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# Financial Inclusion in India: A case-study of West Bengal

Sadhan Kumar Chattopadhyay<sup>†</sup>

## *Abstract*

*The issue of financial inclusion has received large importance in India during the recent period. The study tries to assess the extent of financial inclusion in the country in general and West Bengal in particular. It is observed from the study that although there has been an improvement in outreach activity in the banking sector, heterogeneity across states is widespread. Gap between rural and urban areas in respect of outreach is also prevalent even after the reform period. While significant improvement has taken place in credit/loan account in the urban households, the situation has become worse for the rural households. An index of financial inclusion (IFI) is developed in the study using data on three dimensions of financial inclusion. The study shows that Maharashtra leads with the highest value of IFI followed by Karnataka. Only two states belong to the high IFI group with IFI values of 0.5 or more. A survey has also been conducted in West Bengal and the results reveal that around 38 per cent of the respondents feel that they do not have sufficient income to open an account in the bank. It is also revealed that moneylenders are still a dominant source of rural finance despite wide presence of banks in rural areas. In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be considerable. However, only supply side factor is not responsible for the financial exclusion. Demand side factor is also equally responsible. And there is a need to solve both these problems with the help of appropriate policies. A whole-hearted effort is called for from all the corners of the society, viz., banks, beneficiaries and regulators in order to make financial inclusion more meaningful and effective.*

**JEL Classification:** C12, D92, F43, G21, O47

**Keywords:** index of financial inclusion, money-lenders, dimensions.

## **Introduction**

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<sup>†</sup> The views expressed in this paper are of the author and not of the organization he is working with.

The concept of financial inclusion can be traced back to the year 1904 when co-operative movement took place in India. It gained momentum in 1969 when 14 major commercial banks of the country were nationalized and lead bank scheme was introduced shortly thereafter. Branches were opened in large numbers across the country and even in the areas which were hitherto being neglected. Even after all these measures a sizable portion of the population of the country could not be brought under the fold of banking system. In fact, there is a severe gap in financial access which needs special attention. Studies have proved that lack of inclusion or rather exclusion from the banking system results in a loss of 1 per cent to the GDP. Thus, financial inclusion is not just a socio-political imperative but also an economic one. Realizing the depth of the problem, Reserve Bank in its Mid Term Review of Monetary Policy (2005-06), urged the banks to make financial inclusion as one of their prime objectives. In this respect, various policy prescriptions were suggested by RBI, viz. opening of no frill account, issuing of General Purpose Credit Cards (GCC) etc. Time has now come to assess the impact of this policy across the country.

The concept of financial inclusion is not unique for India. The message of its positive impact is spread across the globe. Most of the literature on banking sector outreach focus on its effect through cross-country evidence (Pechey/Roe 2006, Beck et al.2006, Claessens 2006, Anderloni et al. 2007). Some of the studies which are important in this respect are Beck, Demirguc-Kunt, and Levine (2007), Honohan (2004), Galor and Zeira (1993), Klapper, Laeven, and Rajan (2006) and Rajan and Zingales (2003). World Bank has also done a study on this subject for rural India and found that about 40 per cent of households have deposit accounts, 20 per cent have outstanding loans and only 15 per cent have any insurance (Basu, 2006).

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. In fact, the main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome

documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. Thus financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. Every society should ensure easy access to public goods. Therefore, banking service being a public good should also be aimed at providing to the entire population.

With this background, the major objective of the paper is to examine the success of financial inclusion for the State of West Bengal. Financial inclusion is meant to include all the sections of the society, who are mainly out of the net of the financial institutions. Since it is difficult to include all the sections in our study, we concentrate only on the rural sector because of its enormity on the one hand and significance on the other. Agriculture, being the vast sector of the economy, has a larger implication of financial inclusion. For example, improvement in rural infrastructure in terms of electricity, road, telecommunications, etc. is expected to establish a better overall supply chain management and enhance productivity of physical resources in the rural areas and value addition in agriculture. These developments would lead to much greater demand for banking services in the rural areas. Section 2 deals with International experience followed by the Indian experience which is discussed in Section 3. An Index of Financial Inclusion has been developed in Section 4. Section 5 deals with West Bengal financial inclusion which is our main focus of the study. Section 6 concludes the study.

## **II. Global Financial Access**

Using survey data combined with aggregate indicators Demirgüç-Kunt, Beck and Honohan (2007) shows that more than 80 per cent of households in most of Western Europe and North America have an account with a financial institution. In Central Asia and Eastern Europe 60-80 per cent of the population is estimated to have accounts, with Latin America exhibiting variation ranging from less than 20 per cent in Nicaragua to more than 60 per cent in Chile. In Asian countries, it ranges generally between 40 to 60 per cent. In much of Sub-Saharan Africa, fewer than 20 per cent have accounts. Only in Botswana, the Gambia and South Africa, this is around 60

per cent. Taken together, the various studies suggest that the number of unbanked and under-banked adults worldwide could be 2-3 billion people.

Against that backdrop, rapid expansion of microfinance took place across the world. The Microcredit Summit Campaign Report of 2007 reports a growth of 885 per cent in the number of clients from 1997 to 2006 – an average annual growth rate of 29 per cent per year. In 2006, 3316 institutions reported to the organization and those institutions reached 133 million clients and a year after the number reached to 154 million. Overall, most microfinance customers are found in Bangladesh and India, with the next largest group in East Asia and the Pacific. However, still now in Bangladesh there are substantial gaps in financial access. The number of loans per one lakh people in Bangladesh for example, is 54.73 and the number of deposits per thousand people is 228.75 placing it at the 31<sup>st</sup> and 43<sup>rd</sup> respectively in a World Bank Survey of 53 developed and developing countries (Beck, Demirgüç-Kunt, Peria & Soledad, 2006). Without the spread of micro finance institutions, the position in Bangladesh would have been worse. It is not just availability that matters. Fees, costs and documentation requirements also serve to limit financial access. The survey conducted by Beck et al (2006) shows critical variations across countries in the degree of physical access to formal financial institutions, documents required to maintain accounts, and costs (e.g., minimum balance requirements and fees). They found that opening an account with cheque facility in a commercial bank in Cameroon required a minimum deposit of over \$700 which is higher than its per capita GDP. Getting a small business loan processed in Bangladesh, Pakistan or the Phillipines can take over a month while transferring \$250 abroad costs \$50 in the Dominical Republic.

Microfinance has expanded in part due to the rise in foreign capital investment. Between 2004 and 2006, foreign capital investment in microfinance tripled to \$4 billion; by 2007, investment had reached \$5.4 billion. Institutional investors lending to microfinance institutions reached \$550 million in 2006. The majority of the global capital flows go to about 30 countries in 3 regions viz. Latin American, Eastern Europe and Central Asia. Africa and Asia receive only 6-7 per cent of foreign investment. The mismatch of capital flows and the locations with a greater prevalence of poverty is startling given the emphasis of microfinance leaders on poverty reduction, but investors have been wary about the perceived lack of management capacity and regulation that imposes hurdles. Thus from various reports and surveys it is understood that the problem of financial exclusion is not unique for India, it has become a global issue.

### III: Outreach of Institutional Agencies in India

In India although the term financial inclusion is of recent origin, the efforts and initiatives to bring the poor and under-privileged under the fold of formal banking system have been going on for a long time in some forms or the other. Deliberate policies of Central Government and RBI for opening up of one of the biggest branch network in rural and semi-urban areas have been a major step towards financial inclusion. India had invested considerable resources in expanding its banking network. More than 60,000 branches of commercial banks and more than 1,00,000 primary agricultural credit societies (PACS) functioning as extended arms of the cooperative banks and over 2000 primary urban banks serve the people of the country, apart from several other formal financial institutions, small and big (Srinivasan, 2007). The share of offices in the rural and semi-urban together areas has increased from 62.6 per cent in 1969 to 72.65 per cent in 1996, but went down to 68.0 per cent in 2005. However, the share of deposit and credit in rural and semi-urban areas is on the decline. The share of credit is lower than that of deposits in all regions except metropolitan areas (Table 1). This implies that resources are getting intermediated into metropolitan areas.

**Table 1: Spatial Distribution of Banking Services**

| 1            | <i>(Per cent)</i> |      |      |      |          |      |      |      |        |      |      |      |
|--------------|-------------------|------|------|------|----------|------|------|------|--------|------|------|------|
|              | Offices           |      |      |      | Deposits |      |      |      | Credit |      |      |      |
|              | 1969              | 1996 | 2005 | 2010 | 1969     | 1996 | 2005 | 2010 | 1969   | 1996 | 2005 | 2010 |
| 2            | 3                 | 4    |      | 5    | 6        | 7    |      | 8    | 9      | 10   |      |      |
| Rural        | 22.2              | 51.2 | 45.7 | 38.4 | 6.4      | 14.4 | 12.2 | 9.2  | 3.3    | 11.4 | 9.5  | 7.5  |
| Semi-urban   | 40.4              | 21.3 | 22.3 | 24.2 | 21.8     | 19.5 | 16.9 | 13.4 | 13.1   | 13.1 | 11.3 | 9.6  |
| Urban        | 19.2              | 15.2 | 17.6 | 19.8 | 26.5     | 22.4 | 21.5 | 20.7 | 21.8   | 17.7 | 16.4 | 16.7 |
| Metropolitan | 18.2              | 12.3 | 14.4 | 17.5 | 45.3     | 43.7 | 49.4 | 56.7 | 61.8   | 57.8 | 62.7 | 66.2 |
| Total :      | 100               | 100  | 100  | 100  | 100      | 100  | 100  | 100  | 100    | 100  | 100  | 100  |

*Source: Quarterly Handouts, Reserve Bank of India (various issues)*

The number of adult people served per branch has gone down from 10,074 in December 1980 to 8,089 in March 2010 at the all-India level, implying that outreach activity of the banking system has been taking place across the country. However, as can be observed from Table 2, there is wide heterogeneity across states of India. While around 6,519 adult persons are served per

branch in Karnataka, in the state of Assam, it was just the double. On the other hand, number of deposit accounts per 100 adult persons was 143 for Punjab, while it is just ---- for the State of Assam.

**Table 2: Outreach of Scheduled Commercial Banks in India**

| ALL INDIA             | No of adult people served per Branch |        |        |        | No of Accounts per 100 adult persons |        |        |        |
|-----------------------|--------------------------------------|--------|--------|--------|--------------------------------------|--------|--------|--------|
|                       | Dec-80                               | Mar-90 | Mar-00 | Mar-10 | Dec-80                               | Mar-90 | Mar-00 | Mar-10 |
| <b>AP</b>             | 10,843                               | 8,241  | 8,951  | 8,081  | 31                                   | 63     | 65     | 107    |
| <b>Ar. Pradesh</b>    | 16,980                               | 7,046  | 8,213  | 8,920  | 9                                    | 49     | 50     | 73     |
| <b>Assam</b>          | -                                    | 9,738  | 11,848 | 12,500 | -                                    | 43     | 53     | 1      |
| <b>Bihar</b>          | 16,131                               | 9,526  | 8,461  | 11,325 | 14                                   | 41     | 61     | 59     |
| <b>Chhattisgarh</b>   | -                                    | -      | -      | -      | -                                    | -      | -      | -      |
| <b>Goa</b>            | 2,529                                | 3,074  | 2,947  | 2,634  | 164                                  | 242    | 247    | 301    |
| <b>Gujarat</b>        | 7,773                                | 6,954  | 8,226  | 8,214  | 43                                   | 69     | 69     | 99     |
| <b>Haryana</b>        | 8,216                                | 6,899  | 7,887  | 6,549  | 40                                   | 87     | 90     | 112    |
| <b>Him. Pradesh</b>   | 6,172                                | 4,029  | 4,746  | 4,629  | 36                                   | 97     | 105    | 118    |
| <b>J &amp; K</b>      | 7,595                                | -      | 6,933  | 7,294  | 33                                   | -      | 81     | 99     |
| <b>Jharkhand</b>      | -                                    | -      | -      | -      | -                                    | -      | -      | -      |
| <b>Karnataka</b>      | 7,091                                | 5,969  | 6,730  | 6,519  | 61                                   | 116    | 81     | 111    |
| <b>Kerala</b>         | 6,135                                | 6,382  | 6,544  | 5,999  | 47                                   | 92     | 97     | 114    |
| <b>Madhya Pradesh</b> | 13,031                               | 8,281  | 7,245  | 8,604  | 19                                   | 49     | 61     | 73     |
| <b>Maharashtra</b>    | 9,590                                | 8,131  | 9,350  | 9,328  | 50                                   | 87     | 73     | 94     |
| <b>Manipur</b>        | 20,589                               | 12,448 | 14,764 | 19,975 | 8                                    | 23     | 24     | 30     |
| <b>Meghalaya</b>      | 11,966                               | 5,725  | 6,358  | 6,783  | 19                                   | 59     | 57     | 65     |
| <b>Mizoram</b>        | 21,250                               | 5,214  | 6,358  | 6,897  | 5                                    | 31     | 26     | 48     |
| <b>Nagaland</b>       | 10,903                               | 9,231  | 15,199 | 17,891 | 15                                   | 44     | 27     | 31     |
| <b>Orissa</b>         | 15,149                               | 8,739  | 9,811  | 9,472  | 13                                   | 34     | 43     | 64     |
| <b>Punjab</b>         | 5,801                                | 5,424  | 5,869  | 5,274  | 64                                   | 133    | 131    | 143    |
| <b>Rajasthan</b>      | 10,922                               | 7,500  | 8,915  | 9,248  | 22                                   | 51     | 53     | 73     |
| <b>Sikkim</b>         | 1,63,400                             | 7,593  | 6,548  | 5,360  | 7                                    | 50     | 0063   | 73     |
| <b>Tamil Nadu</b>     | 9,323                                | 8,017  | 8,557  | 7,824  | 45                                   | 83     | 77     | 107    |
| <b>Tripura</b>        | 13,242                               | 8,664  | 10,347 | 10,669 | 21                                   | 48     | 54     | 72     |
| <b>Uttar Pradesh</b>  | 14,259                               | 8,666  | 9,594  | 10,079 | 23                                   | 63     | 76     | 91     |
| <b>Uttarakhand</b>    | -                                    | -      | -      | -      | -                                    | -      | -      | -      |
| <b>West Bengal</b>    | 13,340                               | 9,173  | 10,800 | 11,408 | 38                                   | 68     | 75     | 79     |
| <b>All India</b>      | 10,074                               | 7,579  | 8,253  | 8,089  | 36                                   | 74     | 76     | 96     |

Source: (1) Basic Statistical Returns, Reserve Bank of India (various issues)

(2) Census of Population, Government of India (various issues).

It can be observed from Table 3 that there has been a quantum jump in per capita deposits and credit in all the states on India. However, variability among the states has increased

significantly over the years. The credit-deposit (CD) ratio has been very high in all the southern states while it has been low in almost all the eastern states (Table 3).





The total number of saving accounts, considered to be a better indicator of banking penetration than other deposit accounts, as per cent of number of households, was 137 in rural areas and 244 in urban areas during 1991. By 2010, it became 213 and 356 for rural and urban areas, respectively. That means even after the reform there has been an increase in outreach activity, but differential between urban and rural continues to be similar to the pre-reform period. In the case of credit accounts, the situation has been worse for rural households, but significant improvement has taken place for the urban households (Table 4). This has happened due to increase in retail lending in the urban areas (Mohan 2007).

**Table 4: Number of Deposit and Credit Accounts in Scheduled Commercial Banks**

*(Per cent of no. of Households)*

|                                |              | 1981         | 1991         | 1996         | 2001         | 2004         | 2005         | 2009         |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1                              | 2            | 3            | 4            | 5            | 6            | 7            | 8            | 9            |
| <b>Deposit Accounts</b>        |              |              |              |              |              |              |              |              |
| Current Accounts               | Rural        | 3.6          | 5.5          | 4.7          | 4.9          | 4.4          | 4.6          | 7.0          |
|                                | Urban        | 15.0         | 23.4         | 24.1         | 19.2         | 17.5         | 18.3         | 27.5         |
| Savings Accounts               | Rural        | 59.6         | 137          | 129.8        | 123.3        | 126.8        | 131.5        | 213.0        |
|                                | Urban        | 135.5        | 243.7        | 249.7        | 197.4        | 206.5        | 213.1        | 356.0        |
| Current and Saving Accounts    | Rural        | 63.2         | 142.6        | 134.5        | 128.2        | 131.1        | 136.1        | 220.0        |
|                                | Urban        | 150.5        | 267.2        | 273.7        | 216.6        | 224          | 231.4        | 383.5        |
| Term Deposits Accounts         | Rural        | 22.9         | 41.8         | 45.5         | 52.0         | 48.3         | 45.7         | 48.2         |
|                                | Urban        | 74.6         | 96.9         | 105.0        | 105.6        | 113.4        | 104          | 141.1        |
| <b>Total Deposits Accounts</b> | <b>Rural</b> | <b>86.1</b>  | <b>184.4</b> | <b>180.0</b> | <b>180.1</b> | <b>179.4</b> | <b>181.8</b> | <b>268.2</b> |
|                                | <b>Urban</b> | <b>225.1</b> | <b>364.1</b> | <b>378.7</b> | <b>322.2</b> | <b>337.4</b> | <b>335.4</b> | <b>524.6</b> |
| <b>Credit Accounts</b>         | <b>Rural</b> | <b>18.0</b>  | <b>44.3</b>  | <b>36.0</b>  | <b>26.5</b>  | <b>28.7</b>  | <b>32.2</b>  | <b>42.0</b>  |
|                                | <b>Urban</b> | <b>15.1</b>  | <b>29.9</b>  | <b>27.1</b>  | <b>28.4</b>  | <b>42.5</b>  | <b>50.2</b>  | <b>93.5</b>  |

Source:

- (1) Reserve Bank of India;
- (2) Census of India (various reports)

Total deposits, as per cent of GDP, decreased from 32.2 per cent in 1991 to 16.1 per cent in 2009 in rural areas, but increased from 37.3 per cent to 54.5 per cent in urban areas. Similarly, credit as per cent of GDP decreased from 17.3 per cent to 8.5 in rural areas and increased from 24.8 per cent to 42.7 per cent in urban areas (Table 5). In terms of banking penetration, the number of deposit and credit accounts of scheduled commercial banks as per cent of adult population are significantly lower in rural areas as compared with the urban areas (Table 6).

**Table 5: Deposits and Credit Amounts in Scheduled Commercial Banks**

(per cent of GDP)

|  |              | 1981        | 1991        | 1996        | 2001        | 2005        | 2010        |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1  | 2            | 3           | 4           | 5           | 6           | 7           | 8           |
| <b>Deposit Accounts</b>                      |              |             |             |             |             |             |             |
| 1. Current Accounts                          | Rural        | 2.6         | 2.7         | 2.4         | 2.9         | 3.3         | 1.2         |
|  | Urban        | 5.5         | 7.1         | 7           | 7           | 8.7         | 7.3         |
| 2. Savings Accounts                          | Rural        | 9.8         | 11.2        | 10.5        | 13.6        | 18.6        | 6.8         |
|  | Urban        | 7.2         | 9.0         | 7.9         | 9.8         | 13.3        | 10.4        |
| 3. Current and Saving Accounts<br>(1 + 2)    | Rural        | 12.4        | 13.9        | 12.8        | 16.4        | 21.9        | 8.1         |
|  | Urban        | 12.7        | 16.1        | 14.9        | 16.8        | 22          | 17.7        |
| 4. Term Deposits Accounts                    | Rural        | 13.8        | 18.3        | 20.5        | 27.9        | 25.2        | 8.0         |
|  | Urban        | 16.6        | 21.2        | 22.4        | 29.2        | 39.1        | 36.8        |
| <b>5. Total Deposits Accounts</b><br>(3 + 4) | <b>Rural</b> | <b>26.3</b> | <b>32.2</b> | <b>33.3</b> | <b>44.4</b> | <b>47.1</b> | <b>16.1</b> |
|  | <b>Urban</b> | <b>29.3</b> | <b>37.3</b> | <b>37.3</b> | <b>46</b>   | <b>61.2</b> | <b>54.5</b> |
| <b>6. Credit Accounts</b>                    | <b>Rural</b> | <b>13.0</b> | <b>17.3</b> | <b>14.4</b> | <b>15.8</b> | <b>22.3</b> | <b>8.5</b>  |
|  | <b>Urban</b> | <b>20.0</b> | <b>24.8</b> | <b>25.5</b> | <b>31.1</b> | <b>45</b>   | <b>42.7</b> |

**Table 6: Deposits and Credit Amounts in Scheduled Commercial Banks**

(per cent of Adult Population Age 15+)

|                                |              | 1981        | 1991         | 1996         | 2001        | 2005        | 2010         |
|--------------------------------|--------------|-------------|--------------|--------------|-------------|-------------|--------------|
| 1                              | 2            | 3           | 4            | 5            | 6           | 7           |              |
| <b>Deposit Accounts</b>        |              |             |              |              |             |             |              |
| Current Accounts               | Rural        | 1.0         | 1.6          | 1.4          | 1.4         | 1.4         | 2.1          |
|                                | Urban        | 4.5         | 6.6          | 6.8          | 5.4         | 5.2         | 7.7          |
| Savings Accounts               | Rural        | 16.1        | 39.6         | 37.6         | 36.5        | 39.0        | 62.9         |
|                                | Urban        | 40.3        | 69.2         | 70.9         | 55.8        | 60.2        | 100.2        |
| Current & Savings Accounts     | Rural        | 17.1        | 41.3         | 38.9         | 38.0        | 40.3        | 65.0         |
|                                | Urban        | 44.8        | 75.8         | 77.7         | 61.2        | 65.4        | 107.9        |
| Term Deposits Accounts         | Rural        | 6.2         | 12.1         | 13.2         | 15.4        | 13.6        | 14.2         |
|                                | Urban        | 22.2        | 27.5         | 29.8         | 29.8        | 29.4        | 39.7         |
| <b>Total Deposits Accounts</b> | <b>Rural</b> | <b>23.3</b> | <b>53.4</b>  | <b>52.1</b>  | <b>53.4</b> | <b>53.9</b> | <b>79.2</b>  |
|                                | <b>Urban</b> | <b>67.0</b> | <b>103.4</b> | <b>107.5</b> | <b>91.0</b> | <b>94.7</b> | <b>147.6</b> |
| <b>Credit Accounts</b>         | <b>Rural</b> | <b>4.9</b>  | <b>7.7</b>   | <b>8.0</b>   | <b>7.9</b>  | <b>9.5</b>  | <b>12.4</b>  |
|                                | <b>Urban</b> | <b>4.5</b>  | <b>12.8</b>  | <b>10.4</b>  | <b>8.0</b>  | <b>14.2</b> | <b>26.3</b>  |

It can also be noticed that even in terms of financial widening, the scope for improvement remains. In terms of regional disaggregation since 1991, population per bank office has increased in rural areas from 13,462 in 1991 to 16,650 in 2005, while it has gone down from 14,484 in

1991 to 13,619 in 2005 for urban areas. This is worse in the three regions, viz, North-East, East and Central regions, where, in fact, population per office is much higher than the all-India average and it has increased significantly in rural areas in 2005 over 1991 (Table 7). Consequently, compared to an all-India average of 29.9 saving account per 100 persons in 1991, almost all the states in the Eastern and N-E regions and several parts of the Central region had the lower figures than this average. In the rural areas, Northern and Southern regions are above the all-India average while in the urban areas, Northern and Western regions dominate. In terms of number of credit accounts per 100 persons, the Southern States, both in rural and urban areas perform above the all-India average.

**Table 7: Regional Level Indicators of Scheduled Commercial Banks**

|   | 1991   | 2009  | 1991   | 2009  | 1991   | 2009  |
|---|--------|-------|--------|-------|--------|-------|
|   | Total  |       | Rural  |       | Urban  |       |
| 1   | 2      | 3     | 4      | 5     | 6      | 7     |
| <b>No. of adult population per office</b>                         |        |       |        |       |        |       |
| Northern  | 11,002 | 7857  | 10,771 | 9335  | 11,571 | 6071  |
| North-East  | 16,870 | 15841 | 16,335 | 16515 | 21,169 | 13298 |
| Eastern   | 16,441 | 14108 | 16,402 | 15493 | 16,614 | 10691 |
| Central   | 15,786 | 12460 | 15,153 | 14004 | 18,745 | 9180  |
| Western   | 12,771 | 10905 | 12,579 | 12304 | 13,108 | 9444  |
| Southern  | 11,932 | 8879  | 11,276 | 9662  | 13,811 | 7680  |
| All-India   | 13,711 | 11194 | 13,462 | 12703 | 14,484 | 8749  |
| <b>Deposits: Number of Savings accounts per 100 adult persons</b> |        |       |        |       |        |       |
| Northern  | 40.0   | 71.6  | 30.1   | 54.9  | 62.6   | 102.6 |
| North-East  | 17.8   | 36.6  | 16.1   | 34.6  | 28.4   | 46.0  |
| Eastern   | 21.8   | 39.7  | 17.7   | 34.3  | 40.0   | 59.1  |
| Central   | 23.8   | 52.6  | 21.0   | 48.4  | 34.7   | 66.3  |
| Western   | 35.5   | 54.3  | 24.7   | 39.6  | 53.8   | 74.4  |
| Southern  | 37.0   | 69.7  | 34.6   | 64.0  | 42.7   | 80.7  |
| All-India   | 29.9   | 53.7  | 24.5   | 45.7  | 45.6   | 72.7  |
| <b>Credit: Number of Credit Accounts per 100 adult persons</b>    |        |       |        |       |        |       |
| Northern  | 6.4    | 10.6  | 6.6    | 8.4   | 5.9    | 14.6  |
| North-East  | 4.4    | 5.8   | 4.4    | 5.6   | 4.4    | 6.9   |
| Eastern   | 6.6    | 6.4   | 7.2    | 6.3   | 4.3    | 7.0   |
| Central   | 5.5    | 7.1   | 5.8    | 7.1   | 4.4    | 7.0   |
| Western   | 5.7    | 21.7  | 6.2    | 6.5   | 4.8    | 42.5  |
| Southern  | 11.8   | 19.5  | 13.6   | 18.9  | 7.6    | 20.5  |
| All-India   | 7.3    | 12.0  | 7.9    | 9.1   | 5.5    | 18.8  |

## Farmers' Indebtedness

Credit to farmers is one of the important elements of financial inclusion. Despite various measures, only 35.5 per cent of the households in the country were availing of banking services. Further, while urban areas accounted for 49.5 per cent, rural areas accounted for only 39.1 per cent. As per 59<sup>th</sup> round survey of NSSO we have nearly 150 million rural households out of which around 90 million are farmer households. As per the report, around 49 per cent of the farmer households were indebted (Table 8). That means around 51 per cent of the farmer households are financially excluded. However, there is a wide variation in the financial exclusion. While Andhra Pradesh tops the rank with 82 per cent of the farmer households are indebted, Meghalaya ranks last with 4.0 per cent of the farmer households are indebted. However, this includes both formal and informal sources of finance.

The percentage of indebted farmer households by source of loan shows that 56 per cent of indebted households obtain loans from formal sources, while 64 per cent from informal sources. Farmers take loans from multiple sources and hence formal and informal sources of finance do not add up to 100. State-wise, it can be observed that in Andhra Pradesh 54 per cent of the indebted farmer households obtain loans from formal sources and 77 per cent from informal sources. So far as outstanding loan is concerned, at the all-India level, around 57.7 per cent is from formal sources and 42.2 per cent are from informal sources. Out of 27 states, 17 states are above the national average in respect of dependence on formal sources of finance.

**Table 8: Percentage of Indebtedness Farming Households by All Sources of Loans by Source of Loan and Distribution of Outstanding Loans by Source, 2003**

| State             | Percentage of Indebted Farming Household in Total Rural Households (All Sources) | Percentage of Indebted Farmer Households by Source of Loan |          | Percentage Distribution of Outstanding Loan by Sources |          |
|-------------------|--|--|----------|--|----------|
|                   |  | Formal   | Informal | Formal   | Informal |
| Andhra Pradesh    | 82   | 54   | 77       | 31.4   | 68.6     |
| Arunachal Pradesh | 6  | 14   | 103      | 26.9   | 73.1     |
| Assam             | 18   | 15   | 88       | 37.5   | 62.5     |
| Bihar             | 33   | 23   | 84       | 41.7   | 58.3     |
| Chhattisgarh      | 40   | 66   | 56       | 72.4   | 27.6     |
| Gujarat           | 52   | 63   | 49       | 69.5   | 30.5     |
| Haryana           | 53   | 76   | 50       | 67.6   | 32.4     |

|                    |           |           |           |             |             |
|--------------------|-----------|-----------|-----------|-------------|-------------|
| Himachal Pradesh   | 33        | 57        | 65        | 65.3        | 34.7        |
| Jammu and Kashmir  | 32        | 9         | 94        | 67.6        | 32.4        |
| Jharkhand          | 21        | 44        | 60        | 64.1        | 35.9        |
| Karnataka          | 62        | 57        | 55        | 68.9        | 31.1        |
| Kerala             | 64        | 96        | 40        | 82.3        | 17.7        |
| Madhya Pradesh     | 51        | 64        | 66        | 56.9        | 43.1        |
| Maharashtra        | 55        | 92        | 30        | 83.8        | 16.2        |
| Manipur            | 25        | 6         | 99        | 18.2        | 81.8        |
| Meghalaya          | 4         | 33        | 97        | 6.0         | 94.0        |
| Mizoram            | 24        | 20        | 67        | 77.3        | 22.7        |
| Nagaland           | 37        | 68        | 79        | 68.8        | 31.2        |
| Orissa             | 48        | 58        | 46        | 74.8        | 25.2        |
| Punjab             | 65        | 38        | 70        | 47.9        | 52.1        |
| Rajasthan          | 52        | 18        | 81        | 34.2        | 65.8        |
| Sikkim             | 39        | 59        | 89        | 57.8        | 42.2        |
| Tamil Nadu         | 75        | 46        | 67        | 53.4        | 46.6        |
| Tripura            | 49        | 47        | 55        | 79.7        | 20.3        |
| Uttar Pradesh      | 40        | 65        | 70        | 60.3        | 39.7        |
| Uttaranchal        | 7         | 51        | 44        | 76.1        | 23.9        |
| <b>West Bengal</b> | <b>50</b> | <b>42</b> | <b>73</b> | <b>58.0</b> | <b>42.0</b> |
| <b>All India</b>   | <b>49</b> | <b>56</b> | <b>64</b> | <b>57.7</b> | <b>42.3</b> |

Note: Formal and informal is more than 100 per cent because farmers borrow from multiple sources.

Source: Calculated from NSSO (2005)

It may be observed from Table 10 that the share of formal loan sources increases with the size of land. At the all-India level, the share of loans from sources varies from 22.6 per cent to 58 per cent for small and marginal farmers, while it varies from 65 to 68 per cent for medium to large farmers. Dependence of small and marginal farmers on informal sources is high even in states like Andhra Pradesh, Punjab, Tamil Nadu and West Bengal. This indicates very low financial inclusion.

#### **IV: State-wise Index of Financial Inclusion**

The term banking sector outreach or financial inclusion refers to the access to banking services and their use by households and firms (Beck et al. 2006). There are various dimensions to access: availability of financial services, cost of access, and range, type and quality of financial services offered (Claessens 2006). Access is not synonymous to use. Economic agents might decide not to use accessible financial service, either for socio-economic reasons, or because opportunity costs are too high (Beck et al. 2006). The counter part of access is

exclusion. Financial exclusion may be caused by (1) ‘geographic limitations’ due to under-provision of banking services in remote and scarcely populated areas, (2) ‘socio-economic limitations’ when financial services appear inaccessible to specific income, socio or ethnic groups, or (3) ‘limitations of opportunity’, when new or small firms with profitable projects are credit rationed because of lack of information and collateral (Beck/de la Torre 2006, Anderloni/Carluccio 2007, pp. 9).

So far, the literature on financial sector development has focused primarily on the dimension of depth, its measurement, determinants and its economic impact. Little is known about the breadth or the outreach of financial systems across countries, its determinants and impact on development. This is partly due to inadequacy of data (see Honohan 2004).

To measure financial inclusion, several proxy indicators have been used in the literature (see Table). Proxi (i) measures access to and use of bank accounts. Full access may be reached, if the number of accounts per adult is above 0.5 (Peachy/Roe 2006). The penetration of banks’ physical outlets (branches, ATMs) is measured by (ii) – (v). While higher geographic branch and ATM penetration indicate smaller distance and thus easier geographic access, higher demographic branch and ATM penetration indicate easier access because of fewer potential clients per outlet. The use of loans and deposit is measured by (vi) – (ix). A higher demographic loan or deposit penetration indicates larger use, and higher loan or deposit-income ratios signal that these services may only be affordable to larger enterprises or wealthier individuals. The loan-income ratio is above 2 in rich countries, but above 8 in poor countries (Beck et al. 2006). Alternative measures of deposit penetration are the deposit-GDP ratio or the cash-deposit ratio. According to Peachy and Roe (2006), an economy has reached full access, if the deposit-GDP ratio is 100 per cent or the Cash-Deposit ratio is below 20 per cent. This measures the development of the financial system rather than deposit penetration. For the indicators (ii)-(ix), a country may be considered approaching full access, if its outreach indicator lies above the mean value in developed countries (Beck and de la Torre 2006).

**Table 9: Indicators of banking sector outreach**

| <b>Indicator</b>                     | <b>Measurement</b>                          |
|--------------------------------------|---|
| (i) Bank accounts per adult          | Number of bank accounts per adult           |
| (ii) Geographic branch penetration   | Number of branches per 1000 km <sup>2</sup> |
| (iii) Demographic branch penetration | Number of branches per 1,00,000 people      |

|  |  |
|--|--|
| (iv) Geographic ATM penetration                  | Number of bank ATMs per 1000 km <sup>2</sup>                               |
| (v) Demographic ATM penetration                  | Number of bank ATMs per 1,00,000 people                                    |
| (vi) Demographic Loan penetration                | Number of loans per 1,00,000 people  |
| (vii) Loan-income ratio                          | Average size of loan to GDP per capita                                     |
| (viii) Demographic deposit penetration           | Number of deposits per one 1,00,000 people                                 |
| (ix) Deposit-income ratio (or deposit-GDP Ratio) | Average size of Deposits to GDP per capita (or total bank deposits to GDP) |
| (x) Cash-Deposit Ratio                           | Cash in circulation to total bank deposits                                 |

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Source: Conrad, et al. (2008).

Thus several indicators have been used to assess the extent of financial inclusion. However, these indicators discussed above, while used individually, provide only partial information on the inclusiveness of the financial system of an economy. Using individual indicators can lead to misleading picture of the extent of financial inclusion in an economy. Therefore, any single indicator fails to adequately capture the extent of financial inclusion<sup>2</sup>. In order to address this problem, we have developed an index of financial inclusion. This is able to capture information on several aspects in one single number. Such a measure is useful to compare the levels of financial inclusion across economies and across states within countries at a particular time period. It can be used to monitor the progress of policy initiatives for financial inclusion in a country over a period of time. In this paper, we propose an index of financial inclusion (IFI), which satisfies following criteria:

- (i) It should incorporate information on as many aspects (dimensions) of inclusion as possible.
- (ii) It should be easy and simple to compute.
- (iii) It should be comparable across countries/states.

The proposed IFI takes values between 0 and 1, zero indicating lowest financial inclusion (i.e., complete financial exclusion) and 1 indicating complete financial inclusion.

## Methodology

Since inclusive financial system is judged from several dimensions, we follow a multidimensional approach while constructing the index of financial inclusion (IFI). Our approach is similar to the one used by Sarma (2008). UNDP has also used similar kinds of approach for computation of some well known development indexes such as HDI, the HPL, the

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<sup>2</sup> Details may be found in Sarma(2008)



GDI and so on<sup>3</sup>. As in the case of these indexes, IFI is computed by first calculating a dimension index for each dimension of financial inclusion. The dimension of index for the  $i$ th dimension,  $d_i$ , is computed by the following formula.

$$d_i = \frac{A_i - m_i}{M_i - m_i} \quad (1)$$

where ,

$A_i$  = Actual value of dimension  $i$ .

$m_i$  = minimum value of dimension  $i$ .

$M_i$  = maximum value dimension  $i$ .

Formula (1) ensures that  $0 \leq d_i \leq 1$ . Higher the value of  $d_i$ , higher the state's achievement in dimension  $i$ . If  $n$  dimension of financial inclusion are considered, then a state  $i$  will be represented by a point  $D_i = (D_1, D_2, \dots, D_n)$  on the  $n$ -dimensional Cartesian space.

In the  $n$ -dimensional space, the point  $O = (0, 0, \dots, 0)$  represents the point indicating the worst situation while the point  $I = (1, 1, \dots, 1)$  represents the highest achievement in all dimensions. The index of financial inclusion,  $IFI_i$ , for the  $i$ -th state, then is measured by the normalized inverse Euclidean distance of the point  $D_i$  from the ideal point  $I = (1, 1, \dots, 1)$ . The exact formula becomes,

$$IFI_i = 1 - \frac{\sqrt{(1-d_1)^2 + (1-d_2)^2 + \dots + (1-d_n)^2}}{\sqrt{n}} \quad (2)$$

In formula (2), the numerator of the second component is the Euclidian distance of  $D_i$  from the ideal point  $I$ , normalizing it by  $\sqrt{n}$  and subtracting by 1 gives the inverse normalized distance. The normalization is done in order to make the value lie between 0 and 1 and the inverse distance is considered so that higher value corresponds to higher financial inclusion.

In this paper, we consider three basic dimensions of an inclusive financial system – banking penetration (BP), availability of the banking services (BS) and usage of the banking

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<sup>3</sup> For details see Technical Note in UNDP's Human Development Reports available at <[www.undp.org](http://www.undp.org)>.

system (BU). The main reasons for selecting these dimensions are data availability and recent development in the literature<sup>4</sup>.

### **Banking penetration (dimension 1)**

This is one of the most important indicators of financial inclusion. Ideally, inclusive financial system should penetrate widely amongst its users. The size of the banked population, i.e., number of adult population having a bank account is a measure of the banking penetration of the system. Thus if every adult person in an economy has a bank account, then the value of this measure would be equal to 1. In the absence of the data on banked population, we use number of bank accounts as a proportion of the total population as an indicator of this dimension. However, we use both deposit account and credit account or loan account as the indicators of banking penetration.

### **Availability of banking services (dimension 2)**

Under an inclusive financial system, banking services should be easily available to its users. Availability of services can be indicated by the number of bank outlets (per 1000 population) and/or by the number of ATM per 1000 people, or the number of bank employees per customer. In India, there is another concept introduced in the banking system which is known as Banking Correspondence (BC) model in order to provide the banking services to the people of the nation. In the absence of data on the number of ATMs and number of BCs appointed, we use the number of bank branches per 1000 adult population and also number of branches per square km to measure the availability dimension<sup>5</sup>.

### **Usage (dimension 3)**

This dimension emerges from the concept of “underbanked” or “marginally banked” people, as observed by Kempson et al (2004). It observes that “in some apparently very highly-banked countries, a number of people with bank account are nonetheless making very little use of the services on offer...”. Thus merely having a bank account does not ensure that the system

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<sup>4</sup> One could think of taking some other dimensions, like timeliness, affordability etc. However, due to non-availability of such information we could not incorporate these dimensions in the present study.

<sup>5</sup> Although Sarma (2008) mentioned that the number of staff per customer can be an important indicator of availability of banking service, we do not support this view. This is because in the age of technology number of staff perhaps does not matter.

is inclusive; it is also imperative that the banking services are adequately utilized. In order to incorporate the usage dimension in our index, we consider two basic services of the banking system – outstanding credit and deposit. Accordingly, the volume of outstanding deposit and credit as proportion of the state domestic product (GSDP) has been used to measure this dimension.

Thus, considering the above three dimension – penetration, availability and usage – we can represent a state  $i$  by a point  $(p_i, a_i, u_i)$  in the three dimensional Cartesian space, such that  $0 \leq p_i, a_i, u_i \leq 1$ , where  $p_i, a_i$  and  $u_i$  denote the dimension indexes for the state  $i$  computed using formula (1). In the three dimensional Cartesian space, the point  $(0, 0, 0)$  will indicate the worst situation (complete financial exclusion) and the point  $(1, 1, 1)$  will indicate the best or ideal situation (complete financial inclusion).

The IFI for the state  $i$  is measured by the normalized inverse Euclidean distance of the point  $(p_i, a_i, u_i)$  from the ideal point  $(1, 1, 1)$ . Algebraically,

$$IFI_i = 1 - \frac{\sqrt{(1-p_i)^2 + (1-a_i)^2 + (1-u_i)^2}}{\sqrt{3}} \quad (3)$$

## Data

Since the initiatives on financial inclusion in India were taken during 2005-06, we have computed the index from 2006-07 till 2009-10. We have computed the index for 23 states of India of which data are available. All banking data have been taken from Banking Statistics of Reserve Bank. Data on adult population and geographical area of the states have been taken from Census of India and GSDP figures have been taken from Central Statistical Organization, Government of India.

## Results

Using data on all three dimensions (penetration, availability and usage) for 23 states for the years 2006-2009, IFI values have been computed. The IFI values computed for various states are presented in Table -----.

Depending on the values of IFI, states are categorized into three categories, viz.,

- (i)  $0.5 < \text{IFI} \leq 1$  – high financial inclusion
- (ii)  $0.3 \leq \text{IFI} < 0.5$  – medium financial inclusion
- (iii)  $0 \leq \text{IFI} < 0.3$  – low financial inclusion

In the group of 23 states for which a 3-dimensional IFI has been estimated by using data on 3 dimensions of financial inclusion, Maharashtra leads with the highest value of IFI followed by Karnataka (Table 10). However, only two states, viz., Maharashtra and Karnataka belong to the high IFI group with IFI values of 0.5 or more. Another five states, viz., Kerala Tamil Nadu Andhra Pradesh, Punjab and Himachal Pradesh form the group of medium IFI states with IFI values between 0.3 and 0.5. All other states have a low IFI values, hovering between 0.0 and 0.3. It is interesting to note that all the southern states are at the high or medium level and all the eastern, north-eastern and central states are in the low level of financial inclusion. West Bengal and Gujarat rank 11<sup>th</sup> and 12<sup>th</sup> respectively in financial inclusion. Further, out of 7 North-Eastern States, four states at the lowest rank of financial inclusion. It can also be states that during the four-year period, there is hardly any improvement in financial inclusion in the country (Annex Table A1 to Table A3).

**Table 10: Index of Financial Inclusion – using three dimensions of financial inclusion (2009)**

| State  | $D_1$<br>(Penetration) | $D_2$<br>(Availability) | $D_3$<br>(usage) | IFI   | IFI Rank |
|--|------------------------|-------------------------|------------------|-------|----------|
| <b><u>High Financial Inclusion (0.5-1)</u></b>     |                        |                         |                  |       |          |
| MAHARASHTRA  | 0.708                  | 0.292                   | 1.000            | 0.558 | 1        |
| KARNATAKA  | 0.688                  | 0.467                   | 0.421            | 0.511 | 2        |
| <b><u>Medium Financial Inclusion (0.3-0.5)</u></b> |                        |                         |                  |       |          |
| KERALA   | 0.618                  | 0.802                   | 0.222            | 0.487 | 3        |
| TAMIL NADU   | 0.647                  | 0.444                   | 0.347            | 0.465 | 4        |
| ANDHRA PRADESH                                     | 0.576                  | 0.314                   | 0.397            | 0.419 | 5        |
| PUNJAB   | 0.434                  | 0.700                   | 0.184            | 0.401 | 6        |
| HIMACHAL PRADESH                                   | 0.428                  | 0.401                   | 0.131            | 0.307 | 7        |
| <b><u>Low Financial Inclusion (&lt; 0.3)</u></b>   |                        |                         |                  |       |          |
| SIKKIM   | 0.247                  | 0.341                   | 0.301            | 0.295 | 8        |

|                   |       |       |       |       |    |
|-------------------|-------|-------|-------|-------|----|
| HARYANA           | 0.397 | 0.525 | 0.046 | 0.293 | 9  |
| UTTAR PRADESH     | 0.289 | 0.316 | 0.199 | 0.266 | 10 |
| WEST BENGAL       | 0.227 | 0.372 | 0.185 | 0.257 | 11 |
| GUJARAT           | 0.320 | 0.309 | 0.135 | 0.250 | 12 |
| BIHAR             | 0.150 | 0.241 | 0.228 | 0.205 | 13 |
| TRIPURA           | 0.310 | 0.229 | 0.082 | 0.202 | 14 |
| MEGHALAYA         | 0.181 | 0.277 | 0.106 | 0.185 | 15 |
| ARUNACHAL PRADESH | 0.224 | 0.161 | 0.162 | 0.182 | 16 |
| RAJASTHAN         | 0.250 | 0.222 | 0.075 | 0.179 | 17 |
| ORISSA            | 0.250 | 0.237 | 0.059 | 0.177 | 18 |
| MADHYA PRADESH    | 0.187 | 0.219 | 0.119 | 0.174 | 19 |
| MIZORAM           | 0.159 | 0.264 | 0.041 | 0.150 | 20 |
| ASSAM             | 0.173 | 0.167 | 0.029 | 0.120 | 21 |
| NAGALAND          | 0.034 | 0.044 | 0.079 | 0.052 | 22 |
| MANIPUR           | 0.000 | 0.013 | 0.000 | 0.004 | 23 |

Source: Author's own calculation.

## V: Financial Inclusion in West Bengal

Having discussed the financial inclusion at the national level, we now concentrate on the state of West Bengal which is taken as our case study. The state of West Bengal has a total population of 8.0 crore out of which around 72.0 per cent are rural. Around 45.54 lakh people in the State are cultivators and 45.23 lakh are agricultural labourers. In line with the trend as set at the national and international level, West Bengal is also not laggard in outreach activity. The number of accounts per branch in the state has increased from 5,046 in 1980-81 to 9,866 in 2009-10 (Appendix Table A1). However, out of 18 districts in the State only 5 states are above the average. The number of accounts per 100 adult persons has also increased from 40 to 77 in the state during the period. Here also only 5 districts are above the average. Further, number of adult population per branch has decreased from 12,697 to 11,665 during the same period. On the other hand, although per capita deposit and credit have increased during the three decades period, CD ratio remained very low in almost all the districts except North 24-Parganas and Kolkata (Appendix Table A2). As per the directive of the Government and RBI, several steps have been taken in the State in order to increase financial inclusion. The State has already identifies all the districts for 100 per cent financial inclusion, which means every household has got at least one

bank account<sup>6</sup>. Some of the important initiatives taken so far in the state are as Introduction of No frills account, Introduction of Kisan Credit Card (KCC) Scheme, Introduction of General Credit Card (GCC) Scheme, Introduction of SHG-Bank Linkage Programme, Introduction of Business Facilitator (BF) and Business Correspondent (BC) model, etc. In the following section we discuss the achievement of financial inclusion which is based on a survey.

### **Survey of Financial Inclusion in West Bengal**

A survey on financial inclusion in West Bengal in three districts was done in order to understand the nature and extent of the problem. The objective of the study was primarily to identify the extent of financial exclusion of the rural Bengal. The objective of the study is to assess the progress of financial inclusion in the state of West Bengal. Besides, the study has focused, inter alia, on some socio-economic indicators like occupation, literacy, landholding pattern in rural areas, rural indebtedness and people's opinion about banking services in India in general and West Bengal, particular.

### **Methodology**

Data have been collected from the various households in two/three blocks in each of the three districts of East Midnapore, Birbhum and Murshidabad in West Bengal. The districts thus selected have some unique features of their own by the geographical position, the level of trade activities in East Midnapore, large composition of tribal population and unbanked areas in the district of Birbhum and the border of Murshidabad adjacent to Bangladesh having a strong base of minority people of Muslims, having a predominant occupation of 'bidi'-making. A total of 329 households (HHs), in three districts of East Midnapore (103 HHs), Birbhum (108 HHs) and Murshidabad (118 HHs) have been taken up for the survey.

The relevant questionnaire with around 60 questions was prepared in consultation with General Manager, Rural Planning & Credit Department, Kolkata encompassing various issues like occupation, level of literacy, rural indebtedness and present situation of financial inclusion, landholding pattern etc.

### **Landholding Pattern**

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<sup>6</sup> However, the definition of financial inclusion has changed to a larger extent. Now the 100 per cent financial inclusion means ensuring banking access facilities to all the households of the village with a population of 2000 or more.

The survey results revealed that over 44 per cent of the population in the three districts surveyed is dependent on cultivation. The result has revealed that 34.3 per cent households occupy land holdings in the size below 1.0 acre on an average. Little over 61 per cent of the households in East Midnapore are marginal farmers occupy land of size below 1.0 acre, whereas in Birbhum district around 21 per cent and in Murshidabad around 23.0 per cent are having land of size less than 1.0 acre. Further, around 43.0 per cent people are landless in three districts (Table 11). District-wise, Murshidabad district has the highest landless labourers (33.1 per cent), followed by Birbhum (25.0 per cent) and Medinipur (8.7 per cent). Households have an average family size of around 6.0 members with 1.41 earning members. District-wise, Medinapore has the highest family size and Birbhum has the lowest family size. Further, each household with 5.5 family size has 1.4 earning member, which implies dependency ratio is very high in these districts.

**Table 11: Land Holding Pattern**

(Per cent)

| District       | No. of Households (HHs) | Occupation  |             |             |                 | Area of land (Acres) |             | No. of family members | No. of earning members |
|----------------|-------------------------|-------------|-------------|-------------|-----------------|----------------------|-------------|-----------------------|------------------------|
|                |                         | Cultivation | Business    | Service     | Landless labour | 0-1                  | 1-2.5       |                       |                        |
| 1              | 2                       | 3           | 4           | 5           | 6               | 7                    | 8           | 9                     | 10                     |
| East Midnapore | 103                     | 54.4        | 18.4        | 7.8         | 8.7             | 61.2                 | 6.8         | 6.5                   | 1.5                    |
| Birbhum        | 108                     | 44.4        | 24.1        | 2.78        | 25.0            | 21.3                 | 18.5        | 4.6                   | 1.36                   |
| Murshidabad    | 118                     | 34.7        | 33.9        | 16.1        | 33.1            | 23.0                 | 13.6        | 5.4                   | 1.36                   |
| <b>Total</b>   | <b>329</b>              | <b>44.1</b> | <b>49.1</b> | <b>17.2</b> | <b>43.1</b>     | <b>34.3</b>          | <b>13.1</b> | <b>5.5</b>            | <b>1.41</b>            |

Source: Author's own calculation

### Survey Results

The survey has revealed that about 61.7 per cent of the households had opened an account with a commercial bank or RRB or a cooperative society. Of this, district of East Midnapore has showed an encouraging figure with 72.8 per cent of the households having a bank account, while for the district of Birbhum, the figure has been dismally placed at 51.9 per cent and the district of Murshidabad has showed the overall average of 61.0 per cent. Around 77.5 per

cent of the households felt that banking facilities are adequate in their locality. Among these three districts, East-Midnapore has the highest percentage (86.4 per cent). Average monthly income of the family was found to be highest in Murshidabad followed by East Midnapore and Birbhum. It has been observed that the poor result in respect of bank account in the district of Birbhum can be attributed to the prevalence of savings accounts in the post offices where the proceeds of NREGA accounts are routed through these post office savings accounts. The result may seem to be less encouraging if the households in a village adopted by NABARD where all the households have bank accounts under a Self Help Group (SHG) are excluded from the survey. The main reason cited by the respondents for less number of bank account was stated to be low income level which is insufficient to maintain even their minimum level of consumption.

About 77.5 per cent households have admitted adequate banking facilities in the locality and 90.6 per cent households operate their bank accounts by personal visits while only 5.9 per cent households use the ATM cards. So far as income levels of the households are concerned, the distribution is much skewed at an average of Rs.3530.10 per family and for Birbhum, it is Rs.2485.90 only and about 9.12 per cent of the surveyed households receive pension through Government Pension Scheme.

**Table 12: Banking Habits**

(Per cent)

| District       | Average Monthly Income (Rs.) | Any assistance through pension of Govt. Scheme | Banking facilities adequate in the locality | Any bank account by any of the family members | Mode of operation of Bank account |                        | Whether satisfied with the arrangement |
|----------------|------------------------------|--|---|---|-----------------------------------|------------------------|--|
|                |                              |  |   |   | ATM                               | Personal visit to Bank |  |
| 1              | 2                            | 3  | 4   | 5   | 7                                 | 8                      | 9                                      |
| East Midnapore | 3,448.0                      | 10.7   | 86.4  | 72.8  | 5.3                               | 77.4                   | 88.0                                   |
| Birbhum        | 2,485.9                      | 12.1   | 75.0  | 51.9  | 3.6                               | 91.1                   | 92.2                                   |
| Murshidabad    | 4,812.0                      | 5.1  | 72.0  | 61.0  | 8.4                               | 93.1                   | 98.6                                   |
| <b>Total</b>   | <b>3,530.1</b>               | <b>9.1</b>                                     | <b>77.5</b>                                 | <b>61.7</b>                                   | <b>5.9</b>                        | <b>90.6</b>            | <b>98.1</b>                            |

## Rural Indebtedness



The survey has revealed that moneylenders are still a dominant source of rural finance despite wide presence of banks in rural areas and in about 66.5 per cent cases finance is received from village moneylenders at exorbitantly high rate of interest as detailed in Table 6. In 28.1 per cent cases, collateral security is required to be furnished by the borrowers. Among these three districts, dependence on money-lenders is lowest in East Midnapore district and highest in Birbhum. However, in the district of East Midnapore, money-lenders are more formal than two other districts. This is because in the case of former, around 88.6 per cent of households pay interest to the money-lenders, followed by Birbhum and Murshidabad. In the latter two districts, money lenders are giving loans with some terms and conditions. Sometimes they do not insist on collateral; but if the loan is not repaid within the time limit then interest rate may go up even to double. In some other cases, loan is provided by the local money lenders with the condition that they would provide their labour at the time of their need, mostly during the sowing or harvesting season. In local term it is called 'bandha munish'. It is normally observed that mostly the villagers take the loan from the local money lenders for consumption purposes. It can be observed that around 45.3 per cent of the people pay interest to the money lenders (Table 7).

**Table 13: Extent of Rural Indebtedness**

(Per cent)

| District       | Source of debt in need |         |              | No. of cases where interest is paid | No. of cases where collateral security has been furnished | No. of persons willing to take bank loan | Any loan from money lenders | If taken, from which bank |      |            |
|----------------|------------------------|---------|--------------|-------------------------------------|---|--|-----------------------------|---------------------------|------|------------|
|                | Relative               | Friends | Money-lender |                                     |   |  |                             | Com. Bank                 | RRB  | Co-op Bank |
| 1              | 2                      | 3       | 4            | 5                                   | 6   | 7  | 8                           | 9                         | 10   | 11         |
| East Midnapore | 8.7                    | 18.5    | 49.5         | 88.6                                | 49.4  | 65.1                                     | 51.1                        | 66.6                      | 7.13 | 26.1       |
| Birbhum        | 9.3                    | 3.8     | 64.8         | 53.6                                | 20.2  | 79.6                                     | 42.6                        | 34.7                      | 63.2 | 2.1        |
| Murshidabad    | 13.8                   | 33.0    | 53.2         | 51.1                                | 17.1  | 82.2                                     | 33.1                        | 64.3                      | 35.7 | -          |
| Total          | 12.5                   | 21.1    | 66.5         | 63.4                                | 28.1  | 76.0                                     | 41.7                        | 51.4                      | 37.1 | 11.5       |

In the case of district of East Midnapore, in 88.6 per cent cases, people take loans from the village money lenders due to the fact that the areas is extremely busy in agriculture, trade and allied activities and the existence of SHGs. The area has a distinct advantage of having a nearby fishing harbor, cashew nut cultivation and factories for processing and plenty of youth engaged in restaurants within the country and overseas. In the district of Murshidabad, it was observed

that a big section of the population (mostly women) is engaged in *bidi* industry which is very popular in the district.

**Table 14: Incidence of Interest Rates in Rural Areas**

| Range (Rs.)<br>(Per cent per month) | East Midnapore<br>(No of cases) | Birbhum<br>(No of cases) | Murshidabad<br>(No of cases) |
|-------------------------------------|---------------------------------|--------------------------|------------------------------|
| 2 – 3                               | 30                              | 8                        | 5                            |
| >3 – 5                              | 19                              | 8                        | 10                           |
| >5 – 7                              | 5                               | 1                        | 1                            |
| >7 – 10                             | 5                               | 25                       | 23                           |
| >10 – 20                            | 3                               | 3                        | 3                            |
| <b>Total</b>                        | <b>62</b>                       | <b>45</b>                | <b>42</b>                    |

Data suggest that 76.0 per cent households are willing to take loan from the banks due to comparatively lower interest rates in the banks and 51.4 per cent households have availed loan from the commercial banks, while 37.1 per cent households have availed the same from the RRBs. In case of the district of Birbhum, having a sizeable tribal population, loans floated by commercial banks and RRBs are very less due to the fact that the families do not have any meaningful income and lack of direction in business plans.

Results reveal that 73.2 per cent households have their nearest branch of the bank within a distance of 5 kms and 70.2 per cent households find the behavior of the banks is friendly and in 22.5 per cent cases, households find that the banks are either indifferent or non-cooperative in its approach. Around 95.8 per cent households still place their faith in Indian banking and in 72.9 per cent of the cases, friends and relatives is still a dominant source of information in banking. About 79.9 per cent households seek simplification of procedures and documentation for getting loans and this has become a great reason for dominance of village of moneylenders.

The survey has further revealed that 68.1 per cent households are aware of the opportunities of the bank loans at a lower rate of interest and this again points to the need of spread of financial literacy in the rural areas. During the survey, it has been observed that, on

some occasions, people do not know whether they can deposit their own money for saving in the bank accounts opened for the receipt of their NREGA proceeds.

**Table 15: People and Indian Banking**

| District     | Whether aware of lower interest rates in banks | Whether getting bank loans difficult | If yes, reasons for    |                                   |                       | Faith in Indian Banks | Distance to nearest bank (in kms.) |             | Behaviour of bank employees |             |               |
|--------------|--|--------------------------------------|------------------------|-----------------------------------|-----------------------|-----------------------|------------------------------------|-------------|-----------------------------|-------------|---------------|
|              |  |                                      | Form fill-up difficult | Insistence on collateral security | Lack of business plan |                       | <5 kms                             | 6-10 kms    | Friendly                    | Indifferent | Non-operative |
| 1            | 2  | 3                                    | 4                      | 5                                 | 6                     | 8                     | 9                                  | 10          | 11                          | 12          | 13            |
| East         | 77.7   | 46.6                                 | 43.7                   | 30.1                              | 25.3                  | 89.3                  | 79.6                               | 20.4        | 85.4                        | 1.9         | 4.8           |
| Midnapore    |  |                                      |                        |                                   |                       |                       |                                    |             |                             |             |               |
| Birbhum      | 77.8   | 69.5                                 | 41.7                   | 55.6                              | 16.7                  | 99.0                  | 74.1                               | 25.9        | 73.1                        | 11.1        | 7.4           |
| Murshidabad  | 50.8   | 67.8                                 | 52.5                   | 76.3                              | 17.8                  | 98.3                  | 66.9                               | 23.7        | 54.2                        | 24.6        | 15.3          |
| <b>Total</b> | <b>68.1</b>                                    | <b>61.7</b>                          | <b>49.2</b>            | <b>55.1</b>                       | <b>19.7</b>           | <b>95.8</b>           | <b>73.2</b>                        | <b>17.1</b> | <b>70.2</b>                 | <b>13.1</b> | <b>9.4</b>    |

## **VI: Conclusion**

The issue of financial inclusion has received large importance in India during the recent period. India had invested considerable amount of resources in expanding its banking network with the objective of reaching to the people. During the last 40 years huge infrastructure has been created in the banking sector. However, this large infrastructure that has penetrated even remote rural areas is able to serve only a small part of the potential customers. While India is at very high growth path, almost at the two-digit level, majority of the people are out of the growth process. This is neither desirable nor sustainable for the nation. We also know that one of most important driving forces of growth is institutional finance. Therefore, it is now realized that unless all the people of the society are brought under the ambit of institutional finance the benefit of high growth will not percolate down and by that process majority of the population will be deprived of the high growth. Thus financial inclusion is not only socio-political imperative but also an economic one. It is observed from the study that although there has been an improvement in outreach activity, heterogeneity across states has increased. Gap between rural and urban areas in respect of outreach is also prevalent even after the reform period. While significant improvement has taken place in credit/loan account in the urban households, the situation has become worse for the rural households.

We have developed an index of financial inclusion using data on three dimensions of financial inclusion. This is useful to monitor the progress of policy initiatives for financial inclusion in a country/state over a period of time. The result shows that in the group of 23 states for which a 3-dimensional IFI has been estimated by using data on 3 dimensions of financial inclusion, Maharashtra leads with the highest value of IFI followed by Karnataka. Only two states belong to the high IFI group with IFI values of 0.5 or more. Another five states, viz., Kerala, Tamil Nadu, Andhra Pradesh, Punjab and Himachal Pradesh form the group of medium IFI states with IFI values between 0.3 and 0.5. All other states have a low IFI values, hovering between 0.0 and 0.3. It is interesting to note that all the Southern states are at the high or medium level of financial inclusion and all the Eastern, North-Eastern and Central states are in the low level of financial inclusion. West Bengal and Gujarat, being the developed states of India, ranked 11<sup>th</sup> and 12<sup>th</sup>, respectively in financial inclusion. Further, out of 7 North-Eastern States, four states at the lowest rank of financial inclusion. It can also be stated that no significant achievement has taken place in financial inclusion in the country since 2005-06, from which the initiatives had started in the country. As a case study of our research, we have conducted a survey in three districts of West Bengal, viz., East Medinipur, Birbhum and Murshidabad. The survey results

revealed that over 44 per cent of the population in the three districts surveyed is dependent on cultivation. About 61.7 per cent of the households had opened an account with a commercial bank or RRB or a cooperative society. Remaining 38 per cent feel that they do not have sufficient income to open an account in the bank. About 77.5 per cent of the respondents feel that there are adequate banking facilities in the locality. The survey has revealed that moneylenders are still a dominant source of rural finance despite wide presence of banks in rural areas and in about 66.5 per cent cases finance is received from village moneylenders at exorbitantly high rate of interest. In 28.1 per cent cases, collateral security is required to be provided by the borrowers. It is found that 76.0 per cent households are willing to take loan from the banks due to comparatively lower interest rates in the banks and 51.4 per cent households have availed loan from the commercial banks, while 37.1 per cent households have availed the same from the RRBs. In case of the district of Birbhum, having a sizeable tribal population, loans floated by commercial banks and RRBs are very less due to the fact that the families do not have any meaningful income and lack of direction in business plans.

Results reveal that 73.2 per cent households have their nearest branch of the bank within a distance of 5 kms. The survey has further revealed that 68.1 per cent households are aware of the opportunities of the bank loans at a lower rate of interest and this again points to the need of spread of financial literacy in the rural areas.

In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be considerable. However, only supply side factor is not responsible for the financial exclusion. Demand side factor is also equally responsible. And there is a need to solve both these problems with the help of appropriate policies. Banks should look at financial inclusion both as a business opportunity and as a social responsibility. Apart from formal banking institutions the role of the self-help group movement and micro-finance institutions (MFIs) is important to improve financial inclusion. However, some regulatory procedures for MFIs may have to be evolved in consultations with MFIs, consumers and the government. Political interference in the financial system should be avoided in order to maintain the viability of the formal financial institutions. The risk elements of small and marginal farmers and other vulnerable groups have to be taken into account in framing policies for financial inclusion. Banking correspondent model has to be made more effective, by involving more local people. Proper BC model can take care of problems of supply and demand

factors to a greater extent. In fact, providing the banking service is not sufficient. Many rural people still are not aware of banking products and they are reluctant to take the advantage of banking facilities. Because of various formalities involved in availing loans etc. they are scared of going to bank and hence go to the moneylenders. But since BC is recruited from the local people they can solve these problems. On the one hand, they can do the formalities on behalf of the illiterate or semi-literate people and at the same time they would educate them how to benefit from the banking service in an effective manner. Above all, whole-hearted effort is called for from all the corners of the society, viz., banks, beneficiaries and regulators in order to make financial inclusion more meaningful and effective.

**Table A1: Percentage Distribution of Outstanding Loans by Formal and Informal Source across Size Classes of Land, 2003**

| State                   | Size Class of Land Owned |           |           |            |            |             |        | All Sizes |
|-------------------------|--------------------------|-----------|-----------|------------|------------|-------------|--------|-----------|
|                         | <0.01                    | 0.01--0.4 | 0.4--1.00 | 1.01--2.00 | 2.01--4.00 | 4.01--10.00 | 10.00+ |           |
| <i>Formal Sources</i>   |                          |           |           |            |            |             |        |           |
| Assam                   | 3.1                      | 29.1      | 37.8      | 45.2       | 46.4       | 23          | na     | 72.4      |
| Gujarat                 | 10.1                     | 34.8      | 40.7      | 65.2       | 84.9       | 80.2        | 100    | 69.5      |
| Haryana                 | 24.6                     | 46.5      | 71        | 62         | 86.4       | 59.4        | 74.7   | 67.6      |
| Jharkhand               | 64.5                     | 70.8      | 34.5      | 87.6       | 60.5       | 98          | 100    | 64.1      |
| Karnataka               | 15.6                     | 33.4      | 62.1      | 58.7       | 73.4       | 87          | 97     | 68.9      |
| Kerala                  | 64.8                     | 76.1      | 86.8      | 92.9       | 96.4       | 67.3        | 70.3   | 82.3      |
| UP                      | 20.2                     | 29.8      | 56.7      | 68.5       | 79.8       | 88.5        | 98.2   | 60.3      |
| Rajasthan               | 6.2                      | 19.2      | 22.4      | 32.9       | 40.1       | 41.9        | 38.2   | 34.2      |
| West Bengal             | 23.4                     | 42.7      | 63.1      | 80.1       | 75.4       | 21.3        | na     | 58.0      |
| Uttaranchal             | 0                        | 78.7      | 82.8      | 76.7       | 7.3        | 0           | 0      | 76.1      |
| Tripura                 | 77.3                     | 74.4      | 85.9      | 0          | 0          | 0           | 0      | 79.7      |
| Sikkim                  | 0                        | 85.2      | 42.2      | 23.7       | 35         | 0           | 0      | 57.8      |
| Nagaland                | 1.5                      | 12.9      | 61.2      | 71.2       | 97.8       | 0           | 0      | 68.8      |
| Mizoram                 | 0                        | 23.2      | 86        | 65.6       | 0          | 0           | 0      | 77.3      |
| Meghalaya               | 0                        | 0         | 0         | 0          | 36.8       | 0           | 0      | 6.0       |
| Manipur                 | 0                        | 36.5      | 2.8       | 7.3        | 16.7       | 0           | na     | 18.2      |
| MP                      | 10.4                     | 35.4      | 43.4      | 52.7       | 46.8       | 73.1        | 83.9   | 56.9      |
| Chhattisgarh            | 47.1                     | 26.6      | 50.1      | 80.4       | 70.7       | 88.5        | 100    | 72.4      |
| Jammu & Kashmir         | 0                        | 60.9      | 61.6      | 73.9       | 88.9       | 0.1         | Na     | 67.6      |
| Himachal Pradesh        | 0                        | 50.8      | 77.8      | 79.4       | 54.8       | 92.3        | Na     | 65.3      |
| AP                      | 16.9                     | 19.3      | 25.1      | 26.6       | 41.5       | 48.6        | 49.5   | 31.4      |
| Bihar                   | 36.5                     | 20.8      | 47        | 66.1       | 63.4       | 19.6        | 70.1   | 39.2      |
| Maharashtra             | 58.3                     | 83.2      | 80.2      | 78.8       | 83.8       | 88.7        | 91.1   | 83.8      |
| Orissa                  | 64.7                     | 62.4      | 77.1      | 72.1       | 88.4       | 96.9        | 13.2   | 74.8      |
| Punjab                  | 24.8                     | 29.2      | 65.6      | 49.1       | 61.2       | 47.5        | 30.1   | 47.9      |
| Tamil Nadu              | 19.1                     | 37.4      | 46        | 61.5       | 65.2       | 74.3        | 82.9   | 53.4      |
| All India               | 22.6                     | 43.3      | 52.8      | 57.6       | 65.1       | 68.8        | 67.6   | 57.7      |
| <i>Informal sources</i> |                          |           |           |            |            |             |        |           |
| Assam                   | 96.9                     | 70.9      | 62.2      | 54.8       | 53.6       | 77          | Na     | 27.6      |
| Gujarat                 | 89.9                     | 65.2      | 59.3      | 34.8       | 15.1       | 19.8        | 0      | 30.5      |
| Haryana                 | 75.4                     | 53.5      | 29        | 38         | 13.6       | 40.6        | 25.3   | 32.4      |
| Jharkhand               | 35.5                     | 29.2      | 65.5      | 12.4       | 39.5       | 2           | 0      | 35.9      |
| Karnataka               | 84.4                     | 66.6      | 37.9      | 41.3       | 26.6       | 13          | 3      | 31.1      |
| Kerala                  | 35.2                     | 23.9      | 13.2      | 7.1        | 3.6        | 32.7        | 29.7   | 17.7      |
| UP                      | 79.8                     | 70.2      | 43.3      | 31.5       | 20.2       | 11.5        | 1.8    | 39.7      |
| Rajasthan               | 93.8                     | 80.8      | 77.6      | 67.1       | 59.9       | 58.1        | 61.8   | 65.8      |
| West Bengal             | 76.6                     | 57.3      | 36.9      | 19.9       | 24.6       | 78.7        | Na     | 42        |
| Uttaranchal             | 100                      | 21.3      | 17.2      | 23.3       | 92.7       | 100         | 100    | 23.9      |



|                  |      |      |      |      |      |      |      |      |
|------------------|------|------|------|------|------|------|------|------|
| Tripura          | 22.7 | 25.6 | 14.1 | 100  | 100  | 100  | 100  | 20.3 |
| Sikkim           | 100  | 14.8 | 57.8 | 76.3 | 65   | 100  | 100  | 42.2 |
| Nagaland         | 98.5 | 87.1 | 38.8 | 28.8 | 2.2  | 100  | 100  | 31.2 |
| Mizoram          | 100  | 76.8 | 14   | 34.4 | 100  | 100  | 100  | 22.7 |
| Meghalaya        | 100  | 100  | 100  | 100  | 63.2 | 100  | 100  | 94   |
| Manipur          | 100  | 63.5 | 97.2 | 92.7 | 83.3 | 100  | Na   | 81.8 |
| MP               | 89.6 | 64.6 | 56.6 | 47.3 | 53.2 | 26.9 | 16.1 | 43.1 |
| Chhattisgarh     | 52.9 | 73.4 | 49.9 | 19.6 | 29.3 | 11.5 | 0    | 27.6 |
| Jammu & Kashmir  | 100  | 39.1 | 38.4 | 26.1 | 11.1 | 99.9 | Na   | 32.4 |
| Himachal Pradesh | 100  | 49.2 | 22.2 | 20.6 | 45.2 | 7.7  | Na   | 34.7 |
| AP               | 83.2 | 80.9 | 75   | 73.4 | 58.4 | 51.4 | 50.5 | 68.5 |
| Bihar            | 63.5 | 79.2 | 53   | 33.8 | 36.6 | 80.4 | 29.9 | 58.5 |
| Maharashtra      | 41.6 | 16.8 | 19.8 | 21   | 16.2 | 11.3 | 8.9  | 16.2 |
| Orissa           | 35.4 | 37.5 | 22.8 | 27.9 | 11.7 | 3.2  | 86.8 | 25.1 |
| Punjab           | 75.2 | 71   | 34.5 | 50.9 | 38.8 | 52.4 | 70   | 52.1 |
| Tamil Nadu       | 80.9 | 62.5 | 53.9 | 38.6 | 34.7 | 25.7 | 17.2 | 46.5 |
| All India        | 77.4 | 56.7 | 47.2 | 42.4 | 34   | 31.2 | 32.8 | 42.3 |

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Source: Calculated from NSSO (2005)

**Table A2: Outreach of Scheduled Commercial Banks in India**

| Name of Districts | No. accounts per Branch |         |         |         | No of Accounts per 100 adult persons* |         |         |         | No. of Adult Population per branch* |         |         |         |
|-------------------|-------------------------|---------|---------|---------|---------------------------------------|---------|---------|---------|-------------------------------------|---------|---------|---------|
|                   | 1980-81                 | 1990-91 | 2000-01 | 2009-10 | 1980-81                               | 1990-91 | 2000-01 | 2009-10 | 1980-81                             | 1990-91 | 2000-01 | 2009-10 |
| Bankura           | 2,856                   | 3,705   | 5,520   | 7,112   | 13                                    | 36      | 49      | 55      | 22,025                              | 10,276  | 11,286  | 12,863  |
| Bardhaman         | 5,103                   | 6,464   | 7,528   | 8,724   | 35                                    | 66      | 68      | 76      | 14,763                              | 9,802   | 11,011  | 11,501  |
| Birbhum           | 2,146                   | 3,331   | 5,304   | 7,715   | 14                                    | 40      | 55      | 69      | 14,918                              | 8,285   | 9,646   | 11,119  |
| Dakshin Dinajpur  | 2,968                   | 14,805  | 3,714   | 5,846   | 18                                    | 108     | 27      | 37      | 16,308                              | 8,941   | 14,065  | 16,688  |
| Darjiling         | 3,817                   | 6,625   | 7,011   | 8,166   | 38                                    | 81      | 81      | 96      | 10,087                              | 8,224   | 8,610   | 8,470   |
| Haora             | 5,405                   | 7,918   | 10,331  | 10,430  | 41                                    | 63      | 87      | 82      | 13,228                              | 12,488  | 11,904  | 12,652  |
| Hugli             | 5,658                   | 6,774   | 9,251   | 10,375  | 37                                    | 71      | 73      | 78      | 15,458                              | 9,600   | 12,620  | 13,313  |
| Jalpaiguri        | 3,309                   | 4,205   | 5,755   | 8,069   | 14                                    | 35      | 41      | 50      | 23,717                              | 12,024  | 14,033  | 16,012  |
| Koch bihar        | 2,963                   | 3,200   | 4,387   | 6,782   | 13                                    | 25      | 35      | 45      | 23,065                              | 12,662  | 12,585  | 14,978  |
| Kolkata           | 7,163                   | 10,252  | 10,348  | 10,064  | 226                                   | 312     | 334     | 301     | 3,168                               | 3,289   | 3,098   | 3,345   |
| Maldah            | 2,640                   | 3,092   | 4,540   | 7,042   | 10                                    | 28      | 39      | 51      | 25,595                              | 10,981  | 11,559  | 13,751  |
| Murshidabad       | 3,154                   | 3,847   | 5,641   | 8,247   | 41                                    | 33      | 41      | 28      | 7,684                               | 11,823  | 13,715  | 28,965  |
| Nadia             | 4,462                   | 5,225   | 7,509   | 9,174   | 22                                    | 43      | 50      | 53      | 19,973                              | 12,253  | 15,150  | 17,418  |
| North 24 Parganas | 6,146                   | 8,465   | 11,373  | 11,662  | 68                                    | 84      | 90      | 48      | 10,344                              | 13,492  | 15,546  | 14,825  |
| Medinipur         | 3,200                   | 3,858   | 5,345   | 4,051   | 12                                    | 35      | 46      | 31      | 26,235                              | 11,000  | 11,520  | 13,173  |
| Puruliya          | 2,401                   | 4,355   | 5,702   | 6,808   | 13                                    | 35      | 45      | 48      | 18,709                              | 12,575  | 12,728  | 14,115  |
| South 24 Parganas | 6,146                   | 5,200   | 7,912   | 8,775   |                                       |         |         |         |                                     |         |         |         |
| Uttar Dinajpur    | 2,968                   | 7,164   | 3,952   | 6,306   |                                       |         |         |         |                                     |         |         |         |
| West Bengal       | 5,046                   | 6,265   | 8,095   | 8,966   | 40                                    | 68      | 75      | 77      | 12,697                              | 9,173   | 10,800  | 11,665  |

**Table A3: State-wise Pattern of Deposits, Loans and CD Ratio**

|                      | Per capita Deposits |        |        |         | Per capita Credits |        |        |         | C/ D Ratio |       |      |      |
|----------------------|---------------------|--------|--------|---------|--------------------|--------|--------|---------|------------|-------|------|------|
|                      | 1980                | 1990   | 2000   | 2009    | 1980               | 1990   | 2000   | 2009    | 1980       | 1990  | 2000 | 2009 |
| <b>24 Parganas N</b> | 543                 | 30     | 6,101  | 5,018   | 85                 | 15     | 783    | 4,213   | 15.6       | 49.0  | 12.8 | 84.0 |
| <b>24 Parganas S</b> |                     |        |        |         |                    |        |        |         | 15.6       | 56.3  | 15.7 | 32.4 |
| <b>Bankura</b>       | 211                 | 1,045  | 4,201  | 12,408  | 58                 | 375    | 969    | 3,696   | 27.3       | 35.9  | 23.1 | 29.8 |
| <b>Bardhaman</b>     | 842                 | 3,030  | 9,981  | 28,502  | 291                | 923    | 2,202  | 9,073   | 34.5       | 30.5  | 22.1 | 31.8 |
| <b>Birbhum</b>       | 277                 | 1,250  | 5,003  | 14,694  | 86                 | 512    | 1,283  | 4,323   | 30.9       | 40.9  | 25.7 | 29.4 |
| <b>Dinajpur</b>      | 144                 | 124    | 2,421  | 7,620   | 64                 | 150    | 737    | 3,932   | 44.1       | 121.2 | 30.4 | 51.6 |
| <b>Darjiling</b>     | 998                 | 3,409  | 12,849 | 33,367  | 278                | 1,429  | 3,268  | 19,545  | 27.9       | 41.9  | 25.4 | 58.6 |
| <b>Haora</b>         | 973                 | 2,744  | 10,227 | 27,532  | 207                | 759    | 1,758  | 7,961   | 21.3       | 27.7  | 17.2 | 28.9 |
| <b>Hugli</b>         | 727                 | 2,777  | 7,747  | 21,517  | 163                | 912    | 1,297  | 5,209   | 22.4       | 32.8  | 16.7 | 24.2 |
| <b>Jalpaiguri</b>    | 316                 | 1,468  | 5,107  | 11,742  | 143                | 577    | 934    | 4,113   | 45.2       | 39.3  | 18.3 | 35.0 |
| <b>Koch bIhar</b>    | 206                 | 74     | 2,756  | 7,711   | 67                 | 90     | 900    | 4,215   | 32.6       | 121.3 | 32.6 | 54.7 |
| <b>Kolkata</b>       | 11,970              | 36,288 | 97,946 | 317,005 | 9,288              | 24,340 | 67,276 | 276,363 | 77.6       | 67.1  | 68.7 | 87.2 |
| <b>Maldah</b>        | 155                 | 106    | 3,452  | 10,173  | 76                 | 124    | 888    | 4,652   | 49.1       | 116.7 | 25.7 | 45.7 |
| <b>Murshidabad</b>   | 717                 | 82     | 3,295  | 5,476   | 230                | 61     | 890    | 1,996   | 32.1       | 74.2  | 27.0 | 36.4 |
| <b>Nadia</b>         | 366                 | 73     | 4,812  | 12,988  | 123                | 41     | 1,012  | 3,778   | 33.7       | 56.7  | 21.0 | 29.1 |
| <b>Medinipur</b>     | 448                 | 124    | 9,903  | 15,859  | 108                | 93     | 2,120  | 5,177   | 24.0       | 74.9  | 21.4 | 32.6 |
| <b>Puruliya</b>      | 247                 | 109    | 4,475  | 12,115  | 58                 | 50     | 841    | 2,618   | 23.4       | 45.5  | 18.8 | 21.6 |
| <b>WEST BENGAL</b>   | 1,522               | 3,698  | 13,190 | 34,336  | 866                | 2,200  | 5,858  | 22,876  | 56.9       | 59.5  | 44.4 | 66.6 |

**Table A4: Index of Financial Inclusion – 2006**

| <b>States</b>                     | <b>D<sub>1</sub></b> | <b>D<sub>2</sub></b> | <b>D<sub>3</sub></b> | <b>IFI</b> | <b>IFI Rank</b> |
|-----------------------------------|----------------------|----------------------|----------------------|------------|-----------------|
| <b>High Financial Inclusion</b>   |                      |                      |                      |            |                 |
| KERALA                            | 0.808                | 0.814                | 0.369                | 0.604      | 1               |
| KARNATAKA                         | 0.734                | 0.466                | 0.518                | 0.557      | 2               |
| <b>Medium Financial Inclusion</b> |                      |                      |                      |            |                 |
| PUNJAB                            | 0.457                | 0.682                | 0.395                | 0.496      | 3               |
| TAMIL NADU                        | 0.712                | 0.411                | 0.421                | 0.495      | 4               |
| MAHARASHTRA                       | 0.462                | 0.284                | 1.000                | 0.483      | 5               |
| ANDHRA                            |                      |                      |                      |            |                 |
| PRADESH                           | 0.543                | 0.292                | 0.420                | 0.409      | 6               |
| HIMACHAL                          |                      |                      |                      |            |                 |
| PRADESH                           | 0.431                | 0.398                | 0.245                | 0.353      | 7               |
| HARYANA                           | 0.403                | 0.470                | 0.185                | 0.341      | 8               |
| SIKKIM                            | 0.313                | 0.317                | 0.383                | 0.337      | 9               |
| WEST BENGAL                       | 0.271                | 0.382                | 0.277                | 0.308      | 10              |
| <b>Low Financial Inclusion</b>    |                      |                      |                      |            |                 |
| GUJARAT                           | 0.323                | 0.300                | 0.201                | 0.273      | 11              |
| UTTAR PRADESH                     | 0.286                | 0.301                | 0.220                | 0.268      | 12              |
| MEGHALAYA                         | 0.232                | 0.295                | 0.223                | 0.249      | 13              |
| ORISSA                            | 0.267                | 0.220                | 0.166                | 0.217      | 14              |
| RAJASTHAN                         | 0.247                | 0.215                | 0.159                | 0.206      | 15              |
| TRIPURA                           | 0.324                | 0.213                | 0.093                | 0.204      | 16              |
| MADHYA                            |                      |                      |                      |            |                 |
| PRADESH                           | 0.196                | 0.210                | 0.193                | 0.200      | 17              |
| BIHAR                             | 0.156                | 0.248                | 0.199                | 0.200      | 18              |
| ARUNACHAL                         |                      |                      |                      |            |                 |
| PRADESH                           | 0.186                | 0.163                | 0.148                | 0.166      | 19              |
| MIZORAM                           | 0.111                | 0.257                | 0.117                | 0.159      | 20              |
| ASSAM                             | 0.175                | 0.163                | 0.101                | 0.145      | 21              |
| NAGALAND                          | 0.018                | 0.024                | 0.069                | 0.037      | 22              |
| MANIPUR                           | 0.007                | 0.014                | 0.022                | 0.014      | 23              |

**Table A5: Index of Financial Inclusion 2007**

| <b>States</b>                   | <b>D<sub>1</sub></b> | <b>D<sub>2</sub></b> | <b>D<sub>3</sub></b> | <b>IFI</b> | <b>IFI Rank</b> |
|---------------------------------|----------------------|----------------------|----------------------|------------|-----------------|
| <b>High Financial Inclusion</b> |                      |                      |                      |            |                 |
| KARNATAKA                       | 0.770                | 0.463                | 0.502                | 0.557      | 1               |
| KERALA                          | 0.703                | 0.810                | 0.317                | 0.556      | 2               |
| MAHARASHTRA                     | 0.603                | 0.283                | 1.000                | 0.527      | 3               |

|            |       |       |       |       |   |
|------------|-------|-------|-------|-------|---|
| TAMIL NADU | 0.751 | 0.417 | 0.422 | 0.504 | 4 |
|------------|-------|-------|-------|-------|---|

**Medium Financial Inclusion**

|                  |       |       |       |       |   |
|------------------|-------|-------|-------|-------|---|
| PUNJAB           | 0.467 | 0.686 | 0.340 | 0.478 | 5 |
| ANDHRA PRADESH   | 0.577 | 0.292 | 0.413 | 0.416 | 6 |
| HIMACHAL PRADESH | 0.417 | 0.399 | 0.216 | 0.338 | 7 |
| SIKKIM           | 0.285 | 0.329 | 0.373 | 0.328 | 8 |
| HARYANA          | 0.391 | 0.482 | 0.149 | 0.326 | 9 |

**Low Financial Inclusion**

|                      |       |       |       |       |    |
|----------------------|-------|-------|-------|-------|----|
| WEST BENGAL          | 0.247 | 0.379 | 0.252 | 0.290 | 10 |
| GUJARAT              | 0.326 | 0.301 | 0.160 | 0.259 | 11 |
| UTTAR PRADESH        | 0.283 | 0.301 | 0.188 | 0.256 | 12 |
| MEGHALAYA            | 0.224 | 0.287 | 0.150 | 0.218 | 13 |
| ORISSA               | 0.262 | 0.225 | 0.123 | 0.201 | 14 |
| RAJASTHAN            | 0.245 | 0.218 | 0.143 | 0.201 | 15 |
| TRIPURA              | 0.302 | 0.213 | 0.082 | 0.194 | 16 |
| MADHYA PRADESH       | 0.179 | 0.210 | 0.162 | 0.183 | 17 |
| BIHAR                | 0.148 | 0.244 | 0.155 | 0.181 | 18 |
| MIZORAM              | 0.121 | 0.263 | 0.110 | 0.162 | 19 |
| ARUNACHAL<br>PRADESH | 0.190 | 0.167 | 0.121 | 0.159 | 20 |
| ASSAM                | 0.170 | 0.165 | 0.090 | 0.141 | 21 |
| NAGALAND             | 0.015 | 0.039 | 0.076 | 0.043 | 22 |
| MANIPUR              | 0.000 | 0.013 | 0.011 | 0.008 | 23 |

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**Table A6: Index of Financial Inclusion 2008**

| <b>States</b>                     | <b>D<sub>1</sub></b> | <b>D<sub>2</sub></b> | <b>D<sub>3</sub></b> | <b>IFI</b> | <b>IFI Rank</b> |
|-----------------------------------|----------------------|----------------------|----------------------|------------|-----------------|
| <b>High Financial Inclusion</b>   |                      |                      |                      |            |                 |
| MAHARASHTRA                       | 0.707                | 0.291                | 1.000                | 0.557      | 1               |
| <b>Medium Financial Inclusion</b> |                      |                      |                      |            |                 |
| KARNATAKA                         | 0.674                | 0.467                | 0.396                | 0.498      | 2               |
| KERALA                            | 0.654                | 0.814                | 0.219                | 0.495      | 3               |
| TAMIL NADU                        | 0.688                | 0.438                | 0.340                | 0.468      | 4               |
| PUNJAB                            | 0.430                | 0.699                | 0.245                | 0.427      | 5               |
| ANDHRA PRADESH                    | 0.559                | 0.310                | 0.387                | 0.409      | 6               |
| HARYANA                           | 0.381                | 0.511                | 0.098                | 0.308      | 7               |
| SIKKIM                            | 0.265                | 0.351                | 0.309                | 0.308      | 8               |
| HIMACHAL PRADESH                  | 0.400                | 0.399                | 0.135                | 0.300      | 9               |
| <b>Low Financial Inclusion</b>    |                      |                      |                      |            |                 |
| WEST BENGAL                       | 0.228                | 0.385                | 0.190                | 0.262      | 10              |
| GUJARAT                           | 0.315                | 0.309                | 0.135                | 0.248      | 11              |
| UTTAR PRADESH                     | 0.271                | 0.316                | 0.160                | 0.246      | 12              |
| BIHAR                             | 0.139                | 0.246                | 0.236                | 0.206      | 13              |
| ORISSA                            | 0.256                | 0.236                | 0.088                | 0.190      | 14              |
| TRIPURA                           | 0.290                | 0.221                | 0.068                | 0.188      | 15              |
| RAJASTHAN                         | 0.245                | 0.227                | 0.098                | 0.188      | 16              |
| MEGHALAYA                         | 0.204                | 0.277                | 0.085                | 0.185      | 17              |
| MADHYA PRADESH                    | 0.173                | 0.217                | 0.135                | 0.175      | 18              |
| ARUNACHAL PRADESH                 | 0.206                | 0.165                | 0.133                | 0.168      | 19              |
| MIZORAM                           | 0.145                | 0.267                | 0.071                | 0.157      | 20              |
| ASSAM                             | 0.165                | 0.172                | 0.058                | 0.130      | 21              |
| NAGALAND                          | 0.035                | 0.047                | 0.063                | 0.048      | 22              |
| MANIPUR                           | 0.000                | 0.012                | 0.000                | 0.004      | 23              |

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## Annexure - 1

### Some Socio-economic Observations as evident in course of the Survey on Financial Inclusion in select districts in West Bengal.

#### **District: Purba Medinipur**

Tamluk Area is well connected with railway and road transport – basically agricultural area – rice, coconut and processing of betel nut, betel leaf, village handloom, nearby fishing harbor fish market and cashew nut.

**BPL: Complaint** - 5/7 days a year – NREGP job  
Rs.2/- per kg. rice  
1100 gm per head

#### **Banking Aspects:**

**Purba Medinipur - Lead Bank - UBI, Tamluk**

1. A branch in Nim Touri has arranged for opening of “No frills” accounts.
2. Zero balance a/cs. are being opened in UBI for children of bidi workers in the area.
3. Complaint has been raised on the issue of existence of middlemen between the banks and the borrowers. Borrowers complain that without any help of the middlemen, no loan can be obtained (Commission – Rs.1000/- for Rs.10000/- loan).
4. Much of the accounts are opened for reason of NREGP payments.
5. Agents very often ask the borrowers to purchase a LIC policy if they intend to have a loan from a bank.
6. Loans in the area from the Land Development Banks.
7. Some NREGP accounts in Post Offices.
8. Most of the daily wage earners are bhagchasis (sharecroppers) attached to landowners from whom they get temporary short term loans.
9. Loan Savings due to low income levels of the households (HHs) in the area.
10. In many of the cases, people are not able to repay the bank loans.
11. In Deulihat village in Ramnagar – I in Purba Medinipur, there are some SHGs operating the area and PNB is extending loans in a regular way and local panchayat has played a good role.
12. In this area, much of the SB a/cs. are SHG-induced.
13. Women are taking interest in banking activities in a greater way as the youth in the area are engaged overseas and other metropolitan cities of India in restaurant, diamond cutting and gold polishing. Even women are using ATM to withdraw money arising out of foreign remittances into the locality.



14. To get loans from the village moneylenders, they are to keep gold ornaments, watches, bicycles etc. In case of gold, rate of interest is comparatively lower.
15. Not getting money from ATM as it becomes non-functional due to being out of order. Bank's attitude is non-cooperative and sample no. 88 is not happy with loan facility. Most of the banks are reluctant to float loans.
16. PNB is the only service commercial bank in the area in the business locality. Villagers agree that there is a need for another branch within a span of 15 kms.

**District** - **BIRBHUM**

**Area Surveyed** - Predominantly agricultural track mixed with small trade and Handloom in silk sarees and famous Shantiniketan handicrafts and design.

**Some Socio-economic Features: -**

1. Nirvoypur – a tribal village adopted by NABARD had strived to develop itself by forming Self-Help Groups (SHGs) IN Md. Bazar Block in Birbhum under the guidance of umbrella of Angargaria Srijoni Siksha Niketan. It has offered manifold directions in occupation – poultry farming – Vermi post culture essence – Agarbatti stick making, making of seed ornaments – the villagers once migrated from other villages.
2. Predominantly bargadars (Sharecroppers)
3. People are not happy with the stipulation on minimum balance requirement imposed by the banks.
4. At present 7 (seven) SHGs are operating in the village.
5. A loan to be sanctioned to a villager only when all the outstanding loans are fully repaid – seemingly a self-framed rule made by the Branch Manager, UCO, Rajnagar Branch, Birbhum.
6. Male counterpart addicted to liquor. So women joining the SHG keep the passbook with SHG office and keep savings secret.
7. Some instances where people have applied for Kisan Credit Card (KCC) but they have been denied on the plea of pressure of workload at the branches.
8. Mayurakshi Gramin Bank has the major share in floatation of small loans in the area.
9. SHG in rice processing.
10. Moneylenders still play a greater role in rural finance. Rate of interest ranges from 24 per cent per annum to as high as 240 per cent per annum. People do not hesitate to take loans at such exorbitant rate of interest. The reason forwarded by them for such costly loan is that they take a very short term loan say for 5 to 6 months before the harvesting season and repay it when crop is reaped. Thus the loan from the moneylenders is hassle-free and

do not require any document except some collateral security like gold ornaments, bicycles, and some valuable utensils.

In view of the above, the banks may deliver such short-term loans to the farmers artisans under close supervision where the tenure of credit delivery and repayment may be limited to six months as it is done in case of moneylenders. Because they can repay when they have money at hand and do not find time to think to be a loan defaulter.

### **Murshidabad District**

1. Sample No.17 SBI sanctioned Rs.18000/- out of Rs.50,000/-  
Yield is more in jute in comparison to paddy and price (assured) is high for jute also.
2. Sample No.72 He does not know that he can deposit his own money into the NREGA A/c.  
- Lack of financial education.
3. Sample No.80
  - i) Harrassment for getting money under SHG
  - ii) Subsidy not received
  - iii) Complaint against Branch Manager, Paschim Bangla Gramin Bikash Bank, Sanko Bazar Branch
  - iv) Delay in getting money under NREGA
4. Sample No.34 Rural Bengal has seen acute shortage of labour supply as some people in BPL list prefer to stay idle when they can manage their out-of-pocket expenses by selling a part of rice so obtained from the ration shops at Rs.2 per kg. This resembles the findings of the 2010 Nobel Laureates' view on 'Search Theory' which states that where employment benefits are too generous, people will delay accepting job offers. This has a serious implication for the rural labour market when prices tend to increase to have a bearing on general price level.