CHAPTER 2

SURVEY OF LITERATURE

Survey of literature plays an important role for a researcher in finalisation and delimitation of a research problem. It points out gaps in the literature which can be attempted by a researcher in his study. It also introduces the researcher to alternate methods of analysis and familiarises the researcher with the scope and limitations of different studies which may provide guidance to new areas of research. A brief description of some of the selected studies is presented in this chapter.

There are many articles and research papers on the topic 'Financial Inclusion in India.' I have read many research papers and books related to this topic. The studies reveal that financial inclusion isvery essential for economic growth. The survey finds that there are many factors that determine financial inclusion and financial exclusion is a big threat for growth of any country. In present era financial inclusion plays very important role in economic growth. Financial Inclusion helps in the mobilisation of savings into investment which is crucial for economic growth.

Vighneswara and Lakshmi (2009) defined the problem of financial inclusion and its role in inclusive growth. They explain the initiatives for financial inclusion in India in recent years comprises which are (i) encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as NGOs, MFIs, CSOs and business correspondents (BCs) (ii) focusing on a decentralised strategy by using existing arrangements State level Bankers Committee and district consultative committee and strengthening local institution such as comparatives and RRBs ; (iii) creating synergies between the formal and informal segments.

They relate the effective combination of the financial inclusion and inclusive growth in India. From an annual average growth rate of 3.5 per cent during 1950 to 1980, the growth rate of Indian economy accelerated to around 6.0 per cent in the 1980s and 1990s. In 2003 to 2007 the Indian economy grew by 8.8 per cent. Reflecting the high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. The importance of the study lies in the fact that India being a socialist, democratic republic it is imperative on the policies of the government to ensure equitable growth of all sections of the economy. With only 34 per cent of population engaged in formal banking, India

has 135 million financially excluded households, the second highest number after China.The major challenges were found as: special distribution of banking services, regional distribution of banking services, Bank branches are required to be increased, overcoming bankers' aversion for financial inclusion, etc.

They give some recommendations and policy choices- A new financial Architecture to suit the needs of inclusive growth, Coordination with UIDAI, Formation of national Financial Inclusion Mission, Involvement of Education Sector for Furthering Financial Inclusion, Building client capacity, Exclusive Focus on the Socially Excluded and the Poor, Protective Role of Government, Effective Use of Information Technology Solutions. The objective of financial inclusion is to extend the scope of activities of the organised financial system to include within its ambit people with low income.

Mohan (2006) presented his viewin his paper: 'Economic Growth, financial deepening and financial inclusion'.He has tried to investigate the relationship between financial system and economic growth. He also examines the role of financial inclusion in increasing the financial depth. This study tried to relate the economic growth, financial deepening, and financial inclusion to each other. The study highlighted that as breadth of financial system increased, it leads to increase in economic growth and financial inclusion. The study used the secondary data for the amount of credit and deposit accounts since 1981 to 2005 and number of credit and deposit accounts in same time period, population per office since 1991to 2005. Employing the data, study emphasized that total number of saving accounts, considered to be a better indicator of banking penetration than other deposit accounts, as per cent of number of households, was 137 in rural areas and 244 in the urban areas on the eve of reforms in 1991. By 2005, despite the reforms, the differential continues to be similar.Total deposits, as per cent of GDP, increased from 32.2 in 1991 to 47.1 in 2005 in rural areas and from 37.3 to 61.2 in urban areas. Similarly, credit extended, as per cent of GDP, increased from 17.3 to 22.3 in rural and from 24.8 to 45.0 in urban areas. The study also discussed the efforts made by Reserve Bank of India to increase the banking penetration in the country. The study reveals that with increasing liberalization and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities in the country. The study also concludes that financial inclusion will

strengthen the financial deepening and provide resources to the banks to expend credit in our country, which will help to accelerate economic growth.

Bhandari (2009) tried to see the impact of banking on poverty reduction. The study urged that financial inclusion is the availability of banking and financial services like saving, loans, issuance, Credit, and payment etc. at all affordable costs to the poorest section of population, which are generally provided through banks. The most important part of financial services in a region is typically measured by number of people who have access. The study investigated the banks outreach among various section of population in the form of saving and deposit accounts during different reforms periods. The study used secondary data at different stages to compare the situation of financial inclusion of below poverty line population. The time study period (1980 to 2007). It was divided into three sub periods- pre reform (1980 to 1990), reform period (1991 to1999) and post reform period (2000 to 2007). The result showed that reform period was the worst in the term of the growth in the bank accounts. Rural area fared better in the term of deposit accounts during pre reform periods while during post reform period, highest growth in bank was accounts observed in metropolitan areas. As far as credit growth of commercial banks is concerned rural credit was severely neglected during the reform period, but failed to hold the growth achieved in the pre reform period. During post reform period highest growth in bank accounts was observed in metropolitan areas due to the growth in services and manufacturing sector, bypassing the agriculture sector just after the economic reforms. The study suggested that poverty reduction strategy, developing inclusive financial system should be given priorities, which are financially and socially sustainable.

Bihari (2011) in his paper highlighted growth through financial inclusion in India.He has explained that financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low income groups. In India the basic concept of financial inclusion is having a saving a saving and current account with any bank. In reality it includes loans, insurance services, and much more. This study has main objective is to finding out how financial inclusion has contributed to inclusive growth. The study examines the relationship of financial inclusion and development and proceeds to propose an index for measuring financial inclusion.

Data and methodology- As an inclusive financial system should be judged from several dimensions, A multidimensional approach is followed while constructing the index of financial inclusion (IFI). He concludes that why financial inclusion does matter. A well-functioning

financial system is a crucial part of development, promoting economic growth and reducing poverty. Financial institution and markets mobilize saving, provide payment services, allocate resources and transform risk by pooling and repacking it. The way in which access to financial services can help achieve the millennium Development goal-scoring- eradicate extreme hunger and poverty, achieve universal primary education, promote gender equality and empowering women, ensure environmental sustainability.He takes three main approaches to measure financial access; Number of users of financial services, firms subjective Assessments, geographical and cost barriers.

It was found that the major failure of financial inclusion in the past were- absence of technology, absence of reach and coverage, inefficient delivery mechanism, absence of business model. Suresh Chandra Bihari gave some recommendations-Strengthen agency banking, Achieve synergies between the technology providers and banking channels to expend reached.

Increase coverage under mobile banking and satellite banking and develop financial platforms, corporate social responsibility, financing infrastructure development. He concludes that the main focus of banks in the country has been towards using business correspondents for reaching out to the unbanked population. However the increase penetration of telecommunication in the country and gender reach, mobile based business model will prove to be instrumental in realising branchless banking and taking it to higher grounds by enabling low cost and real time transaction over secure networks.

Sarma (2010) in her paper highlighted that financial inclusion (alternatively, financial exclusion) has been defined a larger issue of social inclusion (or exclusion) in a society.She prepared and proposed the first ever Index of Financial Inclusion (IFI) to find out the reach of banking services in 100 countries of the world. While recognizing the importance of financial inclusion, it was observed that there is no comprehensive measure to use as a measure for the extent of financial inclusion across economies. IFI as a multi-dimensional index captures information on various dimensions of financial inclusion in one single digit lying between zero and one. The proposed index is said to be easy to compute and is comparable across countries. In the index of financial inclusion three basic dimensions of an inclusive system were considered: banking penetration (BP), availability of the banking services (BS) and usage of the banking system (B.U). On the basis of a composite index on these three dimensions, India has been ranked poorly, even below

African countries such as Kenya and Morocco. India has been placed at the 50th place, much above Russia but below China, in the index. The index, which gives the extent of availability and usage of banking services in the countries, is based on indicators like number of bank accounts per thousand adults, number of ATMs and bank branches per million people and amount of bank credit and deposit.

Mohan (2009)tried to find out link between financial inclusion and economic growth. Financial inclusion essential because of its implications for the welfare of citizens but it needs to be stressed that it has to be an explicit strategy for fostering faster economic growth in a more inclusive fashion. It is in this context that it is appropriate to place the strategy of financial inclusion in the wider context of economic growth and financial deepening.

The growth trend of the Indian economy over the last few years appeared to indicate the beginning of a new phase of higher growth. From an average growth rate of around 6.0 per cent for a quarter of a century, the growth rate had accelerated to almost 9 per cent during 2004-08. Along with declining population growth this suggests that the attainment of high growth In per capita income in excess of 7 per cent is now achievable, which, if sustained, would lead to more than doubling of per capita income every ten years. Most importantly, the current growth process is not a flash in the pan and is exhibiting signs of sustainability along with financial stability, notwithstanding the pressures from unforeseen external shocks such as the on-going global crisis .The Rural Economy; Growth, Production Patterns and Credit Extension It is instructive to specifically examine the extension of credit in the rural economy in a bit more detail in order to address the issue of financial inclusion in India. Although the share of agriculture in overall GDP has declined from around 35.7 per cent in 1980-81 to 18.1 per cent at present, the fall in the proportion of population dependent on the sector has been limited.

Data has been taken from 'Basic Statistical Returns of SCBs in India', Report on Currency & Finance 2006-08 - Vol. II, Section VII, RBI (2008); Invest India Market Solutions (IIMS), 2007, RBI (2008); NSSO, 48th and 59th round surveys, RBI (2008), AIDIS survey; various rounds, All India Rural Credit Survey, 1951-52, and various rounds of All India Debt and Investment Surveys. To find out the financial inclusion the researcher has taken many variables like: outstanding debt of rural households – Institutional versus non-institutional sources, purpose of loans taken by households of different sectors, sources of loans by income

groups – IIMS survey, number of credit accounts with institutions, number of savings accounts with Institutions, credit accounts with scheduled commercial banks, spatial distribution of banking services among rural. urban, semi, urban and metropolitan.

Dutta and Duttain (2010) identified the role of literacy to increase the banking penetration.The objective of the study is study the effect on literacy percentage and branch density on financial inclusion in 35 states and union territories in India. They utilized quintile regression to evaluate the significance of the impact of these two factors on financial inclusion. The data on adult population (above 19 years) and literacy percentage for each state/union territory have obtained from 2001 census report. The researchers consider adult population as only an adult can have a bank account. Data on the number of bank offices and total number of deposit (savings/current/term deposit) accounts for each state/union territory were collected from the Reserve Bank of India's BSR report 2009.An ordinary least-squares regression model has been used to find out the extent of financial inclusion.

In short the researcher concludes that Branch density in a state measures the opportunity for financial inclusion in that state. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in a state. However if a state/union territory is among the top 20 percent in terms of financial inclusion, with a given level of literacy, then increase in literacy percentage can further improve the level of financial inclusion in that region.

Sangwan(2008) carried out an extensive study to estimate the relationship between the percentage of adults having of saving and credit accounts with the branch density, the literacy percentage and some other factors, for 35 states/union territories in India. He observed that there is a positive significant impact of branch density, and negative but insignificant impact of literacy on financial inclusion. The latter observation is somewhat surprising, especially because Sarma and Pais (2010) have reported that literacy is positively and significantly associated with financial inclusion.

He used a simple linear OLS regression model to study the effects of literacy and bank density on financial inclusion. OLS regression models the effect of covariates on the average value of the conditional distribution of the dependent variable. A particular covariate, such as literacy percentage, may not have significant impact on the average value of the conditional distribution of the dependent variable (viz. percentage of adults having bank account), but it may have significant impact on extreme quintiles (such as the 10th or 90th percentiles) of the conditional distribution. Quintile regression, introduced by Koenkerand Bassett (1978), models the effect of covariates on various quintiles (such as percentiles) of the conditional distribution of the dependent variable. In this paper we use quintile regression model to investigate the extent to which literacy and bank penetration effect ten different (from 5th to 95th) percentiles of the conditional distribution of the number of accounts per 100 adults in a state/union territory, given a fixed level of literacy and/or bank penetration.

Ramanathan and Kamath (2005) in 'Financial Inclusion - A View from Below'identified that a large portion of India's poor is excluded from the formal financial sector with many of them lacking access even to the most basic of banking services such as a savings account. RBI sources put the percentage of adult population in India having a bank account at 59 per cent. In rural areas the coverage is only 39 per cent. Having a concerted policy thrust on financial inclusion, the Reserve Bank of India issued circulars to all scheduled commercial, regional rural and cooperative banks in 2005, directing them to open 'no-frills' or 'zero-balance' accounts with nil or minimum balances and charges so that more people could access them. They were also advised to give wide publicity to such facilities. However, the experiences of a few urban poor households in Ramanagaram in Karnataka of opening banks accounts with a nationalized bank seem to indicate that affordable financial services are still not within easy reach of the poor. For 'financial inclusion' to move from policy to being a reality there are many steps that the financial sector can take – firstly sensitize branch level staff of banks and other financial organizations to the needs of the poor. Secondly, decentralize certain systems, so that branch level staff are authorized to take decisions on opening accounts, are empowered to make field visits to verify and certify addresses of potential customers, etc. Of the individuals who opened bank accounts, it is doubtful if they would use the account regularly if the research staff did not take their savings and deposit it in the bank. Many households made savings in the form of coins. Banks

generally do not accept deposits in the form of coins and the staff would exchange them for notes before depositing the amounts in the bank. Since all of this involves a cost – for the poor this means time spent away from work resulting in wage loss – it is unlikely that they will continue to use the service.

Ultimately a few of those who had absolutely no documents were helped to open post office accounts - though the post office also requires an address proof, they were willing to send the post man to the concerned person's house at a specific time to verify the address and then process the application forms for opening an account -provided it was backed by the institute's recommendation letter. Field staff had to make several visits to the post office before accounts could be opened. So the reality is that for someone with no address proof or with no means of obtaining one – migrant workers, the poorest among slum dwellers, etc. – a bank account still remains out of reach. Access also depends on the attitude of the bank managers – many of whom are yet to be sensitized to the banking needs of the poor. Opening bank accounts for the poor was clearly not a priority or even seen as a mandate; it was viewed by them as a burden and an obligation/favor done after repeated requests by staff. This means that the poor have to resort to unsafe or expensive means of savings – such as saving with the employer, in the house or with some paid service. While most middle class and affluent families with more than adequate savings earn an interest on their savings, it is an irony that those earning the least have to pay a price even for such a simple service as savings. And certify addresses of potential customers, etc.

Mahadeva (2008) examined the inclusive nature of financial growth and suggest some alternatives to ensure effective financial inclusion in India[1]. Financial inclusion, in any economy, is a pre-condition for achieving industrial growth and overall development. In India, banking sector and other financial institutions have not succeeded in providing financial services to rural sector and also to marginalized section of society like scheduled caste and tribes, women, landless laborers etc. Financial exclusion thus helped in enhancing the social and economic segregation in India. Both supply and demand side factors are responsible for this malfunction. On the demand side, lack of awareness, illiteracy, unemployment, low income status, social exclusion of people etc. are some of the major hindrances for financial inclusion. On the supply side, procedural rigidity, attitude problem of the bankers, ineffective government intervention

[1]Mhadeva, G. Financial Growth in India: Whither Financial Inclusion?' The journal of applied economic research vol 2:p 2, 2008; pp. 177-197

etc. is some of the main obstacles. But the most depressing fact about financial exclusion is probably associated with the inadequate and low coverage of banking sector in rural India. While the national data showed that only 43 per cent of total branches are working in rural areas, some regions even are doing worse than this national average. Also the rural-urban divide within a particular region should not be ignored. The role of Rural Co-operative societies is also not satisfactory at all. Even though mere physical expansion of bank branches may not lead to financial inclusion, still this is a necessary condition for overall economic development. Although government has taken several initiatives to ensure increased access of under-served people, the situation would not change unless the bankers change their attitude towards these marginalized people. Also some alternative measures may come in terms of re-examining credit needs of people, maintaining a good relation between financial institutions and rural inhabitants, building strong links between financial institutions and rural-based institutions, creating a Financial Inclusion Fund under the NABARD and initiating a special motivational training to the workforce.

Mahesh and Bhide (2008) examined the effect of India's financial sector reforms, introduced in 1992 on the efficiency level of Indian commercial banks for the period 1985-2004, which covers some pre- reform and post- reform years. Three different measures of efficiency namely the cost, profit and loan advance efficiency have been introduced.[2] These have been estimated using the Battese and Coelli(1995) approach. The panel dataset of 94 banks for 20 years is obtained from thePerformance Highlights of Banks, Annual Accounts of Scheduled Commercial Banks, and balance sheet and expenditure statements of respective banks. Stochastic frontier analysis employed to study the impact of reforms gives an unambiguous results. It shows that financial reforms have had a significant impact on the all three types of efficiency measures. While loan declined marginally for the entire advance efficiency has industry in the period under consideration, cost efficiency has improved and

Negating the wide held perception that public sector banks are inefficient. The analysis showed that public sector banks rank first in two out of the three efficiency measures, indicating that these banks do not lag their private counterparts in efficiency. It also showed that competition has a significant impact on the efficiency levels of commercial banks across all the

[2] **Journal of applied economic research, vol.2, no. 4, 2008: pp. 415-441.**

three measures. Therefore, the study clearly indicates that the financial sector reforms bring changes in the banking sector and these changes have influenced the efficiency level of the services provided by the banking sector.

José and Joëlle (2010) tried to identify the relation between financial inclusion and postal banking. Itwas found that out of 1.5 billion users of postal financial services in the world, only 400 million are holders of a postal (bank) account, 300 million of which located in developing or emerging countries. As of today, more than 2 billion adults remain un-banked, mostly in developing and emerging countries, although under-banked citizens are also a concern in more advanced economies. An econometric estimation was conducted to estimate the trend for the increase in the proportion of financial services in the total postal income for operators offering this kind of services. It was estimated that operators offering financial services are increasing the income arising from financial services at about an additional half percentage point every year. As another set of econometric estimates shows, the revenues stemming from postal financial services contribute to replace almost a third of each percentage point of total postal revenue substituting letter-post by no letter- post income, i.e. for three percentage points of revenue lost by mail services one percentage point is gained by postal financial services. Eventually, it was also estimated – through a dynamic panel econometric model – that the year-to-year variation of the total postal revenue was positively impacted by the variation of the number of postal (bank) accounts held by the postal financial institution, while it was negatively influenced by the variation of the number of domestic letter-post items, i.e. the higher the change in the number of postal (bank) accounts the higher the variation of total postal income while the higher the change in mail traffic the lower the variation in total postal income.

Use of financial services provided through the postal network, the number of current deposits and savings deposits and the number of withdrawals are presented. At first glance, we can see that wealth and the per capita demand for Banco Postal services and products are not proportionally related. In fact, those living in the poorest 50 per cent municipalities, which represent less than one third of the population 29 per cent account for some 50per cent of all Banco Postal deposits. This is a very positive result as regards financial inclusion, as it indicates that there are more Banco Postal deposits in poorer municipalities. Ordinary least square method has been used to show the postal banking and financial inclusion.

This paper has provided new insights on the economic models of postal finance. It has also identified a significant recent trend towards diversification of Posts in this area in period of structural declines of mail volumes, further intensified by the last global economic and financial crisis. It has distinguished the case of advanced economies from emerging and developing countries where a number of postal operators are playing an increasing role in the provision of financial services in their country, particularly for populations typically un-banked or underserved by commercial banks. The financial inclusion agenda of the governments of these countries often matches the willingness of the Post to strengthen the economic viability of its network. Even with the emergence of new information and communication technologies and of mobile banking services, a physical and human network continues to be necessary for the providers of these innovative services.

Chakravarty and Pal (2010) explained that financial inclusion concerns spread of banking activities among different sections of the population. He made an axiomatic approach to measure the financial inclusion. The purpose of this study was to identify the situation of financial inclusion in different countries and focused on interstate situation on financial inclusion in India. In order to get an aggregate picture of banking activities on different dimension study designed an index of financial inclusion. This is because an individual dimension can provide only partial information on banking activities. The study focused on following six attributes of financial inclusion; demographic penetration, geographic penetration, and number of deposit accounts, number of credit accounts, deposits- income ratio and credit- income ratio. The study used data on these attributes for 24 states corresponding to the year 1991, 2001, and 2007 from various sources like BSR, RBI, CSO, and Data on Per-Capita Net Domestic Product (PCNSDP). The study found that all six variables as mentioned above are positively correlated and the correlation coefficients are all significant at five percent level. When financial inclusion index was compared with human development index, study found that in some cases even country have a good position in financial inclusion index but not in Human Development Index (HDI) and vice versa. Comparing the computed financial index for 1991 and 2001, it foundthat the levels of financial inclusion in India have declined from the year 1991 to 2001. These results were also found in case of rest of the states. However, in India as well as in each of states the levels of

financial inclusion have increased during 2001 to 2007. The study also mentioned that Delhi and Goa have consistently maintained their first and second ranks respectively in all the three years.

Rangappa (2007) tried to explore the benefit of self-help groups' linkage programme to improve the condition of excluded people and achieve higher financial depth. At very first the study put a light on the situation of Indian banking system that having a wide network of rural bank branches. But a large number of the poor and low income household still remained outside the fold of formal banking system. The commercial banks focused from class banking to mass banking but their achievement is very poor to include the poor people in formal financial system. As a result the gap between the borrowing by rich people and the poor household has increased in rural area about 70 per cent of borrowings of the richest households is institutional in nature while this share was 18 per cent of poor household. To get the solution of this problem National Bank for Agriculture and rural development launched its pilot phase of the self-help groups and bank linkages programme in February 1992.

Agarwal (2008) explained the importance of finance inclusion for economic growth. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The financial services include the entire gamut - savings, loans, insurance, credit, payments etc. The financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, poor background etc. By providing these services, the aim is to help them come. Why do we need to make a policy to increase the financial inclusion? The researcher gives the answer of this question -Financial exclusion: It has been found that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. These leads to a vicious cycle. First, high cost of finance implies that first poor person has to earn much more than someone who has access to lower cost finance. Second, the major portion of the earnings is paid to the moneylender and the person can never come out of the poverty. Out of poverty. So far, the focus has only been on delivering credit (it is called as microfinance but is

microcredit)and has been quite successful, High cost: It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them, Non-price barriers: Access to formal financial services also requires documents of proof regarding a persons' identity, income etc. The poor people do not have these documents and thus are excluded from these services. They may also subscribe to the services initially but may not use them as actively as others because of high distance between the bank and residence, poor infrastructure.

Data has been taken from RBI, IDBI Gilts Ltd, World Bank, IDBI Gilts Ltd, He has considered many variables such as - Distribution of bank offices in India, deposits and credit in India, current account, saving account, term deposit account. Some indicators are – rural and urban population and total population.

Leeladhar (2005) emphasized on providing the banking services to the poor and needy people. The study argued that financial inclusion is very important, because financial inclusion plays crucial role to improve the living standard of the poor people and also contribute in economic growth through generating financial resources for financial initiations. It was mentioned that financial exclusion may lead to increase the incidence of crime in society, decrease the investment in the economy. It also increased the unemployment and informal credit in the country. The study suggested to have a look at the international experience to overcome the financial exclusion and kicked out this problem. The study also suggested that banks would have to evolve specific strategies like bank linkages programme with Self-Help Groups and micro finance institutions to expand the outreach of their services in order to promote financial inclusion.

Ramji, Minakshi (2009) worked on financial inclusion and tried to find out the extent of the outreach of the financial services in Gulbarga district. At the outset of the study, author highlighted that a well-developed financial system can be an effective poverty alleviation tool. It also brings the low-income groups into the mainstream of financial system and allows them to contribute more actively in the economic development. The study threw some light on the extent of financial depth in India. The study showed that there are 68 thousand rural and urban bank branches, more than 14 thousand branches of rural Co-Operatives Banks, and 1 lakh54 thousand Post Office branches which are working in India. Each Rural Bank serves on an average

population of 16 thousand. If include the Rural Co-Operatives Banks then this ratio falls to 12 thousand 8 hundred people per branch. The study also examined the situation of financial inclusion in Gulbarga district in northern Karnataka, where financial inclusion drives were implemented and declared as 100 per cent financially included district. Empirical section of the study is based on the cross section data. Multi-stage sampling was used to collect the data and it was collected through survey, in-depth interviews. The data analysed through quantitative techniques. The study found that the numbers of bank accounts were doubled after the introduction of the financial inclusion drive; however 36 per cent of the sample respondents remained outside the fold of any kind of formal and semi-formal financial system. The study revealed that bank accounts were mainly opened to receive the government assistance, being provided mainly under the National Rural Employment Guarantee Program (NREGP). It was concluded that while government programs likes NREGP has the potential to include large number of people in the mainstream of financial system, but more access to accounts do not often lead to usage of financial services.

Kamath and Mukherji (2007) found that Indian banking system deals with the rural financial requirement through several channels, such as cooperative societies, regional rural banks and commercial banks. But in recent time financial inclusion is an emerging issue in banking system. The study made an attempt to examine the difference of financial inclusion from traditional banking system. It was concluded that financial inclusion helps in business activities in high employment generating sectors such as retail trade in foods, beverages and tobacco, wood and textile products, textile, restaurants and hotel retail trade in fuel, utilities and durables. Moreover, he suggested that the Indian agriculture sector is more complex and heterogeneous with a shift from cereals to non-cereals crops and activities such as food processing, livestock and fishing. With this comes the importance of post-harvest activities such as food processing, storage, transportation and eventual marketing. These activities are more complex and risky, involving investment in a new enterprise or adoption of new technology. Therefore, banking system should take more responsibility in changing needs of commercialized agriculture pattern.

Rao (2010) made an attempt on financial inclusion. At the outset of study, he defined the term financial inclusion and stressed that financial inclusion has the power to reduce the poverty and to empower the vulnerable groups. The study argued that financial exclusion is very harmful for

the growth of an economy. On the other hand, it is also harmful for the society because it leads to social exclusion. The study explained the reasons of financial exclusion such as; lack of education-illiteracy, gender, and age, low and irregular income, requirement of identity documentation were seemed as main barriers in the access of financial services. It also highlighted the steps taken by the government to include the poor and vulnerable in financial system like; Nationalization of Banks, setting up of Regional Rural Banks, No Frill Accounts, Kisan Credit Card (KCC) etc. After that, the study tried to find out the understanding of the ground level operating functionaries to increase the financial inclusion and suggest a suitable structure for financial inclusion. To fulfil these objectives, the study followed the mixed research methodology of using both primary and secondary data. The secondary data was collected from Reserve Bank of India, and National Bank for Agriculture and Rural Development (NABARD). The primary data was collected through questionnaire covering the 26 bank officials from rural and semi-urban branches in 13 states. It was concluded that majority of the bankers were aware and knew about the concept of financial inclusion and 61 percent bankers were of the opinion that financial inclusion is profitable, 88 percent bankers suggested that banks should go for financial inclusion in a big way and 65 percent bankers felt that banks should take up financial inclusion as a social obligation. The study also suggested that RBI should conduct awareness camps for the financial inclusion to bank staff and tell them that "Banking to the poor is not poor banking."

Jayasheela (2008) made an attempt to study the importance of financial inclusion. The purpose of this paper was to examine the role of micro finance in the empowerment of people and improving the financial inclusion in India. It was argued that financial inclusion could play an important role in economic growth by including the vast section of the society in the fold of formal financial system. So study examined the role of banks and micro finance interventions in improving the financial inclusion. To examine these objectives the study used region wise cross section data from secondary sources like National Sample Survey, RBI, and Statistical Hand Book of Indian Economy about different variables like current account, saving account, credit account and their association with the SHGs, micro finance. It was found that although there is vast difference between different regions about having a bank account, but the good thing that came out from the study is the programmes like SHGs, micro finance not only increase involuntary savings, but also induces voluntary savings. It was revealed that SHGs and micro

finance has a positive impact in providing the financial services to the financially excluded people and improving the financial inclusion. The study suggested that banks would have to evolve specific strategies to expand the outreach of their services in order to increase financial inclusion. It also suggested that linkages with micro finance, SHGs and local communities is a cost effective manner to achieve the higher financial inclusion and improving the situation of poor people.

Ghosh (2007) tried to examine the role of micro finance in improving the financial inclusion. The study argued that since the opening up of the economy and reforms in the banking sector in India, rural finance is on the back foot. He used the time series data from 1991 to 2007 on selected variables like bank branches, financially excluded population and impact of SHGs linkages programme with banks taken from various sources like Hand Book of Statistics on Indian Economy, RBI and Economic Survey. Although the progress has been made so far with the network of more than 65thousand commercial banks, RRBs, and more than one lakh primary agricultural credit societies and urban cooperative banks by the Indian Economy, but even after this infrastructure it is still not enough to provide the financial services to more than 70 per cent people of the total population who live in the more than 70 million villages across India. In order to maintain the present level of growth in GDP, the importance of serving the need for financial sector was highlighted. Unless we include this unorganized sector into our developmental process the whole development would be jeopardized. The study examined the problems of formal banking in providing micro credit to the poor of rural and urban areas in the present era and suggested that programs like Post Office Saving Banks (POSBs), SHGs and micro finance can be used to cater the financial needs of rural India.

Dev (2006) addressed the issues and challenges of financial inclusion. The study revealed that financial inclusion is an important instrument to improve the condition of poor farmers, rural non-farm enterprises and other vulnerable groups, but the consequences of financial exclusion are very harmful for an economy. Because of financial exclusion a large segment of poor population remained outside the financial services and cannot contribute to economic growth. The study focused on objective 'what are the issues and challenges to reduce the financial exclusion'. The study revealed that even after significant expansion in banking sector in last few decades, there are many supply side problems for commercial banks such as work force shortage,

an unfavourable attitude towards rural services, infrastructure and technology problems in rural area. Although many initiatives were taken at different levels but it could not be able to include the poor farmer. By using the cross section data about the farmer in debt from various sources, study found that financial exclusion in terms of access to credit from formal institutions is high for small and marginal farmers and some social groups. The study states that 73 per cent to 83 per cent of outstanding loan for small and marginal farmers is from informal sources such as moneylenders and traders. Supply and demand problems have to be solved with appropriate policies. Banks should look at financial inclusion both as a business opportunity and as a social responsibility. Apart from formal banking institutions, the role of the self-help group movement andMFIs is important to improve financial inclusion of people.

Subbrao (2009) considers financial inclusion, as a challenge and opportunity for an economy. The study emphasized, that financial inclusion is equally important for all, people, banks, and the economy. Because, access to financial services helps the poor to insure them self-dependentagainst income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment and also protects the poor from the grasps of the money lenders. Secondly the large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposit and helps them to better manage both, liquidity risk and assets liabilities mismatches. Financial inclusion also helps the economy for sustaining equitable growth. The study paid its attention on challenges and opportunities of financial inclusion in India. Defining the challenges, study divided it in two parts, firstly demand side barriers like, lack of awareness about financial services and products, limited literacy, social exclusion and secondly supply side barriers like, transaction cost, lack of communication, lack of infrastructure and language barriers. Defining the opportunities, study revealed that financial inclusion can play an important role in economic growth, by reducing poverty and improving the living standard of poor people. The study also highlighted that in India out of the 6 lakh habitations in the country; only about 30 thousand has commercial bank branches. The proportion of people having any kind of life insurance cover is as low as 10 per cent and the proportion having non-life insurance was very low that is less than 1 per cent. People having debit cards comprised only 13 per cent and those having credit cards only a marginal 2 per cent. The study also highlighted the policies formulated by RBI like, no frill accounts, easier credit facilities simpler Know Your Customer (KYC) Norms, bank branches, and Automatic Tailor Machine (ATM) expansion to include the

people in the fold of financial services. The study concluded that financial inclusion is a win-win opportunity for the poor, banks and for the economy also, because it increase the income sources for the poor people provide the low cost deposits to banks and helps the economy to achieve sustainable growth.

Arora and Meenu (2010) focused on the major issues like formal and informal finance and intervention of micro finance to achieve the greater financial inclusion. The study got take off with introducing the micro finance as a supply of loans, savings, and other basic financial services to the rural poor to fulfil their small and uncertain needs and provide a chance to them to contribute in economic development. As study enhance, it distinguished between the formal and informal finance and put the reference of other studies which revealed that even though co-operatives and NGO's were providing more relaxing fiancé at low interest rate, free small loans and long maturity, despite the micro financing instructions have an advantage over the NGOs and co-operative that their clients can use the loan for any purpose other than for what it was availed. The study also put a light on the outreach and performance of Micro finance as well as adding the references on financial awareness and customer's perception. The study concluded that micro finance is a command able effort to increase the financial inclusion. The study also stressed that wide range of micro finance services would surely lead to achieve the motive of poverty reduction. The study also suggested that Government efforts alone cannot solve the problem of financial inclusion without the co-operation of the banking sector. So study suggested to change their conventional attitude of bankstowards the poor and to collaborate between the formal and semi-formal financial sector and also put suggestion to the beneficiaries try to building trust worthy relationship with financial providers. At the end, study also remarked that, if micro finance is used in its true spirit, then it could be powerful instrument for economic and social empowerment of the poor and vulnerable groups.

Krishnan, R. (2010) explored the financial inclusion as best practices for the inclusive growth. The study revealed that banking services and insurance hold the key for the inclusive growth of the nation and ensure that every person must be able to have his/her basic needs like, access of food, clothing, education, health, care, and shelter met. Financial inclusion helps to achieve the above goal of inclusive growth; because it ensures that a range of appropriate financial services are available to every individual. All those who need these services are made to understand and

avail them. As the study proceeds, it also explains the financial depth in India. The study highlighted that 72 per cent of the total population lives in rural area and only 59 percent of the adult population has a bank account, which also included those who have multiple accounts. The study also pointed out that only 2.4 million out of 58 million units with investment of less than Rs. 25000 got credit from commercial banks. It also revealed that culture, education, gender, income and assets, proof of identity, and remoteness of residence are the main barriers in the access of formal banking services. The study highlighted the different polices adopted by the Indian government and RBI to improve the financial depth in the economy. The study pointed out also that government has started the polices like; banking correspond model, No-frill accounts, know your customer, biometric ATMs in rural areas and removing usage fee on ATMs for use of others. It also emphasizes that technology can help the banks by reducing the operating cost and increasing the business through system like easy to use tools. The study also found that limited access of affordable financial services is acting as a constraint to the growth impetus to the rural sector and Indian economy. To improve the situation of financial inclusion, the study suggested that government should consider tying up with private banks to deliver financial solutions to un-banked, using its extensive postal network. The synergistic overlay of the existing postal system with banking functions is the answer to innovative channels required to enter the rural market and asked to involve the NGOs, SHGs, Micro finance groups to a greater degree and adjusting the deposit from the customers with the loans that are extended to them.

Helen and Lensink (2007) focused on the relationship between remittance inflows and financial inclusion in developing countries. The study presented single equation estimates on remittances and financial inclusion, and system estimates in which economic growth is explained by e.g., financial inclusion, and remittances inflows. These regressions clearly confirmed main hypothesis that remittances have development impact through their effect on financial inclusion. Overall, this paper indicated the importance of studying the effects of remittances in developing countries. Remittances, in terms of size, are one of the main capital inflows in developing countries, but they also appeared to have a robust positive effect on economic growth.

Chavan and Birajdar (2009) tried to investigate the role of SHGs to improve the financial depth. The study used secondary and primary data on SHGs in order to evaluate the role played

by these institutions towards financial inclusion of the groups/regions excluded from the formal financial system. In this connection, the study also analysed the geographical spread of micro finance institutions, access and affordability of micro finance for women borrowers and movement of women borrowers out of SHGs. The study showed that there is limited scale and spread of micro finance in India. The continued dependence of women members belonging to mature SHGs on informal sources, as revealed from the primary data, further corroborated the point regarding the limited spread of micro finance. The relatively high rates of interest on SHG loans, which are comparable with the rates of informal sector, underline the issue of affordability of micro finance of poor borrowers. Further an issue related to interest rates is that of dropouts of members. The most commonly noted cause for dropouts among SHG members is the irregular repayments of loans. The members complained of an inability to repay their loans onetime and subsequently drop out. Hence, the observations of this note reflected considerable scope for micro finance to evolve as an effective means of financial inclusion that is accessible and affordable for the excluded groups/regions and that can help loosen the grip of informal sources of finance and ensure permanent inclusion of the excluded sections in the ambit of formal finance.

Bhattacharjee (2009) focused on information and varying rates of interest for informal credit in West Bengal. The study addressed two important issues relating to credit market in developing countries i.e., household's accessibility to credit and factors that lead to interest rate formation in formal credit market. It was observed that the urban poor section faces problems accessing credit facilities. They are receiving fewer loans from both formal and informal credit markets. Further, analysed the interest rate formation in credit markets and found that the developed districts of West Bengal (WB) are characterized by the presence of less formal lending (by total number of loan outstanding), accompanied by a higher probability of exorbitant interest rates in markets of professional money lenders. Thus, there existed excess demand for credit in the developed districts of WB. It was also observed that the professional and non-professional money lenders (as a result of having less information about borrowers) face higher risks of default charge and thus charge higher rate of interest.

Kumar, Kush (2010) made an attempt on various facets of loans among small and marginal farmers in Punjab. The study found that the amount of loan per farmer was much higher for

small farmers compared to marginal farmers. Further, it was observed that the real burden of loan was higher on marginal farmers. It was also notified that the non-institutional agencies were the main sources of loans, providing 71.04 per cent of the total loans. The study also showed that the institutional sources charged rate of interest ranging between 1 and 10 per centannually. In case of non-institutional sources, rate of interest varies between 21 to 30 per cent.

Nagadevara (2008) pointed out that Government should take initiative to enhancing financial inclusion. Because there is a general agreement that financial development is a major factor influencing economic growth. A developed financial system allows the poor households to save and manage their money, securely, decreases their vulnerability to economic shocks, and allows them to contribute more actively to their development. But the nature of formal banking sectors with its emphasis on 'collateral based lending' could not cater the needs of small borrower. So the Government and RBI used many strategies to enhance the financial inclusion and reduce the operating cost. But these strategies need to identify the special and unique features that influence different segment of the society. So the study tried to identify the factors that could influence financial inclusion of different demographic segments of the population and also to identify if there are significant differences of such factors across different segments.

Singla (2011) made an attempt on financial inclusion. The study paid attention that inclusive growth is very important and financial inclusion is the road to achieve this inclusive growth to this paper tried to explores the ground level status of the first phase of financial inclusion in the trinity, i.e. Chandigarh Panchkula and Mohali after the state level banking committee report which has claimed that 100 per centfinancial inclusion has been achieved in rural area of Punjab and Haryana. The study is primary in nature and for the purpose of the study the following definition is taken fox financial inclusion. If any single man in family is having a bank account in any bank, then the whole household will be treated as financially included. The data were collected through a comprehensive questionnaire sampling technique. Sample consists of 64, 53 and 314 respondents each from Panchkula, Mohali and Chandigarh respectively. The selected sample was a mixture of people who are migrants living here for less than a year to residents living areas for more than 20 years and sample contain the age groups from 15 years to 56 years and above. The data analysis covered in three sections. Section one focused on the profile of respondents and financial inclusion. Section two focused on qualitative performance of financial

services in terms of awareness about financial service use of these services and perception of users about the quality of the delivery of financial service. Finally in section three, study used the chi-square to test the hypotheses. It was found that 66.87 per cent, 62.50 per cent and 83.01 per cent respondents is from Chandigarh, Panchkula and Mohali respectively have been financially included. The study also revealed that Chandigarh Trinity has done well in opening bank accounts but a lot need to be done to achieve a status of fully financially included state. Furthermore, this study also observed that even the low income group people in Chandigarh tricity are bankable lot, but most of the people in the income group ofRs. 1thousand to 50, thousand Rs, 50,thusand to 1 lakh unbanked in the areas of Chandigarh, Panchkula and Mohali. The study suggested that there is a need to promote the use of banking services as well as to increase access, of the financial services.

Sarma and Pais (2008) presented the cross country empirical analysis of the relationship between financial inclusion and development by using the index of financial inclusion.They also identified the factors which are significantly associated with financial inclusion. The level of human development and financial inclusion in a country moved closely with each other, although a few exceptions exist among socio-economic factors. As expected, income was positively associated with the level of financial inclusion. Going beyond income, inequality, literacy and urbanization are other important factors. Further, physical infrastructure for connectivity and information were also significantly associated with financial inclusion among the banking sector variables. NPA (Non-Performing Assets) and CAR (Capital Adequacy Ratio) were found negatively associated with financial inclusion. Government ownership of banks was not significantly associated with financial inclusion while foreign ownership was found to be negatively associated. Interest rate did not seem to be significantly associated with financial inclusion.

Report of the Committee of NABARD – January 2008

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost

to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.[3]

Extent of Exclusion; NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91 per cent, 81.26per cent and77.59 per cent in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

While financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is also important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. In order to improve their level of inclusion, demand side efforts need to be undertaken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages. However, the primary focus of the Committee has been on improving the delivery systems, both conventional and innovative.

National Mission on Financial Inclusion: The Committee feels that the task of financial inclusion must be taken up in a mission mode as a financial inclusion plan at the national level. A National Mission on Financial Inclusion (NMFI) comprising representatives from all stakeholders may be constituted to aim at achieving universal financial inclusion within a specific time frame. The Mission should be responsible for suggesting the overall policy changes required for achieving the desired level of financial inclusion, and for supporting a range of stakeholders – in the domain of public, private and NGO sectors – in undertaking promotional

[3]'Report of the committee on financial inclusion' (2008), NABARD.

initiatives. A National Rural Financial Inclusion Plan (NRFIP) may be launched with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.77 million by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015. Semi-urban and rural branches of commercial banks and RRBs may set for themselves a minimum target of covering 250 new cultivator and non-cultivator households per branch per annum, with an emphasis on financing marginal farmers and poor non-cultivator households.

There is a cost involved in this massive exercise of extending financial services to hitherto excluded segments of population. Such costs may come down over a period of time with the resultant business expansion. However, in the initial stages some funding support is required for promotional and developmental initiatives that will lead to better credit absorption capacity among the poor and vulnerable sections and for application of technology for facilitating the mandated levels of inclusion. Procedural Changes like simplifying mortgage requirements, exemption from Stamp Duty for loans to small and marginal farmers and providing agricultural business development services in the farm and non-farm sectors respectively will help in extending financial inclusion.

RRBs, post-merger, represent a powerful instrument for financial inclusion. Their outreach vis-à-vis other scheduled commercial banks particularly in regions and across population groups facing the brunt of financial exclusion is impressive. RRBs account for 37 per cent of total rural offices of all scheduled commercial banks and 91 per cent of their workforce is posted in rural and semi-urban areas. They account for 31 per cent of deposit accounts and 37 per cent of loan accounts in rural areas. RRB's have a large presence in regions marked by financial exclusion of a high order. They account for 34 per cent of all branches in North-Eastern, 30 per cent in Eastern and 32 per cent in Central regions. Out of the total 22.38 lakh SHGs credit linked by the banking industry as on 31st March 2006, 33 per cent of the linkages were by RRBs which is quite impressive to say the least. Significantly the more backward the region the greater is the share of RRBs which is amply demonstrated by their 56 per cent share in the North-Eastern, 48 per cent in Central and 40% in Eastern region. RRBs are, thus, the best suited vehicles to widen and deepen the process of financial inclusion. However, there has to be a firm reinforcement of

the rural orientation of these institutions with a specific mandate on financial inclusion. With this end in view, the Committee has recommended that the process of merger of RRBs should not proceed beyond the level of sponsor bank in each State. The Committee has also recommended the recapitalization of RRBs with negative Net Worth and widening of their network to cover all unbanked villages in the districts where they are operating, either by opening a branch or through the BF/BC model in a time bound manner. Their area of operation may also be extended to cover the 87 districts, presently not covered by them.

The SHG - Bank Linkage Programmed can be regarded as the most potent initiative since Independence for delivering financial services to the poor in a sustainable manner. The programmed has been growing rapidly and the number of SHGs financed increased to 29.25 lakhs on 31 March 2007.The spread of the SHG - Bank Linkage Programmed in different regions has been uneven with Southern States accounting for the major chunk of credit linkage. Many States with high incidence of poverty have shown poor performance under the programme. NABARD has identified 13 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus. The Committee has recommended that NABARD may open dedicated project offices in these 13 States for up scaling the SHG - Bank Linkage Programme.

Micro Finance Institutions (MFIs) could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. The Committee has, therefore, recommended that greater legitimacy, accountability and transparency will not only enable MFIs to source adequate debt and equity funds, but also eventually enable them to take and use savings as a low cost source for on-lending. There is a need to recognize a separate category of Micro finance – Non Banking Finance Companies (MF–NBFCs), without any relaxation on start-up capital and subject to the regulatory prescriptions applicable for NBFCs. Such MF-NBFCs could provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. Such MF-NBFCs may also be recognized as Business

Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.

The Micro Financial Sector (Development and Regulation) Bill, 2007 has been introduced in Parliament in March 2007. The Committee feels that the Bill, when enacted, would help in promoting orderly growth of microfinance sector in India. The Committee feels that MFIs registered under Section 25 of Companies Act, 1956 can be brought under the purview of this Bill while cooperative societies can be taken out of the purview of the proposed Bill.

Micro Insurance: Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well off. It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. The Committee concurs with the view that offering micro credit without micro-insurance is self-defeating. There is, therefore, a need to emphasize linking of micro credit with micro-insurance. The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of population in the process of economic growth. Financial inclusion of hitherto excluded segments of population is a critical part of this process of inclusion.

Above literature shows that RBI and Indian Government have been taking many initiatives from nationalization to the induction of e-banking to improve the condition of the financial inclusion all over India. But there is still some insufficiency in providing the financial services and involving the poor in the fold of formal financial system at rural as well as urban level. So this study will try to investigate the extent of financial inclusion in India and identifies the determinants of financial inclusion and highlight the suggestions offered by the respondents to improve the efficiency of banking system in India.