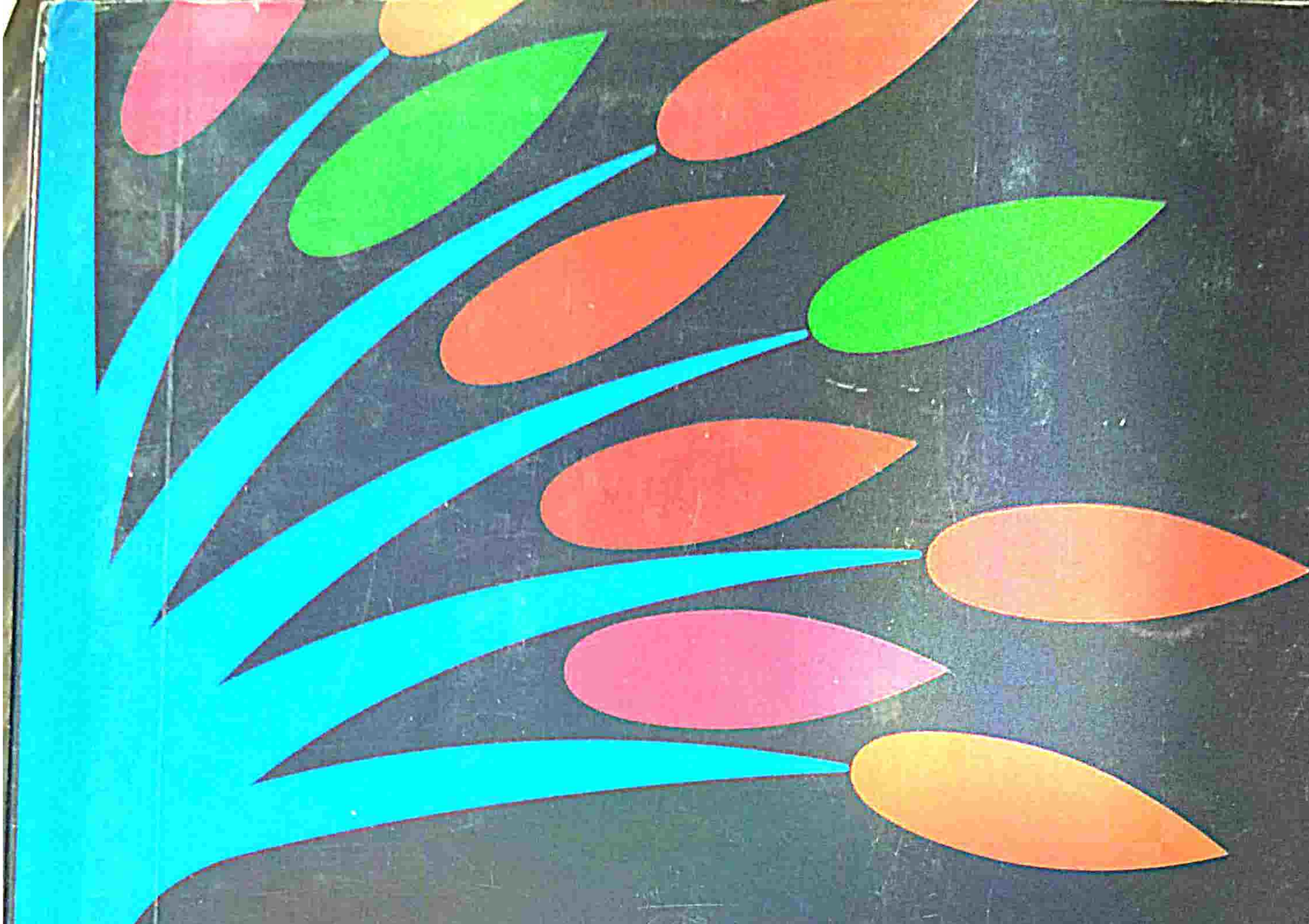

TRANSFORMING INDIA 2030 :

A Roadmap for Sustainable Development Goals

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Assessing The Status Of Interstate Financial Inclusion Process In India

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SECTION -I

Introduction :

Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. Financial inclusion – access to financial services – varies widely across the globe. In India, providing access to formal financial services and products has been a thrust of banking policy for several decades. Financial inclusion, in its broadest sense, refers to the delivery of financial services at affordable costs to all sections, including disadvantaged and low-income groups. Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, etc. Many definitions of financial inclusion have been suggested, based on characteristics that are symptomatic of broad access to financial services. Common elements of these definitions include "universal access" to a "wide range of financial services" at a "reasonable cost" (Bhaskar (2013).

According to the Planning Commission (2009), *Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products*. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

GOI (2008) defines Financial inclusion as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an* *affordable cost.* The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

CRISIL defines financial inclusion as: "The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services.

According to Chakraborty (2011), *Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players*

Financial inclusion – access to financial services – varies widely across the globe. Even in some advanced economies, survey data suggest that almost one in five adults has no bank account or other form of access to the formal financial sector (Demirgüç-Kunt and Klapper (2012)). In many emerging and developing economies,the share of unbanked adults can be as high as 90%. But inclusion is likely to keep expanding in the coming years, supported by economic development and initiatives by central banks and other policymakers. In this special feature, this paper explore the implications of this trend and analyse the financial inclusion at regional level

Rest of the paper is organized as –Section II pertains the review of the earlier literature based on Financial inclusion. Section III deals with the status of financial inclusion in India. Section IV is the methological part which estimates the Financial Inclusion index of different states in India for the year 2017. Section V is the concluding part and suggestions will also be put forth for deepening of financial inclusion in India.

Section II

Review of Literature :

RBI (2005) proposed financial inclusion based on the business facilitators/ business correspondent model, adapting the Brazilian success story in India. In 2005, efforts were made enabling banking services to reach the rural areas through credit facilities. While the banking network started expanding in the rural areas, there were still a majority of the population in rural areas without having access to banking services. the suggestions provided by the committee in the report were broadly based on the three models such as business facilitator model, business correspondent model and microfinance model.

GOI (2008) examined financial inclusion as a delivery mechanism providing financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The recommendations of the report focused on the following areas. First, financial inclusion should include access to mainstream financial products. Second, banking and payment services should be available to the entire population without discrimination. Third, promotion of sustainable development and generation of employment in rural areas should be a priority. Fourth, financial inclusion must be taken up in a mission mode and thereby suggested the constitution of a National Mission on Financial Inclusion (NMFI) in order to achieve universal financial inclusion within a specific time frame. Fifth, the Committee also recommended for the constitution of two funds with NABARD – the Financial Inclusion Promotion and Development Fund, and the Financial Inclusion Technology Fund for better credit absorption capacity among the poor and vulnerable sections of the country and also for proper and appropriate application of technology in order to facilitate the mandated levels of inclusion. In short, the report provided an understanding of one of the best ways to achieve inclusive growth through financial inclusion.

Kamath (2008) attempted to understand the impact of Micro-Finance Institution (MFI) loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The Financial diary methodology was used to collect the data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of the households of Ramanagar area, Karnataka, India, and the Principle Component Analysis (PCA) methodology was used to analyze the data. He finds that the MFI crisis occurred due to indebtedness of the households to the multiple MFI's, and MFI repayments came at the cost of food and travel.

Development Research Project (2013) attempted to understand the financial needs of poor in long-term and short-term by exploring, how surplus fund is used to meet short-term, long-term and emergency requirements to develop strategies for financial inclusion and designing financial products.

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data, additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit; CRISIL Inclusix at an all-India level stood at a relatively low level of 40.1 for 2011 (on a scale of 100). In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country's rural and also in urban areas.

Most of the studies conducted so far are related to the individual states using the three dimensions only i.e. branch penetration, credit penetration and deposit penetration but present study will analyse the financial inclusive index for different states using four dimensions in which insurance penetration dimension will also be used while framing index. Apart from it, factors boosting financial inclusion will also be analysed.

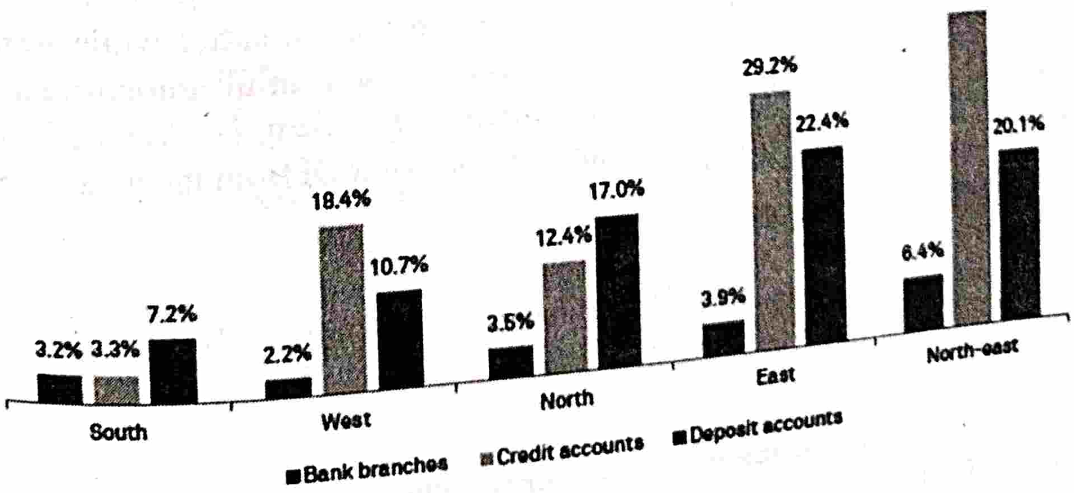
Section III

Status of Financial Inclusion in India

Financial inclusion in India can be analyzes with the number of branch penetrationof schedule commercial banks i.e. number of branches per thousand population.. Table-1 shows that number of branches are increasing continuously from 65,618 in 2001 to 1,26,704 in 2015 but the penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand. The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers. Similarly, Table-2 depicts the number of individuals having saving bank accounts and credit growth in India. Table shows that saving bank accounts increases at the compound annual growth of around14 percent while credit growth rises at an annual growth of around 6 percent only. Graph 1 portrays the region wise growth of banking services during 2016.

Graph-1

Growth in banking services across regions in 2016



The world bank's report lists that the number of account holders in the country has risen from 35% of the adults in 2011 and 53% in 2014 to 80% in 2017. But still India's position regarding to the financial inclusion is very low. It is estimated that, globally, over two billion people are excluded from access to financial services, of which one third is in India. "The Report of the Committee on Financial Inclusion"/(January 2008) stated that 72.7 percent of India's 89.3 million farmer households are excluded from formal sources of finance.

SECTION-IV

Methodology

Present research article is based on secondary data to be collected from various sources like RBI, IIB. An inclusive financial system should be judged from several dimensions hence a multidimensional approach is followed while constructing the index of financial inclusion (IFI) just as HDI and other indexes . Present research work applies following four dimensions and their respective parameters to construct IFI.

Proposed IFI is computed by first calculating a dimension index for each dimension of financial inclusion. The dimension index for the ith dimension, di, is computed by the following formula.

di=Ai-mi/Mi-mi

where Ai = Actual value of dimension I, mi = minimum value of dimension. Mi = maximum value of dimension i

The formula ensures that $0 \leq di \leq 1$. The higher the value of di, the higher is the achievement in dimension i is. If n dimensions of financial inclusion are considered then, a state i will be represented by a point Di = (d1, d2, d3, !.dn) on the n dimensional Cartesian space. In the n-dimensional space, the point O = (0,0,0,...0) represents the point indicating the worst situation while the point I = (1,1,1,...,1) represents the highest achievement in all dimensions. The index of financial inclusion, IFIi for the ith state, then, is measured by the normalized inverse Euclidean distance of the point Di from the ideal point I= (1,1,1,....1).

$$\textbf{IFI} = \frac{1 - \sqrt{(1-d1)^2 + (1-d_2)^2 + \ldots\ldots (1-dn)^2} \times 100}{\sqrt{n}}$$

States are categorized into three types on the basis of following values of IFI

$50 \leq IFI \leq 100$ – High financial inclusion
$30 \leq IFI \leq 50$ – Medium financial inclusion
$0 \leq IFI \leq 30$ – Low financial inclusion

Table 3

Inter state index showing Financial Inclusion in India

States/ Union Territories	Bank branches D1		deposit D2	credit D3	insurance D4	IFI	IFI RANK	Literacy rate	Per capita income
Haryana	0.2833	0.1406	0.0787	0.1681	0.1638	16.42797	15	75.55	180174
Himachal Pradesh	0.0912	0.0353	0.0101	0.0264	0.0631	4.480369	22	82.80	150285
Jammu &Kashmir	0.1031	0.0421	0.0160	0.0498	0.0471	5.120584	21	67.16	78163
Punjab	0.3790	0.1504	0.0981	0.1203	0.1775	17.88746	14	75.84	128890
Rajasthan	0.4175	0.1425	0.0915	0.1925	0.3985	23.65979	10	66.11	92076
Chandigarh	0.0257	0.0267	0.0258	0.0305	0.0309	2.793743	23	86.05	237599
Delhi	0.2149	0.4974	0.4147	0.2863	0.2265	31.89385	6	86.21	300793
Arunachal p.	0.0082	0.0050	0.0013	0.0054	0.0031	0.459147	30	65.39	119481
Assam	0.1368	0.0547	0.0210	0.0613	0.2165	9.532822	18	72.19	67303
Manipur	0.0087	0.0031	0.0013	0.0061	0.0074	0.532794	28	89.22	58501
Meghalaya	0.0194	0.0089	0.0023	0.0081	0.0052	0.87676	27	74.43	73291
Mizoram	0.0103	0.0028	0.0012	0.0054	0.0014	0.421295	31	91.33	128998
Nagaland	0.0086	0.0038	0.0013	0.0061	0.0044	0.484939	29	89.56	90168
Tripura	0.0256	0.0089	0.0032	0.0078	0.0291	1.486752	25	87.22	NA
Bihar	0.3931	0.1341	0.0393	0.0888	0.3965	19.55559	13	61.80	34409
Jharkhand	0.1728	0.0835	0.0215	0.0603	0.1547	9.676593	17	66.41	59799
Odisha	0.2825	0.1113	0.0402	0.0830	0.3199	15.98557	16	72.89	74234
Sikkim	0.0070	0.0027	0.0009	0.0034	0.0042	0.363482	32	81.42	270572
West Bengal	0.4707	0.3104	0.1475	0.1840	0.7150	33.22285	5	76.26	83126
Andaman & N	0.0032	0.0014	0.0007	0.0027	0.0015	0.19169	33	86.63	136824
Chhattisgarh	0.1450	0.0537	0.0319	0.0624	0.1177	8.116037	19	70.28	84265
Madhya P.	0.3817	0.1422	0.0820	0.1627	0.3075	20.73282	12	69.32	74590

On the basis of the index calculated using the four dimensions following result can be drawn-

Status of Financial Inclusion in India

	Range	States
States having high Financial Inclusion	50 and above	Maharastra
Medium financial Inclusion	30-50	U.P, Tamil Nadu, Karnataka, west Bengal, Delhi, Gujarat
Low Financial Inclusion	Below 30	Goa, Uttarakhand,puducherry, Nagaland, Chandigarh, Himachal Pradesh, Rajasthan, Meghalaya, Tripura, Mizoram,Lakshadweep,

Above result shows that status of financial inclusion in India is meager. Only one state i.e. Maharastra shows high range of financial inclusion. The states like U.P, Tamil Nadu, Karnataka, west Bengal, Delhi, Gujarat exhibits medium range of financial inclusion while the remaining states (especially eastern states) depicts low financial penetration in India. Thus it is clear from the above scenario that India is far lagging with regard to the access to the financial services. Although significant progress was done in the last few years but still a long distance to travel.

Financial Inclusion,Economic growth and Literacy rate.

Table 4 shows the nexus between Financial inclusion index, Economic growth and literacy rates between various states of India. Table suggests a very low correlation between percapita income of different states and their respective financial inclusion index. Similarly, the correlation between literacy rate and financial inclusion index is also not so significant. Thus we can say that financial literacy is independent of income and literacy rate.

Table-4

Correlations

		IFI	LITERACY	PER CAPITA INCOME
Pearson Correlation	IFI	1.000	.293	.084
	LITERACY	.293	1.000	.549
	PER CAPITA	.084	.549	1.000

SECTION-V

Conclusion and Suggestions

Present paper estimates an interstate financial inclusion by constructing the financial inclusion index for various states in India. A multidimensional approach is followed while constructing the index of financial inclusion (IFI). Four dimensions were used for the construction of financial inclusion index are : Banking penetration, Deposit penetration, credit penetration and insurance penetration. Index shows that only Maharashtra state comes under the range of high financial inclusion while eastern states like Mizoram, Manipur, Nagaland, Tripura and Arunachal Pradesh are having very low financial inclusion . It is also found that financial literacy is independent of income and literacy rate.

Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Thus, financial inclusion and financial deepening have an important role to play in promoting economic growth and reducing poverty and inequality, while mitigating systemic risk and maintaining financial stability. It also helps in promoting price stability as growing financial inclusion is likely to increase the importance of interest rates in monetary transmission as a greater share of economic activity comes under the sway of interest rates. Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Hence financial inclusion be considered as a basic infrastructural necessity which every individual should be privileged with.

Various measures and efforts were undertaken by the Reserve Bank of India (RBI) and the Government of India (GOI) to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role for increasing the use of formal sources for availing credit. Alongwith, this various schemes like Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme were also initiated to enhance the financial access especially for the weaker and poorer sections of the society . Big push towards financial inclusion in India has emanated from the Pradhan Man-tri JanDhan Yojana (PMJDY) in August 2014 and the Jan Dhan Aadhaar Mobile (JAM) by the Government in 2014-15 as well as the special thrust on financial inclusion by the Financial Stability and Development Council (FSDC) that includes a Technical Group for dedicated attention to this issue. Thus, the inclusion drive has gone beyond the confines of various financial regulators and assumed the character of a broader national development policy goal but still India does not compare favourably with regard to financial inclusion even with peer emerging market economies.

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