Chapter 2

SURVEY OF LITERATURE

Sangwan(2008) emphasized that India in last 15 years has witnessed unprecedented growth in financial services, unfolded byliberalization and globalization of financial services due to adoption of InformationTechnology and unlocking of the regulatory framework. The study stressed that alongside this positive development there were evidences that the formal financial sector still excludes a large sectionof population. The study highlighted that as on March 2006, the saving accounts per 100 adult populations were 63 andcredit accounts were only 16 in all India.The cross section data of 42 Regions/States/UTs for the year 2006 was used.To empirically ascertain the determinants of financial inclusion, the state wise percentageadults in terms of saving and credit accounts (dependent variable) were regressed withindependent variables like the branch density, level of income, literacy and adults coveredunder SHGs.The estimated regression equations revealed that the branch density has positive andsignificant coefficient with the percentage of adults having saving as well as credit accounts.The coefficient of per capita income was also positive and significant in explainingpercentage of adult having saving accounts, though; this coefficient was not significant withlevel of credit account. Perhaps, more eligibility of targeted sections under various creditsponsored schemes by Central and State Governments from poorer states may have indirectlyinfluenced financial inclusion of in terms of credit accounts. Literacy percentage hassurprisingly negative relationship with both percentage of saving as well as credit accounts ofadults. The variable of percentage of adult covered in SHGs has also positive association with thelevel of financial inclusion especially in credit accounts. The study suggested that SHGs can playsignificant role in achieving the financial inclusion especially for women and low-incomefamilies.

Shetty (2008)examined the promise of microfinance in the inclusion of poor, who have been left outside the gamut of formal financial markets for a long period of time. The study also examined the impact of microfinance-plus services on the household economy of the members. The study used primary data on household participants of microfinance programme and impact of microfinance-plus services on the welfare of member households of microfinance in the state of Karnataka, and multi stage sampling technique was adopted in the selection of the units. The data

were collected on household demographics, assets, income, expenditure, details of SHG membership, savings, access to credit, insurance, training and awareness, access to health care facility, social networks, self-employment or micro-enterprise development, and other services which were all accessed by the members. Effects of study variables (in pre and post microfinance intervention) were examined by using tabular and chow test analysis.Study found that a majority of the sample households in the pre-microfinance programme were vulnerable to both access the financial and non-financial services. In the post-microfinance intervention, a large number of the member households are able to access the microfinance-plus services and it has enhanced the income, employment, assets, household expenditure, housing condition and empowerment of the poor. Policy recommendation includes delivery of microfinance-plus services to the marginalized and vulnerable poor at a minimum cost will have wider impact on the socioeconomic well-being of the poor. Study suggested that, to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance.

Swain and Baldeep Singh (2008) emphasized that financial inclusion is very essential, because an inclusive financial system helps in reducing the poverty and provide a chance to poor to contribute in the growth of the economy. Financial system in India played a significant role in uplifting the poor. The study also argued that economy was in a phase of rapidly rising incomes, rural and urban, arising from an expansion of extant economic activities as well as the creation of new activities. Corporate profitability has exhibited sustainable trends and consumer incomes were increasing rapidly, riding on the growth momentum. All of these developments suggested that the demand for financial services, both for savings as well as production purposes, will be greater than has been the case in the past, and there will be many new entrants in need of financial services who have not hitherto been served. The study stressed that our financial depth is much lower than that of other Asian countries, though it has picked up in the recent past. While there were evidence of an increase in financial deepening, particularly during the present decade, the increase in the breadth and coverage of formal finance has been less than adequate. The study concluded that deepening the financial system and widening its reach is crucial for both accelerating growth and for equitable distribution, given the present stage of development of our country.

Leeladhar (2005) emphasized to provide the banking services to the poor and needy people. The study argued that financial inclusion is very important, because financial inclusion plays an

important role to improve the living standard of the poor people and also contribute in economic growth through generating financial resources for financial initiations. On the other hand 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 (2009) has 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, authorhighlighted 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 throws 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 thousandPost 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 than 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 percent 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 analyzed through quantitative techniques. The study found that the numbers of bank accounts were doubled after the introduction of the financial inclusion drive; however 36 percent of the sample respondents remained outside the fold of any kind of formal and semi-formal financial system. The study also found that bank accounts were mainly opened to receive the government assistance, being provided mainly under the National Rural Employment Guarantee Program (NREGP). The study 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 (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 also made an attempt to examine the difference of financial inclusion from traditional banking system. The study 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 inclusionhas 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 alsoharmful for the society because it leads to social exclusion. The studyalso 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 tries 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 fulfill 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. The study 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."

Mohan (2006) 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.

Swamy and Alakshmi (2007) explored the role of financial inclusion in achieving inclusive growth in India and what are challenges to include the people in the fold of financial services. The study put a light on need and significance of financial inclusion for the developing countries like India, having a large financially excluded population. The study also revealed that a well-developed financial system can play an important role in accelerating economic growth as well as reducing the income disparities and poverty. It also provides an opportunity to the poor to actively contribute in economic developments and protects themselves against economic shocks. The study also compared the financial depth of India with the developed countries and found that India has the

second largest number of financially excluded households after China. The study also revealed that country has taken many initiatives like, encouraging penetration into unbanked area and encouraging agents and intermediaries such as Non-Government Organization (NGOs), MFIs, Central Statistical Organization (CSO), and business correspondents, opening of RRBs and co-operative societies, No-Frill Accounts, emphasis on financial literacy and credit counseling. After all these initiatives, country was not able to include the 135 million households in the mainstream of financial inclusion. Only 34 percentpeople were connected with the formal financial system and out of them 40 percent were not using the account once in a month. The study concluded that financial inclusion has far reaching consequences which can help many people come out of poverty condition and also plays an important role in economic growth by providing the financial service at affordable cost to the households.

Rangappa (2007) tried to explore the benefit of the 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 the Indian banking system that having a wide network of rural bank branches. But a large number of the poor and low income households still remained outside the fold of the 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. That was why the gap between the borrowings by the rich person and poor household has increased in rural area 70 percent of borrowings of the richest households is institutional in nature while this share was 18 percent for the poor households. 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 and this study attempted to analyze the impact of SHG-Bank linkage programme on the financial inclusion. To fulfill this objective the study used the primary data from Dsvangere district of Karnataka state. Multi stage stratified random sampling was used to collect the data, and it was collected through well-structured schedule on different variables like, demographic profile of the family, borrowing and saving details, involvement in SHGs. Further the study divided the total sample in to two parts one without SHGs and second with SHGs. The study used the chi-square to test the significance of the association between the membership in SHGs and the degree of financial inclusion. After analyzing the data, study found that the SHG-Bank linkages programme has increased the flow of institutional credit to land less

and marginal farm household. The study concluded that the SHGs and bank linkage programme increased the degree of financial inclusion between marginal and small farm size category.

Mohan (2009) tried to examine the contribution of financial inclusion to achieve the greater economic growth and put a light on present situation of financial inclusion in India. In this paper the author introduced the financial inclusion as an important component of India's overall economic growth. With enhancing the relationship between financial inclusion and economic growth study argued that if an economy wants to achieve higher growth then it must emphasis on providing the financial services in large quantum to existing and emerging enterprises as well as increasing the social welfare. The study was based on the secondary data for different time period about the selected variables like, outstanding debt of rural households since 1951 to 2002, number of credit and saving accounts with scheduled commercial banks 1971 to 2007, population per office 1991 to 2008. These data were obtained from various sources like Basic Statistical Returns(BSR), National Sample Survey Organization (NSSO), RBI, All India Debt and Investment Survey (AIDIS) and Primary Agricultural Credit Societies (PACS) to present the current situation of financial depth. The study also stressed that although India has a lower rank in financial depth, the study shows that India's rural economy has shifted towards more commercialized agriculture and non-agriculture. So it is very important to include the people in the folds of financial services. The study concluded that financial inclusion will help in further development of India's financial system and promotion of economic growth. The study also suggested that economy should take more initiative to improve the situation of financial services across the country.

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. The study 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. The study 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. The study argued that SHGs and micro finance has a positive impact in providing the financial services to the financially excluded people and improve 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. The study used the time series data from 1991 to 2007 on selected variables like bank branches, financially excluded population and impact of SHGs linkages 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 percent people of the total population who live in the more than 70 million villages across India. If we wish to maintain the present level of growth in GDP, we need to serve the financial need of this sector that is highly unorganized. 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.

Chakravarty (2010) 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.

Bhandari (2009) tried to see the impact of banking services on poverty reduction. The study argued that financial inclusion is the availability of banking and financial services like savings, loans, insurance, credit, and payments etc. at 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 to bank accounts. The study investigated the banks outreach among various section of population in the form of savings and deposit accounts during different reform periods. The study used secondary data at different stages to compare the situation of financial inclusion of below poverty line population. The total study period (1980 to 2007) are divided into three sub periods – pre reform (1980 to1990), reform period (1991 to 1999) and post reform period (2000 to 2007). The results showed that reform period was the worst in terms of the growth in bank accounts. Rural area fared better in terms of deposit accounts during pre-reform period, while during post reform period highest growth in bank was accounts observed in metropolitan areas. As far as credit growth of commercial banks are concerned rural credit was severely neglected during the reform period, and revived in the post 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 service and manufacturing sector, bypassing the agricultural sector just after the economic reform. In rural areas, high growth in bank accounts was accompanied by reduction in below poverty line

population in Kerala, Gujarat, Rajasthan and Haryana. However, in urban areas high growth in bank accounts was accompanied by higher reduction in below poverty line population in Jammu & Kashmir, Andhra Pradesh, Orissa, Madhya Pradesh and Rajasthan. The study suggested that poverty reduction strategy, developing inclusive financial systems should be given priorities, which are financially and socially sustainable.

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 unfavorable 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 tocredit from formal institutions is high for small and marginal farmers and some social groups. The study states that 73 per cent to 83 percentof outstanding loan for small and marginalfarmers is from informal sources such asmoneylenders and traders. Supply anddemand problems have to be solved withappropriate policies. Banks should look atfinancial inclusion both as a businessopportunity and as a social responsibility.Apart from formal banking institutions, therole of the self-help group movement andMFIs is important to improve financialinclusion 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 themself against 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. As study enhances it paid attention on challenges and opportunities of financial inclusion. 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 percent and the proportion having non-life insurance was very low that is less than 1 percent. People having debit cards comprised only 13 per cent and those having credit cards only a marginal 2 percent. 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.

Aroraand 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 fulfill 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 towards 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.

Chakraborty (2009) introduced the banking as key driver of inclusive growth. The study present a picture of financial depth of Indian economy and points out that 45.9 million farmer households out of total 89.3 million households do not have access to credit either from formal or informal sources and one bank branch is catering to the banking needs of 16,000 households. There are Only 17 credit accounts and 54 saving accounts per 100 people with all institution and only 13 percent are availing loans from the banks. After that the study moves towards inclusive growth and argued that, it creates economic opportunities and has a power of reducing the poverty, inequality and unemployment. Further, the study points out the role of financial inclusion in achieving the inclusive growth. The analysis was classified into three phases.During the first phase (1960 to 1990) the focus was on channelizing of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second phase (1990 to 2005) focused mainly on strengthening the financial institutions as a part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by introducing the Self-Help Groups and bank linkage programme, Kisan Credit Cards for providing credit to farmer. In third phase the financial inclusion was explicitly made as a policy objective and tried to provide the banking facilities through 'No-Frill' accounts to the maximum households. In the end, the study concluded that financial inclusion along with the Government development programmes will lead to an overall financial and economic development in our economy and as in case for most developing countries,extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

Rama (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 alsoexplains 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 multipleaccounts. 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. The study 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.

Bhatia and Chatterjee (2010) tried to find out the situation of financial inclusion in slums of Mumbai. After that, study discussed about the financial depth in Indian economy and policies started by the Government and RBI. It focused on the main objectives to identify the extent of financial exclusion and to study the awareness level of financially included people. To fulfill these objectives, the study used the primary data, proportionate random sampling technique was used to collect the data and it was collected through two predesigned schedules, one for the slum dwellers and another for the branch managers. The empirical section of the study revealed that only one third of the respondents have saving bank account. Significantly, none of the respondents had an account with any private bank. Among those who did not have a bank account, only 8 percent tried to open bank account, but remained un-successful. Out of the respondents, who did not have a

bank account, only one fifth were saving privately and it was less than 2 percent of total sample, while 10 percent of the respondents had taken loan from other sources. The study also found that 96 percent of the respondents possessed valid proof of identity and banks have done only lip services to open No-frill accounts. The number of such accounts formed an insignificant 0.77 percent of total deposit accounts. The study concluded that, although financial inclusion has become the buzzword in present day,we need to take many initiatives to convert this in reality.

Pavichandran (2009) tried to explore the relationship between the financial inclusion and economic growth. The study emphasized that although our country is growing around 9 percent still, the growth is not inclusive with the economic condition of the people in rural areas worsening. Moreover, the study argued that one of the typical reasons for the poverty is being financial exclusion.This excluded section largely comprises of marginal farmers, land less laborers, self-employed and unorganized sector. The study found that lack of awareness, low-income social exclusion, illiteracy, and distance from branch, branch timings, language, and staff attitudes are the common reasons for their exclusion. The study suggested that some model like, SHGs and bank linkage model, MFI and bank linkage model and NBFC mode, and post office model to overcome the problem of financial exclusion. It also emphasized on the objective to find out the various initiatives taken by the banks, RBI and Government and find out others feasible models for financial inclusion. To meet its objectives study used the primary data and multistage sampling was used for choosing the sample and data was collected through the structured questionnaire for both managers and customers. The study found that financial inclusion can help to achieve the inclusive growth and also in reducing the poverty, but it must be supported by various influences like; technology, financial education, counseling and society. So once this scheme was properly implemented and executed in every village with support from the government and society. Then it can really uplift the living standard of the poor people which really make our country proud. Adequate credit at reasonable cost is important for economic development. Only formal agencies of credit are able to fulfill both condition i.e., to meet the demand of credit for household up to adequate level and at low cost. So a well settled and evenly distributed banking sector is must for the purpose of financial inclusion. In this context, the Narasimham Committee laid the foundation for the reform of the Indian banking sector. Constituted in 1991, the Committee submitted two reports, in 1992 and 1998, which laid significant thrust on enhancing the efficiency and viability of the banking sector. Financial products play an important part in today's society. Financial

exclusion is an important problem in developing country particularly in India which needs to be addressed.

Sarma (2008) 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.

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 remittance has a 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.

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 the paper attempts to identify the factors that 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 negatively associated with financial inclusion. Government ownership of banks was not significantly associated with financial inclusion while foreign ownership was foundto be negatively associated. Interest rate did not seem to be significantly associated with financial inclusion.

Pati (2010) analyzed the role of financial inclusion in inclusive growth, assess the contribution and significance of micro finance in financial inclusion of women and inclusive growth, and focused microfinance oriented financial inclusion though 150 women micro finance clients (experimental) and 75 non-microfinance women (control group) from the seven districts of the state Meghalaya and found that the micro finance based financial inclusion ensured that the under privileged and downtrodden are taken special care. It has led to their economic empowerment and subsequently in socio- political development outcomes i.e. inclusive growth. The study found a significant relationship between financial inclusion and microfinance.

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 analyzed 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 shows 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 complain 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.

C. Rangarajan (2008) in his report ‘ financial inclusion’ said that the Indian context, both supply-side and demand side barriers have been recognized as responsible for low level of financial inclusion. Supply side constrains like poor banking infrastructure, low resource base of credit providing institutions, security based lending procedures, lengthy and cumbersome formalities, low level of financial literacy, etc., are still dominant in the sector. Scores of demand side factors such as inadequate human capital, skewed distribution of land including lack of proper land reforms, presence of large section of landless laborers, poor state of physical infrastructure (road, bridges, irrigation structures, market yards, cold storages), underdeveloped social capital (Gram Panchayat, local administration, commodity cooperatives, etc.), low productivity leading to low level of profitability, poor linkages, poor risk mitigation mechanism, etc., in the country have adverse effects on the expansion of coverage institutional credit.

Kempsonet (2000) analyzed a range of physical and geographical barriers to financial inclusion and broad range of other factors that can contribute to financial exclusion for different products and individuals under certain circumstances and further in his study found that a number of ‘dimensions’ or ‘forms’ of financial exclusion can be identified. The critical dimensions of financial exclusion include: (i) access exclusion- restriction through the process of risk management (by financial services providers); (ii) condition exclusion conditions attached to financial products which make them inappropriate for the needs of some segments of population; (iii) price exclusion some people can only gain access to financial products at prices they cannot afford; (iv) marketing exclusion some people are effectively excluded by targeted marketing and sales; and (v) self-exclusion people decide not to opt for a financial product because of the fear of refusal to access by the service providers.

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, analyzed 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, observed that the real burden of loan was higher on marginal farmers. It was also observed that the non-institutional agencies were the main sources of loans, providing 71.04 percent of the total loans. The study also showed that the institutional sources charged rate of interest ranging between 1 and 10 percent per annual. In case of non-institutional sources, rate of interest varies between 21 to 30 percent. In end the study it was indicated that the farmer has been facing more difficulty of credit supply.

Mehrotra and Nirupam (2009) analyzed the overview of financial inclusion. Despite the laudable achievements in the field of rural banking, issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before, Therefore, the key issue now is to ensure that rural credit from institutional sources achieves wider coverage and expands financial inclusion. For achieving the current policy stance of "inclusive growth" the focus on financial inclusion is not only essential but a pre-requisite. And for achieving comprehensive financial inclusion, the first step was to achieve credit inclusion for the disadvantaged and vulnerable sections of our society. The state has to play an important role in financial markets. The role itself was necessitated due to pervasive market failure which in the current globalized scenario is not a rare occurrence. In developing countries both market and government as institution have their limitations, but it is necessary to design government policies that are attentive to those limitations. Financial inclusion is one such intervention that seeks to overcome the frictions that hinder the functioning of the market mechanism to operate in favor of the poor and under privileged.

National Sample Survey Organization(2003) found in its situation assessment survey that only 48.6 percent farmer households were indebted, of which only 57.7 percent were indebted to institutional agencies. In other words, only 28.04 percent of farmer households were indebted to institutional agencies. And further found that the 'after nearly 37 years of nationalization and over 15 years of credit targeting for agriculture, in AP and Rajasthan the total debt of the farmer households from all institutional sources put together was less than that from the moneylenders. Further, in Punjab, Assam and Bihar, the total debt of the farmer households from institutional agencies was less than from non-institutional agencies.

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.

Kumar (2011) tried to analyze the access of banking system to both rural and urban households in India. The study emphasized that financial inclusion plays an important role in economic growth. The study cites to empower its argument. The study argued that most of the studies present only the supply side picture of the formal financial system. But it is very important to look at user's side of financial inclusion too. So this study attempted to fill this gap by analyzing both supply and demand side information and providing a comprehensive, picture of financial inclusion in India. It attempted to measure and understand financial inclusion by looking at supply of banking outreach indicators such as number of deposit and credit accounts, number of bank branch average deposit and credit amount per account and demand side indicators like household level access such as the proportion of household having saving, credit and insurance etc. To achieve this objective, the study used the secondary data and it was collected from sources like RBI, BSR (Basic statistical

returns) AIDIS (All India debt and investment survey) to study the outreach of financial services. The study found that the supply side financial inclusion index of banking outreach value of the top state is more than six times that of the bottom state and in rural area this difference was close to eight times. The study also observed that there are wide disparities between rural and urban area in the accessibility, availability, and uses of the banking services. The study concluded that financial inclusion is very important not only for economic growth but also to reduce the dependency on informal source of finance and also to include the vulnerable region. The study also suggested that there is a need for a hundred small steps to include the people in the main stream of financial services and argued that financial inclusion is very important for the country because it protects an economy from to various consequences like social exclusion, exposure to higher interest rates charged by informal lenders, compromised standard of living resulting from lack of access to short credit, but without losing sight of the most vulnerable groups, regions or states.

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 Tricity, i.e. Chandigarh Panchkula and Mohali after the state level banking committee report which has claimed that 100 percent financial 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 percent, 62.50 percent and 83.01 percentrespondents is from Chandigarh, Panchkula and Mohali respectively have been financially included. The study also revealed that

Chandigarh Tricity 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 of Rs. 1thousand to 50,thousandand 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.

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 level. So this study will try to investigate the extent and what are the reasons of it and highlight the suggestions offered by the respondents to improve the efficiency of banking system in rural area.