ROLE OF CO-OPERATIVE SOCIETIES IN FINANCIAL INCLUSION - A STUDY ON RURAL HOUSEHOLDS OF KERALA

Thesis Submitted to the University of Calicut

for the award of the degree of

Doctor of Philosophy in Commerce

By

GOPINATHAN P.

Under the Supervision of

Dr. K.P. MURALEEDHARAN
Professor
Department of Commerce and Management Studies
University of Calicut

DEPARTMENT OF COMMERCE AND MANAGEMENT STUDIES

UNIVERSITY OF CALICUT

KERALA

NOVEMBER 2016

DECLARATION

I, GOPINATHAN P., do hereby declare that this thesis entitled "**ROLE OF CO-OPERATIVE SOCIETIES IN FINANCIAL INCLUSION - A STUDY ON RURAL HOUSEHOLDS OF KERALA"** is a bonafide record of research work done by me and that no part of this thesis has been presented before for the award of any degree, diploma or other similar title of recognition.

C.U. Campus,
.11. 2016 GOPINATHHAN. P.

DEPARTMENT OF COMMERCE AND MANAGEMENT STUDIES

UNIVERSITY OF CALICUT

Dr. K.P. Muraleedharan

Professor

Date:23-11-2016

CERTIFICATE

Certified that this thesis entitled "**ROLE OF CO-OPERATIVE SOCIETIES IN FINANCIAL INCLUSION - A STUDY ON RURAL HOUSEHOLDS OF KERALA"** is a bonafide record of the research work carried out by Mr. Gopinathan. P. under my supervision and guidance for the award of Ph.D Degree of the University of Calicut and no part of this has been previously formed the basis for the award of any degree, diploma or other similar title in any University.

He is permitted to submit the thesis to the University.

Dr. K.P. Muraleedharan
(Supervising Teacher)

DEPARTMENT OF COMMERCE AND MANAGEMENT STUDIES

UNIVERSITY OF CALICUT

Dr. K.P. Muraleedharan

Professor

Date: 06-02-2017

CERTIFICATE

Certified that this thesis entitled "**ROLE OF CO-OPERATIVE SOCIETIES IN FINANCIAL INCLUSION - A STUDY ON RURAL HOUSEHOLDS OF KERALA**" is a bonafide record of the research work carried out by Mr. Gopinathan. P. under my supervision and guidance for the award of Ph.D Degree of the University of Calicut and no part of this has been previously formed the basis for the award of any degree, diploma or other similar title in any University.

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It is also certified that the reports of adjudicators of the thesis have not been suggested any modifications / corrections of the work.

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(Supervising Teacher)

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LIST OF ABBREVIATIONS

AFC	:	Asset Finance Company
AIDIS	:	All India Debt and Investment Survey
AIDIS	:	All India Debt and Investment Survey
APL	:	Above Poverty Line
APY	:	Atal Pension Yojana
ATM	:	Automated Teller Machine
BC/BF	:	Business Correspondents/ Business Falicitors
BISFA	:	Building Inclusive Finnacial Sector in Africa
BPL	:	Below Poverty Line
BRICS	:	Association of Brazil. Russia, India, China and South Africa
BSBDA	:	Basic Savings Bank Deposit Accounts
CAGR	:	Compound Annual Growth Rate
CFID	:	CEDMAP Financial Inclusion Division
CEDMAP	:	Centre for Entrepreneurship Development Madhya Pradesh
CGAP	:	Consultative Group to Assist the Poor
CIBIL	:	Credit Information Bureau (India) Limited)
CIC	:	Core Investment Company
CNIF	:	National Council for Financial Inclusion
CRA	:	Community Re-investment Act
CSC	:	Common Service Centre
CSRE	:	Crash Scheme for Rural Employment
DCCB	:	District Central Co-operative Bank
DFID	:	Department of International Development
DPAP	:	Drought Prone Areas Programme

DRDA	:	District Rural Development Agencies
DRI	:	Differential Rate of Interest scheme
DRI	:	Differential Rate of Investment Scheme
EAS	:	Employment Assurance Scheme
EBT	:	Electronic Benefit Transfer
EFT	:	Electronic Fund Transfer
FD/RD	:	Fixed Deposit/ Recurring Deposit
FIF	:	Financial Inclusion Fund
FII	:	Financial Inclusion Index
FITF	:	Financial Inclusion Technology Fund
FLCC	:	Financial Literacy and Credit Counseling Centers
FSC	:	Farmers Service Centers
FWP	:	Food for Work Programme
GCC	:	General Credit Card
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
GOI	:	Government Of India
GPFI	:	Global Partnership for Financial Inclusion
HDI	:	Human Development Index
ICICI	:	Industrial Credit and Investment Corporation of India
ICs	:	Investment Companies
ICT	:	Information and Communication Technology
IDBI	:	Industrial Development Bank of India
IDFC	:	Infrastructure Development Finance Company
IFCI	:	Industrial Finance Corporation of India
IFI	:	international Financial Institutions
IFMR	:	Institute for Financial Management and Research Centre for Micro finance
IIBI	:	Industrial Investment Bank of India

IRDA	:	Insurance Regulatory and Development Authority
IRDP	:	Integrated Rural Development Programme
JLG	:	Joint Liability Groups
JRY	:	Jawahar Rozgar Yojana
KCC	:	Kissan Credit Card
KSFE	:	Kerala State Financial Enterprises
KYC	:	Know Your Customer
LFC	:	Loan Finance Companies
MCA	:	Ministry of Corporate Affairs
MDDFII	:	Multi-Dimensional Demand side Financial Inclusion Index
MDG	:	Millennium Development Goals
MDS	:	Monthly Deposit Scheme
MFAL	:	Marginal Farmers and Agricultural Labourers Development Agency
MFI	:	Micro Finance Institutions
MGC	:	Mortgage Guarantee Company
MGNREGP	:	Mahatma Gandhi National Rural Employment Guarantee Programme
MIS	:	Management Information System
MNREGS	:	Mahatma Gandhi National Rural
		Employment Guarantee Scheme
MOF	:	Ministry of Finance
MRTP	:	Monopolies and Restrictive Trade Practices Act
NABARD	:	National Bank for Agricultural and Rural Development
NaMFI	:	National Mission of Financial Inclusion
NBFC	:	Non Banking Financial Companies
NCHF	:	National Co-operative Housing Federation
NECS	:	National Electronic Clearing Service
NEFT	:	National Electronic Fund Transfer

NGO	:	Non Governmental Organizations
NHB	:	National Housing Board
NOAPS	:	National Old Age Pension Scheme
NREP	:	National Rural Employment Programme
NRFIP	:	National Rural Financial Inclusion Plan
NSSO	:	National Sample Survey Organisation
OECD	:	Organisaortion for Economic Co-operation and Development
PACS	:	Primary Agricultural Co-operative Societies
PEO	:	Evaluation Organisation of Planning Commission
PIREP	:	Pilot Intensive Rural Employment Project
PMJGY	:	Pradhan Manthri Jandhan Yojana
PMJJBY	:	Pradhan Manthri Jeevan Jyothi Beema Yojana
PMSBY	:	Pradhan Manthri Suraksha Beema Yojana
POT	:	Point of Transaction
PSBC	:	Postal Savings Bank of China
PSO	:	Payment System Operators
PSP	:	Payment Service Providers
RBI	:	Reserve Bank of India
RIDF	:	Rural Infrastructure Development Fund
RLEGP	:	Rural Landless Employment Guarantee Programme
RMCC	:	Rural Mutual Credit Co-operatives
RRB	:	Regional Rural Banks
RSBY	:	Rashtriya Swasthya Bima Yojna
RTGS	:	Real Time Gross Settlement
SBAS	:	Satellite-Based Augmentation System
SBLP	:	SHG Bank Linkage Programme
SCB	:	State Co- operative Bank
SEBI	:	Securities Exchange Board of India

SFDA	:	Small Farmers Development Agencies
SGRY	:	Sampoorna Grameena Rozgar Yojana
SHG	:	Self Help Groups
SIDBI	:	Small Industries Development Bank of India
SJSRY	:	Swarna Jayanthi Shahari Rozgar Yojana
SLBC	:	State Level Bankers Committee
SPSS	:	Statistical Package for the Social Sciences
STCRC	:	Short Term Co-operative Rural Credit
UDC	:	Under Developed Country
UIDAI	:	Unique Identification Authority of India
UNCDF	:	United Nations Capital Development Fund
UNDP	:	United Nations Development Programme
UNO	:	United nations organisation
USA	:	United States of America
UTLBC	:	Union Territory Level Bankers Committee
VAS	:	Village Adoption Scheme
VTB	:	Village and Township Bank

CHAPTER ONE
INTRODUCTION

The financial sector plays a critical role in the development process of a country. Financial institutions, instruments and markets, which constitute a broad spectrum of financial system, support increasing capital accumulation through institutionalization of savings and investments. This leads to economic development. The ultimate objective of economic policy, irrespective of ideological differences, is economic development and enhancement of the quality of life of the people. Growth and development to be meaningful and desirable, should embrace every section of the society. In India, in recent times, GDP growth rate has been good. During the period 2003-2008, India achieved a growth rate of 8.8% making her the second fastest growing economy in the world. But, it is a fact that this growth has bypassed many sections of the Indian society, living in rural areas. This is a fact conceded even by supporters of the neoliberal economic policies. And, there is a consensus that growth has to be more inclusive if it is to have wider acceptance and sustainability.

1.1. Economic Development, Inclusive Growth and Financial Inclusion

The primary objective of all the countries of the world is to attain economic development. The most crucial task of the national governments today is to raise the income, well being and economic capabilities of people. Every year aid is distributed, investments are made, policies are framed and elaborate plans are formulated so as to achieve this goal, or at least to step closer to it. The initiative notions of 'development', as far as a society is concerned, include the people who are well fed and well clothed, properly remunerated, possess access to a variety of commodities, have the enjoyment of some leisure and entertainment and thrive in a healthy environment. The society shall be free of violent discrimination, with tolerate levels of equality, where the sick receives proper medical care and people do not have to sleep on the sidewalks. In short there must be minimum requirements for a 'developed' nation like better physical quality of life, political and social rights and freedom, intellectual and cultural progress, stability of the family set up, low crime rate and so on. Economic development is a multifaceted concept, incorporating not just income and its growth but also achievements from other fronts: higher life expectancy, reduction in infant mortality, widespread access to medical services, advances in literacy rates, etc. Till 1960s economic development was often used as a synonym of economic growth. However at present the world economists are of the view that there is high conceptual difference between these two terms.

1.1.1. Concept of Economic Growth

Economic growth may be defined as the rate of expansion that can move an underdeveloped country from a near subsistence mode of living to substantially higher levels in a comparatively short period of time, i.e. decades rather than centuries. For nations already advanced economically, it will mean a continuation of existing rates of growth ((Misra and Puri, 2007)[1]. Actually economic growth refers to increase over time in a country's real output of goods and services. However economic development implies progressive changes in the socio economic structure of a country. The development goals are defined in terms of progressive reduction of unemployment, poverty and inequalities.

1.1.2. Growth and Development: A Contrast in Concepts

The term economic growth refers to increase overtime a country's real output of goods and services or more appropriately product per capita. The term economic development is more comprehensive. It implies progressive changes in socio economic structure of a country leading to a substantial increase in GNP in the share of industries, trade, banking, construction and services and a corresponding steady decline in the share of agriculture. There is a shift in the occupational structure of the labour force and an improvement in its skill and productivity. Growth, thus merely refers to a rise in output while economic development implies changes in technological, institutional and organizational increase in production as well as distributive pattern of income. Compared to the objective of development, economic growth is easy to realize through mobilizing larger resources and raising their productivity.

The features of growth are:-

- A rise in gross domestic product (GDP)
- A rise in gross national product (GNP)
- A rise in per capita gross domestic product
- A rise in per capita gross national product
- A rise in per capita net domestic product.

Growth without development is inconceivable. A substantial rise in country's GNP is required before it can hope to expand its industries, financial institutions, trade, public utilities and government administration. However it is easier for the developing countries, as asserted by Singer [3], to demonstrate from numerical models, given their high rates of population increase, increasingly capital intensive technology, the technological monopoly of the industrialized countries and their limited resources to enjoy the 'features of growth without development'. From the welfare view point of the people, economic growth alone is not enough for under developed countries. It must be accompanied by development. Most of the developing countries have a colonial past, having similar growth pattern which according to Hans Singer [4] is Dualism which refers to co-existence of developed and under developed sectors in a country's economy side by side. In such an economy one sector or sub sector experiences perceptible growth, while the rest of the economy does not. Dhingra[5], very clearly has analyzed the features of domestic economy and pointed out that segment of the economy is developed; makes use of modern techniques of production and is usually market oriented. The other segment, which is found beside the developed segment, is the subsistence type of economy that makes use of primitive methods of production. This type of dualism is formed both in the urban and the rural sectors of the economy.

1.1.3. Concept of underdevelopment

It is very difficult to find a simple and precise definition of an underdeveloped nation or area. The term under development is a relative concept. The countries of the world are at different stages of development and it is very rare to find two countries at the same level of development.

In the economic literature on growth, the terms ‘backward’, ‘underdeveloped’, ‘less developed’, ‘developing’, ‘Third world’, ‘South’, ‘emerging markets’ etc are quite often used interchangeably. However there are slight distinctions between different shades of meanings of these terms (Zuvekas, 1979)[6].

An underdeveloped economy is characterized by high population growth rate, abundant but underutilized natural resources, low rate of capital formation, low standard of living accompanied by continuous and sustained efforts to raise it through proper utilization of available natural resources, manpower, financial and entrepreneurial resources (Dhingra,2005)[7]. The GDP of such an economy mainly comprises of the agricultural sector and the people of UDCs have to depend excessively upon agriculture.

The under developed countries exhibit these common characteristics not in same proportion or such countries do not have the same features. Even the countries which do not have most of these characteristics are still classified as under developed countries. A team of experts appointed by the UNO to interpret the meaning of under development, the countries whose per capita real income is low when compared with the per capita real income of the USA, Canada, Australia and Western Europe are under developed countries[8]. Underdevelopment refers to the presence of human and natural resources which have remained unutilized or underutilized due to which the standard of income and consumption is low as compared to that of the advanced countries. In such countries there is greater scope for improvement through the application of known means. It is an economy which is characterized by massive poverty on the one hand and the prospects of improvement on the other. It is a case of poverty in the midst of plenty. India belongs to the family of under developed countries.

1.1.4. Indicators of under development

To realize the problems of underdevelopment, a good knowledge of characteristics of under developed countries is necessary. The analysis of such characteristics will shed some light on the economic and social conditions of income and wealth distribution of these economies. The features of underdevelopment include low per capita real income, scarcity of capital, rapid population growth and high dependency burden, existence of unemployment and under employment, extreme income disparities, high Incidence of Poverty, technological backwardness, excessive dependence on Agriculture, lower level of human well being and small participation in foreign trade. . "A purely agricultural country is likely to be unprogressive even in its agriculture." (J.K Galbraith) [9]. The general nature of the world economies based on population, land area and GNP per capita is exhibited by the following table.

Table 1.1

Population, Area and GNP per capita

Sl. No.	Country Group	Population (Millions-2015)	Area (thousands of sq. kilometers)	GNP Per Capita 2015 $
1	Low income economies	622	14858	1045 or less
2	Lower middle income economies	2879	20785	1046 to 4125
3	Upper middle income economies	2361	42705	4126 to 12735
4	Higher income economies	1070	5138	12736 or more

Source World Development Report, 2015

In the process of economic development besides various social and political factors, non economic factors affect the rate and pace of development which may be explained in the following lines.

- The propensity to develop application of science to economic ends. This depends upon the beliefs, attitude and response of the people.

- The propensity to accept innovation. The people of a country should have a positive mind to accept and adopt innovations and inventions so that economic improvement can be made. This points out towards the positive attitudes and motivation of population.

- The propensity to consume: The volume of savings and investment depends upon the level of consumption in an Under Developed Country (UDC). This is affected as much by income as by other factors like social customs and traditions. Higher the propensity to consume, less is left for savings and investment.

- The propensity to seek material welfare: Economic development is affected by the value that people attach to economic incentives, material rewards, independence and rational calculation. In an UDC people give less importance to these things and they tend to have a target income which is the subsistence income. Once they reach this point they feel satisfied and do not show any inclination to further work.

- The propensity to have social organization: A precondition for accelerating growth process is mass participation in development programme. People show interest in the development activity when they feel that the fruits of growth will be fairly distributed. A defective social organization prevailing in the UDCs prevent people from participating in social development programme.

- The propensity to fight corruption: In the growth process of the UDCs corruption is rampant at various levels of administration which operates as a negative factor. By employing corrupt means, a sizable portion of the outlay of development projects is misappropriated by the government officials and political leadership. Corruption, as a growth arresting factor is not discussed by many of the economists, however, Gunnar Myrdal has pointed out that it is rather unfortunate to ignore corruption as a factor in the analysis of economic problems[10].

- The propensity to have children: In UDCs a high rate of population growth, i.e., a high fertility rate is conditioned by social and religious modes of society. For rapid and speedy economic development this prosperity is to be reversed.

1.1.5. Nature of Indian economy

India is economically regarded as a developing country with a large and rapidly growing population still having all the characteristics of under development. Though the Indian economy no longer suffers from stagnation, as it had under the British regime, the development since independence has not been spectacular. After independence the usual traditional capitalist path of development is not followed by the Indian rulers but they have opted for a planned development and accordingly built up a mixed economy. Even after sixty five years of attaining independence, almost all important features of underdeveloped economy are present in India.

During the British rule India remained predominantly agrarian economy and eighty-five percentage of the population lived in villages. Directly and indirectly they depended on agriculture for their livelihood. British rule created stagnant agriculture sector and created indebted peasantry and landless labour class. Rural indebtedness increased and the consequence was impoverishment of the peasantry and the stagnation of the rural economy. After independence a sea change has come over the last six and half decades. Agriculture has transformed from subsistence to market oriented, from mono crop to multi crop, from traditional to technology oriented, from extensive to intensive with the five year planning process and government support. The degree of self sufficiency in food grains has increased and transformation from large volume of imports to sizable exports of agricultural products materialized.

The British rule had converted India into a source of raw material for British industry and at the same time a market for their industrial goods. The Indian industries before independence were totally destroyed deliberately and the result was massive unemployment. In British India, the native investment on a decisive scale did not occur because of very low surplus income and the same was with the very few privileged wealthy groups. Since independence massive changes have been occurred in the industrial sector also and during the second five year plan a large number of large scale basic industries and power stations were established. This made the country's industrial structure pretty strong and diversified. The industrial growth was rapid during the first four decades of independence. The development of small scale industries created many entrepreneurs and millions of jobs. The highly improved infrastructure and communication system, fast developing power system, substantially progressed health and education, strong labour force and skilled and fast developing science and technology sector, large network of research institutes etc. led the Indian economy through a path of transition – a transition from under development to development, from poverty to prosperity and from scarcity to abundance.

Since independence significant progressive changes have taken place in the banking and financial sector of India. Both money market and capital markets have improved and specialized industrial financial institutions have been set up. The growth of commercial banks and co operative banks has been really spectacular and as a result the significance of moneylenders and indigenous bankers has declined. The nationalization of banks and the radical changes introduced in the credit policy made the funds flow towards priority sectors like agriculture, small scale industries, transportation etc. Later the implementation of financial sector reforms in India during the nineties of last century broadly termed as liberalization, privatization and globalization marked high improvement in GDP growth rate. However it produced mixed results.

There has been very impressive performance in many areas but the agriculture and other primary sectors have not seen any drastic changes and the disparity in the distribution of income and wealth more has widened.

To sum up, the Indian economy is no longer caught in a low equilibrium trap where it remained for a long period under the British rule; however it still remains economically backward. “It can be noted that during the last six decades the Indian economy has progressed structurally, considering the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, changes in the financial organizations and the progressive transformation of the agrarian scene. These factors over the years are believed to have created an element of dynamism in the country’s economy and one can now hopefully say that it would sustain development in the future” (Misra and Puri, 2006)[11]. These factors include food, clothing, housing, education and health, the absence of which lead to Poverty.

1.1.6. Poverty and income distribution in India

In India poverty has been defined as that situation in which an individual fails to earn income sufficient to buy him bare means of subsistence. To quantify and analyze the extent of poverty and measure the number of poor in the country the economists have introduced the concept of poverty line in India during 1971. The studies conducted by the economists like Bardhan, Minhas, Dandekar, Ahluvaliya, Vaidyanathan, Bhatty and Tendulkar have pointed out the proportion of the population living below the poverty line. They however do not emphasis the uneven income distribution. Amarthya Sen has argued that “The poor is not an economic class, nor convenient category be used for analyzing social and economic movements. Poverty is the common outcome of a variety of desperate economic circumstances and a policy to tackle poverty must go beyond the concept of poverty. The need for discrimination is essential”.[12] It is not sufficient to know how many poor people there are, but exactly how poor they are. The issues of poverty in the developing countries involve hunger, illiteracy, epidemics and the lack of health services or even safe water. The Human Poverty Index constructed by the Human Development Report 1997 focuses on the deprivation in the following three elements of human life – longevity, knowledge and a decent standard of living.

1. The first deprivation relates to survival – the vulnerability to death at a relatively earlier age. The Human Poverty Index represents it by the percentage of people expected to die before the age of forty.

2. The second deprivation relates to knowledge – represented by percentage of adults who are illiterate.

3. The third aspect relates to decent standard of living represented by a composite of two variables:

(a) Percentage of population of a country not using better water resources.

(b) Percentage of children of a country who are under weight under the age of 5 years.

The human poverty in India as computed by the Human Development Report, (UNDP) 2014, disclosed that India ranks 135 out of 187 countries with an HDI of 0.586. It is the lowest performing country among the BRICS nations in all categories of HDI with the exception of life expectancy. The report has placed India at the near bottom of countries which have reached 'Medium development'. According to the report only ten countries have a better index whose per capita income is lower than India and four countries with a higher income have a lower index. This clearly reflects the unsatisfactory performance in the alleviation of human poverty. The Multi dimensional poverty index is at a high rate that is 40 percent, which means that the poverty is wide spread in India. Deprivation in economic positioning in India is also high. The people's accessibility to water resources improved a lot recently, but a little less than half of the children under the age of five years remain under weight.

Table 1.2

The Dimensions, Indicators, Deprivation thresholds and weights of Multi-dimensional Poverty Index, 2014

Dimension	Indicator	Deprived if….	Relative Weight
Education	Years of Schooling	No household member has completed 5 years of schooling.	1/6
	Child School Attendance	Any school aged child is not attending the school up to the age which they would complete class 8.	1/6
Health	Child Mortality	Any child has died in the household.	1/6
	Nutrition	Any child or adult for whom there is nutritional information is malnourished.	1/6
Living Standard	Electricity	The household has no electricity.	1/18
	Improved Sanitation	The household's sanitation facility is not improved (according to MDG guidelines), or it is improved but shared with other households.	1/18
	Safe Drinking Water	The household does not have access to safe drinking water (according to MDG guidelines), or it is more than 30 minute walk from home, round trip.	1/18
	Flooring	The household has a dirt, sand or dung floor.	1/18
	Cooking Fuel	The household cooks with dung wood or charcoal.	1/18
	Assets	The household does not own more than one radio, TV, telephone, bike or refrigerator and does not own a car or a truck.	1/18

Source: www.ophi.org.uk

India has one of the largest poor populations in the world. There are poverty stricken people both in urban and rural areas. In the rural sector of India the major portion of the population consists of landless agricultural labourers and small and marginal farmers. Most of the households own and possess very little land and they are forced to go for wage labour to earn their subsistence. The poverty and the lack of ownership of land are positively correlated. The rapid population growth puts pressure on the land base and consequently the real per capita income of labour falls due to decline in labour productivity and employment as well as by the increase in food prices (Mellor and Desai)[13]. The land reforms measures introduced after independence did not make substantial changes in the agrarian relatives. The adoption of labour displacing machinery, the eviction of small tenants by large landlords, the impoverishment of the village artisan, the decline in the participation of women in the agricultural work force due to new technology adoption in agriculture etc. brought more disadvantage on the unprivileged. These prevented even the 'trickle down' hypothesis which states that the rapid growth of per capita income will be associated with reduction in poverty.

The country also faces urban poverty which can be identified with people who are unemployed, underemployed or employed in various low productivity occupations with very low real wages. Urban poor includes people living in slums, street vendors, rag pickers, domestic maids, unorganized sector workers etc. In most of the cities, migrant workers are prominent amongst the poor. The cities failed to absorb the existing labour force fully and are unable to find profitable employment opportunities to the migrant labour force from villages. The rising prices of food grains worsened the situation of urban poverty. (see table1.3)

TABLE 1.3

Percentage and Number of Poor Estimated (Poverty Estimates) by Expert Group by Tendulkar Method Using Mixed Reference Period

Sl. No	Years	Poverty Ratio (%)			Number of Poor (Million)		
		Rural	Urban	Total	Rural	Urban	Total
1	1993-94	50.1	31.8	45.3	328.60	74.50	403.10
2	2004-05	41.8	25.7	37.2	326.30	80.80	407.10
3	2009-10	33.8	20.9	29.8	278.21	76.47	354.68
4	2011-12	25.7	13.7	21.9	216.50	52.80	269.30

Source: Planning Commission Estimates; Data Book for PC, 22nd December, 2014

1.1.7. Policies and programmes on poverty alleviation

During 1970s the GOI first adopted rural development and rural employment programmes as a strategy to fight the poverty. With the fifth five year plan poverty alleviation came to be accepted as one of the principal objectives of economic planning. The programmes for the rural poor like Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers Development Agency (MFAL), Drought Prone Areas Programme (DPAP), Crash Scheme for Rural Employment (CSRE), Pilot Intensive Rural Employment Project (PIREP) and Food for Work Programme (FWP) were implemented during the 1970s. These programmes had not comprehensively covered the whole country and some of them were implemented simultaneously for the same target groups.

Though almost all the programmes were in the nature of employment generation schemes, aimed at the target groups living below the poverty line, they were reduced to mere subsidy distribution programmes and failed to improve the income level of the poor. Therefore, during the later seventies and the earlier eighties of the last century, GOI executed Integrated Rural Development Programme (IRDP), National Rural Employment Programme (NREP), and the Rural Landless Employment Guarantee Programme (RLEGP) for the alleviation of poverty. Subsequently NREP and RLEGP were merged into a single rural employment programme since April 1989 and named as Jawahar Rozgar Yojana (JRY).

It was thought by the planners that the people below the poverty line remain poor because they have no assets and lack special skills. Therefore it was proposed to provide new assets for the poor in the form of livestock, implements and sources of irrigation besides inputs like seeds, fertilizers, tools and implements for farming. For this purpose a new programme was designed, the Integrated Rural Development Programme. This was closely evaluated and directed by the RBI, NABARD and Evaluation Organisation of the Planning Commission (PEO). To a certain level IRDP brought some positive results, however it was not effective as a poverty alleviation programme. Later Employment Assurance Scheme (EAS) and Sampoorna Grameena Rozgar Yojana (SGRY) were introduced during 2001 to provide 100 days work to the poor seeking employment. At present special programmes for employment generation and poverty alleviation are being implemented both in rural and urban areas. Recently Mahathma Gandhi National Rural Employment Guarantee Programme (MGNREGP) has been introduced in the villages of India through the grama panchayaths guaranteeing employment for at least 100 days a year and assuring an income to the poor. The wages are not directly given to the workers, instead credited to their bank account opened for this purpose. This policy of the GOI accelerated the measures for financial inclusion also.

1.1.8. Evaluation of the poverty alleviation programmes

Various evaluation studies of these programmes, both by the official and individual scholars, have brought out that the beneficiaries have not benefited in terms of income enhancement, employment generation and asset formation. The studies conducted by the World Bank and the Indian Planning Commission on different occasions have come to the same conclusion that these programmes are missing their mark , consuming significant resources , but yielding little gain in raising the living standards of the poor. These programmes largely missed their supposed targets – the poor- and delivered the bulk of their benefits or subsidies to the politically or economically more advantaged. After the implementation of New Economic Policy, the market friendly programmes seem to be friendly to the non poor and less friendly to the poor. The various measures undertaken by the GOI made little impact on poverty and thus income inequalities perpetuate in their ugliest form. After 1990's, during the liberalization decade one can see that the income inequalities have rapidly increased. For continuous reduction in poverty, Indian economy should achieve a sustainable high growth rate for a long period of time. High growth rate alone is not sufficient, but the growth should be inclusive. The poor people should participate in growth and benefit from it.

TABLE 1.4

Economic Growth Rate in India (%YOY) at 2004-2005 Current Prices

Sector	2009-10	2010-11	2011-12	2012-13	2013-14
GDP (2004-05 Prices)	8.59	8.91	6.69	4.47	4.74
Agricultue & allied	0.81	8.60	5.02	1.42	4.71
Agriculture	0.41	9.54	5.34	0.91	4.93
Industry	9.16	7.55	7.81	0.96	0.35
Mining &Quarrying	5.89	6.54	0.10	-2.16	-1.38
Manufacturing	11.30	8.86	7.41	1.14	-0.71
Services	10.50	9.67	6.57	6.96	6.78

Source: CSO: 31st October, 2014.

1.1.9. Inclusive growth

Inclusive growth refers to both the acceleration and distribution of economic growth. In order for growth to be sustainable and effective in reducing poverty, it needs to be inclusive (Berg and Ostry, 2011[14] and Kraay, 2004)[15]. Rapid and sustained poverty reduction is the end result of inclusive growth that permits people to contribute to and benefit from economic growth. The concept of inclusive growth has been developed on the basis of convoluted relationship between growth inequality and poverty. The poverty reduction and providing justifiable income distribution are the main theme points of inclusive growth which aims at reducing polarization of income and wealth and bringing social equality among the people in the society. The World Bank (2006)[16] emphasized that "Inclusive growth is the only sure means for correcting the deeply ingrained regional imbalances, inequalities and for consolidating economic gains". Therefore inclusive growth can be defined as "the growth that not only creates new economic opportunities but also one that ensures equal access to the opportunities for all segments of the society, particularly for the poor (Ali, 2007)[17]. This definition of inclusive growth justifies the concern of the Asian Development Bank[18] which in 2007 expressed that "inequality is growing across the region, within countries and between urban and rural areas. Some groups experience systematic discrimination based on their gender, ethnicity, caste, age, beliefs or other socio economic status perpetuating their chronic poverty and exclusion, sometimes causing conflicts and exacerbating the conditions of fragile status".

In India some years before 'pro-poor growth' was set as a primary development goal with the twin objectives of faster growth and greater equity. Even though a chain of social and economic development programmes were implemented, the 'pro-poor strategy' failed to deliver on its promise. The newly coined inclusive growth is not an extension of pro-poor growth but remaining as a multi-dimensional concept intended to achieve poverty reduction and providing distributional justice. The idea of propagating the development goal of inclusive growth has originated from the understanding that the process of fast growth has facilitated some sections of the society to acquire assets disproportionately and to exclude some other sections from the blessings of growth. Syam Prasad, in his article brings out, "high growth trajectories affect income distribution adversely, higher level of inequality, the less impact economic growth has for reducing poverty, for any given level of growth, countries can moderate inequality and still achieve reasonable growth rate and so on"[19].

The process of inclusive growth signifies that the integral part of growth process is the distribution of income in favour of the poor and the economic growth process shall be accompanied by socio political process in order to break the discriminatory social barriers based on gender, religion, caste, and ethnicity. It has to address the inequality issue and the poverty reduction goal and to focus on creating productive employment opportunities and making them equally accessible to all. The inclusive growth, as a strategy of economic growth, got importance owing to a growing concern that the benefits of economic growth have not yet been equitably distributed. Growth is inclusive when it creates economic opportunities and ensuring equal access to them. Apart from addressing the issue of inequality the inclusive growth may also make poverty reduction efforts more effective explicitly creating economic opportunities for the poor and the vulnerable sections of the society. (Planning Commission, 2007)[20]

1.1.10. Elements of inclusive growth

The key components of inclusive growth strategy include increase in rural investments, rural infrastructure and agriculture surge in credit for farmers, enhancement in rural employment and increase in public spending in education and health care. The inter-connected elements of inclusive growth are depicted by the diagram 1.1:-

The term inclusiveness is a multi-dimensional concept. The approval paper to the twelfth Five Year Plan[21] states that "Inclusive growth showed result in lower incidence of poverty, broad based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the SC/ST and OBC population; women and children who constitute 70% of the population and deserve special attention in terms of the reach of relevant schemes in many sectors. Minorities and other excluded groups also need special programmes to bring them into main stream." During the Eleventh Plan high rates of economic growth have been shared across the states than ever before. Sustained high rates of growth have been achieved by most states, while several of the economically weaker states have shown an improvement in their growth rates. The growth poor and low income states like Orissa, Bihar, Rajasthan, Chhattisgarh, Madhya Pradesh, Uttarakhand and Uttar Pradesh registered a growth rate of average six percentages during the Eleventh Plan Period.

Figure 1.1

Elements of Inclusive Growth

Source:https://www.google.co.in/webhp?sourceid=chrome

The Government of India has many ambitious anti-poverty and employment generation programmes. There is a major constraint of these programmes. The poor and the marginalized sections of the population, whom these programmes target, are left unincorporated with the main stream economic life of the nation. In other words, they are excluded from the socio-economic infrastructure, whose support is vital for participating in economic activity, and thereby benefiting from growth and development. To overcome this constraint and to bring the marginalized to the development process, the GOI, regulators and policy makers should undertake a massive financial inclusion drive.

1.2. Financial inclusion

The formal financial sector in most of the developing economies serves only a minority even though they have a significant role in the development. Several studies reveal that they serve only 20 to 30 percent of the population covered by the formal financial sector. Many households, which are of low income categories, do not have access to even basic financial services. Even those who have access are underserved both in terms of quantity and quality. Better access can play potentially key role in inclusive growth and development. Hence the problem of the lack of access to finance for a majority of the people deserves a great deal of attention and should be addressed.

In this context the definition given by Rangarajan Committee on financial inclusion is highly relevant. The committee defines financial inclusion 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". Financial inclusion means the provision of financial services, by the financial system, at an affordable cost to the vast sections of the disadvantaged and the low income groups. Here financial services include the provision of savings, loans, and insurance and remittance facilities by the formal financial system to those who tend to be excluded. It has been found that the financial services are used only by a section of the population. There is a demand for the services, but not provided sufficiently. The excluded sections comprise of poor and marginalized farmers, artisans, small traders, landless labour, women, workers of unorganized sectors, socially backward and vulnerable groups like the scheduled castes and the scheduled tribes etc. Financial inclusion will help these sections of society to come out of poverty. The excluded population has to rely on the informal financial sectors like money lenders who charge exorbitant rates of interest. This leads to a vicious circle of poverty and indebtedness.

Even after bank the nationalization (1969, 1980), the formation of Regional Rural Banks (1975) and setting up of NABARD (1982) over 70% of the marginal farmers have no deposit accounts and 87% have no formal financial credit. Over 12 crores households (9 crores in rural) are yet to open a bank account. That is, 60% rural households do not have a bank account; sixteen states of India are below the national average in this regard. Due to high literacy and per capita income levels and advanced infrastructure of formal financial institutions, the rate of financial inclusion in Kerala state is above the national average. Recently Kerala has been declared as the state having100 percent financial inclusion. Still more effective steps are to be taken to achieve financial deepening in the rural sectors of Kerala economy.

Financial exclusion is a universal problem. Even in the developed countries like the USA, the UK, Germany, Canada etc. certain segments of the population are yet to be financially included. Since 2005 the Govt. of India, the RBI and the NABARD have taken a lot of initiatives to address this and to promote financial inclusion. These initiatives would pull up the excluded from abject poverty to a higher economic status and financial inclusion would be facilitated.

1.3. Significance of the Study

The economic development of a country or society is usually associated with rise in incomes and related increases in consumption, savings and investment, growth measured in terms of gross domestic product per capita and related indicators like gross national income. Economic growth is the growth in the productive capacity of an economy, an increase in the value of the total output of goods and services produced. More broadly it is a growth at the level of financial transactions in an economy.

Indian Economy, particularly the banking services, has made rapid strides in the past. However a vast majority of the Indian poor lacks access to formal finance. NSSO data (59th Round) reveal that 45.9 million farmer households in the country (51.4%) out of the total 89.3 million households do not have access to credit either from institutional or non-institutional sources. Further, despite the vast network of bank branches only 27% of total farm households availed loan from formal sources. In order to address this problem, the Government of India, the Reserve Bank of India and other regulatory authorities implemented a variety of programmes since independence without attaining expected results. Even after six and half decades of independence the common man, the poor and the vulnerable, women and the backward class are in the clutches of unscrupulous money lenders and they suffer from poverty. Even though banks are fighting to attain the dream of total financial inclusion in India, the available banking products are insufficient to fullfil the needs of the poor and the vulnerable.

The provisions of financial products attract the marginalized and the poor and they can be brought to the network of formal financial institutions. Co-operatives are the dealers in such products which enable them to become the strong agents of financial inclusion in rural India. The annual report published by the Insurance Regulatory and Development Authority indicates that the life insurance penetration in India is at 4.6 percent and the general insurance penetration is only 0.6 percent. If insurance products are redesigned to suit the needs and the affordability of the common man, the Co-operatives and the PACS can easily spread insurance habits. The general profile of the persons being targeted for financial inclusion indicates that it would be more suitable to the PACS, to offer banking services to all sections of the population without discrimination which result in greater opportunity to increase the depositor base substantially.

Financially excluded people are exposed to the informal sources of credit with high interest rates and have to face unethical recovery practices. However the banking scenario in Kerala is diametrically different. Kerala is the first state in the country to achieve the highest rate of financial inclusion. It is in this background that this study examines the Role of Co-operatives in financial inclusion in Kerala.

1.4. Statement of the Problem

The present study attempts to examine the role of Primary Agricultural Co-operatives credit Societies (PACS) in financial inclusion of rural households of Kerala. Co-operation is a philosophy which was advocated by persons who wanted to bring in an alternative to the exploitative system of capitalism. Co-operatives are formed for the prevention of exploitation of economically weaker sections like marginal farmers, small producers, consumers and other unorganized workers by the economically stronger sections. Co-operation is a system which guarantees better social and economic freedom and protection to its members. The Indian Co-operatives sector has emerged as one of the latest in the world. It now has membership over 18.96 crores with 6.12 lakhs functioning societies of all types, having an aggregate working capital of Rs.1, 18,700 crores. The total number of PACS in India amounts to more than ninety thousand, with a total membership over 1301 lakhs.

Kerala has a prominent place in the co-operative map of the country, with a wide network of societies functioning in almost all the walks of life with the government finance and government initiative. These institutions were developed in Kerala state as a result of mass struggle and massive people's movements. Compared to other Indian states the co-operative movement in Kerala is more participating, creative and comprehensive. The land reforms introduced in Kerala by the progressive governments have a great role in

Kerala's development while Kerala Co-operative Movement has a prominent role in liberating the poor people from the clutches of unscrupulous money lenders. The wide spread co-operative sector provides vast employment opportunities and extend employment opportunities to wide range of services. It is interesting to note that all the villages of Kerala have been covered by PACS.

The co-operative institutions in Kerala are functioning under the control and regulation of the Registrar of Co-operative Societies. There are more than 14000 societies functioning in Kerala under the Registrar. To promote the different sectors of the Kerala economy different kinds of co-operatives are formed with members belonging to different sections of population. At present the composition of co-operatives in the state constitute Credit Co-operatives, Marketing Co-operatives, Consumer Co-operatives, Processing Co-operatives, Housing Co-operatives, Educational Co-operatives, SC/ST Co-operatives, Health Societies, Women Co-operatives and Other Co-operatives (Miscellaneous). For the regulatory and administrative purpose these co-operatives include apex societies with state level functional jurisdiction, district level central co-operatives and bottom level primary co-operatives.

The rural requirements of credit are satisfied by the Primary Credit Co-operatives, more specifically by the Primary Agricultural Credit Societies (PACS). As per the latest statistics available with the Registrar of Co-operatives, Kerala, 1602 PACS with many branches are operating in our state. They are the local banks of the Grama Panchayaths whose area of operation is very limited. Employees of these institutions belong to the locality and therefore they maintain intimate customer relationships. The rural low income households have maximum accessibility to the PACS. These are the Govt. sponsored financial agencies. The co-operative sector promotes democratic control and flexibility in operation. There is no language barrier in the dealings as the PACS generally use Malayalam, the mother tongue of Kerala, in all forms and proceedings. Moreover these institutions practise informal way of dealings with the customers. Above all the ownership of PACS is vested with the members belonging to the same grama panchayath area. This ensures considerable loyalty and commitment of the members towards the society.

The PACS which operates at the grass root level in the villages is expected to play a crucial role in addressing the financial problems of the rural farm folks. They have a prominent role in the Process of financial inclusion. The research in the area of the role of co-operatives is very scanty. Particularly, very little research has been done on the role of primary credit societies in financial inclusion. The present study is a humble attempt to fill this research gap.

1.5. Scope of the Study

Though the title of the study is the role of co-operative societies in financial inclusion, the study is restricted to Primary Agricultural Credit Societies only because PACS are the only co-operative institutional mechanism offering the credit to rural households. They perform the functions of banks i.e., lending money, accepting deposits and offering other financial services, they can be regarded as banks in miniature form for the villagers. These banks offer a wide spectrum of services to members and non members. Specifically the study proposes a conceptual frame work to analyse the role of Primary Agricultural Co-operative Credit Societies (PACS) functioning in the rural areas of Kerala and the study covers such societies and banks only.

1.6. Objectives of the Study

Based on the above stated problems the following specific objectives have been set for this study:

- To develop a conceptual frame work of financial inclusion
- To examine the growth pattern of the PACS in Kerala.
- To analyse the access to financial products among the rural households and their penetration level among members.
- To study the level of financial inclusion of rural population of Kerala through the PACS.

- To examine the economic impact of the PACS in financial inclusion on rural households of Kerala.
- To study the social impact of the PACS in financial inclusion on rural households of Kerala and
- To offer suggestions for improving the extent of financial inclusion through the PACS.

1.7. Hypotheses of the Study

Based on the objectives mentioned above the following hypotheses have been formulated and tested.

Hypothesis 1

The PACS in Kerala have achieved reasonable growth during the period under study.

Hypothesis 2

The rural households in Kerala have reasonable access to financial products and services.

Hypothesis 3

The PACS in Kerala are successful in penetrating various products among members

Hypothesis 4

The PACS in Kerala are successful in achieving financial inclusion in the state. The level of financial inclusion among members is independent of demographic and socio economic variables.

Hypothesis 5

The PACS are successful in creating positive economic impact among members in the state. The economic impact is independent of demographic and socio economic variables.

Hypothesis 6

The PACS are successful in creating positive social impact among members. The social impact is independent of demographic and socio economic variables.

1.8. Research Methodology

The study adopts the following research methodology.

1.8.1. Research design

The study is designed as a descriptive one based on both secondary and primary data.

1.8.2. Sources of secondary data

Secondary data relating to the study has been collected from various research journals, reports, bulletins, official records, newspapers, statistical reviews and other publications. The use of internet is also applied to collect secondary data. To be more specific, Publications of RBI, Economic Review of Kerala, Publications of the State Planning Board, Publications of Indian Institute of Banking and Finance, Banking Finance, Professional Banker, Journal of Economic Issues, Chartered Financial Analyst, Journal of the American Statistical Association, Journal of Economic growth, Review of International Political Economy, Cab Calling, Kerala Development Report, Statistics from SLBC, Kerala Co-operative Journal, Indian Co-operative Review, Co-operator, Co-operative Perspective, International Co-operative Banking Association Journal, NCHF Bulletin, Yojana, Kurukshetra, etc. are referred to collect secondary data.

1.8.3. Primary data

The study is mainly based on primary data collected from a sample of 450 households of the state of Kerala, selected at random. It is collected from the selected rural households by using a structured interview schedule.

1.8.4. Sample Design

1.8.4.1. Population frame: Rural households of Kerala form the population of the study. In the rural areas the individuals of the households can take membership in the PACS voluntarily. If any person from the household has taken membership in the PACS, that household is regarded as the member household. On the other hand if nobody in the household has taken membership in the PACS, it is a non member household. In that sense some of the households in rural Kerala are member households and the others are non member households.

1.8.4.2. Method of Sampling: Multi stage random sampling technique has been adopted to select the required number of respondents from different geographical areas of Kerala. In the first stage the state of Kerala is divided in to three regions such as South, Central and North on the basis of geographic location.

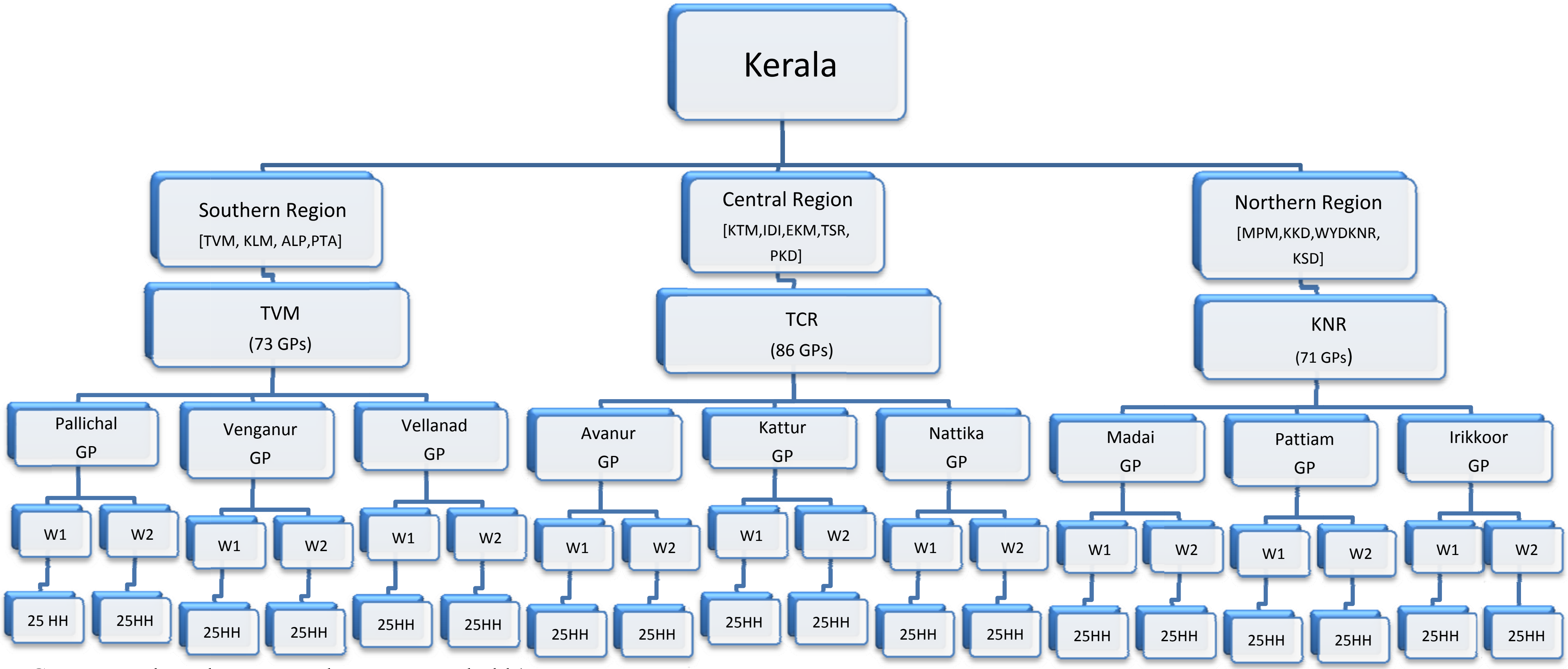
There are fourteen revenue districts in Kerala spread over in these three regions. The districts of Thiruvananthapuram (TVM), Kollam (KLM), Alappuzha (ALP) and Pathanamthitta (PTA) are included in the southern region. Five districts of Kottayam (KTM), Idukki (IDI), Ernakulam (EKM), Thrissur (TSR) and Palakkad (PKD) are included in central region. The remaining five districts of Malappuram (MPM), Kozhikode (KKD), Wynad (WYD), Kannur (KNR) and Kasaragod (KSD) are included in northern region. In the first stage one district from each region is selected at random. Hence Thiruvananthapuram district from southern region, Thrissur district from central region and Kannur district from the northern region are selected.

There are 73 grama panchayaths in Trivandrum district, 86 grama panchayath in Thrissur district and 71 grama panchayaths in Kannur district. All the grama panchayaths of kerala state are functioning under the Ministry of Local Administration according to the Provisions of Kerala Panchayat Raj Act, 1994. All these institutions of local self governments have uniform rules, regulations, administrative framework and functional methods. These rural governments undertake the responsibility of bringing economic development, inclusive growth and social justice. A comprehensive list of the grama panchayaths of each district has been collected from the office of the District Panchayath of each selected district by the researcher. From each district three grama panchayaths are selected in the second stage on the basis of lottery method. The grama panchayaths of Pallichal, Venganur and Vellanad are taken as second stage sample units from Thiruvananthapuram district. In the case of Thrissur district Avanur, Kattur and Nattika grama panchayaths are selected. The panchayaths of Madai, Pattiam and Irikkoor are selected from Kannur district for the purpose of the study.

Each of the grama panchayaths has ten to fifteen wards. In the third stage, from each selected sample grama panchayath, two wards are randomly picked and in the final stage, from each ward 25 households have been chosen. For the purpose of selecting the households the electoral roll published by the Election Commission of India is used. Thus altogether 450 households are selected from the state of Kerala which represent a cross section of the rural population. Out of this three hundred and forty one are the PACS member households and one hundred and nine are non member households.

FIGURE 1.2

Diagrammatic Representation of Sample Design



(GP - Grama Panchayath, W - Ward, HH - Households)

1.8.5. Tools of Data Collection

Information has been collected from two sets of people namely the beneficiaries of the PACS and the officials of the PACS in this study.

A comprehensive interview schedule covering all aspects of the study was prepared by the researcher after consultation with the experts in the field. It contains Twenty eight questions grouped into three major sections; section A to section C. This questionnaire was pre-tested by conducting a pilot study and necessary modifications were made before finally applying.

For the fine tuning of the instrument the researcher conducted discussions with the experts in the field of Co-operation. For this purpose the researcher personally contacted chief executives (Secretaries/ Managing directors) of societies and collected the necessary information from them. Moreover the main officials in the Co-operative department of Government of Kerala like joint registrars and deputy registrars were approached. In addition, experienced senior members, presidents and former presidents of societies were contacted and they shared their experience with the researcher.

1.8.5.1. Pilot Study

The researcher has conducted a pilot study among selected fifty respondent households of two wards of two different grama panchayaths of Thrissur district to test the efficiency, variability and reliability of the research instrument developed. The pilot study helped to make necessary alterations in the interview schedule.

1.8.6. Reliability Analysis

In order to check the internal consistency of the scaled statements, the study conducts a reliability test using Cronbach's Alpha Reliability Analysis. Cronbach's Alpha for the scaled statements was 0.84 for the level of satisfaction in the dealings with the PACS, 0.86 for sevice quality of co-operatives and 0.92 for social awareness which are higher than the standard

Cronbach's Alpha of 0.7. The test proves the internal consistency of the scale and so the questionnaire can be considered as highly reliable.

1.8.7. Scaling Techniques Applied

Most of the information necessary for the study is qualitative in nature. Therefore it becomes necessary for the researcher to use scaling techniques to quantify the qualitative information. For this purpose, Lickert's five point scaling technique has been followed by keeping neutrality in the middle. The researcher has used constant sum scale also in the study.

1.8.8. Variables Used

The following variables are used in the study to analyse the various aspects of financial inclusion.

Table 1.5

List of Variables Analysed

Sl. No.	Purpose	No. of Variables Used	Name of Variables
1	To study the growth pattern of PACS in Kerala	05	No of PACS, Total membership, and average membership Paid up share capital and average share capital Deposits mobilized and average deposits Loans granted and average loans issued
2	To analyse the demographic status of the respondents	11	Membership Status Religion Caste Gender Age Education Occupation Annual income Economic Status (APL/BPL) status Ownership of House

Sl. No.	Purpose	No. of Variables Used	Name of Variables
			Land holdings
3	To assess access to financial services	10	Bank account status Number of bank accounts Types of accounts Distance to nearest bank No frills accounts Period of holding accounts Frequency of operating accounts Agency for credit services Motives behind opening accounts Insurance services
4	To evaluate the level of financial inclusion in Kerala	5	Savings with PACS Credit from PACS Other banking services offered Innovative banking services offered Insurance services
4	To study the penetration level of PACS' products and services among members.	08	Proportion of members using financial and non financial products Most popular deposit products Most popular loan products Non banking services Length of period of use of PACS products Reason for preferring PACS Members' satisfaction with PACS products Service quality of PACS.
5	To evaluate the economic impact	03	Income increase Employment generation Asset enhancement
			Involvement in social activities Awareness about woman empowerment Attitude towards education Health awareness Political awareness

Sl. No.	Purpose	No. of Variables Used	Name of Variables
6	To evaluate the social impact	12	Attitude towards social exploitation Attitude towards black marketing Attitude towards child labour Attitude towards corruption and black money Attitude towards secularism Attitude towards environmental concern Attitude towards alcoholism and smoking
7	To evaluate the service quality of PACS	16	PACS adhere to co-operative principles PACS adhere to democratic principles PACS are the local banks of the Grama Panchayaths PACS offer personalized services PACS adopt informal dealings PACS provide sufficient physical facilities PACS enable banking in local language PACS offer quick dealings PACS have social involvement and service motive Membership in PACS creates 'own bank' feeling PACS offer higher rate of interest on deposits PACS enable participation in management through elected Board of Directors PACS aim to minimize exploitation by money lenders PACS help to reduce bureaucratic evils Employees of PACS are mostly natives and so highly approachable Employees of PACS are courteous and helpful PACS strengthen agriculture and improve access to poor farmers

1.8.9. Method of Contact

Undisguised personal interview method is adopted by the researcher.

1.8.1 Multi-Dimensional Demand side Financial Inclusion Index

A Multi-Dimensional Demand side Financial Inclusion Index (MDDFII) is constructed by the researcher to measure the level of financial inclusion of the rural population of Kerala. This index is prepared on the lines of Human Development Index of UNDP, CRISIL Inclusix, the first Financial Inclusion Index of India, Global Findex, the World Bank's Financial Inclusion Index etc. Multi-Dimensional Demand side Financial Inclusion Index (MDDFII) is a measure that aggregates ten variables of five dimensions of financial inclusion into a single index.

MDDFII reduces complexities involved in the construction of financial inclusion index at individual level. The demand side data on five dimensions of financial inclusion viz. savings, credit, other banking services, innovative banking services and insurance have been collected from sample respondents using ten variables. When a respondent answers positively to the question one point is assigned as the value of that variable otherwise zero is assigned. Value of one for the variable means that the respondent is associated with that variable and value of zero for the variable means that the respondent is not associated with that variable. The study adopted non-parametric method for assigning weights among dimensions and variables of financial inclusion. A higher weight of 40 points is assigned to the dimension of credit from the formal financial institutions as the working definition of financial inclusion by the committee on financial inclusion (GOI, 2008) [22] entails access to timely and adequate credit at an affordable cost to weaker sections and low income groups in particular. The balance 60 points are distributed among all other dimensions of financial inclusion. Table 1.6.presents dimensions and variables of financial inclusion along with the weights assigned to each variable and dimension.

Table 1.6

Multi-Dimensional Demand side Financial Inclusion Index (MDDFII) – Distribution of Weights among Dimensions and Variables

Dimensions	Variables	Weights Assigned to Variables	Weights Assigned to Dimensions
Savings	Deposit in savings bank account with formal financial institutions(v1)	10	20
	FD/RD with formal financial institutions (v2)	10	
Credit	Credit from formal financial institutions (v3)	40	40
Other banking services	Cheque (v4)	5	15
	ATM/Debit card (v5)	5	
	Remittance (v6)	5	
Innovative banking services	Credit card (v7)	5	15
	Internet banking (v8)	5	
	Mobile banking (v9)	5	
Insurance	Life/General insurance (v10)	10	10
Total		100	100

MDDFII is calculated as the aggregate weighted value of variables of financial inclusion using the following equation:

MDDFII = $\sum_{i=1}^{n}$ wivi

Where

wi – weight assigned to the variable i;

vi – variable i which varies from 1 to n number of variables

As the study has considered 10 variables for the construction of the index MDDFII is computed using the following expanded equation.

MDDSFII = w1v1+w2v2+w3v3+w4v4+w5v5+w6v6+w7v7+w8v8+w9v9+w10v10

When a respondent awards one or more points to all the 10 variables of financial inclusion the MDDFII at individual level equals 100 (10+10+40+5+5+5+5+5+5+10) and when a respondent is not associated with any one of the variables of financial inclusion the MDDFII at individual level equals 0. An index value of 100 indicates 100% financial inclusion in terms of all the five demand side dimensions of financial inclusion and an index value of 0 indicates total financial exclusion. Thus MDDFII at individual level varies between 0 and 100. MDDFII scores have been grouped into four categories that indicate different levels of financial inclusion.

Table 1.7

MDDFII Scores and Level of Financial Inclusion

MDDSFII Score	Level of Financial Inclusion
01 - 09	Financial exclusion
10 - 29	Low
30 - 59	Moderate
60 and above	High

The study applied this Multi-Dimensional Demand side Financial Inclusion Index for the purpose of analyzing the level of financial inclusion of the rural population of Kerala.

1.8.11. Compound Annual Growth Rate (CAGR)

The following functional form is used to estimate the growth area, production and Productivity:

$$Y_t = Y_0(1+r)^t$$

Transforming this to logarithmic form, $\ln Y_t = \ln Y_0 + t\ln(1+r)$. here Y_t is the variable for which growth is calculated. r is the compound growth rate and 'ln' is the natural logarithm.

Now let $\ln Y_0 = \beta_1$ and $\ln(1 + r) = \beta_2$. Therefore, the above equations becomes

$\ln Y_t = \beta_1 + \beta_2 t$.

β_1 and β_2 are estimated by ordinary least square method and then

CAGR is given by r= (antilog (β_2)-1) x 100.

(Shaikh Irfan Ahmed and M.B. Joshi, 2013) [36]

1.8.12. Measurement of Impact

For the purpose of measuring the impact of PACS in financial inclusion, “with or without” approach is followed. A group of rural households enjoying financial inclusion through PACS and another group who remains outside this stream are compared in terms of selected parameters for eliciting the impact. Symbolically:-

Impact of financial inclusion = X1 -- X2

Where X1 = Value assigned to selected variables among members of PACS and

X2 = Value assigned to selected variables among non members of PACS

1.8.13. Tools for data analysis

The study has used both statistical and mathematical tools for the purpose of analysis of the primary data. The mathematical tools like Percentages and Averages are used in the study to summarize the classified data. Standard Deviation, Compounded Annual Growth Rate, Chi-Square Analysis, standard error of mean test and regression analysis are the important tools employed for the analysis.

1.8.14. Period of the Study

The study covers a period of five years from 2010 to 2015. The primary data were collected during the period from March to September 2014.

1.9. Limitations of the Study

The social science researches generally suffer from many drawbacks and limitations. Present study, being a social science research, also has its own limitations. Due to the constraints of time and resources, the study could not cover all the districts and grama panchayaths of Kerala.

Most of the data used for the study are qualitative and are based on the perceptions of respondents. The information collected is from the members of households of rural back grounds. While answering the questions in the questionnaire the respondents expressed their views and opinions not by referring to any of the documents, but from their memories. Therefore there is the chance for the occurrence of the recall errors by respondents. The reluctance on the part of the respondents to reveal financial information prevented the researcher from collecting more financial data relevant to the study.

The study used Multi stage sampling and random sampling techniques. The shortcomings and errors of these sampling methods might have reflected in the thesis. The study has applied constant sum scaling technique which has the limitations arising due to the respondents distributing fewer or more units or points than specified. Again there is the possibility of lack of awareness about it.

The biasness of the respondents is another drawback of the study. This has been overcome to a larger extent by cross questioning the respondents. Another matter is regarding the generalisability of the findings. The target group of this study was the members and non members of PACS of Kerala and so the generalization of the findings to other areas requires utmost caution.

Finally the absence of standardized measurement tools for a new area like financial inclusion might have adversely affected the quality of the study. However all sufficient and possible steps have been taken by the researcher to minimize these limitations.

1.10. Chapterisation

The thesis is presented in seven chapters in the following order:

Chapter One Introduction: This chapter contains a general introduction, brief discussion of the concepts of economic growth, development, nature of Indian economy, poverty and income distribution in India, poverty alleviation programmes, inclusive growth and financial inclusion, design of the study, significance and scope of the study, objectives, hypothesis, methodology adopted and the limitations of the study.

Chapter Two Review of Literature: This chapter gives a comprehensive review of background literature relevant to the research topic. The chapter is arranged by sub dividing into suitable broad heading viz. financial inclusion: a general view, financial inclusion and financial institutions, financial inclusion and technology and financial inclusion and development. The studies on financial inclusion and financial institutions are again classified and summarized here under proper sub titles such as Commercial banks, Co-operative banks, Self help groups / Micro finance institutions, Regional rural banks and Regulators.

Chapter Three Financial inclusion - An Overview: This chapter provides a conceptual and theoretical overview of financial inclusion and describes topics of financial exclusion, its causes and consequences, the people excluded, objectives of financial inclusion, Financial Inclusion: Global Experience, Financial Inclusion: Indian Experience, Financial Inclusion: Kerala Experience and Indian initiatives for financial inclusion.

Chapter Four Growth Pattern of PACS in Kerala – A Retrospective: This chapter presents a detailed analysis of the origin and development of co-operatives, different types of co-operatives functioning in the state and the growth pattern of PACS functioning in Kerala. This chapter also makes the analysis of the growth in PACS based on secondary data compiled from the publication of the office of the Registrar of Co-operatives in Kerala.

Chapter Five Access to Financial Products and Their Penetration among Rural Households in Kerala: In this chapter a brief profile of the respondents is given in the first part followed by Access to financial products and services among the rural households of the state. The penetration level of various products and services of PACS among the members is also presented in the chapter.

Chapter Six Role and Impact of PACS in Financial Inclusion in Kerala: This chapter examines the level of financial inclusion in Kerala by using MDDFII. It also examines the economic and social impact of financial inclusion among the members.

Chapter Seven Summary, Findings, Suggestions and Conclusion: The last chapter of the thesis leaves the Summary of the whole study highlighting major findings, conclusion and suggestions.

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CHAPTER TWO

REVIEW OF LITERATURE

The promotion of an inclusive financial system for attaining inclusive growth and development is a policy priority of many countries. It is desirable for many reasons. It facilitates efficient and equitable allocation of productive resources strengthens money market and enhances efficiency and welfare by providing access for secure and safe saving practices and a whole range of financial services. Access to safe, easy and affordable credit by the disadvantaged social groups and lagging sections is recognized as a pre-condition for accelerating growth momentum and reducing income disparities and poverty. A well functioning financial system, by creating equal opportunities, enables economically, financially and socially excluded people to integrate better into the economy and actively contribute to the development and protects themselves against economic shocks.

In India although the use of the term financial inclusion may be of recent origin, the effort to bring the poor under the fold of formal financial system has been going on since bank nationalization or rather earlier, since independence. Deliberate policies have been formulated by the central government and the RBI to integrate the unbanked population into the financial mainstream. Financial inclusion is the process of the delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. It provides them with timely and adequate access to the financial products, deposits, credit, remittance services, insurance, advisory services, entrepreneurial and micro finance. Many important studies have been conducted by the researchers and policy makers on various aspects of financial inclusion and inclusive growth in the international level as well as in India. These studies are reviewed and presented briefly by classifying them into suitable broad heading viz. financial inclusion: a general view, financial inclusion and financial institutions, financial inclusion and technology and financial inclusion and development. The studies on financial inclusion and financial institutions are elaborately examined and their role and significance in promoting financial inclusion is clearly identified. The reviews on these studies are again classified and summarized here under proper sub titles such as Commercial banks, Co-operative banks, Self help groups / Micro finance institutions, Regional rural banks and Regulators.

2.1. Financial Inclusion: A General View

The available literature on financial inclusion on various aspects like access to and availability of financial products and services, their features, significance and impact are thoroughly reviewed and stated here.

Kapoor, Pavan and Singh, Alka (2014)[1] analyses the unique features of financial inclusion in India. Access to a well-functioning financial system, by creating equal opportunities, enable economically and socially excluded people to integrate better into the economy and actively contribute to development . This study focuses on the basic features of financial inclusion and its need for social and economic development of the state. The data for the study has been gathered through secondary sources. The challenges of financial inclusion are explained here in detail and the role of the RBI in solving the problems thoroughly analysed. The partly descriptive and partly exploratory methodology adopted in the study analysed the facts and figures and concluded definitely that the financial inclusion is playing catalytic role for the development of the society, but still there is a long road ahead to achieve the desired outcomes.

Rabin Mazumder (2013) [2] explored the various factors behind financial inclusion in West Bengal. The objective of the study was to measure the household's accessibility to credit by examining empirically the influence of demand and supply factors. It is observed that the various reasons for financial exclusion among the rural households include the causes due to both demand side and supply side factors. The results of the study indicated that as the income of the household's increases, the probability of getting formal institutional credit also increases. So, in order to improve the financial inclusion programme, implementation of suitable employment generation policies is to be carried out. This may lead to improve the per capita income of the rural households. It is concluded from the analysis that financial exclusion and poverty in rural India are mutually exclusive forces and the result is a vicious cycle. To pull poor people out of this cycle, a big push is required from the policy planners, financial institutions and the government.

Anson, Jose et.al. (2013) [3] conduct a study on account ownership patterns at post offices in comparison with traditional financial institutions. The researchers use the Global Financial Inclusion Indicators (Global Findex) data base, which collects data from 60 countries, where postal accounts are offered. The paper finds that the post offices are relatively more likely to provide accounts to individuals than traditional financial institutions. These individuals usually belong to financially vulnerable groups, such as the poor, the less educated and those out of labour force. The authors use data from the Universal Postal Union to explore the degree of different postal business models in opening accounts and dealing with the financial transactions of the marginalized. The results of the study suggest that post offices can boost account ownership by acting as cash merchants for transactional financial services. The larger the postal network, more likely is that the majority of adults have accounts with post offices.

Dhar, Sujoy, Kumar (2013) [4] identified the difficulties that the Government of India is facing to implement the different programmes of financial inclusion. This work emphasizes upon developing market strategies of financial instruments suitable to the rural population where a significant portion is suffering from poverty, inequality, unemployment, illiteracy and superstition. This paper analyses secondary data to establish the objectives set by the authors of the study. The different financial regulatory bodies like RBI, SEBI, IRDA, and Pension Regulatory Funds are required to define and execute a long term vision in order to build the nation with sound economic growth and sustainable development. This study compares the international bench mark of financial inclusion with the performance of India on this behalf, initiatives by the RBI, concept of micro finance, contribution of insurance sector, the Banking Reform

Bill 2012, hurdles faced by Indian banks, role of NABARD and the role of small banks.

Sarah, Banks et.al(2013)[5] undertake a two year research project for social justice during 2011-2013 to explore the dynamics of the household debt and to examine the potential for supporting positive change away from high cost credit towards more financially sustainable alternatives. It was a Community – University research partnership between Thrire (Teesside –based community organization) church action on poverty and Durham University. The project recruited 24 households experiencing poverty and high levels of debt in the Teesside area of North East England. The project developed a sustainable programme of households linking to community based campaigns and co-operations to tackle the causes of high levels of debt in poor households. Intensive one- to –one mentoring by trained volunteers, community based activities to improve money management, tackling financial exclusion in poor neighborhoods by actions of partner agencies, neighborhood –based peer support etc. implemented as a part of the project. The review of the project disclosed that its original aims and objectives have been achieved to a greater extent.

Demirguc – Kunt, Asli, et.al. (2013) [6] use the novel data to explore the use and demand for formal financial services among self- identified Muslim adults. The authors select a sample of more than 65,000 adults from 64 economies (excluding countries where 1 percent or more than 99 percent of the sample self identified Muslims). From the analysis they find that Muslims are significantly less likely than non Muslims to own a formal account or save at a formal financial institution. This is due to the individual, religious and country level characteristics. But the analysis finds no evidence that Muslims are less likely than non Muslims to report formal or informal borrowings. In an extended survey of adults of five North African and Middle Eastern countries with progressing Islamic financial industries, the study finds little use of Sharia – Complaint banking products.

Gupta, Pallavi and Singh Bharti (2013)[7] tried to assess the correlation between the usage dimension of financial inclusion index and literacy level in India. Correlation has been statistically tested by using Karl Pearson Co- efficient of correlation. The large variations in the correlation between the financial inclusion index and literacy rate in different states indicates that the financial exclusion in India is not mainly due to the lower literacy rates. To achieve financial inclusion, according to them, the government should emphasis on behavioral factors rather than considering an improvement in literacy rate as a major determinant. Models that do not consider literacy level as prerequisite to use financial services like Biometric ATM, Mobile based payment system, smart card and tele-centres can be used to achieve the goal of financial inclusion in India.

Hema, Divya, K (2013) [8] this study analyses the impact of financial inclusion on daily wage earners at Amtonagar, Tenali, Guntur District of Andhra Pradesh. The study was conducted with the main objective to find out whether the financial services are reaching the low income groups or not. The findings of the study help the financial institutions to know how many low income sections of the population are utilizing financial inclusion services. It is concluded that there is a large necessity to educate and create some new instruments for daily wage earners and also make them the beneficiaries of financial inclusion.

Chigozie, Godwin, Okpara (2013) [9] felt the need for developing a single index (simple in computation with little or no assumptions) that pools together the financial inclusion indicators adopted by the IMF access survey. Therefore an attempt is made to depict on index by pooling the various variants of financial inclusion indicators. Average of ratio index method is used to come up with an index called chi-wins financial inclusion index (CFII). With this method one will be able to calculate the value of financial inclusion at any point of time and make comparison either for countries or for different periods in a particular country.

Kalunda, Elizabeth (2013) [10] observes that financial inclusion initiatives have been on the rise in Kenya in a bid to have inclusive development. The Kenyan government has introduced financial inclusion initiatives to implement inclusive banking among small scale tea farmers because of their major contribution in the country's economy. This study tries to find out the level of financial inclusion in terms of access and usage. It also seeks the impact of financial inclusion on financial literacy of the small scale tea farmers belonging to Nyeri County, Kenya. The findings reveal that the level of financial inclusion is high and usage of institutional finance in terms of credit access is also high. At the same time the farmers are not receiving adequate financial education to improve the financial literacy, which is a component of financial inclusion. The study recommends offering financial counseling and education to the farmers to enable them to appropriately use the financial products and services offered as a part of the initiatives of financial inclusion.

Roshni, Unnikrishnan, and Lakshmi, Jagannathan (2012) [11] have pointed out the importance of financial inclusion in economic empowerment. The study identifies the variables to analyse the level of financial inclusion and the barriers adversely affecting it. They point out that prerogative steps are to be taken to overcome the barriers and enable inclusive growth. The parameters like access to credit, financial services, remittance and insurance services help in facilitating and channelizing the population at the bottom of the economic pyramid to productive, profitable and self sustaining projects and business ventures. A financially inclusive society transforms into a socially inclusive society and finally results in ultimate economic empowerment. Such a society is characterized by regularity of income and reduction in dependence on money lenders and unorganized sector. The study concludes by reinforcing the importance of self sustenance at the bottom of the economic pyramid.

Bagli, Supravat (2012) [12] seeks to examine the achievements of the Indian states regarding the financial inclusion. The author applies the methodology of Rotated Principal Component Analysis to compute a comprehensive measure of financial inclusion for each state. Ten indicators of financial inclusion have been considered for the conduct of this analysis. This study has used the data published by the RBI and the GOI. In accordance with the composite scores, ranks of the states are determined. It shows that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However the study reveals that the levels of financial inclusion of the states in India have a low mean and high disparity. It also explains a strong positive association between the human development and the financial inclusion of the states in India.

Cynthia, Karen (2012) [13] observes that there is a significant correlation between financial development and financial deepening on economic growth. With this belief a study was conducted to assess major factors that affect the productivity in Indian Economy and the significance of financial inclusion in enhancing productivity. By analyzing indirect data the researcher observed that the Indian financial system is largely influenced by the banking sector. Though the banking sector has experienced tremendous growth, access to banking services and products are available to only certain segments of the population. The complexity of the global economic environment recognizes and encourages qualitative as well as quantitative aspects of growth integrating concepts like inclusiveness and sustainability. The study is summed up by stating that inclusive growth acts as a powerful tool for empowerment and allow people to participate more effectively in the economic and social process.

Lahiri –Dutt, Kuntala (2012) [14] illustrates the complex, ingenious and diverse ways by which the poor living on the Chars of River Damodar in deltaic lower Bengal manage money. The study conducts livelihood surveys and collects ethnographic materials for reaching a conclusion about people of the area. This self- funded intensive field based empirical research was carried out in different phases from 2002 to 2010. These islands constitute some of the most vulnerable locations housing the poorest communities; state service, government funding and facilities do not reach the chars as they are not listed in the land revenue records. They are facing the identity crisis also. 90% of the char households, who do not have access to banks and other formal institutions, depend on a number of informal credit sources like Mahajans and Dadan. This study explains many specimen cases of char households and their ways of managing money at home. The implication of the study is that the policy interventions that aim to tag the poor to the bottom rung of the formal monetary system as micro partners, needs rethinking.

Singh, Anurag, B and Priyanka, Tandon (2012) [15] in their study observe that more than 150 million poor people have access to collateral –free loans. However there is still a large section of the world population excluded from the financial services market. In India half of the poor is financially excluded from the country's main stream of the banking sector. Still,22 percentages of the people are living below the poverty line. Their monthly income is less than $1 per day and they are living in most un-livable conditions. In India the growth with equity has been the central objective right from the inception of planning process. To review the present status of financial inclusion in India and to highlight the measures by the GOI and the RBI for promoting financial inclusion, the researchers have analysed secondary data and come to a conclusion that access to financial services such as savings, insurance and remittances are extremely important for poverty alleviation and development.

Demirguc –Kunt, Asli and Klapper, Leora (2012)[16] provide the first analysis of Global Financial Inclusion (Global Findex) Data base, a new set of indicators that measure how adults in 148 economics save, borrow, make payments and manage risk. The data gives information that 50 percent of adults worldwide are operating their accounts with formal financial institutions. The study also reveals that there is wide variation in account penetration across regions, nations, income groups and individuals. In addition 22 percent adults maintain their savings at a formal financial institution in the past 12 months and 9 percentage reports that they have taken new loans from a bank, co-operative credit union or a micro finance institution in the past year. Although half of the adults around the world remain unbanked, at least 35 percent of them report barriers to the use of accounts. This can be addressed by formulating proper public policy. Among the most commonly reported barriers lack of awareness high cost, distance and lack of proper documentation are highly significant.

Jain, Mamta, et.al (2012)[17] opine that economic growth follows financial inclusion. Addressing financial exclusion will require a holistic approach on the part of the banks in increasing awareness about financial products, savings and affordable credit and education and advice on money management debt counseling. To promote financial inclusion the banks would have to evolve viable and specific strategies to expand the outreach of their services in order to achieve financial inclusion. This can be achieved through framing linkages with microfinance institutions and local communities. Technology can be a very valuable tool in providing banking products in remote areas. It is observed that the Indian experience reveals the effective implementation of financial inclusion measures within the framework of main stream banking with sound and strong regulatory frame work. Banks need to redesign their strategies to incorporate plans to promote financial inclusion of low income group as a corporate social responsibility.

Kumar, Chandran and Mishra, Srijith (2011)[18] have attempted to understand and measure financial inclusion by referring to supply side indicators such as number of deposits and credit accounts, number of bank branches, average deposit per account, average volume of credit per account and credit utilized. The demand side variables of household level access such as the proportion of households having savings, credit and insurance which facilitate financial inclusion are also referred and noted that they can be measured. Separate composite financial inclusion indices (FIIs) using both the data sets can be analysed. The study has suggested expanding the ambit of policy initiatives under financial inclusion, to reduce the excessive dependency on informal source of financial services, especially the credit. It reiterated to provide greater focus on vulnerable states to achieve access to financial services on which they are lagging.

Chattopadhyay, Kumar, Sadhan (2011)[19] the basic objective of the study is to examine the extent of financial inclusion in India in general and West Bengal in particular. There are two parts in the study. In the first part, index of financial inclusion (IFI) has been computed for finding out the level of financial inclusion in 23 states of India and 18 districts of West Bengal following the methodology of Sharma (2008). The second part of the study is based on primary data collected by conducting a survey in three districts of West Bengal. The result of the study is that Kerala state tops the list in financial inclusion followed by Maharashtra and Karnataka. The study has observed an improvement in outreach activity in the banking sector of West Bengal although the achievement is not significant. From the results it is revealed that around 38 percent of the respondents feel that they do not have income sufficient enough to open an account with the bank. It is also noted that money lenders are still a strong dominant source of rural and semi urban finance despite wide presence of commercial and co-operative banks in rural areas.

Bihari, Suresh Chandra (2011)[20] examines the relationship of financial inclusion and development and proceeds to propose an index for measuring financial inclusion following a multidimensional approach. People should have access to basic financial services and they must develop a habit of using them regularly. It is becoming increasingly apparent that addressing financial inclusion will require a holistic approach to be followed by the banks in creating awareness about financial products, education, training and advice on savings, debt counseling, money management, and affordable credit. The proposed index of financial inclusion covers information on various dimensions of financial inclusion in one single digit between zero and one, where zero denotes complete financial exclusion and one indicate complete financial inclusion in an economy. The proposed index is easy to compute and is comparable across the countries.

Singh, Kuldip and Singh, Kodan, Anand (2011)[21] in their study point out that a smooth, low cost and adequate flow of finance or credit is pre-requisite for sustainable agricultural development. The main objective of their study was to examine the role of different banking institutions in KCC schemes in Kerala. It reveals the role of different banking institutions in credit card issuing and the fact of influencing the decision of issuing KCC is analysed with the help of multiple regression analysis. The decision of the commercial banks in issuing KCC is influenced by inducing facilities of irrigation, providing additional employment (off season employment or SHG formation) and creating financial inclusion in rural sector.

Pollillo, Simone (2011) [22] claimes that the connection between financial innovation and financial inclusion is endogenous. Financial innovation assumes a central role in strengthening financial inclusion because, under certain environments, it serves as the vehicle through which financial inclusion made possible. Financial inclusion is playing an instrumental role in a struggle for dominance internal to the financial community creating new credit instruments. He adopted the term 'Wild cats' used by Schumpeter to refer to financial innovators. The analysis leads to a comparative study of Marx and Schumpeter regarding their theories of banking and credit. Both Marx and Schumpeter, through their theories, (however indirectly) have tried to explain changes in financial practices and standards suitable for different economic systems. They consider financial inclusion as either an aberration of capitalism, or an ideological tool of legitimating.

Moloi, Mindy (2009) [23] has conducted a study with the underlying premise that the formal financial sector has an important role to play in the process of assisting in the development of South Africa's disadvantaged communities, especially those living in poverty. The study has explored the construct of the financial inclusion and sought to understand what measures are being taken by South African financial services institutions to optimize financial inclusion. Through secondary data analysis, the study investigated the instances of the construct in other geographies and sought to compare and contrast what was being done there with those done in South Africa. The study has concluded that while the lower segments of the market are relatively uncharted territory for South African financial services organizations, the strategies employed to service these markets seem to be a combination of those employed in other geographies around the world.

Mehrotra, Nirupam et.al. (2009)[24] attempt to present an overview of financial inclusion in India especially in rural areas. They discuss the commendable achievements in the field of rural banking, issues of slow progress in enhancing the share of institutional credit among the common people, completion of high dependence of small and marginal farmers on non- institutional sources for finance, skewed nature of access to credit between more developed regions and less developed regions dominating larger than ever before. Therefore, the key issue at present is to ensure that semi urban and rural credit flows from institutional sources and obtain wider coverage and spread of financial inclusion. For achieving the current policy objective of 'inclusive growth' the focus on financial inclusion is essential as well as mandatory. Prolonged and relentless deprivation of banking facilities and services to large population segments leads to a weakening of investment and has the potential to provoke social tensions causing social exclusion.

Lederle, Nicole (2009)[25] examines the impact of gaining access to financial products and services and of whose becoming more capable of using these. This work is based on qualitative interviews with users of third sector organizations which play a significant role in government's financial inclusion strategy. This study also aims to explain the long term benefits arising from the use of financial inclusion initiatives and all the sections of the population being financially included. The central objective of the research is to evaluate and understand the relationship between improved financial inclusion and the wider dynamic processes of social inclusion. The personal interviews conducted and the analysis of the data tends to conclude that the elaborate financial inclusion initiatives improved the life of the poor and disadvantaged of the society. People were able to access and started to use financial services more effectively, including banking services, credit, savings account that helped respondents to cope better with living in poverty and hence improved poor people's quality of life, but financial inclusion did not change the conditions under which they lived.

Ravichandran, K and Alkhathlan, K (2009)[26] identified that very few people have access to banking services. There are number of factors adversely affecting access to financial services by weaker sections in India. The lack of awareness, low income and assets, Illiteracy and social exclusion are the barriers from demand side. The vast distance from bank branch, inconvenient branch working timings, cumbersome banking operations and procedure, production of documents for opening bank accounts, unsuitable banking products/ schemes, hostile attitudes of bank officials, language barriers, and high transaction costs are the barriers from supply side. The study discusses Bank-SHG, Bank –MFI, MFI- NBFC and bank post- office linkage models and proposes new models like rural students banking model, RBI –Education institute linkage model etc.

Cole et.al (2009)[27] have concluded that the financial literacy programme has no effect on the likelihood of opening a bank savings account or continuous operations in it. On the other hand it is found that the programme has modest effect upon uneducated and financially illiterate households influencing them to change their attitude towards the process of inclusion. In contrast, the government offer of small subsidy payments has a large effect on the likelihood of opening the savings account. The payments of such subsidies are more than two times more cost effective than the financial literacy training.

Laveesh, Bhandari and Kale, Sumitha (2008)[28] highlight the efforts involved in the decades which produced progress in financial system and financial markets in India. Despite this, the masses continued to depend on non institutional providers for their transactions and remain outside the scope of the formal financial sector. There is a vast and diverse group of people whose financial needs are remaining unaddressed. It includes marginal farmers, migrants, agricultural laborers, employees and entrepreneurs in the unorganized sector and the socially excluded groups. Their cash flows of income, savings, investment and consumption are of low volumes and often uncertain in nature, making them the unattractive clients for the formal financial sector. Evolving technology has brought wide change to the landscape of financial world. The use of digital payments system has produced significant efficiencies. Further, with the wide and fast adoption of mobile phones, internet facilities and spread of networks, it was able to reduce cost making transactions significantly. According to them the need of the hour is to work with clarity and consistency and widen the process of moving towards greater openness and greater clarity and certainty in the digital payment sphere.

Natu, Jayant, Anant et.al (2008)[29] have explored an innovative way of achieving financial inclusion, not just in terms of access but in usage as well. This study presented the prospects of complying financial inclusion with social security schemes .The underlying assumption is that the banks are going to have only the substandard yield on the imposition of financial inclusion drives upon prospective clients who have no reliable income streams. A social security scheme such as NREGP provides a regular and steady stream of income to the poor. The RBI's direction of opening 'no frills account' will be more relevant to beneficiaries if it is tied to schemes like NREGP that ensures a regular income. It is proposed that in a district where NREGP is operational the government can partner with the bank in ensuring that the weekly wages are directly transferred and credited to savings accounts that have been newly created for the beneficiaries. A variety of financial and non financial services can be provided to beneficiaries once such a channel of linking financial inclusion with NREGP has been established.

Sreenivasan, N (2007)[30] opines that financial inclusion should not remain a dream of a welfare state. It is a necessity if the country has to realize its economic potential. The country could not afford to have an elite minority enjoying all services with banks and a massive unorganized majority still involved with dealings in the cash and barter mode. He reiterates that sustained growth of the nation, inclusive development and its continued prosperity depend critically on universal coverage of financial services to all people. He concluded that the banks are in a unique position to make the transition from a cash transaction market to a payment system driven economy and profit in the process.

Ghosh, C.R. (2005)[31] has stated that deregulation in developed financial sectors improves financial inclusion for some societal groups by making financial products available to a larger customer base. At the same time such a governmental act exacerbate others by emphasizing greater customer segmentation as well as emphasis on risk based pricing and value added service. Therefore, in a developing country, access to financial services is typically limited; hence providing wider access financial services can add to financial and economic development. There are many individuals and households who never use financial products throughout life or might use such products at certain point of time and move in and out of exclusion at any one point of time. This is due to the problems of poverty, lack of financial exclusion and socio-economic conditions. The author points out that a strong and effective delivery system is integral to financial inclusion which serves the poor in their neighborhood, their workplaces or at their doors.

Midgley, J (2005)[32] highlights how the introduction of universal banking services and the role of post offices have contributed in assisting financial inclusion within Britain's financial system . Advancing financial inclusion through universal banking creates a hierarchy of customers and service provision, occurring wholly within the financial system producing increased nuances of polarization. Since universal banking services began, post offices have become the primary location for newly included individual's financial activities. Enhanced accessibility to the financial system through universal banking is likely to be gendered. In this study it is ascertained that women are more likely to access welfare payments through the post offices and are thus experience a more constrained transition to inclusion in the financial system.

Levine , Ross (1997)[33] empirically tested the neo-classical view and finds that countries with larger banking institutional network and more active and well organised stock markets grow and develop faster over subsequent decades even after controlling for many other significant factors underlying economic growth. It is a fact that Industries and firms that depend heavily on external sources of financing grow disproportionately faster in countries with well- developed banks and securities markets. In the countries with poorly developed financial and banking systems the reverse happens and the relationship between the initial level of financial development and institutions is of paramount importance. This, however, does not mean that finance alone will be the harbinger of economic growth.

2.2. Financial Inclusion and Institutions

The most important constituents of the financial sector are the financial institutions which act as conduit for the transfer of resources from the savers to the borrowers. It is essential that financial institutions are developed sufficiently and the market operations be free, fair, transparent and competitive for the effective financial inclusion and financial deepening. Studies on the role of various financial institutions in financial inclusion in India have been published and some of them are reviewed and included in this section.

2.2.1. Commercial Banks

The financial institutions in India mainly comprise of the commercial banks. They provide a wide range of financial services to business organizations, households and individuals. To address the issue of financial exclusion in a holistic manner it is essential to ensure the availability of financial services to all for which as an institution the commercial bank is regarded as a right choice. The review on Studies on financial inclusion and commercial banks are presented in the following paragraphs.

Han, Rui and Melecky, Martin (2013)[34] have examined the effect of access to bank deposits on the stability of deposit growth during the 2008 global financial crisis using a cross- sectional regression model for 113 countries. It is found that, on an average, greater access to bank deposits or their actual use by a country's population can enhance resilience of the deposit funding base of the banking sector in times of financial stress. This helps to foster overall financial stability of the banking sector and the whole financial system. They suggested that the countries should take in to account this fact to frame their financial sector policy implementation so that the broader use of bank deposits aid to economic development and poverty alleviation.

Uma, H.R et.al (2013)[35] an attempt is made in this study, to evaluate the economic and general impact of financial inclusion through the primary data collected in Hunsur taluk, Mysore district of Karnataka state. The study was conducted to access the comparative changes on general conditions of Saral Savings Account holders, before and after financial inclusion. Financial inclusion is the major tool used to include poor and marginalized people in to the main stream economy. Inclusive financial system helps the deprived section of the people to get access to formal credit, saving products and other services which help them to overcome poverty and reduce income inequality existing in the Indian economy.

Ganesh Kumar, V and Paramasivan, C (2013)[36] have conducted this study as an empirical one. The authors collected the data and other information required for the study from both primary and secondary sources. Here an attempt is made to assess the key role played by financial inclusion in the field of rural development. It also suggests how it can be implemented effectively through Indian banks in the selected districts. This study focuses on operational efficiency of financial inclusion in Puducherry. The data is analysed and found that there is significant relationship between the number of accounts and the variables like the respondent's gender, age, marital status, education, occupation and annual income.

Sahu, Kabitha, Kumari (2013)[37] observed that an inclusive financial system should be judged from several dimensions, a multi-dimensional approach while constructing an index for financial inclusion. The objectives of this paper are to understand the present status of India's financial inclusion, to estimate the financial inclusion index for various states in India and to study the relationship between socio-economic variables and financial inclusion index. The study reveals that the banks still regard financial inclusion as a primary obligation and not as a business opportunity. Therefore the reach and spread of inclusion is less than desired.

Kumar, Naveen, H et.al (2012)[38] arrived at a conclusion that financial inclusion becomes a major pre-requisite to poverty alleviation. RBI's vision for 2020 is to open nearly 600 million new customer's accounts and to provide services to them through a variety of channels by leveraging information technology. They state that the improper repayment need for additional work force, illiteracy, high cost and time consumption are continuing to be a road block to financial inclusion in many areas. The main objective of the study, to analyse the difficulties involved in adoption of financial inclusion is evaluated by using the primary and secondary data. It is concluded that the banks should encourage the people to access the banking services by way of opening no frill accounts, conducting financial inclusion campaign and appointing business correspondents. The government should encourage the banks to adopt financial inclusion through financial services assistance, providing advertisement and awareness programmes so as to achieve the aim of 11th plan; inclusive growth.

Khaki, Rashid, Audil and Sangmi, Mohi-Ud-Din (2012)[39] have carried out a study in order to look into various initiatives taken up by bankers in the state of Jammu and Kashmir. It attempts to evaluate the progress of financial inclusion in the state. The study has been conducted by using primary data collected from unstructured discussions with various bank executives, NABARD officials, Business correspondents etc. It also uses secondary data. The various efforts by RBI and commercial banks lead to a significant progress in achieving inclusive growth through financial inclusion in the state of Jammu and Kashmir. However there is a need to work in a coordinated manner to remove the constraints, both supply side and demand side in order to attain the objective of greater financial inclusion for poverty alleviation.

Shweta, Anand and Deepika, Saxena (2012)[40] focus on all the initiatives taken so far by the Indian commercial banks in terms of technology, distribution channels and financial education for the unbanked masses. They emphasize upon the initiatives like Net banking, Mobile banking, Tele-banking, ATM, CSCs, Smart cards, Business Facilitators, Business correspondents, Financial literacy and Credit counseling. The study was concluded by stating that the commercial banks have shown tremendous growth in volume and complexity during the last few decades. Despite this, there are concerns that banks have not been able to include vast segments of population, especially the unprivileged sections of the society into the fold of basic banking services.

Hemavathy, Ramasubbian and Ganesan, Durai swamy (2012)[41] analysed the issues pertaining to the implementation of financial inclusion in economically down trodden districts of Tamil Nadu. Data collected from various districts analysed using SPSS tools. The results of the analysis was verified against standard Financial Inclusion Metrics such as Human performance index which suggested that the phenomenon of financial inclusion as a result of RBI regulations have not penetrated in to the lives of BPL families . The study suggests to design new strategies for improving FI and to popularize among BPL vulnerable groups.

Ravi kumar, T (2012)[42] has stressed an observation that the banks are not willing or able to operate as development institutions for the poor. However they are changing the behaviour and now offering their potential to improve the livelihoods of millions of poor people. The fundamental objective of this study is to examine perceptions and attitudes of bank personnel towards provision of credit to poor and to investigate attitude of bank personnel towards financial inclusion process in India. The primary data collected from commercial bank personnel have been analyzed by using T-test, ANOVA and multiple regression analysis and have concluded that the perceptions and attitudes of bank personnel towards financial inclusion process in India have significant impact on perceptions and attitudes of bank personnel towards provision of credit to poor and it has a positive impact.

Mukherjee, Arup and Chakraborty, Sabyasachi (2012)[43] observe that promotion of financial inclusion has been an important social and financial need across countries. In India the commercial banks have the primary responsibility of ensuring financial inclusion and they have to implement suitable programmes subject to the guidelines of the RBI. However due to the huge size and diversity of population commercial banks have been taking assistance of various social and financial entities like co-operative banks, RRBs, SHGs, Joint liability groups (JLGs) and other non banking finance companies (NBFCs). The objectives of the study is to critically examine and highlight the role and efficacy of the commercial banks doing business in the state of Jharkhand in connection with their obligation of promoting financial inclusion. It also examines the capacity and role of other institutions in this behalf.

Jampala, C. Rajesh et.al (2012)[44] analyse the present status of financial inclusion in India and performance of commercial banks in financial inclusion. This study is based on secondary data mainly taken from RBI, NABARD, GOI, Newspapers and other sources. All the land marks since independence in the financial scenario in India are discussed and the several reasons for commercial banks' poor performance in financial inclusion are studied. They completed the study by stating that the commercial banks need to use technology, innovations and participation of non financial partners to carry forward financial inclusion plan to its logical end.

Rama Pal and Rupayan Pal (2012)[45] analyse the income related inequality in financial inclusion in India using a representative house hold level survey linked to state level factors. It showes that (1) the extent of financial exclusion is quite severe among households across all income groups, (2) income related inequality in financial inclusion varies widely across sub-national regions in India, but it is quite high in most of the cases, (3) income related inequality in financial inclusion cannot be considered as synonymous to income inequality. A notable result is that greater availability of banking services encourages financial inclusion, especially among the poor households. This study also reveals that the level of education, employment status and household size significantly affect the use of formal financial services by a household in both rural and urban sectors. The credit policies of the banks targeted to rural sector has played a positive role to promote financial inclusion among rural households vis-à-vis urban households.

Ardic, Pinar, Oya et.al (2011)[46] in their study, using the Financial Access data base by CGAP and the world bank group, (i) Count the number of unbanked adults around the world, (ii) Analyze the state of access to deposit and loan services as well as the extent of retail networks, and (iii) Discuss the state of Financial Inclusion mandates around the world. The empirical evidences prove that access to basic financial services can make substantial positive difference in the poor people's lives. Their finding indicates that there is a lot more to be done in the financial inclusion arena.

Rai, Anurag and Saha, Amrita (2010)[47] propose a method or tool for measuring the level of operation of No-frills Accounts opened during the first phase of Financial Inclusion in the state of Karnataka. According to them the Operational index developed can be utilized to study the performance and targets of each of the banks and to assess the performance level of each of the parameters for the banks / districts. This index can be of great help for efficient evaluation of financial inclusion by meeting the eminent need to have a barometer to measure the activities of financial inclusion.

Bhatia, Navin and Chaterjee Arnav (2010)[48] have conducted a study in selected slums of Mumbai to gauge the nature of financial inclusion busting certain myths about banking practices among Urban slum dwellers. They have found that only one third of the respondents had a savings bank account in the heart of the financial capital of the nation and in areas surrounded by bank branches. Only less than 2 percent have a loan account with the banks and 38 percent have mobile phone penetration which is far above than the banking penetration. Seventy percentage of the mobile owners have bank accounts, over three fourth of the bank account holders have mobile phones. They concluded that there are miles to go in the present day financial circles to attain financial inclusion among the urban population.

Chakrabarty, K.C (2009)[49] opines that the economic growth in India has not been inclusive, unemployment and poverty remain high and a vast majority of the population remains excluded from health, sanitation and educational facilities. In order to make growth to be inclusive, there must be the creation of economic opportunities and also ensure equal access to them. Inclusive growth can, thus, contribute to poverty reduction by creating productive economic opportunities for poor and vulnerable groups. He outlines the supply- side and demand-side factors driving inclusive growth. Banks are expected to minimise the supply side process preventing the poor and disadvantaged social groups from gaining access to the financial system.

Bhandari, K, Amit (2009)[50] has investigated into the bank's outreach among various section of population in the form of savings and deposit account during the different reform periods. The result shows that the reform period - 1992-1999- 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 the highest growth in bank accounts was observed in metropolitan areas. As far as credit growth in commercial banks are concerned , rural credit was generally neglected during the reform period, was revived in the post reform period but failed to hold the growth achieved in the pre-reform period. The metropolitan area also showed almost the same result. According to him as a poverty reduction strategy, developing inclusive financial system should be given priority, which is socially and financially sustainable.

Demirguc-kunt, Asli et.al (2013)[51] In a worldwide survey conducted in sixty-four economies of the world their analysis finds that Muslims are significantly less likely than non- Muslims to own a formal bank account or save their surplus income at a formal financial institution after comparing other individual and country–level characteristics . But the analysis finds no evidence that Muslims are less likely than non- Muslims to report formal or informal borrowings.

Mahadeva, M (2008)[52] in his paper seeks to examine the inclusive nature of financial growth and suggests some alternatives to ensure effective financial inclusion in India. According to him financial inclusion, in any economy, is a pre-condition for achieving industrial growth and overall development. He examines the supply-side and the demand side factors for financial inclusion in India and the inadequate and low coverage of banking sector in rural India. He strongly argues for some alternative measures for speeding up financial inclusion in terms of re-examining the credit needs of the people, maintaining good relation between financial inclusion 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 work force.

Chavan Pallavi (2007)[53] examines the degree of access to formal credit to rural dalit home holds –socio economically the most backward section of the population – in India. The study was based on the data drawn from the All India Debt and Investment Survey (AIDIS) conducted by the NSSO and the Survey of small Borrowel Accounts (SBAS) conducted by the Reserve Bank of India (RBI). It was found that the commercial banks were the most important source of credit in 1992. There was, however, a sharp fall in the share of debt from commercial banks between 1992 and 2002. The vacuum, thus created was filled primarily by professional money lenders resulting in an increased and onerous interest burden for rural dalith households.

Nachiket, Mor and Bindu, Ananth (2007)[54] in a case study of ICICI bank, they lay out several principles that should be kept in mind when designing an inclusive financial system which will be sufficiently raise growth, alleviate poverty and expand economic opportunity. While explaining the principles outlined in this study including capital adequacy, cost recovery and institutional pre- requisites of entities, they observe that before making any attempt to implement a reform these principles, their extent to be agreed upon. While designing a financial system to maximize access to the poor, these principles should be adhered to even more rigorously.

Leeladhar, V (2006)[55] pointes out that addressing financial inclusion will require a holistic approach on the part of the banks in creating awareness on money management, debt counseling, savings and affordable credit. Banks need to restructure their business strategies to incorporate specific plans for promoting financial inclusion of low income and vulnerable group treating it both as a business opportunity as well as a corporate social responsibility. They have to make use of all resources including technology and enterprise available with them as well as those with MFIs and NGOs.

Dymski, A.Gray (2005)[56] has prepared this study which argues in favour of the current world wide scenario of liberalized banking and financial globalization, a macro globalization. This emerged during late 1970s, continuing these decades and still gathering force. Micro scale globalization is generating formal inclusion for the privileged and financial inclusion for the working poor.

Leyshon, Andrew and Thrift, Nigel (1995)[57] opines that the financial services industry in the United States and of Britain has become increasingly exclusionary in response to a financial crisis due to higher levels of competitions and extreme levels of indebtedness. They strongly assert that the resistance to financial inclusion and the building of an alternative financial infrastructure, will be significantly, enhanced in the context of financial citizenship. The alternative financial infrastructure can provide the basic banking facilities and low cost loans to low- income households. They suggest that post office counters and credit unions (co-operatives) shall be allowed to perform such facilities and can act as the alternatives to the banks.

2.2.2. Co- Operative Banks

Co-operative banks being local level institutions are well suited for achieving financial inclusion. The credit co-operatives can design their business strategies to incorporate specific plans to promote financial inclusion of low income groups treating it as both a business opportunity as well as a social responsibility. Studies on co-operatives in this respect are rare and those available are presented after thorough review.

Paul, A. Jones (2013)[58] explores how credit unions serve low-income communities in Northern Ireland. The study analyses the potential for product and service development in response to the needs of people who are marginalized from mainstream financial services. The research was designed as a participative and action oriented study and the thrust area was the credit unions of Northern Island. The analysis shows that credit unions have made impressive progress in serving communities in cities, towns and villages throughout Northern Island. The study argues that credit unions reach out to low income and financially excluded groups in the population with all sorts of support from the government.

Ambarkhane, Dilip and Sahasrabudhe, Sheela (2013)[59] reviewed the recent contribution of co-operative banks to bridge the credit gap in the rural areas by having rural experience and having very good network in rural areas. They observe that co-operatives are serving a large number of borrowers and depositors. If the co-operatives can offer the excluded, an access through bio-metric ATMs and mobile phones more and more borrowers and depositors can be brought in to the fold of financial inclusion. They argue that co-operative banks should specialize in micro credit and development of self help groups. Moreover ICT will improve house-keeping and will reduce transaction costs resulting in overall efficiency and facilitating the process of financial inclusion.

Jagtap, N.Kishore and Suram, RD(2013)[60] explicate that the co-operative movement has a long history in India and since inception, Co-operative banks have been playing important role in the socio-economic development of the country by making available institutional credit and affordable cost. They have opined that farmers, small vendors, agricultural and industrial labourers, people engaged in unorganized sectors, the unemployed, women, older physically challenged people, migrant labour, small business men are the most excluded segment of the population and these segments are best addressed by the co-operatives. The RBI has issued directives of financial inclusion to all state and central co-operative banks and to facilitate no frills account and advance small loans to the needy. It is suggested that being local in nature and intricately interwoven with the local community co-operatives play a significant role in financial inclusion.

Mariappan V (2012)[61] arrives at a conclusion that though co-operative banks account for a relatively small share in credit distribution in the Indian financial system, their role in agriculture credit delivery cannot be undermined. These are the institutions which can genuinely and timely bring social change through financial inclusion. Though, the PACS are struggling with their own internal problems, such as long discussed lack of professional management, real problems still exists. PACS bear all the heat of the ground realities such as crop failures, willful defaulters, government and political interference and so on.

The PACS serve mostly in the un-bankable and un-reachable areas of India and deal with people with weakest repaying capacity and selling highly concentrated risk products. The management has to set their focus on arresting the surging overdue and accumulated losses. It is high time that the co-operative movement and government evaluated the problems of the PACS and brought in suitable intervention to arrest the declining performance in order to continue their service to the marginalized sections of the society.

Nayak, Kumar, Rajan (2012)[62] tries to explain how financial inclusion through co-operative banks can be accepted as a viable option for inclusive growth in India. The present study is based on secondary data and analyzed by using the statistical tools like compounding growth rate, percentage analysis and graphical and tabular representations. It has been seen that the Indian growth is not an inclusive growth because the consumption inequality is increasing rapidly. By being local in nature and dealing with the local community and the labour cost and operating cost being minimized, co-operative banks have a clear advantage over commercial banks for financial inclusion. The study highlights that co-operative banks are a feasible option for inclusive growth through rural development by creating opportunity for employment and income generation.

Perilleux, Anais (2012)[63] examines the role of co-operatives in financial inclusion and states that the co-operatives are the oldest organizations working for financial inclusion for more than a century. She adds that co-operatives have major specific capacities such as serving remote rural areas, mobilizing local resources through saving products and favouring the implications of the beneficiaries in a self help dynamics. The analysis of the study reveals that micro financial co-operatives in developing countries work for higher financial inclusion and are able to reach remote rural areas ignored by other institutions. These organizations contribute to a social model that includes all the stake holders and places, humans at the centre. She re-iterates that co-operatives contribute to achieving a more equitable society for a sustainable development.

Siddaraju, VG (2012)[64] emphatically expressed that the experiences in developing nations have reconfirmed the need for co-operative banking to bring about inclusion in the main stream economy. This study has a two-fold objective to analyse the problems and challenges associated with co-operatives in India and to examine the role of co-operatives as it affects the financial inclusion. The entire procedure for financial inclusion through co-operatives is a different and unique exercise. The strategies need to be formulated for identifying target groups and focusing on meeting their un-frilled need of banking services. It is emphasized that no financial institution can match the un-matched reach of co-operatives in the country. Co-operatives have a duty to rise up to meet the aspiration of financial inclusion, convert the perceived weakness into exciting opportunities and facilitate inclusive growth.

Naik, B.T. (2012)[65] explores the network and quality of financial services provided under the financial inclusion programme in the rural areas through the banks. The objective of this study is to find out the volume of financial services provided by the banks to the farmers and it mainly aimed to see whether such services reached to the targeted groups in the rural areas. For the detailed analysis of the bank services distributed among the rural folks, a small village model is selected viz, Sheloshi in Ganganbawada thaluk of Kolhapur district. To know about the financial services, an exhaustive survey of the entire village has been undertaken. Information regarding financial services such as savings account, transfer of funds, crop loan facilities, expectation about 'no frills' accounts etc. have been collected. By analyzing the questionnaires, it is observed that the majority of the respondents simply have a savings account with Kolhapur District Primary Co-operative Bank. No other facilities are provided or availed of by them. Very few of them know about the insurance and crop loan schemes. The result indicated that the financial services are not up to the mark and so, not satisfactory. The study suggested a number of measures relating to the provision of finance directly to the farmers and to have inclusion by offering banking services at the door steps of the farmers.

Rachana, Tejani (2011)[66] has conducted a study with the objectives to study financial inclusion in rural areas, reasons for low inclusion, satisfaction level of the rural people towards banking services and to assess the performance of the banks which mainly include the co-operative banks and regional rural banks . The paper explains the financial inclusion status in India and Gujarat followed with a review of scenario at the global level and concludes that there is a lot of opportunity for commercial banks to explore the rural unbanked areas through Regional Rural Banks (RRB s) and Primary Agricultural Credit Societies (PACS). Most of them are running into losses. However the wide penetration of PACS across Indian villages and depositors/ borrowers would act like a stimulant while pursuing the objective of 100 percentage financial inclusion. It is necessary to revive and modernize them to take advantage of their geographical spread.

Vijay Hooda (2011)[67] evaluates the performance of the state co-operative banks and compares it with that of scheduled commercial banks with the help of selected financial ratios. He comes to the conclusion that the objectives of co-operative banks and commercial banks fundamentally differ, both types of banks are highly important for financial inclusion in particular and for socio economic development of the country in general. Co-operative banks supplement the commercial banks to deepen the financial intermediation by bringing the large number of small borrowers/depositors under the formal financial sector. The analysis shows that cash deposit ratio and investment deposit ratio of state co-operative banks have always been more than that of scheduled commercial banks, however, credit deposit ratio shows a reverse pattern.

Misra, Rewa (2008)[68] in a case study with funding by Ford Foundation tries to reveal that models linking community–based association with financial institutions have tremendous potential to expand outreach in remote areas. Linkages can provide these associations with additional value such as access to larger loans, a safe place for savings and the potential for a broader range of services. This case particularly examines a linkage between two member owned institutions, Self Help Groups and Primary Agricultural Credit Societies. This linkage extends the rural co-operatives broader and deeper by bringing in a massive network of rural women's groups. PACS can benefit from a wide and cheap deposit base and can explore a new, profitable and expanding market segment. SHGs benefit from close access to a broader range of services than that is available from local informal sources. SHGs are a relatively new idea for PACS and SHG-PACS linkage is a stronger starting point for remote out reach.

Jones, A, Paul (2008)[69] has analyzed the changing role of co-operative credit unions in tackling poverty and promoting financial inclusion in Britain. He examines the reality of poverty in low income communities and endeavors to criticize the actions, initiatives, and methodologies currently being adopted by credit unions to achieve financial inclusion. The role of UK government in its support for credit unions and offers an early analysis of HM Treasuries Financial Inclusion Fund. The credit unions are best placed within financial services industry to make an impact within financially excluded communities. They help people to stop using expensive home credit, encouraging people to save and providing services to people who do not have bank accounts.

Fuller Duncan (1998)[70] has argued that the credit unions, alongside other alternative institutions of accumulation, have the potential to take their place within the geography of financial inclusion. However, through a focus on the credit unions study group, this paper has suggested that credit union operations are determined by two interesting paradoxes, economy and society both of which are based around the common bend. This paper enters in to the inter-relation and social space of the credit unions.

Yair, Levi (1997)[71] conducted the study and came to the conclusion that the capitalist economies have a characteristic feature of economic disembeddedness while social policy, a different phenomenon, which is a means to rectify the dysfunctions caused by the first. The author has presented the co-operatives as a corporate entity where the emphasis on economic policy is subordinated to the social perspectives which are inherent in their constitution. He observed that co-operatives must be badly in need of innovative thinking and progressive functioning capable of enabling economic embeddedness to develop and expand. The co-operatives require such a re-shaping with a view to undertake the actual role of setting the foundation of a more justifiable social order and position for those still excluded from mainstream society.

2.2.3. Self Help Groups / Micro Finance Institutions

Besides banks there is a large number of MFIs of diverse legal forms, providing formal and legal financial services to the poor. In terms of outreach the share of MFIs has been comparatively small but they have adopted a wide range of measures of innovation in improving access of financial services to the poor. SHGs and MFIs have sufficient potential to implement successful and sustainable poverty alleviation programmes and financial inclusion initiatives. The effective and detailed studies in this behalf have been conducted by the social science researchers. A few reviews of such studies are depicted here.

Rao, V.Narasimha and Rao, M.Venkateswara (2013)[72] attempt is made in this research paper to examine the opportunities and challenges in Indian micro finance sector to maximize financial inclusion in its dual objectives of outreach and financial performance. Keeping in view of the importance of the study, the main objective is set to analyse the role of SHG Bank Linkage Programme. The relevant information and data was extracted from the primary as well as the secondary sources. This study revealed that the growth in the micro finance sector had been driven by an increasing investor interest in MFIs over the past couple of years. However the dependence on financial institutions for funds, political sensitivity of matters relating to interest rates and weak governance are the major challenges in this sector.

Porkodi, S and Aravazhi, D (2013)[73] the study is conducted with the objective to examine the role of micro finance in empowering the people and the realization of financial inclusion in India. It is also aimed to enumerate the achievements and problems of Self Help Groups and Micro Finance Institutions in including the excluded and marginalised sections of the society. The MFIs have immense opportunities in the area of micro credit in India with increasing demand for rural finance and the inadequacies of formal sources. While the functioning of MFIs at the grass root level ensures economic decentralization, such a measure must be supported by a broader human rights framework. The authors conclude that the micro finance institutions are the integral part of financial inclusion and instrumental in providing ‘last mile connectivity’. They suggested that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility.

Rama, Murthy, BM (2012)[74] tried to evaluate the performance and measure the impact of selected SHGs on financial inclusion. It was observed that both internal and external factors play an effective role in making the groups self dependant and self-reliant. The analysis of the data showed that all the groups have taken up very few group actives while involving in large volume of individual economic activities. In addition to financial intermediation SHGs can and should institute drastic changes in the lives of the poor. It has been a clearly established fact that providing credit alone may not produce the desired results. The supporting and allied services ranging from group formation, training, creation of awareness and raising a wide range of other measures are critical to make the impact of group activity strong and sustainable. Therefore financial inclusion has an important role to play; not an option, but a compulsion.

Rathore, Rekha and Garg, Manika (2013)[75] carried out a study to reveal the role of self help groups in financial inclusion by analyzing the primary data collected randomly from 50 SHGs and 3 commercial banks functioning in Yamuna Nagar and Jagadhri. This study help to give an outlook on the current status of SHGs in financial inclusion and to find out the problems faced by NGOs, SHGs, Gramin Banks and to enable to improve the success rate of SHGs for the development of economy and to make it as a powerful tool in financial inclusion.

Radhika, Kapoor and Randeep Kaur (2012)[76] have examined the hypothesis of selection of the characteristics of loan offered in terms of interest rates charged, depth of outreach and an estimation of self selection of clients into microfinance programmes using a logic model. Financial inclusion through microfinance institutions is assessed through outreach, structure of MFI loans, in terms of interest rates charged and depth of outreach through selection of borrowers. Their analysis has suggested that the microfinance programmes are more efficient in terms of meeting the needs of the borrowers; however their impact would be constrained by low depth. They conclude that MFI operations in a competitive market are more efficient than other sources in channeling loans into the stated purpose of loans, as observed by lower proportion of productive loans being diverted under MFIs.

Marr, Ana et.al (2012)[77] explore the extent to which MFIs are capable of spreading and expanding 'Financial inclusion' i.e. creating of financial access to those with no previous access to the financial system. The study analyses the factors that are responsible to explain the degree of financial inclusion by MFIs of excluded clients, generally poor people of Peru. The significant determinants of financial inclusion related to MFIs, as per the statistical result of the research, are asset value, maturity and number of branches. It is also found that associations of MFIs with nationwide internal financial institutions contribute to the ability to reach a large number of people. They suggest that the MFIs should adopt more cost friendly methods to cover the currently unbanked population who are poor and living in remote areas.

Sajeev, B.U and Thangvel, K (2012)[78] conducted a detailed study of the achievement of financial inclusion through SHG (Kudumbasree and Ayalkoottam) Bank linkage programme among nine districts in Kerala. A new hybrid approach of K- means fuzzy, C-means algorithm is introduced to analyze the SHG data. They state that clustering analysis is used for the first time in the socially relevant SHG data. The possibilities of institutional credit to landless SHG members and the role of bank in their upliftment are studied in detail. The study reveals that financial inclusion is effectively working in a small group of SHG members. The unbanked poor are pushed towards expensive alternatives for their loan requirements.

Ambika Devi et.al (2012)[79] have arrived at a conclusion that social exclusion of women from development is a very critical issue of economic growth. Women exclusion is most pronounced in countries that are extremely poor and those where women have been historically marginalized. Women are affected not only due to social exclusion but also by the financial exclusion. One of the solutions to reduce social and financial exclusion pertaining to women was the introduction of the MFIs. Membership of the SHGs has contributed to significant changes in the lives of women. The major finding of the study is that in all spheres the empowerment of the women had increased after becoming the members of SHGs.

Talwar, Shalini (2012)[80] observed that poverty, malnutrition, poor standards of living and various other growth related issues continue to plague in India. Even though Indian economy is having fast transformation over the past decade with progressive growth rate, it does not unfold the reality that vast majority of Indian population continue to struggle for their regular daily bread. They are even lacking the most basic necessities. The study emphasizes that in India there is largely the lack of inclusive growth. A substantial micro finance system and self help groups have evolved in India over the years, which are trying to overcome this situation. But its access is marred by problems of high interest rates, exploitative profit making and regulatory issues. She concludes that financial inclusion is the most essential condition for India to become a global economic power. A multi dimensional strategy, that has empowerment, participation, private enterprise, policy trust and local commitment, is the most urgent requirement for the attainment of financial inclusion.

Kumar, Basant and Mohanty Brajaraj (2011)[81] have found that there are many reasons for financial exclusion which can be broadly classified into supply side and demand side reasons. On the supply side it includes distance from branch, branch business hours, unsuitable products, cumbersome documentation procedures, staff's attitude and language barriers. From the demand side it includes a lack of awareness, low income/assets, social exclusion staff attitude and illiteracy. Their study has seen that the excluded countries are adopting necessary steps to overcome supply-side issues and thereby ultimately solving demand side issues. They have emphasized the fact that organized system of microfinance can help in addressing the challenge to a great extent in the developing countries.

Sudesh, Kr.K and Sahoo, Sadananda (2011)[82] examine the role of micro finance in the empowerment of people and the realisation of financial inclusion in India. With the increasing demand for rural finance, and the inadequacies of the formal sources, the MFIs have immense opportunities in the micro credit in India. This paper has analysed the impact of micro finance in the inclusion of excluded and its role in the social and economic welfare of the poor households. The credit plus services of micro finance has a positive correlation with the improving in house hold expenditure, income, assets and employment. MFIs nullify the argument that low income households are too poor to save and showed that even vulnerable poor can save if they have the accessibility and reward from it. They concluded that the credit plus services of micro finance not only uplifted the poor from income poverty but also from the knowledge poverty.

Sangeetha, K. Prathap (2011)[83] has investigated into the role of microfinance in financial inclusion in Kerala coastal areas among the fisherman households. The study frames the main objectives as to estimate the status of financial inclusion among fisher households in Kerala and to estimate the existing demand for credit and analyze the role of microfinance in serving the credit gap. The findings of the study reflects the wide presumption among the poor that financial institution solely caters to the limited credit needs, but the usage of negotiable instruments, usage of ATMs, money transfer through banks and plastic cards and transaction of insurance cannot make any effect on the fisher folk. Further poor banking habits prevail even now in the fishing villages similar to other rural transactions, where cash remains the preferred mode of payment. However micro finance has played highly prominent role in financial inclusion of fisher households in coastal Kerala, so an effective financial inclusion is being associated with SHG Membership. Informal borrowings are found to be declining with increasing level of financial inclusion and with having access to micro finance. It is suggested that micro finance operators should give more stress on thrift aspect so that savings on individual basis should be promoted with a view to reduce the inflexibility associated with present form of micro credit .

Savitha, Sankar (2011)[84] has produced a research thesis with the objectives to assess the models of micro finance prevalent in India, the SBLP model and MFI model from the perspective of their contribution to financial inclusion. The research frame work and research questions in the thesis were supported by the relevant literature, particularly reality to micro finance, financial inclusion and their link with broader development goals. A research design based on case studies and qualitative research methods was adopted and primary data was collected in the state of Tamil Nadu. The findings in the provider and member level research included barriers to micro finance membership; the requirement for wider range of financial services particularly savings services; and the need for enhanced financial literacy and financial management skills among the members. The thesis analyzed appropriate regulatory frame work for the micro finance sector. The RBI would be an appropriate choice for prudential regulation of MFI banks in India. This study has implication for policy makers at the national and state level, micro finance providers, members and funding agencies.

Laxmi, R, Kulshreshtha (2011)[85] found that the current reach of ‘micro insurance’ in India is limited. It is also observed that the insurance companies, both public and private, Indian and foreign, operating with commercial considerations, can insure a significant percentage of the poor of the villages. MFIs are playing a vital role in improving the lives of the poor households. Linking micro- insurance with microfinance makes better sense as its helps in bringing down the cost of lending. Involvement of SHGs will create avenues for capacity building to further making micro insurance sustainable.

Kamath, Vani (2010) [86] this research work is an effort to understand the process behind the recent financial inclusion drive in India in the specific context of Gulbarga district in Karnataka. An attempt has been made to document the manner by which households become financially included and how this changed their financial behaviour. To identify the size and nature of financial inclusion in Gulbarga, diagnostic research design is adopted. For the primary data, sample was taken from 999 respondents and statistical tools like mean values, t-test, ANOVA, correlation analysis, chi-square test, Freidman's test etc. were conducted. This study finds that the financial inclusion drive does not resonate with low income households. There is an unmet demand for a micro savings product and it would be inappropriate to interpret that the bank accounts are the optional way to provide this facility to low income households. They can and do save small amounts either in their house or in SHGs.

Chavan, Pallavi and Birajdar, Bhaskar (2009)[87] use primary and secondary data on SHGs in order to evaluate the role played by these institutions in attaining financial inclusion of various regions and the segments of population which are excluded from the formal financial system. The study analyzes the geographical spread and volume of microfinance institutions, access, effectiveness and affordability of micro finance for women borrowers and drop-out of women borrowers from SHGs. The findings of this study points out the significantly limited scale, spread, and volume of micro finance in India. The primary data revealed continued dependence of women, belonging to the geographical areas where the SHGs are still not matured, on informal sources of finance. This corroborates the point regarding the limited spread of micro finance. The relatively high rates of interest charged on SHG loans, which are equitable with the rates of informal sector, emphasis the issue of affordability of micro finance for the poor borrowers. The study points out that irregular repayment of loans is the most common cause for drop-outs among SHG members. To conclude the micro finance is to be made more accessible and affordable for the excluded groups and regions and that can help to loosen the grip of informal sources of finance and bring the excluded sections permanently into the ambit of formal finance.

Pati, AP (2009)[88] observes that a large section of rural population does not have any access to formal credit. The exclusion of such a vast segment of the population warranted a new form of intermediary and in response to this SHGs emerged in India. Here a study is conducted to realize whether SHGs can be effective intermediary in bringing more financial inclusion in India. It is noted that financial inclusion through SHGs has a tremendous potential but there is the need of increasing effort by NGOs, state government and MFIs and Banks. The potential of SHGS in making an effective intervention for providing financial services to the rural poor is found to be enormous.

Ramji, Meenakshi (2009)[89] in a study conducted in Gulbarga, Karnataka under the auspices of IFMR has concluded that the drive for financial inclusion greatly increased the access to bank accounts and the number of households with bank accounts doubled over the duration of the financial inclusion drive. Mere access does not mean usage, and as such, openings of accounts without regular operation and awareness do not result in financial inclusion in the real sense. The poor and the marginalized use the accounts mainly for the disbursement of NREGP funds. Savings in Self- Help Groups remain the most popular form of savings in a formal/ semi formal place.

Sangwan,S.S(2008)[90] has analysed empirically the determinants of financial inclusion, the state wise percentage of adults in terms of savings and loans accounts (taken as dependant variables) and were regressed with the indicators (independent variables) like the branch density, level of income, literacy and adults covered under SHGs. The objective of the paper was to study the strength of SHG programme for achieving financial inclusion and evolve a strategy to make use of it. The multiple regression equations estimated with the various states' cross section data revealed a positive result. It produced that the branch density has positive and significant co efficient with the percentage of adults having savings as well as credit accounts. The co efficient of per capita income was also significant and positive in explaining the percentage of adults having savings account. However, it was surprising to note that the literacy percentage has negative relationship with both percentages of savings accounts and credit accounts. The empirical results substantiate that the people having low income and poor geographical access to banks are remaining excluded from financial inclusion. The study ended with the suggestion that SHGs can play significant role in achieving the financial inclusion especially for women and low income households.

Conroy, D. John (2008)[91] highlights that micro finance is a powerful tool for achieving higher level of financial inclusion in every economy. Financial inclusion provides the financial sector the aspects of efficiency and equity. Microfinance is also adding substantial economic and commercial opportunities and attracting wider private capital flows. According to him financial inclusion is the most useful frame of reference for considering how the provision of financial services result in reducing poverty by way of financial services. He opines that micro finance remains the most potential weapon available for reducing financial exclusion. He concludes that higher levels of financial inclusion contribute to financial deepening, an important accessory of economic development. Households in remote location can be benefited from payment services that reduce transaction costs, in time and money, in meeting a range of financial obligations. MFIs are often able to intrude into areas too remote for formal financial institutions and government agencies.

Jayasheela, et.al. (2008)[92] the study conducted by them with the objective to enumerate achievements and problems of SHG microfinance in including the vulnerable sections of the society. It is based on secondary data and reveals that micro credit is almost always the final and the best solutions for unemployment or poverty or any other like situations. The people in Destitute or with no income or lacking means of repayment can resort to SHGs and MFIs for financial assistance. The MFIs should be strengthened with tools of managerial expertise, user friendly technology and with the principles of good governance and social responsibility.

Cull.et.al (2007)[93] based their analysis on 124 MFIs in 49 countries to find evidence of trade-off between the depth of outreach to the poor and the pursuit of profitability by MFIs, focused their study on a specific aspect of poverty reduction. In this study profitability is proxied by the commonly used financial self sufficiency ratio which indicates the MFIs ability to generate sufficient revenues to cover its cost without ongoing subsidies including soft loans and grants. An important aspect of the research is that it examines the relevance of 'institutional design' with respect to the tradeoff between financial performance and depth of outreach of MFIs. The main finding of the study is that the larger individual-based MFIs as well as larger group-based MFIs tend to extend larger loans and serve less number of female clients.

2.2.4. Regional Rural Banks

In India even after many decades of independence, the financial needs of the weaker sections of the rural population consisting of small and marginal farmers, artisans, agricultural labourers and small entrepreneurs remain unaddressed. The RRBs are formed for helping these weaker sections by offering proper and sufficient financial services through suitable instruments. Their outreach and service along with the co-operatives banks particularly in regions and among population groups facing the brunt of financial exclusion is highly commendable. They are considered as one of the suited vehicles to widen and deepen the process of financial inclusion. A small account of the studies on RRBs in brief is reviewed in the following lines.

Beg, Mohammad, Paheem (2014)[94] made an effort to study and find out whether RRBs in that region has made any progress towards ensuring boarder banking services for the rural pore in strengthening India's position in relation to financial inclusion. It is found that RRBs are trying to ensure access to suitable financial products and services needed by susceptible groups such as weaker sections and low income groups at affordable costs in a fair and transparent manner. RRBs are being regarded as significant rural financial institutions for promoting sustainable growth.

Chakrabarti, Manas (2012)[95] studied the role of RRBs in West Bengal in financial inclusion. In India the RBI has formulated the policy of financial inclusion with a view to ensure the availability banking and financial services at affordable costs to the disadvantaged and low income groups. Since establishment in 1975, RRBs are being regarded as the significant Rural Financial institutions for promoting sustainable inclusive growth. The author has sincerely made an effort in this work to study and find out whether RRBs in this region has made any progress in their functioning. The study is also aimed to know whether RRBs are successful in ensuring boarder banking services for the rural people and strengthening the financial inclusion in India. It is concluded that RRBs are serving as a supporting institution for the commercial banks and the co-operatives and ensure sustainable development through financial inclusion.

Narsimbulu, K (1988)[96] studied the performance of RRBs in rural development in Kerala's economy. The study revealed that RRBs are better than commercial banks and co-operative credit institutions. The study stated that all the PACS and rural banks shall be brought under the fold of RRBs to avoid unnecessary competitions and to have a grand rural credit system in India.

2.2.5. Regulators

Since independence Government of India and the RBI have been taking a number of steps to bring financially excluded people into formal financial system. The initiatives of the GOI and the RBI and the NABRD and rapid increase in overall GDP and per capita income in recent years resulted in a significant spread of financial inclusion. Many researchers have studied these aspects and an effort is taken to review them.

Uma, HR et.al (2013)[97] argued that inclusive growth is an important tool for India to develop Indian economy by encompassing all sections of people of all the regions in the growth process. Financial inclusion is the main instrument used to include all the sections of poor, disadvantaged and marginalized into the main stream economic activities of the country. Inclusive financial system helps the deprived sections of people to have access to formal and cheap credit, suitable saving products and other formal financial services which help them to come out of poverty and to reduce income inequality and regional disparity, still remaining in Indian economy. Government of India and the RBI are making continuous efforts to coordinate the programmes to reach the unreached sections through widening of banking services. The commercial banks, RRBs and co-operatives are actively trying to stretch their services throughout India. Here the author has made an attempt to evaluate the economic and general impact of financial inclusion by studying the primary data collected from Hunsur taluk in

Mysore. The results showed positive impact of financial inclusion on saral savings account holders.

Neha, Dangi and Pawan, Kumar (2013)[98] emphasized that financial access can really boost the financial condition and standards of living of the poor and the disadvantaged. So the RBI has been regularly inspiring the banking sector to develop the banking net work both through the branch expansion, installation of ATMs, implementation of EBT and also through instituting BC model with the help of Information and Communication Technology (ICT). This study is focused on the RBI and GOI initiatives and policy measures. Current status and future prospects of financial inclusion in India is assessed by this study on the basis of facts and data provided by various secondary sources. As a conclusion it is stated that for achieving complete financial inclusion and for inclusive growth, The RBI, GOI and NABARD will have to implement proper financial inclusion regulatory measures in the country.

Singla, Vivek (2013)[99] attempted to explain the benefits of financial inclusion, challenges faced in India and various measures taken for the successful implementation. The RBI had taken various measures for this purpose such as opening of no-frill accounts, use of regional language, simplifying KYC norms, financial education etc. But due to the various constraints the inclusive growth is prohibited and so there is a huge need to adopt various strategies to achieve financial inclusion. Therefore GOI and RBI have to take various measures to provide the benefits of financial inclusion to the weaker sections of the society.

Kavitha, N.V and Modukuri, Sneha (2013)[100] made an attempt to evaluate the role played by the RBI in introducing the policies towards achieving 100% financial inclusion and examined the steps to be considered for accelerating the pace towards sustainable development in India. The study highlights the steps taken by the RBI which include No-frills account opening, easier KYC norms , offering GCC to the poor, better customer services promoting the use of IT introducing BC and BF models and intermediaries and asking SLBCs and UTLBCs to promote financial inclusion process. Both demand side and supply side issues are addressed by the RBI and insisted on the expansion of banking and financial literacy. They conclude that the RBI should focus on creating an environment where financial institutions and financial markets can expand in an orderly manner minimizing the need for direct government intervention.

Rao, N.S and Harshitha, Bhatnagar (2012)[101] their study is carried out mainly to evaluate various important regulatory and operational initiatives taken by the RBI to strengthen the financial inclusion in India. It also aims to study the future prospects and effectiveness of financial inclusion in the country. The RBI has been continuously encouraging the banking sector to enlarge the banking network both by setting up of new branches and by instituting BF and BC model with the help of ICT. Banks have been advised to make effective use of micro credit by linking SHGs with banks, to provide door step banking practices through BC model using biometrics, consolidation of RRBs etc. so that extra care can be taken to ensure that the poor are not driven away from banking .

Ravi Kumar, T (2012)[102] has evaluated that access to a well functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks. Government of India and the Reserve Bank of India has been taking a number of steps to bring financially excluded people into formal financial system. Notwithstanding the initiatives of GOI and the RBI and the rapid increase in overall GDP and per capita income of the country in recent years, a significant proportion of the population of both rural areas and urban areas still acquaints with difficulties in accessing the formal financial system. This study intends make an attempt to scrutinize the various initiatives undertaken towards financial inclusion process and their role in achieving financial inclusion.

Atul, Raman (2012)[103] investigated and found that the three major aspects of financial inclusion are (i) access financial markets (ii) access credit markets (iii) learn financial matters. The RBI and the GOI have taken various steps to expand the banking penetration in the country through nationalization of banks, establishment of RRBs, introduction of SHG and strategy of one person one account for accessing financial markets. This paper aims to assess the Indian experience by conducting empirical and descriptive studies of available statistical data and to evaluate the role of the RBI in promoting financial inclusion. Financial inclusion has vast scope for sustainable economic growth, raising the standard of living of people and maintaining equity. It is observed by the author that the RBI can achieve full financial inclusion in India by 2015.

Thorat, Usha (2011)[104] focuses upon an innovative approach and effective regulatory frame work in achieving financial inclusion in a country like India with a large and varied population. It requires a high level of penetration by the formal financial system into the significant segments in rural and unorganized sectors. The RBI has taken various regulatory measures to facilitate financial inclusion which has not compromised with prudential norms for deposit taking entities. The RBI is of the view that only those institutions which have sound and strong administrative systems can implement measures of financial inclusion. She states that the preference has been to restrict deposit taking to banks and NBFCs are encouraged to focus innovative approaches to lending under higher regulatory frame work. NBFCs are allowed to be partners and agents of banks rather than principal providers of financial services. She is of the view that a fair and transparent code of conduct with an effective grievance redressal system facilitated by financial literacy and education shall be the underlying objective of financial regulation in the context of financial inclusion.

2.3. Financial Inclusion and Technology

The recent developments of technological advancements in banking, revolutionary changes of information technology and un-matching spread of computer networking in the hinter lands of the country have provided the perfect launch pad for the penetration of banking services to remote locations without having to open bank branches in the area. The provision of banking and other financial services to hitherto excluded sections of populations in a variety of ways with the help of the latest developments in information and communication technology is a main topic for discussion in the studies of financial inclusion. The reviews on those studies are shown here.

Alonso, Javier et.al. (2013)[105] in their paper, summarize the progress in mobile banking in Peru and its link to the aim of financial inclusion. Interesting possibilities of finance for the developing the sector of Peru are included in the latest e- money legislation. The regulatory authorities have decided to conduct Public surveys to discover the main socio-economic characteristic of individuals. It is also planned to identify the determining factors underlying the preferences regarding the use of mobile banking and connected activities. The remarkable level of penetration of mobile technology in the country makes it an attractive channel for generalizing financial services. The results of analysis of the data direct towards tapping the major opportunity for developing mobile banking sector with wide prevalence of devices, much higher than the current banking access. It could be used as a tool for accessing the financial system, especially for those groups who are currently excluded.

Ian, Ndlovu and Mercy, Ndlovu (2013)[106] provide primary information to guide banks in structuring their marketing strategies, quality improvements and business processes on the background of rural surroundings in order to achieve financial inclusion. The primary data is collected from respondents drawn from various banks' agents of mobile operators, rural residents including farmers from irrigation schemes in Gwanda district. The hypothesis of the study was that mobile money is limiting rural financial exclusion faster than traditional banking, micro finance and financial development aid. The majority of small scale rural business people are more attracted to bank with banks which use advanced modern banking technologies and partnering with mobile network operators. The study concludes that mobile banking and e- banking have potential in reducing poverty by bringing into mainstream economic activity to the previously excluded rural communities particularly women and under privileged.

Erin, F. Fonte (2013)[107] presented an empirical view that mobile banking and mobile payments in the United States have evolved differently than in other developed and developing countries. The current fervuor for mobile payments in the USA is more about chasing affluences and advertising than creating access for the unbanked and the under banked. The US regulators have made it clear that the existing financial service regulations apply to mobile banking and mobile payments. The involvement and interference of the Consumer Financial Protection Bureau, the US Treasury Department, Financial Crimes Enforcement Network and Financial Action Task Force could have an impact on mobile payments to maintain transparency. The mobile phones and smart phones are transforming the banking industry and have freed the customers from brick-and –mortar branches, allowing them to execute transactions at any time. Banking via. Mobile phones and tablet devices is the new evolution in "bricks-to-clicks". However, with regard to the unbanked and the under banked, current activities in mobile payments have not truly changed the underlying payments infrastructure.

Lakshmi, Kumar et.al (2012)[108] considered technology as a facilitator for financial inclusion. It has the power to reduce cost and can reach out to the unbanked of the far remote geographical areas in the most effective manner. It is found that in several underdeveloped African countries, drastic changes in technology and portability of the mobile have aided the substantial growth of financial inclusion. In India MFIs seem to comprehend technology with ease due to their size and scale of operations. The legal structure of MFIs was correlated to the level of technology assimilation in the institutions. It is found that the MFIs with highest level of technology, have reached far in financial inclusion, achieved high efficiency and even capable to tap the security market.

Gupta, Amit (2012)[109] expressed that the RBIs move to implement financial inclusion on a country wide scale hinges on the successful interfacing of banking services with technological services like IT services and telecom services. This paper refers to case studies from across the globe to give an insight of how financial inclusion is being given momentum by technology. The study based on secondary data and the analysis clearly indicates the need for technology with low cost solutions in India. Improved technology can definitely increase the rate of success for financial inclusion. At the same time leaving financial inclusion only in the hands of technological development and machines is not enough, but it has to be implemented with human touch and educating the unbanked about financial services.

Bold Chris et.al (2012)[110] The CGAP and CFID paper 'Banking the poor Via G2P payments' argued that this convergence held great potential to achieve several benefits. The electronic payments were seen as likely to reduce the cost of payments for government and make delivery more convenient for recipients, compared to the prevalent cash – based schemes, which require recipients to be in a particular place at a particular time to receive payments. On the other hand, a bank account was seen as the portal into the wider world of formal financial services like savings, insurance and credit. This study is based on the data collected from four countries viz. Brazil, Colombia, Mexico and South Africa. The experience in Brazil and South Africa proved that the move from cash to electronic payments is less expensive particularly for social programmes. However the results from the other two countries showed the cost per payment rose as a result of the need to build new distribution networks like ATMs. They suggest that a well designed social cash transfer payment strategy should be built and to support the development of the country's general retail payment system through electronic and fully inclusive formal financial services.

Das, PK (2010)[111] conducted a study regarding the scaling up technology to build inclusive financial system in India. The system needs to be relatively inexpensive so that it provides connectivity and commercial deployment in the rural areas, given the lower incomes compared to those in urban areas. Recently implementation of ICT has emerged as a powerful tool to reduce operating costs, making it feasible for financial institutions to penetrate into rural and low income areas. Despite the success of micro finance services in many countries, the unlimited access to financial services in remote rural areas remains still a challenge in India.

Medhi, et.al (2009)[112] studied the mobile banking adaptation and usage by low-literate and low users. Due to the increasing penetration of mobile phones even in poor communities, mobile phones enabled (m-banking) services are increasingly targeting the unbanked folk to bring formal financial services to the poor. However, more research is required to understand the issue, to prevent the low income, low literate population from meaningfully adopting and using existing m-banking services in order to scale up financial inclusion through technology.

Geach, N (2007)[113] studies financial inclusion and mobile phone technology. He found that the use of electronic communication throughout the world has not included everyone. He argues that the vast majority of the world's population is still outside the reach of digital technology, especially the internet. These people are located in rural or poor outer city areas that are less likely to have access to internet. Advances in mobile phone technology and its wider accessibility could provide the solution to this problem.

French, Shaun and Leyshon, Andrew (2004)[114] developed a conceptual framework for analyzing and interpreting the impacts of the internet and e-commerce upon commercial and industrial sectors. They enquire to move beyond and have tried to determine what effect the internet and e-commerce might make to the industries dealing in financial services industry. A critical evaluation of the concept of disintermediation is better understood as re-intermediation. They argued that the potential impacts of the internet and e-commerce upon retail financial services are highly significant, and are consistent with the individualization of risk and reward that have featured wider process of financial inclusion and exclusion over the past decade or so.

2.4. Financial Inclusion and Development

The term economic growth and development is the process of improving the standard of living and well being of the people of a country by raising the per capita income. The inclusive growth is the outcome of social and financial inclusion. A few studies are available in this area and reviews produced below.

Chandan, Kumar (2013)[115] pointed out that the faster and inclusive growth should be achieved simultaneously rather than in a phased manner. Strategies of growth and equity must be integrated and steps shall be taken to frame macro pro-poor policies and people – centric policies. The usage of terms like credit inclusion, economic inclusion, social inclusion and financial inclusion has become part of the path for overall economic growth. The study concludes that financial inclusion can no longer be treated as an outreach of social development programme; instead it should be treated as successful business model, so that the objectives of faster and more inclusive growth can be achieved.

Sharma, Anupama and Kukreja, Sumita (2013)[116] argued that for developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. A developing nation can grow economically and socially if its weaker sections are capable of handling finance independently not relying upon money lenders. This study highlights the basic features of financial inclusion and its need for social and economic development of the society. It focuses on the role of financial inclusion in strengthening India's position in relation to other country's economy. For analyzing such factors the data has been gathered through secondary sources. After analyzing the facts and figures it is undoubtedly concluded that financial inclusion is an inevitable necessity for economic and social development but still there is a long road ahead to travel to reach the desired outcome of inclusive society.

Bihari, Suresh Chandra (2011)[117] in his study, on the topic of financial inclusion for the Indian environments, explains that inclusive growth is imperative to economic development of the country. The task of achieving inclusive finance for India is still a huge challenge given the fact of the huge geographical expanse of the country. Inclusive growth bridges the gap between the rich and the poor, provided it is successful in reaching out to all the sections of the society especially the downtrodden. There are barriers for financial inclusion like high-cost of credit, non availability of financial services and non-price barriers like proof of identity, income and behavior aspects such as language problem, documentation and conditions. The financial exclusion in its real sense will lead to social exclusion.

Sarma, Mandira and Paisjesim (2011)[118] raised an important question whether development leads to an all- inclusive financial system. Through cross country study, they attempted to examine the relationship between financial inclusion and development empirically identifying specific factors that are associated with the level of financial inclusion. They developed financial inclusion and human development index and their analysis revealed that levels of human development and financial inclusion in a country move closely with each other. Among socio- economic and infrastructure related factors, income, inequality, literacy, urbanization, and physical infrastructure for connectivity and information are important. Financial inclusion is indeed a reflection of social exclusion. They concluded that the level of human development and financial inclusion are strongly positively correlated, although there are few exceptions.

Manji, Ambreena (2010)[119] offers a detailed analysis of the development policies and connects the current plans for the expansion of the financial sectors in the developing world. According to him as the volume of asset–backed lending expands, commercial banks will have to handle an increasingly prominent role in the developing economies. Encouraging and enabling the poor to use their land as collateral for credit will aggravate rather than alleviate poverty, especially amongst the women. The access to financial services will strengthen the position of commercial lenders enabling them to resist gender progressive change. It is difficult to reconcile the furtherance of financial inclusion with the aim of international development to end poverty.

Chibba Michael (2009)[120] noted that financial inclusion is an inclusive development and poverty reduction strategy that manifests itself as part of the Financial Inclusion – Poverty Reduction – Millennium Development Goals nexus. However, given the current global crisis, the need to scale-up financial inclusion is perhaps more important now as a complementary and incremental approach towards meeting MDGs than at any other time in recent history.

Benhabib, Jess and Speigel, M, Mark (2000)[121] this study has explained the well documented relationship between financial development and growth. The authors have examined whether financial development affects growth solely through its contribution to growth in primitive or factor accumulation rates or whether on total factor productivity growth rates. They also try to analyse the total impact of development. Their results suggested that indicators of financial development are correlated with both total factor productivity growth and total investment. In addition many of the results are sensitive to the inclusion of country fixed effects, which may indicate that financial development indicators are substituting for broader country characteristics.

Thomas, Isaac, TM and Michael, Tharakan, PK (1995)[122] observe that the experience of Kerala shows that the conditions of life of people can be improved even at low levels of economic development through appropriate public action for social provisioning and re- distribution. The struggle for basic needs is an important component for social mobilization strategies. The mass of Indian people do not have to necessarily wait for an indefinite future for the hump of economic growth to be crossed for schooling, house sites, primary health care, and food at fair prices and so on.

The thorough analysis of the background literature reveals that the GOI, the RBI and other regulators have taken a lot of measures to implement financial inclusion effectively and succeeded to a certain level in India. All the Indian states have implemented financial inclusion plans of their own in addition to the steps taken by the central government in this behalf. The literature review affirms the need for effective financial inclusion for bringing the excluded into the arena of formal finance and to accelerate the pace of development. It brings out the various studies conducted in the relevant research area and explains their findings. The elaborate review conducted by the researcher clearly pinpoints the significance of the many formal financial institutions in financial inclusion but identifies the existing research gap in the role of co-operatives in financial inclusion. Hence this study, The Role of Co-operatives in Financial Inclusion (A Study on the Rural Households of Kerala) is proposed by the researcher to bridge this wide research gap.

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CHAPTER THREE
FINANCIAL INCLUSION - AN OVERVIEW

3.1. Introduction

An elaborate review of the literature of various aspects of financial inclusion conducted in the forgoing chapter enabled the; p; to carry out a thorough discussion on the subject and it is made in the following paragraphs. In late twentieth century disparity in income and inequality of the living standards of the people have been explored and interpreted through the concept of social exclusion (Byrne,1999)[1]. It is the exclusion of the people from the mainstream economic activities and such excluded are entirely ignored by the economic system. (Hills et al.[2], 2002, Little wood 1999)[3]. The access to safe and affordable financial services for the poor is the most essential requirement for the accelerated growth and for the eradication of poverty and reducing income disparities (Demirguc–Kuntet.al.2008)[4]. The UN Secretary General Kofi Annan (2003)[5], at the time of announcing 2005 as the International Year of Micro credit, has noted that, "the stark reality is that most poor people in the world lack access to sustainable financial services whether it is savings, credit or insurance. To address the constraints of financial exclusion and poverty alleviation novel approaches are necessary" (Chibba, 2009;[6] united Nations ,2006)[7] The uneducated and the illiterate rural poor are less likely to access financial institutions and products (Carbo et.al 2005) [8] and only a small portion of aggregate financial assets are held by the poor (Honohan 2003) [9]

The vast majority of bankable people in the world do not have bank accounts and financial services access is denied to them. Only a small fraction of the population in almost all the countries have the access to financial services while various constraints hamper the inclusion of different population groups especially the women and the marginalized. Financial access provides a particular environment where the common people, the poor and the vulnerable groups who are the marginalized sections of the society, have access to the formal financial institutions and are in a position to use various financial products like credits, savings, micro insurance, pensions payments and money transfer facilities at affordable costs. A person may be said to have access to financial services if she or he is able to use such services at affordable prices (Fernando, 2007) [10].

The access could be to all or any of the formal financial institutions, markets and payment systems and it includes the use of all or any financial instruments. It is the process of the supply of the financial services to all citizens of a country and bringing the entire population into the formal financial sector at appropriate, fair and transparent means. Access to finance by the poor and the vulnerable groups is a pre-requisite for poverty reduction. The access to finance in developing countries is a necessity just like drinking water (Beck& Torre 2006)[11]. Providing the continuous access to finance is method of empowering the poor and extending the scope of the activities of the organized financial system to the vast segments of disadvantaged and low income groups. Financial inclusion is considered as an integral part of the efforts to promote inclusive economic growth for reducing income disparities and poverty. The access to finance enables the poor and the vulnerable groups to undertake economic activities and to become the beneficiaries of economic progress.

Financial inclusion rests on three pillars viz. access to financial services, affordability of such services and actual utilization of such services. (Shetty, 2006)[12] A country can be benefitted from the inclusive financial system if these three show positive results so that banking and payment services can be made available continuously to the entire population without any discrimination. The access to finance is the approachability of the common man to the formal financial institutions or to the financial products or services. It shows the number of people using the banks and bank like institutions, the number of people using the services from the formal financial institutions, the population approaching service providers and people transacting through the instruments of formal financial nature. The bank accounts determine the access to many other financial services (Mohan, 2006)[13].

The affordability indicates the financial ability of the people to carry out the financial transactions through formal institutions. It is a clear fact that the persons with little income or small income do not approach the financial institutions as they are the dealers in financial products which are not affordable to such persons. The formal financial institutions shall develop the products to suit the needs of the poor at small costs to ensure affordability. The various services offered by the banks and other institutions are not effectively utilized by the major portion of the customers. The reason behind it is the ignorance and lack of sufficient information about such services. Therefore initiatives and effective implementation of policies should be adhered to by the regulators and the prevailing financial systems. Achieving of a hundred percent financial literacy, no doubt, will enable the people to realize the benefits of the use of various financial instruments and services.

The access to formal institutions, financial services and financial instruments is the way towards the financial inclusion. In developed countries majority of the population have access to the financial services (Peachy and Roe, 2004)[14], whereas only twenty percent of the population has access to formal finance in developing countries (World Savings Bank Institute, 2004)[15]. As such financial inclusion has become a policy priority in many countries (ATISG, 2010; [16] United Nations, 2006)[17]

3.1.1. Definitions

Financial Inclusion is the process of bringing all un-bankable people into the banking net work and providing them the banking and financial services at affordable costs. The financial services include savings and deposits, loans and credit facilities and money transfer and remittance facilities. The term financial inclusion is defined by various authorities like international financial institutions, Indian financial regulators and experts in different ways. These definitions differ with regard to focus, dimensions, breadth and degree of inclusion and exclusion across the countries of the world.

Financial inclusion, in real terms, "is the broad access to financial services and it is the absence of price or non price barriers in the use of financial services." (World Bank Report, 2008)[18]. It brings out the fact that financial inclusion is the access by the households to the financial services and the regular and affordable supply of credit to the needy. A committee on financial inclusion was appointed by the Govt. of India during 2006 to study all the aspects of financial inclusion in India, chaired by Dr. Rangarajan, the Governor of the RBI. According to the report "Financial inclusion has been 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"[19]. Here the essence of financial inclusion is to provide access to a range of appropriate financial services and products to every individual and inspire each of them to understand and use those services. At the same time emphasis is given to ensure these services are offered to the poor and the vulnerable at affordable costs.

"Financial inclusion is expanding access to financial services, such as payment services, savings products, insurance products and inflation protected pension" (Reghuram Committee) [20]. Here the financial services include savings, credit insurance and old age protection. This definition throws light on widening the access and expanding the scope of financial services even to the areas of covering the risks of old age and causalities.Dev,2006[21], observed that "Financial inclusion is the delivering of banking services at affordable costs to vast sections and low income groups." This definition pinpoints the need for the ease of access to banking services for the low income groups. Dr. K.C. Chakraborty opines that the main stream institutional players like banks and formal financial institutions should ensure access to appropriate financial services needed by the poor and the downtrodden. In an article he defines financial inclusion as "The process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by main stream institutional players"[22]. This definition of financial inclusion implies the fairness and transparency of dealings in appropriate financial products needed by all especially to weaker sections and low income groups. Another definition given by the ADB (2000)[23] clearly indicates what sort of financial products are needed by the poor and low income groups. Accordingly financial inclusion is "Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro enterprises".

The UNO (2006)[24] emphatically expresses that access to credit, savings, insurance and payment services are the most required financial services to be offered to all who are eligible for using them. It states that "a financial sector that provides access: to credit for all bankable people and firms, to insurance for all insurable people and firms and to savings and payment services for everyone. Inclusive finance does not require that everyone who is eligible should use each of the services, but they should be able to choose to use them if deserved". On the other hand the Treasury Committee of the House of Commons of England (2004)[25] emphasizes on the ability of the people to access the banking services. The Committee defines financial inclusion as the "Ability of individuals to access appropriate financial products and services."

The Scottish Government (2006)[26] points out that the easier way to ensure better financial inclusion is by building up skills, knowledge and understanding of financial products among the common people. Financial inclusion, as elaborated by it, is "Access for individuals to appropriate financial products and services. This includes the capacity, skills, knowledge and understanding to make use of those products and services". Financial exclusion, by contrast, is the converse of this. Leeladhar[27] gives a comprehensive definition of financial inclusion while delivering a speech at Ernakulum in 2005 which explains as "Financial inclusion is the delivery of banking services to all sections of the society. Easy access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."

While delivering a lecture in January, 2006, Smt. Usha Thorat[28] aptly stated that by financial inclusion we mean, "The provision of affordable financial services viz. access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded." She has pointed out that the policy frame work for development of the formal financial system in India must recognize the importance of financial inclusion and should cover more and more of the excluded population by the formal system.

Mandira Sarma[29] has emphasized on several dimensions while trying to define financial inclusion, viz. accessibility, availability and usage of financial system. With these dimensions financial inclusion is defined as "A process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy." According to her all these dimensions together will help to build a financial system which is inclusive in nature.

The Banking Association of South Africa[30] is of the view that the accessibility should be always accompanied by usage and at the same time the financial education of the clients should be assured to provide experience of the various financial products. To elaborate this view it defines financial inclusion as "the access and usage of a broad range of affordable quality financial services and products, in a manner convenient to the financially excluded, unbanked and under banked; in an appropriate but simple and dignified manner with the requisite consideration to client protection".

A Whitepaper prepared by CGAP [31] on behalf of the G-20's Global Partnership for Financial Inclusion (GPFI) explains Financial Inclusion which refers to, "A state in which all working age adults including those currently excluded by the financial system, have effective access to the following financial services provided by formal financial institutions: credit, savings (defined broadly to include current accounts) payment and insurance". Here the effective access means responsible and convenient delivery of services at affordable costs and formal institutions refers to legally approved financial service entities.

All these definitions of financial inclusion focus on some key principles which are indispensable for the delivery of financial services and products to the un-served, the under-served and the financially excluded. The formal financial institutions need to strictly adhere to the principles while providing financial services to the excluded.

3.1.2. Components of Financial Inclusion

Financial inclusion is a multi-faceted concept with a number of nuanced components such as:

Access: The availability of affordable and appropriate financial services and products and delivery channels to a given person who usually will be a representative of the poor segments of the society. The access will enable the poor to undertake economic activities and thereby they are benefited through growth opportunities leading to financial empowerment.

Affordability: The financial products and services offered by the formal institutions shall be affordable to the target groups. The cost friendly products ensure the ability to pay for and the socially backward groups switch their source of finance from informal money lenders to the banks.

Appropriateness: The excluded are brought to the formal network only if they are able to select the products most suitable to them. Such financial products will ensure protection, keep their dignity and overcome the barriers.

Usage: Financial inclusion can effectively be attributed only if the target groups are using the products and services. Mere access does not bring the inclusiveness but it must be accompanied by usage.

Quality: It refers to the standard of the financial services and is associated with traits like simplicity, convenience, safety, affordability and dignity. The design of the financial products and delivery traits assure the quality.

Consumer financial education: The excluded have no experience in using the financial products and accessing the institutions. The provision of education for using the financial services is important to enable the disadvantaged to use these services in a proper and responsible manner. The regulators, the financial institutions, the media and the NGOs can impart financial education.

Innovation and diversification: Continuous innovation and diversification of financial products and services, delivery channels and new technologies are helpful to maintain the process of inclusion and to attain financial deepening.

Simplicity: To cultivate a habit of banking among the unbanked and under banked, the ease of use and understanding of the financial products and services shall be assured. The local language, convenient and user friendly delivery channels and simple technology lead to sustainable financial inclusion.

3.1.3. Financial Exclusion

The term financial exclusion, the antonym of financial inclusion is a wider concept, complex and difficult task to define, however attempts are made by economists and academicians to explain it in a satisfactory manner. Financial exclusion has been discussed as a state and as a process. As a state, in a narrow sense, it refers to the exclusion of the products and services, as a process, in a broad sense, it means shutting out the less well off from main stream money services (Sinclair 2001)[32]. The word financial exclusion was first used during 1993 to describe the lack of geographical access to banking services on account of the bank closures (Sinclair et al. 2009)[33]. However from 1999 onwards the term was continuously used to mean the lack of access to main stream financial services (KempSon and Whyley 1999) [34]. Now financial exclusion is used in a wider perspective which is associated with social and economic exclusion.

The literature on financial exclusion has defined it in the context of larger issue of social exclusion of certain groups of people from the main stream economic activities. Leyshon and Thrift (1995) [35] define financial exclusion as referring to those process that serve to prevent certain social groups and individuals from gaining access to the formal financial system. Kempson et al. (2000)[36] described financial exclusion as a complex and multi dimensional aspect arising due to a range of problems with access, conditions, market, price etc. It is defined as “the inability to access necessary financial services in an appropriate form. (Sinclair 2001) [37]. According to Conroy (2005),[38] “Financial exclusion is a process that prevents the poor and disadvantaged social groups from gaining access to the formal financial system of their countries” Carbo et al (2005) [39] have explained financial exclusion as broadly the invalidity of some societal groups to access the financial system.

Mohan (2006) [40] observes that financial exclusion signifies the lack of access by certain segments of the society to suitable, low cost and safe financial products and services from the main stream providers. This explanation indicates that financial exclusion occurs mainly among people who are at the margins of the society because of the absence of suitable financial products. Actually financial exclusion is a barrier towards accomplishing the objectives of financial inclusion. On this basis Rao (2007)[41] has viewed that financial exclusion is a confluence of multiple barriers, lack of access, lack of physical and social infrastructure, lack of understanding and knowledge, lack of technology, lack of support, lack of confidence among others. Rao emphasizes on the removal of these barriers to free the financially excluded and to march them towards inclusive growth, inclusive social life and towards financial inclusion.

Financial exclusion is a serious concern among the small enterprises and low income households which mainly affects the people of semi-urban and rural areas. It hinders the developmental process of the country and widens the 'rich-poor divide'. Swamy, V and Vijayalakshmi (2010)[42] claimed that importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world.

The reasons for financial exclusion can be noted as follows:

1. The geographical remoteness, absence of banking facility in the locality, the long distance from the banks and the inconvenient working time of the banks.
2. Illiteracy of the people, the lack of awareness of the banking transactions i.e. the banking illiteracy.
3. The cumbersome formal dealings associated with the financial institutions and complicated documentation.
4. Lack of suitable, fair and cost friendly banking products.
5. Non friendly attitude of the bank staff.
6. Language barriers.
7. Lack of sufficient income, savings, deposits and assets.
8. Absence of collaterals to offer as securities for availing credit.
9. Fear of refusal.

All these factors work together, thereby preventing the financially excluded to liberate themselves from the clutches of money lenders and leave them to languish in abject poverty. Pradeep Kumar [43] in his thesis has sketched the various aspects and dimensions of exclusion while defining financial exclusion and bringing out its features. In his view exclusion can take the following forms:

Access Exclusion: Resulting from the lack of access by certain segments of the population to the formal financial institutions and their products.

Condition exclusion: Exclusion due to the inability on the part of the marginalized to satisfy the conditions prescribed while consuming some financial products.

Price exclusion: Arising out of the non affordability of the price of the financial products and the interest charged by the institutions.

Marketing exclusion: The exclusion which brings a vast marginalization of the poor due to the profit oriented strategies adopted while marketing the financial products.

Self exclusion: Exclusion self created by the mental make-up of the vulnerable and marginalized which create a feeling among them that the formal finance is not intended for them but for the elite class of the society.

While discussing the credit exclusion in Canada, Buckland and Dong (2008) [44] tried to discuss the phenomenon of exclusion by adding more data and including the concept of credit constraint. In their words "Financial exclusion is generally understood to be related to material poverty and/ or social exclusion, a type of deprivation that affects household functioning. This deprivation is related to other forms of deprivations such as low levels of income and assets."

3.1.4. Consequences of Financial Exclusion

Financial exclusion forms part of a much wider social exclusion faced by some groups who lack access to quality essential services such as jobs, housing, education or health care. (Sameer Kochar 2006).[45] Consequences of exclusion will vary depending on nature and extent of services denied. It may lead to higher incidence of crime, increased travel requirements, general decline in investments, non availability of loans or getting credit only at exorbitant rates from informal sources, lack of proper financial planning, limited options for providing for old age, high rate of unemployment etc. The micro, small and medium scale business organizations and households may suffer due to lack of access to financial services and are compelled to deal in transactions at higher cash handling costs and delays in remittance of money. The people who resort to save in informal modes cannot get the advantage of tax concessions and there is always high rate of risk and insecurity in such savings (Mohan, 2006)[46] .The elements of poverty and financial exclusion lead to social exclusion. (Kempson et al, 2000) [47]. Financial exclusion makes the lives of the people lead on a low income more unaffordable, unstable and stress full. It marginalizes people and acts as a barrier in improving their living standards. It is considered appropriate to explain the consequences of exclusion in the following sub headings:

1. **Consequences for individuals:** An individual not having a bank account faces a lot of inconveniences while receiving cheques and later encashing them. It may be collected through the account of a third party and resulting in extra cost. Similarly the remittances of money to distant places become impossible for those who have no bank accounts. The payment of bills also cost high for the excluded who are at the same time remain the poorest members of the community. (Kempson et al, 2001, Corr, 2006)[48] They also miss the discounts, rebates and concessions offered at some retail outlets while using debit or credit cards. The financially excluded need to incur extra costs for availing some of the financial services which are most essential for them. In many countries it is the practice of the suppliers to charge more if payment is not made through banks. The poor have to pay more as they are excluded from highly banked and cashless economy (Strelitz and Kober, 2007)[49]. Another serious consequence of financial exclusion arises while accessing for formal credit, which the excluded cannot get from the main stream financial system. They have to cling to unlicensed money lenders and loan sharks who charge unseemingly high rate. This is a far reaching consequence that affects the excluded who prove to be the most vulnerable members of the society, who cannot afford such extortionate rates (Collard and Kempson, 2005; [50] Corr, 2006) [51]. The excluded also face high uncertainty as they lack savings during their old age.

2. **Social consequences:** The financially excluded have to face many negative social implications as they become isolated among the highly banked

people of the society. Their self esteem and social status may be adversely affected, develop terrible negative psychology, leading to long term health problems and chronic depression (Balmer 2006)[52]. Financial exclusion reinforces social deprivation and creates an underclass that is financially and socially excluded from the main stream society, the result being the lack of social harmony and long term social disintegration. The social groups to which the opportunities are denied will be further pushed into poverty and debt trap.

3.1.5. Causes of Financial exclusion:

Financial exclusion may have resulted from a variety of structural factors like unavailability of suitable products, collateral requirements and stringent documentation and increased competition in financial services (Project Report on Financial Inclusion, Raman Kumar, 2009) [53]. The barriers of financial exclusion can be discussed by dividing them into two broad categories. The exclusionary factors prevailing in an economy are arising from the demand side and supply side of the financial services. The demand side requirements are put forward by the people lacking access to formal finance, while the supply side factors generate from the providers of formal finance like banks and insurance companies.

A. Demand side barriers:

The excluded population is in need of banking facilities but they are unable to have access due to the following barriers.

1. Low income:

The income of the marginalized and the poor who exist below the poverty line is extremely meager, not even sufficient for their subsistence. They are not in a position to save and invest their earnings. Therefore the opening of bank account does not form part of their agenda and they never look for formal financial services. The opening and operating of bank accounts, making deposits and withdrawals of very small amounts frequently increase the workload of the banks which they do not encourage.

2. Complexity of financial services:

The most vulnerable portion of the common poor are illiterate, ignorant and incapable of making modern bank dealings. Bankers often use complex terminologies, which the common masses are unable to comprehend and therefore do not go for financial services voluntarily.

3. Lack of education and illiteracy:

In the developing countries the vast majority of population suffers from poverty, lack of education and illiteracy. The lack of financial awareness of the benefits of banking services and illiteracy will remain a barrier to financial inclusion.

4. High transaction cost:

The majority of people live in remote villages where the banking facilities are rare. The people have to cover a long distance to reach the bank outlets and therefore the transaction cost in terms of time and money to the customer is high. The excluded are compelled to rely on local money lenders for their finance.

5. Easy access to alternative credit:

The uneducated poor will find that the dealing with the banks is very difficult for them when compared to dealing with the informal moneylenders. No need of adhering to formalities and documentation, no collateral requirements, no distance to travel, no time to wait for and no hostile attitude of the staff to bear etc. make them think that it is better to prefer the money lenders to formal institutions. To the low income people informal credit still remains easily accessible.

6. Problems of identification:

The poor people living in urban slums, the ethnic minorities, the refugees, the migrant workers etc. face the problems of legal identity. They do not have common identity cards, birth certificates, written records or even ration cards. Such identity cards and identification numbers are the most essential requirements for accessing financial institutions and services. This situation keeps them excluded.

7. Sophisticated Terminologies used:

The banks and institutions usually use complex terminologies which the common people cannot understand. This is a barrier keeping away them from the formal services.

8. Terms and conditions:

To access the products and services of banking institutions the customers have to strictly follow a set of conditions like maintenance of minimum balance, restriction in number of withdrawals, conditions while using cheques etc. The filling of the forms and instruments in a different language itself creates difficulties to the poor customers in approaching banks.

9. Psychological and cultural barriers:

The feelings of the poor peasants and landless laborers that they cannot understand the nuances of banking due to illiteracy, less education and lack of banking experience will pull them back from the formal sources and keep them excluded. Moreover the customs, traditions cultural and religious beliefs, superstitions and the prevailing social system, in one way or other, tie them to the moneylenders.

Figure 3.1

Flow chart explaining the demand side barriers of financial inclusion

(Source: IZA Discussion paper No.4132 April 2009)

B Supply side Barriers:

Commercial banks, PACS and other co-operatives, RRBs, Post Offices, Insurance companies and other financial institutions constitute the supply side of formal finance. The geographical spread of the area, lack of rural infrastructure and high operating cost constitute the supply side barriers. Just like the demand side factors, supply side barriers also affect the financial inclusion. Among many, the following are considered as the most important supply side barriers.

1. **Perception of banks about rural population:** The bank's perception is that the large fraction of rural poor is un-bankable as they have no savings and collateral. The requirements of the unbanked households of the villages constitute small loans and small deposits which are uneconomic for the banks. Therefore the financial institutions like banks do not encourage the poor to carry out transactions continuously. The cost of small transaction for the banks in the remote villages is high compared to that of the high volume of semi- urban and urban transactions.

2. **The requirements of KYC norms:** The banks have to follow KYC requirements strictly. The identification documents, address proofs, introduction procedure etc. turn out as barriers while opening a bank account and therefore the excluded remain excluded again.

3. **Unsuitable loan products:** The poor approach the bank mainly for satisfying their credit needs. They require lump sum loans in small volumes. The loan products offered by the banks are quite unsuitable for such customers and so they have to rely on local money lenders at exorbitant interest rates.

4. **Attitude of the staff:** The dealings of the staff in the banks especially in the rural branches seem not at all encouraging. They behave harshly towards the poor and the uneducated customers who naturally expect more kind and friendly acts and deeds.

5. **Poor linkages:** The villages are lacking access to infrastructure and basic necessities like electricity, roads, water supply transportation communication etc. These poor market linkages restrict the banking penetration in the countryside areas.

6. **Less interested commercial banks:** In the modern world of competition, the commercial banks, the main providers of finance, in haste of maximizing profit never look towards the poor and the marginalized. Less interested in small volume transactions which add their transaction costs, they neglect the excluded and discourage them. They do not believe in social responsibility; ill treat the weaker sections and try to widen the gap of exclusion.

7. **Poor credit records:** The marginalized and the weaker sections exhibit a poor credit record which itself acts as a barrier to bank with them. Their bad previous banking records, poor recovery of past loans, changes of loans turning into NPA and high risk element deter banks from dealing with them.

3. 1.6. Who are the excluded?

Financial exclusion is a crucial problem which creates a wide divide among the different sections of the society and stand as a barrier to economic development. This phenomenon often affects a significant majority of predominantly vulnerable and otherwise disadvantaged people, such as single parents, social tenants, the long term unemployed members of some minority ethnic communities and those living on persistent low incomes (Kempson and Whyley,1999)[54]. Thus the financially excluded largely comprise of the marginalized poor and vulnerable sections highly confined to the remote rural villages of the country. Such sections include:

- Small and marginal farmers, landless laborers and oral lessees and other people with lowest income.
- Senior citizens, older people and women population.
- Social housing tenants and urban slum dwellers.
- Prisoners and ex-offenders.
- Migrants and refugees.
- Victims of domestic violence.
- People with disability or long term illness.
- Young people, not in education, employment or training (NEET)
- Ethnic minorities
- Self employed and employees of unorganized sector enterprises.
- The people who have no trust in banks and other financial institutions.

For promoting financial inclusion the issue of exclusion of people should be effectively addressed so that those who wish to use the financial services and to whom the access is denied, can choose to use them.

3.1.7. Main stream financial services:

The financial inclusion of households is attributed to an array of main stream financial services (Project Report on Financial Inclusion, Raman Kumar, 2009)[55]. Ensuring the availability of those services to the common man will accelerate the access, improve the quality, enhance the affordability, facilitate the financial education, assure usage, keep continuous innovation and diversification and above all maintain simplicity. The following are regarded as the main stream financial services.

- Basic saving bank account
- Payment and remittance services.
- Immediate credit.
- Entrepreneurial credit.
- Housing finance.
- Insurance.
- Financial education / credit counseling centers.

(Source: Rural Planning and Credit Dept; the RBI New Delhi)

The basic main stream financial services can be brought to the use of the households sufficiently and without interruption. Oya Pinar et al. state that the financial regulators of the countries of the world need to bring reforms in the demand side and supply side areas like:

- ❖ Consumer protection financial literacy.
- ❖ Government-to-person transfers.
- ❖ KYC requirements. Basic accounts.
- ❖ Access to finance in rural areas.
- ❖ Micro finance.
- ❖ Access to finance by SMEs,
- ❖ Branchless banking.
- ❖ Over indebtedness.

3.1.8. Objectives of Financial inclusion

According to the United Nations Organization, the main objectives of financial inclusion are as follows:-

1. To provide access of a range of cost effective financial services to all bankable households. The financial services include savings, credit, insurance, money transfer, pensions and remittances.
2. To assure the existence of sound institutions administered by competent management, industry performance standards and controlled by prudent regulations.
3. To involve multiple financial services providers in order to assure regular supply of cost effective wide variety of alternatives like public, private and nonprofit providers.

In addition to these fundamental objectives financial inclusion has many economic objectives and social objectives like:

- Equitable growth of all sections of society.
- Vast mobilization of savings.
- Larger market for financial system.
- Poverty eradication.
- Sustainable livelihood.
- Effective implementation of government programmes.

3.2. Financial Inclusion: Global Experience

The problem of financial exclusion is a global phenomenon and over two billion people are found excluded globally from financial services. In most of the developing countries only a minority of the population have access to formal finance leaving the vast majority outside the formal institutional net work. The situation is worse in the least developed countries particularly sub-Saharan African countries where more than 76 percent of the population remains excluded (Shahul, Hameed, M 2014) [56]. The countries of Latin America and Asia also face the same problem. The problem of financial exclusion is also found even in several developed countries to the extent of 10 to 20 percent of the population. It is found that 56 percent of adults worldwide are unbanked, 17 percent for high income and 64 percent for developing countries. Although the access to deposits has improved, the volume of deposits and loans remain stagnant. However the global retail networks like branches, post terminals, ATMs etc. expanded (Oya Pinar Ardic et al .2011)[57]. 62 percent of adults globally are reported to have an account in 2014, up from 51 percent during 2011. The share of adults in operating accounts increased in every economy, however, the account ownership varies widely around the world. In high income OECD economies 94 percent adults reported having an account in 2014. In developing economies only 54 percent did.

There is also high disparity among developing regions, where account penetration ranges from 14 percent in the Middle East to 69 percent in East Asia and the Pacific (Demirgu-Kunt, 2014)[58]. As per the World Bank report 55 percent of borrowers in developing countries use only informal sources of finance. This report also reveals that 20.9 percent adults use their accounts to receive wages. The 2014 Global Findex data base shows great progress in expanding financial inclusion around the world. However a lot of people, particularly women and poorer adults, still do not have an account. Among adults in the poorest 40 percent of households, more than 60 percent remain unbanked (Demirguc-Kunt et. al.2014) [59].

Table 3.1

Bank Account Penetration among the countries of the world

(Share with an account, 2014)

Name of the country	Adults (%)	Women(%)	Adults in the poorest 40%of HH(%)
Afghanistan	10	4	7
Albania	38	34	23
Angola	29	22	13
Argentina	50	51	44
Australia	99	99	98
Bangladesh	31	26	23
Bhutan	34	28	25
Brazil	68	65	58
Cambodia	22	20	18
Cameroon	12	10	3
Canada	99	99	98
China	79	76	72
Congo Republic	17	15	7
Denmark	100	100	100
Egypt	14	9	6
France	97	97	95
Germany	99	99	97
Greece	88	87	82
Guinea	7	4	2
Haiti	19	16	15
India	53	43	44
Indonesia	36	37	22
Iran	92	87	91
Iraq	11	7	8
Israel	90	90	84
Japan	97	97	95
Korea,Rep.	94	93	92
Kuwait	73	64	66
Madagascar	9	8	4
Malaysia	81	78	76
Mali	20	15	13
Mauritius	82	80	71
Mexico	39	39	29

Name of the country	Adults (%)	Women(%)	Adults in the poorest 40%of HH(%)
Myanmar	23	17	16
Nepal	34	31	24
NewZeland	110	99	99
Niger	7	4	6
Norway	100	100	100
Pakistan	13	5	11
Philippines	311	38	18
Russia	67	70	62
Saudi Arabia	69	61	64
Senegal	15	11	5
Singapore	96	96	96
Somalia	39	34	27
Sri Lanka	83	83	80
Sudan	15	10	9
Sweden	100	100	99
Thailand	78	75	72
Tunisia	27	21	17
Turkey	57	44	51
Turkmenistan	2	2	1
Uganda	44	37	27
UAE	84	68	79
UK	99	99	98
USA	94	95	87
Venezuela	57	53	48
Vietnam	31	32	19
Yemen Rep.	6	2	4
Zimbabwe	32	29	17

Source :Global Findex Database

This table very clearly indicates the present position of financial inclusion among various countries of the world. The developed and developing countries show wide variation in the progress of financial inclusion. Similarly the ratio of financial inclusion among male and female adults reflected here also brings out the substantial difference.

Table 3.2

Bank Account Penetration among the Regions of the World

Region	Adult %	Women %	Adults in the poorest 40% of HH(%)
East Asia & Pacific	69	67	61
Europe & Central Asia	51	47	44
High income OECD Economies	94	94	91
Latin America and Caribbean	51	49	41
Middle East	14	9	7
South Asia	46	37	38
Sub- Saharan Africa	34	30	25
Developing Economies	54	50	46
World	62	58	54

Source: Global Findex Database

This Table reveals that the high income OECD countries have attained almost 100% financial inclusion, while the region of Middle East has the lowest percentage of financial inclusion. The Sub-Saharan region also lags behind in the bank account penetration and financial inclusion. All the regions of the world except East Asia and Pacific and high income OECD economies exhibit that the percentage of financial inclusion as per the bank account penetration is far below the world average and the table depicts the wide disparity among the world economies in respect of financial inclusion. Thus financial inclusion has become an issue of worldwide concern relevant to the economies of the developed and the developing countries. Building an inclusive financial sector has gained growing global recognition highlighting the need for development strategies that touch all lives, instead of a selected few (UN 2006) [60].

Financial inclusion has gained significant momentum during these years at the global level. Over the past decade financial inclusion has risen as a global priority extending effective, client centered and affordable financial services especially to low income population creating countless opportunities. The G-20 countries endorsed a set of financial inclusion indicators to measure the level of inclusion in their countries. In the first meeting more than 130 member states of the Global Partnership for Financial Inclusion resolved to strengthen and develop an inclusive financial sector for households as well as small business concerns. The member countries started to implement intensive measures for financial inclusion and to succeed the Millennium Development Goals in 2015 (MDG). This programme focuses on the inclusive growth, advanced global development, poverty alleviation, rural development, women empowerment and economic growth.

Historically the problem of financial exclusion was tackled mainly on supply side in different countries. The governments in different countries intervened in two ways.

- Through state driven intervention by way of enacting appropriate statutory instruments
- Through voluntary efforts by the banking institutions to provide affordable banking services to all without discrimination.

Many countries have taken the measures like nationalization of private banks, promoting specialized banks including national savings banks, lending at concession rates to low and marginal income groups, enactment of laws to ensure the accessibility of formal finance, community based savings and credit etc. The Afro Asian countries resorted to nationalization of private banks to expand and extend banking services to the people of low income segments. Many countries of the world have the initiatives such as the policy of branch expansion, micro finance institution promotion, formation of Self Help Groups, establishment of rural banks, creation of financial inclusion fund, encouraging of credit unions and co operatives, introduction of basic no-frills bank accounts, promotion of Post Office savings banks, opening of savings gate way, free ATM facilities and setting up of community finance learning initiatives to promote basic financial literacy.

The developed countries have also taken measures to bring the financially excluded within the fold of the financial system. These measures adopted, among others, include legislation backed norms, Voluntary code of practices, basic bank accounts and subsidized accounts for the low income groups. Financial sector reforms that promote financial inclusion are increasingly at the core of the international development agenda for the policy makers and the development institutions at the global level (Caskey et al; 2006; [61] Dupas and Robinson 2009) [62] The spread of mobile phones all over the world and the dealings of banking transaction through mobile phones have been playing a crucial role in extending financial services to the underserved. In Sub-Saharan Africa, 12 percent of adults, 64 million people now use a mobile money account, helping to boost the number of financial account holders in the region to 34 percent , up from 24 percent in 2011(The Little Data Book2015) [63]

3.2.1. Financial Inclusion Initiatives by Developed Economies

To address the issue of financial inclusion almost all the countries of the world have formulated policies and practices during these years. Many of the Governments of the world have taken legislative action to promote financial inclusion and these include:

1. Direct legislation: To make it obligatory to provide financial services by the providers to regulate, organize and control financial services. The legislation aims to ensure: financial capability of banking institutions, consumer protection, strong banker customer relationship, transparency and information of products and costs and access and use of appropriate financial services.

2. Indirect regulation: To remove obstacles that reinforces financial exclusion and hinders the involvement of some people with the banking system. These are the side effects of the legislation for purposes other than financial inclusion which deter the people from accessing or using financial services.

3. Positive incentives to encourage the changes in the banking system for promoting financial inclusion: Generally these incentives include Tax relief, Guarantees to reduce credit risk, occasional monetary incentives like bonus and premium and incentives resulting from co-operation between public and private bodies.

4. Policy recommendations such as ceiling on interest rate, credit reporting, creation of external supervisory agency for promoting financial inclusion etc.

The incentives and the initiatives taken by various countries of the world to promote financial inclusion can be discussed in the following paragraphs.

3.2.2. AFRICA

All African countries have a high proportion of financially excluded population. The countries like South Africa, Kenya, Congo, Egypt, Nigeria, Algeria, Botswana and Sub-Saharan countries face grave problems of financial exclusion. South Africa has a better position compared to other African countries in the financial services access. Only less than 10% of population of Central African Republic, Congo, Chad, Egypt, Cameron and many other African countries have access to formal accounts and very negligible percentage obtained loans from formal institutions. The use of Debit Cards, Credit Cards and other financial services is totally strange to the vast majority of the people. As many Africans are not part of normal financial system a strong informal parallel economy operates in all those countries. To overcome this pitiable situation the countries have started taking initiatives for accelerating financial inclusion and some of them are mentioned here.

- Launching of mobile phone money transfer mechanism by the mobile net work operators to enable the micro finance borrowers to send money.

- Launching of MZANSI accounts, the product of a low cost national bank account by the South African Government, for catering to the needs of the unbanked population.
- The policy initiatives of public- private partnership to use existing distribution network of banks, governments and other bodies so that more potential customers are attracted to the formal system.
- Introduction of merchant point-of-sale devices, own institution ATMs, SASWITCH (BANK SERV) ATMs selected self service devices and post office outlets.
- Implementation of national savings mobilization programmes and promotion of no-frills savings accounts.
- With the help of the United Nations Capital Development Fund (UNCDF), the UNDP initiated a regional programme called Building Inclusive Financial Sector in Africa (BISFA) for the purpose of speeding

financial inclusion in African countries.

3.2.3. LATIN AMERICA

The Latin America and the Caribbean region comprises of 41 countries ranging from very small islands to large countries like Brazil and Mexico. The countries of Latin America and Sub-Saharan Africa still show the highest income inequalities as measured by Gini co-efficient. On an average 39.2 percent of adults have an account with formal institutions, and half of these accounts are used to receive wages and government payments. Only 8.6 percent households depend on formal banks for credit facilities. The various countries have taken many measures to overcome this situation of high exclusion and those include:

- Chile has launched a robust system of financial inclusion policies which covers the welfare benefit payments, financial literacy programmes and consumer protection regulations.

- The creation of National Council for Financial Inclusion (CNIF) in Chile for co-coordinating the institutions functioning in the field of financial inclusion and financial literacy.
- Digital payment platform, formed by the Government of Peru which is a consortium of banks, banking associations, tele-communication companies, insurance companies and financial consumers intended for generating a payment ecosystem based on e-money. This is generally termed as Peru Model.
- The Colombian Government passed Financial Inclusion Law, a regulatory framework for electronic banking transactions and the creation of bodies specializing in electronic payments.
- Brazil has set up a new regulatory framework for micro insurance to enable the banking correspondents and insurance organizations to spread micro insurance among the people of remote regions.
- The Government of Mexico made regulations governing the micro insurance and credit promotion explicitly on financial inclusion.
- The approval of Legislative Decree 72 facilitating regulatory tools for financial inclusion efforts by the El Salvador Congress.

3.2.4. The UK

- Identification of the priority areas of financial inclusion like access to banking services, access to affordable credit and access to free face to face money advice.
- Establishment of financial inclusion fund.
- Assigning responsibilities to banks and credit unions to remove financial exclusion.
- Creation of post office current account.
- Introduction of savings gate way for those on low income employment.

- Setting up of community finance learning initiatives to promote financial literacy.

3.2.5. The USA

- Enactment of Community Re-investment Act (CRA) to prohibit discrimination by banks against low and moderate income neighborhoods.
- Enactment of Home Mortgage disclosure Act.
- Introduction of prepaid instruments like General Purpose Reloadable Card (GPR) for serving the underserved.
- Promoting branchless banking network through non bank players and the NGOs .
- Big emphasis on retailers and non branch channels. The retail stores are providing their own financial services to reach the under-banked.
- No minimum balance requirements, low fees universal savings account, savings by the poor matched by the government, free ATM facility and one time subsidy for every account opened by the poor.
- The financial education efforts of banks and other bodies to promote access to financial education tools and effective education practices for financial inclusion.

3.2.6. CHINA

- The Government of China implemented three projects to promote financial inclusion in China 1. Financial inclusion in villages and communities 2. Transparent credit 3. Financial innovations for rural residents.
- Guidelines, polices and rules formed by the Government to encourage
- large, medium and small banks to set up small business units and to support SMEs.

- Providing greater incentives to the Chinese banks to offer loans to small enterprises.
- Steps taken to create branchless access points by setting up mobile units and ATMs or placing-point-of-sales (POS) devices with retailers and other non banking institutions.
- Establishment of village and township banks (VTBs), member owned Rural Mutual Credit Co-operatives (RMCCs) and Postal Savings Bank of China (PSBC) to develop loan products for rural enterprises and households.

3.2.7. PAKISTAN

The World Development Report 2007 discloses that more than 17 percent (27 million) Pakistaniees live below an income of one dollar a day and 73 percent (116 million) live below two dollars per day. The outreach of micro finance and other financial services in Pakistan to the poor is very low compared to other Asian countries. A recent survey conducted by the World Bank Consultative group to assist the poor shows that only 2 percent of poor in Pakistan has access to micro finance services while it is 35 percent in Bangladesh, 29 percent in Srilanka, 8 percent in Nepal and 3 percent in India. To overcome this situation many measures are taken by the Government and the State Bank of Pakistan.

- The Department of International Development (DFID) of the Government of UK proposed a financial support of fifty million pounds to promote financial inclusion programme in Pakistan. Under this programme the Government of Pakistan is trying to extend the outreach of micro finance to the unreached.
- Introduction of the Branchless Banking Regulation in 2008 allowed the banks and micro finance banks to leverage mobile phone communications and distribution net works to bring the financial services closer to customers.

- The State Bank of Pakistan recently framed rules for Payment Service Providers (PSP) and Payment System Operators (PSO) to bring them under the supervision of the SBP (State Bank of Pakistan) and to stimulate the payment market.
- Policies formed for the improvement of insurance services particularly life insurance and micro insurance and the old age pension schemes among the informal and unorganized working class.
- During 2012 National Financial Literacy Programme initiatives were launched in Pakistan to impart basic financial literacy to the poor and marginalized people of Pakistan.
- The SBP introduced Basic Banking Account, a simplified financial product for low income consumers which aims to reduce cost and expand financial inclusion.
- Micro finance Banking Regulation in 2001 to meet the demands of low income consumers and the formation of National Branchless Banking Consultative group with representatives from banks, mobile operators and technology service providers to develop mobile banking.
- Promotion of Islamic Banking and Islamic Banking products to provide formal financial services to the population who are excluded because of strong faith in religion.
- Boosting of financial inclusion through new delivery channels like ATMs, Banking agents, post offices and mobile phones.

3.2.8. BANGALADESH

The coverage of financial services is still incomplete in Bangladesh and the financial inclusion leaves gaps among many segments of population. The large portion of urban as well as rural population especially the poor are still out of financial coverage restricting their liberation from poverty. About 25 percent of adult population of Bangladesh is still out of the formal financial services. A missing middle has emerged between the poorest served by MFIs and the better offs served by banks. The Central Bank of Bangladesh, The Bank of Bangladesh and the Government have jointly undertaken a comprehensive financial inclusion campaign to extent financial services to the disadvantaged population of the country. The role of Bangladesh Grameen Bank at this juncture especially in the promotion of SHGs and MFIs is highly noteworthy.

- The bank branch expansion rules liberalized by introducing 5:1 to 1:1 ie. for opening one urban branch, one rural branch to be opened.
- The farmers are allowed to open bank accounts with the banks with minimum initial deposits (BDT 10 only) to improve their access.
- The pro - poor initiatives by Bangladesh bank like relaxing conditions of
- loan payment, making it mandatory for all banks to participate in
- agricultural credit to share croppers, formulation and implementation of agriculture and SME Credit policies and targets, emphasis on finance for women entrepreneurs, developing ICT solutions, MFI Bank Linkage Programmes, Agent banking, Green banking, School banking etc. for inclusive growth.
- Mandatory implementation of Women Entrepreneurs and Dedicated Desk by the banks in order to provide financial facilities on simple terms and conditions.
- To facilitate the migrant remitters, the Bangladesh Government has established a specialized bank, the Probashi Kallyan Bank, for safe and swift remittance from abroad.
- The co-operatives, Post Offices, NGOs, Mobile network operators, offices of urban and rural local governments, union information and service centers are brought under the mechanism of Agent banking to enhance financial activity in remote areas and thereby materialize the dream of poverty free Bangladesh.

3.2.9. SRI LANKA

When compared to other South Asian countries, Sri Lanka has a high level of financial inclusion achieved through a wide range of financial institutions. Such institutions provide an array of financial services such as loans, savings, leasing finance, and remittance and money transfer facilities. The Global Findex Survey, 2012 (World Bank) [64] reveals that Sri Lanka has the highest share of adults with formal accounts (68%) compared to other neighboring Asian countries. More than 82 percent of households in the country have access to formal institutions for their savings and loans. Various measures were taken by the service providers and financial regulators of Sri Lanka.

- Provision of 10 percent mandatory credit to agriculture by the banking system.
- Setting up of a credit and debt management council by the Sri Lankan Government.
- Upgradation of the post offices to provide banking facilities to speed up financial inclusion
- Building up of agency banking through mobile phones.
- Making mandatory to open two bank branches in rural areas for every branch opened in metropolitan areas.
- Establishment of National Payment Infrastructure provider, Lanka clears to facilitate electronic payments.
- Scheme introduced by National Savings Bank of Sri Lanka, known as 'Point –sale deposits' to collect deposits from rural households, through bank's representatives.

From the above discussion it is understood that both the developed and the developing countries realize financial inclusion as an important instrument for socio economic development of the poor and disadvantaged groups. The banking and the financial policy of every country round the world, therefore consider the formal financial services as a quasi-public good and the supply of it without discrimination constitutes its prime objective. With this end creative, flexible and appropriate strategies for building inclusive financial system have been initiated by the Governments of nations worldwide. It is sensible to remember that even the developed nations with all banking advancements, ICT up-gradations and infrastructure elevations, have not achieved hundred percent financial inclusions in its real sense. The developing countries along with their developed counterparts during these years have implemented a multitude of measures to experience the fruits of financial inclusion and inclusive growth.

3.3. Financial Inclusion: Indian Experience

India is a country of villages and about forty percent of the villagers still live in abysmally low socio economic conditions. Since independence concerted efforts have been made to ameliorate the living standards of the rural masses. Rural development and poverty eradication have been of paramount concern of the GOI and the planning authorities during the post independence period. India adopted the mixed economy model and planned development strategy to improve the quality of life of people, provide better education, good health and proper employment to all. The GOI, since independence, has been implementing many ambitious, anti poverty and employment generation programmes. A major constraint of these programmes, that reduces their effectiveness, is that the marginalized sections of population, particularly of rural India whom majority of the programmes target, are not integrated with the main stream economic life of the nation. In other words they are excluded from the socio-economic infrastructure whose support is vital for participating in economic activity and thereby benefiting from growth and development. A strong and sturdy financial system is a pillar of economic growth, development and progress of an economy. A financial system which is inherently strong, functionally diverse and displays efficiency and flexibility is critical to our national objective of creating a productive and competitive economy. A mature system supports higher level of investments and promotes growth in the economy with its depth and coverage. (Feldstein and Horioka, 1980 [65]; Hartog and Oosterbeek, 1993) [66]

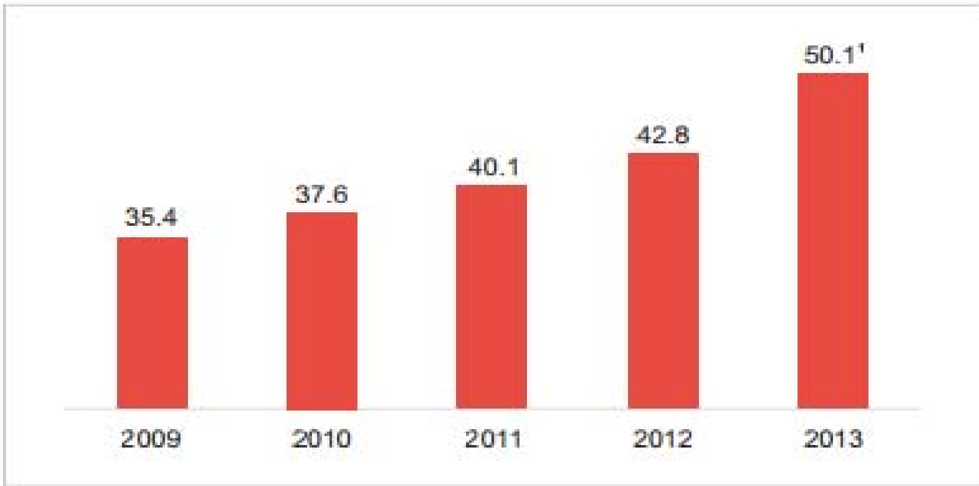
There is considerable evidence today, for a strong casual relationship between the depth of the financial system on the one hand and investment, growth, poverty and total factor productivity and similar indicators on the other hand (Stijn Classens, 2006).[67] The economic development of a country or society is usually associated with rise in incomes and related increase in consumption, savings and investment; growth measured in terms of gross domestic product per capita and related indicators like gross national income. Economic growth is the growth in the productive capacity of an economy, an increase in the value of the total outputs of goods and services produced. More broadly it is growth at the level of financial transactions in an economy.

Indian economy, particularly the arena of banking services, has made rapid strides in the past. NSSO data (59th Round) reveal that 45.9 million farmer households in the country (51.4%) out of the total 89.3 million households do not have access to credit either from institutional or non institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households availed loan from formal sources. However the number of households availing banking services increased by 14.48 crores and reached to 58.70 percent as per 2011 census.

In order to address the problem of exclusion, the the GOI, the RBI and other regulatory authorities implemented a variety of programmes since independence without attaining expected results. Even after six and half decades of independence the common man, the poor and the vulnerable, women and the backward class are in the clutches of unscrupulous money lenders and they suffer from poverty. Unrestrained access to banking services which is in the nature of public good is the essential factor to overcome this pitiful condition. In other words Financial Inclusion is the only reliable alternative to address this problem successfully. From the various statistical data available, it can be analysed that financial inclusion is continuously gathering pace during the years in India.

Figure 3.2

Rate of Financial Inclusion in India



Source: Crisil Inclusix

In India we have the largest unbanked population, where only 35 percent adults have accounts with formal financial institutions, the lowest account penetration compared to the rest of the world. The details from the various states reveal that about 50 percent of adults in Andhra Pradesh and Delhi, and 40 percent in Kerala, Gujarat and Maharashtra have formal bank accounts. However statistics reveal that only less than 30 percent of the adults of Bihar, UP, Orissa, Rajasthan and other northern states have account penetration. The population of India according to the 2011 census is 121 crores, 62.31 crores males and 58.74 crores females. The rural population comprises of 833 million while it is 377 million in urban areas. Of this population 65 percent of adults across the country are excluded from the formal financial system. The number of households availing banking services as per 2001 census was 6.82 crores (35.54%) which increased to 14.48 crores (58.70%) as per 2011 census. The urban rural difference with regards to the households availing banking services as indicated by these two censuses is 19.4 percent and 13.3 percent respectively. This shows that the rural population brought into the banking network increased tremendously during this decade.

Table 3.3

Position of Households availing Banking Services

	As per Census 2001			As per Census 2011		
Households	Total Number of Households	Number of Households availing Banking Services	Percent	Total Number of Households	Number of Households availing Banking Services	Percent
Rural	138271559	41639949	30.1	167826730	91369805	54.4
Urban	53692376	26590693	49.5	78865937	53444983	67.8
Total	191963935	68230642	35.5	246692667	144814788	58.7

Source: Compiled from Census data. Indian CensusReport-2001&2011

In India the financially excluded sections comprise largely small and marginal farmers, small traders, poor landless labourers and self employed people of unorganized sectors, urban slum dwellers, senior citizens, migrants, ethnic minorities and women. These sections suffer from poverty, illness and illiteracy. Their living conditions are cumbersome and they have nothing to do with the national development. The majority of the poor, rural and urban, do not have access to basic banking services and they rely on informal sources like private money lenders to address their need for financial services. The dependence on such sources is costly and insecure. They usually charge exorbitant rates of interest and resort to unscrupulous practices. To achieve sustainable development and to ensure the participation of all sections of the society in the process of development all sections of population shall be connected to formal banking institutions through the process of financial inclusion.

3.3.1. Present situation in India

The concerns regarding financial inclusion have emerged from the results of All India Debt and Investment Survey (AIDIS), 2002. It is learned that over the period of forty years the non institutional share of rural credit declined from 93 percent in 1951 to about 36 percent in 1991 and the share of money lenders also declined from 71.6 percent to16.9 percent during the same period. The AIDIS further reveals that the share of money lenders has there after raised to 29.6 percent with a proportional increase in the share of non institutional sources during 2002.

Table 3.4

Outstanding Debt of Rural Households

(Institutional v/s Non Institutional sources (%)

Sources of Credit	1951	1961	1971	1981	1991	2002	2013
Institutional	7.2	14.8	29.2	61.2	64.0	57.1	56
Govt.	3.3	5.3	6.7	4.0	5.7	2.3	1.2
Co-op-Society/Banks	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial Banks	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance/PF	-	-	0.2	0.6	1.4	0.6	0.3
Other Agencies*	-	-	-	-	9.3	2.4	4.6
Non-Institutional	92.8	85.2	70.8	38.8	36.0	42.9	44
Moneylenders	69.7	60.8	36.9	16.9	15.7	29.6	33.3
Relatives, Friends etc.	14.2	6.9	13.8	9.2	6.7	7.1	8.5
Traders and Commission Agents	5.5	7.7	8.7	3.6	7.1	2.6	0.1
Landlords	1.5	0.9	8.6	4.2	4.0	1.0	0.7
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.4
Total	100	100	100	100	100	100	100

Source: All India Debt and Investment Surveys, Various Issues, NSSO
Note: Breakup of share of each source is taken from working paper series 302, Indian Council for Research on International Economic Relations
*Includes financial institutions /corporations and financial companies.

Table 3.5
Institutional and Non Institutional Agri. Credit (%)

Sources of Credit	1951	1961	1971	1981	1991	2002	2013
Institutional	**10.2**	**20.9**	**32**	**56.2**	**66.3**	**61.1**	**64.0**
Govt.	-	6.2	-	4.0	5.7	1.7	1.3
Co-op-Society/Banks	6.2	12.5	-	27.6	23.6	30.2	28.9
Commercial Banks	4.0	2.2	-	23.8	35.2	26.3	30.7
Insurance/PF	-	-	-	0.8	0.7	0.5	0.1
Other Agencies	-	-	-	-	1.1	2.4	3.0
Non-Institutional	**89.8**	**79.1**	**68**	**43.8**	**33.7**	**38.9**	**36.0**
Moneylenders	39.8	25.3	-	17.2	17.5	26.8	29.6
Relatives, Friends etc.	-	-	-	11.5	4.6	6.2	4.3
Traders and Commission Agents	-	-	-	5.8	2.2	2.6	-
Landlords	21.4	15	-	3.6	3.7	0.9	0.4
Others	28.6	38.8	-	5.7	5.7	2.4	1.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: All India Debt and Investment Surveys, Various Issues, NSSO

Note: Breakup of share of each source is taken from working paper series 302, Indian Council for Research on International Economic Relations

More or less the same trend is followed in the case of non institutional credit to agricultural sector. The role of co-operative banks in rural and agricultural lending compared to 1951 has improved highly and risen to more than one fourth of the total of the institutional lending in 2002. However the increasing growth rate as shown by the table in respect of non institutional lending to the rural households during the decade ending 2002 and 2012 again adds to our concern. Notwithstanding the outreach of banking, the formal credit system has not been able to adequately penetrate informal financial markets;

rather it would seem to have shrunk in some respects in recent years (Rakesh,Mohan 2011) [68]

3.3.2. Indian initiatives since independence

Historically the Govt. of India and the RBI have been making efforts to increase banking penetration in the country since independence. Several initiatives overtime have been undertaken to solve the problem of non availability of banking facilities to the under privileged and weaker sections of the society. In India the institutionalization of systems for financial inclusion started from the very beginning of the 20th century, with the establishment of Credit Co-operatives by framing the Co-operative Societies Act in 1904. After independence the creation of State Bank of India in 1955; bringing of social control over banks in 1967; nationalization of Commercial Banks in 1969 and 1980; introducing the lead bank scheme in 1969 the announcement of DRI scheme in 1972; the formation of Regional Rural Banks in 1975; Launching of IRDP in 1978, the establishment of NABARD in 1982; launching of SHG-Bank linkage programme in 1992 and the formulation of Kisan Credit Card Scheme in 1998. These initiatives were undertaken at different points of time to expand the outreach of banking facilities and increase the flow of credit to the most marginalized sections of the society. The discussion of these initiatives can be divided into three different phases-

Phase I – Post independence period up to 1991: Banking sector consolidation and channeling of credit to priority but neglected sectors

Phase II- Post reforms period 1991-2005: Strengthening of financial institutions through financial sector reforms

Phase III- Recent initiatives since 2005: Introducing financial inclusion as a financial policy of the GOI

3.3.2.1. Phase I - Post independence period

1. Formation of SBI:

During 1950s the Five Year Plan process started in India and the policy makers and economists started thinking about the need for utilizing the banks as instruments of economic development. The All India Rural Credit Survey of 1954, after making a thorough study of the rural credit scenario, recommended the nationalization of the Imperial Bank of India, which was then functioning with its imperialistic posture, keeping away from the common man. As a result the SBI was formed by nationalizing the Imperial Bank of India during 1955. Thereafter by passing the State Bank of India (subsidiary banks) Act, the SBI made eight state banks as associates which belonged to princely states earlier. This was done during the first five year plan to prioritize the development of rural India. The SBI has been playing a major role in expanding the financial inclusion in India by covering the villages by opening rural branches and millions of new accounts especially 'No frill' accounts.

The SBI is the pioneer bank and market leader in agriculture financing to cover the farmer households and families through a vast network of 10505 rural and semi urban branches throughout India. It provides adequate credit to those who do not have easy access to credit. It has 52 foreign offices spread in 34 countries. It is the largest commercial bank in India. It is ranked as one amongst the largest five banks in the world. It has a pivotal role in providing financial services and caters to the needs of all classes of customers by providing the services of internet banking, personal banking and online banking with the help of the SBI Debit cards and credit cards and online customer care facilities. The SBI and associates pay high attention to priority sections like agriculture, self employed persons, small scale industries, road and water transport operators and weaker sections of the society. The SBI group banks took necessary initiatives in SHG Bank linkage programme and introduced the products like SHG credit card, SHG gold card and SHG Sahayog Niwas. To empower the financial inclusion process, the SBI and associates announced NGO/MFI on-lending programme, Grameen Shakthi, the micro insurance product, the multi-pronged approach of engaging Business Facilitators and Business Correspondents and technological innovations to cover the unbanked villages all over India.

2. Social control and Nationalization of Commercial Banks:

The economic planning process adopted in India after independence is aimed at social ownership. The private sector commercial banks failed to oblige with the Govt. policy and the GOI nationalized 14 major commercial banks during 1969 with a deposit base over Rs.50 crores. These banks contained 85 percent deposits in the country. The second phase of nationalization came in April1980 when 6 more commercial banks were brought into the public sector. After this, about 91 percent of banking business in India came under the control of GOI. The commercial banks were nationalized in India to achieve the objectives like social welfare, control of private monopolies, reducing regional imbalances, priority sector lending, developing banking habits and branch expansion and penetration into rural areas.

Financial inclusion needs the pre-requisites like wide spread geographical reach of banking, vast deposit mobilization and proper and justifiable sectoral allocation of credit. The bank nationalization helped the GOI achieve these requisites of financial inclusion as a result of which the profit motive of the private sector banks has been substituted by the service motive. After nationalization there was a huge expansion of bank branches especially in the rural India with the population per branch reaching to 37000 during 1972, 18000 in 1981 and 14000 during 1991.The share of agricultural and priority sector credit rose sharply from 2 percent before nationalization to 21 percent during the mid 1980s. The volume of credit to small scale sector also increased from 22 percent in 1972 to 45 percent during 1980s. The rate of savings from 12 percent of GDP in 1968-69 reached to 20 percent during 1980s, 24 percent during 1990s and to a maximum rate of 34 percent at the end of the first decade of 2000. Thus nationalization helped to launch proper financial infrastructure to attain financial inclusion and social inclusion in India.

3. Lead bank scheme:

This scheme was introduced during 1969 to assign lead roles to individual banks to co-ordinate the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small scale industries and to other priority sectors in the rural and semi urban areas. The RBI, on the basis of the recommendations of the Gadgil study group and Nariman committee, launched lead bank scheme in India. Lead district Manager of the lead bank collects data from commercial banks, RRBs, Co-operatives, Government agencies, and other institutions and monitors the credit supply to the rural economy. The scheme envisaged to set up financial literacy centers and financial literacy camps and to arrange awareness and feedback public meetings, to organize capacity building/training/sensitization programmes, to monitor information system (MIS) and to make discussions for opening banking outlets in unbanked villages. All these led to the eradication of unemployment, satisfaction of the basic needs of the poorest of the poor and upliftment of the standard of living of the poor sections of the society.

The scheme envisages many reforms like adoption of Area Approach with districts as the units for the development of banking and credit structure, constitution of State level bankers committee (SLBC) for collective action and co-ordination of banking activities and Village Adoption Scheme (VAS) for integrated and holistic growth of rural India were launched. All these helped to expand the accessibility of banking and credit all over India especially in the rural and remote areas. This scheme was an integrated mechanism to make the banking services reach the door steps of the poor. Actually this move was a financial inclusion drive which enabled millions of the unbanked to be included in the banking net. Recently the RBI has announced to extend the lead bank scheme to all districts of urban and metropolitan areas to bring all the urban poor and marginalized under the banking fold. This is due to the realization that the challenge of financial exclusion can be faced by the implementation of lead bank scheme more effectively.

4. Differential Rate of Interest Scheme:

During the year 1972 the Differential Rate of Interest Scheme (DRI) was introduced and implemented by all the scheduled commercial banks. The main objective of the scheme was to provide bank credit at concessional rate of interest of 4 percent per annum to the poor and weaker sections of the society to enable them to invest in productive activities so that they could improve their economic and financial conditions. The beneficiaries of this scheme were the categories of borrowers like scheduled castes and scheduled tribes, marginalized farmers, artisans, self employed persons, those who were engaged in rural and cottage industries, institutions for differently abled persons, orphanages and women homes. As per the existing RBI regulations, the loans under the schemes like DRI, SGSI and SJSRY are mutually exclusive. The benefit of DRI scheme is available only to those borrowers who have not received the benefit of the subsidy–linked schemes of the government. There is a clear directive to the banks to advance 66 percent of the scheme fund to the rural and semi urban areas. The scheme has been in operation for more than four decades, the flow of credit under it is unbelievably low. However DRI scheme helped to include the large masses of poor to the formal financial net work and to maintain the accessibility to formal credit at low rate of interest costs.

5. Formation of Regional Rural Banks:

Another milestone laid on the path of financial inclusion is the establishment of RRBs as per the directives of Narasimhan Committee during 1975 with the objective of providing basic banking and financial services in the rural and semi urban areas of India. These banks are popularly known as ‘Gramin banks’ which, in the real sense, are the key institutional source of credit in the unbanked rural areas. In addition to the basic banking functions, RRBs provide other services like pension distribution, ATM facilities, debit and credit card operations, safe deposit locker facilities and other general banking services to the economically and socially marginalized sections. These banks were owned jointly by the central government, state governments and by the sponsoring banks and were established with a view to strengthen the rural economy by providing finance and to substitute the co-operative banks. Since their formation, these banks are mobilizing deposits from the rural areas and providing credit to the peasants, artisans, petty shopkeepers, small traders, workers and agriculture labourers. During the first decade of 2000 many small RRBs were amalgamated to provide better services to the customers with enhanced infrastructure, better technology, common advertisement and publicity and extensive area of operations. The RRBs which have been viewed as the ordinary man bank, are now working with a large net work of branches, covering the majority districts of the country with upgraded technology and core banking solutions. The RRBs are of greater help in ensuring sustainable development among the backward sections of the society through financial inclusion.

6. Integrated Rural Development Programme:

The GOI introduced a rural development programme during 1978 which is well known as IRDP, extended to all villages in India during 1980. This programme was framed as a self employment programme, the main objective of which was to enhance the income generation capacity of the target groups among the poor which consisted of the small and marginal farmers, rural artisans and agricultural labourers who live below the poverty line. This poverty alleviation programme was intended to provide income generating assets by way of bank credit and subsidy to the families below the poverty line to transform them into families of above poverty line. Financial inclusion was the under pinning of the largest subsidy linked credit programme in the world under the banner of IRDP. (MohaPatra and Pankaj Kumar ,2012) [69]

This programme aimed to provide assets and opportunities of self employment to rural poor and implemented through District Rural Development Agencies. (DRDA) The subsidy element of the programme has led to large scale corruption among the bank staff, Government employees and politicians. The basic misconception that the provision of credit is a onetime event instead of being continuing relationship between the borrower and the lender was the basic drawback of the programme. Again this programme totally neglected the elements of saving on the pretext that the poor cannot save at all. The assessment and evaluation of the programme shows that IRDP was a strong policy instrument for poverty alleviation and rural development; however, it did not achieve the desired results. The way of identification of beneficiaries of the scheme, organization of 'Loan Melas' in the stadiums and massive rural loan write off made the revolutionary programme of IRDP a failure. Even though banks opened loan accounts in the name of the poor, no attempts were made for the regular operations. The expected benefits did not percolate to the poor and credit did not reach the deserved. The high transaction costs and low rate of repayment of loans created further problems to the banks. All the accounts remain single transaction accounts and hence the programme did not add anything to financial inclusion.

7. Establishment of the NABARD:

The National Bank for Agriculture and Rural Development was established on 12th June, 1982, with the headquarters at Mumbai and branches all over India. The focus of its formation is the overall rural development by increasing the credit flow for the promotion of the sectors of agriculture, small scale, cottage and village industries and other rural developmental activities. The NABARD is set up as an Apex Development Bank for sustainable and equitable rural development by acting as a facilitator of credit, institution building and other innovative initiatives. It takes a leading role in the preparation of district level annual credit plans, determining the credit potential, monitor the flow of basic rural credit and frame the policy and guidelines to be followed by rural financial institutions. It coordinates, directs, and regulates the functioning of co-operative banks and regional rural banks.

The NABARD has come forward to form Joint Liability Groups (JLG) to offer credit to the poor and marginal farmers and to ensure greater financial inclusion in rural and remote areas. As an apex agency, the NABARD has been managing the Financial Inclusion Fund (FIF) for meeting the financial inclusion cost and Financial Inclusion Technology Fund (FITF) for meeting the cost of financial inclusion technology adoptions. The process of financial inclusion is accelerated by the NABARD by taking initiatives to focus on Information and Communication Technology (ICT), universal financial literacy and financial education plan, setting up of financial literacy centers, capacity building and creation of micro ATMs. The NABARD has attempted to leverage the outreach and access of finance, banking and insurance through literacy centers across the country in pursuit of financial inclusion for accomplishing the aim of inclusive growth.

3.3.2.2. Phase II – Post Reforms Period

1. SHG Bank Linkage Programme:

In a country like India where the majority of the population is poor and illiterate, people hesitate to approach formal financial institutions like banks. However it is inevitable to bring the large masses to the ambit of formal finance for the overall development and financial inclusion. A village based financial institution without high formal and confusing involvement and dealings are most suitable to amplify the access to credit in such areas. A group of ten to twenty men or women can form a committee to mobilize finance from among themselves through small but regular savings over a few months. This contributes towards a sufficient sum of capital to help each other in times of need and to begin some livelihood activities like tailoring jobs, making candles, running retail shops etc. Such groups are commonly termed as Self Help Groups (SHGs). A self help group is a small informal micro entrepreneurial institution of small group of the poor, preferably from the same socio economic conditions, registered or unregistered , contribute to small common fund which is used to provide small interest bearing loans to meet their productive and emergency credit needs.

The self help and mutual help micro credit institutions were evolved in India on the lines of the ‘Bangladesh Grameen Bank’ model during 1985 by forming ‘MYRADA’ in the state of Karnataka. Afterwards many NGOs, Banks and other agencies formed large number of SHGs especially in South India. In order to increase the loan volume, linking of SHGs with the Banks has been decided by the NABARD and the RBI and started as a pilot programme in 1992 and continued as a successful financial inclusion strategy as per the recommendations of S.K.Kaliya committee. Through this programme the marginalized people and women could improve their access to credit in a cost effective manner. The SBLP help the members to avail bank loan at lower rate of interest without collateral security.

The financial inclusion streamlined through SHG-Bank Linkage Programme (SBLP) is proved sustainable and scalable on account of its various features. Those features and effects of this programme include provision of door step savings and credit facility, high on time recovery of loans, income enhancement, poverty reduction, asset building, reduced child mortality, improved maternal health and more spending on education and women empowerment. For the banks it is found that the SBLP Model helped to reduce transaction costs and risk tremendously, attain higher repayment performance, mobilize small savings, dealing effectively with a large number of small borrowers, access the credit needs of the poor and to monitor the timely repayment of the advances. Thus the SBLP is considered to be an effective strategy to ensure financial inclusion particularly among the vulnerable groups.

2. Kissan Credit Card Scheme:

The government of India, the Reserve Bank of India and the NABARD introduced Kissan Credit Card Scheme (KCC) in India during August 1998 to provide affordable, adequate and timely credit to the poor farmers of India. The institutional lending remained inaccessible to the farmers due to lack of awareness, cumbersome procedure and unnecessary delays. As a result a large number of farmers is compelled to depend on non institutional sources like money lenders for their frequent credit needs. Realizing this fact the financial regulators of India launched these schemes to provide credit requirements of the farmers in a cost effective manner and to satisfy their financial needs like purchase of farm inputs and payment of wages.

The KCC scheme facilitates the farmers to purchase the seeds, implements and other farm requirements and even to withdraw cash. These cards and pass books are issued by the nationalized banks and co-operative banks to the farmers on the basis of their land holdings with a validity of five years subject to annual renewal. A twelve month period is allowed for

Table 3.6

Details of Kissan Credit Cards Issued (Number in Lakhs)

Year	Co-operative Banks		Regional Rural Banks		Commercial Banks		Total Banks	
	No.	%	No.	%	No.	%	No.	%
1998-99	01.55	19.88	00.06	00.78	06.22	79.74	07.80	100
1999-00	35.95	70.02	01.73	03.37	13.66	26.61	51.34	100
2000-01	56.14	64.89	06.48	07.49	23.90	27.62	86.52	100
2001-02	54.36	58.20	08.34	08.92	30.71	32.88	93.41	100
2002-03	45.79	55.55	09.64	11.69	27.00	32.75	82.43	100
2003-04	48.78	52.75	12.74	13.78	30.94	33.46	92.47	100
2004-05	35.56	36.74	17.29	17.86	43.96	45.40	96.80	100
2005-06	25.98	32.43	12.49	15.59	41.65	51.98	80.12	100
2006-07	22.98	27.00	14.06	16.52	48.08	56.49	85.11	100
2007-08	20.91	24.69	17.72	20.92	46.06	54.38	84.70	100
2008-09	13.44	15.64	14.14	16.46	58.34	67.90	85.92	100
2009-10	17.43	19.35	19.49	21.64	53.13	58.99	90.06	100
2010-11	28.12	27.65	17.74	17.45	55.82	54.89	101.69	100
2011-12	26.61	22.63	19.95	16.96	68.04	57.86	117.60	100
2012-13	26.91	20.73	20.48	15.78	82.43	63.49	129.82	100
Total	460.51	35.82	192.35	14.96	629.94	48.99	1285.79	100
EGR	1.57%		26.37%		14.27%		9.39%	

Source: Trend and progress of Banking in India, RBI, for various years.

KCC is one of the most widely accepted and highly appreciated banking products. The scheme allows frequent withdrawals and continuous repayments which facilitate regular contacts with the banks and hence add to financial inclusion. To expand the borrower volume insurance coverage is also introduced to the scheme and thus it has become a popular measure for financial inclusion. The scheme is actually a significant factor to determine financial inclusion in the agriculture sector.

3.3.2.3. Phase III- Recent initiatives:

1. General Credit Card Scheme (GCC) :

This scheme was introduced in India by the RBI during December, 2005. The banks are allowed to issue credit cards to their customers of rural and semi urban areas based on the assessment of their income and cash flow of their households. The objective of the scheme as per the RBI circular is to provide hassle-free credit access to the poor and disadvantaged customers of scheduled commercial banks and RRBs. Fifty percent of this loan facility is treated as priority sector lending. The scheme does not insist on security, purpose of the credit or end use of credit. Appropriate and reasonable interest rate is chargeable. A limit is fixed which will be periodically reviewed and revised on the basis of the track record of the borrower. While considering the borrowers the women beneficiaries are given preference under GCC. For the purpose of identifying the borrowers, the banks utilize the help of local post office, local government functionaries, community based agencies, primary health centers, farmers clubs and civil society organizations. As a part of the financial inclusion plan the RBI has revised thoroughly the GCC scheme during 2013 to enhance the coverage of the scheme and to ensure the credit flow to all productive and entrepreneurial activities in the non farm sector. A maximum limit of Rs.25000 has been fixed as per the GCC scheme on the basis of the income of the households. The following table shows the amount of credit card limit fixed and the income of the households.

Table 3.7

Showing Relation between Annual Income & Maximum Limit of GCC

	Annual income Rs.	Maximum limit Rs.
1	Up to Rs.10,000	1000
2	Rs.10,000 to Rs.25,000	5000
3	Rs.25,000 to Rs.50,000	10,000
4	Rs.50,000 to Rs.1,00,000	15,000
5	Above Rs. 1,00,000	25,000

Source: Trend and progress of Banking in India, RBI.

The GCC enables the ordinary farm and non farm families to avail easy and formal credit from banks. This facility is in the form of revolving credit and the borrower can renew the credit from time to time and improve and enhance the credit limit. This roll over overdraft loan facility to the financially excluded is really a mechanism to improve the access to credit.

2. No-Frills Accounts:

The RBI introduced a new scheme to bring more excluded in to the financial inclusion basket during 2005 which is termed as No-Frills Accounts and later renamed as Basic Savings Bank Deposit Accounts (BSBDAs). These are the bank accounts targeting the poor and the marginalized whereby they can open accounts with the banks with zero balance or very small minimum balance with no pre-conditions or requirements. To such accounts the charges applicable are low. In the annual policy statement 2005-06 the RBI urged the banks to design no-frills accounts and to offer them to low income groups having no access to formal bank accounts so that they can be brought under the umbrella of savings and credit. The RBI advised the SLBC conveners to identify at least one district in each state or union territory and to provide no-frills accounts to issue GCC for achieving 100 percent financial inclusions.

The persons eligible to open no-frills accounts include marginal farmers, agricultural labourers, unorganized sector employees, SHG members, students, self employed persons and rural people. The no-frill account holders can deposit and withdraw cash at the branch where they have their accounts and also use

ATMs. They are provided with the services of electronic payment channels and collect cheques drawn by government agencies and departments. They are allowed to make any number of deposits but withdrawls of amounts from the account are limited to four times in a month including the ATM withdrawals. Another point to mention is the non operating or non activation of accounts will not be levied any penalty. These accounts can be opened with simplified KYC norms. The banks are advised to issue GCC to the no-frills account holders so that financial inclusion drive can be accelerated by providing access to bank accounts and access to credits. The banks in India especially public sector banks appointed Business Correspondents through which millions of no-frills account has been opened. The no-frills accounts provide benefits as a source of deposits, as a source of credit deployment, as a source of MGNREGS payments, for making utility payments and for strengthening SHG business and for promoting other services.

Table 3.8

Progress of No-Frills Accounts

Particulars	Year ended March 2010	Year ended March 2013	Year ended March 2014	Progress April-2013 to March- 2014
1	2	3	4	5
BSBDAs through branches (Number in Millions)	60.2	100.8	126.0	25.2
BSBDAs through branches (Amount Rs. In Billion)	44.3	164.7	273.3	108.6
BSBDAs through business correspondents (Number in Millions)	13.3	81.3	116.9	35.7
BSBDAs through BCs (Amount Rs. In Billion)	10.7	18.2	39.0	20.7
BSBDAs Total (Number in Millions)	73.5	182.1	243.0	60.9
BSBDAs Total (Amount Rs. In Billion)	55.0	182.9	312.3	129.3
OD Facility availed in BSBDAs(Number in Millions)	0.2	4.0	5.9	2.0
OD Facility availed in BSBDAs(Amount Rs. In Billion)	0.1	1.6	16.0	14.5

Source: - RBI (http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/RBI ARE 210814-FULL.pdf, p.67)

3. Simplified KYC Norms:

At the time of opening an account the banks obtain information from the customers about the identity and address in order to ensure the safety and to prevent the misuse of accounts. This process is termed as Know Your Customer (KYC) procedure. The banks need to complete the KYC procedure while opening the accounts and also get it updated periodically. The proof of identity and the proof of address are required to be submitted to the bank for opening the accounts. Earlier as a part of KYC procedure one had to submit separate proofs of address and identity. The RBI relaxed these norms and at present a single document with photograph and address of the applicant is made sufficient. The documents like passport, driving license, voters ID card, PAN card, Aadhar card and job card issued by NREGA signed by the state government official are recognized by the RBI for this purpose. These documents contain the details like name, address, age and gender of the customer.

The RBI directives say that no separate proof of address is required for current address and also when the accounts are transferred from one branch of the bank to another of the same bank. Any change in current account requires only a simple declaration by the account holder regarding the change of address. A person without any officially valid document also can open a 'small account' with the bank. This is made possible on the basis of a self attested photograph and a thump print in the presence of the bank official. Such accounts are having the limitations like the maximum balance at a point of time of Rs.50,000 maximum credit of Rs.1,00,000 in a year and aggregate withdrawal of Rs.10,000 in a month. The validity of such accounts is restricted to a period of 12 months. Foreign remittance to such accounts is not possible. The RBI insists upon the periodic updating of KYC procedure. As a part of simplification of KYC even the introduction of the applicant is not required for opening the account.

4. Committee on Financial Inclusion:

The Government of India constituted a ten member committee on Financial Inclusion in June, 2006 under the chairmanship of Dr.

C.Rangarajan to study the problem of exclusion of rural poor from access to financial services and to suggest measures for enhancing financial inclusion in India. The committee was asked to study the pattern of exclusion as regards to region, gender, occupation and vulnerability of different segments of population. The committee conducted a detailed study and submitted a report in 2008 to the Govt. of India which explained the extent of exclusion in India, the demand side and the supply side factors responsible for such exclusion and suggested various measures to be taken by the Government to accelerate financial inclusion in India. The suggested measures include the formation of National Mission on Financial Inclusion (NaMFI), the launching of National Rural Financial Inclusion Plan (NRFIP), creation of Development and Technology Funds and introduction of Business Correspondents and Business Facilitators and many procedural changes like simplifying mortgage requirements, exemption from stamp duty for loans to small and marginal farmers and providing business development services in the farm and nonfarm sectors. The committee also recommended strengthening the SHG-Bank-linkage Programme, formation of Joint Liability Groups (JLG) and their linkage with RRBs and commercial and Co-Operative Banks, revitalizing the co-operative system and linking of micro credit with micro insurance. The GOI and the RBI implemented suggestions of the committee report to accelerate the growth momentum and to ensure increased participation of economically weaker segments of population in the growth process. The successful implementation of the recommendations accelerated the process on financial inclusion.

5. Business Correspondent and Business Facilitator frame work:

Around 800 million people of India live in rural areas where the access to financial services is comparatively very limited. The opening of fully fledged branches of banks to serve this population is apparently not practical due to high operating costs, limited banking hours, illiteracy, limited volume of transactions of low value etc. Therefore, instead of the normal brick and mortar structure, the banks can switch over to technology driven products like ATMs and internet driven kiosks for successful financial inclusion. The Business Correspondents and Business Facilitators (BCs/BFs) model is the most suitable model for serving the rural clientele.

The RBI issued guidelines for BC/BF model in 2006 and as per the notification on 25th January permitted the banks to outsource selected banking services through BCs and BFs. The RBI facilitated this model in 2006 to increase the outreach of banking facilities in the financially excluded areas and among financially excluded citizens. BCs and BFs are the intermediaries of the banks appointed for expanding the banking outreach. The BCs are permitted to carry out transactions on behalf of the banks as agents while the BFs can refer clients, pursue the client's proposal and facilitate bank to carry out its transactions, but cannot transact on behalf of the bank. (Yeshu,Bansal and Sreenivasan.N (2009) [72] BCs/BFs are the individuals or organizations engaged by the banks for providing banking services at locations where the bank branch does not function. They are permitted to carry out the activities like identification of the borrowers, collection of deposits, disbursal of small credits and their collection, sale of micro insurance, mutual fund and pension products, receipts and delivery of small value remittances and other payment instruments and debt counseling.

The BC model facilitates banks to provide door step delivery of services especially to do 'cash in'- cash out transactions, thus addressing the last mile problem. Retired Government Servants, Ex-service men, Individual owners of medical/fair price shops, small savings schemes agent, petrol pump owners, well run SHGs, insurance agents, NGOs, Farmer's clubs, Financial co-operatives, Krishy Vigyan Kendras, Agri.clinics, community based organizations , well functioning panchayaths, rural multi- purpose kiosks, Village Knowledge Centers, Post Offices, PACSNBFCs are eligible to be appointed as BCs/BFs. The BCs/BFs are equipped with a Point of Transaction (POT) that has a bio metric reader, an automatic cash counting machine and a small sized safe. They function with IT enabled financial inclusion strategies which ensure transparent access to payments.

BCs and BFs deal with government payments like NREGP, RSBY and pension schemes along with savings and remittances. They create an extensive network of village level touch points with high quality ICT to ensure efficient operations for reaching the unreached, to provide door step banking and to offer better quality products. However the BC/BF model has not spread efficiently, leading to the issues regarding its sustainability. The number of dormant accounts is very high leading to vast cases of unavailable business. The operational risks of handling cash by BCs/BFs, irregular accounting, fraud and misappropriation etc. worried the banks who have appointed the BCs and BFs. They fear that they may lose their reputation as the BCs are the face of the bank to the clients. The success of the model depends upon the factors like proximity of the BC to the bank branch, reliable working of the technology instruments and transparency regarding the remuneration of BCs.

6. Financial Inclusion Fund and Financial Inclusion technology Fund (FIF&FITF):-

As per the recommendations of the Rangarajan Committee Report on financial Inclusion 2008, the GOI constituted a Financial Inclusion Fund with a view to ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost. Accordingly the Union Budget for 2007-08, announced two funds, viz: Financial Inclusion Fund (FIF) to meet the cost of development and promotional interventions and the Financial Inclusion Technology Fund (FITF) to meet the cost of technology adoptions. These funds were constituted in the year 2007-08 for a period of five years. Each fund had an overall corpus of Rs. 500 crores, with initial funding to be contributed by the Central Government, the RBI and the NABARD in the ratio of 40:40:20. These funds are focused on financing Farmers Service Centres (FSC), promoting Rural Entrepreneurship, Self Help Groups, Resource Centres, capacity building of BC sand BFs, low cost technology solutions and IT based inclusive financial sector plans.

After the completion of the initial five years the GOI has merged FIF and FITF to form a single fund termed as Financial Inclusion Fund. The new fund is proposed to be administered by the NABARD. It is also decided to create an overall corpus of Rs.2000crore for the new fund. This new fund will be in operation for a period of three years or for an extended period as decided by the RBI. The main objectives of this fund are to support developmental and promotional activities for extending and expanding the reach of banking services to create financial inclusion infrastructure across the country, to involve in capacity building of stake holders, to address demand side issues for securing greater financial inclusion and to invest in Green information and ICT solutions. The increased corpus of this fund will be contributed from the interest differentials in excess of 15 percent on Rural Infrastructure Development Fund (RIDF) and Short-Term Co-operative Rural Credit (STCRC) kept with the NABARD. The notification insists that the fund should not be used for the normal business or banking activities, but for the setting up and operational cost for running financial inclusion and literacy centres.

Table 3.9

Utilisation of FIF and FITF (Rs in crores)

Name of the Fund	Up to 2011-12		2012-13		2013-14		2014-15		2015-16		Cumulative upto 30-6-15
	S	D	S	D	S	D	S	D	S	D	D
FIF	114.62	36.46	67.02	33.31	321.16	65.58	203.57100.67	64.41	770.78*	18.90	254.94
FITF	343.48	184.16	22.01	17.14	42.96	20.25	101.3130.83	1.73	511.49+	0.46	252.85
Total	458.10	220.62	89.03	50.45	364.12	85.83	304.88131.50	66.14	1282.27	19.36	507.77

Source:- www.nabard.org/English/Ficural updates.
Note:- S= Sanctions, D= Disbursements, Sanctions up to May 2015 and Disbursements up to June 2015.
*Including sanctions of Rs.56 crores for two projects treated as withdrawn.
+ includes assistance of Rs.23.38 crores for 15 projects treated as closed.

7. Financial Literacy and Credit Counseling Centres (FLCCs) :

The report submitted by the Working Group appointed by the RBI (Chairman Sri.Swamkar) recommended opening counseling centres for credit and technological counseling and assisting the farmers to take suitable decisions regarding the credit and loans. The annual policy statement of the RBI for the year 2007-08 announced the opening of FLCCs, SLBC conveners were entrusted with the task of setting up of FLCCs in all the states and union territories. The individual banks are directed to open such centres. The RBI has undertaken a project titled Project Financial Literacy to disseminate information regarding general banking concepts to various target groups like students, NGOs, women, rural and urban poor, senior citizens and defense personnel. A financial education site was launched by the RBI to teach basics of banking, finance and central banking to children.

Credit counseling is a process of educating the customers about prompt payment of debt, avoiding incurring debt which cannot be repaid, credit budgeting and financial management. It educates the debtors about the cost of misusing credit and encourages the poor and distressed people to access the formal system of finance. These centres provide their services to the people on face to face basis or on telephone, by letters or e-mail. They build capacity among the people to have familiarity with financial market products and to take effective decisions regarding the use and management of money. They provide education on responsible borrowings, early savings, formulate debt restructuring plans for borrowers in distress and act as investment advice centres. These centers have their financial resources from the trusts set up by the banks. The retired or serving bank employees run these centers and free of cost counseling is provided. They also extend the services of experts to guide the farmers on modern agricultural and farming methods.

8. Adoption of Electronic Benefit Transfer (EBT) :

As per the recommendations of the Rangarajan Committee, the RBI decided that the state governments would make the NREGS and the social security payments through technology based solutions. The RBI has adopted a 'bank-led' model during 2011 to provide efficient and cost friendly ICT based services through BCs for the payment of governmental social security payments to strengthen financial inclusion. The EBT system facilitates the servicing of low value accounts and extending banking infrastructure to the underserved.

EBT is an electronic system that allows state welfare departments to issue benefits via a magnetically encoded payment card used for distributing government payments from a federal account to the retailer accounts. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) wages of the employees are decided to be distributed through EBT. The National Old Age Pensions Scheme (NOAPS), Insurance premiums, scholarships, benefits of other welfare schemes of central and state governments to the poor and incentives and subsidies are also included under the EBT.

This system was introduced first time in the USA to transfer food benefits and later spread to many countries including India to transfer cash benefits. The benefits of the recipients are electronically deposited into their accounts and can be withdrawn by using the EBT cards. One district many banks but one leader bank model for the EBT scheme has been by adopted by the state governments under the financial inclusion plan. The leader bank collects the total funds from the state governments and transfers the same to the accounts of large number of beneficiaries through inter-bank transfers. At present by using various methods of Electronic Fund Transfer (EFT) like RTGS, NEFT and NECS, the leader bank is able to transfer funds to other banks quickly and cost effectively.

The EBT offers greater convenience, reduced risk of loss and theft, user friendliness, less expensive and time-saving, enhanced ability to scale up, maximum dignity to the recipients and providing additional financial services to beneficiaries and the surrounding community. The EBT programme is directly linked with UID/Aadhaar which is a KYC proof for opening bank account and enables the direct transfer of benefits to the people. The Aadhaar number becomes the financial address of the EBT. This scheme boosts financial inclusion plans and helps the banks to extend their penetration to remote villages. This ‘human less’ transfer of payments is expected to seal the leakages that are seen in the transfer of payments by the various levels of bureaucracy and to provide better relief and benefits to the beneficiaries.

9. Aadhaar and Financial Inclusion:

The GOI has constituted the Unique Identification Authority of India (UIDAI) during 2009 to provide Aadhaar, a unique identification to every resident of India. The main objective of this mission is to give universal identity to every resident Indian. The UIDAI collects the biometric and demographic data of every citizen, which is stored in a centralized data base and issues a card bearing 12 digit unique identity numbers which is called Aadhaar card. This card contains the details of the individuals such as the name, address, year of birth and the Aadhaar number. This is a means for effectively establishing the identity of the person including the poorest and the most marginalized. Aadhaar would thus be critical to the government in achieving its goals of social justice and inclusion over the next decade. (Shweta Anand, 2011).[73] This document can be used for opening bank account for every resident which itself provides the KYC requirements electronically to the bank.

The online biometric authentication by Aadhaar will address the current challenges faced by the banks while delivering financial services and accelerate the deeper penetration to the rural areas. The wide spread implementation of the UIADI provides vast opportunity to the providers of financial services to reach the masses at the lowest cost. The UIDAI helps the banks to eliminate the customer acquisition costs, ease the accounts opening process when Aadhaar becomes equal to KYC. It rules out the issue of separate smart card since the online Aadhaar authentication itself substitutes it, and increases the utility of credit bureau and facilitates successful customer management while offering multiple services to the same customer. UIDAI-enabled bank accounts are acceptable throughout the world similar to the mobile phone number and e-mail ID. Such accounts will bring financial access and affordability to millions of excluded people and they can make cheaper and faster electronic transactions and remittances. As on 31st March 2016, 99.9 crore (999 million) Aadhaar cards have been issued, which indicates that such large volume of population can be served by the formal financial institutions easily.

10. Swabhimaan Campaign:-

Swabhimaan is a pathbreaking initiative taken by the GOI and the Indian Banks Association for bridging the gap between the urban and the rural India. This campaign is considered to be a big step towards attaining socio-economic equality by bringing the poor and under privileged to the formal banking fold. The main vision of this campaign is the social application of modern ICT for financial inclusion. This campaign was launched by the central government during February 2011 in order to ensure the facilities of banking in a habitation where population exceeds 2000 by March 2012. Swabhimaan intended to ensure low rates of credit from the banks and other financial institutions to the small and the marginal farmers of 73000 unbanked villages and to protect them from the exploitation of money lenders. It provides banking services like savings, credit and remittances to the unbanked villages through branchless banking with the help of BCs and BFs enabled by ICT. The direct remittance of government subsidies and social security benefits to the accounts of the beneficiaries is also made possible along with the benefits of micro insurance and micro pension, enabling the beneficiaries to draw the money in their village itself. The banking facilities like the overdraft, Kisan Credit Cards, General Credit Cards and collection of cheques are also provided to the customers by this scheme.

11. Jan Dhan Yojana:

Access to financial services to the disadvantaged and low income groups at affordable costs strengthens financial inclusion and helps to reduce income disparities and thereby overcome poverty. This will, no doubt, lead to economic growth. On 15th August 2014 the Pradhan Mantri Jan Dhan Yojana (PMJDY) which means 'Prime Ministers People Money Scheme', a national mission for financial inclusion was declared by the GOI to ensure maximum access to financial services in India. This scheme is announced to achieve financial inclusion of every individual who does not have a bank account. Access to formal financial institutions has improved gradually but thousands of villages still lack a bank branch; only less than 10 percent of all commercial bank credit goes to rural areas, where around 70 percent of the total population lives. (Sahoo, 2014, p.30) [74]

According to a study conducted by Ramkumar, 2014,[75] it is substantiated that only 46,126 out of 6,40,867 villages in India have bank access. To overcome this pitiable situation, this new national mission has been launched. The vision of this programme is to end 'financial untouchability. On 28th August, 2014 the date of launching this programme 1.5crore bank accounts were opened. The achievements of PMJDY were recognized by the Guinness Book of World Records. Every Indian citizen who is of the age of above 10 can open a bank account with zero balance under this scheme with a bank branch or with business correspondents. The additional benefit of this scheme is that it offers accident insurance cover up to rupees one lakh without collecting any premium from the account holder. RuPay Debit Card is issued to the account holders for withdrawals from ATMs and settlement of payments. Thus this scheme offers double benefits, the banking facility and insurance cover.

Benefits of PMJDY

- Easy opening of bank account free of cost.
- No minimum balance requirement and the issue of RuPay debit Card.
- Life insurance coverage of Rs.30000.
- Accidental insurance coverage of Rs.100000.
- Active operation of the account provides an overdraft facility up to Rs.5000.
- Facilitates easy transfer of money throughout India.

The success of the programme depends up on the financial literacy and banking infrastructure and it requires strict regulation and supervision.

Table 3.10

Pradhan Mantri Jan Dhan Yojana, Statistics as on 30th March, 2016

(Figures in crores)

Sl.No	Banks	No of accounts			No of Rupay Debit Cards	Aadhaar seeded	Balance in accounts	%of zero balance accounts
		Rural	Urban	Total				
1	Public sector banks	9.43	7.42	16.85	14.32	8.04	28139.17	27.74
2	Regional rural banks	3.26	0.54	3.79	2.69	1.16	6178.12	23.15
3	Private banks	0.48	0.30	0.79	0.74	0.30	1354.72	40.34
	Total	13.17	8.26	21.43	17.75	9.50	35672.01	27.39

Source: Sahoo, Pravakar (2014), Road Map to Financial Inclusion, Pradhan Mantri Jan Dhan Yojana ,Yojana, October ,2014, p. 30

12. **Payment Banks and Financial Inclusion**:

According to the recommendations of the Nachiket Mor Committee, the RBI announced the in-principle approval of eleven payment banks on 19th August 2015. The new payment banks are expected to pave the way for financial inclusion through a combination of digital platforms and branches. The places where is no banking infrastructure and the areas which are unbanked can be linked with formal finance through the chain of payment banks. These banks are aimed to further financial inclusion by facilitating the opening of small bank accounts and by furnishing payment and remittance services to low income households, migrant labour force, small business establishments and to the people of other unorganized sectors. These banks are allowed to accept deposits up to Rs.100000, issue debit cum ATM cards, issue cheques and drafts, pay bills, make remittances through mobile phones, distribute mutual funds, insurance policies and other third party financial products. The RBI strictly prohibits these banks from lending or issuing credit cards. These banks are allowed to invest the sum collected from deposits of the customers in the government securities. The minimum capital requirements of these banks is determined as Rs. 100 crores and the promoter contribution as 40 percent for the first five years, 30 percent at the end of 10th year and 26 percent at the end of 12th year.

The payment banks, from the very beginning, should adhere to technology-driven networking operations especially through mobile phones. Resident individuals with ten year banking experience, NBFCs, MFIs, Societies and Area banks are eligible to promote the payment banks. In the first phase the mobile phone companies, IT companies, India Post, super market chains etc., having large and effective distribution net works throughout India particularly in rural areas are granted Payment Bank licenses. In other developing countries the payment technologies like our Payment Banks have proved successful and popular.

Three more financial inclusion schemes were launched by GOI nine months after introducing PMJDY. They are:-

1. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) Insurance scheme offering life insurance cover.
2. Pradhan Mantri Suraksha Bima Yojana (PMSBY) Insurance scheme offering personal accident insurance cover.
3. Atal Pension Yojana (APY) Pension scheme offering fixed pension for the subscribers of unorganized sector after the age of sixty.

3.3.3. Financial Inclusion and Financial Institutions

A Financial System plays a decisive role in the economic growth and development of the country. It intermediates with the flow of funds between those who save a part of their income and those who invest in productive assets. It mobilizes the available scarce resources of a country and allocates them in more effective manner. The financial system of the developing countries comprises of the co-existence of the formal and the informal sectors. The formal financial sector is characterized by a thoroughly regulated system by the Government and the central bank of the country and includes well organized set of financial institutions which cater to the needs of the country. The informal financial sector, on the other hand, constitutes the non regulated or less regulated institutions or non institutions dealing with the traditional or rural spheres of the country. The Indian financial system also encompasses these two types of sectors and includes a variety of institutions, both the formal and the informal. The formal system is at the disposal of the GOI, the RBI, the SEBI and other regulatory bodies. The informal financial system comprises of individual moneylenders, indigenous bankers, funds and associations, chits, savings clubs, pawn brockers and lords and traders. The commonly seen practice is that these institutions function under a system of their own rules.

The formal financial sector comprises of four different types of compartments. They are financial institutions, financial markets, financial instruments and financial services. These four financial components function in an interconnected and interdependent fashion and have a close link with financial markets in the Indian economy. The formal financial institutions in India can be classified into:

(a) Regulators : The MOF of The GOI,The RBI, The SEBI, and The IRDA.

(b) Banking institutions: Public sector banks, Private sector banks, Foreign banks and RRBs.

(c) Co-operative societies and banks.

(d) Development financial institutions: IFCI, IDBI, IIBI, SIDBI, IDFC, NABARD, EXIM Bank and NHB.

(e) Non Banking Financial Companies (NBFCs)

(f) Mutual Funds

(g) Insurance and Housing Finance Companies.

(h) Micro finance institutions like SHGs.

The financial institutions along with the GOI have a highly significant role in fostering financial inclusion in India so that sustainable growth is assured and the living standard of the poor is be raised. Financial inclusion aims at the distribution of diverse financial products and services in the most convenient manner and at an affordable cost. Only the financial institutions can undertake this laborious task of prompt delivery of financial services to the various segments of the population. The governmental efforts to promote financial inclusion can be enhanced by the financial market players including financial institutions. The access to savings, credit and payment services of the poor and lower income population is positively tailored by these institutions in order to integrate the government's efforts to achieve 100 percent financial inclusion. The role of the regulatory bodies and financial institutions is equally important in fostering inclusive growth in the country.

3.3.3.1. Financial inclusion and RBI

A huge heap of regulatory blockages were hampering the inclusive growth in the country for decades. All these were removed by the RBI to promote financial inclusion. The RBI and the GOI have been taking many crucial and effective measures since independence to bring inclusiveness in the three sectors of economy. These measures are generally classified into post independence measures, measures during 1980s and 1990s and the measures taken by the RBI after 2000.

Measures taken by the RBI during post independence era:

- The steps which are necessary to increase the volume of credit to the neglected economy and the most vulnerable sections of the society through the measures like bank nationalization.
- Measures for developing the rural economy by way of establishing RRBs and empowering co-operative banking systems.
- Expansion of rural credit by the formation of lead bank scheme and different social banking programmes like IRDP.

Measures of the RBI during 1980s and 1990s:

- Expansion of branches of commercial banks in rural areas through branch licensing policy.

- Formation of the NABARD to lead the rural economic development and to channelize finance to private sector.
- The introduction of the SHG Bank Linkage programme.
- Creating legal financial frame work for LPG.

Measures of RBI after 2000:

- Introduction of financial inclusion in India, appointment of Rangarajan Committee on financial inclusion and framing the financial inclusion policy.
- Launching of 100 percent financial inclusion drive.
- Initiatives for implementing ICT in banking sector.
- Launching of various measures for expanding the volume of bank credit and deposits.

From time to time the RBI has appointed many commissions to probe into many economic and financial matters of the country and has taken sufficient measures to solve the problems on the basis of their reports. The RBI and the GOI have implemented many policies suitable to improve the level of financial inclusion in India. The measures taken by the RBI for financial inclusion include permission to open no-frills accounts, usage of regional languages, simplifying of KYC norms, introduction of GCC and KCC, appointment of BCs and BFs as rural intermediaries, using of ICT and opening of ordinary and bio metric ATMs, Authorization of social security payments and pensions through banks and steps taken for financial education.

3.3.3.2. Financial Inclusion and Commercial Banks

As financial institutions, the commercial banks have a highly significant role in the economic development of a country like India. The Indian economy is growing steadily, but the growth should be equitable and uniform. For this the financial condition of the poor and the vulnerable should be improved at a faster rate. The commercial banks help to accelerate economic growth of a country by speeding up capital formation, providing finance and credit, developing entrepreneurship, promoting balanced regional development and helping customers. They can implement the financial inclusion plan by extending the financial services to all those who are in need of them and mobilizing their savings. The financial services offered by the commercial banks include savings, loans, money transfers, insurance and other payments. The banks help the poor to come out of poverty by providing these services especially the credit at affordable costs. As a part of financial inclusion plan the RBI as the financial regulatory authority of India directs the commercial banks to perform the functions like credit counseling, spreading of financial literacy, branch expansion and mobile banking in addition to the normal fundamental functions of deposit mobilization, loan advancements and money transfer.

Table 3.11

Financial inclusion plan-summary and progress of all banks including RRBs

Year Ending Banking Outlets / Total Population (in 1000)	March 2011	March 2012	March 2013	March 2014	Progress
Banking outletsTotalPopulation/office (in 1000)	1,16,20813.4	1,8175312.3	26845411.9	38380410.8	267596
BSBD AS Total (No. in millions)	104.7	138.5	182.1	243.0	138.3
KCC (in millions)	27.11	30.24	33.79	39.9	12.79
GCC (in millions)	1.70	2.11	3.63	7.4	5.7

(Source: Reserve Bank of India Reports) KCC amount in billion

It can be realized that the whole process of financial inclusion will remain a dream only, without the contribution of banks. In India, to reach out the institutionally unreached 400 million people of India, the financial institution especially commercial banks have to play a greater role. Public sector, private sector and foreign commercial banks functioning in the country relaxed KYC norms to ensure all marginalized low income groups open bank accounts. They allow the poor to open No-frills accounts, issue GCC and KCC offer micro credit and micro insurance, institute mobile banking and use technology for furthering financial inclusion in India. The commercial banks function in such a way to strengthen co-operative banks and RRBs, that the network of financial institutions to serve the rural population is widened. They encourage banking penetration into unbanked and backward areas through intermediaries like BCs and BFs.

Table 3.12
Branch expansion of Scheduled Commercial Banks

As on March	No. of branches			Estimated population (in millions)			Branches/100000population		
	Rural+Semi urban	Urban +Metropolitan	Total	Rural+Semi urban	Urban +Metropolitan	Total	Rural+Semi urban	Urban +Metropolitan	Total
2001	44905	20713	65618	851	177	1028	5.3	11.7	6.4
2006	45673	23904	69577	920	195	1115	5.0	12.3	6.2
2010	53086	31072	85158	980	211	1191	5.4	15.2	7.2
2014	76753	40958	117711	1044	228	1272	7.3	17.9	9.2
2015	82358	43716	126074	1061	233	1294	7.8	18.7	9.7
June 2015	82794	43910	126704	1065	235	1300	7.8	18.7	9.7

Source: RBI Report of the committee on Medium Term path on Financial Inclusion
Population Estimates are based on CAGR between Census 2001 and Census 2011 data.

Commercial banks also try to create synergies between the formal and the informal institutions. The issue of uneven spread of bank branches is addressed by commercial banks to a large extent by opening branches in Tier III to Tier VI centers with a population of less than 50000 with the permission of the RBI. The financial inclusion process will be successful only when the financial services are offered to all sections of the society at a low and affordable cost. The commercial banks of the country can do a lot in this regard.

TABLE 3.13

Distribution of ATMs in India (Rural-Urban)

2014				
Banks	Metro centers	Urban centers	Semi urban centers	Rural centers
Public Sector Banks	26767	35093	32994	21810
Private Sector Banks	19163	14535	11394	3982
Foreign Banks	903	201	20	32
Total	46833	49829	44408	25824
2013				
Public Sector Banks	21366	24469	20412	9645
Private Sector Banks	18115	13742	9664	3190
Foreign Banks	968	228	20	28
Total	40449	38439	30096	12863

Source: RBI Report (2014)

3.3.3.3. Financial inclusion and SHGs

Majority of the poor and the marginalized sections of the population of the developing countries do not form part of the formal financial sector. They remain financially excluded for decades and do not have access to the financial services like savings, credit, money transfer and insurance. India also is not an exception to this dilemma. The SHGs in India have been providing effective measures for bridging the excluded sections with the formal financial system. They encourage the habit of savings within the group, providing credit facilities to the members at simple terms and endorse both with the linked banks. Actually the SHGs are the providers of micro finance to the marginalized especially the women in rural areas of India. The empowerment of women and the poor through financial inclusion is expected to be attained by the self help groups.

Table 3.14
The overall Progress of SHG-Bank Linkage Programme

SHG-BANK LINKAGE PROGRAMME THE OVERALL PROGRESS							
Amount Rupees in crores, Number in Lakhs							
Particulars		2011-12		2012-13		2013-14	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
	Total SHGs	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)	74.30 (1.53%)	9897.42 (20.45%)
SHG Savings with banks as on 31st March	Of which NRLM/SGSY/Other Govt. sponsored programmes	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3.6%)	1821.65 (30.6%)	22.62 (10.46%)	2477.58 (36.01%)
	% of NRLM/SGSY/Other Govt. spon. Programme groups to total	26.7	21.3	28.0	22.2	30.45	25.03
	All women SHGS	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)	62.52 (5.27%)	8012.89 (22.99%)
	Percentage of women groups	79.1	77.9	81.1	79.3	84.15	80.96
Loans disbursed to SHGs during the year	Total SHGs	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)	13.66 (12.2%)	24017.36 (16.67%)
	Of which NRLM/SGSY/Other Govt. sponsored programmes	2.10(-12.9%)	2643.56(6.6%)	1.81 (13.8%)	2207.47 (-16.5%)	2.26 (24.56%)	3480.60 (57.67%)
	% of NRLM/SGSY/Other Govt. spon. Programme groups to total	18.3	16	14.8	10.7	16.52	14.49

SHG-BANK LINKAGE PROGRAMME THE OVERALL PROGRESS							
Amount Rupees in crores, Number in Lakhs							
Particulars		2011-12		2012-13		2013-14	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
	All women SHGS	9.23 (9.2%)	14132.02 (12.0%)	10.37 (12.4%)	17854.31 (26.3%)	11.52 (11.02%)	21037.97 (17.83%)
	Percentage of women groups	80.4	85.5	85.1	86.7	84.3	87.6
Loans outstanding against SHGs as on 31st March	Total SHGs	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)	41.97 (-5.71%)	42927.52 (9.02%)
	Of which NRLM/SGSY/Other Govt. sponsored programmes	12.16 (-5.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)	13.07 (9.55%)	10177.42 (18.38%)
	% of NRLM/SGSY/Other Govt. spon. Programme groups to total	27.9	22.2	26.8	21.8	31.1	23.7
	All women SHGS	36.49 (-8.4%)	30465.28 (16.6%)	37.57 (2.9%)	32840.04 (7.8%)	34.06 (-9.34%)	36151.58 (10.08%)
	Percentage of women groups	83.8	83.8	84.4	83.3	81.2	84.2

Source:- NABARD Status of micro finance in India 2013-14
(Figures in Parenthesis. indicates growth/ decline over the previous year)

Micro finance still plays a high significant role in India, but compared to Bangladesh it is to be noted that very small percent of the poor has access to it. The SHGs with bank linkage is a major programme in India not merely providing delivery of financial services but promoting financial literacy and offering a new design of life to the members. The functioning of SHGs at the grass root level ensures economic decentralization, empowerment of the marginalized and assurance of equity and social justice. However in the light of Indian experience, the SHGs should be revamped totally to transform them to the institutions of capacity building and to the people's associations of sustained livelihood. Financial inclusion will be successfully carried out by SHGs if they are reconstructed with such an objective.

3.3.3.4. Financial Inclusion and Regional Rural Banks

The name "Gramin Bank'' itself signifies the role of the RRBs in the financial development process of the rural India. The 'Gramin Banks' are formed with the aim of ensuring sufficient formal credit for agriculture, cottage and small scale industries and other rural sectors. These banks generally possess the ability, management skill and technological aspirations of a commercial bank and at the same time capable of providing local feel , identifying the rural problems and providing the services at a low cost as in the case of a co-operative bank. These banks are oriented towards meeting the requirements of the poor and the weaker sections like agricultural labourers, artisans, small entrepreneurs and small farmers. They perform all banking services but in the limited rural area with a rural touch. The NABARD, the regulating body of the RRBs, evaluates their performance in financial inclusion is pivotal. NABARD is providing all sorts of assistance to RRBs to upgrade the technological infrastructure and also to take up RTGs and to deploy ATMs especially in the rural and the semi-Urban areas. RRBS serve the rural poor, the backward sections of the society belonging to the lower level income group. They aim at sustainable development through financial inclusion. They provide all sorts of financial services in the 'Grameen' areas so that the saving habits are encouraged and access to credit is effectively maintained. It can be concluded that the RRBs have been successful in spreading the financial inclusion programme in the rural areas.

Table 3.15
Status of Financial Inclusion (as on 31st March)
(Trends in Banking Parameters)

Items	2007	2008	2009	2010	2011	2012	2013	2014
No. of commercial banks	183	173	170	168	167	173	174	178
(a)Scheduled commercial banks	179	169	166	164	163	169	169	170
Of which RRBs	96	90	86	83	82	82	78	57
Non scheduled commercial banks	4	4	4	4	4	4	4	4

3.3.3.5. Financial Inclusion and NBFCs

A ‘Non Banking Financial Company’ has been defined by the Reserve Bank of India Act as a company registered under the Indian Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by the government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. There are different classifications of non banking financial institutions which can be generally grouped on the basis of their regulatory authorities as NBFCs.

- Regulated by the Reserve Bank of India (RBI)

  eg. Asset Finance Company (AFc), Investment Companies (ICs), Loan Finance Companies(LCs), Infrastructure Finance Company(IFC), Mortgage Guarantee Company(MGC), Core Investment Co (CIC) etc.

- Regulated by National the Housing Board (NHB) eg. Housing Finance Companies.

- Regulated by the Securities Exchange Board of India (SEBI)

  eg. Merchant Banking Companies, Venture Capital Fund Companies, Stock broking, Collective Investment Schemes etc.

- Regulated by the Ministry of Corporate Affairs (MCA)

  eg. Nidhi Companies, Mutual Benefit Companies etc.

- Regulated by State governments

  eg. Chit Fund Companies.

- Regulated by Insurance Regulatory and Development Authority(IRDA)

  eg. Insurance Companies.

Table 3.16

Assets of NBFC and Banking sectors as a Percentage to GDP

Percentage of Assets to GDP								
Years	2006	2007	2008	2009	2010	2011	2012	2013
NBFC Asset to GDP (%)	8.4	9.1	10.1	10.3	10.8	10.9	11.9	12.5
Bank Assets to GDP (%)	75.4	80.6	86.8	93.0	93.0	92.2	92.7	95.5

Source: Reports on Trend and Progress of Banking in India for various years.

Note: Assets include assets of all deposit and Non-deposit NBFCs with assets size of Rs. 100 crore and more.

NBFCs provide financial services for property ownership, retirement benefits investments and small scale investments, housing finance, insurance services, venture capital contractual savings and asset management. Such a different variety of services cannot be satisfied by commercial banks or by RRBs. Moreover the business of banking institutions is restricted by sec.6 (1) of the Banking Regulation Act of 1948. However the NBFCs have more freedom to act in their field of operations other than normal banking activities. They are the financial institutions funding the financial sectors like mutual funds, insurance, real estate and broking services. NBFCs play a vital role in widening access to multiple financial services, enhancing competition and diversification of the financial sector (RBI 2005).[76] The major products offered by NBFCs include commercial vehicle financing, Retail financing, infrastructure financing, SME financing lease financing and equipment financing.

In the context of financial inclusion NBFCs, as specified financial intermediaries observe prudent role in catering to the financial needs of small scale and retail sectors and bank excluded customers. They provide credit to MSMEs and design innovative products suitable to them. NBFCs also undertake the services like savings, loans, money transfer and micro insurance so that the poor and marginalized are brought into the main stream of finance that are avoided by the main stream formal institutions. They are highly helpful in monetization of idle gold stocks by providing simplified, quick and customer friendly gold loans. They also entertain affordable housing by granting loans which is a part of the inclusive growth agenda. At present the NBFCs are recognized as the complementary banking system at competitive prices. These institutions are in the forefront in catering to the financial requirements of the unbankable masses in the semi urban and the rural areas. In India the NBFCs are executing the financial services in order to promote the agenda of inclusive growth and financial inclusion.

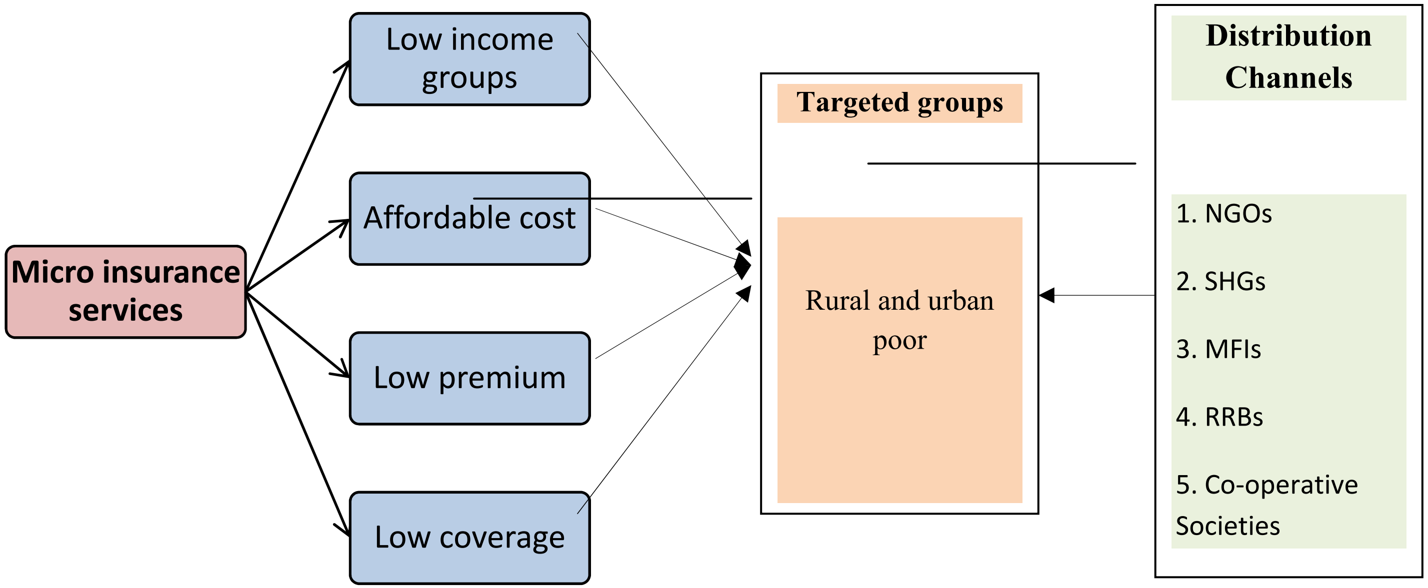
3.3.3.6. Financial inclusion and Insurance Companies

Insurance is a fast emerging strategic and social security measure even for the low income groups engaged in a large variety of activities for income generation and who are exposed to various kinds of risks. Because of the poor economic conditions the risks attached to the lives of the poor comprise of injury, illness, accident, death and loss of income. One of the World Bank study groups has observed that about a quarter of the hospitalized Indians belong to the BPL category and are compelled to sell their assets and belongings for meeting the hospital bills. Inclusive growth is a necessary to ensure long term sustainability for the socially disadvantaged, poor and marginalized sections. Therefore the provision of suitable insurance products to such sections is an inevitable social security measure. Creating sufficient banking and insurance infrastructure to be offered to the rural and the urban poor can be regarded as one of the appropriate elements of financial inclusion plan, Prabhakara (2007).[77] It is observed by Gunaranjan (2007)[78] that the main thrust area for bringing financial inclusion among the disadvantaged and the poor is micro insurance.

For the lower income segments the IRDA has developed special types of insurance policies which are termed as micro insurance policies. This specific category of insurance helps to promote the insurance coverage among the people of lower strata. The provisions of Micro Insurance Regulations, 2005, facilitate financial inclusion in the area of insurance through the distribution of insurance services at an affordable cost. This regulation applies the principles of risk pooling to design the product appropriate to the low income class in general and life insurance sectors.

Figure 3. 3

Micro Insurance products and Delivery Mechanism



Source: www.ijasrd.org,P.58

The insurance sector is now growing at the moderate rate of 15 to 20 percent per annum. The insurance business contributes 7 percent to the GDP of India. As a part of the financial inclusion plan insurance sector is spreading the market segments by permitting many non insurance institutions like Rural Banks, Regional Rural banks, District Co-Operative Banks etc. to deal in insurance business so that the insurance penetration can be expanded.

Table 3.17

Insurance penetration and density in India

Year	Life Insurance		Non life Insurance		Industry	
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41.0	3.10	11.0	0.80	52.0	3.90

Source: IRDA Annual Reports, 2013-14.

The growth in the field of insurance is remarkable, but 80 percent of Indian population is still not covered by life insurance and 90 percent not by non life insurance. This shows that the inclusion with regards to insurance is still to go a long way.

3.4. Financial inclusion - Kerala Experience

Kerala is one of the small states of India which lies on the south western coast, accounts for 1.18 percent of its territory and 3.1 percent of its population. Kerala was formed on 1st November 1956 as a part of the reorganization of Indian states on the basis of linguistics. It comprises a narrow strip of land extending from north to south with the Western Ghats on the eastern side. Kerala receives an extensive rainfall of about 3000 mm, a year; has 41 westward flowing and three eastward flowing rivers, and has abundant water sources like lakes, lagoons, backwaters and estuaries. Ground water resources are also rich. Our state is a great tourist destination with natural scenic beauties like mountains, valleys, landscapes and greeneries. It is one of the leading fish producing states in India. The undersoil deposits of minerals in Kerala are not very rich except for lignite, silica, sand, lime shell and china clay. We have enough hydro electric projects and other power sources for the supply of electricity.

Since the formation of the state in 1956, the progressive governments have been trying to reduce the regional disparities by executing the land reform regulations, providing free education to all and modernizing and generalizing the health care activities in the state. The process of large scale emigration began in 1970s, promoted Kerala economy with the help of the income flowing from abroad. Kerala, which has a population of more than 34 million, equal to that of Canada, has attained the level of education and health equivalent to those of the developed countries. The life expectancy rate, the literacy rate, health care etc of Kerala are the highest in India, while the birth rate, death rate and infant mortality rate are the lowest. Education of women has been linked to the low fertility rates, which together are the key indications of the emancipation of women (Dreze and Sen, 2002).[79] Infant mortality rates remain impressive in Kerala at one fifth of India's rate.

The gap between the backward and the advanced regions of the state has been narrowed substantially. Kerala's per capita GDP is significantly lower than that of Indian average. Similarly the primary, the secondary and the tertiary sectors of Kerala economy are in grave stagnation for many decades. However the co-existence of high level of social development in the state with the low incomes of households is a well approved peculiar nature of Kerala's development model (Patricia Justino, 2006).[80]

The type of development that Kerala achieved through land reforms, public action, gender equality, inclusive education to the marginalized and the women, high rate of social security measures and proper state intervention has come to be known as 'Kerala Development Model'. By 'public action' means not only state initiatives, but also social actions taken by the members of the public (Dreze and Sen, 1989, 1995).[81] The development experience of Kerala has proved that 'public action' which aims at promoting basic rights and capabilities of people, leads to assure social security. Besides, various welfare measures taken by the state like public distribution system, pension schemes for agricultural workers, artisans, senior citizens and the destitute women, unemployment allowance to the educated unemployed youth, free educational and medical facilities, kudambasree mission programmes, Kerala 'Saksharatha' campaign, welfare fund benefits to almost all categories of the labour force etc. added to the popularity of the model. Kerala is a typical example for the economies that successfully address the important social needs without resorting to large budgets. The Kerala model has been promoting welfare of the people by giving priority to welfare of the people than to growth. However the main criticism of this model development points towards higher consumption with low production, low investment and industrial growth, growing unemployment rate, increasing Inequality, growth with foreign remittances etc.

Kerala has the highest human development index among the states of India which is higher than or equal to most of the developed countries of the world. However the recent studies have raised questions regarding the sustainability of the Kerala model because of the continuous stagnation in all the sectors of the economy and increasing social expenditure (George, 1993).[82] During late 1990s the innovative changes to the emergence of a new Kerala model by setting up environmental standards, introducing decentralized administration by passing Panchayath Raj Act, implementing People's participative planning process and collaborating the state with NGOs and civic movements altogether leading to community based sustainable inclusive development. For attaining such a development financial inclusion is the most essential element for achieving a higher growth rate.

3.4.1. Banking History of Kerala

Kerala has century's long impressive history of banking and finance. The fact that one among the five banks established in India during nineteenth century was in Kerala, the Nedungadi Bank inaugurated at Calicut in 1899, speaks volumes of Kerala's proud and prestigious banking history. Decades before private, caste based professional moneylenders and indigenous bankers had begun to function in Kerala, in all of the three political units, Travancore, Cochin and Malabar. Also chitty and finance companies influenced the middle and upper class 'Malayalees' from long past who used to deposit their surplus with them. Later Travancore Bank Ltd, Thiruvalla, came into existence due to the growing demands from the people for money, loans and credit for agricultural and business purposes.

A group of enterprising Syrian Christians from Thrissur were the pioneers of banking ventures like the Catholic Syrian Bank and South Indian Bank while the Hindus, the Nair community of Cochin, were behind the establishment of the Cochin Nair Bank, which later merged with the State Bank of Travancore. In Kottayam – Thiruvalla area another bank, the Pala Central Bank was opened with the contemporary Travancore National Quilon Bank at Kollam, but unfortunately both went into liquidation later. As per the provisions of Companies Regulation Act of 1917, many banks were registered in Kerala viz. Ambalapuzha Christian Bank, Bank of Deccan, Central Banking Corporation, Kottayam Bank, Bank of Cochin, Travancore Forward Bank, Travancore Federal Bank, later renamed as Federal Bank etc. The banking and insurance companies like the Indian Insurance Banking Corporation and Oriental Insurance and Banking Union were started functioning in Kerala during the same period which had provided the facilities of insurance and risk covering in addition to banking. The traces of Kerala banking history points out that during 1930s the number of functioning banks in Kerala reached 258 which was equal to one fifth of the total banking institutions functioning in the then British India (Government of Travancore, 1930).[83]

In Kerala right from the ancient times a wide spread net work of banking institutions and banking activities had been in existence. The monetary dealings by Tamil Brahmins, the indigenous bankers, led to the use of Hundies and prevalence of chitty financing largely helped the people to develop the habits of thrift and banking very early. Just before independence the total number of banks operating in Kerala reached 241 in Travancore State and 155 in Cochin State (Menon, K Ramunni, 1956).[84] One of the most important features of the banks of Kerala was that they covered both the urban and the rural areas and population. Along with these banking institutions a chain of co-operative credit societies also developed and spread which participated actively in the financial dealings all over Kerala. Thus the advancement of banking and monetary practices, which became a reality years before independence, created deep rooted banking habits among the people and laid strong base for financial inclusion in Kerala.

3.4.2. Financial inclusion in Kerala

The historic analysis of the monetary and the financial sectors of Kerala, reveals the early traces of financial inclusion in the state. The socio economic and political conditions prevailed in this small state and the migrating nature of 'Malayalees' to other states and countries from time immemorial added vast momentum to empower the people by themselves, to acquire education, to behave as equals not being discriminated and to achieve financial freedom and financial inclusion. The households of Kerala had developed a habit of maintaining access to the financial services like savings, deposits, credit and money transfer. The banks, chit funds, co-operatives and other institutions regulated by enactments worked under industry performance standards persuaded people to maintain proper access to financial services. The availability of local sources of savings and credit, institutional soundness, sustainability and cost affordability helped to ensure the continuity of access and to attain financial inclusion earlier than the other Indian states.

Palakkad in Kerala had become the first district in the country to achieve the status of a `total banking district' in September 2006.Through the joint efforts taken by the government of Kerala, state Level Banker's Committee, various government agencies and NGOs the State of Kerala has achieved 100% Financial Inclusion. A declaration to this effect was made on 24th December, 2007 by the Honorable Union Minister of State for Finance, Shri Pawan Kumar Bansal in the SLBC meeting held at Trivandrum. This achievement had been based on the criteria of coverage of all households of Kerala having at least one bank account. The RBI and the Convener bank of SLBC, the Canara Bank, had taken leadership role in this regard. Later Ernakulam has been declared as the first district in the country to achieve 'meaningful financial inclusion' on the basis of people's wide spread utilization of the banking services of savings, credit, remittance facilities micro insurance and other products, that is the total banking coverage (The Hindu 2012).[85] Crisil Inclusix, 2015, with the support of sufficient statistical data, reveals that Kerala ranks first among the top scoring large states of India in financial inclusion.

Table 3.18

Level of Financial Inclusion

Top scoring states of India on CRISIL Inclusix

Large States	Small States	Union Territories
Kerala Tamilnadu Karnataka	Goa Tripura Himachal Pradesh	Puducherry Chandigarh Delhi

Source: Crisil Inclusix, 2015

Kerala also tops in the financial inclusion index prepared by the RBI on the basis of the indicators like banking penetration, usage of banking system and availability of banking services. The state government administered NGO, the Kudambasree with forty lakh woman members and covering majority of the households of the state really added unmatched efforts to achieve this. The Kudambasree Mission through Neighbourhood Groups influenced every member to open bank accounts and deal in the financial transactions like savings, remittances and credit by such accounts. Thus Kudumbasree has become the strong intermediary between beneficiary members and banks. Table 3.19 gives a detailed statics of the level of financial inclusion in Kerala.

Table 3.19

BANKING STATISTICS OF KERALA

(Amount in crores)

Sl. No	Parameter	Dec. 2012	Dec. 2013	Dec. 2014	Y-0-Y variation	
					Quantum/ No change	% Change
1.	No. of branches	5140	5527	5876	349	6.31
1.	No. of ATMs	4650	5995	7882	1887	31.48
3.	Total deposits	220489	267133	303065	35932	13.45
4.	Total advances	167333	183583	207974	24391	13.29
5.	Total population in Kerala	3.36	3.37	3.39	0.02	00.59
6.	Number of branches per 100000 population	15	16	17	01	06.25
7.	Number of ATMs per 100000 population	14	18	23	5	27.80
8.	Number of branches per 1000KM^2 (38863 km^2 in Kerala)	132	142	151	09	06.34
9.	Number of ATMs per 1000 KM^2 (38863 km^2 in Kerala)	120	154	203	49	31.81
10.	Per capita deposits (Rs.)	65622	79268	89400	10132	12.78
11.	Per capita advances (Rs.)	49801	54476	61349	6873	12.62

Source: Compiled from SLBC, Kerala for various years.

At least forty lakh savings accounts and almost same number of loan accounts opened by Kudumbasree members with the commercial banks and co-operative banks, in no doubt, helped Kerala to be ranked top in financial inclusion among the Indian states. This mission also undertakes the campaign of financial literacy to create sufficient awareness of the benefits of formal banking services among the members. Over thirty lakh employees of the NREGS whose wage payments are made mandatory through their bank accounts in Kerala also have a prominent role in reaching the unreached by the banks. Kerala government which provides social security pension to over fifteen lakh senior citizens through formal accounts and about twenty lakh migrant labourers who depend upon banks for money transfer has led to open a flood of accounts with different banks of Kerala.

Table 3.20

The ranking of districts of Kerala as per Crisil Inclusix

Sl. No.	District	Crisil Inclusix Scores				Crisil Inclusix Ranks			
		2013	2012	2011	2010	2013	2012	2011	2010
1	*Thiruvananthapuram*	100.0	94.8	91.1	83.4	1	5	3	5
2	*Kollam*	85.2	70.5	63.6	58.1	33	43	59	70
3	Pathanamthitta	100.0	100.0	96.2	94.2	1	1	1	1
4	Alapuzha	100.0	84.2	78.7	72.1	1	11	15	23
5	Kottayam	100.0	93.8	86.7	80.7	1	7	5	10
6	Idukki	90.2	70.5	64.9	57.7	17	44	53	75
7	Ernakulam	100.0	94.9	88.3	88.0	1	4	4	3
8	Thrissur	100.0	97.2	85.4	79.1	1	3	6	12
9	Palakkad	85.4	71,5	67.7	64.1	32	37	42	39
10	Malappuram	85.2	70.5	63.6	58.1	114	124	113	115
11	Kozhikode	81.2	72.7	72.0	67.4	43	33	28	33
12	Wayanad	82.4	78.2	75,5	70.9	39	24	20	25
13	Kannur	82.7	73.2	75.0	69.1	38	32	22	29
14	Kasaragod	87.1	79.9	78.3	73.7	28	20	17	19
	National Average	50.1	42.8	40.1	37.6	-	-	-	-

Source: Crisil Inclusix, 2015

The overall financial inclusion index of Kerala overtakes all other states of India. Among the fourteen districts of Kerala, six have attained 100 percent financial inclusion as per the Crisil inclusix, while five of them have 85% inclusion and the remaining four districts achieved more than 80% financial inclusion. This is revealed by Table 3.20.

Table 3.20 shows the overall picture of financial inclusion in Kerala through the indicators like number of branches, number of ATMs, volume of deposits and advances. The data is compiled from the statistics of State Level Banker's Committee, Kerala. The first two indicators explain the access of formal financial institutions to the people, while the indicators like the deposits and credit denote how people utilise the access to these institutions. As per the Table, the number of branches increased from 5140 to 5876 during the three years resulting in the wide spread of outreach of commercial bank branches. The growth and the expansion of ATMs in Kerala give a better rate of increase in the state amounting to seventy percent during the three year period. The analysis of the volume of deposits and advances in Kerala also show a high increase, achieving a growth rate of thirteen percent during 2014. The access can more accurately be analysed by comparing the number of bank branches and ATMs with the population. Both of these are analysed in this manner and the number of bank branches and ATMs per one lakh people are ascertained. Similarly these two parameters are connected with the geographical area of Kerala and the number of branches and number of ATMs per sq.km. are calculated. The results unravel the width and the breadth of accessibility in the state.. The outreach of banking services in terms of bank deposits and advances are further analysed by establishing the relationship with the population of the state. The per capita deposits and per capita advances arrived at indicate that the people of Kerala are highly banking-minded and there is a wide outreach of banking services in Kerala. From this analysis it can be inferred that there is high financial inclusion in Kerala.

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CHAPTER FOUR
GROWTH PATTERN OF PACS IN KERALA

4.1. Introduction

The previous chapter has discussed in detail the conceptual frame work of financial inclusion and how the world, India and Kerala are experiencing the effects of financial inclusion. This chapter brings out the origin, growth and development of co-operative movement in the same geographical areas and it also explains the growth pattern of PACS in Kerala.

Robert Owen (1771–1858) is considered as the father of the cooperative movement. Historically, the credit cooperative movement emerged in response to a famine which hit parts of Germany and other European countries in 1846/47. Schulze and Raiffeisen were the pioneers who took initiatives in this regard. Although Owen inspired the co-operative movement, Dr. William King (1786–1865) took his ideas and made it more workable and practical. The basis for development and growth of modern co-operative movement was established when the Rochdale Society of Equitable Pioneers laid the "Rochdale Principles" on which they run their cooperative.

The term co-operation is derived from the Latin word co-operari the meaning of which is working together. In other words co-operation is a term which refers to help each other and to think together, live together and work together, the part of the most benevolent philosophy of 'each for all and all for each'. According to Calvert co-operation is "A form of organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interest of themselves" [1]. Herrick, 1914, in his writings, had expressed more or less same idea by saying that "cooperation is the act of persons, voluntarily united, of utilizing reciprocally their own forces, resources, or both, under their mutual management to their common profit or loss" [2]

The primitive concept of co-operation was more related to cultural, religious and social aspects, but not to business. In primitive society co-operation had been an inherent part of human life and society. The most elementary process of social life is co-operation without which a society and social life is impossible. A society consists of form of interaction whereby individuals and groups pool their energies together for the promotion of common ends or subjects in such a way that all parties tend to benefit by it, (Gisbert, p).[3] The basis for the beginning of co-operative history in the world relies on the necessity of interdependence, mutual help and inherent social feeling in man which are actually the basis for the human civilization itself. The roots of the co-operative setup can be traced in ancient India, Egypt, China and Babylonia in agriculture and crafts. The tradition of mutual assistance, joint action, joint possession and joint management are found in the thinking of the people of all ages and in all countries [4] (ILO, 1955).

Industrial Revolution gave birth to the economic system of Capitalism wherein the entire means of production are vested with the private individuals motivated by profit with minimum government interference. It suffers from the evils of exploitation of labour, corruption, inequality, unemployment, pollution and the concentration of money and wealth in the hands of very few. A very interesting criticism of capitalism is found in the definition of competition as the collision of capitalist against capitalist. As a result "one capitalist always kills many others"[5] (Marx,1867). The other system Socialism is based on the concept of public ownership of means of production operates not for profit and aims at the realization of a socialistic state. However it also has many drawbacks like elimination of individualism slow economic growth, absence of private ownership, lack of economic and political freedom, red-tapism and inefficiency. Co-operation, on the other hand, has been originated as a safeguard against the exploitation of capitalism and remedy for state supremacy of socialism.

In the words of Bertrand Russell, "A healthy society requires both central control and individual and group initiative, without control there is anarchy and without initiative there is stagnation". These words are extremely true with the two economic systems, the Capitalism and the Socialism, which are diametrically opposite systems. Each of these systems has its own merits and defects. Capitalism subordinates human beings to the super lord of capital, increases economic inequality and insecurity, widens imbalances between the buying power and the production capacity and leads to monopolies and fascism while socialism leads to bureaucracy and totalitarianism [6] (Schumpeter, 1959). On the other hand Co-operation is a desirable synthesis between the two. In the modern times, it is functioning as a practical economic system for transacting business based on all the best qualities of humanity and acts as a check on antisocial evils like greed, selfishness and personal glorification. The fall of communism proves that a system that focuses on community cooperation to the exclusion of individual competition does not work [7] (Thurow, 1999).

It is a voluntary and democratic association of people based on equality of control, opportunity, equity and mutuality. T.N. Hajeela has very aptly stated that Co-operation denotes a special method of doing business.[8] Co-operation thus actualizes a new social order based on fraternity, freedom, equity and democracy and highlights the motto, "each for all and all for each". Economic activities of co-operatives serve as a tool for maximizing social contributions. The volume and the value of services that a member receives from a co-operative totally discriminates a non member. In the division of surplus the co-operative enterprise excludes capitalist mode of decision and applies the rule of distribution in proportion to patronage.[9] (Seetharaman and Mohanan, 1986).

There are different schools of thought regarding the concept of co-operation. Co-operative Enterprise School defines a co-operative institution as "a voluntary association of independent economic units, organized, capitalized and run, by and for its members, providing and/ marketing goods and services on cost- to-cost basis to their members". This definition underlines the aim of co-operatives as the advancement of economic independence and protection of members and small producers. This view is supported by the Co-operative Gurus like Schulze-Delitzsch, Hass, Raiffeisen and Horrace Plunkett.

Another school of thought, the Commonwealth School aims at eliminating the capitalistic competitive system and based on the principles of socialism which got high momentum during the nineteenth century. The proponents of this school include the great co-operators like Robert Owen, Saint Simon, Charles Fourier, Louis Blanc, Karles Guide and Ferdinand Lassalle. These leaders were not satisfied with improving the conditions of the members within the framework of capitalism, but by adopting the principles of Socialism. The Socialist Co-operative School has defined a society as "an economic and social organization of the working people serving not only interest of members, but also the social progress". The crux of the definition is on the aspirations and interest of the working class. This concept of the definition is based on the Marxist – Leninist theories. Lenin believed that co-operatives can transform the society to a socialist based and later to a communist based social system. E.R Bowen was of the opinion that "Co-operation is the universal instrument of creation". [10]

Sir Horrace Plunkett, the prominent co-operative leader, has stated that "a co-operative is nothing but self help made effective by organization through better farming, better business and better living". [11] Another definition is given by C.R Fay who expresses that "Co-operation is an association for the purpose of joint trading among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership may share its rewards in proportion to the degree in which they make use of their association".[12] The leaders of co-operation throughout the world support the definition given by Professor Lambert which states that, "A co-operative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy and directly intending to serve both its own members and the community as a whole". These words of Lambert clearly point out that co-operatives function for the society as well as for the members.[13]

The world-wide umbrella body for co-operatives, The International Co-operative Alliance, defines a co-operative as "*an autonomous association of persons united voluntarily to meet their common economic, social, and cultural* *needs and aspirations through a jointly-owned and democratically-controlled enterprise*".[14] The stress here is on the mutual association for the common good through democratic methods of control. V.L. Mehta, an authority on Indian co-operative movement, describes co-operation as follows, "Co-operation is only one aspect of a vast movement which promotes voluntary association of individuals having common needs who combine towards the achievement of common economic needs".[15] Here the act of voluntary association to realize common economic needs is emphasized. Section 4 of the Indian Co-operative Societies Act, 1912 defines a cooperative "as a society which has its objective the promotion of economic interest of its members in accordance with co-operative principles". All these definitions of co-operatives try to bring out the nature, meaning and the way of functioning of the co-operatives.

The co-operative organizations are functioning internationally on the basis of some well defined values and principles. ICA, being the authority for considering the values and elaborating the principles of co-operation, in its Centennial Congress, Manchester, September, 1995 has put forward the co-operative values and revised principles.

The co-operative values include democracy, self help, equity, equality and solidarity. The ethical values of honesty, social responsibility, caring for others and openness are regarded as the essential values of co-operatives.

The following table gives the principles of co-operation

Table 4.1
Co-operative Principles

1	**Voluntary & Open membership**	2	**Democratic member control**
3	Member's economic participation	4	Autonomy and independence
5	Education, training and information	6	Co-operation among co-operatives
7	Concern for community		

4.2. Significance of Co-operatives

Co-operation is a system for removing disparities among various classes of population in the distribution of income and wealth. It is a people's movement organized by heterogeneous groups for the purpose of accomplishing a common goal. "The co-operative organizations always respond to member needs in achieving broader goals and in adhering to co-operative principles in their daily activities. There are choices that are never finally made; there are no decisions that are completely perfect" Krishnaswami, 2000.[16] Co-operatives can abolish the intermediaries between the producers and the consumers and reduce both cost of production and prices of the commodities. The credit facilities extended by the primary co-operatives help the rural folks financially while the service co-operatives provide required technological assistance and the marketing societies assure the small and marginal farmers in selling their produces.

The rural co-operative can be the best friend of the marginal farmers, agricultural labour and poor artisans and other poor village population by acting as a remedy to rural indebtedness. They can fulfil the hopes of the middle class as well as the poor because the pillars of co-operatives are based upon democratic philosophy. The middle-class is considered the most meaningful indicator of equality in a society. It is the democratic governments, not the market, which built the middle class [17] (Thurow, 1996). The co-operative movement is the appropriate advancement to rectify the imbalances in the economic development and to minimize the disparities of income and wealth. No doubt, the co-operatives can prevent the aggravation of inequitable distribution of income and surpluses. It serves as means of emancipation of weaker sections that are victims of lopsided development (ICA, 1966) [18]. In the twenty first century the governments of many developing countries have regarded the co-operatives as an instrument for bringing up the marginalized and the downtrodden to the higher levels of development. Therefore the co-operatives have been considered as an important tool for economic plan [19] (Mrutyunjay, Sarangi, 2000).

Co-operative action is a broad concept that assumes the activity of people working together towards a common goal, each member has the same power in the decision-making process under the principle of one person equals one vote; of open membership, without any discrimination of sex, race, religion, politics; sovereignty of labour over any other factor; the instrumental character of capital to people; the participation of all the members in the management of co-operatives; the willingness to transform positively the community where co-operative is located; and the promotion of solidarity with neighbouring less favoured agents [20] (Cid,2005). The co-operatives values meet closely the real social context of the people they serve. This is particularly true for their customers /members through members' ownership and democratic control of their society and their share in its profits or surpluses. As an organisation rooted in community the co-operative is concerned with the identification of customer needs in their social context. The product or service element will be enhanced by the social added value the co-operative can bring to the standard of quality and excellence and customer care it brings to the market place.[21] (Feroze, PS.2009).

The modern view is that co-operation is not only a concept for providing services, but a special method for the conduct of business. Co-operative sector has now spread its wings upon local, regional, national and international levels of business. In every walk of the life of man and in every sphere of the economy, co-operatives have extended their operations. The co-operatives deal in primary sector activities like fisheries, marketing, farming, dairying and processing. In the secondary sector there are different kinds of industrial societies and we have co-operative banking, co-operative labour societies and societies running educational institutions and hospitals in the tertiary sector. In additions to these, there are consumer co-operatives, housing co-operatives, women's co-operatives, employee's co-operatives, co-operatives for scheduled caste and scheduled tribes and college co-operatives functioning to serve different sections of the population.

It can be observed that the co-operatives fulfil the social objectives of the nation by training the people to take initiative in organizing, assuming responsibility in administration and direction and creating experts to manage the enterprises successfully. The recent success of co-operatives shows that their strength is based on their concerns towards community and society. The co-operative movement teaches the people to administer their own affairs. Thus co-operation is an economic, moral and social movement which serves the nation's population thereby leading to social, financial and economic growth and development. The ultimate aim of co-operation is to create a better society[22] (Gunnar Myrdal, 1968). It spreads the spirit of love, affection and brotherhood and improves the standard of living of the people. Co-operatives, touches no man's fortune, seeks no plunder, causes no disturbances in the society and give no troubles to statesmen. It enters into no secret association, it needs no trade union to protect its interest, it contemplates no violence, it subverts no order, it envies no dignity, it accepts no gifts nor asks any favour, it keeps no terms with the idle and will break no faith with the industrious [23] (Krishnaswamy,1985).

4.3. Objectives of Co-operation

The following table depicts the important objectives of Co-operation

Table 4.2
Objectives Co-operation

1	**Elimination of middlemen**	2	**Raising economic status of the poor**
3	Removal of evils of capitalism	4	Raising moral standards of its members
5	Increasing the prosperity of the whole community	6	Abolition of social inequalities
7	Political and religious neutrality	8	Development of corporate life

4.4. Enterprise characteristics of co-operatives

The co-operatives are functioning as associations and at the same time they are doing business as enterprises. The enterprise aspect of co-operatives arises from their economic and business function. The co-operative enterprise implies a co-operative entity created in a legal mould [24] (Dulfer 1976). DAs an enterprise it is a distinct unit which has the essential features of an entrepreneur like decision making, creativity, initiative, risk taking, adaptability and flexibility and motivation. A co-operative institution aims at optimization of resource use and maximization of net returns to the member firms/ participating firm [25] (Krishnaswami 2000). It is a concern of collective behavior and co-ordination with well-defined common rules of work. It is a socio economic system which is organized around certain economic and social values. The following are the enterprise characteristics of co-operatives;

- The existence of direct relation between the users and enterprise and the satisfaction of the common users: user-seller, user-worker and user-purchaser.
- The emphasis on rendering services to the owners and users rather than maximizing return on capital.
- Strengthening the enterprise viability through expansion and diversification.

4.5. Co-operative Movement in India

Co-operation is as old as human civilization and it was practiced by the people of ancient India, the traces of which could be seen in the famous book 'Arthasastra' authored by the great strategist, philosopher and economist Kautilya. The co-operative movement in India as a solution to solve the problems of the masses acquired its momentum towards the end of nineteenth century. Then the rural India was facing the grave problems of poverty, accumulated ancestral debt, illness, ignorance, famine and natural calamities under the British rule. Then the moneylenders were the only beneficiaries who took advantage of the situation by charging usurious rates. To save the peasants and the poor from the firm grip of the moneylenders and to free them out of the vicious circle of indebtedness the provincial governments implemented several regulations but without success. The urgent requirement of that period was the provision of cheap credit and freedom from the clutches of moneylenders. The need for cheap credit to the farmers was becoming stronger and the idea of starting co-operative societies was hatched in 1892. [26] (Hajela 1997).

The Madras government entrusted Sir Frederick Nicholson to study the problem and his report insisted on starting co-operatives in India in the Raiffeisen Model. In 1901 the Government of India appointed Sir Edward Law as the chairman of the committee for starting co-operatives in India. As per the recommendations of the committee the Co-operative Credit Societies Act was passed in India in 1904. Thereafter many amendments were made to the Act; the Act itself was revised and redrafted on many occasions as per the recommendations of the committees and commissions appointed by the government various occasions. As per the provisions of Montage-Chelmsford Reforms Act, 1919 the co-operatives became state subject. Thereafter different states and provinces enacted their respective state Acts to organize co-operatives of different kinds and to control them.

After independence co-operatives continue to be a State subject by constitutional amendments. A Model Co-operative Act was drawn up by the Government of India, on the basis of which the state governments have made enactments and provided legal framework for their effective functioning. The government partnership, patronage and sponsorship have been imposing vast restrictions and government control led to unhealthy situation on co-operatives restricting their democratic and self governing features. According to the recommendations of several working groups and commissions appointed by the government and the suggestions of planning Commission of India, proper amendments were made to the state Acts from time to time to introduce necessary alterations and modifications to de-regulate co-operatives and to restore democracy in the functioning of co-operatives.

The economic reforms of 1990s brought impressive economic growth along with strong waves of corruption, computerization and consumerism. The withdrawal of the government from different sectors, the weakening of public sector, and fostering of Private sector and market economy bypassed the rural masses of India and created economic injustice and uneven growth. Globalization process continues to serve the rich and the powerful and neglects the poor and marginalized. It is the most effective tool of capitalism to re-orient the market. It makes the rich, richer and the poor, poorer. Multi-national corporations have become seasoned in pampering in unfair working conditions and social injustice. They are creating environmental pollution, ecological damages and unhealthy use of natural resources.

Globalization has introduced a dangerous process of marginalization and contractualisation [27] (Das, 1993). The result of it is the manifestation of vulnerability and livelihood insecurity. The market system is built upon inherent urban bias and not friendly to the poverty stricken people and the backward regions. The globalised market economy believes in ultimate power centralization and remains undemocratic in administration. Majority of the unskilled, the illiterate and vulnerable sections even lost their livelihood rights and economic citizenship. Due to globalization the urban regions and the service sector have been impressive while the rural India and the agricultural sector are lagging behind. The problems of poverty, unemployment and stagnation among the common people of the villages are aggravated by globalization. In this situation both public sector and private sector cannot promote social welfare and assure equitable growth. Only co-operative sector can successfully take effective measures to block the evils of globalization and to promote equitable growth.

In comparison to the step-motherly treatment of the past, cooperatives should be considered an important plank for development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Cooperatives have immense potential to deliver goods and services in areas where both the state and the private sector have failed.[28] (Banishree Das et. al 2006). The Co-operative Sector has been playing a distinct and significant role in the process of socio economic development of India with special focus on rural population and their livelihood. Laidlaw (1980) has discussed the success of co-operatives by stating that there was no business activity where co-operatives were not involved. [29] Through sustained efforts, co-operatives have made impressive progress in various segments of Indian economy particularly in agricultural credit disbursement, fertilizer distribution, procurement and distribution of agricultural commodities, promotion of rural agricultural and allied activities like diary, fisheries, handloom and coir. The co-operatives are performing exceptionally well in other areas like production, marketing, transportation, health services, education, banking, and insurance. In India at present the super structure of co-operatives consists of more than 90,000 PACS, 370 DCCBS, 32 SCBS and 1579 UCBS.

4.6. Co-operatives and their classification

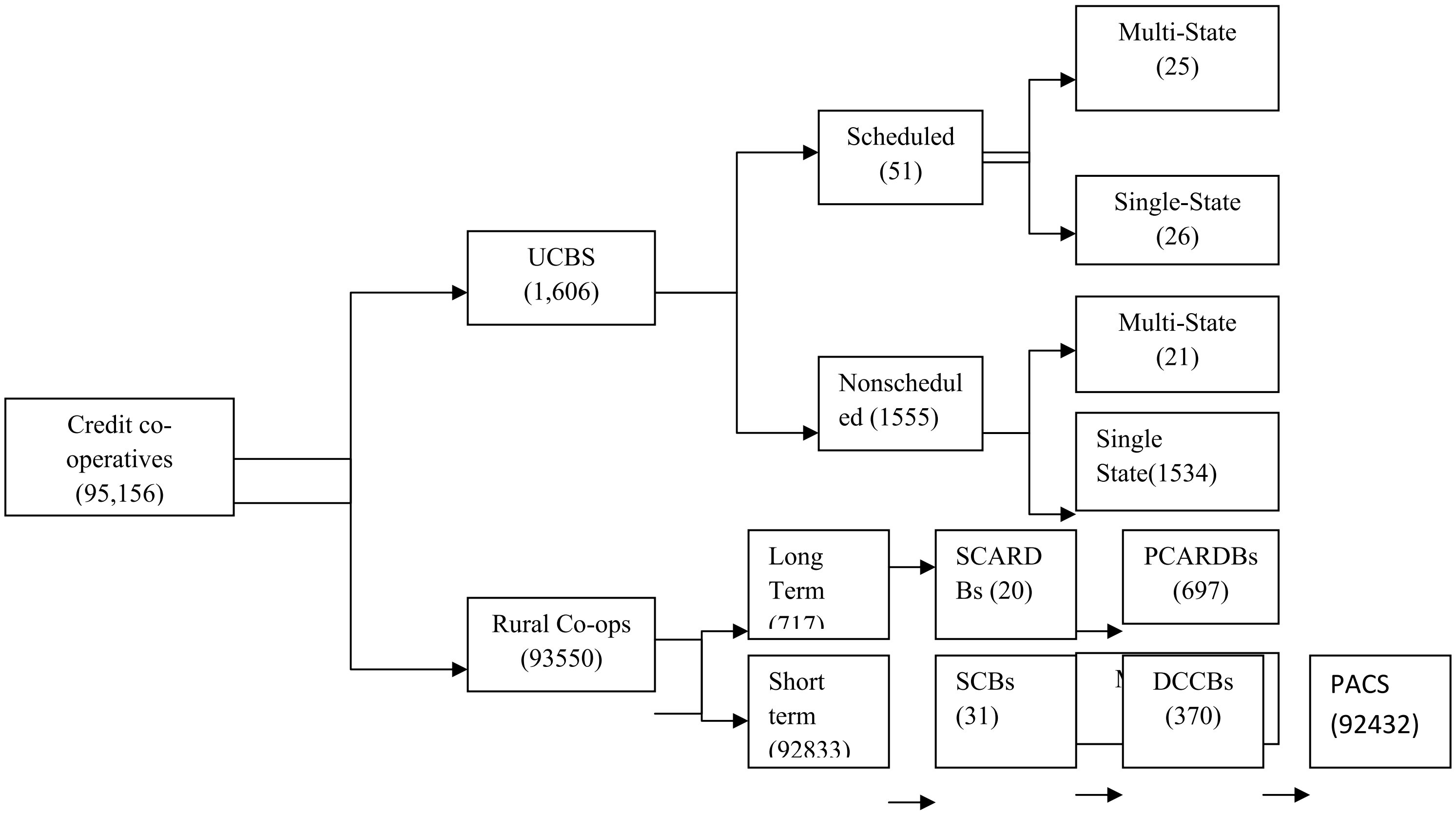
The co-operative movement, since its inception, has been carrying out diversified activities and functioning in multiplied forms. In different countries, while undertaking varieties of businesses, the co-operatives have been designed in such forms to suit their requirements. Therefore in the whole world one can see numerous classes of co-operatives. The classification of co-operatives into different categories is discussed as under.

- Functional classification on the basis of the business dealings like marketing of products, credit and banking, housing, education, health and other services.
- Legal classification into registered and unregistered societies and includes societies with limited liability, unlimited liability and multiple liability.
- Area wise classification into urban and rural co-operatives.
- Operational classification into primary, secondary and apex co-operatives.
- Classification on the basis of economic status of the members such as producers, consumers and workers co-operatives.

The co-operative societies /banks on the basis of nature and purpose for which they are formed are classified as:

Figure 4.1

Types of co-operative credit societies



Source rbi. org

SCBs: State Co-operative Banks; DCCBs: District and Central Co-operative Banks; PACS : Primary Agricultural Credit Societies; UCBs: Urban Co-operative Banks; SCARDBs : State Co-operative Agricultural and Rural Development Banks; PCARDBs: Primary Co-operative Agricultural and Rural Development Banks. Notes: (1) Figures in parenthesis indicate the number of institutions at the end of March 2013 for UCBs and at the end of March 2012 for rural co-operatives (2) For rural co-operatives the number of co-operatives to reporting co-operatives.

4.6.1. Credit societies

These include Primary Agricultural Credit societies, Service Banks, Urban Banks and all other societies extending credit to members. There are agricultural credit societies and non agricultural credit societies. The agricultural credit societies include PACS, farmers' banks and rural banks. Non agricultural credit societies consist of urban banks and other co-operatives. The State Co-operative Banks (SCBs) and District Central Co-operative Banks (DCCBs) function as the apex institutions of these credit societies.

4.6.2. Non credit societies

These are societies which do not provide any credit to members but other services are rendered. These institutions are the providers of non credit activities and the examples are the societies of marketing, housing, processing, farming, labour contract, consumer, poultry, irrigation, transport, social welfare, education health, tailoring and so on.

4.6.3. State Co-operative Banks (SCBs)

A state co-operative bank is the vertex of the pyramidal structure in a state for the provision of short and medium term credit to farmers. It is the pivot at the apex level of three tier system of co-operatives at the state level. It is the connecting link between the co-operatives and the commercial money market, the NABARD and the RBI. The state co-operative bank deals with the district co-operative banks and does not involve directly with the primary co-operative banks and individuals. The management of SCBs is vested with the board of directors which has representatives from the DCCBs, commercial banks, urban banks, affiliated societies, state co-operative agriculture and rural development bank, central industrial banks and state government.

The main functions of SCBs consist of borrowing and lending. The borrowings constitute the sums from the RBI, the NABARD, state government and the deposits from the public, the DCCBS and other co-operatives like PACS. It grants short, medium and long term loans and advances to the central co-operatives and other apex societies and carries out other banking business. It keeps the accounts of the DCCBs and acts as the clearing house for the central co-operative banks. Actually it is the banker's bank and the custodian of the surplus funds of the co-operative banking structure in the state. In such a capacity it controls and supervises the DCCBs and other co-operatives of the state by conducting inspections and checking of accounts at regular intervals. It sometimes acts as the state government's bank and offers all advanced banking services to the state government.

4.6.4. District Central Co-operative Banks

The Central Co-operative Bank which is a part of the three tier co-operative credit System occupies a strategic place in the district and acts as a balancing centre to its member societies. It is the middle tier of the co-operative credit structure. Therefore it can deal with both the upper tier, the SCBs and the lower tier, the PACS at the same time. That is, the DCCBs act as the intermediary between the SCBs and the PACS. The Banking Regulation Act and the RBI Act recognize the DCCBs as the scheduled banks and they are allowed to perform all the banking functions just like commercial banks in the country. All the primary co-operatives of a district are associated into a banking union and form a central bank at the district level which is termed as district central co-operative bank. In India DCCBs are organized in three distinct forms; banks with open membership to individuals; banks whose membership is confined to societies only; banks whose membership constitutes both individuals and societies. The size of the DCCBs and the area of operation are of high significance for their successful working. The Maclagan Committee, in 1912, had pointed out that a central bank should cover as large an area as compatible with convenience and efficiency [30]. The administration of these banks is vested with the director board comprising of representatives of the PACS, state co-operative bank and the state government which protects the interest of all the stakeholders.

The Standing Advisory Committee on Agricultural Credit of the RBI insisted that there should be one central bank for one district. The operating funds of the DCCBs are derived from share capital, reserve funds, deposits, loans and from the government grants. All India Rural Credit Survey Committee had recommended the state partnership including financial partnership in the capital of the DCCBs. All the co-operatives are required by the Act to keep their surplus funds with the central banks as deposits. This will enable the DCCBs to perform their function of acting as the bank of other co-operatives in the district. They control and regulate the working of the PACS in the district. They are allowed to accept deposits from general public and provide loans to individuals and institutions including primary cooperative societies on the security of proper collaterals. The DCCBs borrow from SCBs in the form of various short term and medium term advances and lend to PACS, producers' co-operatives, marketing societies, consumer co-operatives, labour co-operatives and other types of co-operatives. This district level co-operative bank is considered as the most important financial agency which provides the credit requirements of the agricultural and allied sectors.

Table 4.3
Growth of Short Term Co-operative Credit Structure
(As on 31st March of the year)

(Rs. In Crores)

particulars	State Co-operative Banks			District Co-operative Banks		
	2014	2015	Growth %	2014	2015	Growth %
No. of banks	32	32	-	370	370	-
Share capital	3704.21	5355.12	44.57	11489.33	13045.08	13.59
Reserves	9288.95	12887.77	38.74	15885.64	16307.74	2.66
Deposits	104368.61	102858.81	-1.45	236887.09	257315.87	8.62
Borrowings	60997.75	68721.12	12.66	72686.63	79825.73	9.82
Loans outstanding	103114.86	114545.40	11.09	203003.05	218947.20	7.85

Source: NABARD, Annual Reports, 2015-16

4.6.5. Primary Agricultural Credit Societies

The 2011 census revealed the fact that 68.8 percent of Indian population reside in the villages and they depend directly or indirectly upon agriculture for their earnings. This fact acknowledges the significance of agriculture in the Indian economy as regards to food grain production, employment generation, contribution towards GDP and national income and earning of foreign exchange. However for the last many years the contribution of the agricultural sector to the GDP is rapidly declining and at present it is only less than 15 percent. The main problem faced by the farmers is the lack of cheap and sufficient funds for carrying out agricultural operations.

Indebtedness in rural India was widespread at the beginning of the 20th century and the farmers were highly exploited by the moneylenders. This urged the Indian government to introduce a new system to help the farmers financially and the outcome was the introduction of co-operative movement in India. On the recommendations of the Famine Commission during 1901 and the suggestions of Sir Fredrick Nicholson the government of India passed the Co-operative Credit Societies Act of 1904. The main objective of the enactment was to provide sufficient money to the agriculturists at a reasonable rate of interest. The Act gave birth to the PACS which are the co-operatives at the grass root level. These societies are considered to be the pillars of the entire co-operative edifice. In 1912 the Act was amended to enable formation of other types of societies and the creation of federation of primary societies. The PACS continue to be the main source of agricultural credit to the farmers in the rural areas [31] (S.S.Kalamkar, 2003).

The PACS in India are generally termed as service societies. "A service co-operative is to be treated as an organization of the villagers for mutual help and co-operation to meet their common economic requirements and to increase agricultural production. The idea is to relate the short-term credit which the society gives to the production plan of the farmer and to the yields he is likely to get from the loan" (B. Mukerji, 1961) [32]. It is essentially an institution which helps the members to improve the agricultural yields at lower costs by rendering certain necessary services at their door. The basic objective of the co-operative movement changed from being merely removing indebtedness to resolving the national problem of under-production through the service co-operatives or the PACS.

The PACS started under the Co-operative Societies Act were very small at the beginning, having very small area of operation extending to one or two villages confined to a panchayat. Due to their single purpose, small size and smaller area of operation they could not render viability. These small societies were not able to render much help to the farmers [33] (Abdul Kudus and Zakir Hussain, 2007). The revival of the PACS was started during the post war period. The suggestions given by the All India Rural Credit Survey Committee in the middle of 1951 has led to the formulation of national policy on co-operatives and brought new dynamism for the co-operative movement. During the second five year plan these recommendations were carried out and the revitalization of PACS was completed during the third five year plan. Over the successive five year plans considerable expansion and diversification of the PACS have taken place in India and at present they cover the entire spectrum of activities especially in the rural areas [34] (Khalid Mustafa 1995).

The sources of funds of the PACS are composed of share capital contributed by members, deposits mobilized from the members and non members, loans raised from the DCCBs, commercial banks and from the state government and the funds of reserves and surplus. They provide short term, medium term and long term credit to their members for agricultural and other productive purposes. The PACS supply agricultural and other production requirements and engage in marketing of agricultural products. They also carry out educative advisory and welfare functions for the members. Timely repayment of the loans advanced by the PACS is extremely crucial for the success of the co-operative movement. It has, however, been observed that the punctuality in the repayment of loans has hardly been observed by the members which has resulted in large amount of over dues. Recovery of loans is the responsibility of the members of the managing committee and office bearers with the help of the bank supervisors and the government officers of the Co-operative departments.

4.6.5.1. Functions of PACS

In pursuance of the objective of improving agricultural yields and aiding production, the PACS have to perform the following functions:

- To arrange the supply of farm requirement, such as improved seeds, fertilizers, implements and insecticides.
- To provide short-term credit required to the purchase of farm requirements and also medium- term loans for agricultural purpose such as reclamation of land, digging of wells, purchase of agricultural implements etc.
- To maintain supply of higher light agricultural machinery, and plant protection equipments.
- To introduce better living measures as laid down by Sir Horace Plunkett and to fulfil the wide concept of better farming, better business and better living
- To supplement the income of the members by inducing them to take subsidiary industries.

4.6.5.2. Performance of PACS in India

The growth performance of PACS in India can be studied with the help of the most important indicators like number of the PACS in India, total number of members in the PACS, number of members having borrowings from the PACS, volume of own funds of the PACS comprising share capital and reserves, total volume of deposits of the PACS, total amount of borrowings of the PACS, the amount of loans issued by the PACS and the outstanding amount of loans with the PACS. The following table with the information collected from the annual reports of the NABARD depicts a clear picture of the performance of Indian PACS for a period of five years from 2010 to 2014.

Table 4.4
Performance of PACS in India
(As on 31st March of the year)

(Rs. In Crores)

Particulars	2010	2011	2012	2013	2014
Number	94647	93413	92432	93488	93042
Membership (Lakh)	1264	1212	1136	1275	1301
Borrowing Members (Lakh)	598	524	449	495	481
Owned funds (Capital+reserve)	12479	14456	15996	18516	18923
Deposits	35286	37238	50253	67113	81895
Borrowings	51764	54000	88836	93359	95839
Loans issued	74938	91304	107300	161909	171419
Loans outstanding	--	87768	87767	139399	130053

Source: NABARD, Annual Reports, for various years.

4.6.5.3. Region-wise Performance of PACS in India

It would be interesting to analyze the phenomenal progress achieved by PACS in different regions of India. For this purpose the country is divided into different regions or zones viz. Central zone, Eastern Zone, North-eastern Zone, Northern Zone, Southern Zone and Western Zone. The region-wise growth pattern is also analyzed by using the same indicators. It can be realized that the southern region comprising the states of Andaman and Nicobar, Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu records the highest rate of growth as shown by all the indicators except the variable the total number of PACS in the region. The progress of the PACS is the poorest in north eastern region which constitute the states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. The progress of growth of the PACS is very negligible in central region also.

Table 4.5

Region-wise Details of PACS in India for the Year 2013-2014

(As on 31st March) (Amount in Lakhs) (Rs. in 000')

Zone/region	Total No of of PACS	Member ship	Total No. of Borrowing members	Share capital	Deposits	Borrow ings	Loans issued	Loans out standing
Central Zone % share in total	13386 14.39	797.47 6.15	3469 7.21	83483 8.53	88551 1.08	1149486 11.99	553513 3,23	551379 4.24
Eastern Zone % share in total	18566 19.95	27239.82 20.93	7851 16.33	77602 7.93	324790 3.97	1695804 17.69	531936 3.1	492839 3.79
North-eastern Zone % share in total	3491 3.75	3690.42 2.84	211 0.44	4741 0.48	8280 0.1	6458 0.07	3114 0.02	6202 0.05
Northern Zone % share in total	12899 13.86	14707.18 11.3	8023 16.69	177540 18.14	563729 6.88	1576520 16.45	1966569 11.47	1619004 12.45
Southern Zone % share in total	15040 16.16	58468.89 44.93	23568 49.02	357480 36.52	7025249 85.78	3432021 35.81	12340954 71.99	8685984 66.79
Western Zone % share in total	29660 31.88	18015.86 13.85	4958 10.31	278034 28.4	178892 2.18	1723291 17.98	1745870 10.18	1649978 12.69
All India total	93042	130119.64	480812	978880	8189490	9583580	17141956	13005386
All India %	100	100	100	100	100	100	100	100

Source: NAFSCOB, NAVI MUMBAI
Central Zone - Delhi, Madhya Pradesh and Uttar Pradesh
Eastern Zone - Bihar, Orissa and West Bengal
North-Eastern Zone -Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura
Northern Zone- Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Rajasthan, Chhattisgarh and Uttarakhand
Southern Zone - Andaman and Nicobar, Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu
Western Zone - Goa, Gujarat and Maharashtra

4.7. Co-operative Movement in Kerala

In Kerala the co-operative movement has been evolved even before the formation of the state. Before independence the geographical area of the state was divided into three separate sovereign administrative units viz., Travancore, Cochin and Malabar. Immediately after independence both Travancore and Cochin merged into a single state, the Travancore-Cochin state. During 1956 the Government of India merged all these independent units to form the state of Kerala. Therefore the origin, growth and progress of co-operative movement in Kerala have been automatically mixed up with the development of co-operatives in these three former princely units.

The Cochin state took the lead in introducing the co-operative societies by passing the Cochin Co-operative Societies Act in 1913. According to the provisions of this Act the first co-operative society registered was Advanced Co-operative Society. Later during 1918 the Cochin Central Co-operative Bank has been established. During the same period the Travancore Co-operative Societies Act was implemented during 1914 in the state of Travancore and Trivandrum Central Co-operative Bank has been registered as the first society. This bank was later converted into the Kerala State Co-operative Bank. At that time the co-operatives were registered with unlimited liability which created problems of recovery of loans and from1918 onwards the provisions were amended to register the societies with limited liability. After the formation of united Travancore-Cochin State, an enactment was made to have Travancore-Cochin Co-operative Societies Act in 1951. At the Malabar region, which was under the control of the Madras Province, the Madras Co-operative Societies Act of 1932 was in force till 1969. The Malabar Co-operative Central Bank established in 1917 at Calicut rendered much service to the primary societies and the members.

After the re-organization of the state of Kerala, the control and regulation of co-operatives was faced with a lot of difficulties due to the different Acts in force in the state. Therefore a new legislation was made in 1969, known as Kerala Co-operative Societies Act, 1969 in order to implement the uniform provisions covering all co-operatives throughout the state. The Act in its 110 sections has been regulating the co-operative sector of the state of Kerala since then. Comprehensive amendments to the provisions of the act were made and the state government passed the Kerala Co-operative (Amendment) Act, 1999 and it came into force with effect from 1-1-2000. The amendments enabled the co-operative sector to provide membership to local bodies, implement Deposit Guarantee Scheme in the PACS, introduction of Co-operative Development and Welfare Fund, appointment of independent Election Commission, constitution of Arbitration Court, organization of separate Audit Wing and vigilance Wing and formation of Co-operative Examination Board.

Table 4.6

Co-operative Organizations in Kerala

As on 31st March, 2014

Types of Societies	Number	Functional Number
Apex Societies/Banks	12	12
Federal Co-operatives	4	4
District Co-operative Banks	14	14
Credit Co-operatives other than PACS	3286	2027
PACS	1602	1535
Marketing Co-operatives	612	270
Consumer Co-operatives	4679	4052
Processing Co-operatives	36	19
Housing Co-operatives	387	291
SC/ST Co-operatives	832	434
Health Co-operatives	201	110
Women Co-operatives	1127	843
Other Co-operatives	3025	1954
Total number of societies	15817	11565
Number of societies dormant		3586
Number of societies under liquidation		666

Source: Statistical Data published by the Registrar of Co-operative Societies, Kerala.

The co-operative movement in Kerala has a solid foundation and impressive track record in terms of financial stability and sound infrastructure to generate adequate funds. The spread and growth of co-operatives in different sectors were nurtured under development plans with government initiative and government finance. The wide network of co-operatives in Kerala has been engaging in various promotional activities, especially in agricultural credit, public distribution system, agro processing, consumer activities, public health, education, housing, insurance, improvement of SC/ST sector, Women development etc.

There are 15817 Co-operatives under the control of Registrar of Co-operative Societies in Kerala, as on 31st March, 2014 of which 11565 are functional in the various promotional activities in the sector. The number of credit co-operatives including PACS is 4888 during 2013-2014. Of the credit co-operatives 2526 are PACS with a total deposit of Rs.117430crores. The total loan disbursed by the PACS during2013-2014 was Rs. 109901crores.

4.8. Growth Pattern of PACS in Kerala

The Primary Agricultural Credit Societies and Primary Agricultural Development Banks are the main Co-operative institutions providing credit to the farmers and the agriculturists. The PACS, known as Service Co-operative Banks (SCBs) in Kerala, have a vital role in distributing agricultural and non agricultural credit to the people of the state and safeguard the interest of the members. In the co-operative credit movement of Kerala the PACS occupy a prominent place by having more than 1600 banks with 397 lakh members at the end of March, 2014.

The Primary Agricultural Credit Societies/Banks (PACS) in Kerala were developed as a mechanism for pooling the resources of rural households and providing them with access to different financial services. These are the smallest co-operative credit institutions carrying out the banking business confined to a grama panchayath or municipality across the state. These democratic rural financial institutions are instrumental to the development of agriculture, increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and the vulnerable.

The government of India and the government of Kerala have appointed various committees and working groups to study the functioning of the PACS and to recommend suggestions for improving the working of the societies. Such suggestions include the necessity of enhancing the volume of resources, increasing the participation of the members, implementing business diversifications and adding to the overall viability of the PACS. In Kerala the PACS are conducting their business just like the commercial banks and rural banks by arranging deposit mobilization campaigns and undertaking diversified lending operations along with the core function of agricultural financing. The PACS of Kerala have achieved tremendous improvement in various business parameters while comparing with all India average. The Kerala experience in cooperative credit shows as to how cooperative societies at the primary level in the rural areas of our country can function successfully and instill confidence and trust with the local population for doing other businesses [35] (A K Zakir Hussain & P Natarajan, 2012).

4.9. Performance of PACS in Kerala: An evaluation

In Kerala the PACS have recorded high growth rate in many functional areas for the last many years. Very few of them in the state are dormant and highly negligible number of them is defunct. According to the statistical data published by the Kerala Registrar of Co-operative Societies, the hand book of the statistical abstract, it is apparent that the PACS are performing well during these years. Here an attempt is made to assess the performance of the societies by analyzing the indicators of number of societies, total members, paid up share capital, deposits mobilized and loans issued to the members. The statistical data regarding these indicators is taken for a five year period from 2009-10 to 2013-14.

Table 4.7
Performance of PACS

Indicator	Unit	2009-10	2010-11	2011-12	2012-13	2013-14
No of societies	Nos.	1597	1598	1598	1600	1602
Total membership	Nos.	19222840	21856142	19483918	20148455	20255951
Average membership per society	Nos.	12037	13677	12193	12593	12644
Paid up share capital	Crores (Rs)	582.13	551.67	555.18	567.64	590.13
Average share capital per society	Lakhs (Rs)	36.45	34.52	34.74	35.48	36.84
Deposits	Crores (Rs)	25151	33099	35421	36538	40226
Average Deposit per member	Rs.	13084	15144	18180	18135	19859
Loan issued	Crores (Rs)	20854	21595	25666	39778	43113
Average Loan per member	Rs.	10848	9881	13173	19742	21284

Source: compiled from Statistical Abstract (Hand Book) published by the Registrar of Co-operative Societies, Kerala for various years.

Table 4.7 shows the indicators of performance of the PACS in Kerala. During the year 2013-14 the total membership of various the PACS crossed two crores in 1602 the PACS, the average being 12000members per society. The paid up capital of all these societies amounted to 590 crores resulting in an average of almost Rs. 37 lakhs. The total deposits of the PACS amounted to Rs. 25151 crores during 2009-10 which increased annually to reach 40226 crores during 2013-14. These figures reveal that the average deposit per member of the PACS is around Rs. 20,000. The loans and advances disbursed by these institutions increased from Rs. 20854 crores during 2009-10 to Rs. 43113 crores in 20013-14. The average amount of loan advanced by the PACS to the members increased from Rs.10000 during 2009-10 to Rs.21000 during these years.

The analysis of the growth pattern of the PACS in Kerala is conducted by the researcher by using the above secondary data. The tool used for the analysis, CAGR, the theoretical basis of which mentioned in the methodology part, discloses the right picture of growth pattern of the PACS in Kerala. The trend of growth of the PACS in Kerala is analysed in terms of different variables influencing financial inclusion and regression coefficient is worked out to test the impact of growth of the PACS. . Both the absolute and average figures of these variables have been analysed by applying the statistically.

4.9.1. Growth in Number of PACS

The co-operatives especially the PACS in Kerala have made remarkable progress during the twentieth century and the growth process is continued in the twenty first century also in the same progression. In addition, these rural financial institutions through their continuous efforts in the field of provision of agricultural credit have succeeded in eliminating money lenders to a larger extent from exploiting the peasant community of Kerala. The change in the number of the PACS during the study period is analysed by the Table 4.8.

Table 4.8
Trends in Number of PACS during the period 2009-14

Year	No of Societies	Annual change (%)
2009-10	1597	
2010-11	1598	0.063
2011-12	1598	0.000
2012-13	1600	0.125
2013-14	1602	0.125
Regression coefficient (β) = 0.001^{ns}		
CAGR = 0.10%		

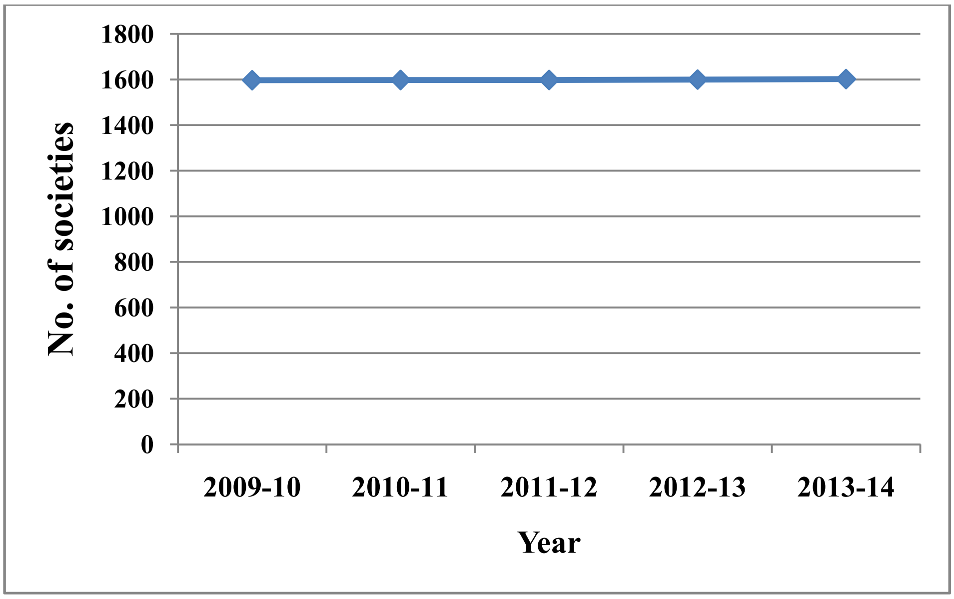
ns- non significant at 5% level

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

The number of societies is taken as a significant performance indicator to evaluate the growth in the PACS as per table 4.8. From the Table it can be seen that there is no considerable increase in the total number of the PACS in the state during these years. The increase in number is very negligible during the years of study period but it is to be noted that during the years of 2012-13 and 2013-14 the Table figures show a very slight increase in the number of the PACS in the state. However the point to be noted here that there is no fall in the number during these years. The percent of growth is very small. But the PACS show a slight improvement in the growth trends during the last years of the study though not remarkable with the CAGR of 0.10 percent. The growth in the number of the PACS in Kerala is not statistically significant at 5% significant level as Regression coefficient (β) is 0.001

The following graph with the table details displays the growth trends in number of PACS in Kerala

Fig.4.2
Trends in Number of societies during the period 2009-14



4.9.2. Growth in total and Average Membership in the PACS

Membership in the PACS is an important component in the success of societies. The growth in the functioning of the PACS will reflect in the change in the number of members during the study period. It is certain that the progress of a PACS will attract more individuals applying for getting membership in it and as a result the velocity of growth momentum of the PACS multiplies. This phenomenon is analysed in detail and presented in the table 4.9. Similarly the per capita growth in membership of the PACS is another factor showing the increase in membership per PACS in Kerala. It is arrived at by dividing total membership of all PACS in the state by the number of the PACS in Kerala. The table 4.10. shows the analysis of average membership in the PACS.

Table 4.9

Trends in total membership in PACS during the period 2009-14

Year	No of membership	Annual change (%)
2009-10	19222840	
2010-11	21856142	13.70
2011-12	19483918	-10.854
2012-13	20148455	3.411
2013-14	20255951	0.534
Regression coefficient (β) = 0.002^{ns}		
CAGR = 0.20%		

ns - non significant at 5% level

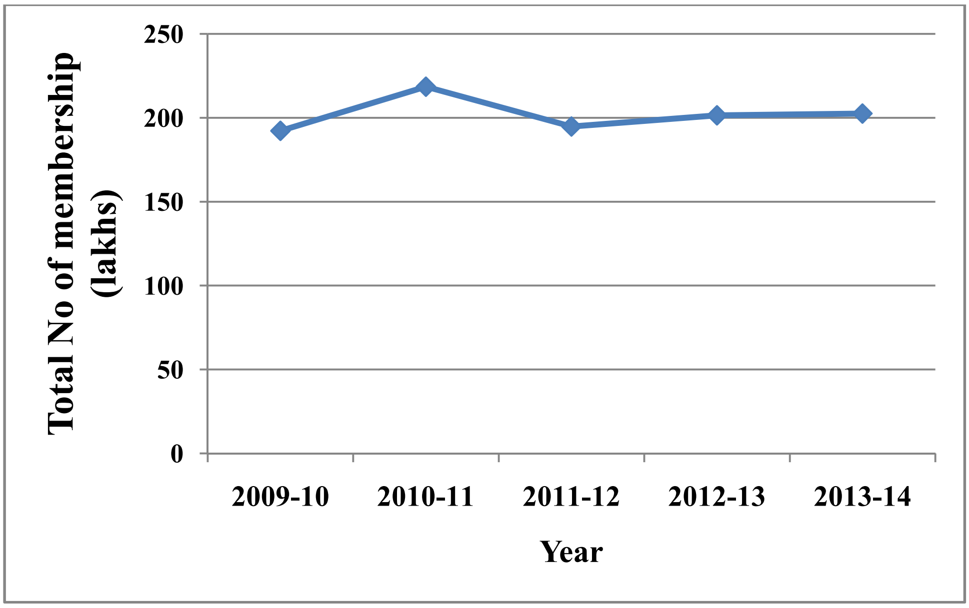
Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

Table 4.9 shows the growth pattern of membership in the PACS during the five year period. During the year 2011-12 there is a considerable decrease in the number of members in the PACS, resulting in almost 11 percent decline according to Table data. In the following year the position has improved recording an increase of more than 3% in the number of members. However the year 2013-14 cannot maintain this rate of increase which was only less than one percent. The analysis of the Table reveals that the PACS in Kerala cannot register a steady growth rate in the total membership during the study period. The CAGR of 0.020% with Regression coefficient (β) 0.002 shows that statistically the growth in the PACS membership is not significant.

The rate of growth of the PACS membership is graphically represented below.

Fig. 4.3

Trends in total Number of membership during the period 2009-14



Just like the total membership, the membership per PACS also important to evaluate the growth in PACS which is presented in Table 5.3

Table 4.10

Trends in average Number of membership per society during the period 2009-14

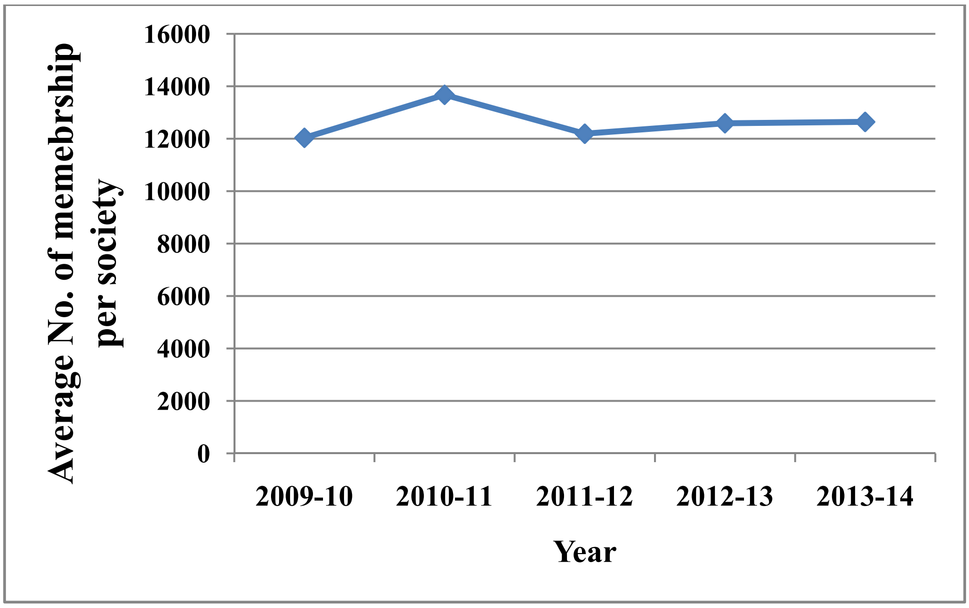
Year	Average No of membership	Annual change (%)
2009-10	12037	
2010-11	13677	13.62
2011-12	12193	-10.85
2012-13	12593	3.281
2013-14	12644	0.405
Regression coefficient (β) = 0.002^{ns}		
CAGR = 0.20%		

ns - non significant at 0.05 level

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

Table 4.10 analyses the trends in growth in the average membership of the PACS for the five year period. The total membership in the PACS indicates the statewide number of members while the average membership denotes the membership per PACS in the state. The Table clearly brings out the fact that on an average in all the years during the period of study the PACS show a membership of more than twelve thousand which is far above the national average. The data reveals the same trend of the total membership as shown by the previous Table. Even though there is very low rate of increase in the average membership in the PACS in Kerala, statistically it is not significant with a regression coefficient (β) of 0.002. The CAGR is arrived at 0.20 percent which implies the yearly compounded rate of growth even though it is very small. This information is depicted in the following graph.

Fig. 4.4
Trends in Average Number of membership per society during the period 2009-14



4.9.3. Growth in total and Average Paid up Capital in PACS

The growth and expansion of an organization is highly influenced by its volume and structure of paid up capital. The sufficient amount of paid up capital and owner's funds give financial freedom and flexibility to all institutions including the PACS. For the study period of five years the change in the paid up capital of the PACS is analysed by the Table No. 4.11. Similarly the analysis of the growth in the average paid capital of the PACS is conducted by the Table

No. 4.12. Here the term average paid up capital means the aggregate amount of paid up capital of all the PACS in the state divided by the total number of the PACS in the state.

Table 4.11

Trends in paid up capital share during the period 2009-14

Year	Paid up capital (crores)	Annual change (%)
2009-10	582.13	
2010-11	551.67	-5.23
2011-12	555.18	0.636
2012-13	567.64	2.244
2013-14	590.13	3.962
Regression coefficient (β) = 0.006^{ns}		
CAGR = 0.60%		

ns - non significant at 0.05 level

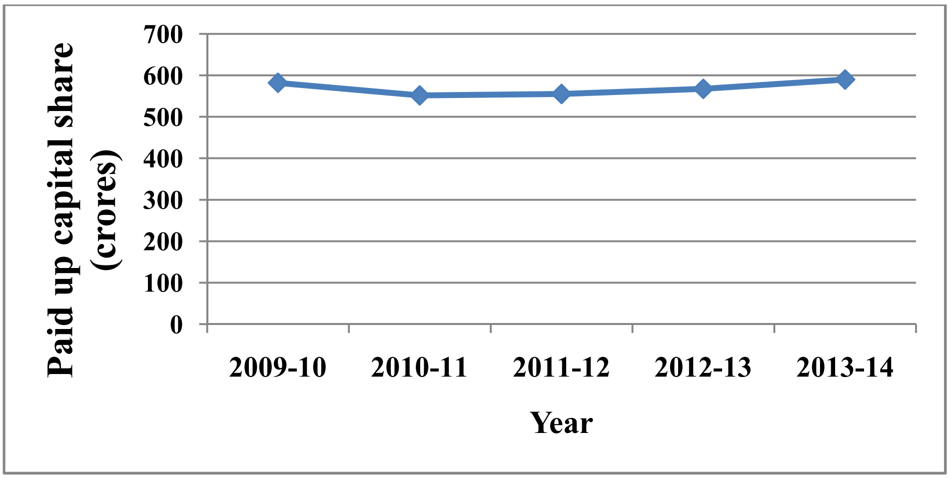
Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

The capital is another indicator showing the growth of the organization in the year by year analysis. The annual change in the volume of capital for the year 2010- 11, as presented by Table No. 4.11, gives a negative growth rate of 5.23 percent implying capital outflow from the PACS. The change during the next year is very small resulting in an increase. There recorded remarkable increase in the total volume of the PACS' paid up capital during the succeeding years of 2012-13 and 2014-15 and reaching to 3.962 percent. The CAGR for the five year period is reasonably significant. However regression coefficient (β) 0.006 reveals that this increase in growth in paid up capital is not statistically significant. This table reveals the strong capital base of the societies and the member's positive attitude towards the co-operatives.

The Table data is graphically presented in the following figure.

Fig.4.5

Trends in paid up capital share during the period 2009-14



The trend in the growth in the average paid up capital can be analysed with the data of the following Table.

Table 4.12

Table 5. Trends in Average share capital per society during the period 2009-14

Year	Average share capital (lakhs)	Annual change (%)
2009-10	36.45	
2010-11	34.52	-5.29
2011-12	34.74	0.637
2012-13	35.48	2.130
2013-14	36.84	3.833
Regression coefficient (β) = 0.005^{ns}		
CAGR = 0.50%		

ns - non significant at 0.05 level

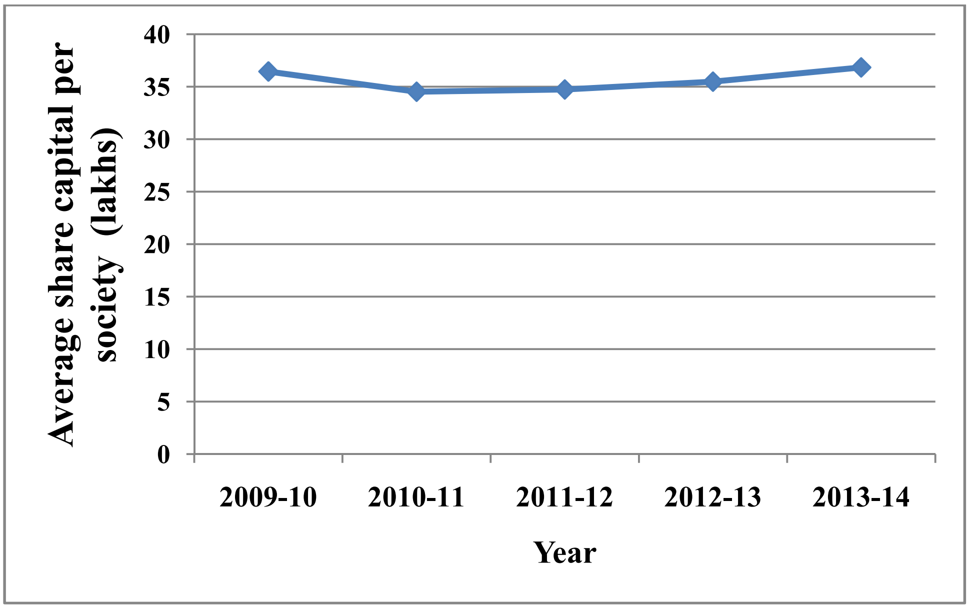
Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

The growth in the average capital of the PACS is analysed by table.4.12. The capital per PACS also evidenced increase during these years. In the beginning, in 2010-11, the average capital exhibited a decrease, but in the following years the figures showed improvement in the growth of the average capital of the societies in Kerala. The result is a good CAGR of 3.833 percent indicating the growth and expansion of capital in volume throughout the state. However the regression analysis conducted explains the growth in average capital is statistically not significant as shown by the regression coefficient (β) 0.005.

This fact is explained by the following graphical representation.

Fig.4.6

Trends in Average share capital per society during the period 2009-14



4.9.4. Growth in total and Average Deposits in the PACS

One of the most important supply side factors that lead to financial inclusion is the volume of deposits of the formal financial institutions. The access to financial institutions and thereby financial inclusion is measured in terms of access to deposits. This aspect of the PACS is required to be analysed to find out the growth of the PACS in the state. Therefore the change in the total volume of deposits of the PACS in Kerala needs its evaluation which is conducted in the Table No. 4.13. This brings out the growth pattern of the aggregate deposits, while the analysis of the average deposits in the state shows the rate of increase or decrease in the deposits per member of the PACS. The average deposits mean the total deposits mobilized by all the PACS during the period of study divided by total number of members of the PACS. This is depicted by the Table No. 4.14.

Table 4.13

Trends in deposits during the period 2009-14

Year	**Deposits (crores)**	**Annual change (%)**
2009-10	25151	
2010-11	33099	31.60
2011-12	35421	7.015
2012-13	36538	3.153
2013-14	40226	10.094
Regression coefficient (β) = 0.104*		
CAGR = 10.96%		

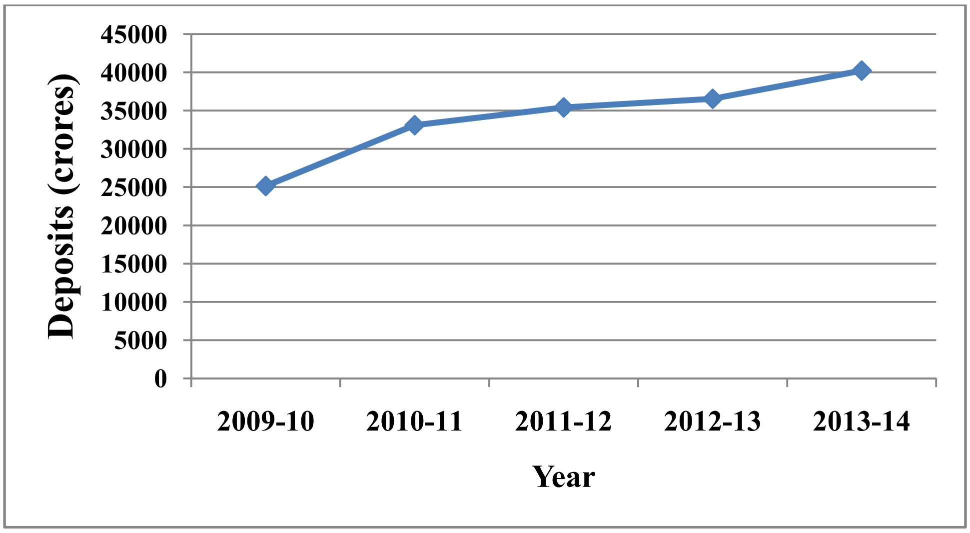
** significant at 0.05 level*

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

Table.4.13. depicts the traces of growth in the volume of deposits of PACS during the five year period of analysis. Compared to other growth indicators, the deposits marked a high rate of growth for the first year, but the next two years recorded an increase in the volume of deposits even though there is a slight decline in the growth rate. For the last year of analysis the Table shows a better increase in the growth rate along with remarkable growth in the volume of deposits. The CAGR of the deposits as shown by the table is 10.96 percent, evidencing the year by year growth which is a sign of building up increasing confidence of the people of Kerala in the PACS. Regression coefficient (β) 0.104 at 5% level reveals that the growth in deposits is statistically also significant.

This trend of growth in deposits of PACS in Kerala is graphically represented below.

Fig.4.7
Trends in deposits during the period 2009-14



The trend in the growth in the average deposits can be analysed with the data presented in the following Table.

Table 4.14
Trends in average deposits per member during the period 2009-14

Year	Deposits (Rs.)	Annual change (%)
2009-10	13084	
2010-11	15144	15.74
2011-12	18180	20.05
2012-13	18135	-0.248
2013-14	19859	9.506
Regression coefficient (β) = 0.101*		
CAGR = 10.63%		

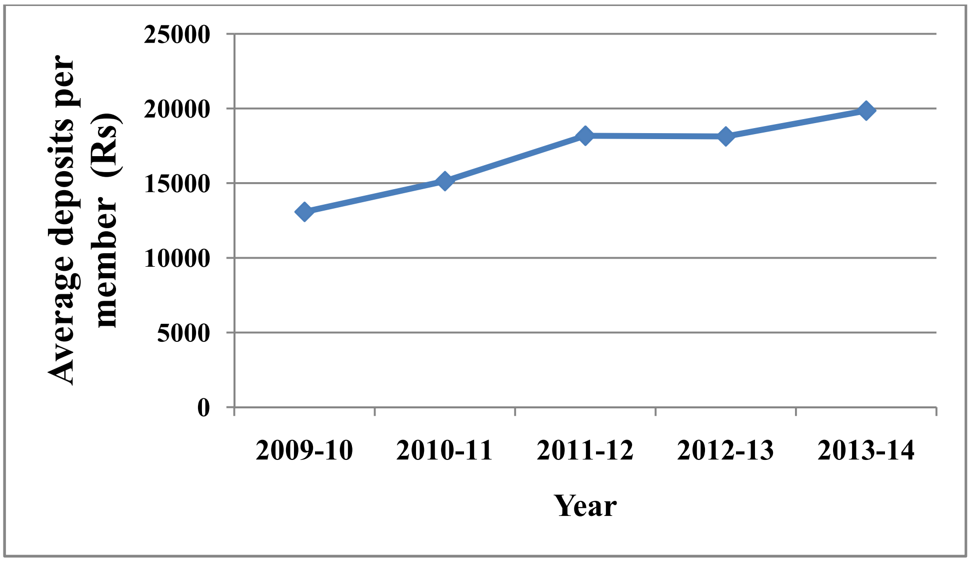
** significant at 0.05 level*

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

Table 4.14 explains the annual variations in the average deposits in the PACS of Kerala for a period of five years. This table gives the figures of deposit per member in PACS. The analysis reveals that there is a remarkable increase in average deposits in all the years except in 2012-13 when there was a slight fall in deposits. On the other hand during the year 2013-14 the average deposits tend to increase again and the growth rate is twice or more than that of the previous year. This is self explanatory and shows the people's involvement and faith on a rise in PACS. CAGR of the average deposits is derived as15.84 percent for the entire period of analysis which is a moderate rate of growth and a substantial proof of the vast space of PACS in financial inclusion. The regression coefficient (β) 0.101 clearly brings out the fact that this increase in average deposits is statistically also significant.

The details of the above Table is shown as a graphical representation below

Fig.4.8
Trends in Average deposits per member during the period 2009-14



4.9.5. Growth in total and Average Loans Issued by the PACS

Just like deposits, the loans issued by the PACS also affect the level of financial inclusion in Kerala. The PACS issue loans and advances to the members on the proper securities offered. The change in the total volume of loans issued is assessed for finding out the intensity of financial inclusion achieved by the PACS in the state. This analysis is organized with the help of the secondary data given in the table No. 4.15. The similar analysis of the average loans issued is carried out in table 4.16. By average loans the study considers the total loans issued divided by the total number of members of the PACS in the state of Kerala.

Table 4.15
Trends in loans issued during the period 2009-14

Year	Loan (crores)	Annual change (%)
2009-10	20854	
2010-11	21595	3.55
2011-12	25666	18.85
2012-13	39778	54.98
2013-14	43113	8.38
Regression coefficient (β) = 0.206*		
CAGR = 22.88%		

** significant at 0.05 level;*

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

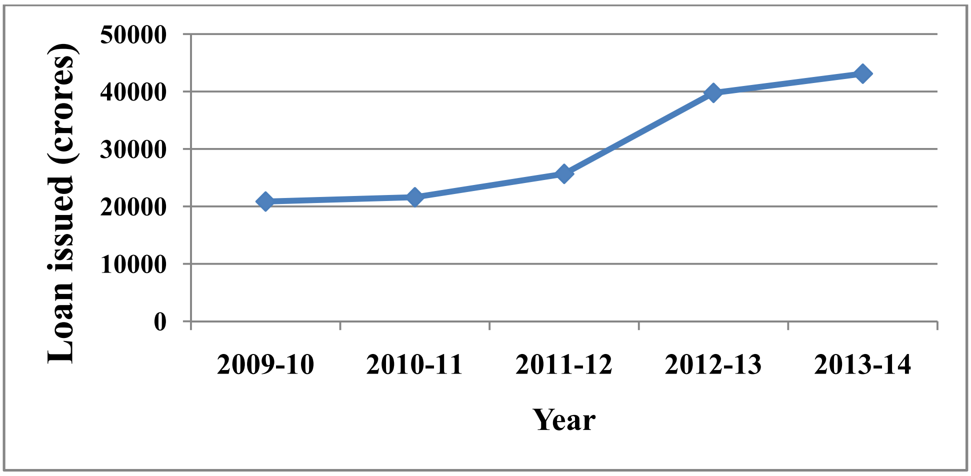
One of the major indicators of financial inclusion is the sufficient availability of credit to those who are in need of it. The PACS in Kerala have been performing this function since their inception in the state. The role of the PACS in the provision of credit can be analysed from the data of the Table No.4.15. The rate of growth of the PACS in terms of advancement of credit can be grasped from the annual increase in the loans advanced for the five year period. Substantial rate of increase in loans is registered throughout the period. During 2011-12 and 2012-13 there is high rate of increase while it is quiet negligible in the year 2010-11. However the rate of growth in the issue of loans in the last year of analysis is very low, 8.38 percent. The overall performance of PACS in terms of the variable of the issue of loans is sufficiently good as the CAGR for the five year period is 22.88 percent. This increase in loans issued by

PACS is proved significant statistically with the help of Regression coefficient (β) 0.206.

This trend in the loans issued by the PACS is depicted by way of graphical representation as given below.

Fig.4.9

Trends in loans issued during the period 2009-14



The trend in the growth in the average loans can be analysed with the data presented in the following Table.

Table 4.16

Trends in Average loans issued per member during the period 2009-14

Year	Loan (Rs.)	Annual change (%)
2009-10	10848	
2010-11	9881	-8.91
2011-12	13173	33.32
2012-13	19742	49.87
2013-14	21284	7.81
Regression coefficient (β) = 0.204*		
CAGR = 22.63%		

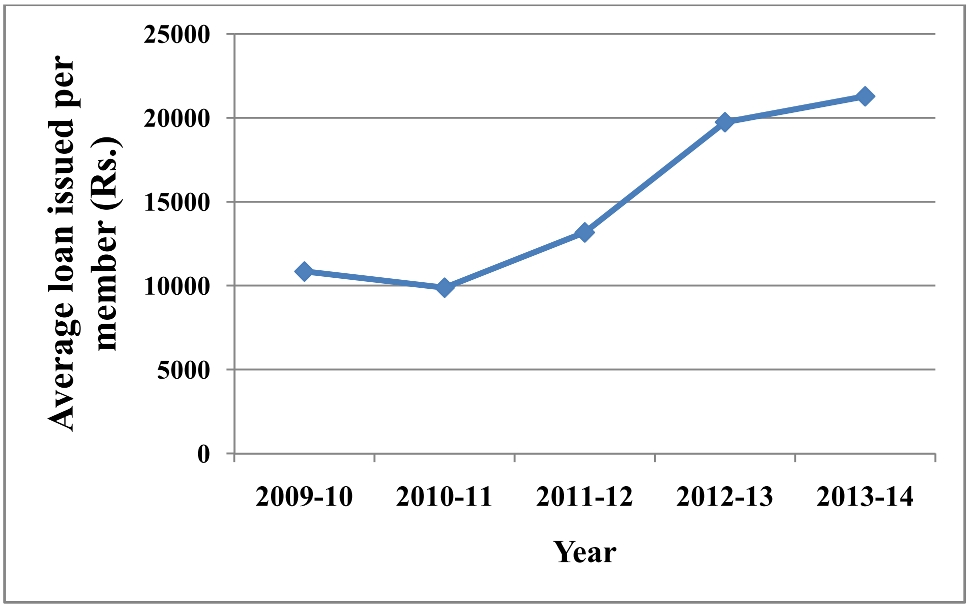
** significant at 0.05 level*

Source: compiled from Statistical Abstract (Hand Book) published by Registrar of Co-operative Societies, Kerala for various years.

Another growth indicator analysed by the researcher is the average loan issued by the PACS. The Table No. 4.16 discloses the annual variations in the amount of loan per member in the state. For the entire period improvement in the rate is reflected except during 2010-11 when a small fall in the loan volume per member has been occurred. The last year of analysis illustrated a rate of growth of 7.81 percent which is a clear sign of progress in loan advancement per member. The overall result of the analysis is that there is significant increase in the average loan issued per member during the period 2009-14. The CAGR 22.63 percent reveals the progressive level of the PACS on the basis of the average loan issued per member during the study period. This trend in the PACS loans issued is statistically proved significant with the Regression coefficient (β) value of 0.204.

The result of the above table is graphically presented below

Fig.4.10
Trends in Average loan issued per member during the period 2009-14



From the foregoing analysis of the secondary data with the help of CAGR the following inferences can be drawn.

- There is very negligible rate of growth in the total number of PACs and average number of PACS in Kerala during the study period. This may be due to the saturation level reached in the number of PACS, having less than one thousand Grama panchayaths in Kerala and 1600 PACS.

- The number of members of PACS recorded negligible rate of increase during the five year period of analysis. Similar result is seen in the average membership of PACS also.
- The paid up capital of the PACS and the average paid up capital during the study period also noticed low rate of increase even though there is slight fall in the volume in some years of the period of analysis.
- There is notable increase in the volume of deposits and average deposits in the PACS during the study period which shows good growth in PACS of Kerala in this respect.
- The same pattern of growth in loans advanced by PACS of Kerala is revealed by the secondary data analysis which is due to increase in the volume of total and average loans issued by the PACS during the study period.

Conclusion

The variables such as number of PACS, number of members and paid up capital do not show noticeable increase while the variables of deposits and loans used to study the impact of growth have revealed positive result in this respect.

Testing of Hypothesis No.One

Based on the above analysis and conclusion regarding the growth of PACS in Kerala, the null hypothesis that "PACS in Kerala have achieved reasonable growth during the period under study" is rejected.

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CHAPTER FIVE

ACCESS TO FINANCIAL PRODUCTS AND THEIR PENETRATION AMONG RURAL HOUSEHOLDS IN KERALA

5.1 Introduction

In the previous chapter we have discussed the genesis, significance and growth of the co-operatives in general and the PACS in particular. The growth pattern of the PACS is analysed in terms of variables such as number of the PACS, membership, paid up capital, deposits and loans. The CAGR technique is used to find out the growth of the PACS for the five year period from 2009-10 to 20013-14. Regression analysis is also carried out to test the significance of the growth of the PACS. In this chapter an attempt is made to examine the respondent's access to financial institutions, financial products and financial services in different parts of the state. The penetration level of financial products / services among the members of the PACS is also studied in this chapter. A brief profile of the respondents belonging to member and non member categories is also given to understand the socio economic characteristics of the households. Hence the Chapter is divided into three parts.

Part 1 dealing with the Profile of the respondents.

Part 2 dealing with Access to financial products and services among the members, and

Part 3 dealing with Penetration of PACS products among members.

5.2 Part 1: Socio Economic Profile of the Respondents

In this part a detailed socio economic profile of 450 members and non members selected from all the three regions of the state are presented. For this purpose variables such as membership status, religion, caste, age, education, occupation, income, economic status (APL/BPL), size of land holdings etc. are used. This will give a good insight into the comparability of the data relating to major study variables.

5.2.1 Membership status in PACS

The analysis of primary data has been carried out by classifying the sample respondents into PACS members and non members. The purpose of this classification is to ascertain the level of financial inclusion in both these categories. It is believed that access to financial services will increase by the membership in PACS. The relevant data relating to membership status of households is given in table 5.1.

Table 5.1
Distribution of Sample Respondents on the Basis of Membership Status

Membership status / Region	Member	Non member	Total
Northern	099 (66)	051 (34)	150 (100)
Central	134 (89)	016 (11)	150 (100)
Southern	108 (72)	042 (28)	150 (100)
Total	341 (76)	109 (24)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)= 2, χ^2 value = 23.996,Table value at 5 % level = 5.991

From the table it can be observed that 76 percent of households are members of PACS in the rural areas of Kerala and 24 percent are non members. This indicates that PACS penetration level is very high in the state as revealed from the analysis of the secondary data given in chapter four relating to the growth of PACS. Region-wise, members are maximum in central region, (89 percent) followed by southern region, (72 percent) and northern region, (66 percent). The difference in membership status between regions is statistically significant as the chi-square value of 23.996 is greater than the table value of 5.991.

5.2.2 Religion - wise Distribution of Respondents

Kerala is a state where the people belong to all religions live together. The state is well known for religious and communal harmony. The most important religions of the state are Hindu, Christian and Muslim. As per the census of 2011 there is very small difference between the majority religion and minority religions. Each represents almost half of the population. The sample population selected for the study has been classified on the basis of religion and presented in table 5.2.

Table 5.2
Distribution of Sample Respondents on the Basis of Religion

Membership Status / Religion	Member	Non member	Total
Hindus	264 (77)	066 (61)	330 (73)
Christians	035 (10)	039 (36)	074 (16)
Muslims	042 (13)	004 (03)	046 (11)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2, χ^2 value = 41.948table value at 5 % level = 5.991

From the table it can be noticed that 73 percent of the sample population are Hindus, 16 percent Christians and 11 percent are Muslims in aggregate. Membership status-wise, 77 percent of members are Hindus, 10 percent are Christians and 13 percent are Muslims. Among non members the corresponding figures are 61 percent, 36 percent and three percent respectively. In Kerala, even though almost 48 percent of population belongs to minority religions like Christians and Muslims and 52 percent Hindus, this is not exactly revealed by the sample. The results of the table is statistically tested and proved its significance as the chi-square value of 41.948 is greater than the table value.

5.2.3 Caste -wise Distribution of Respondents

The caste system still prevails in Kerala, particularly among the Hindus. The religions of Muslims and Christians do not have such strong caste considerations. However for the purpose of the study and for getting an insight into the caste composition of the respondents among members and non members, the sample data is classified into three caste groups such as SC/ST category, backward caste category and forward caste category and is presented in table 5.3.

Table 5.3

Distribution of Sample Respondents on the Basis of Caste

Membership Status / Caste	Member	Non member	Total
SC/ST	032 (09)	004 (03)	036 (08)
Backward	200 (59)	020 (19)	220 (49)
Forward	109 (32)	085 (78)	194 (43)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2, χ^2 value = 71.385,table value at 5 % level = 5.991

It can be noticed from the table that 43 percent of the total sample population are from forward caste, 49 percent from backward caste and only eight percent from the SC/ST category. Among the members majority, 59 percent, is from the backward caste while among non members almost 80 percent are from forward caste. More details can be seen from the table. The difference is statistically significant as it is revealed by the chi-square value of 71.385.

5.2.4 Gender-wise Distribution of the Respondents

Kerala has a unique position in the sex ratio in India. In all censuses, the females outnumbered the males in Kerala. The all India pattern is just the reverse. The table 5.4 shows the distribution of respondents based on gender.

Table 5.4

Distribution of Sample Respondents on the Basis of gender

Membership Status / Caste	Member	Non member	Total
Male	279 (82)	084 (77)	363 (81)
Female	62 (18)	025 (23)	87 (19)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1) =2, χ^2 value = 71.385,table value at 5 % level = 5.991

Table 5.4 shows that 81 percent of the respondents are males and 19 percent females. This pattern of large proportion of males and small proportion of females are seen among both member and non member respondents. Among the member respondents 82 percent are males and only 18 percent are females. The sex ratio of non member respondents is slightly lower than member respondents. There are 77 percent non member male respondents and 23 percent female respondents in the sample. The difference in gender-wise distribution of members and non members is not statistically significant as the chi-square value is less than the table value.

5.2.5. Age -wise Distribution of Respondents

The age of the sample respondents is highly significant in the study of financial inclusion. Age of the head of family may influence the decisions regarding saving money, opening bank accounts, making borrowings and doing other financial services. For the purpose of the study the heads of the households are classified into three different age groups such as below 30 years of age, 30-50 years of age and above 50 years of age. The sample population selected for the study have been classified on the above basis and presented in table 5.5.

Table 5.5
Distribution of Sample Respondents on the Basis of Age

Membership Status / Age (years)	Member	Non member	Total
Below 30	014 (04)	012 (11)	026 (06)
30 - 50	106 (31)	038 (35)	144 (32)
Above 50	221 (65)	059 (54)	280 (62)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2, χ^2 value = 8.696, Table value at 5 % level = 5.991

The table shows that in aggregate 280 respondents out of 450 representing 62 percent of the sample population belong to above 50 years of age category, 32 percent are in 30-50 years age category and only six percent of the sample population is below 30 years of age. Membership status-wise, 65 percent of members and 54 percent non members are above 50 years of age. Thirty one percent of members and 35 percent of non members are in the age group of 30-50 and four percent members and 11 percent of the non members are of the age group of below 30 years. The difference is statistically significant as revealed by the chi-square value of 8.696

5.2.6. Education-wise Distribution of Respondents

The level of education of the people in an area plays an important role in accessing banking and financial services in that area. If the people are highly educated it is certain that almost all of them will become the users of banking and financial services. As per the latest census of 2011, Kerala is a 100 percent literate state. The sample population is divided on the basis of level of education and presented in table 5.6.

Table 5.6

Distribution of Sample Respondents on the Basis of Education

Membership Status / Education	Member	Non member	Total
Illiterate	019 (06)	008 (06)	027 (06)
Primary education	104 (30)	029 (27)	133 (30)
Secondary education	135 (40)	037 (34)	172 (38)
Higher Secondary education	039 (12)	019 (18)	058 (13)
Higher education	036 (10)	014 (13)	050 (11)
Professional education	008 (2)	002 (02)	010 (02)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (6-1) x (2-1)= 5, χ^2 value = 4.331, Table value at 5 % level = 11.070

The table reveals that the majority of the respondents, 172 (38%) have secondary education followed by 133 (30%) respondents have primary education. The percentage of illiterates among the sample respondents is very small, six percent only. Similarly sample respondents having professional education is also very negligible, only two percent.

Among the members the same pattern being followed can be observed. In the case of non members even though almost similar pattern is seen, the proportionate number having secondary education is comparatively less. The other details can be observed from the table itself. The difference is statistically tested and found not significant with the chi – square – value of 4.331.

5.2.7. Occupation-wise Distribution of Respondents

It is believed that the level of financial inclusion among the people in a country is linked to occupational groups in that country. Those who have permanent employment and high income are supposed to use banking and financial services most. The regular income and the better living standards of the people motivate them to open and operate deposit accounts with banks and to take loans for further improvement of their living standards. Therefore the occupation of the respondents is required to be analyzed. Table 5.7 provides an account of the distribution of the sample respondents by occupational groups.

Table 5.7
Distribution of Sample Respondents on the Basis of Occupation

Membership Status / Occupation	Member	Non member	Total
Agriculture	018 (05)	002 (02)	020 (04)
Business	056 (16)	023 (21)	079 (17)
Agri.labourers	004 (01)	001 (01)	005 (01)
Other labourers	092 (27)	034 (31)	126 (28)
Employees	079 (23)	015 (14)	094 (21)
Pensioners	031 (09)	008 (07)	039 (08)
Others	061 (18)	026 (24)	087 (21)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df: (7-1) x (2-1)=6, χ^2 value = 7.326Table value at 5 % level = 12.592

The table reveals that occupation-wise, the maximum number of respondents comes under the category of other labourers followed by others, employees and business men. This pattern is more or less same in the case of both member and non member respondents, though slight variation is observed. Occupation-wise there are very few agricultural labourers representing only one percent while other labourers are large in number representing 28 percent of the respondents classified on the basis of occupation. The other occupation- wise details are available in the table. The difference in occupation wise distribution of members and non members is statistically non significant at 5 percent level with 6 degrees of freedom as the chi- square value is less than Table value.

5.2.8. Annual Income-wise Distribution of Respondents

The income of the households affects financial inclusion as it is the most important factor from the demand side. The household expenditure shall go in parity with household income; otherwise borrowings are to be resorted to meet the excessive expenditure. Similarly the surplus income over the expenditure is required to be deposited or invested in suitable securities. For these purposes formal financial institutions are the effective solution which ultimately leads to financial inclusion. The information regarding this is presented in table No. 5.8

Table 5.8
Distribution of Sample Respondents on the Basis of Annual Income

Annual Income (Rs.) / Membership Status	Member	Non member	Total
Up to 1 lakh	205 (61)	059 (54)	264 (59)
1-3 lakhs	117 (34)	045 (42)	162 (35)
3-5 lakhs	011 (03)	005 (04)	016 (04)
Above 5 lakhs	008 (02)	000 (00)	008 (02)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (4-1) x (2-1)=3, χ^2 value = 4.608. Table value at 5 % level = 7.815

According to the table, of the total 450 respondents, 59 percent has reported an annual income of up to rupees one lakh. Thirty five percent belongs to the annual income category of Rs. 1-3 lakhs, four percent has an income of Rs. 3 – 5 lakhs and only two percent respondents have reported an annual income of more than rupees five lakhs.

In the case of member respondents 61 percent come in the income category of less than rupees one lakh compared to 54 percent of the non members. 34 percent of members and 42 percent of non members come under the income group of Rs. 1 - 3 lakhs and three percent and four percent respectively of members and non members have an income of Rs. 3 - 5 lakhs in a year. Only two percent of the members are reported to have an annual income of above Rupees five lakhs, while none of the non members has such an amount of annual income. The income-wise distribution of members and non members is found statistically non significant as revealed by the chi-square value of 4.608.

5.2.9. Economic Status-wise Distribution of Respondents

On the basis of the income, physical facilities and living standards of the people, households in India are classified into above poverty line (APL) and below poverty line (BPL). The government subsidies, concessions and assistances are generally offered to the BPL families rather than to the APL families. Whether the family is APL or BPL is decided by the state governments through a thorough scrutiny done by the local authorities and it is recorded in the ration cards and other important documents. The details of this data are presented in the following table.

Table 5.9
Distribution of Sample Respondents on the Basis of Economic status

Membership Status / Economic status	Member	Non member	Total
APL	250 (73)	081 (74)	331 (74)
BPL	091 (27)	028 (26)	119 (26)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1, χ^2 value = 0.042 Table value at 5 % level = 3.841

Table 5.9 shows the division of the respondents into APL and BPL groups, wherein 331 respondents belong to the first category and 119 comes under the second. This means that, of the total sample respondents, 74 percent belongs to APL category and 26 percent belongs to BPL category. Of the member respondents73 percent and 27 percent respectively belong to APL and BPL categories, the corresponding percent for non members are 74 and 26 respectively. This difference in the distribution of the respondents is statistically not significant as the chi-square test value is less than the table value.

5.2.10. Distribution of Respondents on the basis of ownership of house

One of the most important necessities of the human beings is the residential houses, the construction of which accounts for about 20% of the economic activity of a country. Housing is one of the single biggest assets of an individual. The government is providing support and encouragement for the construction of the new houses. This is reflected in the financial allocations for the housing in the Five Year Plans and the proportionate announcements in the union budgets. The ownership of houses constitutes a measure of the socio economic status of the people. The nature of ownership of house is tabulated and presented in table.5.10.

Table 5.10

Distribution of Sample Respondents on the Basis of Ownership of House

Membership Status / Types of ownership	Member	Non member	Total
Own	335 (98)	098 (90)	433 (96)
Rental	006 (02)	011 (10)	017 (04)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1, χ^2 value = 15.779 Table value at 5 % level = 3.841

The table reveals that 96 percent of the total respondents have own houses while only four percent reside in rental houses. The PACS members are in a better position as regards to ownership of houses as 98 percent of them have own houses, while the corresponding percent of non members is 90 percent. Only two percent of the members and 10 percent of the non members do not possess ownership of the houses and reside in rental houses. The chi-square test conducted shows that the difference between the two classes of the respondents is statistically significant as the chi-square value is greater than the table value.

5.2.11. Distribution of Respondents on the basis of Land Holdings

The ownership of land constitutes a permanent asset to the respondents, who can utilize their surplus income towards institutional deposits and investments which may increase demand for financial services. The average Malayalee gives first priority to possess a piece of land and to have own house to reside. It is assumed that ownership of lands is positively related to holding deposits and investments. The table 5.11 reveals area of land in cents owned by respondents.

Table 5.11

Distribution of Sample Respondents on the Basis of Size of land holdings

Membership Status / Land holding (cents)	Member	Non member	Total
Landless	003 (01)	007 (06)	010 (02)
Up to 10 cents	150 (44)	051 (47)	201 (45)
10 to 30 cents	091 (27)	032 (29)	123 (27)
30 to 50 cents	072 (21)	016 (15)	088 (20)
Above 50 cents	025 (07)	003 (03)	028 (06)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (5-1) x (2-1)=4, χ^2 value = 16.310 Table value at 5 % level = 9.488

The table explains that one percent of the PACS member respondents and two percent of non members remain land less totaling to two percent of the sample respondents. The major portion of the respondents, 45 percent, comes under the category of land holdings up to 10 cents. Another 27 percent, 20 percent and six percent belong to the categories of 10 to 30 cents, 30 to 50 cents and above 50 cents respectively. Among the member respondents only one percent is landless while the respective percent of the non members is six. Forty four percent members and 47 percent non members possess land up to 10 cents, 27 percent and 29 percent of the non members own land extending to 10 to 30 cents. These variations among members and non members stand statistically significant as revealed by the chi-square value of 16.310.

5.3. Part 2: Access to Financial Services

Financial exclusion signifies the lack of access by certain segments of the society to appropriate, safe, fair and low cost financial products and services from main stream providers like banks. Access to financial services, therefore, implies the delivery of financial services to the vast sections of poor and disadvantaged groups at an affordable cost. Access to finance contributes household entry, empowerment and thereby improvement in income which helps to address the issue of financial exclusion. Therefore it is essential to ensure that a range of financial services is made available to every individual and household. Financial products and services include savings and deposits, credit, remittances and money transfer services, insurance products (life and non life), pension for old age and financial advisory services.

5.3.1. Respondents having bank account

One of the criteria for measuring financial inclusion is the number and the volume of the accounts opened with the banks. The common measure of financial inclusion is the percentage of adult population having bank account. The primary data on the number of respondents having bank accounts are presented in the table 5.12.

Table 5.12

Distribution of Sample Respondents on the basis OF Bank Account Status

Bank A/c Status \ Membership Status	Members	Non Members	Total
Having bank A/c	326 (96)	087 (80)	413 (92)
No Bank A/c	015 (04)	022 (20)	037 (08)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1, χ^2 value = 27.272 Table value at 5 % level = 3.841

As per the table, out of 450 respondent households, 413 (92%) have accounts with different banks and 37 (8%) do not have a bank account at all. Of the PACS member households 326 out of 413 (96%) are bank account holders and only 15 (4%) member households do not have bank accounts. Compared to this 80 percent of non member households have bank accounts while 20 percent of them have not yet opened an account with the banks. In other words it reveals that only four percent member respondents do not have bank accounts compared to 20 percent of the non members. This result implies that the incidence of financial exclusion is high among non members based on the variable of holding an account with the banks. This fact is proved statistically with the chi-square test value of 27.272.

5. 3.2. Respondents Having More than One Bank Account

Maintaining an account with the bank is a basic measure of financial inclusion and having two or more bank accounts with the same bank or different banks is no doubt is a strong indicator of financial deepening. Table 5.13 portrays the depth of financial inclusion among members and non members as disclosed by the number of bank accounts.

Table 5.13

Distribution of Sample Respondents having more than one Bank Account

Membership Status / Number of Bank Accounts	Member	Non member	Total
One Bank Account	267 (82)	61 (70)	328 (80)
More than one Bank account	059 (18)	26 (30)	85 (20)
Total	326 (100)	87 (100)	413 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1, χ^2 value = 5.837 Table value at 5 % level = 3.841

The table reveals that of the total respondents, 328 (80%) respondents having one bank account and 85 (20%) have more than one bank account. Of the member households 267 (82%) are only one account holders while the other 59 (18%) have bank accounts of more than one. 61 (70%) of the non member households possess only one bank account, while 26 (30%) of them have two or more accounts with the banks. This analysis shows that a large percent of non members are having more than one bank account compared to PACS members. This may be due to the realization on the part of the members that they are in a position to satisfy all their financial needs by having one bank account with the PACS only. The difference between the members and non members as regards to the number of bank accounts is tested statistically and found significant as per the chi-square value of 5.837.

5.3.3. Respondents Having Different Types of Bank Accounts

One can open different types of accounts with the banks, Viz. savings bank account, current account, fixed deposit account, recurring deposit account etc. The demand deposits like savings deposits and current accounts have more scope for regular operations and thereby create banking habits among the depositors. On the other hand the time deposits like fixed deposits and recurring deposits are less operative in nature and thus leading to limited banking operations. The opening and operating of demand deposit accounts particularly savings bank account leads to more financial inclusion. The relevant data is classified and presented in table 5.14.

Table 5.14
Distribution of Sample Respondents on the Basis of Different Types of Bank Accounts

Membership Status / Type of Bank Account	Member		Non member		Total	
	No. of A/c holders	Total	No. of A/c holders	Total	No. of A/c holders	Aggregate Total
SB	208 (61)	341	83 (76)	109	291 (65)	450
Current	049 (14)	341	06 (06)	109	55 (12)	450
FD	162 (48)	341	05 (05)	109	167 (37)	450
RD	111 (33)	341	01 (01)	109	112 (25)	450
Others	12 (04)	341	0 (0)	109	12 (03)	450

Source: Survey Data, Figures in brackets indicate percentage to total

The table reveals that of the 450 respondents of the study 65 percent holds SB accounts, twelve percent holds current accounts, 37 percent FD accounts, 25 percent RD accounts and three percent holds other accounts. In the case of member respondents 61 percent have SB accounts followed by 14 percent having current accounts, 48 percent FD accounts, thirty three percent RD accounts and only four percent members operate other types of accounts. The case of the non members is slight different. Seventy six percent of them have SB accounts and six percent of them operate current accounts and the other types of accounts are not being attracted by the non members as the respective percentage of their preference is highly negligible. The information available from the table shows that there is cross holding of different types of accounts by the same respondent at a time. From the analysis of the data of the table one can infer that the savings bank accounts are the most preferred accounts by the members and non members in the state.

5.3.4. Distance to the Nearest Bank

The people of the lowest strata, the vulnerable groups, have a tendency to keep away from the formal institutions and banks. This will be more common if the banks are located in places which are distant from their native areas. Therefore to bring them into the inclusive net the government and the RBI have taken steps to open rural branches as the majority of the population resides in the rural areas. The distance to the bank is one of the factors which influence financial inclusion in rural areas. The far the bank is situated the severe will be the financial exclusion. Table 5.15 presents the distribution of respondents based on distance to the nearest bank.

Table 5.15

Distribution of Sample Respondents on the Basis of Distance to nearest Bank

Source: Survey Data, Figures in brackets indicate percentage to total.

Membership Status / Distance to Bank(KM)	Member	Non member	Total
<1KM	149 (44)	035 (32)	184 (41)
1-2 KM	140 (41)	046 (42)	186 (41)
2-5KM	034 (10)	020 (18)	054 (12)
>5KM	018 (05)	008 (08)	026 (06)
Total	341 (100)	109 (100)	450 (100)

df : (4-1) x (2-1)=3, χ^2 value = 0.798. Table value at 5 % level = 7.815

Table 5.15 reveals that 41 percent of the total respondents have banks within a distance of less than one kilometer, 41 percent within the range of 1-2 kilometers, 12 percent, 2-5 kilometers and the remaining six percent have the banks within a range of the distance of above five kilometers. 44 percent of the member respondents can reach the nearest bank within a distance of less than one kilometer, 41 percent have the nearest bank within 1-2 kilometers, 10 percent within 2-5 kilometers and 5percent respondents reach the nearest bank by travelling more than 5 kilometers.

On the other hand for the non member respondents the distance to the bank, as revealed by the table, is longer; 32 percent have their bank within less than one kilometer, 42 percent within 1-2 kilometers 18 percent within 2-5 kilometers and eight percent can reach the bank at a distance of over 5 kilometers. This difference in distance to the nearest bank between the members and non members is not statistically significant as the chi-square value of 0.798 is less than the table value 7.815.

5.3.5. Respondents Having No-Frills Account

In its annual policy statement for the year 2005-06, the RBI has urged the banks to offer a basic banking 'no-frills' account either with nil or very low minimum balances and charges so that such accounts are made accessible to the vast sections of the population. The nature and number of transactions in such accounts are restricted and transparency regarding the operations maintained. Limited facilities are provided in no-frills accounts but some banks allow limited overdraft facilities in no-frills accounts without any collateral. The banks are instructed to give wide publicity to the no-frills account facility to ensure greater financial inclusion in the country. It is in this background table 5.16 provides an account of no-frills accounts held by both members and non members of PACSs in Kerala.

Table 5.16

Distribution of Sample Respondents having No-Frills Account

Membership Status / Frills Status	Member	Non member	Total
No Frills Account	057 (17)	015 (17)	072 (17)
Others	269 (83)	072 (83)	341 (83)
Total	326 (100)	087 (100)	413 (100)

Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1,χ^2 value = 0.003 Table value at 5 % level = 3.84

The total number of respondents having bank accounts as shown by the table 5.16 is 413, of which 72 (17%) are no-frills accounts and the remaining are the accounts other than no- frills accounts. Of the member households

57 (17%) have no-frills accounts and the major portion, 269 (83%) have other accounts. The same proportion stands good in the case of non members also. This shows that the difference in the number of no-frills accounts and other accounts among members and non members is not at all significant. Statistically also the difference is not significant as revealed by the chi-square value of 0.003.

5.3.6. Durations of Holding Bank Account by the respondents

It is true that mere opening of bank accounts does not constitute financial inclusion especially in the case of marginalized and disadvantaged sections of the population. The financial deepening depends upon the period of operating the accounts by the holder; the longer the period he continues to operate the account the stronger will be the financial inclusion. The regular operation of the accounts by way of deposits and withdrawals expand banking habits of the account holder and the account never becomes dormant but remains as a running account.

Table 5.17
Distribution of Respondents on the basis of Duration of the Period of Holding Bank Account

Duration \ Membership Status	Member	Non member	Total
<1year	045 (13)	018 (17)	063 (14)
1-2 years	082 (24)	034 (31)	116 (26)
2-5 years	046 (14)	045 (41)	91 (20)
>5 years	168 (49)	012 (11)	180 (40)
Total	341 (100)	109 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (4-1) x (2-1)=3, χ^2 value = 64.064. Table value at 5 % level = 7.815

The duration of holding bank accounts by the respondents is analysed by Table 5.17 by classifying the respondents into four categories on the basis of years of holding accounts. Of the total respondents, the majority, 40 percent, holds the accounts for a period of more than five years, 14 percent for less than one year, 26 percent 1-2 years, and the remaining 20 percent for a period of 2-5 years. In the case of PACS member respondents the duration of holding the bank accounts is less than one year for 13 percent, 1-2 years for 24 percent, 2-5 years for 14 percent and more than five years for 49 percent. The period of holding accounts by the non members is less than one year for 17 percent, 1-2 years for 31 percent, 2-5 years for 41 percent, and more than five years for 11 percent. The results reveal the difference among the members and non members in the period of holding the bank accounts. The difference in period of holding bank accounts by members and non members is statistically significant as revealed by the chi-square value.

5.3.7. Frequency of Operation of Bank Account

The financial inclusion in a country can be measured by using the internationally approved indicators which are classified into access indicators and usage indicators. Usage indicators measure how the customer uses the financial services, the regularity and the duration of the use of financial services over time. Such indicators include number of transactions per account, average balance in the account and the number of electronic payments made. The frequency of operation of bank accounts is governed by these measures. The rapid progress of financial inclusion depends upon the frequency of operations by the user, the details of which are tabulated and presented in table 5.18.

Table 5.18
Distribution of Respondents by Frequency of Operating Bank Accounts

Membership Status / Frequency Of operation	Members	Non Members	Total
Once in a week	033 (10)	010 (11)	043 (10)
Once in fort night	069 (21)	012 (12)	081 (19)
Once in a month	162 (50)	050 (57)	212 (54)
Others	62 (19)	015 (20)	077 (17)
Total	326 (100)	087 (100)	413 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (4-1) x (2-1)=3, χ^2 value = 2.953, Table value at 5 % level = 7.82

According to the table 5.18, the majority of the respondents carry on the operation of the bank accounts once in a month. 50 percent of the member respondents and 54 percent of the non member respondents continue this practice of conducting the banking transactions. The other informants operate bank accounts once in two weeks, followed by once in a week and other intervals. The member households as well as the non member households follow almost the same pattern of operation of bank accounts throughout the state. The difference in operation of accounts between members and non members is not significant statistically as the chi-square value of 2.953 is less than the table value of 7.82.

5.3.8. Agency preferred by the respondents for credit Services

The most important demand side variable for financial inclusion is the availability of sufficient credit to those who are in need of it. The facility of loans and advances is mainly provided by financial institutions and local money lenders. In order to understand the magnitude of the dependency of various agencies for credit, five agencies giving credit to rural poor were listed and informants were asked to distribute fifty points according to the relative importance given to them. The mean scores obtained for each agency in aggregate and member-non member wise are displayed in table 5.19.

Table 5.19
Distribution of Mean Scores of the Respondents Regarding the Credit Services availed

Membership Status / Lender	Members	Non Members	Total
PACS	38.00	00.00	26.50
Banks	05.00	30.00	11.00
SHG	03.00	02.00	02.00
NBFC	02.00	14.00	05.00
Others	02.00	04.00	02.50
Total	50.00	50.00	50.00

Source: Survey Data

Considering all the respondents, it can be noted that the PACS is the institution from where people prefer to borrow money. This is reflected in the overall mean score of 26.50. For the members, this is true while for the non members, the banks are the most dependable institution for availing the credit facilities. After PACS the members consider all the other institutions in the similar way which is revealed by the more or less equal mean scores for the institutions. The non members regard NBFCs followed by other institutions next to banks to avail credit.

5.3.9. Motives behind Opening Bank Accounts

In order to examine the motives behind opening bank accounts the researcher has used constant sum scale. Seven motives have been identified and the respondents were asked to distribute fifty points according to the priority attached to each alternative. Then the mean score for each alternative has been worked in total and membership status wise and is presented in table 5.20

Table 5.20
Distribution of Mean scores of the respondents regarding motives behind opening accounts

Membership Status / Motives	Member	Non member	Total
Saving money	10.50	23.00	12.50
Availing Loans	15.00	08.00	14.30
Remittance	02.00	02.00	02.00
Receiving Govt.payments	01.00	01.00	01.00
NREGP	08.50	06.00	08.00
SHG	10.00	07.00	09.20
Others	03.00	03.00	03.00
Total`	50.00	50.00	50.00

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2,χ^2 value = 8.696, Table value at 5 % level = 5.991

From the table it can be observed that highest priority has been given for availing loans from financial institutions by members and non members put together. Next is parking of the savings followed by participation in SHG and NREGP. The mean score obtained for availing loan is 14.3 while the mean score for saving money is 12.5, for SHG 9.2 and for NREGP it is eight percent.

Membership status wise, the major motive for members is availing loan with 15 mean points while in the case of non members savings is the main motive, the mean score is 23. The second major motive for members is savings followed by SHG and NREGP. In the case of non members also similar pattern is seen.

5.3.10. Respondents Having Access to Insurance Services

Individuals and households are exposed to various kinds of risks such as death, loss of property by theft, fire, accident and professional or business failure. Such risks cause large scale financial losses. One cannot eliminate such risks fully, but can be reduced by taking effective measures. Insurance is a measure to protect them from financial losses. It is a contract whereby the insurer undertakes to indemnify the risk of insured for a consideration called premium. The loss of the insured is covered by the insurer by compensating it in financial terms.

The access to insurance services helps to reduce poverty and protects the people from unforeseen risks and contingencies. Both life and non life insurance services are highly essential for promoting financial inclusion. The micro insurance, the insurance of low income people with modest premium and moderate benefit package, has become indispensible part and parcel of financial inclusion. 'Micro insurance in conjunction with micro savings and micro credit could, therefore, go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion',(Dhanalakshmi, A and Rajitha Ramachandran, 2015) [2] . The relevant data relating to insurance coverage of members and non members are classified and presented in table 5.21

Table 5.21

Distribution of Respondents on the basis of Usage of Insurance Services

Insurance service \ Membership Status	Member	Non member	Total
Having insurance	088 (26)	035 (32)	123 (27)
No insurance	253 (74)	074 (68)	327 (73)
Total	341(100)	109(100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1, χ^2 value = 1.652, Table value at 5 % level = 3.841

From the table it can be observed that the insurance penetration level in the state is relatively less. In aggregate only 27 percent has insurance coverage and the remaining 73 percent do not have insurance coverage. Member- non member wise, the non members have a slight edge in this respect. While in the member category 26 percent are covered by insurance. In the non member category 32 percent are covered by insurance. The difference in this respect between members and non members are not statistically significant as revealed by the chi-square value.

Summary

From the foregoing analysis of the access to financial products by the members and non members of the PACS, the following inferences can be drawn:

- Access to banking services in Kerala is very high in aggregate, but the members of PACS have slightly higher level as compared to non members.
- Eighty percent of respondents have only one bank account in aggregate and twenty percent have more than one bank account.
- Savings Bank Account is the most popular deposit product in general.
- Availing loan is the main motive behind opening bank accounts in aggregate.

- The distance to banks to majority of member respondents is less than one kilometer, while it is one to two kilometers to the majority of non member respondents.
- 21 percent of the respondents have No-frills account
- Majority of the member respondents are holding bank accounts for a period of more than five years and the non members for the duration of 2-5 years.
- Majority of the respondents operate bank accounts once in a month.
- PACS is the most important source of availing credit services for members. In the case of non members the commercial banks are the main source of loans.
- Among the member non member analysis saving money is the main motive for opening bank account for the non members.
- Very few respondents are having insurance products both among members and non members.

Conclusion:

On the basis of the above findings it can be concluded that the rural households in Kerala have reasonable access to financial products and services.

Testing of Hypothesis No.Two

On the basis of the above conclusion the hypothesis No. Two that "The rural households in Kerala have reasonable access to financial products and services" is accepted.

5.4. Part 3: Penetration of PACS Products Among Members

In the foregoing analysis in Part two of this chapter we have compared the members of PACS and non members with regard to the financial services availed from different financial institutions functioning in the local areas. In this section an attempt has been made to examine the specific role of the PACS in penetrating financial products and services among their members.

One of the objectives of the present study about the Role of Co-operatives in Financial Inclusion in Kerala is to examine the penetration of the PACS product among the members. Like any other rural financial institutions, the PACS are also offering several financial products to its members like deposit products, loan products, remittance services, Kissan Credit Cards (KCC), ATM, Internet banking, mobile banking, Monthly Deposit scheme (MDS) and non banking services like festival markets, agricultural inputs distribution, agricultural produce marketing services etc. with different facilities. Members are supposed to buy these products and services and improve their levels of financial inclusion and contribute for their self development at micro level and national development at macro level. This aspect is being explained in the following pages. For the purpose of understanding the penetration level of the PACS products and services the following variables are used.

1. Proportion of the PACS members using these products.
2. Length of period of using these products,
3. Member's satisfaction with these products and
4. Service quality in the PACS

5.4.1. Distribution of Members Using Various Products of the PACS

As stated above the PACS are offering several financial and non financial products / services to its members. The data relating to penetration level of each product / service is calculated for members of PACS and presented in the following table 5.22.

Table 5.22

Distribution of Members on the basis of usage of the PACS products/services

Sl. No.	Name of product / service	No. of Members	percent
1	Deposit products	239	70
2	Loan products	275	81
3	MDS (chitty)	135	40
4	ATM	24	07
5	Remittances	37	11
6	KCC	124	36
7	Internet banking	10	05
8	Non banking services	211	62

Source: Survey Data (Percentages based on total number of 341 members)

It can be observed from the table that maximum penetration is for loans. 275 members out of 341 representing 81 percent have availed at least one loan product of PACS. This is quite natural that most of the poor households approach institutions like PACS either when they are denied loans by other commercial financial institutions or put unreasonable conditions for it. Next the most preferred product by the members is deposits of various kinds. Seventy percent of the members use deposit products. Non banking services like agricultural input distribution, agricultural produce marketing, margin free distribution of essential consumer items etc. stands third in the penetration level, MDS (chitty) products and Kissan Credit Cards have a penetration rate of 40 percent and 35 percent respectively. ATMs services, internet banking services and remittance services have a very low penetration rate among the members. This may be due to the fact that only recently PACS have started offering these services. Moreover, in Kerala, only very few PACS are offering such services.

5.4.2. Most Popular Deposit Products by Members

One of the most important objectives of PACS is promoting the habit of thrift and savings among the members and contributing positively for the economic development. For this purpose, the PACS in Kerala are offering four types of deposit accounts to members and the proportion of members subscribing to these deposit accounts are tabulated and presented in the following table. Some members have only one type of deposit account while majority have more than one type of deposit account.

Table 5.23

Member's Choice of PACS Deposit Products

Sl. No	Types of deposits	No. of Members	Percent	Total
1	Savings Bank Account	208	61	341
2	Fixed Deposit Account	162	48	341
3	Recurring Deposits	111	33	341
4	Current Deposits	49	14	341
5	MDS	153	47	341

Source: Survey Data

It can be observed from the table 5.23 that savings bank deposit is the most popular type of deposit account among the members of PACS. Sixty one percent have SB account. About 48 percent members are having fixed deposit accounts, 33 percent members are the subscribers to recurring deposits and only 14 percent have current deposit accounts. The PACS product, MDS is also a popular item of deposit among members.

5.4.3. Types of Loan Accounts

Apart from accepting deposits, one of the prime functions of PACS is lending money to the members to satisfy their short term and long term financial requirements. In rural areas, especially among marginal and small farmers working capital is a major limiting factor in conducting successful agricultural activities. For this purpose they usually depend on local money lenders or farm crop buyers who generally charge exorbitant rates of interest.

One of the major objectives of institutions like PACS is to mitigate the sufferings of the farmers from the hands of local money lenders and provide financial inputs at the appropriate time to facilitate successful farming operations. To suit different requirements of members a variety of loan products are offered by PACS. The relevant data in respect of the number of members availing different loan products are classified and presented in table 5.24.

Table 5.24

Member's Choice of PACS Loan Products

Sl. No	Types of Loans	No. of Members	Percent	Total
1	Personal Loans	160	47	341
2	Agricultural Loans	180	53	341
3	Business Loans	110	32	341
4	Gold Loan	171	50	341
5	Housing Loan	30	09	341
6	Others	65	19	341

Source: Survey Data

From the table it can be seen that gold loans and farm loans are the most popular loan products among the members of PACS. Fifty three percent availed farm loans and fifty percent availed gold loans. Simple procedure for availing loan and a low interest rate charged may be the main reasons for attracting most of the members. Personal loan is very popular among 47 percent beneficiaries. Penetration level of other loan products also can be seen from the table.

5.4.4. Penetration of Non Banking Services of PACS

Apart from the core banking and financial services like accepting deposits, giving loans etc., PACS are also offering non banking services like distribution of farm inputs like seeds and fertilizers, conducting festival markets, agricultural produce marketing and undertaking social services like awareness campaigns, environment protection activities, consumer protection education campaigns, literacy and health awareness programmes etc. The penetration level of these services is enquired into and the relevant data is presented in the table 5.25.

Table 5.25

Member's Use of Non Banking Services

Sl. No	Types of Loans	No. of Members	Percent	Total
1	Agri. Input distribution	104	30	341
2	Agri. Produce marketing	112	32	341
3	Consumer stores	140	41	341
4	Festival markets	210	62	341
5	Social awareness campaigns	140	41	341

Source: Survey Data

It can be observed from the table that festival markets penetration is the maximum. 62 percent of the members make use of festival markets. This is probably because they provide goods and commodities at a lesser price than the local shops. So the festival markets operated by PACS have a big role in holding price rates of essential items especially during festival occasions. Penetration rates for consumer stores and social awareness campaigns are 41 percent each. Thirty two percent members make use of agriculture produce marketing facility offered by PACs and 30 percent make use of agricultural inputs distribution by the PACS.

5.4.5. Length of Period of using PACS Products

The positive attitude of the members towards PACS and the dedication and bond to continue to consume its products for a long period of time adds to the member's loyalty. Length of period of participation of the members in the dealings of the PACS reflects their commitment to maintain the relationship with it. A member's loyalty to the PACS can be explained as a loyal member when the member customer spreads a good word of mouth about the PACs to others who then become members of the PACS. Moreover a good member customer will not switch to other institutions even if he is not fully satisfied with the products offered or if the products are not up to his expectations. This will lead to the acceptance of the decisions of the PACS, beat the competitors of the PACS and result in increase in the profits of PACS over time. A member customer regularly uses the products and the length of period of participation of the members in the operations of the PACS is tabulated and presented in table 5.26.

Table 5.26

Length of period of use of PACS Products by Members

Sl. No	Types of PACS Products	Mean years	SD
1	Deposit Products	8.5	2.74
2	Loan Products	7.1	1.94
3	MDS (chitty)	6.3	1.21
4	ATM	1.6	2.64
5	Remittances	2.3	1.93
5	KCC	3.4	1.64
6	Internet Banking	1.8	1.43
7	Non Banking Services	6.1	2.45

Source: Survey Data

From the table it can be noticed that members are consuming various deposit products for 8.5 years. The period of consuming various loan products by the members is 7.1 years which reflected in the respective mean score with a standard deviation of 1.94. For the product of MDS, the members have been using it for an average period of 6.3 years. For non banking services the mean usage period is 6.1 years. For other products it is less. The details can be seen from the table itself.

5.4.6. Reason for Preferring PACS

The different financial institutions lend money to the borrowers by attaching different conditions. These conditions influence the borrowers in preferring the lender. There are other factors which also have significance in the determination of the lender. All these factors include rate of interest, proximity to the lender, staff attitude, ease of dealings, own bank feeling and others. These are discussed by the following table 5.27. As mentioned elsewhere, constant sum scale has been used here also. The details are tabulated and presented in the table below.

Table 5.27

Reasons for Preferring PACS

Mean Scores / Reasons	Mean	SD
Moderate Interest	14.06	1.12
Proximity	03.40	0.45
Positive attitude of Staff	09.00	0.85
Ease of Dealings	21.04	3.41
Others	02.50	1.02
Total	50.00	--

Source: Survey Data

It can be noted from the table that the ease of dealings is the most important reason for preferring PACS by the members. The mean score for this option is 21.04.Moderate interest rate is the second reason with a mean score of 14.06. Positive attitude of the staff is the third reason followed by the proximity.

5.4.7. Member satisfaction with PACS' Products

The PACS' in Kerala are undertaking many useful campaigns for the benefits of the members along with the routine banking and non-banking functions. To assess the member's satisfaction with PACS, the informants were asked six questions relating to the satisfaction level for different aspects of the services offered by the PACS. The sample respondents are required to express their perceptions on a five point Likert scale. Accordingly they were requested to indicate their responses ranging between highly dissatisfied to very much satisfied and to rate each aspect from zero to five for lowest to highest level of satisfaction. Mean scores and standard deviation for each statement were worked out and compared with the same of other responses to measure the overall satisfaction. The relevant data is presented in table 5.28.

Table 5.28

Member's Satisfaction with PACS' Products

Sl. No.	Dimensions	Mean	SD
1	Deposit mobilization campaign	4.38	0.71
2	Procedure of sanctioning loans	4.38	0.76
3	Rate of interest on loan and mode of charging	4.28	0.76
4	Quality of banking services	4.37	0.71
5	Adoption of modern banking practices	4.28	0.74
6	Loan overdue recovery practices	4.40	0.73
	Overall satisfaction	4.35	0.75

Source: Survey Data

From the table it can be observed that members have more than 80 percent satisfaction with regards to various aspects of the working of PACS as the overall mean score is 4.35 as against a maximum obtainable score of five. In all the variables under study except loan overdue recovery practices the mean score is above 4. For the variables loan overdue recovery practices, the mean score is 3.4.

5.4.8. Service Quality in PACs

The faith and loyalty of the people in any institution is based on the quality of the services provided by it to its customers. The opinions of the

PACS members regarding services offered by PACS, important aspects of co-operative principles and the commitment of PACS towards social responsibility are converted into 16 statements and the informants are requested to express their responses by rating each statement ranging from 1–5 in a Likert's five point scale. The member respondents expressed their opinion by indicating their responses ranging from strongly disagree to strongly agree and the mean scores are calculated and presented in table 5.29.

Table 5.29

Service Quality in PACS

No.	Variables	Mean	SD
1.	Co-operatives adhere to co-operative principles	4.16	0.80
2.	PAC is the local bank of the Grama panchayath	4.18	0.74
3.	Cooperatives offer personalized services	4.15	0.71
4.	Co-operatives adopt informal dealings	4.16	0.70
5.	Co-operatives provide sufficient physical facilities	4.06	0.77
6.	Co-operatives enable banking in local language	4.19	0.74
7.	Co-operatives offer quick dealings	4.15	0.75
8.	Co-operatives have social involvement and service motive	4.19	0.73
9.	Membership in co-operatives creates 'own bank' feeling	4.28	0.76
10.	Co-operatives offer higher rate of interest on deposits	4.28	0.74
11.	Co-operatives enable participation in management	4.18	0.82
12.	Co-operatives aim to minimize exploitation by money lenders	4.20	0.79
13.	Co-operatives help to reduce bureaucratic evils	4.21	0.78
14.	Employees of co-operatives are mostly natives and so highly approachable	4.26	0.79
15.	Employees of co-operatives are courteous and helpful	4.27	0.76
16.	Co-operatives strengthen agriculture and improve access of poor farmers	4.23	0.77
Overall service quality		4.17	0.76

It can be observed from the Table 5.29 that the respondents rate high scores for the different variables used to test the service quality of the PACS. All the variables scored mean values of more than four. It shows that the members of the PACS, who were the respondents, expressed that the service quality of PACS was high.

Summary

From the foregoing analysis of the access to financial products among members and non members of the PACS and the role and penetration level of PACS products among members, the following inferences can be drawn:

- As regards to the penetration level of PACS products, the loan products are the most preferred item, followed by deposit products, non banking services , MDS and KCC. The modern banking products/services have recorded the least penetration level.
- Regarding the reason for preferring the PACS ease of doing financial services is the most important reason followed by moderate interest charged by it. With respect to length of period of using PACS products by the members, deposit products, loan products, MDS and non banking services are more popular among members.
- Members are mostly satisfied with the quality of services offered by PACS.

Conclusion:

On the basis of the above findings it can be concluded that the penetration level of PACS' products among the rural households in Kerala is reasonably high.

Testing of Hypothesis No. Three:

From the foregoing analysis and discussions the hypothesis No. Three that: "The PACS in Kerala are successful in penetrating various products among members." is accepted.

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CHAPTER SIX
ROLE AND IMPACT OF PACS IN FINANCIAL INCLUSION IN KERALA

6.1 Introduction

A theoretical discussion has been made in the aforementioned chapters of the study regarding the significance of financial inclusion and its effect on inclusive growth. Attempts are made to bring out the meaning, the objectives, and the influence of financial inclusion in the economies of various parts of the world. From this one can realize that the economic growth and development leads to the overall welfare of the people only if it is inclusive. For inclusive growth, among other aspects, financial inclusion is the most inevitable element. Realizing this fact the national governments are suggesting most effective measures to the states to achieve better levels of financial inclusion. Hence in this chapter an attempt has been made to examine the role of PACS in the financial inclusion among the rural households of Kerala. This chapter has been divided into three parts in the following order.

Part 1 Analyses the magnitude and level of financial inclusion through PACS among the rural households of Kerala.

Part 2 Deals with the economic impact of financial inclusion among the member households in the state and

Part 3 Deals with the analysis of social impact among the beneficiaries

For this purpose the researcher has used with or without approach as mentioned in the methodology part.

6.2. Part 1: Level of Financial Inclusion by PACS

This section of the chapter is devoted in measuring and analyzing the level of financial inclusion in Kerala. There are basically two approaches for the measurement of financial inclusion viz. Uni-dimensional approach and Multi-dimensional approach. In the former approach if at least one dimension of financial inclusion is satisfied the informant is classified as financially included category. On the other hand, in multi-dimensional approach several dimensions of financial inclusion are identified and appropriate weightages are assigned to each dimension according to their relative importance in financial inclusion. On the basis of the Multi-Dimensional Demand side Financial Inclusion Index value, the magnitude of financial inclusion is assessed. In this study multi-dimensional approach is used. For this purpose a Multi-Dimensional Demand Side Financial Inclusion Index (MDDFII) is constructed as explained in the methodology. This index reveals the level of financial inclusion in Kerala in terms of different variables in aggregate.

6.2.1. Index of Financial Inclusion in Kerala

As stated in the methodology a comprehensive Multi-Dimensional Demand side Financial Inclusion Index (MDDFII) has been prepared by the researcher to study the magnitude and level of financial inclusion in Kerala. For this purpose, the following six dimensions of financial inclusion have been taken and appropriate weights have been assigned to each dimension. The maximum score is fixed as 100.

Table 6.1

Multi-Dimensional Demand side Financial Inclusion Index (MDDFII)

Distribution of Weights among Dimensions and Variables

Dimensions	Variables	Weights Assignedto Variables	Weights Assigned to Dimensions
Savings	Deposit in savings bank account with formal financial institutions(v1)	10	20
	FD/RD with formal financial institutions (v2)	10	
Credit	Credit from formal financial institutions (v3)	40	40
Other banking services	Cheque (v4)	5	15
	ATM/Debit card (v5)	5	
	Remittance (v6)	5	
Innovative banking services	Credit card (v7)	5	15
	Internet banking (v8)	5	
	Mobile banking (v9)	5	
Insurance	Life/General insurance (v10)	10	10
Total		100	100

6.2.2. Region-Wise Distribution of Index of financial inclusion

To study the spread of impact of financial inclusion through PACS the above data has been classified region wise and regional indices have been constructed. The comprehensive and multi-dimensional index discloses the mean scores of financial inclusion among the member and non member households of all the three regions and the aggregate scores for the state. The analysis of the same is presented in table 6.2.

Table 6.2
Region-wise Distribution of Mean Financial Inclusion Score

Membership status / Region	Members			Nonmembers			Total			Mean difference	SE
	Mean	No.	S.D.	Mean	No.	S.D.	Mean	No.	S.D.		
Northern	48.74	99	20.90	48.82	51	19.89	48.77	150	20.50	-0.008	0.315
Central	58.99	134	18.20	50.63	16	18.52	58.10	150	18.35	8.360	1.713
Southern	52.82	108	18.49	40.24	42	27.14	49.30	150	22.22	12.58	2.814*
Total	54.06	341	19.53	45.87	109	23.42	52.06	450	20.82	8.19	3.303*

Source: Survey Data, *indicates significance at 5 percent level

It can be noticed from the table that the aggregate MDDFII of members and non members put together is 52.06, which indicates that approximately 52 percent financial inclusion is achieved in Kerala. Region-wise, the level of financial inclusion is the highest in central region with a score of 58.10 followed by southern region with a score of 49.30 and northern region with a score of 48.77. In central region it is higher than the state average.

Membership wise analysis of the above data also presented in table 6.2 shows that the aggregate MDDFII score of members of PACS is significantly higher than that of the non members indicating the positive role of PACS in improving the financial inclusion in the state of Kerala. The MDDFII of members of PACS is 54.06 indicating 54 percent financial inclusion among members. In the case of non members corresponding score is 45.87 percent indicating approximately 46 percent financial inclusion.

The standard error for mean difference of 8.19 is 3.303 which is statistically significant at 5 percent level as the calculated value is higher than 1.96. From this it can be concluded that in aggregate the participation in the PACS has improved the level of financial inclusion in the state.

Region wise, the highest level of financial inclusion is achieved in the central region both for members and non members. But the highest impact of PACS in this respect is achieved in southern region of the state. In this region the MDDFII score for members of PACS is 58.82 the corresponding score for non members is 40.24. This difference is also significant as the calculated standard error value is 2.814. In the other two regions the impact is not statistically significant.

6.2.3. Number of Households among Members and Non Members under Different Levels of Financial Inclusion

For the purpose of analyzing the number of households among members and non members under different levels of financial inclusion, the MDDFII scores obtained for each sample respondent, the household are classified into four groups viz. financial exclusion (score below 10), low level of financial inclusion (score between 10 and 29), moderate level of financial inclusion (score between 30 and 59), and high level of financial inclusion (score 60 and above). The classified relevant data is displayed in table 6.3.

Table 6.3
Distribution of Level of Financial Inclusion by Region

Level of FI / Region	Exclusion		Low (10 – 29)		Moderate (30 – 59)		High (60 and above)	
	Members	Non Members	Members	Non Members	Members	Non Members	Members	Non Members
	No.	No.	No.	No.	No.	No.	No.	No.
Northern	1 (1)	1 (2)	20 (20)	9 (18)	28 (28)	18 (35)	50 (51)	23 (45)
Central	1 (1)	0 (0)	12 (9)	3 (19)	21 (16)	4 (25)	100 (74)	9 (56)
Southern	0 (0)	3 (7)	20 (18)	13 (31)	17 (16)	11 (26)	71 (66)	15 (36)
Total	2 (1)	4 (4)	52 (15)	25 (23)	66 (19)	33(30)	221 (65)	47 (43)

Source: Survey Data, Figures in brackets indicate percentage to total.

It can be noticed from the table that two households among PACS members and 4 households among non members are still financially excluded. 15 percent among the PACS members and 23 percent among non members come under low level of financial inclusion. Similarly 19 percent of the PACS members and 30 percent of non members come under the moderate level of financial inclusion. 65 percent of the PACS members and 43 percent of non members come under high level of financial inclusion. The result shows that the PACS have contributed significantly in bringing rural households under financial inclusion net.

Further it can be observed from the table that the positive impact is the maximum in central region where 74 percent of the member households are under the high level of financial inclusion. The corresponding figure for non members is 56 percent. In southern region 66 percent of member households and 36 percent of non member households come under high level of financial inclusion. In northern region 51 percent of members and 45 percent of non members come under high financial inclusion level. The further details can be seen from the table itself.

6.2.4. Region-Wise Analysis of Aggregate Level of Financial Inclusion

In order to understand the aggregate level of financial inclusion in Kerala the above data has been clubbed together and presented in table 6.4.

Table 6.4

Association of Level of financial inclusion index with region

Region / Level of FI	Northern	Central	Southern	Total
	No. (%)	No. (%)	No. (%)	No. (%)
Exclusion	2 (1)	1 (1)	4 (3)	7 (2)
Low level	29 (19)	15 (10)	34 (23)	78 (17)
Moderate level	46 (31)	25 (17)	27 (18)	98 (22)
High level	73 (49)	109 (72)	85 (56)	267 (59)
Total	150 (100)	150 (100)	150 (100)	450 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (4-1) x (2-1)= 6, χ^2 value = 25.237

Table value at 5 % level = 1 2.596

From the table it can be noticed that 59 percent of the households in Kerala has achieved high level of financial inclusion, 22 percent households achieved moderate level and 17 percent households come under low level of financial inclusion. Two percent of households in Kerala are still under financially excluded category. Region wise 72 percent households in central region, 56 percent households in southern region and 49 percent in northern region come under high level of financial inclusion.

Chi-square test conducted to test the independence of the number of households coming under the different levels of financial inclusion in different regions gives a chi-square value of 25.237 with a table value of 12.596 at 5% percent significant level. Hence it can be concluded that there is an association between financial inclusion and regions.

6.2.5. Socio-Economic Factors and Level of Financial Inclusion

An examination of the influence of socio-economic characteristics of individual respondents on the level of financial inclusion is important in the sense that whether the socio- economic factors serve as a barrier to financial inclusion or not. “Living in rural areas, being a woman, having low education level and low income, being single and more people earning wages in the household appear as significant factors that reduce the likelihood of using financial products”. (Clamara et al., 2014).

Though the number of socio-economic factors considered in the study is quite large, the following section restricts the analysis to selected variables such as gender, economic status, Social class, age, and occupation to analyse the influence of these factors on the level of financial inclusion. For this analysis the members of PACS only are considered. In the previous analysis the positive impact of PACS members in financial inclusion in Kerala is revealed. In the forthcoming pages an attempt is made to examine how the impact is spread to various socio-economic classes of PACS members.

6.2.5.1 Gender-wise Level of Financial Inclusion among Members

On the basis of financial inclusion index by gender of the respondents, four different levels of inclusion are determined. The percent of male and female respondents falling in different levels of inclusion in the state of Kerala is evaluated by table 6.5.

Table 6.5

Gender-wise Distribution of Member Households under Different Levels of Financial Inclusion

Level of FI / Gender	Exclusion	Low	Moderate	High	Total
	No. (%)	No. (%)	No. (%)	No. (%)	No. (%)
Male	2 (1)	39 (14)	53 (19)	185 (66)	279 (100)
Female	0 (0)	13 (21)	13 (21)	36 (58)	62 (100)
Total	2 (1)	52 (15)	66 (20)	221 (64)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total, df : (2-1) x (4-1)= 3
χ^2 value = 2.288 Table value at 5 % level = 7.815

It can be noticed from the table that out of the 279 male members of PACS, 185 (66%) reported high level of financial inclusion while the number of female member respondents belonging to this category is 36 (58%) only. In the group of moderate level of financial inclusion the respective numbers of male and female member respondents are 53(19%) and 13 (21%). 39 (14%) male members of PACS and 13(21%) female members have acquired financial inclusion of the low level only. Very negligible number of respondents of these classes remains financially excluded.

Chi-square test conducted to test the statistical significance shows that the difference is not significant as the calculated chi-square value of 2.288 is less than the tabular value of 7.815 at 5 percent significance level.

6.2.5.2. Economic Status-wise Distribution of Level of Financial Inclusion among Members

It is interesting to know the level of financial inclusion of the PACS members of APL and BPL groups. The relevant data regarding the number of member respondents reported different levels of inclusion is classified on the basis of the economic status of the respondents and presented in table 6.6.

Table 6.6

Economic Status-wise Distribution of Member Households under Different Levels of Financial Inclusion

Level of FI / Economicstatus	Exclusion	Low	Moderate	High	Total
	No. (%)	No. (%)	No. (%)	No. (%)	No. (%)
APL	000 (0)	037 (15)	048 (19)	165 (66)	250 (100)
BPL	002 (2)	015 (17)	018 (20)	056 (51)	091 (100)
Total	002 (1)	052 (15)	066 (19)	221 (65)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (4-1)= 3, χ^2 value = 3.609 Table value at 5 % level = 7.815

The table shows that among the members belonging to APL category 66 percent has reported high level of financial inclusion while among BPL category only 51 percent has reported the same level of financial inclusion in Kerala. In Moderate financial inclusion level 48 respondents (19%) among APL category members and 18 (20%) BPL category members have reported to be included. Fifteen percent and 17 percent of members belonging to APL and BPL groups respectively come under the low level of financial inclusion, while a maximum of two percent of these categories are financially excluded in Kerala.

Chi- square test conducted to test the statistical significance of the difference also confirm that the difference is not significant as the calculated χ^2 value of 3.609 is less than the table value of 7.815 at 5 percent level.

6.2.5.3. Social Class-wise Distribution of Level of Financial Inclusion among Members

It is a general belief that the level of financial inclusion is influenced by the social class to which the respondents belong, that is their caste. The rate of exclusion, low, moderate and high levels of rate of inclusion are supposed to be dependent upon the caste of the people. The table 6.7 explains the level of inclusion by caste.

Table 6.7

Social Class-wise Distribution of Member Households under Different Levels of Financial Inclusion

Level of FI / Caste	Exclusion	Low	Moderate	High	Total
	No. (%)	No. (%)	No. (%)	No. (%)	No. (%)
SC/ST	0 (0)	7 (22)	5 (16)	20 (62)	32 (100)
Forward	1 (1)	15 (14)	23 (21)	70 (64)	109 (100)
Backward	1 (1)	30 (15)	38 (19)	131 (65)	200 (100)
Total	2 (1)	52 (15)	66 (19)	221 (65)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (4-1)= 6 χ^2 value = 1.966 Table value at 5 % level = 1 2.596

The table reveals that caste-wise, the level of financial inclusion is more among the backward castes as 65 percent of the respondents of that group come under high level of financial inclusion. The respondents belonging to forward caste and SC/ST group amount to 64 percent and 62 percent respectively to be included in high level of financial inclusion in the state. As in the case of moderate level of financial inclusion five (16%), 23 (21%) and 38 (19%) members belonging to SC/ST, forward and backward castes respectively come under this level. The low level of financial inclusion is spread among seven (22%), 15 (14%) and 30 (15%) respectively among the same categories. Caste-wise, financial exclusion is nil among SC/ST group while it is only one percent among other caste groups. The result shows that there is no large difference in the levels of financial inclusion among different caste groups in the state.

A Chi- square test is conducted to test the statistical significance of the difference among various caste groups in the levels of financial inclusion. It also confirms that the difference is not significant as the calculated $\chi 2$ value of 1.966 is less than the table value of 12.596 at 5 percent level.

6.2.5.4. Age-wise Distribution of Level of Financial Inclusion among Members

The classification of the member respondents into different age groups and analyzing the data is very much helpful for realizing the intensity of financial inclusion among the youth, middle aged and other categories of age groups. This task of distribution of the scores by age is shown in the following table 6.8.

Table 6.8

Age-Wise Distribution of Member Households under Different Levels of Financial Inclusion

Level of FI / Age	Exclusion	Low	Moderate	High	Total
	No. (%)	No. (%)	No. (%)	No. (%)	No. (%)
<30	0 (0)	2 (14)	2 (14)	10 (72)	14 (100)
30-50	2 (2)	16 (15)	17 (16)	71 (67)	106 (100)
>50	0 (0)	34 (15)	47 (22)	140 (63)	221 (100)
Total	2 (1)	52 (15)	66 (19)	221 (65)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.

df : (3-1) x (4-1)= 6 χ^2 value = 5.897 Table value at 5 % level = 1 2.596

From the table it can be seen that major participants in the high level of financial inclusion are the PACS members in the age group of less than 30 years. 72 percent of them come under this level, while 67% and 63% of the respondents of the age groups of 30-50 years and above 50 years respectively come under the high financial inclusion level. In moderate level of financial inclusion a reverse order is seen as the respective percent of members in these three age groups are 14 percent, 16 percent and 22 percent. Only 14 percent members of the age group of less than 30 come under low level of financial inclusion, while 15percent each of both the other age group members come under this financial inclusion level. The level of exclusion is almost nil among all the age groups

The difference in this percentage among members of different age group is also statistically not significant as the calculated χ^2 value of 5.897 is less than the table value of 12.596 at 5 percent level.

6.2.5.5. Occupation-wise Distribution of Level of Financial Inclusion among Members

Another socio economic variable analysed by MDDFII is occupation. The occupation of the people and their employment status leads to variations in the rate of financial inclusion in the state. It may be noted that there is a chance for high rate of inclusion among the employees who are placed in better positions. The nature of employment and the type of work influence the level of financial inclusion of the PACS members which is analysed by table 6.9.

Table 6.9

Occupation-wise Distribution of Member Households under Different Levels of Financial Inclusion

Level of FI / Occupation	Exclusion	Low	Moderate	High	Total
	No. (%)	No. (%)	No. (%)	No. (%)	No. (%)
Agriculture	1 (6)	3 (17)	4 (22)	10 (55)	18 (100)
Business	0 (0)	4 (7)	12 (21)	40 (72)	56 (100)
Agri. Labour	0 (0)	2 (50)	1 (25)	1 (25)	4 (100)
Other Labour	1 (1)	10 (11)	16 (17)	65 (71)	92 (100)
Employees	0 (0)	10 (13)	19 (24)	50 (63)	79 (100)
Pensioners	0 (0)	7 (23)	2 (6)	22 (71)	31 (100)
Others	0 (0)	16 (26)	12 (20)	33 (54)	61 (100)
Total	2 (1)	52 (15)	66 (19)	221 (65)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total,
df : (7-1) x (4-1)= 18 χ^2 value =23.739
Table value at 5 % level = 28.869

It can be noticed from the table that businessmen, other labourers, pensioners and employees have achieved a high level of financial inclusion in larger scale in Kerala, while agricultural labourers and farmers achieved this level comparatively at a smaller scale. The further details can be seen from the table itself. In this respect the difference is also statistically non significant as the calculated χ^2 value 23.739 is less than 28.869 for 18 degree of freedom at 5 percent level.

Summary:

In the foregoing analysis we have compared the member and the non member households of Kerala as a whole and region wise to examine the level of financial inclusion with the help of MDDFII and concluded that state-wise and region-wise there is a high level of financial inclusion in Kerala. Even though at the uni-dimensional level, Kerala has achieved 100 percent financial inclusion as revealed by the literature, at multi-dimensional level as disclosed by the MDDFII the index is almost 52 percent. It is further observed and statistically proved that the PACS in the state have created a positive impact in the financial inclusion process carried out in Kerala. The level of financial inclusion among PACS members is significantly higher than that of non members. Further the analysis of the level of financial inclusion among the members of different socio economic class, not much difference is observed as indicated by the chi-square values. This shows that member households in all socio-economic classes have benefited from it.

Conclusion:

On the basis of the above analysis and findings it can be concluded that the level of financial inclusion among the rural households in Kerala is reasonably high. It is also to be noted that socio economic-basis, not much difference is observed in this respect among different socio-economic classes of member respondents.

Testing of Hypothesis No.Four

From the above findings and conclusion the null hypothesis No.four set at beginning of the study that "The PACS in Kerala are successful in achieving financial inclusion in Kerala and the level of financial inclusion among members is independent of demographic and socio-economic variables" is accepted.

6.3.Part 2: Economic Impact of Financial Inclusion

The most important aim of financial inclusion is economic empowerment of the people in rural areas. The economic empowerment takes place only when the income, the employment and the wealth of the rural community are increased. Hence in this study the impact of financial inclusion by PACS is measured by analyzing increase in income, increase in employment and increase in assets of the member respondents after availing formal credit facilities as compared to non member respondents. For this purpose "With or without approach" is followed. The income generation, employment generation and asset creation of members of PACS are compared with non members of similar socio economic class in total and region-wise. Further, in order to know which socio-economic class of members have benefited more, the relevant data on income, employment and asset relating to members have been classified gender-wise, economic-status wise, social-class wise, age -wise and occupation-wise are analysed.

The United Nations Organisation has aptly pointed out that a financial system which is inclusive in nature shall provide credit for all bankable people and firms, insurance to all insurable people and payment services to all (UN, 2006) [1]. The characteristics of households and the individual members have implications on sanctioning the loans. The individual's features like gender, age, marital status and educational qualifications influence the bank while allowing credit. Access to credit eases the capital constraints of the poor households and helps to minimise production vulnerability, increase labour and capital productivity through accessing better inputs and adopt higher-yielding technologies (Eswaran and Kotwal 1990) [2].

6.3.1. Increase in Income after Availing Loan:

As stated above the first economic variable analysed is the income generation of members and non members. The relevant data in aggregate and region-wise among members and non members are presented in table 6.10.

Table 6.10

Increase in Income after Availing Loan

Income	Regions						Total	
	Northern		Central		Southern			
	Members	Non members	Members	Non members	Members	Non members	Members	Non members
Increase (%)	No %	No. %	No. %	No. %	No. %	No. %	No. %	No. %
No increase	30 (30)	27 (53)	38 (28)	10 (63)	40 (37)	31 (74)	108 (32)	68 (62)
1 – 5	39 (40)	14 (27)	47 (35)	6 (37)	41 (38)	9 (22)	127 (37)	29 (28)
5 – 10	19 (19)	10 (20)	36 (27)	0 (0)	15 (14)	1 (2)	70 (21)	11 (9)
10 – 20	11 (11)	0 (0)	9 (7)	0 (0)	12 (11)	1 (2)	32 (9)	1 (1)
>20	0 (0)	0 (0)	4 (3)	0 (0)	0 (0)	0 (0)	4 (1)	0 (0)
Total	99 (100)	51 (100)	134 (100)	16 (100)	108 (100)	42 (100)	341 (100)	109 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.

It can be noticed from the table that out of 341 PACS members 37 percent reported an income increase of one to five percent. The corresponding figure for non members is 28 percent. 21 percent of members and nine percent of non members reported a 5 to 10 percent increase in income. Those who reported an increase of 10 to 20 percent income during the period is nine percent for members and one percent for non members. Thirty two percent of members reported no increase in income since joining PACS. The corresponding figure for non members is 62 percent. From this it can be concluded that PACS has contributed significantly in the income increase of its members as compared non members.

The table also shows region-wise impact on income increase. In all the three regions of the state the PACS have achieved positive impact in income generation. In central region 35 percent of the members reported the income increase of up to five percent, 27 percent reported an increase of 5 to 10 percent. Seven percent reported an increase of 10 to 20 percent and three percent reported an increase of above 20 percent. In the non member category 37 percent reported an increase of up to five percent only. In this category 63 percent households reported no increase in income during the period. Among PACS members of central region, only 28 percent reported no increase in income.

In southern region 37 percent of members 74 percent of non members reported no increase in income. 38 percent of members and 22 percent of non members reported up to five percent increase in income and 14 percent of members and two percent of non members reported 5 to 10 percent increase in income. Those who reported 10 to 20 percent increase in income among members of PACS are 11 percent and non members two percent.

In the northern region 30 percent of PACS members and 53 percent of non members reported no increase in income. 40 percent of the members and 27 percent of non members reported up to five percent increase in income. 19 percent of members and 20 percent of non members reported 5 to 10 percent increase in income and 11 percent of members reported 10 to 20 percent increase in income.

From the aforesaid analysis it can be concluded that financial inclusion process through PACS has created a positive impact in income generation among members as compared to the non members in all the three regions of the state.

6.3.2. Increase in Employment after Availing Loan

Since the poverty and the unemployment in rural areas go side by side, employment ensures higher income and consumption for the rural people who are living below poverty line. The second aspect of employment is to increase production by taking up directly productive activities. The financial institutions provide credit for employment generating activities in developing countries. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help capital formation but also increase entrepreneurial activities in developing countries. The financial assistance is helpful in creating employment generating activities by the households which invest their loan amount in productive activities and self employment projects.

The relevant data relating to employment generation among members and non members of PACS have been tabulated and presented in table 6.11.

It can be seen from the table that significant impact has been made in employment generation among members of PACS as compared to non members during the period. 35 percent of members reported up to 5 percent increase in employment. The corresponding increase for non members is 14 percent. 21 percent of members and 14 percent of non members reported 5 to 10 percent increase in employment. One percent members have reported 10 to 20 percent increase while for the non member category, it is zero.

Region-wise analysis of impact on employment generation is also presented in the same table. It shows that in all the three regions of the state employment generation among members of the PACS is more than that of the non members. In northern region 60 percent of members reported increase in employment. The corresponding figure for non members is 40 percent. Among the members 42 percent reported upto 5 percent increase in employment and 18 percent reported 5 to 10 percent increase in employment. Among the non members only 20 percent each reported upto five percent increase and 5 to 10 percent increase in employment.

In central region 55 percent of members and 19 percent of non members reported an increase in employment. Among members 22 percent reported an increase in employment up to 5 percent, 25 percent reported 5 to 10 percent increase in employment and three percent reported 10 to 20 percent. The corresponding figures for non members are zero, 19 percent and zero respectively.

Table 6.11
Distribution of Respondents according to Increase in Employment after Availing Loan

Employment / Increase (%)	Region						Total	
	Northern		Central		Southern			
	Members	Non members	Members	Non members	Members	Non members	Members	Non members
	No %	No. %	No. %	No. %	No. %	No. %	No. %	No. %
No increase	40 (40)	31 (60)	60 (45)	13 (81)	47 (44)	34 (81)	147 (43)	78 (72)
1 – 5	42 (42)	10 (20)	36 (27)	0 (0)	40 (37)	5 (12)	118 (35)	15 (14)
5 – 10	17 (18)	10 (20)	33 (25)	3 (19)	21 (19)	3 (7)	71 (21)	16 (14)
10 – 20	0 (0)	0 (0)	5 (3)	0 (0)	0 (0)	0 (0)	5 (1)	0 (0)
>20	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Total	99 (100)	81 (100)	134 (100)	16 (100)	108 (100)	42 (100)	341 (100)	109 (100)

Source: Survey Data, Figures in brackets indicate percentage to total

Similar pattern is followed in southern region also. In this region 56 percent members reported increase in employment which among non members is only 19 percent. 37 percent members and 12 percent of non members reported up to 5 percent increase in employment. 19 percent of members and 7 percent of non members reported employment increase of 5 to 10 percent. In both categories of none of the respondents reported more than 10 percent increase in employment.

From the above analysis it can be concluded that financial inclusion through PACS has contributed to the increase in employment among members as compared to non members. This positive impact of employment creation of PACS is spread over all the parts of the state.

6.3.3. Increase in Assets after Availing Loan

People, in the underdeveloped countries, being poor and having low incomes do not possess sufficient financial resources to buy properties and durable consumer goods. The financial institutions advance loans to customers for the purchase of such items as houses, vehicles, electronic equipments, home appliances and ornaments. The term loans and leases enable the borrowers to acquire various types of assets especially in the case of the poor and the marginalized. Acquiring earning assets like stocks, bonds and rentable properties, is an investment which produces income. In this way, they also help in raising the standard of living of the people in developing countries by providing loans. The relevant data relating to increase in assets among members of PACS and non members have been tabulated region-wise and presented in table 6.12.

Table 6.12

Distribution of Respondents According to Increase in Assets after Availing Loan

Asset / Increase (%)	Region						Total	
	Northern		Central		Southern			
	Members	Non members	Members	Non members	Members	Non members	Members	Non members
	No %	No. %	No. %	No. %	No. %	No. %	No. %	No. %
No change	40 (40)	23 (46)	46 (34)	10 (63)	40 (37)	19 (45)	126 (37)	52 (48)
1 – 5	23 (23)	14 (27)	37 (28)	3 (19)	32 (30)	20 (48)	92 (27)	37 (34)
5 – 10	34 (34)	14 (27)	22 (16)	2 (13)	30 (28)	2 (5)	56 (25)	18 (17)
10 – 20	2 (3)	0 (0)	23 (17)	1 (5)	6 (5)	1 (2)	31 (9)	2 (1)
>20	0 (0)	0 (0)	6 (5)	0 (0)	0 (0)	0 (0)	6 (2)	0 (0)
Total	99 (100)	51 (100)	134 (100)	16 (100)	108 (100)	42 (100)	341 (100)	109 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.

It can be seen from the table that the proportion of members of PACS reported asset increase is considerably higher than non members. Among the PACS members 63 percent reported increase in assets since availing loans, whereas only 48 percent of non members reported the same. Among the members of PACS 27 percent reported upto five percent increase in wealth, 25 percent reported 5 to 10 percent increase in wealth, nine percent reported 10 to 20 percent increase and 2 percent reported above 20 percent increase in wealth. The corresponding figures for non members are 34 percent, 17 percent, one percent and zero percent respectively.

Region-wise also wealth creation is more among members of PACS as compared to non members in all three regions of the state. In northern region 40 percent of members reported no change in their wealth. The corresponding figures for non members are 46 percent. Among the members who reported increase in wealth, 23 percent have upto five percent increase, 34 percent reported 5 to 10 percent increase and 3 percent reported 10 to 20 percent increase in wealth. Among non members the corresponding figures are 27 percent, 27 percent, zero percent and zero percent respectively.

In central region 66 percent of member households reported increase in wealth since joining PACS. Among non members only 37 percent reported the same. Among PACS members 28 percent reported upto five percent increase in wealth, 16 percent reported 5 to 10 percent increase, 17 percent reported 10 to 20 percent increase in wealth and 5 percent reported above 20 percent increase in wealth. Among non members the corresponding figures are 19 percent, 13 percent, five percent and zero percent.

The position of southern region also is not much different from the other parts of the state in this respect. In this region only 37 percent of members of PACS reported no increase in wealth and the rest 63 percent reported increase in wealth since joining PACS. Among non members 45 percent reported no change in wealth and 55 percent reported increase in wealth. Further details can be seen from the table 6.12.

From the above analysis it can be concluded that participation in PACS has contributed considerable wealth creation as compared to non members. This wealth creation impact is spread over all the regions of the state.

6.3.4. Economic Impact and Socio Economic Profile of Members of PACS

In the forgoing analysis we have compared the PACS members and non members to examine the impact on income generation, employment generation and wealth creation and concluded that financial inclusion process carried out by PACS has contributed significantly in this respect. In this part we try to examine how the impact is spread to various socio economic classes of PACS members. For this analysis we have taken members of PACS only. Five socio economic variables such as gender, age, caste, economic status and occupation of the member respondents are taken.

6.3.5. Income Impact

Socio economic category wise income impact among the members of PACS is analysed below.

6.3.5.1. Gender-wise Income Impact

The relevant data regarding the number of member respondents reported income increase and no income increase is classified on the basis of the gender of the respondent and presented in table 6.13.

Table 6.13

Gender Wise Distribution of Income Impact among Member Households

Income / Gender	Increase	No increase	Total
Male	201 (72)	078 (28)	279 (100)
Female	032 (52)	030 (48)	062 (100)
Total	233 (68)	108 (32)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (2-1) x (2-1)=1

χ^2 value = 9.04

Table value at 5 % level = 3.841

It can be noticed from the table that out of the 279 male members of PACS, 201 (72%) reported increase in the income since availing financial products from PACS. The corresponding figure for females is 52 percent. Chi-square test conducted to test the statistical significance of the difference also confirm the result as the calculated χ^2 value of 9.04 is higher than the tabular value of 3.841 at 5 percent level.

6.3.5.2. Economic Status Wise Income Impact

In order to examine members belonging to which economic class has benefited more in income generation since joining PACS, the relevant data has been tabulated economic status wise (APL/BPL wise) and presented in table 6.14.

Table 6.14

Economic Status-wise Distribution of Income Impact among Member Households

Economic Status \ Income	Increase	No Increase	Total
APL	180 (72)	070 (28)	250 (100)
BPL	053 (58)	038 (42)	091 (100)
Total	233 (68)	108 (32)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (2-1) x (2-1)=1
χ^2 value = 4.598
Table value at 5 % level = 3.841

The table shows that among the members belonging to APL category 72 percent has reported income increase while among BPL category only 58 percent has reported income increase since joining PACS. 28 percent of members belonging to APL category and 42 percent among BPL category reported no increase in income. From this it can be concluded that members belonging to 'above poverty line' has benefited more with PACS as against the general notion.

Chi- square test conducted to test the statistical significance of the difference also confirm the result as the calculated χ^2 value of 4.598 is higher than the Table value at 5 percent level.

6.3.5.3. Social Class-wise Income Impact

One of the aims of PACS is the economic upliftment of the weaker sections of the society. In Kerala because of strong social reforms movement and high level of literacy, caste-wise discrimination is very less compared to the other parts of the country. Caste is not a limiting factor for anyone to get financial assistance in Kerala. In this study an attempt is made to know which social class has benefited more in the financial inclusion efforts of PACS. The relevant data relating to income increase reported by members of PACS belonging to different castes have been tabulated and presented in table 6.15.

Table 6.15

Caste-wise Distribution of PACS Members Reported Increase in Income

Income / Caste	Increase	No increase	Total
SC/ST	022 (69)	010 (31)	032 (100)
Backward	140 (70)	060 (30)	200 (100)
Forward	071 (65)	038 (35)	109 (100)
Total	233 (68)	108 (32)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1) =2 χ^2 value = 0.851
Table value at 5 % level = 5.991

It can be observed from the table that not much difference exists in this respect among members belonging to different castes. 69 Percent of members belonging to scheduled caste reported income increase. In the case of members belonging to backward caste, 70 Percent reported income increase. The corresponding figure for forward caste is 65 percent. Chi-square test conducted to study the statistical significance of the difference gives a χ^2 value of 0.851 as against the table value of 5.991, which shows that the difference is not statistically significant.

6.3.5.4. Age-wise Income Impact

The above data relating to the income impact of PACS among the members is tabulated age-wise and presented in table 6.16 to know the members belonging to which age group is benefited more.

Table 6.16
Age-wise Distribution of Income Change Impact among Member Households

Age \ Income	Increase	No Increase	Total
Below 30 years	010 (71)	004 (29)	014 (100)
30 – 50 years	056 (53)	050 (47)	106 (100)
Above 50 years	167 (76)	054 (24)	221 (100)
Total	233 (68)	108 (32)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1) =2 χ^2 value = 16.274
Table value at 5 % level = 5.991

From the table it can be seen that major beneficiaries are members in the age group of above 50 years. In this group 76 percent have reported increase in income while in the case of members belong to 30 to 50 years of age, 53 percent have only reported income growth since joining the PACS. Among the members belonging to below 30 years age group, 71 percent have reported an income increase. The non members of the same age group have reported an income increase of 24 percent, 47 percent and 29 percent respectively.

The difference in this percentage among members of different age group is also statistically significant as the calculated χ^2 value of 16.274 is higher than the table value of 5.991 at 5 percent level.

6.3.5.5. Occupation-wise Income Impact

Occupation of the respondents always has a significant role in utilizing the products offered by financial institutions. Basically PACS are meant for providing financial products to farmers and marginalized sections of the society. In order to understand members belonging to which occupational class have benefited more in terms of income increase, the above data is classified occupation-wise and presented in table 6.17.

Table 6.17
Occupation-wise Distribution of Income Change Impact among Member Households

Occupation \ Income	Increase	No Increase	Total
Agriculture	013 (72)	005 (28)	018 (100)
Small business	040 (71)	016 (29)	056 (100)
Agricultural labourer	004 (100)	000 (0)	004 (100)
Other labourer	060 (65)	032 (35)	097 (100)
Employed	060 (76)	019 (24)	079 (100)
Pensioners	015 (48)	016 (52)	031 (100)
Others	041 (67)	020 (33)	061 (100)
Total	233 (68)	108 (32)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (7-1) x (2-1)=6
χ^2 value = 8.666
Table value at 5 % level = 12.596

It can be noticed from the table that the income increase since joining PACS is maximum for agricultural labourers, followed by employed people (76 percent), farmers (72 percent) and business people (71 percent). But this difference is not statistically significant as the χ^2 value 8.666 is less than the tabular value of 12.596 at 5 percent level for 6 degrees of freedom.

From the above analysis it can be concluded that.

- Gender-wise male, members of PACS have benefited more than female members in terms of income increase.
- Economic status-wise, members belonging to APL category have benefited more than members belonging to BPL category in this respect.
- Social class-wise, not much difference exists in the income impact among members belonging to different castes.
- Members in the age group of above 50 years benefited more than members belonging to other age group.
- Occupation-wise, the benefits of income increase are spread over all occupational classes.

6.3.6. Employment Generation

Socio-economic category wise employment impact among the members of PACS is analysed below.

6.3.6.1. Gender-wise Distribution of PACS Members Reported Employment Increase

The data relating to PACS members reported increase in employment, since joining the co-operative movement, has been classified gender-wise and presented in the Table 6.18.

Table 6.18

Gender-wise Distribution of Employment Impact among Member Households

Gender \ Employment	Increase	No Increase	Total
Male	169 (61)	110 (39)	279 (100)
Female	025 (40)	037 (60)	062 (100)
Total	194 (57)	147 (43)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1) =1 χ^2 value = 10.113
Table value at 5 % level = 3.841

The table reveals that out of 279 male members 61 percent reported employment increase and 39 percent no increase. The corresponding figures for female members are 40 percent and 60 percent respectively. From this it is clear that male members have benefited more than female members. In this respect the difference is also statistically significant as the calculated χ^2 value 10.113 is greater than 3.841 for one degree of freedom at 5 percent level.

6.3.6.2. Economic status-wise distribution of PACS members reported employment increase

An analysis of the economic status-wise distribution of members reported increase in employment presented in table 6.19 below shows that the employment increase is more on members belonging to BPL category than APL.

Table 6.19

Economic Status-wise Distribution of Employment Change Impact among Member Households

Economic Status \ Employment	Increase	No Increase	Total
APL	121 (48)	129 (52)	250 (100)
BPL	073 (80)	018 (20)	091 (100)
Total	194 (57)	147 (43)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (2-1) x (2-1)=1
χ^2 value = 9.43
Table value at 5 % level = 3.841

Of the total 91 members belonging to BPL category 80 percent have reported employment increase. In the case of APL category the corresponding figure is 48 %. The difference is also statistically significant. As the calculated χ^2 value of 9.43 is greater than the table value of 3.841 at 5 % level.

6.3.6.3. Social Class-wise distribution of PACS members reported employment increase

The above data on employment generation among members of PACS is classified caste wise and presented in table 6.20.

Table 6.20
Caste-wise Distribution of PACS Members Reported Increase in Employment

Caste \ Employment	Increase	No increase	Total
SC/ST	028 (88)	004 (12)	032 (100)
Backward	132 (66)	068 (34)	200 (100)
Forward	034 (31)	075 (69)	109 (100)
Total	194 (57)	147 (43)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2 χ^2 value = 48.63
Table value at 5 % level = 5.991.

From the table it can be seen that the impact on employment increase is maximum for SC/ST group with 88 percent reported increase in employment and backward caste members report 66 percent employment increase. The corresponding figure for forward caste members is 31 percent. The difference in the employment increase reported by the members of different castes is statistically significant as the calculated value of χ^2 is 48.63.

6.3.6.4. Age-wise distribution of PACS members reported employment increase

The employment increase data given below among the members of PACS is classified age wise and presented in table 6.21.

Table 6.21

Age-wise Distribution of Employment Change Impact among Member Households

Employment / Age	Increase	No Increase	Total
Below 30	005 (36)	009 (64)	014 (100)
30-50	046 (43)	060 (57)	106 (100)
Above 50	143 (65)	078 (35)	221 (100)
Total	194 (57)	147 (43)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (3-1) x (2-1)=2
χ^2 value = 43.100
Table value at 5 % level = 5.991

From the table it can be noticed that members above 50 years of age have benefited more in this respect. In this category out of 221 members, 65 percent have reported employment increase. The corresponding figure for members belonging to 30 to 50 years of age is 43 percent and below 30 years of age is 36 %. The chi-square test administered to test the statistical significance of the result also confirm it as the calculated χ^2 value is greater than the table value at 5% level.

6.3.6.5. Occupation-wise distribution of PACS members reported employment increase

The data relating to employment increase is classified on the basis of occupation of the respondents to know which occupational groups of members have benefited more. The same is presented in table 6.22.

Table 6.22

Occupation-wise Distribution of Employment Impact among Member Households

Occupation \ Employment	Increase	No Increase	Total
Agriculture	012 (67)	006 (33)	018 (100)
Small business	026 (46)	030 (54)	056 (100)
Agricultural labourer	002 (50)	002 (50)	004 (100)
Other labourer	042 (46)	050 (54)	092 (100)
Employed	057 (72)	022 (28)	079 (100)
Pensioners	020 (65)	011 (35)	031 (100)
Others	035 (57)	026 (43)	061 (100)
Total	194 (57)	147 (43)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (7-1) x (2-1) = 6 χ^2 value = 52.2
Table value at 5 % level = 1 2.596

It can be noticed from the table that farmers, employed people and pensioners are the major beneficiaries in this respect. Among the farmers 72 percent and among pensioners 65 percent reported increase in employment. Among agricultural labourers 50 percent and other laborers 46 percent reported increase in employment since joining PACS. The difference is also statistically significant as revealed from the chi-square analysis result given in the tables.

From the foregoing analysis of socio-economic class and employment generation, the following conclusions can be drawn.

- Gender-wise, male members are the major beneficiaries of the financial inclusion measures of PACS on employment generation

- Economic-status wise, members belonging to BPL category benefited more.

- Social class-wise members belonging to SC/ST category benefited more.

- Age-wise, members in the age group of fifty years and above have benefited more and

- Occupation-wise, farmers, pensioners and members belonging to other occupational class also benefited more.

6.3.7. Asset creation

Socio-economic category-wise asset creation impact among the members of PACS is analysed below.

6.3.7.1. Gender-wise Asset Creation Impact among Members of PACS

The data relating to the asset creation reported by the members of the PACS is classified gender-wise and presented in Table 6.23.

Table 6.23

Gender-wise Distribution of Asset Change Impact among Member Households

Asset / Gender	Increase	No Increase	Total
Male	179 (64)	100 (36)	279 (100)
Female	036 (58)	026 (42)	062 (100)
Total	215 (63)	126 (37)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1) =1 χ^2 value = 0.779
Table value at 5 % level = 3.841

From the table it can be observed that male members have a slight edge over the female members in this respect. Of the total 279 male members, 64 percent reported increasing wealth since joining PACS. The corresponding figure among females is 58 percent. However the difference is not statistically significant as the calculated chi-square value is 0.779 as against the table value of 3.841 at 5% significant level.

6.3.7.2. Economic Status-wise Distribution of Members of PACS Reported Asset Creation

An analysis of the asset creation data reported by the members of PACS is arranged economic status wise and presented in table 6.24 below.

Table 6.24

Economic Status-wise Distribution of Asset Impact among Member Households

Asset / Economic Status	Increase	No Increase	Total
APL	164 (66)	086 (34)	250 (100)
BPL	051 (56)	040 (44)	091 (100)
Total	215 (63)	126 (37)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (2-1) x (2-1)=1 χ^2 value = 2.307
Table value at 5 % level = 3.841

It can be seen from the table that members belonging to APL category has a slight edge in this respect as compared to BPL category. In APL category 66 percent of members reported asset increase. In the case of BPL category 56 percent members reported increase in assets since joining PACS. However the difference is not statistically significant as the calculated chi-square value of 2.307 is less than the table value of 3.841 at 5 percent level.

6.3.7.3. Social Class-wise Distribution of Members of PACS Reported Asset Creation

The relevant data on asset creation reported by members of PACS is classified caste-wise and presented in table 6.25.

Table 6.25

Caste-wise Distribution of PACS Members Reported Increase in Asset

Caste \ Asset	Increase	No increase	Total
SC/ST	010 (31)	022 (69)	032 (100)
Backward	145 (73)	055 (27)	200 (100)
Forward	060 (55)	049 (45)	109 (100)
Total	215 (63)	126 (37)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2 χ^2 value = 24.274
Table value at 5 % level = 5.991

The table shows that the backward caste people have benefitted more in this respect. In this category 73 percent members reported wealth increase. The corresponding figure for forward caste people is 55 percent and SC/ST category people, it is 31 percent only. The difference is also statistically significant as seen from the calculated χ^2 value of 24.274.

6.3.7.4. Age-wise Distribution of Members of PACS Reported Asset Creation

Age-wise classification of the above data is presented in the table 6.26 below.

Table 6.26

Employment-wise Distribution of Asset Change Impact among Member Households

Age \ Employment	Increase	No Increase	Total
Below 30	008 (57)	006 (43)	014 (100)
30-50	066 (62)	040 (38)	106 (100)
Above 50	141 (64)	080 (36)	221 (100)
Total	215 (63)	126 (37)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total.
df : (3-1) x (2-1)=2 χ^2 value = 0.417 Table value at 5 % level = 5.991

The table shows that the positive impact of asset creation is spread over members belonging to different age group with significant variation. In the age group of below 30 years, 57 percent reported asset increase. The corresponding figure for members in the age group of 30-50 years is 62 percent and members above 50 years of age, 64 percent The chi-square test conducted to test the significance of the difference in the impact among three age groups confirm that the difference is not significant.

6.3.7.5. Occupation-wise Distribution of Members Reported Asset Creation

Finally in order to know which occupational class has benefited more in terms of wealth creation among the PACS members, the relevant data is tabulated occupation wise and presented in table 6.27.

Table 6.27

Occupation-wise Distribution of Asset Change Impact among Member Households

Employment / Occupation	Increase	No Increase	Total
Agriculture	012 (67)	006 (33)	018 (100)
Small business	026 (46)	030 (54)	056 (100)
Agricultural labourer	003 (75)	001 (25)	004 (100)
Other labourer	042 (46)	050 (54)	092 (100)
Employed	060 (76)	019 (24)	079 (100)
Pensioners	016 (52)	015 (48)	031 (100)
Others	056 (92)	005 (08)	061 (100)
Total	215 (63)	126 (37)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. df : (7-1) x (2-1)=6

χ^2 value = 41.404

Table value at 5 % level = 1 2.596

The table discloses that other category members, employed people, agricultural labourers and farmers have benefited in this respect as compared to members belonging to other occupational group. Among the other group category 92 percent reported increase in assets since joining PACS. In the case of employed people the corresponding percentage is 76 and agricultural labourers, it is 75 percent and farmers it is 67 percent. Chi-square test conducted to test the significance of the difference in asset creation impact among members of PACS confirms this difference as the calculated chi-square value of 41.404, which is higher than the table value of 12.596 at 5 % level.

From the analysis of asset creation based on socio-economic classes presented above, the following inferences can be made.

- Gender-wise not much difference exist in asset creation. Members belonging to both sex have had positive impact in this respect.
- Economic status-wise also not much difference exists in asset creation. Members belonging to both the APL and the BPL categories have made reasonable positive impact in this respect.
- Social class-wise backward caste people have benefitted more in respect of asset impact.
- Age-wise also no significant difference exists in asset creation among members.
- However occupation wise members belonging to the category of others, employed people, agricultural labourers and farmers have benefited more.

Conclusion

In all the three variables used to study the income impact viz. income generation, employment generation and wealth generation, members of PACS are ahead of non members in aggregate and all the three regions of the state.

Testing of Hypothesis No.Five

Based on the above analysis of the impact of PACS in the economic upliftment of the people of Kerala the null hypothesis No. 5 that, **"The PACS in Kerala are successful in creating positive economic impact among members and the economic impact is independent of demographic and socio-economic variables" is accepted.**

6.4 Part 3: Social Impact of Financial Inclusion

The overall economic development of the country or the state requires improvement in the economic and social conditions of the people. Economic development leads to social development and social development further leads to better education, better health, better housing etc. and results in further economic development. Any study on the role of an institutional mechanism aimed to improve the economic development of a society is incomplete unless the social impact is measured. Hence the impact of participation in PACS in improving the social conditions of the beneficiaries is studied in the third part of this chapter.

As stated in the methodology, 12 social indicators were identified from available literature and both member and non member respondents are asked to rate all the variables in a five point Likert scale. The variables used for this purpose are as follows.

1. Involvement in social activities.
2. Awareness about woman empowerment.
3. Attitude towards education.
4. Health awareness.
5. Political awareness.
6. Attitude towards social exploitation.
7. Attitude towards black marketing.
8. Attitude towards child labour.
9. Attitude towards corruption and black money.
10. Attitude towards secularism.

11. Attitude towards environmental concern.

12. Attitude towards alcoholism and smoking.

The scores for each variable ranges from 1 to 5. Since 12 indicators are taken the maximum score is 60 and minimum score is 12.

Then informants are grouped into three categories of social impact in the following order

1. Those who got up to 20 scores – Low social impact
2. Those who got 20 to 40 scores – Moderate social impact
3. Those who got 40 and above – High social impact

6.4.1. Aggregate Social Impact

In this study in the first stage the aggregate social impact sores of all the twelve variables for members of PACS and non members have been computed and presented in table 6.28 below.

Table 6.28
Distribution of Social Impact Scores among Members and Non Members

Sl. No	Variables / Mean Scores	Members	Non members	Total
1	Involvement in social activities	4.13 (0.21)	4.14 (0.24)	4.11 (0.22)
2	Awareness about woman empowerment	4.07 (0.24)	4.09 (0.26)	4.09 (0.26)
3	Attitude towards education	4.10 (0.20)	4.12 (0.23)	4.11 (0.30)
4	Health awareness	4.09 (0.25)	4.05 (0.22)	4.06 (0.29)
5	Political awareness	4.04 (0.27)	3.86 (0.23)	3.99 (0.28)
6	Attitude towards social exploitation	4.05 (0.29)	3.94 (0.22)	4.00 (0.26)
7	Attitude towards black marketing	4.07 (0.31)	4.09 (0.21)	4.04 (0.22)
8	Attitude towards child labour	4.04 (0.32)	4.03 (0.23)	4.02 (0.23)
9	Attitude towards corruption and black money	4.08 (.021)	4.08 (0.28)	4.05 (0.23)
10	Attitude towards secularism	4.10 (0.18)	4.08 (0.19)	4.08 (0.22)
11	Attitude towards environmental concern	4.12 (0.19)	4.13 (0.29)	4.10 (0.26)
12	Attitude towards alcoholism and smoking	4.12 (0.20)	4.18 (0.22)	4.12 (0.24)
	Total	49.01 (0.22)	48.79(0.28)	48.77 (0.25)
	Mean	4.08	4.06	4.07
	SD	0.24	0.27	0.26

Source: Survey Data, Figures in brackets indicate percentage to total.

It can be observed from the table that both members of PACS and non members have high degree of social awareness and social participations. Not much difference exists among members of PACS in this respect as compared to non members. The aggregate mean score of members of PACS is 4.08 indicating almost 80 percent social awareness and participation. The corresponding figure for non members is 4.06 also indicating 80 percent social awareness and participation. Variable-wise also similar pattern is seen both for members and non members. This may be due to the social reforms movement initiated by the great social reformers of the state in the early 20th century, social and political education given by religious movements and political parties. The higher literacy level of the people of Kerala has also contributed significantly in improving social awareness and participation in various social activities. Various NGOs, charitable societies and people's movements also played a significant role in this respect.

6.4.2 Region-wise Analysis

In order to understand whether any regional variations exists in the social impact among member of PACS and non members, the mean scores of each region is tabulated and presented in Table 6.29.

Table 6.29
Index for changes in social implications for the members and non members of three regions

Regions / Dimensions	Northern			Central			Southern		
	Member	Non-member	Total	Member	Non-member	Total	Member	Non-member	Total
Involvement in social activities	3.69	3.81	3.71	4.51	4.35	4.45	4.19	4.12	4.167
Awareness about woman empowerment	3.69	3.88	3.71	4.46	4.31	4.41	4.21	4.07	4.173
Attitude towards education	3.72	3.94	3.74	4.37	4.26	4.33	4.22	4.17	4.207
Health awareness	3.72	3.94	3.74	4.29	4.18	4.25	4.27	4.02	4.2
Political awareness	3.66	3.56	3.65	4.26	4.10	4.21	4.19	3.91	4.107
Attitude towards social exploitation	3.62	3.81	3.64	4.22	4.02	4.15	4.31	4.00	4.22
Attitude towards black marketing	3.61	3.88	3.64	4.29	4.10	4.23	4.31	4.17	4.267
Attitude towards child labour	3.55	3.88	3.58	4.26	4.16	4.23	4.32	4.05	4.24
Attitude towards corruption and black money	3.66	4.00	3.69	4.31	4.24	4.29	4.26	4.00	4.187
Attitude towards secularism	3.70	3.94	3.73	4.31	4.24	4.29	4.30	4.05	4.227
Attitude towards environmental concern	3.66	4.00	3.70	4.35	4.22	4.31	4.35	4.17	4.3
Attitude towards alcoholism and smoking	3.71	4.06	3.75	4.44	4.37	4.42	4.22	4.12	4.193

Source: Survey Data

Region-wise, members and non members belonging to southern region and central region have a slight edge over the counterparts in northern region in almost all the variables studied. The aggregate mean scores for all the 12 variables put together among members in northern region is 3.67, indicating 73 percent social participation and awareness. The corresponding figure for non members is 3.89 indicating 78 percent social participation. In central region the mean score is 4.34 for members and 4.22 for non members. In southern region it is 4.26 for members and 4.07 for non members.

From this it can be concluded that in general, social participation, involvement and awareness are high among the rural households in Kerala. PACS have very little role in this respect.

6.4.3 Levels of Social Impact

In the forgoing analysis we have attempted to examine the social impact by comparing the aggregate mean sores obtained by members and non members. In order to know the difference in the levels of social impact, the informants belonging to member groups and non member groups are classified in to three categories viz. Low level of social impact, Moderate level of social impact and High level of social impact as stated elsewhere in the study. The relevant data is presented in table 6.30.

Table 6.30

Distribution of Level of Social Impact among Members and Non members

Region / Level of Social impact	Northern			Central			Southern			Total		
	Members	Non Members	Total	Members	Non Members	Total	Members	Non Members	Total	Members	Non Members	Total
Low	05 (05)	03 (06)	08	04 (03)	02 (12)	06	02 (02)	0 (0)	02	11(03)	05(05)	16
Moderate	45 (45)	28 (55)	73	16 (12)	04 (25)	20	40 (37)	10 (24)	50	101(30)	42(38)	143
High	49 (50)	20 (39)	69	114 (85)	10 (63)	124	66 (61)	32 (76)	98	229(67)	62(57)	291
Total	99 (100)	51(100)	150	134(100)	16 (100)	150	108(100)	42(100)	150	341(100)	109(100)	450
Calculated χ^2 value	1.062			3.241			2.400			3	389	
Table value	--			--			--			5	91	

It can be observed from the table that not much deference is observed in the level of social impact among members and non members of PACS. In the member group the social and environmental awareness and participation are very high in aggregate and region-wise. In aggregate 67 percent members are in the high social impact category, 39 percent moderate category and only three percent members in the low category. The corresponding figures for non members are 57 percent, 38 percent and four percent respectively. The chi-square test result also indicates that there is no significant difference between members and non members in this respect.

Region-wise analysis also presented in the same table, indicates that the social awareness, participation and involvement are very high in the all the three regions of the state among members of PACS and non members. Among the three regions the social impact is relatively less in northern region of the state. But the difference in the levels of social impact between the members and the non members in all the three regions are also not statically significant.

6.4.4. Socio-Economic basis-wise analysis of the social impact among members of PACS

Similar to the study of economic impact of PACS among members analysed on socio- economic basis. This aspect is also analysed gender-wise, economic-status wise, caste-wise, age -wise and occupation-wise in forgoing pages to identify members belonging to which class has higher level of social awareness, involvement and participation.

6.4.4.1. Gender -wise Distribution of PACS Members in Different Levels of Social Impact

The relevant data relating to members of PACS at different levels of social impact is classified gender-wise and presented in table 6.31.

Table 6.31

Gender-wise Distribution of Social Impact among Member Households

Gender \ Level	Low	Moderate	High	Total
Male	5 (02)	82 (29)	192 (69)	279 (100)
Female	6 (10)	19 (30)	37 (60)	62 (100)
Total	11 (03)	101 (30)	229 (67)	341(100)

Source: Survey Data, Figures in brackets indicate percentage to total. χ^2 value = 2.551

From the table it can be seen that among the male members of PACS, 69 percent have high social participation, 29 percent have moderate level social participation and two percent have low level of social participation. In the case of female members the corresponding values are 60 percent, 30 percent and ten percent respectively.

The difference is not statistically significant at 5% level, as seen from the chi-square value of 2.551

6.4.4.2. Economic status-wise distribution of social impact

The relevant data on social impact among members is classified economic status-wise and presented in Table 6.32.

Table 6.32

Economic Status wise distribution of PACS members in different levels of social impact

Economic Status \ Social Impact	Low	Moderate	High	Total
APL	06 (02)	60 (24)	184 (74)	250 (100)
BPL	05 (04)	41 (47)	45 (49)	91 (100)
Total	11(03)	101 (30)	229 (67)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. χ^2 value = 15.764

It can be noticed from the table that economic status-wise, the level of social impact is slightly higher among APL category members than BPL category members. In the former group 74 percent members are in the high level, 24 percent in moderate level and two percent in the low level. The corresponding figures for the BPL group is 49 percent, 47 percent and four percent respectively. The difference is also statistically significant as evident from chi-square value.

6.4.4.3. Social Class-wise distribution of level of social impact among member of PACS

In order to understand whether any difference exits in the level social impact among members belong in to different castes, the relevant data has been tabulated and presented in table 6.33.

Table 6.33
Caste-wise distribution of PACS members in different levels of social impact

Social Impact / Caste	Low	Moderate	High	Total
SC/ST	01 (03)	12 (37)	19 (60)	32 (100)
Backward	05 (02)	65 (33)	130 (65)	200 (100)
Forward	05 (05)	24 (22)	80 (73)	109 (100)
Total	11(03)	101 (30)	229 (67)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total χ^2 value = 7.688

It can be observed from the table that caste-wise, forward caste members have a slight upper hand in social impact as compared to members belonging to backward caste and SC/ST category members. At the same time more than two third of the members belonging to all the categories come under high social impact group. The difference is also statistically significant as revealed from the chi-square value of 7.688.

6.4.4.4. Age-wise analysis of social impact

The relevant data on social impact is tabulated age-wise and presented in table 6.34 to know whether members belonging to any particular age group have higher social impact over others.

Table 6.34
Age-wise distribution of PACS members in different levels of social impact

Social Impact / Age (years)	Low	Moderate	High	Total
Below 30	03 (21)	05 (36)	06 (43)	14 (100)
30 - 50	03 (03)	47 (44)	56 (53)	106 (100)
Above 50	05 (03)	49 (22)	167 (75)	221 (100)
Total	11(03)	101 (30)	229 (67)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total χ^2 value = 22.706

The table shows that age-wise, the level of social impact is the maximum for members above 50 years of age, followed by members of the age group 30 – 50 years. Among the members of above 50 years of age, 75 percent are in the high level, 22 percent are in the moderate level and only three percent are at the low level. The difference is also statistically significant at 5% level.

6.4.4.5. Occupation-wise analysis of social impact

The data relating to social impact among members of PACS is classified occupational basis and presented in table 6.35.

Table 6.35

Occupation-wise distribution of PACS members in different levels of social impact

Occupation \ Social Impact	Low	Moderate	High	Total
Agriculture	01 (06)	04 (22)	13 (72)	18 (100)
Business	02 (04)	17 (30)	37 (66)	56 (100)
Agri- labour	0 (0)	01 (25)	03 (75)	04 (100)
Other labour	03 (04)	28 (30)	61 (66)	92 (100)
Employees	03 (03)	25 (32)	51 (65)	79 (100)
Pensioners	01 (02)	09 (30)	21 (68)	31 (100)
Others	01 (02)	17 (28)	43 (70)	61 (100)
Total	11(03)	101 (30)	229 (67)	341 (100)

Source: Survey Data, Figures in brackets indicate percentage to total. χ^2 value = 0.557

It can be noticed from the table that no significant difference exists in the level of social impact among the members belonging to different occupational classes. The social impact is high In all the occupational classes 65 to 72 percent of members are in the high level of social impact category and 22 to 32 percent members are in the moderate social impact category. It is also noticed from the table that a negligible portion of the PACS members, zero to six percent, come under the category of low level of social impact. The difference in the level of social impact among different occupational class is also not statistically significant as evident from the chi-square value of 0.557.

From the above analysis of social impact the following inference can be made:

- Socially, the people of Kerala are very much conscious. In the social index calculated by taking twelve variables in a five point scale, the aggregate mean value is above 4.0 as against the maximum index value of 5.0, indicating almost 80 percent social conscious.
- In this respect not much difference exists among the members of PACS as compared to non members.
- The positive impact among members and non members are spread in all regions of the state.
- Gender-wise also no significant difference exists in this respect among members of both gender
- Economic-status wise, members belonging to the APL category have higher impact.
- Caste-wise members belonging to the forward caste are benefited more.
- Age-wise, members above 50 year of age benefited more in social impact.
- Occupation-wise, no significant difference exists in the level of social impact among members belonging to different occupational classes.

Testing of hypothesis No.Six

On the basis of the above analysis and conclusion, the null hypothesis No. 6 set in the study that "The PACS in Kerala are successful in creating positive social impact among members and the social impact is independent of demographic and socio economic variables" is rejected.

CHAPTER SEVEN
SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

7.1. Introduction

An underdeveloped economy is characterised by high population growth rate, predominant dependence on agriculture and allied sectors, abundant but underutilized natural resources, low rate of savings, investment and capital formation and low standard of living of the people. In order to solve the problems of underdevelopment, the proper measures for attaining inclusive growth shall be resorted by the national governments. Inclusive growth provides equitable distribution of opportunities among all the sections of the people and leads to lower or no incidence of poverty, significant improvement and equitable access in health services, better education and skill development and good infrastructure facilities and above all, it assures better standard of living to all the sections of the population. Inclusive growth can be achieved through social inclusion and financial inclusion.

7.1.1. Financial Exclusion and Financial Inclusion

Even though the Indian economy exhibits some of the features of underdevelopment, due to the continuous efforts taken by the Union Government after independence, the country is at present in the path of development. The pro-development and anti-poverty programmes implemented by the authorities have succeeded to a certain extent in reducing the gap between the haves and the have-nots, however the disparity in the distribution of income and wealth still prevails strongly in the Indian economy. A large portion of Indians are still deprived of the essential requirements and the necessities of life and they still live a life of misery. They are excluded from the socio-economic infrastructure and remain unincorporated with the main stream economic life of the nation. To overcome the constraints and the consequences of underdevelopment, to bring them to the development process and to distribute the fruits of economic growth to the marginalized and the poor, India along with the other countries of the world has been implementing well defined and effective programmes as a part of the massive financial inclusion drive.

The financially excluded population has to depend upon the informal sectors of finance like money lenders who charge exorbitant rates of interest and resort to unethical practices. The vast majority of the bankable people in the world do not even have a bank account. The minimum financial services access has been denied to them for a long period of time. They suffer from financial exclusion. It is a serious concern which hinders the development process of the country and widens the rich-poor divide. It is estimated that nearly three billion people in the world are excluded from the formal financial services.

Actually financial exclusion is the part of social exclusion prevailing among the various sections of the population. Social exclusion and financial exclusion limit the access by such segments to essential services like education, health care, housing, banking, insurance etc. Therefore the excluded people are compelled to lead a life on a low income, more unaffordable, unstable and stressful living conditions. The exclusion marginalises people and remains a barrier in improving their living standards. The consequences of financial exclusion hamper the economic development of the society. The low rate of savings, small and meagre investments followed by stagnation in different sectors of the economy lead to unemployment, low income and poverty. To overcome a situation like this, the most important need of the day is financial inclusion and inclusive growth.

Financial inclusion is the process of ensuring access to financial services to all the sections of population especially to the weaker and vulnerable sections of the society at affordable costs. For centuries the economically and socially backward sections of the population such as poor and marginalised farmers, small traders and landless labour, women and unorganised sector workers, persons of scheduled caste and scheduled tribe have been excluded from formal finance. The access could be to all or any of the formal financial institutions, financial markets and different payment systems and it includes the use of all or any financial instruments. It is the process of the supply of the financial services to the entire population of the country and bringing the entire population into the formal financial sector at appropriate, fair and transparent means.

7.2. Significance and Scope of the Study

A vast majority of Indian poor lacks access to formal finance even though the Indian Economy, particularly the banking services, has made rapid strides in the past. Despite the vast network of bank branches in India, only 27% of total farm households availed loans from formal sources. Many millions of households do not have access to credit either from institutional or non-institutional sources. In order to address this problem, the Government of India, the Reserve Bank of India and other regulatory authorities implemented a variety of programmes since independence without attaining expected results. Even though banks are fighting to attain the dream of total financial inclusion in India, the available banking products are insufficient to fulfil the needs of the poor and the vulnerable. The fact is that there is a wide range of financial exclusion in the country, especially among the rural households.

Co-operatives especially the PACS are the dealers in such financial products and services which are suitable to the marginalized rural population. The variety of products dealt in by the PACS are suitable to the excluded, the simple and easy methods of dealing with the people and the immediate proximity of such institutions enable them to become the strong agents of financial inclusion in rural India. The general profile of the persons being targeted for financial inclusion indicates that it would be more suitable to the PACS, to offer banking services to all sections of the population without discrimination which would result in greater opportunity to increase the depositor base substantially and thereby attain financial inclusion.

There is strong a co-operative base in Kerala having a wide network of societies functioning in almost all walks of life with the government finance and government initiative. These institutions were developed in Kerala state as a result of mass struggle and massive people's movements. Compared to other Indian states the co-operative movement in Kerala is more participative, creative and comprehensive. It is interesting to note that all the villages of Kerala have been covered by the PACS. The co-operative movement which operates at the grass root level in the Kerala villages is expected to play a crucial role in addressing these deficiencies. All these features disclose the prominent role of the co-operatives especially the PACS in financial inclusion. However, research in this area is very scanty. Particularly, no research has been done on the role of primary credit societies in financial inclusion. The present study is a humble attempt to fill this research gap. Hence the present study, "Role of Co-operative Societies in Financial Inclusion - A Study on Rural Households of Kerala -, has been conducted. The study limits its scope to examine the role of the PACS in financial inclusion in Kerala instead of all the co-operatives.

7.3. Objectives of the Study

In this study an attempt has been made to examine the Role of Co-operatives in Financial Inclusion in Kerala with the specific objectives

- To develop a conceptual framework of financial inclusion
- To examine the growth pattern of the PACS in Kerala.
- To analyse the access to financial products among the rural households and their penetration level among members.
- To study the level of financial inclusion of rural population of Kerala through the PACS.
- To examine the economic impact of the PACS in financial inclusion on rural households of Kerala.
- To study the social impact of the PACS in financial inclusion on rural households of Kerala and
- To offer suggestions for improving the extent of financial inclusion through the PACS.

7.4. Hypothesis of the Study

Based on the objectives the following hypothesis have been formulated and tested.

Hypothesis 1

The PACS in Kerala have achieved reasonable growth during the period under study.

Hypothesis 2

The rural households in Kerala have reasonable access to financial products and services.

Hypothesis 3

The PACS in Kerala are successful in penetrating various products among members

Hypothesis 4

The PACS in Kerala are successful in achieving financial inclusion in the state. The level of financial inclusion among members is independent of demographic and socio-economic variables.

Hypothesis 5

The PACS are successful in creating a positive economic impact among members in the state. The economic impact is independent of demographic and socio-economic variables.

Hypothesis 6

The PACS are successful in creating positive social impact among members. The social impact is independent of demographic and socio-economic variables.

7.5. Research Methodology

The study has been designed as a descriptive one based on both secondary and primary data. The relevant secondary data have been collected from the publications like books, journals, periodicals and newspapers, Report of Registrar of Co-operative Societies, Kerala, NCU, and RBI Report. It is mainly based on the primary data collected from the selected sample households from three regions of the state viz. the Northern Region, the Central Region and the Southern Region. For the purpose of data collection an undisguised personal interview method has been adopted with the help of a structured interview schedule. The level of financial inclusion in Kerala has been assessed with the help of the primary data.

7.5.1. Sample Design

The primary data have been collected from sample households selected from three regions of the state by using multi stage random sampling technique. Firstly the state is divided into three regions on geographical basis and from each region one district is selected as first stage sample unit and from each district three grama panchayaths have been selected at random. From each grama panchayath two wards have been selected at random and from each ward twenty five households have been chosen at random with the help of the revenue records of the state. Thus a total of four hundred and fifty sample households have selected for the study. Out of this three hundred and forty one are PACS member households and one hundred and nine are non member households.

7.5.2. Research Instrument and Method of Contact

For the purpose of data collection a comprehensive interview schedule has been prepared covering all aspects of the study. It has been pre-tested for reliability and validity by using Cronbach's Alpha Reliability Analysis. The investigator has personally administered the interview schedule in an undisguised mode.

7.5.3. Variables Used for the Study

For the purpose of the study seventy variables have been used with the following details.

- For analyzing the personal profile of the respondents the variables like membership status, gender, age, economic status (APL/BPL), social class status like religion and caste, education, occupation, annual income, ownership of house, land holdings etc have been analysed.

- For assessing the access to financial services ten variables have been analysed which are Bank account status, Number of bank accounts, Types of accounts, Distance to nearest bank, No frills accounts, Period of holding accounts, Frequency of operating accounts, Agency for credit services, Motives behind opening accounts and Insurance services

- For measuring the penetration level of products of PACS eight variables are used such as Proportion of members using financial and non financial products, Most popular deposit products, Most popular loan products, Non banking services, Length of period of use of PACS products, Reason for preferring PACS, Members' satisfaction with PACS products and Service quality of PACS.

- For evaluating the level of financial inclusion in Kerala the following five dimensions are used as Savings with PACS, Credit from PACS, Other banking services offered by PACS, Innovative banking services offered by PACS and Insurance services.

- For studying the growth pattern of PACS in Kerala five variables have been analysed. They are Number of PACS, Total membership and average membership, Paid up share capital and average share capital, Deposits mobilized and average deposits and Loans granted and average loans issued.

- For measuring the economic impact of financial inclusion among beneficiaries three variables are used such as Income, Employment and Assets.

- For measuring the social impact twelve variables are used such as Involvement in social activities, Awareness about woman empowerment, Attitude towards education, Health awareness, Political awareness, Attitude towards social exploitation, Attitude towards black marketing, Attitude towards child labour, Attitude towards corruption and black money, Attitude towards secularism, Attitude towards environmental concern and Attitude towards alcoholism and smoking.

- For evaluating the service quality of PACS sixteen different variables have been studied such as PACS adhere to co-operative principles, PACS adhere to democratic principles, PACS are the local banks of the Grama Panchayaths, PACS offer personalized services, PACS adopt informal dealings, PACS provide sufficient physical facilities, PACS enable banking in local language, PACS offer quick dealings, PACS have social involvement and service motive, Membership in PACS creates 'own bank' feeling, PACS offer higher rate of interest on deposits, PACS enable participation in management through elected Board of Directors, PACS aim to minimize exploitation by money lenders, PACS help to reduce bureaucratic evils, Employees of PACS are mostly natives and so highly approachable, Employees of PACS are courteous and helpful and PACS strengthen agriculture and improve access to poor farmers.

7.5.4. Method of Measuring Impact

For measuring the impact of various aspects of financial inclusion with or without approach is followed by the researcher. Members of PACS are compared with non members on identical variables.

7.5.5. Multi-Dimensional Demand side Financial Inclusion Index

A Multi-Dimensional Demand side Financial Inclusion Index (MDDFII) has been constructed to measure the level of financial inclusion of the rural population of Kerala. It is a measure that aggregates ten variables of five dimensions of financial inclusion into a single index. The demand side data on five dimensions of financial inclusion viz. savings, credit, other banking services, innovative banking services and insurance have been collected from sample respondents using ten variables. MDDFII scores have been grouped into four categories that indicate different levels of financial inclusion. Score one to nine shows financial exclusion, 10-29 gives low level of inclusion, 30-59 is the moderate level of inclusion and the score of 60 and more shows the level of high financial inclusion.

7.5.6. Data Analysis

The detailed analysis of the data has been conducted with the help of many mathematical and statistical tools like percentages, averages, standard deviation, chi-square test, constant sum scale method, Likert's five point scale method, regression coefficient analysis, CAGR etc.

7.5.7. Limitations of the study

The social science researches generally have many limitations. Being a social science research, the same limitations are seen here. The main limitations of the study are:

1. Most of the information is qualitative in nature. Scaling technique is used to quantify it. The limitations of scaling technique apply for this study also. However efforts have been made to reduce it by using more scientific scaling techniques.

2. Informants represent the rural households who do not maintain proper records. Therefore there is the chance for the occurrence of the recall errors by respondents. However efforts are made to reduce them to the minimum level.

3. An element of bias in answering the questionnaire also cannot be ruled out.

4. The reluctance on the part of the respondents to reveal financial information prevented the researcher from collecting more financial data relevant to the study.

7.6. Presentation of the Thesis

The entire work of the thesis has been systematically arranged in seven chapters. The introductory chapter presents the theoretical backdrop of economic development, inclusive growth and financial inclusion, objectives of the study and methodology followed in exposing various aspects of the study. The second chapter gives a review of literature relevant to the study while the third chapter of the study deals in the conceptual frame works of financial inclusion and its experience abroad, in India and in Kerala. The fourth chapter deals in the growth pattern of PACS in Kerala, while the fifth and the sixth chapters are devoted to analyzing the primary data relating to access to financial services and penetration level, the role of PACS in financial inclusion, its social and economic impact on beneficiaries. A brief summary and findings are given in the last chapter.

7.6.1. Review of Literature

The topic financial inclusion is highly significant and has vast relevance, so that it inspired many researchers to conduct studies on the various aspects connected with it. Such back ground literature available on the topic has been thoroughly reviewed by the researcher in the second chapter of the thesis. For this purpose the researcher has referred available national and international publications like books, research journals and published magazines on financial inclusion, banking and finance, financial institutions, economic growth and development and inclusive growth. More over the reports published by many governmental and regulatory institutions are also referred to by the researcher to have a comprehensive understanding about the research topic. The help of the electronic data sources like internet are also resorted to by the researcher to get up-to-date information on the subject.

These studies are reviewed and presented briefly by classifying them into suitable broad headings viz. financial inclusion: a general view, financial inclusion and financial institutions, financial inclusion and technology and financial inclusion and development. The studies on financial inclusion and financial institutions are elaborately examined and their role and significance in promoting financial inclusion is clearly identified. The reviews on these studies are again classified and summarized here under proper sub-titles such as Commercial banks, Co-operative banks, Self-help groups / Micro finance institutions, Regional rural banks and Regulators. All these helped the researcher to have a proper understanding on the subject, exposure to different methodologies followed and various strength and weaknesses of these studies.

The reviews indicate that most of the studies analysed the different aspects of economic development, inclusive growth, co-operatives and financial inclusion. The level of financial inclusion in different countries of the world, in different states and union territories of India and in different parts of Kerala has been revealed by the reviews. The significance of various financial institutions involved in promoting financial inclusion in India and abroad has been analysed and their role in improving financial inclusion among the various sections of the population also was revealed by these reviews.

Along with the discussion on financial inclusion the literature review also carried out the evaluation of the nature and the functions of banking, banker-customer relationship, commercial banking in India, RRBs and their significance, SHGs and MFIs and their role in providing financial assistance to the marginalized and the regulatory functions performed by the GOI, the RBI and the NABARD. Moreover a detailed analysis on the topic of Co-operative societies, the nature and the method of functioning of the PACS and other co-operatives, their significant role in the rural and agricultural financing and the importance of the PACS in financial inclusion has been carried out by reviewing the extensive literature on the relevant topics.

The review has discussed various aspects like access to and availability of financial products and services, their features, significance and impact. Thirty three different published studies have been referred by the researcher and inferences drawn out of them. These previous studies have discussed the features of financial inclusion in India, its need for economic and social development, the influence of the demand side and the supply side factors on financial inclusion and the difficulties that the GOI is facing to implement different programmes of financial inclusion. This part of the literature also has explored the extend of the level of financial inclusion among different sections of population belonging to different economic and social classes. It has observed the impact of financial inclusion on poor and marginalized sections of the population.

Sufficient literature was available on the topic of Financial Inclusion and Financial Institutions. In this respect studies on the financial institutions like Commercial Banks, Co-operative Banks, SHGs/MFIs and RRBs were referred and inferences drawn. As regards to Commercial Banks twenty four different reviews have been analysed, thirteen reviews on Co-operatives, twenty two on SHGs/MFIs, three on RRBs and eight reviews have been carried out on Regulatory Institutions. On the topic of Financial Inclusion and Technology the review of nine available studies were made to have sufficient information on the relevant topic. In respect of the topic of financial Inclusion and Development, eight previous studies have been identified and analysed to collect necessary information.

From the review of the elaborate literature the researcher has acquired sufficient knowledge on the various aspects of financial inclusion which helped him to prepare the present study. However it is to be noted that the major portion of the previous studies analysed did not fully match with the requirements of the current study. This was seen especially in the case of the topic on the Co-operatives and the financial inclusion. The available literature on this topic was very little in number and content and so, the researcher could not rely fully upon these publications. Most of the empirical studies on the role of financial institutions in achieving financial inclusion are based on Uni-Dimensional approach. In this study the researcher has followed a Multi Dimensional approach in addressing the problem. This makes the present study distinct from all the previous studies in this area.

The thorough analysis of the background literature had revealed that the GOI, the RBI and other regulators have taken a lot of measures to implement financial inclusion effectively and succeeded to a certain level in India. All the Indian states have implemented financial inclusion plans of their own in addition to the steps taken by the central government in this behalf. The literature review affirmed the need of effective financial inclusion for bringing the excluded into the arena of formal finance and to accelerate the pace of development. The elaborate review conducted by the researcher has clearly pinpointed the significance of the many formal financial institutions in financial inclusion, but has identified the existing research gap in the role of co-operatives in financial inclusion. Hence this study, The Role of Co-operatives in Financial Inclusion (A Study on the Rural Households of Kerala) has been proposed by the researcher to bridge this wide research gap.

7.6.2. Conceptual Framework of Financial Inclusion

Chapter three provides a conceptual and theoretical overview of financial inclusion and describes topics of financial exclusion, its causes and consequences, the people excluded, the objectives of financial inclusion, Financial Inclusion: Global Experience, Financial Inclusion: Indian Experience, Financial Inclusion: Kerala Experience and Indian initiatives for financial inclusion. The definition of financial inclusion given by the scholars and authorities on the topic has been analysed and the meaning and the scope of the subject have been properly interpreted. The various components on financial inclusion like access, affordability, appropriateness, usage, quality, consumer financial education, innovation and diversity and simplicity etc. have been dealt in and explained how these components are leading to good financial inclusion. It aims to provide access to a wide range of cost- effective financial services, ensure the existence of sound financial institutions, bring the equitable growth of all sections of the society, execute poverty eradication programmes and effective execution of sustainable livelihood measures.

Financial exclusion is a world-wide phenomenon and over two billion people are found excluded globally. The situation is worse in all the least developed economies of the world especially in sub-Saharan African countries where over 76 percent of the population remains excluded. The countries of Latin America and Asia also face the same problem. The problem of financial exclusion is also found even in several developed countries to the extent of 10 to 20 percent of the population. It is found that 56 percent of adults worldwide are unbanked, 17 percent for high income economies and 64 percent for developing countries. The factors of geographical remoteness, illiteracy of the people, lack of cost- friendly banking products, language barriers, poverty and poor income lead to financial exclusion. Thus access exclusion, condition exclusion, price exclusion, marketing exclusion and self exclusion prevail among the marginalized vulnerable groups of the society

The 2014 Global Findex data reveals the level of bank account penetration among the countries of the world. It shows that there is hundred percent financial inclusions among adult population having bank account access in five countries. The rate of adult access to bank accounts in Philippines is the highest, 311 percent. Twenty eight countries out of sixty, studied by the Findex reveal that adult population's access to bank account is less than fifty percent. It is a pity to note that five countries of Guinea, Madagascar, Niger, Turkmenistan and the Yemen Republic possess only less than ten percent adult access to bank accounts. The country of Turkmenistan has the lowest adult access rate, only two percent, followed by the Yemen Republic with six percent.

The progress of financial inclusion among the adult woman members of world population is worse compared to that of their male counterparts. The magnitude of financial inclusion is gender-wise equal in a very few countries. In other world economies, gender-wise the woman adult population is significantly far below in respect of the rate of financial inclusion when compared to the inclusion level of the entire population. The region-wise analysis of the Global Findex shows that the high income OECD countries have attained almost hundred percent financial inclusion, while the Middle East Asian countries have the lowest percentage of financial inclusion. The Sub-Saharan African region also lags behind in the bank account penetration and financial inclusion compared to the world average level and the level of other regions of the world.

Financial inclusion has gained a significant momentum during these years at the global level. Over the past decade financial inclusion has risen as a global priority extending effective, client-centered and affordable financial services especially to low income population creating countless opportunities.

The G-20 countries endorsed a set of financial inclusion indicators to measure the level of inclusion in their countries. Many countries have taken measures like nationalization of private banks, promoting specialized banks including national savings banks, lending at concession rates to low and marginal income groups, enactment of laws to ensure the accessibility of formal finance, community based savings and credit etc.

The Afro-Asian countries resorted to nationalization of private banks to expand and extend banking services to the people of low income segments. Many countries of the world have the initiatives such as the policy of branch expansion, micro finance institution promotion, formation of Self Help Groups, establishment of rural banks, creation of financial inclusion fund, encouraging of credit unions and co operatives, introduction of basic no-frills bank accounts, promotion of the Post Office savings banks, opening of savings gate way, free ATM facilities and setting up of community finance learning initiatives to promote basic financial literacy.

The position of India is also not satisfactory; the rate of access to bank accounts in India is only 53 percent, compared to 13 percent of Pakistan, 31 percent of Bangladesh, 15 percent of Srilanka and 79 percent of China. As far as the bank penetration rate of Indian adult women is concerned, it is only 43 percent in comparison with 53 percent of the adult average rate. This reveals that the women are far behind in financial inclusion than the adult males. In India, the small and marginal farmers, social housing tenants, urban slum dwellers, migrants and refugees, ethnic minorities, employees of unorganized sectors and the poor suffer from the consequences of financial exclusion. Their miseries and problems can be solved to a greater extent by resorting to the measures of financial inclusion.

The Indian initiatives for financial inclusion have been discussed in the chapter by dividing into three phases:

Phase I – Post independence period up to 1991: Banking sector consolidation and channeling of credit to priority but neglected sectors

Phase II- Post reforms period 1991-2005: Strengthening of financial institutions through financial sector reforms

Phase III- Recent initiatives since 2005: Introducing financial inclusion as a financial policy of the GOI

In all these different phases, the GOI, the RBI and the NABARD along with the state governments, have implemented a variety of anti-poverty, Pro-developmental and inclusive programmes, which has found a space for discussion in the third chapter of the study. The most recent programmes like Jan Dhan Yojana, Payment Banks, PMJJBY, PMSBY and Atal Pension Yojana etc. also included and explained in the same chapter. A discussion on financial inclusion and financial institutions also has been conducted in the same chapter. The chapter conducts a discussion on financial inclusion and the RBI, financial inclusion and commercial banks, financial inclusion and SHGs, financial inclusion and Regional Rural Banks, financial inclusion and NBFCs and financial inclusion and Insurance companies. All these topics are included in the Indian Experiences.

The topic, Financial Inclusion – Kerala Experiences, deals in the 'Kerala Model Development' process and the supremacy and the superiority of Kerala in many socio-economic features over the other states of India. The discussion gives an idea regarding the type of development that the state of Kerala has achieved through land reforms, public action, gender equality, inclusive education to the marginalized and the women, a high rate of social security measures and proper state intervention.

The various welfare measures taken by the state also has been discussed. Such measures include the public distribution system, pension schemes for agricultural workers, artisans, senior citizens and the destitute women, the unemployment allowance to the educated unemployed youth, free educational and medical facilities, Kudambasree mission programmes, Kerala 'Saksharatha' campaign, welfare fund benefits to almost all categories of the labour force etc.

added to the popularity of the model. Kerala is a typical example for the economies that successfully address the important social needs without resorting to large budgets. The Kerala model has been promoting welfare of the people by giving priority to welfare of the people rather than to growth.

The banking history of Kerala follows next in the order of discussion in the chapter. The formation of different banks, especially the establishment of the Nedungadi Bank, the one among the first five banks started in India during the nineteenth century, the State Bank of Travancore, and many other banks and their operations in financial inclusion also are discussed in the chapter. It also discusses how the households of Kerala had developed a habit of maintaining access to the financial services like savings, deposits, credit and money transfer.

The banks, chit funds, co-operatives and other institutions functioning under the regulated mechanism operating with industry performance standards have persuaded people to maintain proper access to financial services. The availability of local sources of savings and credit, institutional soundness, sustainability and cost affordability have helped to ensure the continuity of access and to attain financial inclusion earlier than the other Indian states.

The Crisil Inclusix, 2015, reveals that Kerala ranks first in the level of financial inclusion amongst the large Indian states. The State of Kerala has achieved 100% Financial Inclusion. A declaration to this effect was made on 24th December, 2007 by the Honorable Union Minister of State for Finance, Shri Pawan Kumar Bansal in the SLBC meeting held at Trivandrum. This achievement had been based on the criteria of coverage of all households of Kerala having at least one bank account. Source: Compiled from SLBC, Kerala for various years.

The overall financial inclusion index of Kerala overtakes all other states of India. Among the fourteen districts of Kerala, six have attained 100 percent financial inclusion as per the Crisil inclusix, while five of them have 85%

inclusion and the remaining four districts achieved more than 80% financial inclusion.

7.6.3. Growth Pattern of PACS in Kerala

The growth pattern of the PACS in Kerala has been analysed in the fourth chapter of the study which brings out the historical sketch and further development of co-operatives in India and Kerala. The origin of co-operative societies, the definitions, the nature and concepts, the co-operative principles, the significance of co-operatives, their objectives, enterprise characteristics of co-operatives etc. are explained in the introductory part of the fourth chapter. The co-operative movement in India, its origin, growth and development are also explained in detail. The enactment of the first Co-operative legislation in India in 1904, further Acts and amendments followed and the exclusive regulatory frame work constructed for the co-operative sector are brought in the study.

The chapter also points out the efficiency of the co-operatives to fight against the evils and the drawbacks of globalization. Thereafter functional and legal classification of co-operatives has been discussed. Finally the chapter explains in detail the growth pattern of the PACS in India and Kerala. The chapter concludes that Primary Agricultural Credit Societies and Primary Agricultural Development Banks are the main Co-operative institutions providing credit to the farmers and the agriculturists. The PACS, known as Service Co-operative Banks (SCBs) in Kerala, have a vital role in distributing agricultural and non agricultural credit to the people of the state and safeguard the interest of the members. In the co-operative credit movement of Kerala the PACS occupy a prominent place by having more than 1600 banks with 397 lakh members at the end of March, 2014.

The fifth chapter of the thesis examines the role of co-operatives in financial inclusion by employing different indicators and variables useful for the analysis. This chapter also presents an evaluation of demographic economic and social aspects and their impact on financial inclusion among rural households of Kerala.

The chapter six of the study evaluates the level of financial inclusion in Kerala by using MDDFII to bring out Multi-Dimensional score of inclusion in Kerala. It also assesses the economic and social impact of financial inclusion.

The seventh and final chapter gives the summary, findings, suggestions and conclusion of the study.

7.7. Major Findings of the Study

The study reveals the following findings:

7.7.1. Growth of PACS in Kerala

- There is very negligible rate of growth in the total number of PACS and average number of PACS in Kerala during the study period.
- The number of members of PACS recorded negligible rate of increase during the five year period of analysis. Similar result is seen in the volume of average membership of PACS also.
- The paid up capital of the PACS and the average paid up capital during the study period also have noticed low rate of increase even though there is slight fall in the volume in some years of the period of analysis.
- There is notable increase in the volume of deposits and average deposits in the PACS during the study period which shows good growth in PACS of Kerala.
- The same pattern of growth in loans advanced by PACS of Kerala is revealed by the secondary data analysis which is due to increase in the volume of total and average loans issued by the PACS during the study period.

- **Conclusion**

The variables such as number of PACS, number of members and paid up capital do not show noticeable increase, while the variables of deposits and loans used to study the impact of growth have revealed positive result in this respect.

Testing of Hypothesis No. One:

Based on the above analysis and conclusion regarding the growth of PACS in Kerala, the null hypothesis No. 1 that "PACS in Kerala have achieved reasonable growth during the period under study" is rejected.

7.7.2. Profile of the Respondents

- Of the total respondents 76 percent are members of PACS and remaining 24 percent are non members.

- Religion wise, 73 percent are Hindus, 16 percent Christians and 11 percent are Muslims. Membership status-wise 77 percent members are Hindus, 10 percent Christians and 13 percent Muslims. Corresponding figures for non members are 61 percent, 36 percent and three percent respectively.

- Caste-wise 49 percent are backward caste, 43 percent are forward caste and only eight percent comes under SC/ST category in aggregate. Among the PACS members 59 percent belong to backward caste, 32 percent belong to forward caste and nine percent belong to SC/ST category. Among non members the respective percentages are 19 percent, 78 percent and three percent.

- Gender-wise, 81 percent respondents are males and 19 percent females. Of the PACS members 82 percent and 18 percent respectively represent male and female respondents, while the respective percentages of non members are seventy seven and twenty three respectively.

- Age-wise, the majority of respondents in aggregate and membership status-wise, belong to above 50 years category.

- Education-wise majority of respondents in aggregate and membership status-wise are having primary or secondary education.

- In respect of occupation 28 percent are other labour category in aggregate followed by employees and business people.

- Annual income-wise 59 percent respondents in aggregate are having income upto one lakh per annum, 35 percent of the respondents have income from one to three lakhs. More or less similar pattern is seen among the members and the non members.

- Economic status-wise74 percent are APL category and 26 percent BPL category. Membership-status wise also similar pattern is observed.

- Almost all the respondents both in aggregate and membership status-wise are living in own house.

- Regarding land holding 45 percent respondents in aggregate are holding upto 10 cents of land, 27 percent respondents are holding 10 to 30 cents and 20 percent respondents are holding 30 to 50 cents. Almost similar pattern is seen among the members and the non members.

7.7.3. Access to Financial Services

- In aggregate 92 percent have bank accounts. Among members it is

  slightly higher.

- Regarding more than one bank account, 20 percent of the respondents iaggregate, 18 percent among members and 30 percent among non members are having more than one bank account.

- Savings Bank Account is the most popular deposit product in

  general.

- The distance to banks to majority of member respondents is less than one kilometer, for non members it is 1-2 kilometers.

- 21 percent of the respondents have No frills account.
- Regarding the frequency of operation the majority of respondents in aggregate and among members and non members are operating once in a month.
- Majority of the member respondents hold bank accounts for a period of more than five years and the non members for the duration of 2-5 years.
- Among members the PACS are the most preferred agency for the credit service. Non members mostly prefer commercial banks.
- Availing loan is the most important motive for opening a bank account among members and in aggregate. Among non members savings is the main motive.
- Very few respondents have insurance products both among members and non members.

Conclusion:

On the basis of the above findings it can be concluded that the rural households in Kerala have reasonable access to financial products and services.

Testing of Hypothesis No. Two:

On the basis of the above conclusion the hypothesis No. Two that, "The rural households in Kerala have reasonable access to financial products and services" is accepted.

7.7.4. Penetration of PACS products

- Product penetration level is maximum for loan products, (81 percent) followed by deposit products (70 Percent) and chitty (40 percent) among the PACS members.

- Among the deposit products, savings bank account is the most popular (61 percent). In the case of loan products agriculture loan (53 percent), gold loan (50 percent) and personal loan (47percent) are most popular.
- Among the non banking services, festival markets are mostly attracted by the members.
- Members have expressed more than 80 percent satisfaction with regards to various procedures adopted by PACS in offering products and services.
- Regarding the length of period of using the PACS products, the mean period is 8.5 years for the deposit products, 7.1 years for the loan products and 6.3 for the MDS products.
- Members of the PACS are highly satisfied with the quality of services offered.

Conclusion

From the foregoing findings it can be concluded that the penetration level of the PACS products in Kerala is reasonably high.

Testing of Hypothesis No. Three:

On the basis of the above conclusion the hypothesis No. Three that, "The PACS in Kerala are successful in penetrating various products among members" is accepted

7.7.5. Role of the PACS in Financial Inclusion

- The magnitude of financial inclusion is 52 percent in aggregate, 54 percent for members in the PACS and 46 percent for the non members. The difference in the mean scores between the members and non members are statistically significant.
- Region-wise the positive impact is maximum in the southern region and lowest in the northern region.

- Regarding the number of households in different levels of financial inclusion, in aggregate, 65 percent of total members and 43 percent of the non members are in the high level of financial inclusion. 19 percent of members and 30 percent of non members are at the moderate level of financial inclusion. 15 percent of members and 23 percent of the non members are at the low level of financial inclusion. The percentage of members and non members in the financially excluded category is very low.

- Region-wise the positive impact is maximum in the central region followed by the southern region and the northern region.

7.7.6. Socio Economic Factors and the Level of Financial Inclusion

- Gender-wise the level of financial inclusion among the PACS members is slightly higher for male than female members, the difference is not statically significant.

- Economic status-wise also no significant difference is observed in the level of financial inclusion among members belonging to the APL and the BPL categories.

- Social-class wise not much difference is observed in the level of financial inclusion among different classes of members.

- Age-wise also no significance difference is observed in the level of financial among the members belonging to different age groups.

- Occupation-wise also no significant difference is observed in the level of financial inclusion among the members belonging to different occupational classes.

Conclusion

From the above findings it can be concluded that there is a high level of financial inclusion in Kerala. At multi-dimensional level as disclosed by the MDDFII the magnitude of financial inclusion is 52 percent. It is further observed and statistically proved that the PACS in the state have created positive impact in the financial inclusion process carried out in Kerala. The level of financial inclusion among the PACS members is significantly higher than that of non members. Further the analysis of the level of financial inclusion among the members of different socio economic class not much difference is observed as indicated by the chi-square values. This shows that member households in all socio economic classes have benefited from it.

Testing of Hypothesis No. Four:

From the above findings and conclusion the null hypothesis No.Four set at the beginning of the study that, "The PACS in Kerala are successful in achieving financial inclusion in Kerala and the level of financial inclusion among members is independent of demographic and socio economic variables" is accepted.

7.7.7. Economic Impact of Financial Inclusion by PACS

- Regarding income impact 68 percent members have reported increase in income since availing loans. The corresponding figures for non members are 38 percent.
- The positive increase in income of the members as compared to non members is also observed in all the three regions of the state.
- Regarding employment increase, 57 percent of the members reported positively while 28 percent of the non members reported the same in aggregate. In the rate of increase also it is higher among members of PACS as compared to non members.
- Region-wise this positive impact is spread over all the three regions of the state.
- Regarding the impact on asset creation members of PACS are ahead of non

members in aggregate. Among members 63 percent has reported increase in wealth. Among non members only 52 percent has reported the same in aggregate.

- Region-wise also wealth creation is more among members of PACS as compared to non members in all the three regions of the state.

7.7.8. Economic Impact and Socio Economic Profile

- Regarding income impact, gender-wise male members of the PACS have benefited more than female members in terms of income increase.
- Economic status-wise members belonging to the APL category have benefited more than members belonging to the BPL category in this respect.
- Social class-wise Caste-wise, no difference exists in the income impact among members belonging to different castes.
- Members in the age group of above 50 years benefited more in income impact than members belonging to other age group.
- Occupation-wise, the benefits of income increase are spread over all occupational classes.
- Regarding employment impact, gender-wise, male members are the major beneficiaries of the financial inclusion measures of the PACS on employment generation
- Economic-status wise, members belonging to the BPL category benefited more.
- Social class-wise members belonging to SC/ST category benefited more.
- Age-wise, members in the age group of fifty years and above have benefited more

- Occupation-wise, farmers, pensioners and members belonging to other occupational class also benefited more.
- Regarding asset increase, gender-wise not much difference exist in asset creation. Members belonging to both sex have had positive impact in this respect.
- Economic status-wise also not much difference exists in asset creation. Members belonging to both the APL and the BPL categories have made reasonable positive impact in this respect.
- Social class-wise backward caste people have benefitted more in respect of asset impact.
- Age-wise also no significant difference exists in asset creation among members.
- However occupation-wise members belonging to the category of others, employed people, agricultural labourers and farmers have benefited more.

Conclusion

In all the three variables used to study the income impact viz. income generation, employment generation and wealth generation, members of PACS are ahead of non members in aggregate and all the three regions of the state and socio-economic status-wise there is not much difference in economic impact among members.

Testing of Hypothesis No. Five:

Based on the above analysis of the impact of PACS in the economic upliftment of the people of Kerala, the null hypothesis No. Five that "The PACS in Kerala are successful in creating positive economic impact among members and the economic impact is independent of demographic and socio-economic variables" is accepted.

7.7.9. Social Impact of Financial Inclusion by PACS

- Socially, the people of Kerala are very much conscious. In the social index calculated by taking twelve variables in a five point scale, the aggregate mean value is above 4.0 as against the maximum index value of 5.0, indicating almost 80 percent social conscious.
- In this respect not much difference exists among the members of PACS as compared to non members.
- The positive impact among members and non members are spread in all regions of the state.
- Gender-wise also no significant difference exists in this respect among members of both gender
- Economic-status wise, members belonging to the APL category have higher impact.
- Caste-wise members belonging to the forward caste are benefited more.
- Age-wise, members above 50 year of age benefited more in social impact.
- Occupation-wise, no significant difference exists in the level of social impact among members belonging to different occupational classes.

Conclusion

From the above findings it can be concluded that there is a high level of social impact of financial inclusion in Kerala. This is proved by the social index value of four against the aggregate value of five. There is no significant difference in social impact of financial inclusion among members of PACS and non members. Similarly there is not much difference seen in social impact of financial inclusion among members belonging to different socio-economic classes

Testing of hypothesis No. Six

On the basis of the above analysis and conclusion, the null hypothesis No. Six set in the study that "The PACS in Kerala are successful in creating positive social impact among members and the social impact is independent of demographic and socio economic variables" is rejected.

7.8. Conclusions of the Study

On the basis of the above findings the following conclusions are drawn by the researcher.

- In many of the developed countries of the world one to seventeen percent of the adult population lack even a bank account of any kind. Countries with low disparity in income distribution among the people have low financial exclusion, while the countries with large income inequality exhibit proportionately increased rates of exclusion.

- Co-operatives, credit unions and post offices are considered as the most effective financial institutions to increase the access of the marginalized and to overcome the problem of financial exclusion.

- Exclusion from financial services limits the opportunities of the poor to improve their lives and to manage financial risks efficiently. A sizable portion of the excluded population lives in the debt trap. They have to cling to the unlicensed money lenders and loan sharks.

- In the recent years financial literacy is mostly discussed increasingly by the countries of the world. It helps to take proper judgment and effective decision regarding the money management and financial development. The financial illiteracy is high among the people living in deprived communities.

- The problem of financial exclusion is a global phenomenon and over two billion people are found excluded globally from financial services. In most of the developing countries only a minority of the population have access to formal finance leaving the vast majority outside the formal institutional net work.

- The situation is worse in the least developed countries particularly Sub-Saharan African countries where more than 76% of the population remains excluded. The countries of Latin America and Asia also face the same problem.

- The rural population brought into banking network has increased tremendously during the last decade. The excluded Among the Indian adult population female adults are more financially excluded than the male adults.

- The role of the co-operative banks in rural and agricultural lending has improved highly and reached to more than one fourth of the total of the institutional lending in 2002. However the increasing growth rate in this respect has not improved since 2010.

- The SHGs in India have succeeded in bridging the excluded sections with the formal financial system. They encourage the habit of savings and providing credit facilities. They provide micro finance to the marginalized especially the women in the rural areas.

- The NBFCs play a vital role in widening access to multiple financial services, enhancing competition and diversification of the financial sector. They are at present, executing the financial services to promote the agenda of inclusive growth and financial inclusion.

- The provision of Micro Insurance Regulation, 2005, facilitates financial inclusion in the area of insurance services at an affordable cost.

- The Kerala Development Model has helped to reduce the gap of financial exclusion among the various sections of the population of Kerala. The gap between the backward and the advanced regions of the state has been narrowed substantially.

- The Kudumbasree Mission and the MGNREGS have contributed a lot in addressing the problem of financial exclusion in Kerala. The Kudumbasree Programme empowers the marginalized and poor women financially and socially. The MGNREGS guarantees employment and wages to the poor women employees for a certain number of weeks. The payments of these schemes are made through banks only and thereby access to banks increased.

- The 'Saksharatha' Campaign, People's Planning Programme, different social welfare pension Programmes and other progressive movements taken place in the state, has helped Kerala to achieve hundred percent financial inclusion in the state.

- The co-operative sector is very strong in Kerala with 12 apex societies, 14 district co-operative banks, 3286 credit co-operatives other than PACs and 1602 PACS as per the latest published data. This wide network of co-operatives helps to magnify financial inclusion in Kerala by providing financial services to the members.

- The state of Kerala has attained hundred percent financial inclusion level as there is no significant influence of economic and demographic factors like religion, caste, education, occupation, ownership of house property possession of land etc. All the people in the state, irrespective of these factors, have improved access to formal finance.

- The PACS in Kerala, by extending access to all sections of population to different banking products and services and to non banking services, have become one of the most significant financial institutions in the state. In number as well as in money volume, the PACS in Kerala are serving the major portion of the adult population of our state. They influence the rural households in the day today life of the people by mobilizing their small savings and providing the necessary advances. They are progressing and developing by themselves and trying their best to introduce modernization and up-gradation of technology in the banking business and to provide better quality services to the members. No doubt, the PACS in Kerala are in the frontline in the move towards financial inclusion and financial deepening in the state.

7.9. Suggestions

Based on the findings of the study and the observations of the researcher the following suggestions are offered for improving the working of the PACS and also for upgrading their role in financial inclusion.

- Many of the PACS, at present, are operating continuously in losses for many years. This will hamper their efficiency in the conduct of banking business. Moreover this loss making phenomenon leads to confidence-shake among the members. They should revamp their business in such a manner that the operating efficiency is improved and the loss making tendency is reversed.

- Necessary steps are to be taken to improve the potential of the PACS in enhancing their business volume so that more and more rural households and people can be brought into the formal financial network. Both deposit volume and loan volume are to be increased. This will add to the scope of their financial inclusion initiatives.

- The functioning of the PACS as financial institutions is not in accordance with the prudent financial principles. This is due to the lack of efficient and professional management. This drawback can be overcome by introducing new policy of appointing professionals in the management posts of the PACS. The professionalism in management empowers the PACS to compete among themselves and with other financial institutions. Professionalism is highly required to strengthen financial inclusion in the state.

- The PACS may be converted to the banks of local self governments like the grama panchayaths, so that the entire welfare assistances disbursements can be made through the PACS. This policy will increase the number of operating savings accounts with the PACS.

- The traditional way of conducting the banking business does not attract more clients and households. The recent changes introduced in the Indian banking industry may be adopted in the co-operative sector also. Then only they can satisfy the financial needs of the customers and the members.

- The PACS are have to register the documents of title deeds for taking the landed property as security for loans as insisted by the provisions of the Co-operative Act. It results in the incurring of huge registration fees to the borrower. Such provisions of the Act may be amended so that the PACS can deal just like the commercial banks while granting loans on the security of land.

- The method of charging interest by the PACS on loans may be changed from the monthly diminishing balance system to the daily diminishing balance system. This will bring parity in interest charged on loans by commercial banks and the PACS.

- Many of the PACS in Kerala at present are computerized and operate electronically. They may also provide any-where banking and any-time banking to the customers.

- As the PACS are small and medium financial institutions, it will not be feasible for them to introduce all the technological devices of modern banking business individually. Therefore the authorities may take necessary steps to organize a cluster of a number of PACS and to take the advantage of technology implemented by the cluster.

- The modern banking devices, instruments and services like ATMS, debit and credit cards, internet banking, mobile banking etc. may be offered to the customers by the PACS to increase the access. For this the individual PACS will not have sufficient resources. In such a circumstance the

District co-operative banks and the State co-operative bank must create a co-operative banking network chain in which all the PACS are to be included.

- The use of ICT in the dealings of the PACS is to be implemented. The electronic devices may be used by the agents of PACS to mobilize deposits and to grant loans to the members. The customers are assured by the dealings with the agents as the receipts of the bank are issued to them by the agents.

- It is observed from the results of the study that a certain percent of the rural households are left out of the scope of the PACS. Therefore necessary measures may be taken by the PACS to include the entire rural households into their hold.

- The PACS are at present providing the money transfer facility not directly by them but through district co-operative banks. This results in undue delay in money transfer services. The modern practices are to be adopted to overcome this problem.

- An inordinate delay in the dealings of the PACS is irritating the customers sometimes. Simplification of the procedures to reduce the turn-around-time in the PACS dealings shall be observed.

- The PACS are the dealers in finance in the rural areas. The rural people are highly exposed to various types of risks. It will be reasonable for the PACS, therefore, to start the business of insurance and thereby they can add insurance inclusion and financial inclusion.

- The SLBC, Kerala is the leading agency which makes the assessment of the improvement in financial inclusion periodically. The state level measures of financial inclusion also have been managed by the SLBC. It may entrust wide range of programmes of financial inclusion to the PACS with proper guidelines.

- The volume and the type of non banking businesses undertaken by the PACS must be enhanced which is marked as one of the most preferred reason for preferring these co-operatives. The margin-free markets and super markets are to be started by the PACS to provide quality products at low prices. This will keep the members and customers tied-up with the PACS.

- The working time of PACS may be altered to suit to the needs of the rural households. The evening time banking and morning time banking may be introduced which will be more convenient for the people of rural households. Again the length of period of bank transaction time also is to be extended.

- For strengthening the co-operative identity and the member loyalty necessary steps may be taken by building an own bank feeling among the members and creating an emotional bond.

- The PACS are not strictly adhering to the co-operative principles. This is why the members' participation in the annual general body meetings is regularly declining. This will adversely affect the member's loyalty towards the PACS and therefore, the work-culture to be changed.

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APPENDIX

ROLE OF CO-OPERATIVE SOCIETIES IN FINANCIAL INCLUSION
- A STUDY ON RURAL HOUSEHOLDS OF KERALA -
INTERVIEW SCHEDULE

District... Taluk...

Grama panchayath.................................... Ward No............ House No............

SECTION – A

Socio Economic Profile of the Respondents

1. Are you a member of the PACS?

   1. Yes ☐ 2. No ☐

2. Personal Profile of the Head of the household

(a) RELIGION			
Hindu	Muslim	Christian	Others

(b) CASTE		
SC/ST	Backward	Forward

(c)GENDER	
MALE	FEMALE

(d) AGE (Years)		
Below 30	30 - 50	Above 50

(e) EDUCATION					
Illiterate	Primary	Secondary	H. Secondary	H. Education	Professional Edn.

(f) OCCUPATION						
Agriculture	Business	Agri-Labour	Other Labour	Employees	Pensioners	Others

3.

Annual Income of HH	(Rs)

4.

Economic status	APL	BPL

5. Nature of the ownership of house: 1. Own ☐ 2. Rented ☐

6. Land size: acre ………. cents ……….

SECTION - B
Access to Financial Services

7. Do you have a bank account? 1. Yes ☐ 2. No ☐

8. If 'yes', State the number of bank accounts in your house:

   1. One ☐ 2. Two ☐ 3. Three ☐ 4. More than three ☐

9. Which type of accounts do you have? (Specify the number of each category)

   1. SB ☐ 2. CA ☐ 3. FD ☐ 4. RD ☐ 5. Others (specify)

10. State the approximate distance to the nearest bank:

   1. Less than 1 KM ☐ 2. 1 – 2 KM ☐ 3. 3 - 5 KM ☐

   4. More than 5 KM ☐

11. Do you have a no- frills account? 1. Yes ☐ 2. No ☐

12. How long have you been holding the account?

   1. Less than 1 year ☐ 2. 1 to 2 years ☐ 3. 3 to 5 years ☐

   4. More than 5 years ☐

13. How frequently do you operate your account?

   1. 1-2 times / month ☐ 2. 3-4 times / month ☐

   3. More than 4 times / month ☐

   4. Once in 3 months ☐ 5. Once in 6 months ☐ 6. Others

14. Have you ever borrowed or taken a loan?

   1. Yes ☐ 2. No ☐

15. If 'yes', state the source of borrowings: (kindly distribute 50 points)

   1. Banks other than co-ops. ☐ 2. Co-op. banks ☐ 3. SHGs ☐

   4. Local bodies ☐ 5. Friends and relatives ☐ 6. Money- lenders ☐

   7. NBFCS ☐ 8. Others (specify) ....

16. What are the motives behind opening the account? (Kindly distribute 50 point among the alternatives)

   1. Saving money ☐ 2. Availing loans ☐ 3. Remittances ☐

4. Receiving Govt. payments ☐ 5. NREGP ☐ 6. SHG ☐

7. Others (specify) ....

17. Are you availing insurance services?

Yes ☐ No ☐

18. State the changes in your economic status since availing formal finance in respect of the following:

Aspects	Increase (%)	Decrease (%)	No change (✓)
Income			
Assets			
Employment			

SECTION – B

Access to PACS' Services

19. State the services that you avail from PAC (distribute 50 points)

1. Deposits ☐ 2. Loans ☐ 3. KCC ☐ 4. Remittance ☐
5. MDS ☐ 6. ATM ☐ 7. Debit Card ☐ 8. Credit Card ☐
9. Internet banking ☐ 10. Mobile banking ☐ 11. Non banking services ☐ 12. Others (specify) ....

20. State the most preferred deposit products of PACS

1. SB A/c ☐ 2. FD A/c ☐ 3. RD A/c ☐ 4. Current A/c ☐
5. MDS ☐

21. State the most preferred Loan Products

1. Prsonal loan ☐ 2. Agri. Loan ☐ 3. Business Loan☐ 4. Gold Loan☐
5. Housing Loan ☐ 6. Others☐

22. If 'yes', state the reason: (Kindly distribute 50 points)

1. Higher rate of interest ☐ 2. Proximity ☐

3. Positive attitude of the staff ☐

4. Ease of dealings ☐ 5. Own bank feeling ☐ 6 .Others (specify) ☐..

23. State the non banking services provided by your PAC: (Kindly distribute 50 points)

1. Agricultural accessories depot ☐ 2. Consumer store and Neethi medicals ☐ 3. Festival fares ☐ 4.Agri. produce markets ☐ 5. Social awareness seminars ☐ 6. None ☐ 7.Others (specify) ....

24. How long have you been using the PACS Products?

Types of PACS Products	No. of years
Deposit Products	
Loan Products	
MDS (chitty)	
ATM	
Remittances	
KCC	
Internet Banking	
Non Banking Services	

25. Why do you prefer PAC as your lender? (Kindly distribute 50 points)

1. Moderate rate of interest ☐ 2. Proximity ☐

3. Positive attitude of the staff ☐

4. Ease of dealings ☐ 5. Own bank feeling ☐ 6 .Others (specify)

26. Are you satisfied with the following activities of your PAC? ☐ If 'yes', kindly rate in a five point scale. (Highly dissatisfied – very much satisfied) Circle only one number for each factor

1	Deposit mobilisation campaign	1	2	3	4	5
2	Procedure of sanctioning loans	1	2	3	4	5
3	Rate of interest on loan and mode of charging	1	2	3	4	5
4	Quality of banking services	1	2	3	4	5
5	Adoption of modern banking practices	1	2	3	4	5
6	Loan overdue recovery practices	1	2	3	4	5

27. If you are a member of Co-operatives, kindly rate the following statements in a five point scale. (Strongly disagree - Strongly agree) Circle only one number for each factor

1	Co-operatives adhere to democratic principles	1	2	3	4	5
2	PAC is the local bank of the Grama Panchayath	1	2	3	4	5
3	Co-operatives offer personalised services	1	2	3	4	5
4	Co-operatives adopt informal dealings	1	2	3	4	5
5	Co-operatives provide sufficient physical facilities	1	2	3	4	5
6	Co-operatives enable banking in local language	1	2	3	4	5
7	Co-operatives offer quick dealings	1	2	3	4	5
8	Co-operatives have social involvement and service motive	1	2	3	4	5
9	Membership in Co-operatives creates 'own bank' feeling	1	2	3	4	5
10	Co-operatives offer higher rate of interest on deposits	1	2	3	4	5
11	Co-operatives enable participation in management through elected Board of Directors	1	2	3	4	5
12	Co-operatives aim to minimise exploitation by money lenders	1	2	3	4	5
13	Co-operatives help to reduce bureaucratic evils	1	2	3	4	5
14	Employees of Co-operatives are mostly natives and so highly approachable	1	2	3	4	5
15	mployees of Co-operatives are courteous and helpful	1	2	3	4	5
16	Co-operatives strengthen agriculture and improve access of poor farmers	1	2	3	4	5

28. State the change experienced in your social attitude towards the following after having access to formal financial institutions. Kindly rate in a five point scale. (Not at all changed – Highly improved) Circle only one number for each factor.

1	Involvement in social activities	1	2	3	4	5
2	Attitude towards woman rights	1	2	3	4	5
3	Attitude towards education	1	2	3	4	5
4	Health awareness	1	2	3	4	5
5	Political awareness	1	2	3	4	5
6	Attitude towards social exploitation	1	2	3	4	5
7	Attitude towards hoarding and black marketing	1	2	3	4	5
8	Attitude towards child abuse and child labour	1	2	3	4	5
9	Attitude towards corruption and black money	1	2	3	4	5
10	Attitude towards secularism	1	2	3	4	5
11	Attitude towards environmental protection	1	2	3	4	5
12	Attitude towards smoking in public places	1	2	3	4	5