FINANCIAL LIBERALIZATION AND THE IMPACT ON FINANCIAL MARKET

Ponnala Venkati 1*, Mool Motihar 2*

ABSTRACT

Banking and financial services play very crucial role in the growth and development of an economy. It is more essential in case of an economy like India, which is rural based economy. Financial Inclusion is a powerful tool to achieve inclusive growth. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as economically and socially weaker sections and low income groups at a fair and transparent manner by formal financial institutions. The financial development and improved access to banking and related services not only accelerate economic growth but also reduce income inequality and poverty (HM Treasury 2007). Higher the financial inclusion, greater will be the economic development. On the other hand greater economic development leads to higher financial inclusion. It will create opportunities to each and every one to participate and get benefit from developmental activities.

Goa is a tiny state with well-developed banking system. The State can boast of a well-knit banking network, with as many as 738 banking offices as on 31st March 2014. There a one bank branch for approximately every 1900 persons as on March 2014. Goa tops the list amongst States and Union Territories in the country with regard to population covered per bank branch. 58% of the total bank branches are in North Goa District. South Goa District accounts only 42% of the total bank branches in the state. The problem of financial exclusion is still persisting in the state. There is a wide disparity in availability and usage of banking and other financial services.

In this context an attempt is made to study the level of financial inclusion and usage of banking services and other financial services by the rural people in the state.

Keywords: Financial Inclusion, Financial Services, Financial Exclusion, Banking, Economic Development.

INTRODUCTION:

Access to finance by the poor, disadvantaged and underprivileged group is a prerequisite of poverty alleviation on one hand and the economic growth on the other. In the struggle against poverty, the financial inclusion is a crucial element. Large sections of the rural population have no access to financial services and their only recourse is to borrow from moneylenders at the exorbitant charges causing exploitation. The main reason why the large section of the rural population still remains under below poverty is financial exclusion, which is proving to be a major obstacle in the path of India‟s economic growth. The Reserve Bank of India (RBI)‟s dictate (2005) obligated the Banks to adopt the national policy of financial inclusion and take initiatives and suitable measures therefore. The objective data derived from the RBI‟s reports and other empirical studies unequivocally pinpoint that the main reasons of financial exclusion are lack of opportunities and access to finance, financial illiteracy, besides poor performance, apathy and negative approaches of the Banks.

Financial inclusion is no less important than social inclusion. In India, millions of people are not considered for fair treatment either from the social institutions or from the financial institutions. It is commendable that, of late, the policy makers and banking institutions have come forward to address the issue of banking exclusion. Financial inclusion is a complex issue, not simple. There are issues in approaches for financial inclusion. When the excluded sections approach formal financial institutions, they are confronted with problems of accessibility, timeliness, and inadequacy of credit. For one reason or other, they are compelled to approach the informal agencies to meet their credit demands. An all-out effort has to be taken to address these problems that are not simple. In the Index of Financial Inclusion (IFI) prepared by the Indian Council for Research on International Economic Relations (ICRIER), India has been placed 50th position in the list of 100 countries. The Index of Financial Inclusion, which measures the availability and usage of banking services, is based on indicators like the number of bank accounts per 1,000 adults, number of ATMs and bank branches per million people and the amount of bank credits and deposits. While economic growth in India has benefited a growing middle class, it has also created great disparities between urban and rural areas, prosperous and lagging states, and between skilled and low-skilled workers.

Poverty is fuelled by a lack of access to social benefits, productive assets and financial resources. High levels of illiteracy, inadequate healthcare and extremely limited access to social services, only aggravate the situation. Credit is one of the very important inputs of economic development. The timely availability of credit at an affordable cost has a big role to play in contributing to the well being of the weaker sections of the society. Proper access to finance to the rural people is a key requisite to employment, economic growth and poverty alleviation which are primary tools of economic development. Micro Finance, Self –Help Groups and Financial Inclusion are the three dimensional approach to achieve inclusive growth in the economy.

The empirical findings strengthen the argument that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanization and poor connectivity appear to be less financially inclusive. Financial inclusion, therefore, assumes importance as a policy objective.

All Banks in the Country were advised by RBI, since November 2005, to take all measures and adopt suitable strategies. One element of the strategy enumerated, to achieve the desired target of Financial Inclusion, is through -

(a) No-frills accounts, (b) diluted Know-Your-Customer (KYC) norms, (c) Banking Correspondents (BCs) and (d) use of Information Technology. Accordingly, all Public Sector Banks (PSBs), Private Banks (PBs), Cooperative Banks (CBs), undertook the mandated task, willingly or unwillingly, either in a phased manner or otherwise. They either started opening their branches at the suitable villages or appointed their bank correspondents or adopted outsourcing method.

The progress of financial inclusion plans in India as on March 31, 2012 is depicted in the following Table

Table No. 1 Progress of Financial Inclusion Plan in India (As on March 31, 2012)

Banking outlets	
Rural branches	24701
BC outlets	120355
Other modes	2478
Total	**147534**
Total number of 'No frill accounts	**103.21 million**

Operations in NFA (2011-12)	
Outstanding balance	**Rs. 932.89**
Overdrafts	**Rs. 3.39 billion**
Transactions through ICT based BC outlets (2011-12)	**119.77 million**
KCC credit	**Rs. 2.15 million**
GCC credit	**Rs. 0.22 million**

Source: Khan (2012)

Table No. 2 Position of households availing banking services

Households	**As per Census 2001**			**As per Census 2011**		
	Total number of households	**Number of households availing banking services**	**Percent**	**Total number of households**	**Number of households availing banking services**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Source: RBI annual Report 2011.

Therefore, financial inclusion, today, has become the national objective and major concern for the economic policy decision makers.

Banking Scenario in Goa:

Expectedly, the bank penetration in Goa is one of the highest in the country. The number of people who are catered on an average by a scheduled commercial bank is an easy measure of this. As compared to the all-India figure of 12100 persons per branch; in Goa, for every 2200 persons there was a commercial bank branch in 2013.

Table No. 4 Banking Statistics of Goa State (Rs. in Cr.)

Sr.No.	No. of Bank	31.03.2013		31.03.2014		31.03.2013	31.03.2014
		North	South	North	South Goa	Goa Total	Goa Total
1	Rural	201	105	203	112	306	315
	Semi Urban	189	169	242	181	358	423
	Urban	-	-	-	-	-	-
	Total	390	274	445	293	670	738
3	Deposits in Cr.	21294.3	18367.13	29187.11	18612.71	39661.43	47799.82
4	Advances in Cr.	7774.72	4716.23	11009.26	4682.63	12490.95	15725.49
5	C.D.Ratio	37.00%	25.68%	38.00%	25.16%	31	33
6	Per Branch Population vs National	2098	2337	1838	2186	2177	1976

Source: Economic Survey 2014

The State can boast of a well knit banking network, with as many as 674 bank branches as on 31st March 2013 of which 325 are in rural areas (approximately 50%) and the balance in semi urban areas. There is one bank branch for approximately every 2,200 persons. As on March 2013, Goa tops the list amongst States and Union Territories in the country with regard to population covered per bank branch. 58% of the total bank branches are in North Goa

District of Goa. South Goa District accounts for only 42% of the total bank branches in Goa.

The bank deposits as on 30th June 2013 stood at `Rs. 44203 crore, which registered a growth, rate of 11.45 per cent as compared to the deposit level in March 2012. The level of advances in the State of Goa as on 30th June 2013 was Rs.13019 crore, registering a growth rate of 4.24 per cent as compared to the level of advances in March 2013. The decline in the growth rate of advances is mainly on account of adverse impact of mining activity in the State of Goa. The Credit Deposit Ratio was 29 per cent in the quarter ending June 2013. The CD ratio has declined because of increase in deposit level by 11% and advances level by 4% as on 30.06.2013. The

Percentage share of NRE deposits to total deposits has witnessed a declining trend since 2003-04. NRE deposits which accounted for 32%

of the total deposits in 2002-03 accounts for only 12% of the total deposits as on March 2012.

Financial Inclusion Initiatives in Goa:

Real process of financial inclusion in the state has a long history. The co-operative moment provides opportunities to the people to access to basic financial services. The government‟s all the welfare schemes and assistance routed through banks, this lead to improvement of financial inclusion in the state.

In order to promote financial inclusion in the state of Goa many initiatives and steps have been undertaken. Banks and other agencies are encouraged and directed to promote financial inclusion for inclusive growth of the economy. Recently, the following steps have been initiated for promotion of financial inclusion.

1. In order to provide banking services through a banking outlet in every village having a population of over 2000, by March 2012, 41 villages have been identified for the financial inclusion drive in the State. As on June 30, 2011, banking services were provided in 36 villages through Business Correspondents (BCs), in 4 villages through mobile vans and in one village through the opening of a branch outlet. This banking coverage has been achieved well ahead of time.

2. From 2013, focus has shifted for inclusion of villages with population between 1000 and 2000: 65 such unbanked villages have been identified and allocated among different banks for making banking service available.

3. At the end of June 2011, a total of 1,21,210 No Frill Accounts (NFA) were opened with outstanding deposits of Rs.33 crore, of which 4,930 NFA were credit-linked with Rs.9.3 crore, while 4,763 General Purpose Credit Cards (GCCs) were issued through NFA with outstanding credit of Rs. 9.3 crore.

4. In order to strengthen the financial education campaign, a Financial Literacy & Credit Counseling Centre (FLCC) was set up at Verna, in South Goa. Similarly, in order to make the financial inclusion drive more effective, a Rural Self Employment Training Institute (RSETI) was also opened at Verna, in South Goa providing technical training on self employment ventures. It may be note worthy that 12 courses were conducted and 230 Below Poverty Line (BPL) beneficiaries were trained of which 55 have started gainful employment activities.

5. NABARD in Goa has established 71 Farmers‟ Clubs and 20 Joint Liability Groups (JLGs).

6. The recent drive by the State Level Banking Committee (SLBC) to route the Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA) payments through Smart Cards under IT enabled financial services will further strengthen the objective of financial inclusion.

7. To implement recent scheme of Prime Minister Jan Dadhan Yojana, banks took special initiatives to bring all the households in the state under banking.

8. Special efforts are made to form Self-Help Groups to empower rural people by DRDA, NABARD, NGO and banks.

This paper critically addresses all concerned issues involved in achieving the national objective of achieving the complete financial inclusion in the state of Goa.

Literature Survey:

In fact, Leeladhar (2005) defined financial inclusion as „delivery of banking services‟. In this paper follow this suggestion and regard the terms financial inclusion and banking inclusion as synonymous. In the context of banks, financial inclusion concerns spread of banking activities among different sections of the population. The domain of activities can be quite large and it may vary from country to country. Pal and Sura (2006) concluded that the overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making dent on the desired functioning of RRBs. Since the RRB is supposed to be a bank for poor people, government should spread the branches of RRBs at grass root level to provide such banking service to the really needy rural people and to take corrective measures to raise the credit deposit ratio of the bank that would make RRBs relevant in the rural India.

Ghosh (2007) suggests that the Post Office Saving Bank (POSB) can be used to cater the financial need of rural India where Microfinance Institutions (MFIs) have very little presence in total demand of finance. Increasing proliferation of mobile services and ATMs in rural areas of India has created a new opportunity to attain financial inclusion and thus an effective tool to provide financial services to the un-banked areas with reduced overheads with providing access to banking services in remote rural destinations of India (Gupta and Gupta, 2008).

Chattopadhyay (2011). In recent times financial inclusion has appeared as a major global agendum. At aggregate level, the common measure of financial inclusion are the number of bank account per adult, geographic branch penetration, demographic branch penetration, geographic ATM penetration, demographic ATM penetration, demographic deposit penetration, demographic credit penetration, deposit income ratio, credit income ratio and cash deposit ratio. However, these studies did not develop any composite index of financial inclusion. Mandira Sarma (2008) focused on the literature which indicated a lack of a comprehensive measure that could be used to measure the extent of financial inclusion across economies.

Pravat Kumar Kuri & Arindam Laha (2011) identified the underlying factors that are responsible for creating obstacles in the process of financial inclusion in rural West Bengal. Nitin Kumar (2011) assessed the behavior and determinants of financial inclusion in India. The study found that the factory proportion and employee base are considered as the significant variables indicating that income and employment generating schemes lead the public to be more active, aware, interested with regard to banking activities, which contributes towards financial inclusion. Kuldeep Singh & Anand Singh Kodan (2012) analyzed the relationship between financial inclusion and development with the help of Index of Financial Inclusion (IFI) and also to identify factors associated with financial inclusion with the help of Regression Analysis. The study found that per capita NSDP and urbanization were significant explorers of financial inclusion while the literacy, employment and sex-ratio were not statistically significant explorers/predictors of the financial inclusion.

Statement of Research Problem:

The above literature survey shows that it only covering the demand side of financial system and financial inclusion and the steps and initiatives taken by the banks and other organizations for improvement of financial inclusion. There is no concrete study, so far have been carried out in the state of Goa to validate 100% financial inclusion. The present paper intended to study the steps taken by the banks to achieve 100% financial inclusion in the state of Goa.

Research Methodology: Objectives of the Study:

The main objective of this study is to analyze the steps taken by the banks to achieve 100% financial inclusion in Goa. However, some of the specific objectives are:

1. To study the measures taken by the banks in Goa for financial inclusion.

2. To analyze the difficulties involved in the adoption of financial inclusion for achieving 100% financial inclusion in the state of Goa.

Universe of the Study:

For the present study, the entire state of Goa is considered as universe. The 670 (as on 31-03-2013) bank branches operating in the state is a universe for the study.

Sample Size and Analysis tools:

The data required for the study was collected from both primary and secondary sources. The primary data was collected from the banks using a structured questionnaire. The secondary data was collected from the published journals, books and various websites. The samples were selected by administering convenience sampling technique. There are 293 bank branches in the South Goa district, out of which 112 rural branches and 181 are semi urban branches. 50 rural bank branches from South Goa are selected as sample for the study. The study was conducted among the banks in South Goa district. The various statistical tools used to analyze the primary data are percentage analysis and mean score analysis.

Results and Discussion:

Level of Financial Inclusion in the State of Goa:

The financial inclusion initiatives are well directed in the state for achieving 100% financial inclusion. The following table shows the steps initiated and the level of financial inclusion in the state of Goa.

Table No. 5 Level of Financial Inclusion in the State of Goa As on 31-03-2013

Indicator of Financial inclusion
Number of banks operating
Number of bank branches
Total number of mobile vans
Total number of Bank Correspondents appointed
Total number of unbanked villages allotted to banks
Number of Self-Help Groups in the state
Number of Self-Help Groups Members with bank account
Number of Ultra Small branches opened in Financial inclusion villages
Government sponsored schemes/programmes implemented by bank (a) PMEGP – DIC (b) PMEGP – KVIC (c) PMEGP – KVIB (d) SJSY
Average Population per bank branch
Number of No Frill Accounts
Number of ATM
Number of General Credit Cards

Source: Compiled from various sources.

As compared to other parts of the country, the penetration and outreach of banks in Goa is at higher rate. Average population per bank branch is less than national level. In proportion to the population of the state, the number of bank branches is adequate but the spread of bank branches are not uniform in all areas in the state. The other steps initiated by the state is not adequate to talked the financial inclusion problem in the rural area as majority of the bank branches are at urban and semi urban area in the state.

Measures Taken by Banks for Financial

Inclusion:

The study of selected sample from South Goa district was analyzed to find out measures adapted by the banks for financial inclusion and contribution to the financial system in south Goa district of state of Goa.

Table 6: Measures Taken by Banks for Financial Inclusion

Services towards Financial Inclusion	Yes	Yes %	No	No %
No Frills Account	45	90%	5	10%
Core Banking	40	80%	10	20%
E- banking	20	40%	30	60%
Issue of Kisan Credit Card	42	84%	8	16%
Mobile Banking	15	30%	35	70%
Biometric ATM	-	-	50	100%
Insurance	10	20%	40	80%
Microfinance	44	88%	6	12%
Financing to SHGs	41	82%	9	18%
Tie up with NGOs	12	24%	38	76%
Advertising for financial inclusion	35	70%	15	30%
Business Correspondence model	25	50%	25	50%
Financial Literacy and counseling centre	10	20%	40	80%
Prime Minister Jan Dhan Yojana	48	96%	2	4%
General Credit Card	30	60%	20	40%
Financial inclusion branch	28	56%	22	44%
Money transfer	50	100%	-	-

Source: Compiled from questionnaire

Table 6: depicts out of 50 banks, 90% of the banks have offered no frills account, 30% of banks have offered insurance, and the remaining 70% of the banks have not offered such services. 80% of the banks are offering core banking service and the remaining 20% of the banks are not offering core banking service. 40% of the banks have offered e-banking, 30% mobile banking service and the remaining banks has not offered such services. 16% of the banks have not issued Kisan credit card and the remaining 84% of the banks have issued the Kisan credit card to the farmers.

No bank has offered Biometric ATM facility to the customers. 88% of the banks have offered microfinance and the remaining 12% of the banks have not offered microfinance to the vulnerable people.76% of the banks have not tied up with NGOs and the remaining 24% of the banks have been tied up with NGOs to disseminate their service. 30% of the banks have not given advertisement for financial inclusion and the left over 70% of the banks have given advertisement for financial inclusion. 50% of the banks have not preferred business correspondent and the rest 50% of the banks have preferred business correspondent. 80% of the banks have not established financial literacy and counseling center and the remaining 20% of the banks have established financial literacy and counseling center to educate the customers.

100% bank branches providing the facility of money transfer. In the state of Goa all Govt. welfare schemes are through bank accounts. People use bank accounts for receipts of direct transfer under various schemes of Govt.

96% banks initiated the implementation of Prime Minister Jan Dhan Yojana and still 4% not yet initiated the process. 56% branches of banks are marked as the financial inclusion branches out of sample 50 branches. Financing for SHGs are concerned 88% bank branches in rural Goa involved in this area. It shows that majority of banks branches in rural Goa has been adopting various measures for the task of financial inclusion. It also shows that majority of banks in the state directed their effort to achieve complete financial inclusion.

Table No. 7: Perception of Bank Branches towards Financial Inclusion

Sr. No.		Yes	Yes %	No	No %
1	Target for Financial inclusion	40	80%	10	20%
2	Getting refinance for financial inclusion	12	24%	38	76%
3	Inducement for financial inclusion	50	100%	-	-
4	Conducting financial inclusion campaign	35	70%	15	30%
5	Focused people for financial inclusion	38	76%	12	24%
6	Reason for financial exclusion	40	80%	10	20%
7	Perception towards financial inclusion	25	50%	25	50%
8	Expected assistance from the government	30	60%	20	40%

Source: Compiled from questionnaire

Majority (80%) of the banks had target for financial inclusion in their area of operation and assignment of unbanked villages by the State Level Banker‟s Committee. As far as getting refinance for financial inclusion is concerned majority (76%) of the banks had not received refinance for financial inclusion. All the banks had been induced by another institution to adopt financial inclusion. All banks are induced by the Reserve Bank of India to adopt financial inclusion.

Majority (70%) of the banks had conducted financial inclusion campaigns to turn unbankable into bankable. 76% of the banks had focused rural people for financial inclusion. 80% of the banks had stated that the reason for financial exclusion was illiteracy and procedures involved. 50% of the banks felt that adoption of financial inclusion was neither easy nor difficult.

60% of the banks were expecting advertisement from the government for financial inclusion.

It shows that there is indifferent perception towards financial inclusion among bank branches in the state of Goa.

It shows there is focused approach from banks for complete financial inclusion in the state but banks are not so far succeed in their efforts of achieving 100% financial inclusion.

Table No 8: Problem and Impact of Financial Inclusion on Banks

Problems/impact	HA	A	DA	HDA	Mean Score
Procedural delay in opening accounts	14	29	7	-	3.36
Problem of recovery	37	11	-	2	3.44
Consume more time	31	14	5	-	3.22
Dealing with financial literacy	37	11	-	5	3.44
Heavy load of work	30	15	5	-	3.18
High cost	28	15	5	2	3.14
Need for additional employees	27	12	11	-	3.32
Difficult to canvass	26	18	6	-	3.24
Low customer awarness	14	29	7	-	3.36
Migrated population	30	12	6	1	3.98

Source: Compiled from questionnaire

Table 8: shows the problems faced by banks due to financial inclusion. As per the above table, it is noted that few problems were highly agreed and a few were agreed by the banks. The banks highly agreed on an improper repayment (3.44), the need for additional employees (3.32), consumes more time (3.22), difficult to canvass the customers (3.24), heavy workload (3.18) and requires high cost (3.14). The banks also agreed on low consumer awareness (3.36). Hence, the main problem associated with financial inclusion is improper repayment. The other difficulty in front of banks in the state is providing banking services to the people temporarily migrated in the state. The above mentioned difficulties among the financial services provider are the main hindrance for achieving 100% financial inclusion in the state. Lack of financial literacy among the user of financial services and to compile KYC is also the major hurdle for complete financial inclusion in the state.

Challenges and Way Forward for Achieving 100% Financial Inclusion in Goa:

Survey conducted for implementation of Prime Minister Jan Dhan Yojana (PMJDY) by planning and Statistical Department of Government of Goa reveals that around 10% of households in the state left from outreach of formal banking. The complete 100% financial inclusion is practically impossible due to problems and difficulties faced by demand side as well as supply side elements of financial inclusion. In Goa to achieve 100% financial inclusion the following challenges are listed out.

1. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. It is revealed that the banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in this journey towards universal financial inclusion.

2. Nationalized and Public Sector Banks penetration has been improving in rural and

semi urban region in the state, but the private sector banks were unable to contribute significant in bank‟s rural penetration.

3. In spite of all measure, marginal farmers, landless labour, self employed, unemployed, urban slum dwellers, minorities group, social excluded group, disabled, women and senior citizen are still financially excluded in rural part of the state. At this velocity, financial inclusion seems to be distant dream and it poses a big challenge ahead.

4. Lack of awareness about financial product and services is the main obstruction for financial inclusion. It is a big challenge in front of banks to improve financial literacy among the rural masses.

5. Sheer opening of no frill accounts and small loans would not be sufficed. Bank must inculcate financial habit among the financially underprivileged to modify the attitude of excluded group.

6. Weak delivery model, average small size loans, higher transaction cost, narrow coverage, exclusive focus on credit, willful defaulting, non availability of credit history, lack of ownership documents, illiquid assets, inaccurate valuation, unsuitability of loan products, non alignment of staff incentive with targets and lack of enterprise support create obstacles in financial inclusive model.

7. To provide banking services in unbanked area is possible with the help of latest tele-communication technology, but far-off in areas, there is a problem of connectivity. This is also the hindrance in achieving 100% financial inclusion.

8. Financial Inclusion of the unbanked masses is expected to unleash the hugely untapped potential of the sections of the society that constitute the bottom of the pyramid. However, in pursuing the Financial inclusion mission, the normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that banks need to give adequate attention to financial inclusion.

9. Extending the reach of financial services to the poor through new technologies and simplified branch regulations hold promise. Bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion.

10. Poor infrastructure and telecommunications, and heavy branch regulation, also restrict the geographical expansion of bank branch networks in rural Goa.

Conclusion:

Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch. In many developing countries there are fewer bank branches per rural resident than per urban resident. Non bank financial institutions like microfinance institutions help to fill this gap. Even though, in India, the microfinance model extends credit and savings to the poor, the challenges faced by the industry has to be rectified in due course for the effective working of the model.

While the task before state is daunting. A collaborative approach can definitely help in successfully overcoming this challenge. Though the banks to play a significant role in ensuring financial inclusion and promoting financial literacy in the state. It can be emphasize that the banks alone would not be able to achieve 100% financial inclusion.

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