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**Financial Inclusion in Gulbarga:
Finding Usage in Access**

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Table of Contents

Acknowledgments.....	3
Executive Summary.....	4
1. Introduction.....	5
2. Review of Literature.....	6
2.1. Defining Financial Inclusion.....	6
2.2. Measuring Financial Inclusion.....	7
2.3. Why Is Financial Inclusion Important?.....	9
2.4. Financial Deepening In India.....	10
2.4.1. Social Banking in India: Background.....	10
2.4.2. Indicators of Financial Depth in India.....	11
2.4.3. Indicators of Financial Inclusion in India.....	12
2.4.3.1. Access to Credit.....	12
2.4.4. Barriers to Access.....	14
2.4.5. Policy Changes to Increase Financial Inclusion.....	17
3. Research Methodology.....	18
4. Study Results.....	20
4.1. Gulbarga: Background.....	20
4.2. The Financial Inclusion Drive: The Process.....	21
4.3. Describing Survey Respondents.....	24
4.4. Evidence from the Survey.....	25
4.4.1. Overview of Accounts Opened.....	26
4.4.2. Awareness about the Financial Inclusion Drive.....	26
4.4.3. Summary of Bank Accounts Opened During the Financial Inclusion Drive.....	28
4.4.4. Access to the Bank.....	30
4.4.5. Respondents Who Did Not Open Bank Accounts.....	30
4.4.6. Savings Behaviour.....	30
4.5. Discussion of Results.....	32
5. Conclusion.....	34
6. Bibliography.....	36

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Executive Summary

A well-developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development. In India, in an attempt to improve access to financial services or financial inclusion, the Reserve Bank of India (RBI) promulgated a drive for financial inclusion, where banks take the lead in providing all ‘unbanked’ households in a district, with savings accounts. The Centre for Micro Finance conducted a study to assess the implementation of the financial inclusion drive and usage of banking services by households in Gulbarga district in Karnataka, one of locations claimed to have achieved 100% financial inclusion.

This paper is divided into two main parts. The first part of the paper provides the context for this study through a description of the history of financial inclusion in India. The second part of the paper describes the methodology and results of the study. The study finds that the number of households with bank accounts doubled over the duration of the financial inclusion drive. However, 36% of the sample remained excluded from any kind of formal or semi-formal savings accounts. Further, bank accounts have been opened typically to receive government assistance, mostly under the National Rural Employment Guarantee Programme (NREGP). Usage and awareness of the accounts remain low. Savings in Self-Help Groups remains the most popular form of savings in a formal/semi-formal place. We conclude that while government programmes like NREGP have the potential to include large numbers of low-income households, access to accounts does not often lead to usage. More needs to be done in the realm of financial literacy and marketing so that the bank accounts are optimally used.

1. Introduction

Due in no small part to the stimulus provided by the United Nations Year of Micro Credit 2005, policymakers across the world have begun to pay closer attention to increasing financial inclusion. Financial inclusion herein refers to the timely delivery of financial services to disadvantaged sections of society. Research in the last decade leads us to believe that a well-functioning and inclusive financial system is linked to faster and equitable growth (Honohan, 2004).

However, despite the attention paid to financial inclusion and policies devoted to enhancing access to finance, there is a dearth of information regarding access to finance. The problem of inadequate information is compounded by the fact that access does not always lead to usage. This knowledge gap poses a significant challenge in designing effective policy interventions.

Since 2005, the Reserve Bank of India (RBI) has promulgated a drive for financial inclusion, whereby banks promote the participation of every household at the district-level via savings accounts for the ‘unbanked.’ This study is an attempt to arrive at a deeper understanding of the processes behind financial inclusion. Namely, it proposes to uncover perceptions and dynamics behind financial inclusion, such as those within unbanked households, as well as study whether financial inclusion leads to usage and/or influences financial behaviour. The policy backdrop to the study is the financial inclusion drive promoted by the RBI in the district of Gulbarga in Karnataka state.

As the study delves into the usage of accounts, it should be of particular interest to banks, policymakers and development practitioners alike. For lawmakers, it will demonstrate the on-the-ground realities and results of current initiatives and provide evidence that informs future policies. For financial institutions, this information will facilitate the design of appropriate products driven by client needs. In the case of microfinance institutions, the evidence herein may help them increase outreach and hence, financial viability.

The opening of No Frills Accounts is fast emerging as a crucial policy initiative. The Committee on Financial Inclusion, headed by Dr. C. Rangarajan, Chairman of the Prime Minister’s Economic Advisory Committee, recommended that each semi-urban/rural bank branch open roughly 250 bank accounts annually which, if successful, would result in

approximately 11.5 million accounts across the country¹. As of September 2008, approximately 15.8 million bank accounts have already been opened as part of the drive. To achieve 100% financial inclusion, however, an additional 584 million accounts will need to be opened ('RBI asks banks to offer credit through no-frill accounts', *The Economic Times*, 12 September 2008). Given these developments, it is both timely and pertinent to examine the implementation of the drive, the utility of accounts to users, and levels of usage.

The paper is organised in the following manner. Section 2 establishes the theoretical context for this study through a discussion of the potential benefits of financial inclusion, as well as presents background on the financial inclusion drive in India. This section also introduces which financial services are commonly used by low-income communities. Section 3 elucidates the study's methodological approach. Section 4 presents and analyses the empirical evidence collected for this study, while Section 5 uses these results to formulate policy recommendations and offer a conclusion.

2. Review of Literature

2.1. Defining Financial Inclusion

At the beginning of this paper, we defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society. This simple definition encompasses the concept's two, primary dimensions (United Nations, 2006). Firstly, financial inclusion refers to a customer having access to a range of formal financial services, from simple credit and savings services to the more complex such as insurance and pensions. Secondly, financial inclusion implies that customers have access to more than one financial services provider, which ensures a variety of competitive options. Flowing from this definition, financial exclusion would mean the inability of the disadvantaged to access financial services. A range of obstacles could lead to financial exclusion; barriers include geography (limiting physical access), regulations (lack of formal identification proof or of appropriate products for poor households), psychology (fear of financial institution's staff, structures, complicated financial products, etc.), information (lack of knowledge regarding products and procedures), and low financial acumen (low income and poor financial discipline), among others.

In the Indian context, financial inclusion, according to the Finance Minister's 2006-07 budget speech, was defined as "the process of ensuring access to timely and adequate credit

¹ Report of the Committee for Financial Inclusion available here:
http://www.nabard.org/report_comfinancial.asp

and financial services by vulnerable groups at an affordable cost” (Union Budget, 2007-2008). In a similar vein, the Committee on Financial Inclusion defines financial inclusion as “...the process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost,” (Report of the Committee for Financial Inclusion, 2008).

Although these two definitions mention a range of financial services, their wording reveals a bias towards credit. In fact, until recently, the discussion on financial inclusion in policy and academic circles tended to revolve around the extension of institutional credit at the expense of providing savings, in spite of evidence that poor people save (Basu, 2005; Dev, 2006; Mohan, 2006).² If this trend continues, a myopic focus on credit could lead to detrimental, long-term outcomes such as over-indebtedness and wasteful use of scarce resources (Committee for Financial Sector Reforms, 2008). Encouragingly, the RBI-led drive for financial inclusion is thus significant in that it attempts to extend *savings bank accounts* to ‘unbanked’ households.

There are many metrics to measure financial inclusion including population per bank branch or using the percentage of adult population. The next section discusses the latter in some detail. We have chosen to highlight this method for two reasons. Firstly, it is the most popular method in common usage. Secondly, the financial inclusion drive attempts to increase access to finance by increasing the number of adults having bank accounts.

2.2. Measuring Financial Inclusion

Closely related to financial inclusion is the idea of breadth of financial services. Breadth of financial services refers to the outreach of financial services in an economy. In other words, breadth measures how many people have access to financial services. Although financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services, (Beck & De la Torre, 2006). This approach assumes that a bank account enables poor households to perform important financial functions such as saving money safely outside the house, accessing credit, making loan or premium payments, and transferring money (Mohan, 2006). Thus, in this framework, a bank account *should* determine access to and usage of many other financial services (Littlefield et al, 2006).

² Max New York Life – NCAER, India Financial Protection Survey (2007) shows that over 81% of households surveyed save

Unfortunately, it is difficult to discern access to savings accounts in developing countries as data on small deposits and borrowings is not readily available. Acknowledging such opacity and gaps in the data, Table 1 demonstrates the striking disparities in access to savings accounts between developed and developing countries. While in developed nations almost everyone has access to banking services, in less developed countries, access is often limited to small segments of the population.

Table 1: Percentage of Population with a Bank Account

Country/Location	% with account	Country/Location	% with account
Botswana	47	India	59
Brazil (urban)	43	Nagaland	21
Colombia (Bogotá)	39	Meghalaya	27
Djibouti	24.8	Bihar	33
Lesotho	17	Karnataka	66
Mexico City	21.3	Northern Region	84
Namibia	28.4	(Delhi, Haryana	
South Africa	31.7	and Punjab)	
Swaziland	35.3	Kerala	89
Tanzania	6.4		
Denmark	99.1		
Sweden	98		
Italy	70.4		
UK	87.7		
USA	91		

Source: Emerging Market Economics, Ltd. (2005), p. 20, Peachey and Roe (2004), p. 13, United Nations (2006), p. 2, Fedbank Hormis Memorial Foundation Innaugural Address by V. Leeladhar, Deputy Governor, Reserve Bank of India, December 2, 2005
 Note: In Botswana, Lesotho, Namibia and Swaziland, this is the percentage who says that they have a savings/transaction account from a bank. In India, this is the percentage of the adult population who have access to either a savings or current account.

Further, as one might expect, levels of income inequality (as measured by Gini coefficients) are negatively correlated with levels of financial inclusion (Kempson, 2006). Thus, the egalitarian Northern European countries of Denmark and Sweden— states with low levels of inequality—have extremely high levels of financial inclusion while mid-level Gini coefficient countries like the USA and the UK show inclusion levels of 91% and 88%, respectively. Finally, high levels of inequality, such as those which persist in South Africa and Tanzania, correspond to higher levels of exclusion.

It is important to note that the figures above pertain merely to having access to *any kind of savings account altogether*; thus one considers groups that may have bank accounts, but not other financial services which may be most prevalent in a region. For instance, in Sweden, internet banking is extremely common; therefore not having access to internet banking may be a serious impediment. In France, cheques are the most common form of payment, and as such, not having access to cheques would pose transactional roadblocks. Similarly, access to a

bank account need not necessarily lead to usage. For example, many countries decided to route state benefit payments through bank accounts. Kempson (2006) points out that this can easily lead to under-usage by accountholders who may simply withdraw all the money that is deposited into the account as soon as it is deposited.

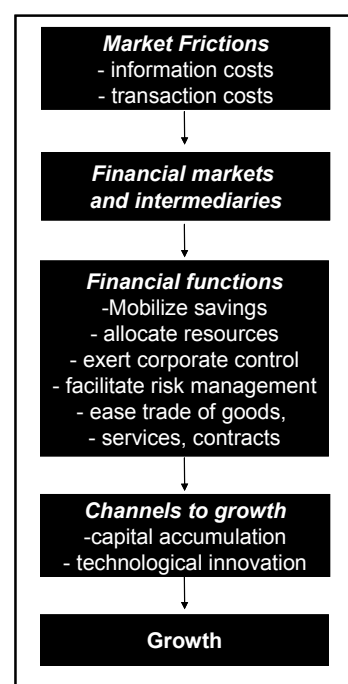
2.3. Why Is Financial Inclusion Important?

One of the most important empirical relationships revealed in the last decade has been the establishment of the causal link between financial depth and growth (Honohan, 2004).

Figure 1 shows a schematic representation of the theoretical basis for the link between financial depth and growth. Policy-makers would do well to recognise the relationships between well-developed financial systems and economic growth as well as economic growth and poverty reduction. Thus, the question becomes, does a well-developed financial system serve the poor?

There are, in fact, ample theoretical justifications and empirical evidence indicating that a well developed financial system can be an effective poverty alleviation tool. For one, there are large costs to small and poor entrepreneurs for the market imperfections in a poorly developed financial system. These burdens include informational asymmetries, transaction costs, and contract enforcement costs, compounded by lack of collateral, credit histories, and contacts. For these entrepreneurs, broad access to financial services would smooth project financing, positively impacting growth and poverty alleviation (Galor & Zeira, 1993). Beck and de la Torre (2006) also refer to the Schumpeterian process of ‘creative destruction’ whereby a well-developed financial system is able to allocate resources to efficient newcomers. Empirical studies also show that small firms in countries with greater outreach and access face lower financing obstacles and grow at a higher rate (Beck et al, 2006). Access to finance is also an important incentive for new ideas and technologies (King and Levine, 1993). Additionally, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. On the other hand, an underdeveloped

Figure 1: A Theoretical Approach to Finance and Growth
Source: Levine (1997)



financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs (Rajan & Zingales, 2003).

Indirect evidence corroborates the linkages between financial depth, growth, and poverty alleviation. Specifically, financial depth plays a role in lowering inequality and increasing the income of the bottom 80% of the population (Li et al, 1997). Child labour, which is positively correlated with poverty, has been found to be influenced by the financial depth of a country (Dehijia & Gatti, 2002; cited in Honohan, 2004). This could be because poor households in countries that have well-developed financial systems in place are less vulnerable to economic shocks. Finally, as Rutherford points out, provision of financial services to poor people need not only be for increasing income, empowering women, or starting small businesses – it may simply aim to help them “manage better what little money” they already have (1996).

It has been hypothesised that in government-controlled banking systems, formal credit is susceptible to elite capture, undermining efforts to advance rural development. In a seminal study looking at India’s vast banking system, Burgess and Pande (2003) show that the rural bank expansion programme, mandated by the Indian government from 1977 – 1990, can explain approximately half of the drop in poverty from 61% in 1967 to 31% in 2000. Further, they find that rural bank expansion was associated with non-agricultural growth. These results demonstrate that an increase in bank branches and the resultant improvements in physical access were critical in reaching out to remote areas and decreasing poverty.

Although the causal link between *financial depth (a well-functioning and well-developed financial system)* and *growth* is well-established, the link between the *breadth of financial services (outreach of financial services)* and *growth* is less well-defined (Beck & de la Torre, 2006). The four central functions of finance are: mobilizing savings; allocating capital; monitoring the use of credit funds by entrepreneurs; and transforming risk by pooling and repackaging it. These functions need to be buttressed by legal, regulatory, and informational structures that enhance the quality of the financial system, which cannot be measured simply by looking at the scale or the breadth of the system (Honohan, 2004). Additionally, as discussed earlier, broad access does not always signify usage.

2.4. Financial Deepening In India

2.4.1. Social Banking in India: Background

In the 1950s, an extensive network of rural cooperative banks was established with the intention of leveraging country-wide deposits and savings towards agriculture and small-scale cottage industries. However, this venture failed to materialise as bank credit was funnelled to big corporations that already had majority stakes in the banks. As a result, banks were nationalised by the RBI in 1969 in order to:

- Check the control of banks by a few corporations;
- Organise savings from remote and rural regions;
- Use the deposits mustered by banks to achieve equitable growth; and
- Concentrate on priority sectors like agriculture and small industry (Basu, 2005).

Towards this end, RBI stipulated that at least 40% of bank lending go towards the Priority Sector, out of which 25% had to be extended to the weaker sections within the Priority Sector. Other features of nationalised banking included the ‘Service Area Approach’ (SAA) wherein a single bank was assigned 15-20 villages, after which other banks could set up branches upon obtaining the initial bank’s approval. Similarly, the 1:4 license rule established in 1977 dictated that a bank could open a branch in a banked location only after opening four branches in unbanked locations.

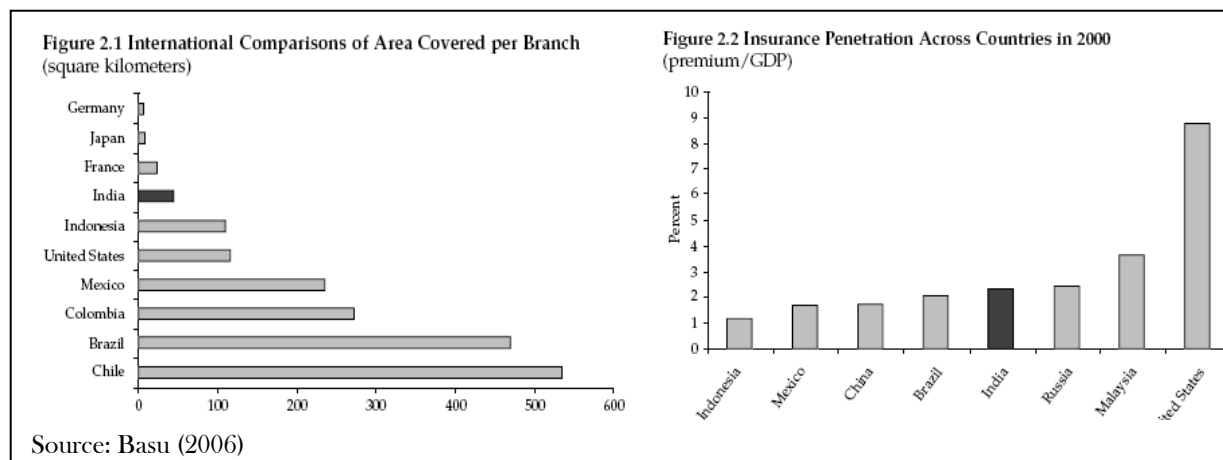
More recently, sector liberalisation has led to some changes especially, with respect to increased competition and deregulation. Today, the aforementioned SAA and the 1:4 license rules have been done away with. Interest rates are no longer regulated, although interest rates on loans under Rs. 2 lakhs are still subject to a cap equal to the prime lending rate, while short-term deposits are subject to a floor. This approach, referred to as ‘social’ or ‘development’ banking, hinged on the assumption that small, rural, and poor borrowers were not bankable and would be neglected by banks unless compelled by policy (Burgess & Pande, 2003; Leeladhar, 2006; Basu, 2005). From this viewpoint, formal finance could be delivered to the poor only after banks were ‘coerced’ by the government (Burgess & Pande, 2003). As a result of these policies, until recent years, nationalised banks and regional rural banks (RRBs) control over 73% of all commercial banking assets, and 52.4% of the assets of all financial institutions. Further, rural areas have yet to see competition in the banking sector.

2.4.2. Indicators of Financial Depth in India

As a result of the bank nationalisation programme and the government’s efforts to increase bank branches in rural and remote areas, the national distribution of financial

services is quite extensive compared to other developing economies (Basu, 2006). There are over 32,000 rural bank branches (with a total of 68,000 rural and urban branches) including public and private sector banks and RRBs. There are more than 14,000 branches of rural cooperative banks comprising about 98,000 retail outlets of Primary Agricultural Credit Societies (PACS). The post office system, comprising 154,000 post office branches, has about 114 million savings accounts and services 110 million money orders. Looking at the period between 1973 and 1985, bank branches in rural areas grew at an average yearly rate of 15.2% which is almost double the growth rate of branches in semi-urban (6.4%), urban (7.8%), and metropolitan (7.5%) areas. Each rural bank serves an average population of 16,000 and if including rural cooperative banks, this falls to about 12,800 - almost on par with Indonesia and Mexico. India's vast network of banks is reflected by its low average geographic area per branch, compared to other countries. The level of insurance penetration, measured as premium as a percentage of GDP, was also marginally higher in India than in Brazil, China, Indonesia, and Mexico.

Figure 2: Indicators of Financial Depth in India



2.4.3. Indicators of Financial Inclusion in India

2.4.3.1. Access to Credit

As mentioned before, one of the primary objectives of India's banking system has been the extension of institutional credit to rural India, where the majority of the poor live. It would appear that while advances have been made since the 1960s towards greater inclusion, a substantial majority of India's rural poor still lack access to formal finance. We have already seen that, in spite of the vast banking network, only about 30% of Indians have a savings account. Below, we look at some of the issues related to access to credit.

Table 2 and the accompanying Figure 3, document the decreasing share of non-institutional sources of credit, most notably the fall in the share of moneylenders as a source of finance. Troublingly, this trend reversed between 1991 and 2002, with the share of moneylenders rising from 17.5% in 1991 to 26.8%. Clearly, the expansion of financial services in rural areas has fallen short of demand in the last decade (Mohan, 2006).

Sources of Credit	1951	1961	1971	1981	1991	2002\$
Non-institutional	92.7	81.3	68.3	36.8	30.6	38.9
Money lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
<i>Co-operative societies, etc.</i>	3.3	2.6	22	29.8	30	30.2
<i>Commercial banks</i>	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	100	100	100	100	100	100

: Borrowing refers to outstanding cash dues.
 \$: AIDIS, NSSO, 59th Round, 2003.
 Source: All India Debt and Investment Surveys, Address by Dr. Rakesh Mohan at the Annual Bankers' Conference 2006

Table 2: Relative Share of Borrowing of Cultivator Households

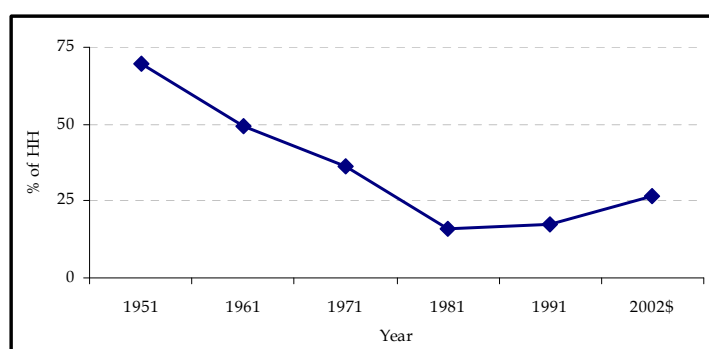


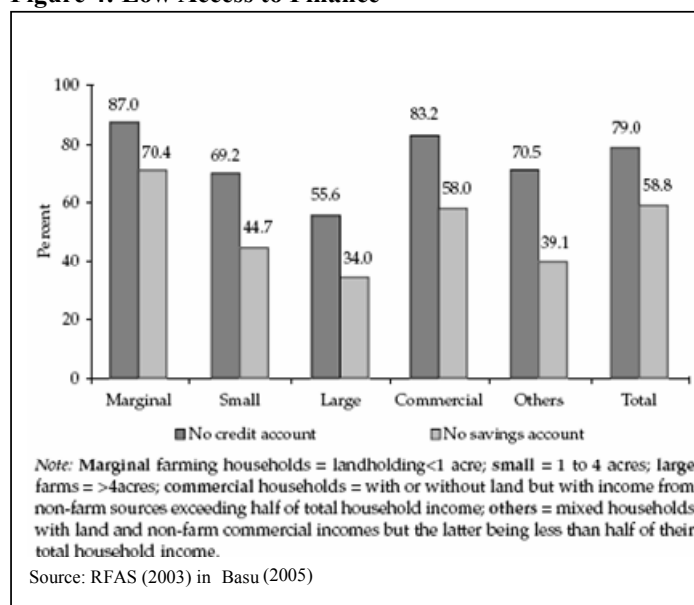
Figure 3: Relative Share of Moneylender Borrowing of Cultivator Households

The Rural Finance Access Survey (RFAS, 2003) conducted jointly by the NCAER and the World Bank also provides us with some answers as to which segments of rural borrowers have access to formal credit and why. According to their survey, the most common sources for rural households *with* access to credit are commercial banks, rather than RRBs (Basu, 2005). Commercial banks contain over half the deposits, while RRBs only account for 34%. Cooperatives and post office branches are in fact not a very significant source of finance for rural households. Studies across the world have found that the level of income and occupation are important determinants of access to credit and savings (Peachy & Roe, 2006; United Nations, 2006). The RFAS-2003 confirms this by demonstrating that farmers with bigger landholdings benefit from greater access to financial services than smaller farmers (Basu, 2005). Figure 4 shows that 44% of large farmers have access to credit, and

66% of them have a savings account. In sharp contrast, 87% of marginal farmers do not have access to a savings account, and 71% cannot access credit. Commercial households, that is, households engaged in some form of micro-enterprise, are also strapped for finance. Thus, the system appears to be skewed in favour of richer rural borrowers.

The report also shows that despite the overall decrease of moneylenders as a source of credit, in the absence of formal sources of credit, rural borrowers still turn to the informal.

Figure 4: Low Access to Finance



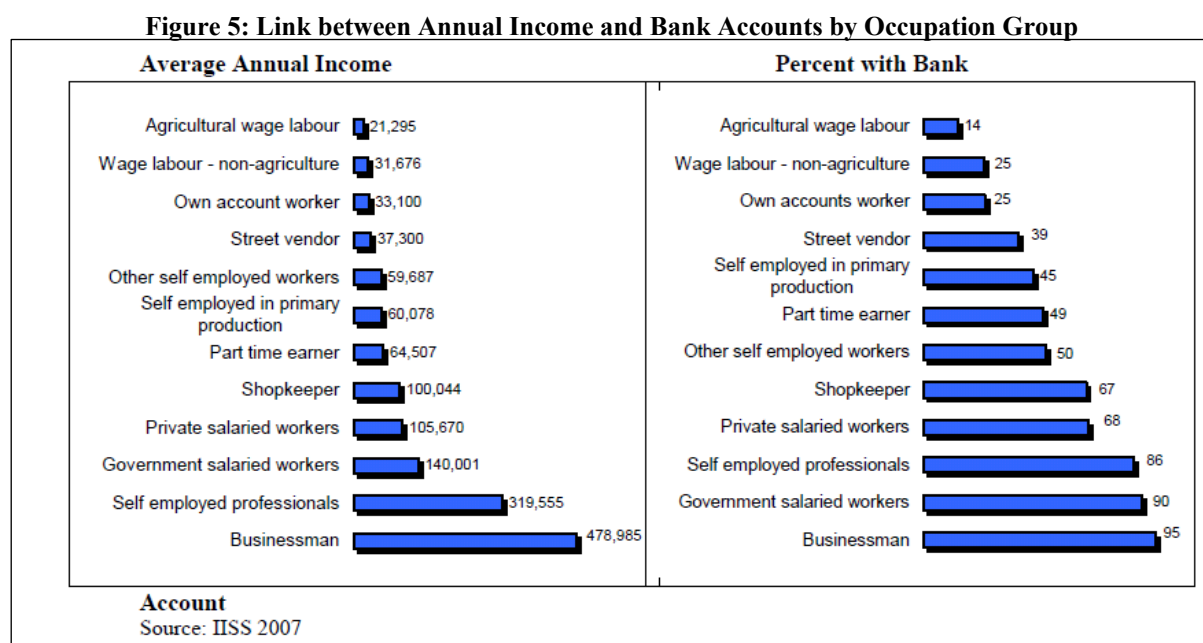
Around 44% of surveyed households reported having borrowed money informally at least once in the preceding year at an average interest rate of 48% per annum (as opposed to 12.5% for loans from commercial banks) (Basu, 2005). Informal lending is most significant for marginal farming households, followed by small and commercial households, which complements the data that marginal farmers are the most

deprived of formal credit (Basu, 2005). While evidence indicates that poor households often borrow from both formal and informal sources (United Nations, 2006), in this case, poor households are able to borrow overwhelmingly from informal sources.

2.4.4. Barriers to Access

A recent survey reveals that 81% of the 63,016 household surveyed save (Max New York Life – NCAER, India Financial Protection Survey, 2007). Yet in spite of this widespread financial behaviour, only 59% of the adult population, or 30% of the total population, has access to a savings account. Why are poor farmers and others unable to access credit or obtain deposit accounts from the formal financial sector?

In 2006-7, Invest India Market Solutions (IIMS) carried out a survey of one lakh respondents to uncover the characteristics of respondents with bank accounts. One of the striking findings of the resulting data shows that there is a strong link between annual income and ownership of bank accounts by occupation group. The data shows that in both urban and rural areas, banks are able to cover almost all individuals with annual income above Rs. two lakh. It would appear that even differences in bank coverage between states can be explained by the differences in income and savings among the various states. For example, in comparing Kerala and Bihar, Kerala has one of the highest rates of savings in India and consequently also one of the highest proportions of bank accounts. Conversely, Bihar, where savings are extremely low, also has a much lower proportion of bank accounts (Committee for Financial Sector Reforms, 2008). As mentioned earlier, while this does not establish causality, it does show a strong link between low incomes and access to formal finance.



A lack of legal documentation is another major obstacle that poor households employed in the informal sector face when trying to open any kind of bank account, be it savings, credit, or current. In reference to small entrepreneurs (but equally applicable to poor people attempting to open a bank account), Hernando de Soto, Chair of the United Nations High Commission on Legal Empowerment for the Poor, vividly captured the problem:

“There are three questions that are always asked: What’s your name — identify yourself? Most people in the world cannot identify themselves, at least not legally. Second: What is your address? Most people don’t have an official address. And third: What company do you work with? Most people don’t have an official company.” (Interview with Opportunity International, 2005, cited in United Nations, 2006)

Poor individuals, especially women and other marginalized groups, rarely have legal proof of identity, address or employment. This renders obtaining formal credit even more onerous. Evidence from around the world also shows that cultural norms, as well as age and gender, are important determinants of access to finance. A survey of bank managers in Madhya Pradesh revealed a perception that women borrowers were more trustworthy and less of a default risk (United Nations, 2006). However, a greater percentage still believed that women were simply being used by men to gain loans. Culturally, poor households may be dissuaded from using banks regularly, since banks tend to be organisationally and culturally designed to serve a wealthier clientele. Specifically, Kempson (2006) refers to the psychological and cultural obstacles which deter people from using banks. Rural households may feel intimidated by banks and develop a belief that banks are intended for more educated and richer individuals. This self-exclusion by low-income households may be as important a cause for exclusion as direct exclusion by banks. Lastly, banks have historically promoted banking transactions specifically at bank branches. As prior microfinance practice has shown, poor clients, especially in rural areas, may respond better to ‘doorstep’ banking, that is banking which takes place at a location which is both convenient and comfortable, usually the client’s home. Basu (2005) also points out that currently banks do not have the option to recruit local staff. This might allow the bank staff to better respond to client needs.

Basu (2005, 2006) directs our attention to two additional roadblocks that rural households face when attempting to take a loan from a bank. Firstly, banks require collateral to make loans and RFAS (2003) shows that almost 90% of bank and RRB borrowers put up collateral. Given that land is the most common form of collateral in rural areas and poor households’ legal/documentation issues, a sizable proportion of the poor is excluded (United Nations, 2006). Interestingly, banks typically do not collect upon default, thus collateralising loans has few advantages compared to the disadvantage of added costs. Secondly, the survey indicates that bribes, ranging from 10% to 20% of the loan, are common in all formal financial institutions including banks, RRBs and credit cooperatives. The average time taken to process a loan application is almost 33 weeks in a commercial bank. Such cumbersome and costly procedures make it unattractive for households to rely on formal finance.

As the statistics demonstrated earlier, banks have also been unable to open savings accounts for the bulk of poor people. A CGAP (2002) donor brief identifies the following four essential features of a savings product: security, low transaction costs, appropriate design, and

interest rates. A savings account can thus play an important role in helping poor people save safely and securely. However, the design of such products should be suited to the needs of the poor. Even though the poor require flexible products and services (United Nations, 2006; Basu 2005), bank savings accounts often have high minimum balances (Peachey & Roe, 2006).

Most poor people around the world are simply looking for products that incorporate the following values: “security; convenience; liquidity; confidentiality; products appropriate for their needs; helpful, friendly, and respectful service; returns; and potential access to loans” (CGAP Interview with Steve Peachy, undated). However, the preceding section has established the varied and cumbersome barriers which keep the poor excluded. In recognition of these barriers in India, RBI announced several changes to banking operations in 2005-06.

2.4.5. Policy Changes to Increase Financial Inclusion

The RBI's Annual Policy Statement of April 2005 was widely introduced the issue of financial inclusion, declaring that ‘banking policies tended to exclude rather than attract vast sections of the population.’³ To counter this reality, three major moves were initiated, sparking a renewed commitment to financial inclusion. The first major step established a ‘No Frills’ basic banking account, which requires a zero or extremely small minimum balance. While the nature and number of transactions through this account can be restricted, banks are required to convey these restrictions to customers at the time of account opening. Further, banks have been asked to adequately publicise these accounts. The promotion and dissemination of the Kisan Credit Card⁴ (KCC), an important means to reduce transaction costs, has also been given due importance. This scheme was introduced in 1998-99 with over 30 million cards issued by 2003; however, RFAS 2003 showed that use of the card was patchy with larger farmers reporting the higher usages. Secondly, the RBI has reduced some of the transaction costs incurred in opening bank accounts by reducing the stringency of the ‘Know Your Customer’ (KYC) norms for individuals who do not foresee having more than Rs. 50,000 in all their combined accounts and whose annual total borrowing will not exceed Rs. 100,000. Those lacking proof of identity or residence can be introduced by an account holder

³ Financial Inclusion – RBI Circular No. RBI/2005-06/233 RPCD.RF.BC.54/07.38.01/2005-06 dated 13.12.2005. http://www.iibf.org.in/financeq/docs/RBI_circular_13.12.2005_Fin_Inclusion.doc Accessed on 8.5.07

⁴ The Kisan Credit Card (KCC) provides eligible farmers with a revolving cash credit facility up to an upper limit of Rs. 25,000, which allows for numerous withdrawals over the period of a year. The primary advantage of this card is that it allows the *kisan* i.e. the farmer easy access to credit and renewal of credit with minimal paperwork.

of at least six months for whom the full KYC procedure has already been completed. Finally, the RBI has asked banks to charge reasonable amounts for services rendered and to be transparent about these charges from the outset.

In addition to changes in overall bank policy, the RBI also announced a targeted drive for financial inclusion throughout the country, wherein each household would to receive one ‘no frills’ bank account. The first pilot project was conducted in Pondicherry district, led by Indian Bank and completed in December 2006. Since then, several drives, typically lasting one year each, have been completed in different parts of India, with the most notable of these being the achievement of 100% financial inclusion in the state of Himachal Pradesh and in Gulbarga district, one of the most developmentally backward districts in Karnataka. Thus far, about 1.58 million bank accounts have been opened as part of the drive, with 5.84 billion worth of additional accounts remaining before the country can claim to be 100% financially included (‘RBI asks banks to offer credit through no-frill accounts’, *The Economic Times*, 12 September 2008). As mentioned earlier, this initiative is significant in that much of the policy and hence research on financial access in India has tended to focus on credit extension rather than savings. Given the scale of this exercise and the resources being devoted to it, a study which looks at its feasibility and efficacy is both timely and pertinent.

3. Research Methodology

The research concentrates on three broad areas:

- I. **Process of Financial Inclusion:** Financial inclusion, here, refers to the total number of households having access to at least one bank account since the goal of the drive is to ensure that every household in a region has access to at least one bank account. This study documents the process by which households acquire savings accounts. This includes the means by which banks identify ‘un-banked’ households, the manner in which accounts are opened, and the marketing and dissemination strategies utilized by banks to spread awareness about the drive. For those who continue to remain ‘unbanked’, this study seeks to understand the reasons behind this exclusion from banking services. Is this exclusion self-induced, that is, because households do not feel the need for a bank account, or has it taken place due to other reasons such as institutional negligence or ignorance of the drive on the part of the household?

- II. **How do Households Experience Financial Inclusion?** This section of the study looks at how households and banks influence the process of becoming ‘banked.’ In other words, we look at the ways in which the drive for financial inclusion shapes the financial lives of households in a district, if at all. This study reports on household perceptions of banks and bank officials as well as the convenience, comfort and compatibility of formal finance in comparison to informal and semi-formal vehicles of finance such as moneylenders, pawnbrokers, microfinance institutions, SHGs, etc.
- III. **Role of Financial Inclusion in Financial Behaviour:** Finally, the study also examines whether access to a savings account leads to usage of that account and of other formal financial services. Particularly, we are interested in knowing whether the drive is relevant to the lives of the households it seeks to serve.

While there are currently several districts across India which have implemented the financial inclusion drive, this study examines the drive in Gulbarga district in northern Karnataka which is considered to be one of the most backward districts in the state. In fact, in the state-compiled Karnataka Human Development Report (HDR) 2005, Gulbarga ranks 26th out of 27 districts in developmental terms. It is also an extremely large district containing over 1,300 villages and a population of over 30 lakhs as per the 2001 census. Thus, Gulbarga is intriguing from the researcher’s point of view for two reasons. Firstly, the achievement of 100% financial inclusion in a district of this size would undoubtedly pose huge challenges for banks and other parties involved. Secondly, understanding the process of financial inclusion in a poorer region can have important implications for other poor regions as well. In a developmentally advanced region, it would be fair to say that ease of access in terms of transportation, educational levels, and priorities or awareness of potential bank clients would contribute to making such a drive more rather than less achievable.

The intention of this study is to focus on low-income households, since previous studies demonstrate that this segment of the population is the most financially excluded. Thus, all households examined herein are deemed Below Poverty Line (BPL), as identified by state-issued ration cards which enable them to buy food grains at subsidised prices through the Public Distribution System. This methodology’s primary weakness lies in the fact that there is extensive misrepresentation in the classification of BPL households, often derived from the extensive benefits available to these households. Thus, many BPL-designated

households may, in fact, be Above Poverty Line (APL). However, this method was the most objective method of identifying low-income households, as identified by the government.

This study relied mainly on quantitative techniques. Surveys, in-depth interviews, and in-situ observation were the primary data collection methods utilized during the study. A structured questionnaire survey was administered to 999 respondents, spread over 50 villages. This survey collected information on logistics and awareness levels regarding the drive, opening and usage of accounts, availability and perceptions of formal and informal finance for households, and the financial habits of respondents.

Given the size of Gulbarga, the survey was conducted in 2 of its 11 blocks; Shorapur and Gulbarga blocks were selected for having the highest proportion of BPL households, according to the Karnataka Rural Household Survey 2003.⁵ 25 villages in each block were randomly chosen, and the first 20 BPL households encountered in each village were surveyed. In selecting BPL households, it was not possible to randomly select twenty households from each village, because ration card lists were not easily available. However, in order to ensure that the sample did not suffer from selection bias and enjoyed a level of randomisation, the survey was conducted in a minimum of four hamlets per village. Additionally, no two respondents lived next door to each other; in other words, every other house was skipped. This ensured that we did not restrict our sample to BPL households of any one particular community or location within a village.

In-depth interviews were conducted with various stake-holders, including bank officials of both the RBI and district-level banks to understand the definitions that banks attached to this drive as well as the procedures by which households were included, such as marketing or operational changes. Unstructured interviews were also conducted with households, both banked and unbanked. These interviews were conducted in Gulbarga block alone.

4. Study Results

4.1. Gulbarga: Background

Gulbarga is one of the largest districts in Karnataka and covers about 8.46% of the state's total area. It comprises ten blocks - Gulbarga, Afzalpur, Chittapur, Shorapur,

⁵ Available here <http://nitpu3.kar.nic.in/Samanyamahiti>

Shahapur, Jewargi, Yadgir, Aland, Chincholi, and Sedam. It has 1378 revenue villages and

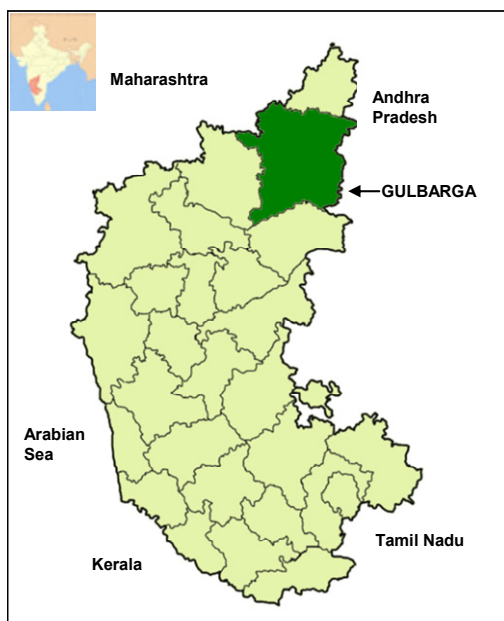


Figure 6: Map of Gulbarga

337 Gram Panchayats. With a population of 31.25 lakh, Gulbarga contains about 5.93% of the state's population, according to the 2001 census. The percentage of Karnataka's BPL families is 33.85%. Gulbarga district has implemented the National Rural Employment Guarantee Programme (NREGP), which provides 100 days of employment to at least one member of any interested household. Usually, Village Panchayat Members are responsible for processing applications, distributing employment cards, and arranging bank accounts for all interested individuals.⁶

The Karnataka state government released a state Human Development Report in 2005, for which a Human Development Index (HDI) was computed for every district in the state based on UNDP methodology. According to this report, Karnataka's HDI of 0.650 places it seventh amongst all Indian states and higher than the all-India level of 0.621. Gulbarga district placed 26th out of 27 districts, registering an HDI of 0.564. For the indicators of health, education, and income that comprise the aggregate HDI, Gulbarga placed 20th, 25th and 25th, respectively.

Some statistics about Gulbarga and Shorapur, the two blocks relevant to this study, are given below.

Table 3: Descriptive Statistics for Gulbarga and Shorapur Taluks

	Gulbarga	Shorapur
Total Population	245,147	279,536
Literacy Rate	22%	19%
Female to Male Ratio	962	981
No. of BPL Families as of 1-4-2000	19,113	23,293
No. of BPL Families as % of all households	52%	45%
Small and Marginal Holdings as % of all land holdings	13%	38%

Source: <http://www.kar.nic.in/rdpr>

4.2. The Financial Inclusion Drive: The Process

⁶ The NREGP is a social security scheme through which village *panchayats* provide one hundred days of employment to at least one member of any household that desires it. Wages for the NREGP are distributed in different ways depending on the district and state in question. For more information, refer to <http://nrega.nic.in/>.

Before examining the survey results, this section provides an overview of the implementation of the financial inclusion drive in Gulbarga. This information was collected by interviewing bank officials in Gulbarga and Central Bank officials in Bangalore.

In 2006-07, the RBI announced that a drive for financial inclusion would be initiated in every state, whereby the State Level Banking Committees (SLBC) and the state lead banks would be responsible for promoting 100% financial inclusion in at least one district in their home states. The SLBC is a committee, consisting of representatives from all banks in the state, the state government, and the RBI, that meets regularly to coordinate state banking activities. The lead bank in a state is the bank with the most number of branches, and hence, outreach in the state. The lead bank is also the Convener of the SLBC.

It is noteworthy that while each state has implemented the drive with slight variations, all states emphasise the importance of providing a breadth of services to their clients. Thus, while financial inclusion typically entails opening savings bank accounts for all unbanked households, lead bank officials, interviewed both in Chennai and Bangalore, underscored the importance of other financial services as well. In both regions, financial inclusion was envisioned as a phased process, the first phase of which involved opening savings accounts. In Tamil Nadu and Pondicherry, the second phase would extend credit through the provision of overdraft facilities, and the third phase would provide insurance products. In Gulbarga, on the other hand, the second phase extended General Purpose Credit Cards⁷ to BPL households.

Some states have been extremely enthusiastic in promoting the drive. For instance, as of August 2007, nine districts in Karnataka have been included. Other states have been more cautious. For example, in Tamil Nadu, only two districts have been included so far. Furthermore, after the drive in Gulbarga, No Frills Accounts were restricted to those needing bank accounts for wage disbursement under the NREGP scheme only, whereas in Pondicherry, individuals who want No Frills Account can still hope to get one.

While Karnataka's lead bank is Syndicate Bank, Gulbarga's lead bank, State Bank of India, was instrumental in implementing the district's drive. Gulbarga was selected for implementation of the drive in July 2006, and opening of accounts began in August 2006. On January 18th 2007, the RBI formally declared Gulbarga to be 100% financially included.

⁷ General Purpose Credit Cards, the successor to Kisan Credit Cards which were first initiated in 1998-99, while not exactly credit cards, are akin to debit cards which allow one to take an overdraft on one's account. Lower transaction costs in the form of time saved and ease of usage are some of the benefits for a user.

While the lead bank was unable to provide final figures, newspaper reports indicate that four lakh no-frills accounts with zero balance were opened (Deccan Herald, 19 January 2007).

The first step in opening these accounts involved identifying all households in Gulbarga for which bank account information could be found. While extensive information was available for rural areas, urban areas proved to be more difficult. This issue was resolved by using lists from the Food and Civil Supplies Department for urban regions. Once these lists were compiled, each active bank in Gulbarga was provided with corresponding lists for their service areas. The lead bank also established relations with the District NGO Federation (DINFED) to involve NGOs operating in Gulbarga with outreach aspects of the drive. Selected NGOs were responsible for: identifying ‘unbanked’ households through surveys, helping households to complete application forms for bank accounts, delivering application forms and other materials to the bank, and collecting and distributing passbooks for to new account holders. NGOs were paid Rs. 18 per each new account. Every month, banks sent reports to SBI delineating how many accounts were opened and whether or not the drive was on target. SBI also promoted the drive through newspaper advertisements and posters. In total, 26 banks and 56 NGOs were involved in this exercise.

Which households received no-frills zero-minimum balance accounts? Originally, the drive was designed to provide accounts only to households with no access to formal finance. Thus, households that had postal savings accounts or members in Self Help Groups (SHGs) that were linked to banks did not fall under the drive’s purview. However, lead bank officials indicated that *this scope changed during the drive*; it was decided that postal savings accounts were no longer a sufficient qualification for financial inclusion. The drive for financial inclusion was implemented alongside the NREGP, which was first initiated in Gulbarga in early 2006. Once the drive for financial inclusion began, all new NREGP were also no-frills accounts with zero-minimum balance.

At the end of the drive, each bank comptroller was asked to certify that the targets had been achieved. Some comptrollers included the number of accounts in their letters of certification, others did not. Our conversations with bank officials found that some of the major obstacles faced in implementation of the drive included insufficient access to household-level information, conflicts between NGOs and banks, and difficulty in motivating banks to participate in the drive. While most public discourse surrounding this exercise tends to highlight the opportunity for banks to capitalize on the chance to acquire a much larger client base, the picture on the ground tells a different story. Similarly, while officials in policy-

making positions in Bangalore and Chennai tended to focus on the creation of a potentially huge market for banks, officials closer to the field remain sceptical of these claims. While most embraced the precept that these accounts are necessary and useful for low-income communities, almost all agreed that they are not economically viable for banks.⁸ In fact, a ledger of these No Frills Accounts in one regional RRB branch showed that out of the 422 accounts opened, only 20 contained more than 2 lines of transactions. Further, almost all transactions involved withdrawal of money from cheque deposits in the accounts. In other words, the balance in these accounts had remained zero for most of their existence. Given that bank officials do not perceive these accounts to be profitable or even break-even business opportunities, it is unsurprising that they were at odds with the NGOs that they employed to open accounts. Banks informed us that they would often reject applications brought in by NGOs claiming that rejected applicants had been past account holders that had allowed their accounts to lapse voluntarily.

4.3. Describing Survey Respondents

Table 4 briefly describes the **999 respondents** to whom the survey was administered. All households were BPL households, as identified by their ration cards. As Table 4 shows, respondents were overwhelmingly Hindu. The data on literacy indicates that over three-fourths of the households had at least one family member who could read and write. This number is, however, misleading; conversations with respondents revealed that literate members of the family tended to be the children who lacked decision-making authority. However, the same proportion of respondents never attended school, and 88% percent of the families did not have a single member who had attained a high school leaving certificate.

⁸ Central bank officials have also expressed some concern over the large number of inoperative accounts, as described here: http://economictimes.indiatimes.com/RBI_asks_banks_to_offer_credit_through_no-frill_accounts/articleshow/3477102.cms

Table 4: Characteristics of Study Respondents

	% of respondents
Religion	
Hindu	88%
Muslim	11%
Others	1%
Caste Category	
Scheduled Caste	43%
Scheduled Tribe	9%
Other Backward Caste	41%
General	6%
Other	1%
Household	
Average HH Size	6
Average No. of Adults	3
% of HH in which at least 1 member can read and write	76%
% of respondents who reported never having attended school	77%
% of HH in which NO adult member has finished Class 12	88%
Land Ownership	
% of HH which owned land	58%
Average Land Holding	3 acres
Livelihoods ⁽¹⁾	
Agricultural Labour	58%
Agriculture (own cultivation)	51%
Casual Labour	48%
Type of Income ⁽²⁾	
Weekly	65%
Seasonally	51%
Daily	46%
Monthly	9%
<i>(1)&(2) These figures add up to more than 100% because some households have more than 1 livelihood.</i>	

In terms of livelihoods, a majority of the households were involved in agricultural activities. Interestingly, over half the respondents owned some amount of land, and the average landholding amongst those with land was about three acres. Gulbarga's dry climate and the preponderance of rain-fed irrigation in this area indicate that three acres is a fairly modest landholding for this area. Given that incomes amongst respondents were based on agriculture and agricultural labour, it is unsurprising that most respondents reported receiving income on a weekly or seasonal basis. In this area, men earn approximately Rs. 50 for a day's worth of agricultural labour, while women earn Rs. 30 for the equivalent work. By comparison, a day's wages under the NREGP scheme is Rs. 80.

4.4. Evidence from the Survey

4.4.1. Overview of Accounts Opened

Table 5: Bank Accounts - Before, During and After the Drive

	% of HH
BEFORE THE DRIVE	
HH with bank accounts	12%
DURING THE DRIVE	
HH who opened a bank accounts during the drive	17%
HH who did not have access to any other form of savingsaccounts before opening a bank account	8%
HH who opened a bank account during the drive + reported 0 minimum balance	6%
HH who did not have access to any other form of savings accounts before opening a bank account	3%
AFTER THE DRIVE	
HH with bank accounts	29%
HH who do not have access to any kind of formal/semi-formal savings account	36%
<i>(1) Savings Accounts refers to any one of the following: Bank Accounts, Post Office Accounts, SHG Accounts, Neighbourhood Groups, Chit Funds, Savings with MFIs</i>	

Table 5 gives details regarding the number of bank accounts opened during the financial inclusion drive and how the drive affected access in terms of the number of households that received bank accounts. Encouragingly, the number of households with bank accounts more than doubled over the duration of the drive, going from 12% to 29% of households surveyed. However, the overall picture that emerges from these numbers is less than optimistic. By the end of the drive, only a third of households surveyed had access to a bank account. More troublingly, over a third of the households interviewed did not have access to any kind of formal or semi-formal savings mechanism. It appears that of the 168 households that received accounts during the drive, only 64 reported actually opening zero-minimum balance accounts. Additionally, only half of those who opened bank accounts during the drive were financially excluded, that is, the other half had already been financially included.

The sections that follow examine some of the reasons that such a large scale attempt to increase financial inclusion in this district seems to have left many excluded households unaffected. We also look closely at some of the other formal and semi-formal means by which households currently save and borrow.

4.4.2. Awareness about the Financial Inclusion Drive

As can be seen from Table 6, levels of awareness about the drive were extremely low. Only 10% of the individuals interviewed knew of the drive. Only 4% of our respondents

Table 6: Awareness about the Financial Inclusion Drive

Are you aware that banks are opening zero minimum balance accounts for everyone?		Was there a survey conducted in your village where people were asked whether or not they had a bank account?	
Yes	10%	Yes	4%
No	90%	No	96%
How did you find out that banks were opening zero minimum balance savings accounts?			
Bank Officials	2%		
SHG Members	0%		
NGOs	2%		
Neighbours	4%		
Village Panchayat Members	87%		
Farmer Clubs	0%		
Posters	0%		
Newspaper Advertisements	0%		
Village Meetings	0%		
Other	4%		

could recall a survey in which they were specifically asked whether or not they had bank accounts. Of those who did know that banks were opening zero-minimum balance accounts, an overwhelming 87% learned of the drive from their village *panchayat*. Banks typically used NGOs, SHGs, newspaper advertisements, and posters to disseminate information about the drive, and the survey indicates that these were not primary sources of information for people. In fact, none of our respondents indicated newspaper advertisements or posters as sources of information, which is possible given the respondents' low levels of literacy. One explanation for why people learned about the opening of bank accounts from village *panchayats* could have been that the *panchayats* were responsible for coordinating activities related to the NREGP scheme; as we see in Table 7, a majority of our beneficiaries were NREGP beneficiaries.

Table 7: NREGP Beneficiaries

Do you or any member of your family receive assistance as part of the NREGP scheme?		Was a bank account/post office savings account opened in order to receive the assistance?	
Yes	30%	Yes	85%
No	70%	No	10%

Stemming from this finding, the survey established a close connection between beneficiaries of the NREGP, awareness about the drive, and receipt of bank accounts. Since the sample is wholly comprised of BPL households, it is not surprising that such a high proportion of them were also NREGP beneficiaries. Of the 10% who knew about zero-minimum balance accounts, 71% were NREGP beneficiaries. Similarly, of the 17% accounts opened between July 2006 to July 2007, 78% were NREGP beneficiaries.

Thus, we can conclude that awareness levels regarding zero-minimum balance accounts and the financial inclusion drive were extremely low. Those who did know about the drive were overwhelmingly beneficiaries of the NREGP scheme.

4.4.3. Summary of Bank Accounts Opened During the Financial Inclusion Drive

This section looks at the accounts which were opened during the financial inclusion drive, reasons that people gave for opening them, and the ways in which respondents used the accounts.

The survey asked respondents whether they had opened accounts any time after June 2006. We found that 168 respondents opened 204 accounts, indicating that some households had opened more than one account. The break-up is given in Table 8.

Table 8: Accounts opened during the Financial Inclusion Drive

No. of Accounts Opened	No. of HH
1	139
2	23
3	5
4	1
5	0
6	0
Total No. of HH which opened accounts	168
Total No. of Accounts	204

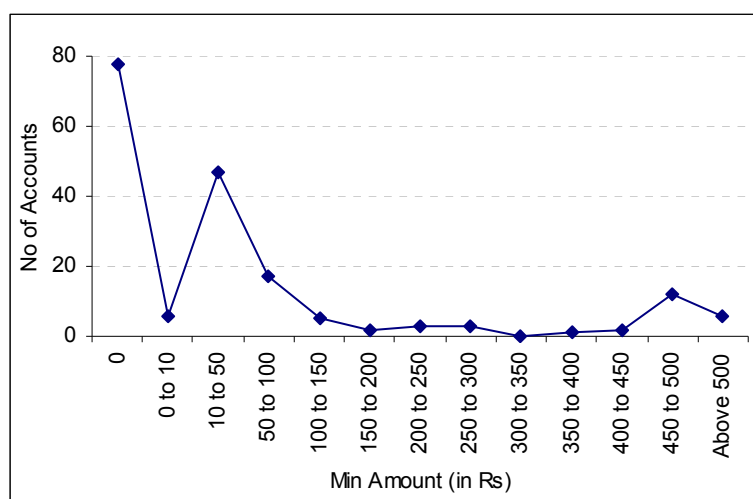


Figure 6: Minimum Balance of New Accounts

The data shows that of the 204 accounts which were opened, as confirmed by the respondents, only 78 of these accounts were zero-minimum balance accounts. However, as shown later, levels of awareness regarding bank accounts and the financial inclusion drive

itself were quite low. As a result, it is possible that the respondents were mistaken about their accounts or the banks had implemented the drive inaccurately. In fact, in informal conversations with bankers and new account holders, we found that when NREGP bank accounts were opened, account holders were told to deposit a token Rs. 50 in the account, even though it was technically a zero-minimum balance account. Bankers claimed that this was a way for them to inculcate savings behaviour. The chart below shows the minimum balance of the various accounts opened. The average minimum balance was about Rs. 106 while zero was the mode.

When examining why people opened these accounts and who helped to open them, the correlation with NREGP becomes even stronger. Overwhelmingly, a majority of respondents opened accounts to receive some form of payment, either government assistance or remittances. Three quarters of account holders received some form of assistance in opening accounts, typically from the village *panchayat*. Once again, this points toward the opening of these accounts for receipt of wages under NREGP.

It also appears that the features of these bank accounts were not always fully explained

Table 9: Opening No Frills Accounts

Did someone help you open the account?		What were the reasons that your household opened the account?	
Yes	76%	Receive govt. payments from NREGP	68%
No	24%	Receive govt. payments from schemes other than NREGP	23%
Who helped you open the account?		For receiving remittances	5%
Village Panchayat Officials	84%	For saving money	4%
Neighbour	6%	To request a loan	3%
Bank Officials	4%		
Relative	2%		

Did somebody speak to you regarding the benefits of a bank account before you opened one?	
Yes	15%
No	85%
Did any bank representative explain all the features of the account to the account holder?	
Yes	11%
No	87%

Table 10: Explaining Features of Bank Account to Account holders

to account holders. While this may not have mattered for those who were not first-time clients of a bank, the financial inclusion drive was designed for households that had never used banks before. As a result, it might have been pertinent to conduct introductory sessions for first-time account holders. At the same time, rural bank branches are often understaffed and may not

have the capacity to handle a great deal of new accounts. While this issue will be revisited later in this paper, the levels of financial literacy of target beneficiaries of this drive are important topics for policymakers and bankers to consider.

4.4.4. Access to the Bank

Of the 168 households that opened accounts in the year prior to the survey or during the financial inclusion drive, about 22% lived within walking distance of a bank. Of the remaining households, the average cost of travel to the bank came to approximately Rs. 20. By looking at the daily wages of agricultural labourers in this area (Rs. 50 for a man and Rs. 30 for a woman), we see that travel cost alone signifies about half a day's earning for the majority of the respondents. In addition, during their last visits, accountholders waited an average of approximately two hours before being helped. About 70% claimed that visiting a bank caused them to lose an entire working day.

In terms of interactions with the bank, 34% were 'satisfied' with their experiences with bank officials, and 27% reported a more positive opinion of bank officials than a year earlier. Almost 60% said that bank officials responded to their questions with appropriate explanations. This demonstrates that, although providing access may be difficult, in this instance, new accountholders had positive experiences with banks and their staff.

4.4.5. Respondents Who Did Not Open Bank Accounts

This section looks very briefly at some of the motivations behind why the rest of the sample did not open bank accounts. Over half the respondents believed that their incomes were insufficient for savings, thereby eliminating the need for savings accounts.

Table 11: Reasons for NOT Opening an Account

Why have you not opened an account?	
Insufficient Income for savings	56%
Already had an account	15%
Did not need an account	10%
Did not know about banks opening accounts	8%
Was never approached to open an account	6%

4.4.6. Savings Behaviour

This section examines how and why people save. The analysis is mainly focused on formal and semi-formal means of savings, namely savings in bank accounts, post office

accounts, or with MFIs, SHGs, neighbourhood groups, or chit funds. However, it is noteworthy that almost all respondents save informally at their homes.

Table 12 illustrates that an overwhelming majority of respondents indicated that they save on a regular basis. Of those, half claimed to save on a weekly basis. This number is particularly interesting, because over half the respondents mentioned that their primary reason for not opening an account was that their incomes were too low for savings. Of the 556 respondents who gave this reason, only 4% said they do not save on a regular basis. In other words, 96% of those who felt their income was too low to warrant bank savings still reported saving on a regular basis. Informal conversations indicated that in the minds of most respondents, acceptable amounts for bank savings were much higher than the amounts which they were capable of saving. As we will see later, these households were regularly saving anywhere between Rs. 10 to Rs. 50 on a weekly or monthly basis, but some respondents believed that minimum amounts were as high as Rs. 300 for deposit in a bank.

Table12: Savings Frequency

Do you save regularly?	
Yes	93%
No	7%
How regularly do you save?	
Weekly	46%
Fortnightly	20%
Monthly	20%
Daily	7%
At the time of harvest	7%
Less than monthly	7%

Why do you save?	
To face uncertainties related to health and employment	84%
For the future	73%
To invest in education	30%
To repay loans	9%

Table 13: Motives for Saving

When asked why they saved, the most popular response given was to prepare against health and employment shocks and the second most popular response, to prepare for the future. While the ‘future’ is not a very concrete idea (especially since education and wedding expenses can come under the category of future expenses), conversations with households revealed a concern for the futures of their children as an important motivating factor to save. This shows that households value savings not simply for a stated purpose, but also intrinsically as valuable for the future.

About 64% of our sample had had some form of formal or semi-formal savings account, with many households having multiple savings accounts. A short overview of the types of savings account and their ages is presented in Table 14. Bank accounts, post office accounts, and SHG accounts were the most prevalent savings vehicles, and as such, the analysis presented below focuses on these three forms of savings accounts.

Table 14: Savings Account

Type of Savings Account	Total No. of Accounts	Accounts 1yr or less than 1yr old
Bank Accounts	377	207
Post Office Accounts	93	48
MFI Savings	4	0
SHG Savings	437	66
Neighbourhood Groups	3	0
Chit Funds	6	1

Table 15: Savings Account Usage

	Bank Accounts	Post Office Accounts		SHG Accounts	
	Accounts 1yr & less	All Accounts	Accounts 1yr & less	All Accounts	Accounts 1yr & less
Average Balance	Rs. 189	Rs. 234	Rs. 92	Rs. 2438	Rs. 1682
% of respondents making regular deposits	5%	6%	2%	99%	92%
Frequency of deposits (as a % of those making regular deposits)	36% No fixed schedule/ weekly	67% Monthly	-	57% monthly 42% weekly	54% weekly 44% monthly
Amount of last deposit	Rs. 474	Rs. 118	Rs. 94	Rs. 50	Rs. 50
% of hh who never made a deposit	57%	71%	56%	0%	0%
Top reason for not making regular deposits	56% Use account only to receive govt. assistance	78% Use account only to receive govt. assistance	64% Use account only to receive govt. assistance	83% make regular deposits in other accounts	100% make regular deposits in other accounts
% of hh who make regular withdrawals	51%	19%	31%	53%	50%
Frequency of withdrawals (as a % of those making regular withdrawals)	55% As and when govt. assistance is deposited	61% As and when govt. assistance is deposited	73% As and when govt. assistance is deposited	86% As required	85% As required
Typical withdrawal	78% Irregular Amounts	83% Irregular Amounts	100% Irregular Amounts	50% Irregular Amounts	42% Irregular Amounts

Table 15 provides information regarding the usage of the three most common formal and semi-formal savings mechanisms in the sample. The data corroborates the finding that the new bank accounts were primarily opened to receive NREGP payments, and in fact, were used for the same. While the financial inclusion drive aims to improve access to formal finance, including, but not limited to, formal savings, the new bank accounts were not being used for savings. In fact, over half the bank accounts had not seen any deposits by the owners of the account, and only 5% had made regular deposits at all. As mentioned before, many of the respondents revealed in informal conversations that they believed that bank accounts were for bigger amounts. The story for post office savings accounts was similar. However, in the case of SHGs, membership obligates saving either on a weekly or monthly basis. SHG members also disclosed that the compulsory nature of SHGs essentially forced them to save on a regular basis. As a result, savings were regular in SHG accounts, and the average balance was much higher, representing an important source of asset-building for these BPL households. This was true for both new and old SHG accounts. SHG membership also allowed financial discipline to be inculcated within the family in some sense. Every SHG account opened in the last year had been opened in the name of the respondent’s daughter.

4.5. Discussion of Results

The data clearly shows a strong correlation between being a beneficiary of the NREGP scheme in Gulbarga and holding a new bank account. While it would be tempting to conclude that no other accounts have been opened in this district, it is highly likely that households no longer recalled having previously opened accounts at the time of the survey. Many factors support this hypothesis. Firstly, NGOs were assigned the task of opening the bank accounts en masse without any accompanying awareness training. Secondly, the region has low levels of literacy and economic development. Thirdly, since these bank accounts did not have any assigned utility, it is very possible that they remained unused due to lack of awareness on how to use them. Finally, for many accountholders the transactions cost of using the accounts may have been too high in comparison to their accumulated savings.

Since this survey, the Government of India has mandated that all NREGP wages must be routed through bank accounts. Government programmes and other social security schemes have a wide outreach in India. Implementing the NREGP or other government schemes in conjunction with the financial inclusion drive serves two purposes. Since delivery of wages by other means, such as through the post office system or the village *panchayat* is susceptible to corruption, wage disbursal through bank accounts ensures greater transparency and increases chances for the beneficiary to enjoy the full benefit of what should come to him. Simultaneously, it increases levels of financial inclusion as defined as ownership of a formal bank account. It is also plausible that regular exposure to the bank, for example, to receive one's welfare payments, could improve beneficiaries' comfort levels with the institution and enable him to avail other financial services such as regular savings or bank loans.

While households understand the significance of saving to face future economic shocks and indeed, our survey found that, generally, households do not save in formal bank accounts. This is partly because they perceive bank accounts to be useful only for larger amounts of money and partly because their household incomes are so low that bank savings can become a relatively expensive way to save. On average, the cost of travelling to a bank is about Rs. 20 in our study area. Compared to the average Rs. 10 saved weekly with SHGs in this district, it costs twice this amount to visit a bank weekly. Consequently, households prefer to save elsewhere. Thus, for families that require a micro-savings product, a bank account may not be the right product.

The results of this study call for greater financial awareness and effective marketing efforts to accompany initiatives such as the financial inclusion drive. Providing people with bank accounts is an important first step in bringing people into the ambit of formal finance.

Currently, however, knowledge of the drive is extremely low, and there is no concerted attempt to educate the target beneficiaries about the benefits or features of a bank account. Therefore, prospective accountholders require specific training on the benefits and uses of the accounts and how to use them. Further, this training needs to be relevant and appropriate for target beneficiaries. For instance, in the current effort, newspaper advertisements in a largely illiterate district failed to reach the target population.

5. Conclusion

We find that the proliferation of new accounts to excluded households has been quite small. Accounts have gone to households that already had access to savings and accounts. Thirty six percent of our sample continues to remain excluded from any form of formal or semi-formal savings mechanism such as a bank account and savings account with SHGs, neighbourhood groups, MFIs, or chit funds and close to 70% of our sample remains without a bank account.

The NREGP scheme was implemented in the district during this time, and we found that most accounts opened during the financial inclusion drive were opened and used to receive these NREGP payments. While this has ensured transparency and reduced corruption related to disbursement of NREGP funds, it has not increased formal savings amongst the beneficiaries as outlined in the drive's objectives. However, since these accounts were only a year old, it is possible that, with time, accountholders will eventually use these accounts for other purposes as well. Similarly, the drive failed to change the savings patterns of beneficiaries of new accounts. The study finds that SHGs are a far more common means to save, perhaps because of the compulsory nature of savings. It also reveals that the general impression about banks is that they are meant for 'richer' people. While these attitudes could be changed, it should be noted that significant costs related to travel to banks and loss of work pose a significant barrier to usage of formal bank savings accounts.

While the results from the study should be of help to policymakers and bankers as they consider innovative approaches to improve the participation of excluded populations in formal finance, this study is by no means a final evaluation of the financial inclusion drive. The diversity of districts in India implies that the problems encountered in other areas may be quite different from those encountered in Gulbarga. However, the study does point us in the direction of a few key areas of concern which may help to improve future policy in this area, for instance issues related to financial awareness, marketing, and appropriateness of bank

products for low-income communities. Further, this study looks specifically at a certain section of the population, BPL households. This choice presents certain advantages, since it is precisely those with low incomes that face trouble accessing finance. At the same time, it is arguable that the study is incomplete, since it does not look at other sections of the population, such as APL households, that could benefit from the drive.

This study points towards a few critical areas for further research. Firstly, given the large transaction costs involved in using bank accounts, it is important to explore other alternatives which could improve access to formal finance for excluded individuals. The Business Correspondence model, implemented in Brazil, shows promise. Since it provides doorstep delivery of banking services, a similar model in India could encourage non-sophisticated users of bank accounts make greater use of their accounts. Secondly, while this study provides a cursory overview of how No Frills Accounts are being used, it would be worthwhile to look more profoundly at the nature and frequency of transactions that take place in these accounts. It may also be fruitful to look at the cost of No Frills Bank Account to banks.

In conclusion, the drive for financial inclusion in Gulbarga failed to bring large numbers of people into the ambit of formal finance. Nonetheless, we see that coupling government programmes with financial inclusion may greatly increase access to bank accounts and shows potential to increase usage as well. Access does not mean usage, and as such, opening bank account without accompanying training or marketing may simply result in additional costs for the bank without any benefits to the community. Consequently, future policy measures to increase financial inclusion must specify incentives and the means by which these measures are to be adopted by those targeted.

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