Chapter 1

Introduction and Overview
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1.1. INTRODUCTION

Financial Inclusion is gaining importance globally in recent times among national policy makers, multilateral institutions and others in the development field. As ‘Inclusive Growth’ is gaining trust globally as a sustainable growth strategy, Financial Inclusion is a topic of contemporary significance and relevance. Although the financial sector has made commendable progress in recent years, there are concerns that the banks have not been able to include vast segment of population specially underprivileged sections of the society into the field of basic banking services. In most developing countries financial services are availed by only a minority of population (United Nations 1). Such limited use of financial services in developing countries has become an international policy concern. Adopting the goal of building inclusive financial systems, the United Nations designated 2005 as the ‘International Year of Micro Credit’. It had given the required fillip in the global platform for Financial Inclusion.

Financial development creates enabling conditions for growth through supply-led or demand-pull factors. The fact that the development of the financial system contributes to the economic development has been established by a large body of empirical research. Developing the financial sector and improving access to finance may accelerate economic growth by reducing income inequality and poverty. As in underdeveloped financial system, access to finance is limited, people and firms are constrained by the availability of their own funds or alternatively, have to resort to high cost informal sources. Lower availability of funds and higher cost of it results in fewer economic activities which ultimately results in lower economic growth. On the other hand, in developed economies where more and more people are financially included, it becomes increasingly difficult for the minority excluded people to integrate with the society. As financial exclusion is concentrated among the marginal sections of the society across countries, it contributes to a much wider problem of social exclusion. Therefore, tackling Financial Exclusion has been a policy concern for all nations – be it developed, developing or underdeveloped.
Many empirical studies have been conducted around the globe to identify the factors limiting ‘access to’ and ‘use of’ financial services. A wide range of social, political, structural and economic factors have been identified. However, all these factors are not applicable for all countries. Further, though there are common factors affecting a large number of economies, the extent to which such factors affect varies widely across economies. So, it is very important to conduct domestic country, region specific studies to identify the causes of exclusion and frame policies to tackle them. Such views were also expressed by multilateral organizations by advocating that policies must be designed at the country level (United Nations 3). There is wide range of opinions that such policies should be integrated with overall financial sector development policies rather than confining it as poverty alleviation policy.

There have been Government policies, legislations, voluntary charters as ‘codes of practice’ towards improving financial inclusion globally. With the change in overall socio-economic scenario, thrust of such policies is also undergoing change. In some countries, the voluntary charters have been converted to legislations and in some other countries Government is considering ‘mainstreaming the informal sectors’ for effective inclusion. The policy thrust which started with importance of ‘access to financial services’ gradually shifting towards enabling people to ‘use’ the accessible services by financial literacy, financial counseling along with designing of services suitable for their use. Further, policy concerns have evolved towards consumer protection, risk mitigation and making Financial Inclusion a viable business proposition in view of greater emphasis given on ‘capital adequacy’ of banks. Possibility of including other intermediaries such as Banking Correspondents (BC)/ Banking Facilitators (BF) has seen to receive wider recognition among policy makers in recent years. As per Financial Access 2010 by CGAP, in 90% of economies, at least some aspects of Financial Inclusion agenda are under the purview of the main financial regulator. However, promoting access to deposit and credit services were found to be more likely focus of financial regulators in low and middle income countries.

Although ideally an inclusive financial system should provide access to savings, remittance, transactions, credit, insurance, credit counseling etc, as an operational concept in most developing countries, ‘access to a bank account’ has
been considered as indicator of inclusion. Having a bank account enables an individual to avail a wide range of benefits from a variety of financial products. As these products are provided by banks which are subjected to regulations and supervision, thus they are considered safe. The single gateway of a banking account can be used for several purposes and ultimately it benefits nation’s economy by making greater financial resources available in a transparent way which may be efficiently deployed for productive use.

Indian growth process is accompanied by growing inter-regional, intra-regional and inter-personal inequalities in wealth and income (Kelker 56). There has been growing concern that the economic growth has not been inclusive enough which might result in unsustainability. Realising this pressing issue, the Indian Government has given major thrust on ‘Inclusive Growth’ in its 11th Five Year Plan. Empirical research by Bell and Ronsseau has shown how financial intermediaries have played a leading role in economic performance of India. Burgess and Pandey; Burgess, Pandey and Wong found that the supply-led strategy of rural branch expansion is associated with non-agricultural growth and thereby helped reduction of rural poverty.

India has a long history of financial sector policies with an objective of increasing inclusiveness of the financial sector. It started with the establishment of credit co-operatives, following enactment of Co-operative Act in 1904. This was followed by Bank Nationalisation, establishment of Regional Rural Banks, adoption of Service Area Approach, mandated target for Priority Sector Lending, relaxed branch licensing policy in underbanked regions etc. However, the success has been mixed and not to the level expected. Many regions still remains underbanked and a sizable population is outside the ambit of formal financial services. An important indicator of Financial Inclusion being the number of accounts held as a ratio to the adult population is only 74.73% in India as on March 31, 2010 which is considered to be low compared to any developed country e.g., the same ratio is 202.10% in USA, 292.32% in UK, 106.53% in Brazil and as high as 717.24% in Japan (CGAP, Financial Access 2009). As per Reserve Bank of India (RBI), the central bank of the country, 66.9% of the country’s population has bank account as on March 31, 2011. The Average Annual Growth Rate (AAGR) of various inclusion indicators during 21 years’ period between 1991-2011 shows that both per capita deposit and credit has
grown at a very high rate against marginal growth in number of bank branches per million population as well as number of deposit and credit accounts per thousand population. This again is an indicator of concentration of financial services in hands of few and in limited geographical area.

Assam, a State of India located at the North Eastern part of the country spreading over 2.8% of the country’s geographical area houses 2.57% of its population. As on March 31, 2011, 1.68% of total bank branches in India are located in the state and these branches together accounts for 1.09% of country’s bank deposits and a mere 0.52% of the total bank credit. Traditionally Assam is lagging behind the national average in most of the indicators of Financial Inclusion and the gap between national and State’s average is widening with time in absolute terms. The Committee on Financial Sector Plan for North Eastern Region constituted by RBI in its report submitted in July 2006 has made very important observations that in the region, the level of Financial Inclusion is not related to poor alone. Gauged by any measure, financial penetration and financial inclusion is very low in the region. Coupled with other important factors, low penetration of bank branches has led to Financial Exclusion. Regulator and Government have been taking steps to boost inclusion in the State specially since 2005. However, situation has not changed much. It calls for in-depth study to identify root causes of exclusion so that effective measures can be taken to tackle them. On the other hand, prevalence of thriving informal saving mechanisms in the State reflects the need and demand of saving services. Likewise, credit is also being provided increasingly by informal and semi-formal sources. This demonstrates significant potentialities for credit and savings services in the State. Need of the hour is to tap this potential by formal institutions by ensuring safety of the deposits and making use of such deposits for development activities and asset creation. Being isolated from the mainland, geographical and social diversity of the State always necessitate a different approach to its problems and solutions thereof.

1.2. REVIEW OF LITERATURE

In this section, review of existing literature has been placed in a logical manner. Relevant literature and concepts drawn out of it is categorized in important phenomena of the study. The broad categories are namely Definition of Financial
Inclusion/Exclusion; Relation between Financial and Social Exclusion; Nature, causes and consequences of exclusion; Measurement of Inclusion/Exclusion; Role of banks; Significance of micro finance; Policy level responses; various area specific research and urban phenomenon of the issue.

1.2.1. Financial Inclusion / Exclusion

The literature on access to financial services and economic growth begins with Walter Bagehot who has noted in 1873 the important role of the financial sector in England’s economic growth when financial markets were able to mobilize savings to finance the implementation of new technologies in England (Caskey, Durán and Solo 3). The term ‘Financial Exclusion’ has been used for the first time in 1993 by geographers who were concerned about closure of bank branches in USA and UK due to the recession of early 1990s which led to problem of economic development in communities excluded from financial system (European Commission 9). The initial deliberations and analysis of financial exclusion are focused mainly on geographical access to services and to banking outlets in particular. Throughout 1990s there has been a growing body of research relating to the difficulties faced by some sections of societies in gaining access to financial services including banking, credit and insurance. In 1999, Kempson and Whley in their widely recognized book *Kept out or opted out?*, seem to have used the term Financial Exclusion in a broader sense to refer to people who had constrained access to mainstream financial services. A completely new dimension to the exclusion debate is added by Kempson and Whley by defining exclusion as a dynamic process with many households moving in or out of using financial services and sometimes lacked access to it mostly depending on their income levels and other personal and social characteristics. Since then, a number of commentators have added their views on how financial exclusion or financial inclusion should be defined. These include both academics and policy makers e.g., Kempson et al in 2000; Sinclair in 2001; Anderloni in 2003, Carbo, Gardener and Molyneux in 2004; Gloukoviezoff in 2004; Anderloni and Carluccio in 2006; Asian Development Bank in 2000; Chant Link and Associates in 2004; H M Treasury in 2004; Scottish Government in 2005; Treasury Committee in 2006; United Nations in 2006; European Commission in 2008 and the World Bank in 2008. Review of literature shows that most of the operational definitions are context specific, originating form country-specific problems of
financial exclusion and socio-economic conditions. Along with time, focus and technological advancements, the definitions have also undergone changes. The initial definitions are based on physical and geographical access to bank branches or financial services. Gradually, along with 'access', 'use' of such financial services are gaining importance in the definition as 'access' alone cannot resolve exclusion unless the accessible services are 'used' whenever required.

The United Nations in 2006, in its landmark research titled *Building Inclusive Financial Sector for Development*, popularly known as the Blue Book, for the first time defines 'exclusion' to include situations where 'bankable' or 'insurable' persons or a firm remains 'unbanked' or 'uninsured'. This definition is different from all others in clearly segregating exclusion situation from the general access or exclusion. Another school of thought considers financial exclusion as both the consequence of market failure (sub-optimal and reduced choice of services) and also due to other factors that limit access to financial services in efficient markets. It is mainly advocated by Molyneux in 2007.

In 2008, the World Bank in its far reaching publication *Finance for all: Policies and Pitfalls in Expanding Access*, has discussed the importance of distinguishing between 'access to', 'possibility of use' and 'actual use of financial services' while defining Financial Inclusion. It also emphasises in distinction between 'voluntary' and 'non-voluntary' exclusion as it believes that failure to assess the distinction may complicate the efforts of measuring and tackling exclusion.

In the Indian context, the most widely recognized initial definition of Financial Inclusion is by the Committee on Financial Inclusion under the chairmanship of C. Rangarajan. It defines Financial Inclusion as a process of ensuring access to financial services and timely and adequate credit at affordable cost to the underprivileged sections of the society. While defining this working definition, the Committee emphasized having a bank account as a very important

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1 In order to address the issues of financial inclusion, the Government of India constituted “Committee on Financial Inclusion” under the Chairmanship of Dr. C. Rangarajan. The Committee submitted its final report to Hon’ble Union Finance Minister on 04 January 2008.
aspect of inclusion as it provides access to the national payment system besides
conferring a sense of identity, status and empowerment of the account holder.

Delivery of ‘banking services’ at an affordable cost to the vast sections of
disadvantaged and low income groups is defined as Financial Inclusion by Leeladhar
and subsequently this definition has received wide acceptance and seen to be used
by many policy makers and researchers e.g. Mahendra Dev in 2006; Sarma in 2008
and may more.

The Committee on Financial Sector Reforms under the chairmanship of
Raghuram Rajan\(^2\) adds a new phenomenon of ‘wealth creation’ to the definition of
access in a financially inclusive system by providing access to a range of savings
and investment products depending on individual’s level of financial literacy as well
as their risk perception.

1.2.2. Financial Exclusion as a consequence of Social Exclusion and vice-versa

As Financial Inclusion is gaining importance globally, Financial Exclusion
has become an increasingly prominent aspect of the social exclusion debate. Though
there is a general feeling that financial exclusion is deeply interrelated with social
exclusion, there is very little research empirically establishing this fact. Although
some studies have been conducted mostly in Europe to research links between
financial exclusion, poverty, social exclusion and over indebtedness, however, most
studies investigate the type of population more akin to be involved in such
exclusion.

Some researchers emphasise the casual link between financial exclusion and
broader phenomenon of social exclusion (Kempson and Whley 22; Kempson et al.
9 etc.). Two schools of thought has emerged – i) financial exclusion as ‘cause’ of
social exclusion and ii) Financial exclusion as a ‘consequence’ of social exclusion.
European Commission states that there is a circularity of cause and effect between
financial and social exclusion (50).

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\(^2\) With a view to outlining a comprehensive agenda for the evolution of the financial sector, the
Government of India constituted a High Level Committee on Financial Sector Reforms in August
Further researchers express that when more and more people are financially included, risk of social exclusion of the financially excluded ones increases and it becomes increasingly difficult for them to integrate with the society (Hajaj). As Financial Exclusion is not evenly distributed throughout the society and it is concentrated among the marginal sections of the society, it contributes to a much wider problem of social exclusion (Reserve Bank of India, *Report on Currency and Finance* 294-348).

1.2.3. Nature of exclusion

A number of ‘dimensions’ or ‘forms’ of Financial Exclusion have been identified by various authors. However, dimensions identified by Kempson and Whyley are the most widely recognized and used dimensions globally till date. It groups various dimensions into five groups viz., access, condition, price, marketing and self exclusion. Subsequently many authors have deliberated on these dimensions specific to their scope of study.

1.2.4. Causes of exclusion

The factors limiting access to formal financial services have been identified in many researches. However, the most comprehensive details of the factors affecting inclusion globally have been captured in the Blue Book of the United Nations. It provides a detail analysis of factors that influence use of financial services by poor and low-income people such as personal and cultural characteristics, location, impact of national financial developments as well as attractiveness of the products.

Carbo, Gardener and Molyneux co-authored book *Financial Inclusion* shows association of Financial Exclusion with other social and economic factors viz., low household income, expensive credit, no savings and no access to the cheapest fuels etc. The book also highlights that Financial Exclusion in the developing countries are linked to the poverty levels and absence of capital resources and pre-dominant rural based economy. Same view is also expressed by Reserve Bank of India which states that a higher share of population living below the poverty line results in lower demand for financial services (*Report on Currency and Finance* 346).
The barriers to financial inclusion has been logically categorized into three categories viz., societal, supply and demand factors and subsequently analysed by European Commission (44). It states that the reasons of exclusion are complex and they do not act in isolation. Also states that all reasons do not necessarily apply to any one country, importance of these factors varies from country to country.

By narrowing down from ‘Financial Exclusion’ to ‘Banking Exclusion’, Kempson, Atkinson and Pilley in 2004 identifies the causes of Financial Exclusion as refusal by banks, identity requirements, terms and conditions of bank accounts, bank charges, physical access, psychological and cultural barriers and non-routing of social security payments through banks.

Various country specific/ region specific studies identify the causes of Financial Exclusion such as Collard, Kempson and Whyley in 2001 for an area based approach for Barton Hills, Bristol; Johnson and Nino-Zarazua in 2007 for Uganda; Financial Sector Deepening- Kenya in 2008 for Kenya; European Commission for Europe in 2008; Sinclair et al in 2009 for United Kingdom. Among such regional studies, European Commission identifies and analyses in detail the causes of exclusion in 14 European countries. It also identifies along with the traditional reasons, some new reasons such as demographic changes (age, migrants, minority etc), bad past experience and fear of seizure etc.

Lack or low level of education resulting low level of awareness and over-indebtedness are identified as reasons for exclusion in few recent studies.

In India, most of the studies are on evaluating the status of exclusion or inclusion rather than empirical finding of the causes. Most of the researches analyse the reasons stated in studies done elsewhere mostly UK. Literature review reveals that only a few studies discuss about the reasons of exclusion. Thorat in 2007 has listed out both demand and supply side factors separately and has showed that these factors together result in high transaction cost apart from procedural hassles (Financial Inclusion: The Indian Experience). Mohan in 2006 has discussed causes of relatively low extension of institutional credit in rural areas (Economic Growth, Financial Deepening and Financial Inclusion). With the changes in the environment, new causes have been identified. Ramesh and Sahai in 2007 has identified the main cause of Financial Exclusion to be ‘lack of financial education and advice’.
1.2.5. Consequences of Financial Exclusion

Although Financial Exclusion was always there, the consequences of not having access to key financial products are much more now than the past (Kempson and Whyley 22). These consequences are further studied by grouping them between financial and social consequences by European Commission (53-56). Gloukoviezoff deliberates more on the social consequences of low self-esteem, self-isolation etc among people who are excluded or marginally excluded. RBI also discusses the loss of business opportunities for banks as a consequence of Financial Exclusion (Report on Currency and Finance Report on Currency and Finance Vol.V 302). Another important consequence of exclusion is identified as proliferation of high cost alternate providers of financial services (Kempson, Atkinson and Pilley 11). Impact of exclusion on communities is discussed by many commentators. Due to its widespread consequences on communities and societies, the issue of Financial Exclusion have gained more importance from policy makers in recent times globally.

1.2.6. Measuring Inclusion/Exclusion

Although there has been high number of researches on quantification of many aspects of inclusion/exclusion, there is growing concern that availability of information on access and use of financial services is barely enough to measure the extent of inclusion/exclusion.3 Due to non-availability of ‘demand side data’, most of the studies use ‘supply side data’ collected mostly from the regulators, to measure inclusion/exclusion. However, major limitation of such data is that they cover only regulated financial system excluding informal and semi-formal financial services which also include a larger client base specially in the developing countries (CGAP, Financial Access 2009 and Financial Access 2011). The CGAP in its recent publication Financial Access 2011: An Overview of the Supply-side Data Landscape describes the difficulty in measuring Financial Inclusion as inclusion does not mean the mere availability of services but rather whether various dimensions of the financial system are working effectively to extend demand-driven services to clients.

Various determinants of access and usage are used in various researches. Beck, Thorsten, Asli Demirguc-Kunt and Maria Soledad Martinez Peria in 2005 has presented a comprehensive series of new indicators of banking sector penetration across 99 countries based on a survey of bank regulatory authorities. Subsequently, these indicators have been widely used by many researchers depending on the availability of data. A wide ranging report ‘Monitoring poverty and social exclusion’ (Howarth, Catherine, Peter Kenway, Mohibur Rahman and Guy Palmer) proposes 46 different indicators of Social Exclusion, three of which also relate to Financial Exclusion.

It is observed that in most of the studies researchers use cross tabulation and regression analysis to identify the factors and its effect on various indicators of access and usage of financial services e.g., Kumar in 2005; Johnson and Nino-Zarazua in 2007; FSD –Kenya in 2008; Finney and Kempson in 2009. Further development in the measurement technique has also need to restrict itself of using only supply side data as demand side data is not generally available. Sarma in 2008 has developed an Index of Financial Inclusion (IFI) using supply side data, which has received wide application. Another index has been developed by Chakravarty and Pal in 2010. An increasing number of countries have started collecting useful data on access and usage of financial services either as a part of general survey/census or by undertaking specific financial inclusion survey.

1.2.7. Policy level responses

There is increasing recognition that financial regulation and supervision have an important impact on access to financial services in addition to their importance for financial stability and protection (United Nations 139-152). Various literatures discuss about Government policies, laws and regulations, voluntary charters and codes of practice of financial inclusion and its effects. Kempson, Atkinson and Pilley discuss the policy level responses in developed economies and derived significant lessons from it for the developing countries. It concludes that an appropriate approach among ‘voluntary agreement’, ‘legislation’ or a ‘mix of two’ depends largely on the culture and legal system of the country concerned. Although Government policies, laws and regulations can bring desired focus on the issue of financial inclusion, some of them might also constrain building inclusive financial
system (Kempson and Whiley 46-47; United Nations 139-154). So, many advocate a minimalistic role for Government intervention. They suggest that Government should adopt a ‘do no harm’ approach to ensure that laws, regulations and supervisions do not impede the development of an inclusive financial sector. Kempson and Whiley also observe that sometimes Government policies can create new market for financial services. Although various studies had been done discussing about policies and regulations and its effect on Financial Inclusion, a new dimension to the debate is added by European Commission which emphasized development of ‘appropriate indicators’ to measure and assess the policies implemented.

Gloukoviezoff emphasises that to make regulations effective, a precise target on Financial Inclusion to be assigned and an independent assessment to be carried out on the policies implemented on the targets adopted.

A very wide research on the financial inclusion mandates across 142 economies has been conducted by CGAP in 2010.\(^4\) It observes that Financial Inclusion mandates are on the agenda of many financial regulators and reform efforts are widespread. However, the study observes with concern that implementation capacity of such mandates is limited. The capacity gap is larger in low-income countries though the agenda of these countries are broader. While observing the difference in approaches by high and low income countries, it is established that low and medium-income countries tend to focus on promoting access to deposit and credit services whereas for high-income countries focus has gradually increased on issues like consumer protection and financial literacy.

Another very important study in this regard has been conducted by Alliance for Financial Inclusion in 2010 through a survey on financial inclusion policies in developing countries.\(^5\) It captures current trends and a multiplicity of approaches taken by developing countries towards financial inclusion. The key lessons learned

\(^4\) Financial Access 2010: The state of Financial Inclusion through crisis

\(^5\) The AFI survey on financial inclusion policy in developing countries: Preliminary findings
from policymakers and regulators in developing countries are also documented so that it helps policymakers around the world to make effective plans.

'Mainstreaming the informal sector' and importance of promoting microfinance as agenda for financial inclusion has received continuing importance in recent years. Bearing the differences of commercial banks and microfinance providers, studies advocate different policy or regulatory initiatives for both (Gong and Zhou 495-520).

In the Indian Context, most of the literatures on Financial Inclusion / Exclusion discuss about policy initiatives starting since 1960s such as bank nationalization; establishment of Local Area Banks and Regional Rural Banks; Local area approach for channelizing credit for equitable growth etc. The Committee for Financial Sector Reforms has assessed the strategies of credit (including microcredit) and insurance in India to form a new strategy for inclusion encompassing new organization structure, focus on risk mitigation, use of technological advancement, improving infrastructure and financial literacy as well as rethinking on targets, subsidy and public goods.

1.2.8. Role of banks

Role of banks in combating Financial Exclusion is discussed in many literatures. The role of German Savings Banks in preventing financial exclusion is studied by Bresler, Natalia, Ingrid Größl and Anke Turner in 2000. It establishes that the public mandates of the banks had strong tie with access to financial services in the community and expresses concerns about the increasing pressure on the profitability of the banks that might lead to weaken banks' ability to maintain the public mandate thereby increasing exclusion.

Caskey in 2000 has advocated an outreach strategy for banks for effectively bringing unbanked households in to banking system. This strategy includes opening special branch offices, called 'outlets' that are conveniently located for lower income households. The five elements of his strategy have received wide acceptance from policy makers across the globe. Most of the policies towards Financial

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6 AFI 7; Gong and Zhou 495-520; RBI, Report on Currency and Finance Vol.V 294-348; Conroy 53-78
Inclusion adopted by developing countries invariably include some elements of these five elements of Caskey’s outreach strategy. These five elements are viz., ‘outlets’, ‘starter bank account’, ‘accumulation of savings’, ‘deposit secured loan’ and ‘association with community based organisations’.

There are two schools of thought in analyzing the role of banks in Financial Inclusion, one as a part of bank’s social responsibility and the other as a profitable business proposition. Prior and Argandona in 2008 while analyzing the importance of banks’ social responsibility specially in eradicating poverty and promoting Financial Inclusion, emphasizes that all decisions should take both dimensions of ‘economic’ and ‘social’ into account. Approaching the goal of financial inclusion by the financial service providers (includes banks) in a profitable way is gaining importance. The World Bank is of the opinion that efforts to improve financial inclusion should also make business sense to the providers to have a lasting effect (Finance for All – Policies and Pitfalls in Expanding Access). Some research has empirically established that innovations in finance may turn banking services to poor as a profitable business proposition (Prahlad 289-318). Kochhar in 2009 has identified that ‘not for profit’ mandate for providing financial access as a serious shortcomings in the current efforts towards Financial inclusion in India.

Leeladhar’s definition of Financial Inclusion as delivery of ‘banking services’ had received wide recognition in India. Chakrabarty had identified banks as the key driver for inclusive growth specially to mitigate the supply side processes that prevent underprivileged from gaining access to the financial system (Banking – Key driver for financial inclusion). Role of banks in tackling Financial Exclusion in India has been analysed by Vats in 2007 and Ramakumar in 2007.

1.2.9. Significance of Micro Finance

Likewise, role and significance of Micro Finance Institutions (MFI) and Micro Finance in Financial Inclusion had been discussed in numerous literatures. Role of Micro Finance as an instrument to eradicate Financial Exclusion in APEC countries has been studied by Conroy in 2005 who also critically examines the distinction between ‘microfinance’ and ‘microbanking’. Almost all literatures on Financial Inclusion/ Exclusion on India invariably discuss the significance of Micro Finance in Financial Inclusion in the country. RBI has identified Micro Credit as the
most significant contributor to Financial Inclusion during 1990s and 2000s. From the Invest India Income and Saving Survey 2007, it is evident that an increase in Micro Credit is associated with a lower incidence of borrowing from high cost money lenders specially in the lower-income segment. Committee on Financial Sector Reforms also recognises Micro Finance as the fastest growing ‘non-institutional’ channel for financial inclusion in India. Sa Dhan7 in its publication Expanding outreach to underserved regions: Microfinance in the North East Region discusses the importance of Micro Credit in the remote and unbanked areas of North Eastern region of India to bring larger sections of population into the ambit of formal financial services.

However, some evidence of the reverse has been proved empirically by Barman, Mathur and Kalra as their research had proved that indebtedness to informal sources increase among the borrowers of MFIs if loan from MFIs are used for non-productive purpose. MFIs lending without sufficient information on the credit worthiness of the borrowers may contribute to over indebtedness and gradual exit from formal financial services. Over indebtedness as a cause of Financial Exclusion has been widely discussed and established in many literatures globally.

1.2.10. Geographical Area Specific Research

There are literatures available for various geographical area specific studies in the topic. Most of the studies have used supply side data due to its availability. Few major studies which involve demand side data are mentioned here.

One of the pioneering studies has been conducted by Caskey in 1997 in three geographic locations in USA among 900 respondents of low income group using high cost financial services from Alternative Financial Sector (AFS). This study is considered as one of the most comprehensive study on AFS which encompasses both opinions of the customers as well as the suppliers of financial services in the AFS. The study observes that people were using relatively high cost services of AFS suppliers due to tailored products, convenience of location and business hours and also due to unawareness of the fact that expenses are high compared to credit unions and banks. However, the risk screening procedure at credit unions and banks used to

7 Sa Dhan is the apex networking body of MFIs in India
screen most of these low income people as not eligible for credit. The study also observes that the AFS suppliers with its sale practices encourage their patrons to remain in a perpetual state of debt with little prospect of improving their economic wellbeing. The author concludes that the thriving AFS presents credit unions with business opportunities and chances to tap the demand for their services among low income households. Further, credit unions by emphasizing savings and customer education on financial planning and budgeting can help the poor households in their economic upliftment.

Collard, Kempson and Whyley in 2001 has studied about Barton Hill in Bristol through in depth interview of users, providers including commercial bodies, voluntary sectors and local and central Governments. This study approaches the problem from a different standpoint that of the financially excluded people living in a community where many of their peers are also excluded. The study provides a range of possible solutions by presenting local people’s assessment of the best ways to tackle them. It emphasizes the importance of genuine partnership between national providers and the local organizations as it is felt that local people should be involved in implementation of the initiatives.

Jones in 2001 has undertaken an in depth study in Liverpool through a survey of 59 people of low income households on how people on low income access and use consumer credit. Majority of participants did not use mainstream or bank credit, instead go for a range of alternative sources. Factors influencing the choice of source of credit have been found as accessibility, ease and flexibility in repayment, affordability, tradition and culture.

A path breaking study has been conducted in Brazil in 2005 by Kumar involving survey of enterprises as well as urban individuals (Access to financial services in Brazil). The study first identifies the socio economic characteristics of the respondents and then mapped it with access to financial services through an econometric analysis of the determinants of access.

Carbo, Gardener and Molyneux in 2007 have discussed nature, causes and extent of Financial Exclusion in Europe. The study observes that the critical issues of Financial Exclusion have not received proper policy attention; rather policies have been adopted in ad-hoc basis. Authors advocate legislation that sets standards
and obliges banks to open basic bank accounts and follow non-discriminatory lending practices.

In Australia, Roy Morgan Research undertakes one of the most detailed studies on Financial Inclusion by interviewing over 50,000 respondents per annum. Centre for Social Impact in 2011 has studied the situation in Australia which includes reasons and status of Financial Exclusion; relation of exclusion to the cost of assessing the services etc. The study advocates development of a ‘national financial exclusion indicator’ that possesses the potential to be measured and compared on an annual basis.

In Uganda, FinScope Uganda survey has been undertaken by Steadman Group in 2006. It has comprised a national representative sample of 2959 adult respondents. Using this survey data, Johnson and Nino-Zarazua in 2007 has analysed the financial service use to have insight to the financial exclusion in Uganda. After analysing a wide range of socio-economic, demographic and geographic factors, the study concludes that education, age, product design and gender have significant influence on Financial Exclusion in the country.

Likewise in Kenya, Financial Access Survey has been conducted by Steadman Group in 2006, comprising a national representative sample of 4418 adult respondents. FSD- Kenya in 2008 has analysed the survey findings. Many non-economic factors are found to have significant bearing on exclusion. Analysis establishes that employment or main source of income, education, gender have significant influence on use of financial services. Informal financial services are found to be the single category through which most people are included.

Gloukoviezoff has studied Financial Exclusion and over indebtedness situation in Ireland in 2011. The study also provides an assessment of strategies that had been implemented in Belgium, France and UK to examine what policies could suit the needs of Ireland.

In India, Prahlad in 2005 has studied the case of ICICI Bank Ltd catering to the needs of the vast and emerging segment of rural population in a socially responsive and profitable way. Ramji in 2009 has studied Financial Inclusion in Gulbarga district of Karnataka through collection of primary data from 999
respondents spread over 50 villages. However, this study suffers with the limitation of studying only BPL households. The study establishes that opening bank accounts in a mission drive to receive Government benefits without making the people aware about the use of the same has not served any good. Rather it has resulted in additional costs to banks without any benefits to the bank and the society. Such drive could not change the saving behavior of the poor households who continued to save in SHGs mostly due to convenience and compulsory nature of savings.

In a case study of Financial Inclusion in West Bengal by in 2011 by Chattopadhyay, rural survey in three districts of the state has been undertaken. Analysis of the survey results reveals that money lenders are still prominent players in the survey areas as rural people are largely unaware about the banking services. The IFI developed by Sarma has been calculated for the districts of the State as well as for other states of the country by using supply side data.

In 2008, Goyal has made a comparative analysis of the status of financial inclusion in Assam, North Eastern States and India by using supply side information. His study suggests that for effective financial inclusion in the region, proper linkage between banks and community based organizations is required as well as use of advanced technologies to reduce the transaction costs on use of financial services. Bhanot, Bapat and Bera in 2012 explore the factors which are critical in determining the extent of Financial Inclusion in the North Eastern Region. These factors are identified through logistic regression analysis of primary data collected from 411 households in the states of Assam and Meghalaya.

Financial Inclusion in the State of Assam has been studied by Rabha in 2012 with special reference to the status in the Udalguri district of Assam. Rabha uses both secondary and primary data collected in the survey area to calculate IFI developed by Sarma and suggests for effective financial inclusion in her study area.

1.2.11. Urban phenomenon

Review of literature reveals that most of the studies done as well as policy initiatives undertaken so far are either general or rural based – specially in Indian context. However, it is also observed that gradually a concern is growing for focused attention on urban financial inclusion due to rapid urbanization of the country.
A study of the urban unbanked in Mexico and the United States has been conducted in 2006 which examined the ways in which lower-income households obtain basic financial services in urban communities and the efforts of private and Government organizations in making to lower the cost and improving the quality of these services. Finally it assesses the rationale and challenges facing the strategies that both countries were adopting. This study has been undertaken by Caskey, P. John, Clemente Ruiz Durán and Tova Maria Solo.

One of the most important researches on urban inclusion has been by Kumar in Brazil which has been discussed in §1.3.10 already.

In India, Ramanathan Foundation in 2002 has discussed various issues of access to money for the urban poor by using Paradigm Group's survey data in Bangalore. Rupambara has conducted a demand side survey in Delhi in 2007. From the analysis of the survey data and secondary data, it concludes that product design, Business Correspondents and Financial Literacy needs to be given importance so that Financial Inclusion in urban areas turn to be a successful business model rather than just a step under Corporate Social Responsibility of banks. The untapped business opportunity for micro finance in urban India has been highlighted by Devaprakash in 2007. His study observes that in spite of availability of adequate delivery channels in the urban areas, the players are yet to tap the full potentiality of the market mainly due to lack of focus. The study also recommends different approach to be adopted for urban areas from rural areas. Jagan Mohan in 2008 has discussed the importance of metro and non-metro urban centres in banking in India through statistically comparing the contribution of urban centres to the overall banking business in the country. By analyzing only supply side data, it was established that urban centres have registered exponential growth in business during 2005-2008. The study suggests establishment of local area banks with mandate of financial inclusion subjecting to relaxed regulations, classification of all small loans irrespective of purpose as priority sector advance as some measures to foster the inclusion initiative.
1.3. STATEMENT OF THE PROBLEM

It is observed from the literature review that studies on Financial Inclusion globally is mostly based on or gives emphasis to the rural areas. There is also a tendency of treating urban exclusion as an extension of rural exclusion. In reality, the factors affecting financial exclusion in urban areas might be very different from those in rural areas. In India, population in urban areas is growing faster than in rural areas and at a much faster growth than the overall population growth. For the first time since independence, the absolute increase in population is more in urban areas than in rural areas as per the Census 2011. The level of urbanization has also increased from 27.81% in 2001 census to 31.16% in 2011 Census. State of the World Population 2007 Report by the United Nations predicts that the urban percentage of the world’s population is expected to reach 60% by 2030. India’s urban population is expected to reach 433 million by 2021, while total population may reach 1340 million. Thus the urbanization level in the country in the year 2021 is expected to be about 32%.8

This rapid growth of urbanization and urban population is necessitating a separate approach to address the problems of the urban poor as well as urban financial exclusion. The urban areas which have adequate infrastructure and good presence of commercial banks also have a large section of needy population which is deprived of the benefits from formal banking sector. The very existence of flourishing informal financial markets offering urban poor convenient access to money at high prices reveal a huge demand unmet by banks or other formal financial services.

From the review of literature, it is also observed that no detail study on Financial Inclusion in the State of Assam has been conducted yet. Scope of study of Goyal in 2008 and Rabha in 2012 was very limited. Further, there exists gap in research of Financial Inclusion in the urban areas of the State. This study with a detail analysis of secondary as well as primary data collected from both ‘excluded’ and the ‘providers’ is expected to bridge this gap. Through the primary survey conducted among the ‘excluded’ population residing in the urban areas of the State, the study brings insights into the factors affecting financial inclusion and recommends few ways to meet the unmet needs of the ‘excluded’.

8 Report of the Steering Committee on Urban Development for 11th Five year plan
1.4. SCHEME OF CHAPTERS

For studying the financial inclusion in the State of Assam with specific reference to its urban areas, the study has been divided into nine interrelated chapters.

The first chapter is introductory in nature which contains introduction to the concept of Financial Inclusion in a global and national platform. After a brief review of existing literature, problem under study has been stated.

Objectives of the study, its scope and limitations have been placed in the second chapter. Definitions of various major terms as applied in the study also have been placed in this chapter.

Research methodology has been discussed in detail in the third chapter. Conceptual framework is discussed in detail in the fourth chapter which includes various concepts of Financial Inclusion and its evolvement in global and national scenario. Various measurements of Inclusion/Exclusion and evolvement of such measures have also been placed in the chapter. Various policy initiatives undertaken for improving Financial Inclusion are discussed in this chapter.

In the fifth chapter, status of Financial Inclusion in the State of Assam has been studied. Trend in the inclusion scenario of the State for a period of 21 years during 1991-2011 has been discussed. Index of inclusion has been computed and analysed for the State and India. To have a deeper insight into the inclusion scenario in the urban areas of the State, specific analysis of urban inclusion scenario for the same period has been attempted in the chapter for the State as well as for India. Index of inclusion has been computed and analysed for urban areas separately.

Analysis of demand side survey has been placed in the sixth chapter. Both descriptive and quantitative analytical methods have been used to analyse the primary data collected through survey and logical conclusions are attempted to derive. Awareness, experience, expectation and perception regarding banking services viz., savings, credit and transaction have been analysed. Brief on the awareness, availability and reasons for access to insurance or otherwise among the respondents has been placed in this chapter.

As the respondents are unbanked, they use various non-banking alternatives. Usage of non-banking services for basic financial services viz. Saving, Credit and Transactions are studied from the primary data collected through the survey among
unbanked urban adults. After a series of regression analysis, factors have been identified which have significant influence in predicting respondents' choice of using a particular saving mode or credit source. It is placed in the seventh chapter.

As banks are the main drivers of Financial Inclusion in India and branches are the focal points, perception of the Branch Managers regarding various issues of Financial Inclusion are studied in the eighth chapter.

The concluding chapter i.e., ninth chapter deals with the conclusions derived from the findings of the study. An attempt is also made to put forward recommendations for effective financial inclusion in the State and suggestions for future research in the area.

Further, three published papers of the researcher in various academic journals are placed in the Appendices.