Addressing the Issues of Exclusion through Financial Inclusion: The Challenges Ahead

Dr. M. S. Moodithaya*
Dr. N. K. Thingalaya
Dr. N. S. Shetty

The banking sector in India has undergone far reaching changes in terms of coverage, credit disbursement and banking technology in providing the banking services during the last four decades. The nationalization of 14 commercial banks in 1969 was a major landmark in the journey of Indian banking towards *mass banking* from *class banking.* Remarkable progress was made in extending banking facilities, mitigating to some extent the regional inequalities in the availability of banking services. Thousands of new banking centres even in remote villages started appearing on the banking map of the country. Institutional innovations in rural credit delivery system were introduced. But it was realized that the banking system is yet to reach a wide section of the population both in rural and urban areas.

With the opening of branches both in rural and urban centres, the number of bank customers has increased substantially. The number of savings bank accounts has increased from 23.6 million in 1971, to 373.5 million as on March 2007. The total number of deposit accounts is 519.2 million. While the urban and metropolitan branches have 159.7 million savings bank accounts, the rural branches handle 149.6 million accounts and semi-urban branches have 132.8 million accounts (RBI, 2009).

According to the Analytical Report on Household Assets, Census 2001, out of 138.3 million rural households in India, only 41.6 million households (30.11 percent) have availed banking services. If 30.11 percent is considered as the rural penetration ratio, wide variations could be seen in it across the states; varying from 6 percent in Manipur to 56 percent in Uttaranchal. At the national level, the urban penetration ratio is 49.52 percent. It reaches the highest level in Goa (77 percent). The average penetration ratio for rural and urban population works out to be 35.54 percent. It implies that over 120 million households in India, of whom more than 90 million live in rural India, are yet to be touched by banks.

With the declaration of 2005 as the International year of Micro Credit by United Nations, financial Inclusion caught increased attention of the policy makers in India. The Government of India constituted a Committee on Financial Inclusion under the chairmanship of Dr. C. Rangarajan on June 26, 2006 and its final report was submitted in January 2008. This Committee has defined 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". Among other things the committee recommended launching of a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50 percent (say 55.77 million) of the financially excluded rural cultivator/non-cultivator households, by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households have to be covered by 2015. For the purpose, a National Mission on Financial Inclusion (NaMFI) was proposed to be constituted comprising representatives from all stakeholders to aim at achieving universal financial inclusion within the specific time frame (NABARD, 2007

The commercial banks, regional rural banks and

* Dr. M. S. Moodithaya, Director, JKSHIM, Nitte, Dr. N. K. Thingalaya, Chairman, Academic Council, JKSHIM, Nitte, Dr. N. S. Shetty, Professor Emeritus , JKSHIM, Nitte. The paper is based on the research project funded by Sir Ratan Tata Trust, Mumbai.

the cooperative banks were charged with the responsibility of achieving 100 percent Financial Inclusion by 2012. During the next three years, at least 50 percent of the financially excluded rural cultivator/ non-cultivator households should be covered by extending credit facilities. The remaining households are to be covered by 2015. For achieving these targets, it is spelt out in the Report that "semi-urban and rural branches of commercial banks and RRBs should cover a minimum of 250 new cultivator and non-cultivator households per branch per annum." The Report adopted a target-oriented approach to achieve Financial Inclusion, without insisting upon an integrated approach to be adopted at the village level by banks, based on the aspirations and expectations of the rural households. Responding to the need for achieving Financial Inclusion, the bankers started moving and some are moving very fast. Even before estimating the gravity of the situation, a few of them have declared the achievement of 100 percent financial inclusion, adopting the route of *no frills accounts* in the selected districts.

Objectives of the study:

Given the above background, this study aimed at understanding the breadth and depth of financial inclusion in rural South India. Further, since mere opening up bank accounts is not good enough for an inclusive growth, the study identifies the barriers confronted by various sections of the community in accessing savings, credit and other financial services. It also provides insights into issues like extent of financial inclusion achieved so far, kinds of financial services availed, efficacy of these services, expectations of the financially excluded and strategies needed to be adopted for spreading financial literacy. Following are the specific objectives of the study:

1. Making an evaluation of the Banking Penetration achieved so far and finding out how far the claims of 100% financial inclusion are correct?
2. What is the socio-economic profile of the sample households?
3. What is the pattern of inclusion/exclusion of households from access to financial services in different villages?
4. What is the pattern of utilization of financial services from different type of institutions?
5. What are the barriers confronted by the households in accessing financial services?
6. What are the purposes for which the amount borrowed have been utilized?
7. What are the expectations of the households on the support needed to improve access to financial services?

Research Methodology:

The study was conducted in four states in Southern India namely, Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu. In each state one village was randomly identified and the whole village studied. These states have been specifically selected, since they have a relatively well-developed banking system in comparison with northern India (Thingalaya, 2009) and a good concentration of micro finance outreach, with an estimated two-thirds of micro-finance clients living here (Sinha, 2007). Similar to the Census of India, the unit of analysis in this study was a household. A household is "usually a group of persons, who normally live together and take their meal from a common kitchen, unless the exigencies of work prevent any of them from doing so" (Government of India, 2007). The study covered 730 households. While the person at home during the visit was interviewed, data was collected on each family member regarding their background characteristics and their financial involvement. In each village that was randomly selected, local leaders were accessed to provide legitimacy. These local leaders also provided with the list of every household in the village, which enabled reaching over 95% inclusion in each of the studied villages.

Summary of the findings

The primary data was collected from the households through a structured questionnaire, covering the family background; bank access information; income, assets and savings; loans; and expectations for development work by the government and so on. The field survey was conducted during March to June 2009. The major findings of the study are presented below:

Extent of Financial Inclusion/Exclusion:

With the objective of finding out how far the claims of 100% financial inclusion are correct, an attempt was made in the study to assess the extent of financial inclusion in the selected villages. For the purpose of the study, a respondent household was considered to be financially included when at least one member of the household had a bank account, either saving or loan, with any formal financial institution. Financially excluded are those who do not have any accounts with the formal financial institutions.

Table 1

Financially Included and Financially Excluded House Holds

State	Total Respondents (Number)	Financially Included		Financially Excluded	
		Number	Percent	Number	Percent
Andhra Pradesh	131	113	86.26	18	13.74
Karnataka	162	139	85.80	23	14.20
Kerala	250	223	89.20	27	10.80
Tamil Nadu	187	86	45.99	101	54.01
Total	730	561	76.85	169	23.15

Source: Field Survey data

It is evident from the data in the table that there is a wide variation in the pattern of financial inclusion and exclusion in different villages in different states. Financial inclusion varies from 86 percent in Andhra Pradesh village to 46 percent in Tamil Nadu village. The extent of the financial exclusion is highest in Tamil Nadu (54 percent) and the lowest in Kerala (11 percent). In Andhra Pradesh, out of 131 households in the village studied, 113 have reported availing banking facilities, which works out to 86 percent financially included. Financially excluded are only 18 households (14 percent). In Kerala, out of 250 households studied, 223 or 89 percent have banking account and 27 or 11 percent have no banking account. Similarly, in the Karnataka village, out of 162 households, 139 (86 percent) have reported banking accounts and the balance 23 households (14 percent) were found in the financial exclusion group. Tamil Nadu village has the lowest financial inclusion (46 percent). Out of 187 households, 101 households (54 percent) are found financially excluded.

Awareness of Availability of Financial Services:

Awareness is an important element of financial literacy. The lack of awareness or knowing the availability of financial services in terms of location and type of services is one of the significant barriers on the demand side for expanding financial inclusion particularly among the illiterate, poor and vulnerable segments of the society in rural areas. Unless the households are made aware of the availability of various financial products and services, they would not be motivated to come forward to avail them from the financial institutions. The process of financial inclusion, in fact, begins with creating awareness of the existence of financial institution, availability of various financial products and services, terms and conditions in which they are available and the benefits that can be derived by use of them. In the Indian rural setting, all these constitute integral part of financial literacy.

Recognizing the critical importance of awareness in the promotion of financial inclusion, field data were collected and compiled on awareness of various financial products and services, which are presented in Table 2.

Table 2
Awareness of Availability of Financial Services

Financial Products/ Services	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Existence of Bank Branch	121	92.36	159	98.15	243	97.20	94	50.27	617	84.52
Awareness of Saving facility	110	83.97	148	91.36	204	81.60	89	47.59	551	75.48
Awareness of Loan Facility	119	90.84	152	93.83	238	95.20	142	75.94	651	89.18
Awareness of Money Transfer	33	25.19	76	46.91	52	20.80	36	19.25	197	26.98
Awareness of Insurance	81	61.83	69	42.59	118	47.20	66	35.29	334	45.75
Awareness of Mutual Funds	2	1.52	19	11.73	32	12.80	8	4.28	61	8.36
Awareness of collection of Cheques/Bills	33	25.19	81	50.00	160	64.00	62	33.16	336	46.03
Awareness of other banking facilities	0	0	36	22.22	0	0	1	0.53	37	5.07
Not Aware of any one	10	7.63	3	1.85	7	2.80	45	24.06	65	8.90

Source: Field Survey data

It is interesting to note that in the selected villages in Andhra Pradesh, Karnataka and Kerala, almost all households studied have reported their awareness of the existence of bank branch in their village or in the proximity to their village. However, in Tamil Nadu village, nearly half of the households interviewed, have reported their ignorance about the existence of a bank branch in the nearby areas. A similar pattern of response is also observed in the case of awareness of saving facility and awareness of loan facility. More than eighty percent of the respondents from the three villages in Andhra Pradesh, Karnataka and Kerala have reported awareness of the availability of saving and loan facilities with the bank branch in their neighborhood. Contrary to this, about 52 per cent of the households in the village selected from Tamil Nadu are not aware of the availability of saving facilities with the bank, while in the case of the availability of loan facility, nearly three-fourths of the households have responded positively.

As regards awareness of money transfer facility, except Karnataka village, in all other three villages, the response pattern is more or less the same. While in Karnataka village, 47 percent of the households studied are aware of the money transfer facility with the bank, in the other three villages, less than one-fourth of the households reported its awareness. In the case of insurance, only in Andhra village, 62 percent of the households studied have reported their awareness. In the case of Karnataka and Kerala villages, the percentages of households reporting awareness works out to 43 and 47 respectively. Tamil Nadu village has the lowest percentage of insurance-awareness among the households (35). The majority of the households studied in all the four villages are not aware of the mutual fund facility. In Andhra village, only two out of 131 households have reported to be aware of it. In Tamil Nadu village, only 8 out of 187 households are aware of the mutual fund facility. In Karnataka and Kerala villages, the position is slightly better; nearly 12 percent of households are aware of this financial product.

Regarding the facility of collection of cheques and bills, whereas in Karnataka and Kerala villages, slightly more than 50 percent of the households are aware of the availability of these facilities, in Andhra village, the percentage of households reported awareness of these facilities are only 25 percent and in Tamil Nadu, only 33 percent. The households, who are ignorant of the availability of any banking facility are only few except in Tamil Nadu village, where 24 percent of the households belonged to this category. Thus, the analysis of data in Table 7.3 shows that financial literacy status at household-level in rural areas in Karnataka, Kerala and Andhra Pradesh is relatively better in all aspects than in Tamil Nadu.

Access to Financial Services:

Access to financial services contributes to household entry, empowerment and consequently to improvement in income. Conceptually, access has many dimensions on demand-side including awareness, acquaintance or understanding the usage of various financial products and services. Access is also governed by supply side factors such as price and non-price barriers. Services need to be available when and where demanded, and products need to be tailored to specific requirements. There are also differences between access and usage of products and services. Even if the customers have complete knowledge of all financial products and services and capability to avail them, some of them may not be inclined to use the same. In other words, they have access, but they are non-users. They are voluntarily excluded. From the policy point of view, they are not a problem. The aim of financial inclusion is more concerned with those, who are willing to use and badly needed financial services but have access problem.

The field study is mainly centered around on demand side dimension of access and respondents are asked to ascertain whether they have access and can avail different financial products and services. In Table 7.3, responses received are analyzed for different products and services. The analysis of the data discloses wide differences in access problems in different villages and for different products. As regards savings and loan products, majority of the respondents have no access problems in Andhra Pradesh, Karnataka and Kerala villages, while in the Tamil Nadu case, more than half of the respondents have access problems for these products; out of 187 respondents only 48 percent have access to saving facility and 30 percent to loan facility. In the Andhra village, the percentage of households having access to saving facilities is more than the percentage of households having access to loan facilities. In other villages, the percentage of households having access to saving facilities are more than the percentage of households having access to loan facilities.

As regards access to other financial products/services, while in Andhra village, 62 percent of the households studied have indicated access to Kisan Credit Cards, in other villages, only few households have reported access to these Cards. In the case of all other financial products and services except for insurance, the majority of the households have indicated access problems. In the case of insurance, nearly one-third of the households have reported access and two-thirds have access problems.

Table 3

Access to and Availability of Financial Services

Financial Products/Services	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No	%	No.	%	No.	%	No.	%	No	%
Savings Accounts	102	77.9	131	80.9	183	73.2	89	47.6	505	69.2
Loans	111	84.7	95	58.6	126	50.4	56	29.9	388	53.2
Kisan Credit Card	81	61.8	3	1.9	19	7.6	3	1.6	106	14.5
Debit/Credit Cards	7	5.3	24	14.8	6	2.4	24	12.8	61	8.4
Money Transfer	3	2.3	27	16.7	4	1.6	8	4.3	42	5.8
Health Insurance	15	11.5	33	20.4	7	2.8	13	7.0	68	9.3
Life/ Insurance	62	47.3	61	37.7	61	24.4	63	33.7	247	33.8
General Insurance	58	44.3	16	9.9	17	6.8	23	12.3	114	15.6
Credit counseling	0	0	10	6.2	0	0	18	9.6	28	3.8
No Access to any	8	6.1	18	11.1	7	2.8	63	33.7	96	13.2

Source: Field Survey data

While the number of households who have reported that they do not have access to any one of financial products/services are very few in Andhra village (8), Karnataka (18) and Kerala (7), in Tamil Nadu village their number is 63; nearly one-third of the households studied. This has serious implications as regards financial inclusion is concerned.

Table 4 provides the details of the sources of information, which led the households to the entry into the financial sector.

Table 4

Sources of Information for Financial Inclusion

Source of Information	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Family members / acquaintance	69	61.1	111	79.8	181	81.2	48	55.8	409	72.9
Advertisement/News	39	34.5	35	25.2	66	29.6	24	27.9	164	29.2
Bank employee/ Insurance agent	41	36.2	50	35.9	38	17.0	14	16.3	143	25.5
Government Officials	34	30.1	10	7.2	8	3.6	9	10.5	61	10.9
NGO worker	19	16.8	4	2.9	8	3.6	6	6.9	37	6.6
SHG	57	50.4	24	17.3	21	9.4	42	48.8	144	25.7
Others	36	31.8	6	4.3	16	7.2	4	4.6	62	11.0

Source: Field Survey Data

Note: Some respondents indicated more than one source of information. The percentages worked out based on the total households financially included/having access to financial services.

It is important to note that financial institutions like banks and insurance companies do not seem to have played any role in improving access and thereby promoting financial inclusion. Only in Andhra Pradesh and Karnataka villages, about 36 percent of the households have reported bank employee/insurance agent as their source of information for financial inclusion. In Kerala and Tamil Nadu villages, on the other hand, the households who have reported bank employee/insurance agents are only 17 and 16 percent respectively. As against this, in almost all the villages, family members/acquaintances are found to be the main source of information for financial inclusion. It is apparently clear that in dealing with the financial matters, the households in rural areas rely more on the advice of their family members or close acquaintances.

Other important sources of information mentioned are advertisement/news articles and SHGs. Nearly 30 percent of the financially included households in almost all selected villages have reported advertisement/news or articles as their main source of information for financial inclusion. SHGs have also appeared to have played significant role in educating and motivating households for financial inclusion. In Andhra Pradesh and Tamil Nadu villages, nearly 50 percent of the financially included households have reported SHGs as their main source of information. Surprisingly, in Karnataka and Kerala villages, 17 percent and 9 percent of the households respectively have reported SHGs as the main channel for financial inclusion. Except in Andhra village, in all other three villages, very few financially included households have reported Government officials and NGOs, as their source of information.

Since access essentially refers to the supply of financial services, it is therefore important to know which agencies the households prefer and have access for financial services. Since loan is a primary financial product supplied by the formal financial institutions, it is considered as proxy for finding out in the field survey the institutions to which the households have access. At the outset, it should be, however, noted that the access of the households for loan facility depends on the proximity to the branch network of a particular agency. For example, in Kedinje village selected from Karnataka, Canara Bank has a branch and regional rural bank has no branch nearby. The household response would naturally center on Canara Bank branch. While interpreting the importance of various sources, this limitation of the data should be looked into. In Table 5, an attempt is made to analyze the responses of the households relating to the agencies from which, they have borrowed for their credit needs.

Table 5 : Sources of Borrowing

Sources of Borrowings	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Cooperative Bank/Society	13	11.5	30	21.6	11	4.9	6	7.0	60	10.7
Gramin Bank	110	97.3	1	0.7	103	46.2	6	7.0	220	39.2
Commercial Bank	37	32.7	63	45.3	57	25.6	25	29.1	182	32.4
Informal sources (Money Lenders)	75	66.4	8	5.7	12	5.4	47	54.6	142	25.3
Family Members	31	27.4	15	10.8	11	4.9	17	19.8	74	13.2
Others	0	0.0	22	15.8	8	3.6	51	59.3	81	14.4

Source: Field Survey Data

Note: Some household borrowed from more than one agency and hence percentages do not add to 100. Others refer to private finance companies etc.

From the table, it may be seen that though cooperatives have good network at village level, the households have more access to regional rural banks and commercial banks in all the villages studied. Surprisingly, informal agencies particularly money lenders still play dominant role in provision of loan facility in the villages studied in Andhra Pradesh and Tamil Nadu. Their role in the villages of Karnataka and Kerala appears to be only marginal. The main implication emerging from the analysis of the data is the importance of formal agencies like regional rural banks and commercial banks in providing financial services. Wherever they operate, households prefer to have access to them for their credit facilities.

Socio-Economic Profile of Financially Included:

The study of socio-economic status of the financially included and financially excluded is important not only to understand the dimensions of financial exclusion but also to know whether socio-economic status acts as a barrier for expansion of financial inclusion. It is generally believed that social and economic characteristics of the potential customers have a large role in shaping or discouraging the access to financial services from formal financial institutions. A disaggregated analysis of financially included and excluded by gender, religion, caste, education level, occupation and household income is carried out based on the field data to determine the socio-economic characteristics of those who are financially included and those who are financially excluded in different states. Instead of households, members of the households who are financially included are taken into consideration for the purpose as some of the households have more than one financially included. Table 6 presents the socio-economic profile of financially included household members in different villages studied.

While the financially included households constitute slightly more than 80 percent in the villages in Andhra Pradesh, Karnataka and Kerala, in Tamil Nadu, they constitute only 38 percent of the bankable members of the households. The analysis of the field data on gender composition of household members financially included shows that in Andhra Pradesh and Tamil Nadu villages, gender differences in financial inclusion are very wide. Nearly two thirds of the financially included in these villages are men and only one third are women. As against this, in Karnataka and Kerala, the gender variations in financial inclusion are only marginal. While in Karnataka village, fifty percent of the financially included are men and fifty percent women.

As regards religion, since the majority of the households studied belong to Hindu religion except in Kerala village, it is not possible to arrive at any conclusion on religion as a factor in promoting financial inclusion. In the Kerala village studied, the financially included belong to all religious groups on equal proportion to their population. The analysis of caste composition, on the other hand, shows that the majority of the financially included in Andhra Pradesh, Karnataka and Tamil Nadu villages belong to OBC and upper caste groups. In the Kerala village, minorities constitute nearly 50 percent of the financially included. It is also important to note that a substantial number of SC and ST household members in Kerala and Karnataka villages are financially included.

The education level is a major factor in creating awareness and understanding of the financial products and services and thereby, in promoting financial inclusion. The analysis of data in Table 7 shows that in Karnataka, Kerala and Tamil Nadu villages, education level appears to play dominant role in facilitating financial inclusion. Nearly 90 percent of the financially included are literate and only 10 percent belong to illiterate group. There is a positive correlation between the level of education and percentage of financially included. In Andhra village, on the other hand, no such pattern is observed. Nearly 31 percent of the financially included are illiterate.

An understanding of occupation pattern of financially included is important as occupation plays a major role in determining entry to financial sector. Analysis of data in the table shows that since occupation pattern differs in different villages, it is difficult to generalize. In Andhra village, 55 percent of the financially included belong to farming occupation and 30 percent are agricultural labourers. Surprisingly, very few are non-agricultural labourers and having non-farm employment. Contrary to this in other villages, the majority of the financially included belong to non-farm employment and non-agricultural labourers.

Table 6
Socio-economic Profile of Financially Included

Indicators		Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
		No.	%	No.	%	No.	%	No.	%	No	%
Gender	Male	129	69.7	178	50.0	330	58.3	88	61.1	725	58.0
	Female	56	30.3	178	50.0	236	41.7	56	38.9	526	42.0
Religion	Hindu	182	98.4	288	80.9	290	51.2	144	100.0	904	72.3
	Christian	0	0	68	19.1	74	13.1	0	0	142	11.4
	Muslim	3	1.6	0	0	202	35.7	0	0	205	16.4
Caste	SC	3	1.6	23	6.5	32	5.7	21	14.6	79	6.3
	ST	4	2.2	20	5.6	8	1.4	0	0	32	2.6
	OBC	75	40.5	150	42.1	175	30.9	112	77.8	512	40.9
	Others	100	54.1	95	26.7	75	13.3	11	7.6	281	22.5
	Minority	3	1.6	68	19.1	276	48.8	0	0	347	27.7
Education Level	SSLC plus	45	24.3	135	37.9	214	37.8	53	36.8	447	35.7
	Literate	41	22.2	83	23.3	164	29.0	39	27.1	327	26.1
	Semi-literate	37	20.0	58	16.3	86	15.2	17	11.8	198	15.8
	Illiterate	58	31.4	37	10.4	51	9.0	23	16.0	169	13.5
	Student	4	2.2	43	12.1	49	8.7	12	8.3	108	8.6
	Kid	0	0	0	0	2	0.4	0	0	2	0.2
Occupation	Agri-labor	56	30.3	35	9.8	42	7.4	22	15.3	155	12.4
	Non-agri. labor	7	3.8	60	16.9	184	32.5	36	25.0	287	22.9
	Artisans	0	0	5	1.4	9	1.6	4	2.8	18	1.4
	Petty business	2	1.1	31	8.7	32	5.7	5	3.5	70	5.6
	Farmer	101	54.6	8	2.2	7	1.2	9	6.3	125	10.0
	Others	11	5.9	120	33.7	111	19.6	37	25.7	279	22.3
	House wife	2	1.1	25	7.0	95	16.8	16	11.1	138	11.0
	Student	4	2.2	10	2.8	49	8.7	12	8.3	75	6.0
	Not working	2	1.1	62	17.4	37	6.5	3	2.1	104	8.3

Source: Field Survey Data

Financially included among farmers are found to be very few. Similarly, among home-makers financially included are very few except in Kerala village, where 17 percent of them are house-makers. This may be mainly due to some family members are working in the Gulf and channeling their remittance through the banking system. Surprisingly, in all the villages studied, a significant proportion of the financially included belong to agricultural labourers.

Since in the rural areas, it is difficult to compute accurately the income of individual members of the households, the field study focused on compilation of household income data only. In Table 7, an attempt is made to analyze the income of financially included households. The analysis reveals that income is an important determinant in financial inclusion. Only less than 5 percent of the financially included households belong to income level below Rs.10,000 per annum. Exception is observed in the case of the village studied in Kerala village, where nearly 19 percent of the financially included have reported their household income below Rs.10,000.

Table 7

Income of Financially included Households

Annual Income (Rupee)	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Below 10000	2	1.8	2	1.4	43	19.3	5	5.8	52	9.3
10000-25000	26	23.0	19	13.7	54	24.2	19	22.1	118	21.0
25000-50000	33	29.2	32	23.0	72	32.3	26	30.2	163	29.1
50000-100000	33	29.2	37	26.6	36	16.1	22	25.6	128	22.8
100000 above	19	16.8	49	35.2	18	8.1	14	16.3	100	17.8
Total	113	100	139	100	223	100	86	100	561	100

Source: Field Survey Data

In the villages selected in Andhra Pradesh, Karnataka and Tamil Nadu, more than 70 percent of the financially included households have annual income Rs.25,000 and above. Even in the case of Kerala village, the percentage of these households is 56. All these data collectively reveal that financially included belong to higher income groups.

Data relating to the assets position of the financially included households is analyzed in Table 8, to find out whether the wealth of the households has any impact on financial inclusion or not.

The ownership of assets facilitates easy access to financial services as banks usually look into the asset position of the clients and the collateral asset normally they require to lend. The ownership and size of the land holding is considered very important in rural areas in determining access to financial services from formal financial institutions. The analysis of data, however, reveals that except in the Andhra village, in all other three villages, the finding is contrary to this general belief. In the village studied in Andhra Pradesh, majority of the financially included households are medium and large farmers with land holding above 2.5 hectares. The number of financially included households among small and marginal farmers is negligible. As against this, in other three states, most of the financially included households are non-agriculturists without any land holding or are marginal farmers with less than one hectare. This may be due to non-farm occupation of non-agriculturists and the penetration made by SHG movement among landless and marginal farming community in these villages.

The analysis of data on other assets indicates that the financially included households belong to economically higher asset groups. Majority of the financially included households have their owned house, electrified, having latrine toilet, gas stove, T.V., cell phone and gold ornaments. Nearly one-fourth of the financially included households are found having cycles and motor cycles. In a nutshell, *who you are* and *what is your economic status* matter the most in financial inclusion.

Table 8

Assets position of Financially Included Households

Assets	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Land *(Hectare)*										
None	1	0.9	85	61.2	119	53.4	58	67.4	263	46.9
Below 1.0	1	0.9	16	11.5	46	20.6	16	18.6	79	14.1
1.0 – 2.5	16	14.2	13	9.4	22	9.9	6	7.0	57	10.2
2.5 – 5.00	59	52.2	19	13.4	13	5.8	4	4.7	95	16.9
5.00 plus	36	31.9	6	4.4	23	10.3	2	2.3	67	11.9
Leased	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
House										
Owned	112	99.1	133	97.1	211	95.5	70	81.4	530	94.5
Leased	1	0.9	6	2.9	10	4.5	16	18.6	31	5.5
Cycle	30	26.5	30	21.6	18	8.1	58	67.4	136	24.2
Car	2	1.8	14	10.1	10	4.5	1	1.2	27	4.8
Motor Cycle	43	38.1	33	23.7	36	16.1	31	36.0	143	25.5
Radio	30	26.5	78	56.1	117	52.5	40	46.5	265	47.2
T.V.	91	80.5	106	76.3	157	70.4	68	79.1	422	75.2
Gas Stove	56	49.6	61	43.9	140	62.8	36	41.9	293	52.2
Telephone	47	41.6	70	50.4	155	69.5	8	9.3	280	49.9
Cell Phone	69	61.1	107	77.0	151	67.7	63	73.3	390	69.5
Gold Ornaments	98	86.7	120	86.3	212	95.1	58	67.4	488	87.0
Livestock	97	85.8	53	38.1	25	11.2	39	45.3	214	38.1
Electrification	112	99.1	127	91.4	211	94.6	80	93.0	530	94.5
Toilet	98	86.7	129	92.8	203	91.0	13	15.1	443	79.0

Source: Field Survey Data

Socio-economic Profile of Financially Excluded:

Out of 1690 *bankable* household members studied, 439 (26 percent) are financially excluded. Tamil Nadu village has the highest number of financially excluded; out of 382 bankable members, 238 (62 percent) are financially excluded. Kerala village has the lowest percentage (13) of financially excluded, followed by the village in Karnataka (17) and Andhra Pradesh (18). Table 9 provides the details of the socio-economic characteristics of the financially excluded household members. There are no wide differences in gender composition of financially excluded in all the four villages studied. Only in Karnataka and Tamil Nadu villages, the percentage of women in this category is more than men. The religion does not appear to be a factor in financial exclusion. It is only in the Kerala sample, 57 percent of the financially excluded belong to Muslim religion. As regards caste, in Andhra village, the majority of the financially excluded belong to OBC group. In Karnataka village, on the other hand, besides OBC, a significant proportion of the financially excluded belong to SC and upper caste groups. As against this, in Kerala, two-thirds of the financially excluded belong to minority group. In the Tamil Nadu village, 49 percent of the financially excluded are of SCs and 47 percent are OBC. Considering all the households studied, it is clear that the majority of the financially excluded (68 percent) belong to SC and OBC caste groups. The analysis of data relating to education levels reveals that in the villages in Andhra Pradesh, Karnataka and Tamil Nadu, more than 50 percent of the financially excluded are either illiterates or semi-literates.

Table 9 : Socio-economic Profile of Financially Excluded

Indicators		Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
		No.	%	No.	%	No.	%	No.	%	No	%
Gender	Male	21	50.0	37	48.7	42	50.6	113	47.5	213	48.5
	Female	21	50.0	39	51.3	41	49.4	125	52.5	226	51.5
Religion	Hindu	42	100.0	73	96.1	27	32.5	238	100.0	380	86.6
	Christian	0	0	3	3.9	9	10.8	0	0	12	2.7
	Muslim	0	0	0	0	47	56.6	0	0	47	10.7
Caste	SC	0	0	15	19.7	0	0	116	48.7	131	29.8
	ST	0	0	2	2.6	0	0	3	1.3	5	1.1
	OBC	23	54.8	25	32.9	6	7.2	113	47.5	167	38.0
	Others	19	45.2	31	40.8	21	25.3	6	2.5	77	17.6
	Minority	0	0	3	3.9	56	67.5	0	0	59	13.4
Education Level	SSLC plus	8	19.0	17	22.4	31	37.3	27	11.3	83	18.9
	Literate	6	14.3	19	25.0	21	25.3	55	23.1	101	23.0
	Semi-literate	7	16.7	18	23.7	18	21.7	47	19.7	90	20.5
	Illiterate	21	50.0	22	28.9	13	15.7	109	45.8	166	37.6
Occupation	Agri-labor	20	47.6	7	9.2	2	2.4	64	26.9	93	21.2
	Non-agri. labor	3	7.1	21	27.6	15	18.1	93	39.1	132	30.1
	Artisans	0	0	3	3.9	0	0	11	4.6	14	3.2
	Petty business	1	2.4	8	10.5	7	8.4	6	2.5	22	5.0
	Farmer	6	14.3	3	3.9	3	3.6	5	2.1	17	3.9
	Others	10	23.8	13	17.1	28	33.7	30	12.6	81	18.5
	House wife	1	2.4	6	7.9	15	18.1	23	9.7	45	10.3
	Not working	1	2.4	15	19.7	13	15.7	6	2.5	35	8.0

Source: Field Survey Data

In the Kerala village, they constitute only 37 percent of the financially excluded. With the higher level of education, the extent of financial exclusion was found lower. From the overall analysis of field data, it is apparently clear that education level plays significant role in reducing financial exclusion. As regards occupation, the field data shows that majority of the financially excluded belong to agricultural labour and non-agricultural labour classes. The housewives also constitute 10 percent of the total financially excluded. They constitute 18 percent in the Kerala sample. The percentage of financially excluded belonging to farming community is only marginal. Surprisingly, in the villages from Andhra Pradesh and Kerala, a significant proportion of the financially excluded belong to non-agricultural workers.

Table 10 analyses the field data on household annual income of the financially excluded households. In all the villages studied, financially excluded belong to low income category of households. Nearly one-third of the financially excluded have annual household income below Rs.10,000. Another 40 percent of them are in the income bracket of Rs. 10000 and Rs 25000 per annum. Though the village in Kerala presents a slightly different picture, the overall trend is almost same. Only very few households belonging to higher income group, are found to be financially excluded. They apparently belong to voluntarily excluded groups.

Table 10 : Household Income of Financially Excluded Households

Annual Income (Rupees)	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Below 10000	6	33.3	7	30.4	9	33.3	26	25.7	48	28.4
10000-25000	8	44.4	9	39.1	7	25.9	41	40.6	65	38.5
25000-50000	3	16.7	4	17.4	6	22.3	23	22.8	36	21.3
50000-100000	0	0.0	2	8.7	4	14.8	6	5.9	12	7.1
1,00,000 above	1	5.6	1	4.4	1	3.7	5	5.0	8	4.7
Total	18	100	23	100	27	100	101	100	169	100

Source: Field Survey Data

In Karnataka, Kerala and Tamil Nadu villages, the financially excluded households are mostly found in the landless agricultural and non-agricultural laborers and marginal farmers. Among medium and large farming communities, the extent of financial exclusion is found to be only marginal. As against this, in Andhra village, financial exclusion is found more among small and medium farming communities. It is thus discernible that the proportion and level of inability to access financial services increases with the decline in size of land holding among farming community.

Most of the households in the villages studied in all the four states live in the owned houses. Hence the ownership of the house may not be a decisive factor in financial exclusion. Notwithstanding this, in Tamil Nadu village, 20 percent of the financially excluded households are found living in leased houses. As regards other assets, compared to financially included households, the proportion of financially excluded households having T.V., cell phone, gas stove and other assets are significantly on the lower side. Evidently financial exclusion exists predominantly among the poor.

Details of the asset position of the financially excluded households in the villages selected are furnished in Table 11.

Table 11 : Asset position of Financially Excluded Households

Assets	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Land (Ha)										
Owned: None	5	27.8	17	73.9	14	51.9	82	81.2	118	69.8
Below 1.0	0	0.0	3	13.0	6	22.2	13	12.9	22	13.0
1 – 2.5	4	22.2	1	4.3	3	11.1	6	5.9	14	8.3
2.5 – 5.00	8	44.4	2	8.7	1	3.7	0	0.0	11	6.5
5.00 plus	1	5.6	0	0.0	3	11.1	0	0.0	4	2.4
Leased	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
House										
Owned	16	88.9	22	95.7	26	96.3	80	79.2	144	85.2
Leased	2	11.1	1	4.3	1	3.7	21	20.8	25	14.8
Cycle	3	16.7	2	8.7	0	0.0	53	52.5	58	34.3
Car	0	0.0	0	0.0	0	0.0	1	1.0	1	0.6
Motor Cycle	3	16.7	2	8.7	1	3.7	9	8.9	15	8.9
Radio	4	22.2	7	30.4	9	33.3	28	27.7	48	28.4
T.V.	10	55.6	12	52.2	15	55.6	63	62.4	100	59.2
Gas Stove	4	22.2	3	13.0	13	48.1	8	7.9	28	16.6
Telephone	1	5.6	6	26.1	16	59.3	1	1.0	24	14.2
Cell Phone	6	33.3	10	43.5	17	63.0	36	35.6	69	40.8
Jewellary	11	61.1	19	82.6	25	92.6	54	53.5	109	64.5
Livestock	11	61.1	9	39.1	4	14.8	36	35.6	60	35.5
Electrification	17	94.4	18	78.3	23	85.2	91	90.1	149	88.2
Toilet	10	55.6	20	87.0	23	85.2	2	2.0	55	32.5

Source: Field Survey Data

Reasons for the Financial Exclusion:

It is pertinent to examine as to why the households which need financial services have remained financially excluded and what are the reasons for the same. The reasons given by the households in fact reflect the main barriers for financial inclusion at the household level in rural areas. The field survey has therefore focused on compiling the perception of the financially excluded households regarding for financial inclusion. The findings of the field survey are analyzed in Table 12.

Table 12

Reasons for Financial Exclusion

Reasons	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Not aware of any bank	9	50.0	5	21.7	3	11.1	26	25.7	43	25.4
Bank is too far away	4	22.2	1	4.3	4	14.8	21	20.8	30	17.7
No security to offer	6	33.3	5	21.7	3	11.1	43	42.6	57	33.7
Fear of inability to repay	5	27.8	10	43.5	2	7.4	3	3.0	20	11.8
Too long to get loan	6	33.3	4	17.4	5	18.5	1	1.0	16	9.5
No need for banking services	9	50.0	10	43.5	8	29.6	17	16.8	44	26.0
Prefer to take loan from informal source	4	22.2	3	13.0	3	11.1	1	1.0	11	6.5
Not considered	6	33.3	5	21.7	0	0.0	13	12.9	24	14.2
Others	0	0.0	1	4.3	2	7.4	22	21.8	25	14.8

Source: Field Survey Data

Note: Percentages are computed based on total financially excluded households.
Multiple answers are allowed and hence percentages do not add up 100.

The analysis of data provides an insight into the wide differences in the response pattern of the households with regard to the reasons for financial exclusion. In Andhra village, 50 percent of the financially excluded households belong to ***voluntarily excluded category***. They have indicated that they are not in need of banking services. In Karnataka village, their percentage is 43. In Tamil Nadu and Kerala villages, on the other hand, their percentages are significantly at lower levels. However, in the total households studied, the percentage of voluntary financial exclusion is found to be negligible in all the villages selected. It is less than 10 percent.

As regards other reasons indicated, while in Andhra village, 50 percent of the financially excluded households have reported that they are not aware of any bank branch nearby. In other villages, the households giving such reason are less than 25 percent. A significant number of financially excluded households in Andhra Pradesh and Tamil Nadu villages also have indicated that bank is too far away as one of the reason for financial exclusion. Another important reason given in these two villages is their inability to offer required security. In Karnataka village, nearly 43 percent of the financially excluded households have indicated an apprehension of their inability to repay as one of the important reason for financial exclusion. Another important finding of the study is that very few households in all the villages studied have indicated the ready availability of loan facility from informal sources as a reason for their disinterest in approaching financial institutions.

In order to probe further into the reasons for financial exclusion, in the field study, the households are asked: whether they are comfortable in going to the bank and if not, what are the reasons for their non-comfortability in accessing banks. There is a general perception that rural customers usually feel uncomfortable to approach bank because of its functional sophistication, technology, cumbersome procedure used and elite staff attitude. The customers' confidence and comfortability with financial institutions can have important influence on their willingness and preparedness to access such institutions. Any negative perception can have negative impact. The comfortability or ease of access is therefore considered very crucial on demand side in motivating the customers in availing financial services rendered by the financial institutions. In Table 13, an attempt is made to evaluate the responses of all the households studied in this regard.

The majority of the households financially included in all the four villages studied have reported that they are quite comfortable with the bank. In Andhra village, almost all 113 financially included households are found to be comfortable with the bank. In other villages, some of the financially included households have reported non-comfortability with the bank, though their number is very few. As expected, all the financially excluded households have indicated non-comfortability in accessing the banks.

Regarding the reasons for non-comfortability in accessing banks, it may be seen from the table that there is no uniform pattern of response in all the villages studied. In Andhra Pradesh village lack of information, high interest rate, fear of technology used by the bank and readily available loans from local money lender are reported as the main reasons for non-comfortability in going to the bank.

Table 13 : Comfortability in going to the Bank

Indicators	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Comfortable	113	86.3	134	82.7	213	85.2	76	40.6	536	73.4
Not comfortable	18	13.7	28	17.3	37	14.8	111	59.4	194	26.6
Total	131	100	162	100	250	100	187	100	730	100
Reasons for Non-comfortable										
Too far from home	1	5.5	5	17.8	0	0	39	35.1	45	23.2
No bus service	0	0	13	46.4	0	0	21	18.9	34	17.5
Unfriendly attitude of Bank staff	6	33.3	15	53.6	8	21.6	17	15.3	46	23.7
High Interest rates	11	61.1	11	39.3	16	43.2	21	18.9	59	30.4
Lack of Information	13	72.2	14	77.8	14	37.8	27	24.3	68	35.0
Lack of trust in the unknown bank	4	22.2	15	53.6	1	2.7	16	14.4	36	18.5
Fear of technology used by the Bank	10	55.5	9	32.1	1	2.7	18	16.2	38	19.6
Ready available local money lender	10	55.5	11	39.3	0	0	15	13.5	36	18.5
Bank has never approached.	8	44.4	19	67.8	10	27.0	27	24.3	64	32.9

Source: Field Survey Data

In Karnataka village, on the other hand, lack of information, "bank never approached", unfriendly attitude of the bank staff, and lack of trust in the unknown bank are mentioned as the main reason for non-comfortability. High interest rate, fear of bank technology and availability of informal finance are not reported as reasons for non-comfortability. In Kerala village, high interest rate and lack of information appear to be the main reason for non-comfortability in accessing bank. In Tamil Nadu village, the responses of the households widely differ, though higher percentage of households have indicated geographical distance, lack of information and absence of approach by the bank as the main reasons for non-comfortability in accessing banks.

SHGs as a Strategic Tool for Financial Inclusion:

In the Indian context, SHGs are considered as the most appropriate and potent initiative for reaching the unreached and for delivering financial services to the poor and vulnerable section of the community in a sustainable manner. With a view to ascertain whether SHGs can be used as strategic tool for financial inclusion, the data are compiled in the field study on membership of the SHGs in relation to financial inclusion. The findings are presented in Table 14.

The analysis of data confirms that there is a close correlation between the financial inclusion and membership of SHGs. In Andhra Pradesh, Karnataka and Kerala villages, all SHG member-households are financially included. In Tamil Nadu village, however, the number of SHG member-households exceeds financially included households. Out of 108 SHG member-households, 22 households are found to be financially excluded. The possible reason for this may be: either they are newly formed and yet to link with the banks or they solely depend on sponsoring NGOs for their financial services.

Table 14

SHG Members among Financially Included Households

	Respondents (Number)	Financially Included (Number)	Members of SHG (Number)	Percent of SHG members	
				In Total Households	In Financially Included
Nadimipalli (Andhra Pradesh)	131	113	83	63.36	73.45
Kedinje (Karnataka)	162	139	45	27.78	32.37
Kayyar (Kerala)	250	223	45	18.00	20.18
Kondukulam (Tamil Nadu)	187	86	108	57.75	100.00*
Total	730	561	281	38.49	50.08

Source: Field Survey Data

* In Tamil Nadu the SHG members were more than financially included.

Notwithstanding this, the SHG-Bank Linkage has played major role in financial inclusion in the selected villages of Andhra Pradesh and Tamil Nadu. In Andhra village, 73 percent of the financially included are SHG members. In Tamil Nadu village, almost 100 percent of the financially included are SHG member-households. In Karnataka and Kerala villages, more than SHGs, other factors have played a role in financial inclusion. In Kerala village, hardly 20 percent of financially included households are SHG members and the balance 80 percent are not SHG members. Similarly in Karnataka village, the percentage of SHG members in the total households studied is relatively very low (28 percent). However, the field study empirically demonstrates that SHGs are the strategic agency for promotion of financial inclusion at household level in rural areas in all the villages studied.

Support Needed for Financial Inclusion

It is important to know the perception of the potential customers on the support needed for financial inclusion from financial institutions, particularly banks. There is a latent demand for financial products and services and financial institutions require unlocking the demand or stimulating it by providing the required support by "look through the eyes of their potential customers". Hence, in the field study, the respondents are asked to identify the support required for improving their access to financial services from formal financial institutions. The findings are presented in Table 15.

From the table, it may be seen that the pattern of responses received is almost similar in all the villages studied. The majority of the respondents have indicated that they need information about the bank and also help in using the bank services. This implies that most of the respondents are not well acquainted with the functioning of the various financial agencies and how to avail the benefit of the services rendered by them. Unless there is a substantial degree of trust and confidence in the functioning of institutions, they will not come forward to avail banking facilities. Hence, they are badly in need of financial literacy campaigns for providing information, sensitization and training. Unless this is done, they cannot develop confidence and trust with the institutions.

Table 15 : Support Needed from the Bank to improve Financial Inclusion

Support Elements	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	%	No.	%	No.	%	No.	%	No	%
Information about the Bank	81	61.8	92	56.8	180	72.0	124	66.3	477	65.3
Help in using bank services	91	69.5	80	49.4	154	61.6	105	56.1	430	58.9
Guidance in procuring farm inputs	58	44.3	34	20.9	30	12.0	33	17.6	155	21.2
Advice on modern farm practices	46	35.1	36	22.2	27	10.8	34	18.2	143	19.6
Advice on investing savings	72	55.0	75	46.3	111	44.4	84	44.9	342	46.8

Source: Field Survey Data

Other important support elements identified are advice on investing savings and advice on procuring farm inputs, and advice on modern farm practices. These support elements mainly centered on face-to-face financial counseling and advisory services in how to use productively the financial services rendered by them. This will improve the absorptive capacity of the excluded segments. Thus, the analysis of the field data on support needed demonstrates that financial literacy campaign, financial counseling and advisory services are most critical elements for promoting financial inclusion and augmenting demand for financial products and services in rural India.

Determinants of Financial Inclusion:

As already defined, financial inclusion refers to access to a range of financial products and services, which include saving schemes, loans, insurance, money transfer and remittance, mutual fund etc. In this section, an attempt is made to construct ***financial inclusion index*** based on the extent of use of these products and services by the individual households in different villages studied and determine the factors associated with the level of financial inclusion. The index of financial inclusion is a broad measure of inclusiveness in access/use of financial products and services. It is constructed as multidimensional index that captures information on access and usage of various financial products offered by the financial system at the household level.

The financial products and services selected for construction of financial inclusion index are saving account, loan account, Kisan Credit Card, Mutual Fund, Life Insurance health/general insurance and money transfer and remittance. For measurement of various financial products and services, financial exclusion is given value of 0 and inclusion is measured based on scores with weights assigned, based on their importance. Since access/use of saving and loan facilities is more important in discussion of financial inclusion at the present juncture, they are given maximum score of 25 each. Other products are given the maximum score of 10 each[1]. Scores are assigned proportionately depending on number of household members having availed the various financial products and services. The index is constructed for each household based on the minimum score of 0 for financial exclusion and maximum score of 100 for financial inclusiveness of all selected financial products and services. Thus, the financial inclusion index measures broadly the level of financial inclusion of households studied in different villages. The distribution of the households based on the financial inclusion index in different villages is given in Table 16.

The analysis of above data shows that in Tamil Nadu village, 43 percent of the households studied are financially excluded with zero value. In other villages, the financially excluded households are only about 6 percent of the households studied. This implies that financial exclusion is very high in the village studied in Tamil Nadu. While in other states, most of the financially included households are in the index range between 30 and 60, in Tamil Nadu, they are in the range between 10 and 30. Hardly seven households out of 187 households studied are found with financial index above 50. The pattern of distribution of households based on financial inclusion index is more or less similar in Karnataka and Kerala villages. In Andhra village, nearly 53 percent of the households are found with financial inclusion index above 50. This is not the feature found in other villages.

The factors that affect financial inclusion are several and their interactions with each other are very complex. Without going into the complexity of various factors determining the level of financial inclusion at the household level, an attempt is made by using correlation matrix and regression model to identify the factors that are associated with some degree of significance, to the index of financial inclusion. The financial inclusion index is considered as dependent variable and causal factors as independent variables considered are: social status, education, housing

[1] Scores are assigned arbitrarily. In rural areas, more emphasis on financial inclusion studies is given to improving access to saving and loan facilities, these variables are given higher weights. Other variables of financial inclusion are considered of equal importance for assigning weights.

Table 16 : Distribution of Households based on Financial Inclusion Index

Index	Nadimipalli (AP)		Kedinje (Karnataka)		Kayyar (Kerala)		Kondukulam (Tamil Nadu)		Total	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent
0	8	6.1	11	6.8	14	5.6	80	42.8	113	15.5
1 - 10	0	0.0	2	1.2	0	0.0	2	1.1	4	0.5
10 - 20	4	3.0	32	19.7	64	25.6	34	18.2	134	18.4
20 - 30	1	0.8	22	13.6	36	14.4	27	14.4	86	11.8
30 - 40	9	6.9	32	19.7	50	20.0	17	9.1	108	14.8
40 - 50	39	29.8	28	17.4	39	15.6	19	10.2	125	17.1
50 - 60	43	32.8	27	16.7	34	13.6	4	2.1	108	14.8
60 - 70	27	20.6	7	4.3	11	4.4	3	1.6	48	6.6
70 - 80	0	0.0	1	0.6	2	0.8	1	0.5	4	0.5
80 - 90	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
90 -100	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	131	100.0	162	100.0	250	100.0	187	100.0	730	100.0

Source: Field Survey Data Note: Index 0 reflects financial exclusion in all financial products/services. In the earlier tables, financially excluded refer to those who have no bank accounts (saving or loan).

condition, SHG membership, income and land holding as proxy for asset position of the households[1]. It should be noted at the outset that the causal factors selected for correlation and regression analysis are mainly on demand side only. Supply-side factors which are also critical for determining financial inclusion at the household level are not considered. The correlation and regression coefficients are computed for each village studied separately. The correlation coefficients of various independent variables with financial inclusion index computed for households in different villages are shown in Table 17.

Table 17 : Correlation Coefficients of important Determinants of Financial Inclusion

Variables	Nadimipalli (AP)	Kedinje (Karnataka)	Kayyar (Kerala)	Kondukulam (Tamil Nadu)
Social Status	0.118	0.105	0.087	0.253**
Education	0.245**	0.326**	0.252**	0.519**
Housing Condition	0.324**	-0.087	0.022	0.179*
SHG membership	0.225**	0.110	0.054	0.237**
Household Income	0.320**	0.332**	0.143**	0.371**
Land Holding	0.371**	0.207*	-0.038	0.274**

Source: Field Survey Data

* Significant at 5 percent level, ** Significant at 1 percent level

[1] Social status is measured by scoring based on caste status; education by education level; housing measured by assigning score based on whether owned or leased; SHG members by assigning scores based on number of memberships in the households; income based on annual income of the households; and land based on size of land holdings.

The analysis of correlation coefficients shows that the most important variables significantly and positively correlated with the financial inclusion index are education level and household income followed by SHG memberships. Surprisingly, social status has not found significantly correlated with financial index except in Tamil Nadu village. In Andhra village, more than education, house-ownership, household income and land holding have higher correlation coefficients with the financial inclusion index. The social status has the lowest correlation coefficient. In Karnataka village, on the other hand, household income and education have the higher correlation coefficients followed by land holding. Social status and SHG membership have lower correlation with financial inclusion. House-ownership has, in fact, negative correlation with financial inclusion.

In Kerala village, the main factor determining financial inclusion appears to be education level and household income. Land holding has negative correlation implying thereby more financial exclusion among large land holding farming community. Tamil Nadu village, however, presents a different picture. All six factors selected have positive and significantly higher influence on financial inclusion. Education has the positive correlation coefficient of 0.519 followed by household income (0.371). Among the villages studied, Tamil Nadu village has the highest correlation coefficients for social status, SHG membership and land holding.

Conclusion:

Over the last few years, the policy makers in India have taken a number of initiatives to bring the financially excluded underprivileged and weaker sections of the society within the fold of the formal financial system. These measures have, no doubt, had significant impact on improving financial inclusion. However, the magnitude of the financial exclusion problem and issues and challenges involved in widening and deepening the financial inclusion are enormous. Still many areas and the majority of the rural and urban low income and poor segments of the population have very little or no access to financial services from the formal financial system. Barriers to access both on demand side and supply side are several and require to be removed to achieve greater and faster financial inclusion. Considering the magnitude of the problem and enormity of the task involved, in addition to the initiatives already undertaken, there is a need for strategic interventions in number of areas. It must be noted that mere opening no-frills bank accounts cannot achieve the objectives of financial inclusion. Financial inclusion should also be viewed as an opportunity for enhancing business for banks and other financial institutions in the rural areas. It should be the beginning of a symbiotic relationship between the banks and the households.

To realize the vision of financial inclusion, financial services for poor and low income people should be seen as an important and integral component of financial sector policies. Inclusive finance should be made integral part of any financial sector development plan and strategy. Since factors inhibiting financial inclusion are several, it requires multi-pronged approach. Like many other welfare schemes, it should not end in a mere statistical exercise. It should emerge as a powerful tool for poverty alleviation and means for facilitating the inclusive growth of all sections of the society. Financial inclusion is not an end in itself. It is one of the means for reaching out to all the needy to facilitate inclusive growth. It should be accepted by all who have a stake in making financial inclusion a success that hundred percent financial inclusions in the real sense cannot be achieved, in a year or two. The achievement could be made in a phased manner with a time horizon dictated by clear-cut goals and action plans by taking into account the specific local conditions. On the way forward, the real challenge is for the banks and other financial institutions to adopt ICT solutions and multiple channels for expanding outreach and delivery of variety of financial products and services at affordable costs on sustainable basis. This requires attitudinal change; change in organizational structure and innovative models of delivery at the doorstep of poor and weaker sections of the society.

References

Chibba, M. (2009). Financial inclusion, poverty reduction and the millennium development goals. *European Journal of Development Research, 21*(2), 213-230.

Conroy, J. D. (2008). *Financial inclusion: A new microfinance initiative for APEC.* Brisbane, Australia: The Foundation for Cooperation. Retrieved from: https://www.abaconline.org/v4/download.php?ContentID=4244

Ford, J., & Rowlingson, K. (1996) Low-income households and credit: Exclusion, preference, and inclusion. *Environment and Planning A, 28*, 1345–1360.

Fuller, D., & Mellor, M. (2008). Banking for the poor: Addressing the needs of financially excluded communities in Newcastle upon Tyne. *Urban Studies, 45*(7), 1505-1524.

Government of India, Office of the Registrar General & Census Commissioner (2007). *Census of India.* Retrieved from: http://censusindia.gov.in/Metadata/Metada.htm

Government of India, Planning Commission (2008). *A hundred small steps: Report of the Committee on financial sector reforms.* New Delhi, India: Sage. Retrieved from: http://planningcommission.nic.in/reports/genrep/rep_fr/cfsr_all.pdf

Handy, F., Moodithaya, M. S., & Cnaan, R. A, (2009). Understanding volunteer leaders of microcredit self-help groups in Karnataka, India. *Social Development Issues, 32*(2), 15-29.

Honohan, P. (2004). Financial sector policy and the poor (World Bank Working Paper No. 43). Washington, DC: World Bank.

Littlewood, P. with Glorieux, I., Herkommer, S., & Jonsson, I. (Eds) (1999). *Social exclusion in Europe.* Aldershot, The Netherlands: Ashgate.

Mitton, L. (2008). *Financial inclusion in the UK: Review of policy and practice.* Bristol, UK: Joseph Rowntree Foundation.

NABARD (2008). *Report of the committee on financial inclusion in India* (C Rangarajan, Chairperson). Mumbai, India: Author. Retrieved from: http://www.nabard.org/pdf/report_financial/Full%20Report.pdf

NABARD. (2009). Financial inclusion: An overview. Mumbai, India: Author, Department of Economic Analysis and Research. Retrieved from: http://www.nabard.org/pdf/report_financial/Chap_II.pdf

Rahman, A. (1999). Micro-credit initiatives for equitable and sustainable development: Who pays? *World Development, 27*(1), 67-82.

Ramji, M. (2009). *Financial inclusion in Gulbarga: Finding usage in access* (Working paper series, No. 26). Egmore, Chennai, India: Institute for Financial Management and Research, Center for Micro Finance. Retrieved from: http://www.ifmr.ac.in/cmf/publications/wp/2009/26_Ramji_Financial%20Inclusion%20in%20Gulbarga.pdf

Robinson, M. (2001). *The microfinance revolution: Sustainable finance for the poor.* Washington, DC: World Bank.

Sarma, M. (2008). *Index of financial inclusion* (Working paper No. 215). Delhi, India: Indian Council for Research on International Economic Relations (ICRIER). Retrieved from: http://www.icrier.org/publication/WORKING_PAPER_215.pdf

Sinha, S. (September 2007). Efficiency with growth: The emerging face of Indian micro finance. *ADB-Finance for the Poor, 8*(3). Retrieved from: http://www.adb.org/Documents/Periodicals/Microfinance/finance-200703.pdf.

Thingalaya, N. K. (2009). *Banks in the South: Past, present and their future.* Nitte, India: Justice K. S. Hegde Institute of Management.

United Nations. (2006). *Building inclusive financial sectors for development.* New York: Author.