study focused the low income households, identified on the basis of state-issued ration cards. Financial inclusion was measured in terms of total number of households having access to at least one bank

\textsuperscript{xxv} Especially can be implemented in the 100% financial inclusion districts designated by the RBI in each of the focus states.
account. Data collected from 999 respondents, spread over 50 villages, by administering structured questionnaire, in-depth interviews, and in-site observation. The survey was undertaken in two out of 11 blocks in Gulbarga. 25 villages in each block were selected randomly, and the first 20 BPL households in each village were surveyed by skipping the adjacent house. The findings revealed that the number of households with bank accounts doubled over the duration of the financial inclusion drive. However, 36 percent of the sample remained excluded from any kind of formal or semi-formal savings accounts. Further, bank accounts have been opened typically to receive government assistance, mostly under the National Rural Employment Guarantee Programme (NREGP). Usage and awareness of the accounts remain low. Savings in Self-Help Groups remains the most popular form of savings in a formal/semi-formal place. While government programmes like NREGP have the potential to include large numbers of low-income households, access to accounts does not often lead to usage (Ramji, 2009).

Natu, Bansal, Kurian, Bhusan; Centre for Micro finance, IFMR working paper “Linking Financial Inclusion with Social Security Schemes” (2008) presented the prospect of coupling financial inclusion drive with NREGP and the use of technology such as a smart card to enhance the efficiency and security of the transaction; and also the use of MFIs/NGOs/POs through a Business Correspondent scheme. The model was pilot tested in Karimnagar District of Andhra Pradesh which indicated higher usage of bank accounts, overall efficiency of cash flow, secure virtual transfer of money and saving in transportation cost (Natu etal, 2008).
According to the study by Tyagarajan and Jayaram in Cuddalore district of Chennai, many branch managers were reluctant to open the no-frills accounts and seem to have even gone so far as to purposefully confuse potential clients into signing forms that refused their participation in the program. But even without such tricks, when banks went to potential clients’ homes to offer a basic account, many residents refused, citing distance and other factors unrelated to the direct costs of account ownership. In a year after opening basic accounts, only 15 percent of those who signed up used them (Tyagarajan and Jayaram, 2008).

In the Index proposed by Mandira Sarma, the level of financial inclusion can be measured in a country by securing information on three basic dimensions of financial inclusion - banking penetration (number of bank accounts as a proportion of the total population), availability of the banking services (number of bank branches per 1000 population) and usage of the banking system (the volume of credit and deposit as proportion of the country’s GDP). The paper uses banking inclusion/exclusion as analogous to financial inclusion/exclusion. The Index of financial inclusion (IFI) is a multi-dimensional index that captures information on these dimensions in one single digit lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. Two set IFI are computed- one is three dimensional (banking penetration, availability and usage; as data on these dimensions is available only for 55 countries) and the other is two dimensional (banking availability and usage; as data available for 100 countries). It is important to note that computations are based on the data available for year 2004. Using the three dimensional IFI, Spain leads
with the highest value of IFI (0.737) whereas Madagascar ranks at bottom with lowest value of IFI (0.013). If we consider two dimensional IFI data, then also Spain ranks first with highest IFI value (0.792) and Cambodia is at bottom with lowest IFI value (0.015). India ranks 29th on the two dimensional IFI (0.166) and its rank falls below 50 on the three dimensional index with IFI (0.170) (Sarma, 2008).

Subbarao explained that lack of access, lack of physical and social infrastructure, lack of understanding and knowledge, lack of technology; lack of support, lack of confidence etc as the main challenges in financial inclusion. He advised the bankers to take the scenario of financial exclusion in India as opportunity as out of the total 600,000 villages only about 30,000 have a commercial bank branch; just around 40 per cent of the population has access to bank accounts, and the ratio is very low in the NER. Further, the percentage of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is an abysmally low 0.6 per cent. People having debit cards constitute only 13 per cent and those having credit cards stands at a marginal 2 per cent (Subbarao, 2009).

SHG-Bank Linkage Programme launched in 1998 by NABARD can be regarded as an important instrument of financial inclusion. Badajena and Gundimeda in 2008 attempted to study the impact of Self Help Group- Bank Linkage Programme (SHG-BLP) in achieving financial inclusion across sixteen states for the period of 2008 by analyzing the secondary data collected from Census of India, various reports published by RBI, NABARD were analysed through regression analysis. A positive and significant impact of SHG-BLP on financial inclusion in terms of credit deepening and a positive impact of
economic development and financial literacy on financial inclusion were also observed. However, branch density (population per branch) exhibited an inverse relationship with financial inclusion (Badajena and Gundimeda, 2008).

According to Shri R. N. Dash banks are unable to cover majority of the population even after nationalization in 1969 and tremendous growth in volume and outreach. During 1991 to 2002, the share of institutional finance in the outstanding cash dues of rural households decreased whereas the share of non-institutional sources increased. Issues associated with the delivery of financial services by the institutions relates to outreach, impact and sustainability. Cost of expanding the branch network and increasing the number of people managing a branch and transaction cost of dealing with small accounts are the major factors. Reluctance of banks to operate in fur-flung areas due to increased cost, necessitated alternative models of delivery. The impact of the financial inclusion programmes can be judged by rural development and increase in employment. Sustainability of the institutions providing finance is very important. Banks should redesign their business strategies to incorporate specific plans to promote financial inclusion of the low-income groups treating it not only as a corporate social responsibility, but also as a business opportunity (Dash, 2007).

Sangwan carried out a study to understand the relevance of Self Help Groups (SHGs) in achieving the financial inclusion in the background of initiatives taken so far by RBI and GOI. To ascertain the relationship between the determinants of financial inclusion and the branch density, level of income, literacy and adults covered under SHGs,

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xvi Indirectly Government has been introducing several schemes for financial inclusion of the low income group through the credit schemes like Small/marginal Farmers Development Agencies in early 70’s, Integrated Rural Development programme (IRDP) since 1978 to 1999 and Survodya Gramin Savarojgar Yozna (SGSY) since 1999, Kisan Credit Card (KCC), Artisan Card and General Purpose Credit Card (GCC)
data of 42 regions/states of year 2006 are taken into consideration. The regression analysis showed a positive relation between branch density and number of accounts and per capita income and adult having saving account though this coefficient was not significant with level of credit account xxvii. It was observed that literacy percentage has negative relationship with both percentage of saving as well as credit accounts of adults. The branch network and banking education are the most important variable especially for credit inclusion. Findings revealed that SHGs play important role in including women and low income families in the financial system (Sangwan, 2007).

Johnson and Meka presented a report on the basis of the household survey in the rural areas of Andhra Pradesh. The findings revealed that the number of Bank accounts increased due to increased emphasis of RBI on financial inclusion and around 79 percent of the households in rural Andhra Pradesh had access to Savings account majority of which were opened to receive government benefits and a small proportion (14%) opened it for savings. As a result approximately 41 percent of the accounts appeared to be completely dormant or were used only to receive government benefits. Prospects of mobile banking were observed as around 36 percent of the unbanked households owned and used mobile phones regularly. Around 93 percent of the rural households surveyed were indebted of which informal sources constituted the major source of credit (Johnson Doug and Meka Sushmita 2010).

In rural parts of Andra Pradesh, a NGO has collaborated with six banks and a Technology vendor to start a service that facilitates the government to implement its

xxvii As the states with relatively lower per capita income have more inclusion in terms of credit accounts, which may be due to more financing under Central and state governments’ subsidy schemes. The results show that the person having low income and staying in area where access of bank is less may be excluded from the financial system
flagship social programmes, the National Old Age Pension (NOAP) Scheme and the National Rural Employment Scheme (NREGS) across 10 districts in Andra Pradesh. Some ladies are selected from the local SHGs to serve as Customer service points (CSPs), and they are facilitated with a kit that contains a special mobile phone and accessories. These kits enable processing of banking transactions such as deposits and withdrawals using mobile internet. To ensure safety of the transactions a biometric scanner to read fingerprints is also provided in the kit. Now with the introduction of 3G, the mobile internet will become faster, making financial inclusion drive more effective and such devices more efficient (Halan, 2013).

2.3 Research gap

Most of the studies are tilted toward policy measures and initiatives necessary for furthering financial inclusion in both developed and developing countries. A few studies also highlight the need for financial inclusion of the poor, and the viability of achieving financial inclusion through microfinance. However, the research gap still persists in certain areas of academic and geographical aspects.

**Gap in Academic Aspect:** Very few empirical studies have been undertaken to know the status of financial inclusion initiatives from demand side i.e. outreach and actual usage of the accounts opened under the financial inclusion initiative in the country.

**Gap in Geographical Aspect:** The studies above reveal that although a few studies have been conducted to assess the progress of financial inclusion initiatives in different parts of the country especially in many districts of Southern India, not many remarkable studies found to have been carried out in north – eastern region of the country.
2.4 About of the study

The present research aimed to mitigate the gap of information availability regarding extent of access to financial services, the assessment of usage of the accounts opened under the financial inclusion drive by the poor section of society residing in rural areas. The study also aimed to ascertain the level of awareness of the rural poor households about various financial inclusion initiatives. It also attempted to examine the preference of rural households regarding sources of credit, means of remitting money, ways to manage various forms of risks, association with alternative institutions etc. It also endeavored to make a comparative study of financial inclusion drive among the poor households in rural areas of Sonitpur district which was identified by SLBC for achieving 100 percent financial inclusion, with rural areas of Kamrup district. This study was expected to come with suggestive measures for future course of action and policy implementation for ensuring much effective financial inclusion in Assam.

2.5 Objectives of the study

The following are the objectives of the study:

i. To study the supply side interventions for financial inclusion in rural districts of Assam

ii. To ascertain the extent of coverage of financial inclusion among the rural poor in the study districts

iii. To assess the extent of usage of the Bank account by the financially included poor in rural areas in the districts under study
iv. To analyse different reasons for financial exclusion of the poor in rural areas of
    the study districts and to assess alternative financial practices

2.6 Research queries

The study attempts to answer the following research queries:

i. What are the initiatives undertaken by supply side institutions for greater financial
    inclusion of the poor and what is the extent of their outreach in Assam?

ii. What is the extent of financial inclusion among the poor in identified as well as
    non-identified areas?

iii. What is the extent of usage of the facilities by the poor under financial inclusion
    initiatives?

iv. What are the reasons for financial exclusion of the poor, if there is a higher ratio of
    financial exclusion?

v. What are the alternative financial practices of savings, credit and transfer of money
    among the poor households?

2.7 Nature of Research-Exploratory and Descriptive

In order to achieve the objectives of the study, an exploratory survey was done in
    twelve villages covering two districts for having insights and understanding of the problem
    (i.e. understanding of financial behavior of BPL households in both the identified and
    unidentified districts). The same were analysed and presented through descriptive statistics
    and inferences.
2.8 Research Method

2.8.1 Sources of data

Data were collected from both primary and secondary sources.

2.8.1.1 Primary Sources

Primary data were collected from the financial institutions (i.e. supply side) engaged in making available the financial services to the rural households and from the poor households in rural areas (i.e. the demand side). The details of which are outlined below:

Demand side: Demand side data were collected from the poor households in rural areas in both the identified (Sonitpur) and unidentified (Kamrup) districts.

Framework for Supply side: The supply side data were gleaned from

I) Apex Institutions – RBI and NABARD

II) Banking institutions

   a) Lead bank (UCO Bank) of identified and unidentified districts

   b) Prominent commercial banks

   c) One of the prominent MFIs – Asomi

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<td>• RBI Guwahati Office</td>
</tr>
<tr>
<td>• NABARD Dispur Office &amp; District Development Offices</td>
</tr>
</tbody>
</table>
2.8.1.2 Secondary Sources

To know about the financial inclusion initiatives and their outreach reports of World Bank, RBI, and SLBC- Assam, NABARD etc. were also referred. Reports of GOI and other journals, reports of other agencies/ organizations were accessed to have conceptual framework on financial inclusion and poverty issue

2.9 Sampling design

Target Population: The target population or unit of observation in the present study was the BPL households in rural areas. Head of the BPL households in the rural areas of the selected districts were the respondents of the study.

The target population for the study is elaborately defined as follows:

Element: Male or female head of the households were the respondents of the study

Sampling Unit: Poor households were selected by applying Multistage-sampling technique

In the present study the sampling units are as follows:

- First Stage Sampling Unit: Districts
- Second Stage Sampling Unit: Blocks
- Third Stage Sampling Unit: Villages
- Fourth stage Sampling Unit: BPL Households

Geographical Coverage: The study covered selected rural areas of Sonitpur and Kamrup Districts

Periodicity of the study: The period of study ranges from the year 2009 to the year 2011.
2.10 **Sampling procedure**

The details of sampling procedure followed in different stages are:

2.10.1 **Selection of districts**

Two districts – Sonitpur and Kamrup (Rural) were selected purposively for the study. There are 27 districts in Assam. Out of which 12 districts namely Bongaigaon, Karbi Anglong, N C Hills, Chirang, Baksa, Udalguri, Barpeta, Goalpara, Lakhimpur, Golaghat, Nagaon, Sonitpur, were identified for achieving 100 percent financial inclusion by the SLBC for implementing the 100 percent financial inclusion drive of RBI. Among the above 12 districts, Sonitpur was the first district reported to have achieved 100 percent financial inclusion and subsequently Barpeta also reported to achieve 100 percent financial inclusion. As the selected Sonitpur district was the first district to be identified and to claim achieving 100 percent financial inclusion and the selected Kamrup rural district is an unidentified district, both these districts were selected for the study.

2.10.2 **Selection of blocks**

There are 14 and 15 development Blocks in the selected Sonitpur and Kamrup District respectively. Judgment sampling technique has been applied in selection of the total 6 Blocks. One third blocks (approximately) i.e. 3 Blocks from Sonitpur (identified districts) and 3 Blocks from Kamrup (unidentified district) were selected as per geographical distribution and distance from district headquarters; as in the blocks near the district headquarters, proximity of financial services is more compared to the blocks located in distant areas.
2.10.3 Selection of villages

A total of 12 villages, 6 villages from Sonitpur district (out of 1753 villages) from the list of villages in National Informatics Centre Sonitpur District Unit and 6 villages from Kamrup district (out of 991 villages) from the list of villages in National Informatics Centre Kamrup District Unit were selected on random basis from an exhaustive list of villages (i.e. sampling frame).

2.10.4 Selection of households

All households in the selected villages were surveyed to identify the poor households. As it is a study on the poor, a census of all households in the 12 selected villages in Sonitpur and Kamrup district was conducted to identify the Below Poverty Line (BPL) households. BPL households were identified as per the final poverty lines given by the Report of the Tendulkar Committee. Households living with less than Rs. 478 per capita per month in rural areas of Assam were considered to be poor as per the report (Planning Commission, 2009). The poverty lines estimated by Tendulkar Committee (Planning Commission) were accepted for identifying the BPL households in both urban as well as rural areas. Although the poverty line was Rs. 478 per capita per month but taking into consideration the effect of inflation, it was rounded off to Rs. 500.

2.11 Sample plan

A complete survey was undertaken in the selected 12 villages for identifying the BPL households. The total numbers of households in the villages surveyed were 1265 out of which 659 households were identified as poor households (Table – 2.2).
<table>
<thead>
<tr>
<th>District</th>
<th>Block</th>
<th>Villages</th>
<th>No of H/H*</th>
<th>No of Poor H/H*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sonitpur</td>
<td>Balipara</td>
<td>Napaam</td>
<td>250</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Panbari</td>
<td>60</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>Dhekiajuli</td>
<td>Doomdooma (kochgaon)</td>
<td>58</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Koch gaon</td>
<td>124</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Gabharu</td>
<td>Dolabari B</td>
<td>147</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rajbhoral</td>
<td>64</td>
<td>35</td>
</tr>
<tr>
<td>Sub-Total</td>
<td></td>
<td></td>
<td>703</td>
<td>331</td>
</tr>
<tr>
<td>Kamrup (Rural)</td>
<td>Rani</td>
<td>Andherijuli</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Batabari</td>
<td>54</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Sualkuchi</td>
<td>Borgaon</td>
<td>75</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pakorkona</td>
<td>131</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Hajo</td>
<td>Kulhati (Majorsupa)</td>
<td>144</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nadiya</td>
<td>88</td>
<td>67</td>
</tr>
<tr>
<td>Sub-Total</td>
<td></td>
<td></td>
<td>561</td>
<td>328</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td>1265</td>
<td>659</td>
</tr>
</tbody>
</table>

*H/H=Households

Source: Field survey

**2.12 Tools for Data Collection**

Structured schedules were used for collecting demand side data and supply side data were gleaned through unstructured interviews.

**2.13 Techniques and methods of data analysis**

Analysis of data was mostly done in descriptive method. However, chi-square test has been carried out to show the association between the level of financial inclusion and the socio-economic status of households surveyed. Further, case based approach has been followed to describe the functioning of the Customer Service Points (CSPs) in Assam.

**2.14 Scope of the study**

The study attempts to fill the gap in empirical studies in NER in general and Assam in particular regarding outreach of financial inclusion initiatives. It is a comparative study of outreach of banking facilities and its usage among the poor in rural areas along with the alternative mechanisms in practice in identified as well as unidentified districts. It also
provides an overview of the achievements and hindrances of partnerships and collaborations between banks and other agencies for bringing greater financial inclusion in Assam. The study also presents some case studies illuminating different facets of the collaboration. The findings of the study can be extended to other parts of the country to verify the claim of the Lead Banks of achieving 100 percent financial inclusion and to assess whether the identification of some districts for achieving 100 percent financial inclusion is actually making any difference in changing the lives of the poor in the identified districts.

2.15 Limitations of study

The study pertains to only rural areas. So findings may not be generalized for urban areas. As because the period of study is 2009-11, the poverty lines of 2004-05 have been used for identifying the rural poor (Planning Commission, 2009) instead of poverty estimates of 2009-10 which were released on March 2012. Biasness inherent in the primary data collection is also inherent in the present study.

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