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Review Paper

Review of Financial Inclusion in Assam

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ABSTRACT

In the words of Mahatma Gandhi, development is "Sarvodaya through Antyodaya" which implies welfare of all through the upliftment of the weakest. In India the percentage of adult bank account holders as per the World Bank Global Findex report is 35% as on 2011. Financial inclusion refers to the process of including those segments of population who remined excluded from the ambit of formal financial system. The present study gives an overview of various indicators of financial inclusion in Assam and India for the period 2014-2024. Index of Financial Inclusion (IFI) of various districts of Assam is also calculated. The depiction of the results is found to be gloomy since majority of the districts of Assam is categorized under low IFI. Structured measures for increased usage and accessibility of banking services are need of the hour.

Keywords: Financial inclusion, bank, development, Index of Financial Inclusion.

INTRODUCTION

India is emerging as the fastest growing economy and home to almost 65% rural population as per the Economic Survey 2022-23 and thus in the long run perspective efforts aiming towards uniform growth of every section of the society is imperative. As per the study conducted by CRISIL, 2013 one out of seven Indians has bank credit access whereas savings bank account can be accessed by one out of two Indians. Deepening the financial system is crucial for both accelerating growth and for equitable distribution[1]. The major causes of financial exclusion often cited include relatively low extension of institutional credit in rural areas due to perception of high risk, high operating costs, lack of rural infrastructure, and vast geographical spread of the country with more than half a million villages, some sparsely populated. The micro factors, which are perceived to inhibit credit flow to disadvantaged groups, mainly include factors such as lack of awareness of financial products and services, the procedures for obtaining agricultural non-farm loans, staffing and human resources. The lack of sufficient savings or saving avenues coerces them to move towards the informal source of finance charging excessive interest. Inability to avail loan and high interest rates turn these borrowers trapped in debt making the poverty cycle to aggravate[2]. The new inclusion drive emphasizing such long standing concerns is the prerequisite for financial inclusion in India.

According to the Committee on Financial Sector Reforms, 2009 (Chairman: Dr. Raghuram G. Rajan), "Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products."

The importance of Financial Inclusion can be understood as:

i. Access to financial services reduces the inequality of income in society.
ii. Providing financial services can help in promoting asset building and

entrepreneurship and emphasize sustainable livelihood. Collective development due to growth of individuals and families can direct them towards economic growth.

iii. For the benefit of the rural people the Government from time to time announces various schemes which at times fail to reach its beneficiaries due to lack of access to financial services. The disbursal of such benefits can be made in transparent and quick manner if they hold bank account since Government have resorted to direct transfer of cash in the beneficiaries account[3].

iv. Financial inclusion can help enabling and empowering people and communities by allowing them to have the ability to manage and use tools to save their money. On the other hand, right financial decisions can be made by empowering people with knowledge and skills.

One of the main components of the financial system is the financial institution and banks form a major part of the financial institution. As a mainstream financial institution, the role of banks in making the economies progress and enabling growth is important. A formal bank account can encourage saving for future and access to credit. Without having a deposit or saving account, people will keep their savings money in an informal financial institution which gave them return at a higher rate initially but uncertain to get back their initial investment amount[4]. With a view to promote savings among the people, banks introduce various deposit schemes with rewards in form of interest to attract the depositors. Savings is considered as the main catalyst for capital formation and a major determinant of the cost of credits. Financial inclusion history in India can be traced back to nationalization of banks in 1969. The role of Reserve Bank of India in promoting financial inclusion is momentous through introduction of various initiatives mentioned below:

i. Lead bank scheme: On the recommendation of Gadgil study group the RBI introduced Lead Bank Scheme in December 1969 with the aim to enhance the flow of bank finance into the priority sector with promoting the role of banks in the rural sector development. In coordinating the banking activities, a specific bank assigned as Lead Bank will be entrusted with the responsibilities of a particular district.

ii. Self-Help Group (SHG) Formation: Mysore Resettlement and Development Agency (MYRADA) initiated the idea of SHG in mid 1980s, with the goal of evolving rural chit funds and informal lending networks into a credit management group. NABARD and MYRADA connected the SHG to banks[5]. The Group considered the model to be cost effective in terms of reaching the rural poor. RBI considered it to be an alternative credit model and a business opportunity. Implementation of the model and providing microfinance became one of the policy priorities.

iii. Kisan Credit Card (KCC) and General Credit Card (GCC): With the view to make the readily purchase of agriculture inputs by the farmers, RBI initiated the KCC scheme in 1998. KCC provides adequate and timely credit to the farmers to cover the credit needs for production and from other contingency expenses, in a simplified manner making availability of loan trouble free. On the other hand, under GCC, card facility for general purpose credit was introduced for the low-income group which could be availed through the rural or semi urban branches in a hassle-free manner. The objective of this scheme was to amplify the credit flow for entrepreneurial activities of nonfarm segment[6].

iv. No Frill Accounts: The introduction of no frill accounts was mentioned in the mid-term review of annual policy of RBI for the year 2005-2006, wherein the bank account can be opened with zero balance. However, through a fresh circular issued by RBI in 2012 the existing no frill accounts need to be converted to Basic Saving Bank Deposit Account (BSBDA)[7]. No minimum balance is to be maintained under the BSBDA which is the main feature of such accounts which also requires KYC compliance.

v. Know Your Customer (KYC) Norms: With motive of strengthening the inclusion process RBI went ahead with relaxing the KYC. People who do not have required documents are eventually left out from availing the banking services which eventually broadens the gap of exclusion. Therefore, to solve the issue RBI simplified the KYC norms wherein basic level identities were required to comply with the banking procedures.

vi. Use of intermediaries: With an objective of striving towards greater financial inclusion with increased outreach, banks were allowed to make use of intermediaries mostly known as Business Facilitator (BF) or Business Correspondent (BC). The basic difference between facilitator and correspondent is in the scope of their function. The function of BF is to refer clients and pursue their proposals and facilitate banks in carrying out its transaction but is restricted in transacting on behalf of bank, whereas BC can carry out the transactions as agents on behalf of bank.

Reserve Bank of India initiated the process of formulation of National Strategy for Financial Inclusion (NSFI) for the period 2019-2024, finalized and approved by the Financial Stability and Development Council. The NSFI sets forth the vision and key objectives of the Financial Inclusion policies in India to expand the reach and sustain the efforts through a broad convergence of action involving all the stakeholders in the financial sector. The action plan for NSFI includes encouraging financial service providers to adopt innovative approaches for strengthening outreach through virtual modes including mobile apps so that every adult has access to a financial service provider through a mobile device by March 2024. Movement towards a less cash society by March 2022 is intended by strengthening modes of digital financial services[8].

LITERATURE REVIEW

Raman (2012)[9] found that higher unbanked population is in eastern and northeastern region. The study states that, financial Inclusion includes branchless banking, micro credit, no- frills bank accounts, pension for old age, saving products, self-help group, microfinance, etc. **Srikanth (2013)**[10] stated that strategy for provision of bank credit for the households of rural farmer is need of the hour and as such the banks in rural areas need to sensitize about the provision of cheaper as well as timely credit for these segments. The paper suggested on a comprehensive strategy by RBI in discussion with NABARD for revitalizing the sluggish mechanism of rural credit. **Mahajan and Kalel (2013)**[11] found that social categories or types of occupation does not have significant influence, but it is the religion of slum dwellers which have an influence on financial exclusion. **Marulkar (2010)**[12] considered the lack of credit flow by the banks in the agriculture and rural sectors resulting to exclusion of rural population. Lack of infrastructure, low level of per capita income, lack of proper connectivity stood as obstacle for the banks in venturing into rural areas. Social improvement along with commercial success can be attained by banks if products and services were conceived giving importance to rural segments. The paper suggested on strengthening the credit delivery mechanism for rural segment. **Islam and Mamun, (2011)**[13] emphasized the move of Bangladesh Bank for giving priority of credit facility to women and marginal farmers. Banks and financial institutions are motivated by the Bangladesh Bank, to extend services to the physically and mentally disabled people, to broaden and deepen financial inclusion. **Sibi and Ananth (2016)**[14] in the study conducted in Tamil Nadu found a positive outcome of expansion of branch, housing loan, advances to weaker section, agricultural advances, performance of micro and small enterprise. Penetration of branches district wise is recommended for sustainable development and financial inclusion. **Throat (2007)**[15] found that majority of the financially excluded population of the country belongs to the eastern, northeast and central regions of India.

OBJECTIVE OF THE STUDY

The objective of this study is to access the level of financial inclusion in Assam.

METHODOLOGY

The study is based on secondary data collected through e-journals, Basic Statistical Returns of RBI, SLBC reports, websites. In addition, a multidimensional index depicting the level of financial inclusion of various districts of Assam is also constructed.

RESULTS AND DISCUSSION

The progress of financial inclusion in Assam as well as India from 2014-2024 is presented in the table below on some widely preferred indicators.

Table 1: Financial Inclusion indicators of Assam and India

Year	**Number of branches per 100000 adults**		**Deposit account per 1000 adults**		**Credit account per 1000 adults**	
	ASSAM	***INDIA***	***ASSAM***	***INDIA***	***ASSAM***	***INDIA***
2014	10.71	16.18	1133.35	1609.41	117.14	182.04
2015	11.24	17.33	1421.10	1889.10	120.75	189.24
2016	13.47	18.51	1727.63	2159.66	180.20	213.03
2017	14.10	19.26	2107.75	2396.51	199.77	226.16
2018	15.05	19.53	2235.63	2507.84	215.39	258.43
2019	15.41	20.00	2145.86	2588.15	238.91	304.77
2020	15.74	20.54	2313.00	2714.53	278.86	357.54
2021	16.28	20.77	2510.61	2776.82	314.77	391.41
2022	16.24	20.85	2720.04	2958.49	289.49	420.94
2023	16.47	21.37	2976.74	3311.16	273.87	472.63
2024	17.12	22.00	3021.68	3479.84	272.90	528.95
Average Annual Growth Rate	***4.93***	***3.14***	***10.66***	***8.13***	***9.77***	***11.34***

Source: Researchers own compilation from Basic Statistical Returns of RBI and SLBC Assam

The geographical outreach of commercial branches per 100000 adults in Assam shows around 60% increase in 2024 as compared to 10.71 in 2014, whereas if we look at the figures of India an increase of 36% can be noticed. The average annual growth rate of assam in terms of branches is also found to be high as compared to national average growth. A similar reference can be drawn from number of deposit account per 1000 adults, where the growth rate of Assam stands high with 10.66% as compared to 8.13% of India. On the contrary credit account per 1000 adults shows a different instance, as average growth rate of India is high with 11.34% as compared to that of Assam's 9.77%.

Given the slow pace of increase in number of commercial bank branches, the increased deposit account with bank can be credited to the policy of no frill accounts and PMJDY. On the other hand, the number of credit accounts per 1000 adults seems stagnant and decreasing from 2022 in case of Assam. Developed economies have the largest number of loans per 1,000 adults. Low bank credit penetration suggests that banks lack in serving low-income customers which forms a large part of the population in developing or underdeveloped countries.

1. INDEX OF FINANCIAL INCLUSION (IFI) OF DISTRICTS OF ASSAM

To measure the inclusiveness of the financial sector of a country construction of a multidimensional index is necessary. Through IFI an attempt is made to measure the financial inclusion on various dimension of the districts of Assam. The index is calculated using secondary data for the year 2019 collected from RBI databank, SLBC report 2019 and Census of India 2011. The index is adapted based on IFI developed by Sharma (2008).

The IFI is a multidimensional index used to measure financial inclusion on various dimensions of availability, accessibility and usage of banking services in one single number lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy.

The dimension 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 of dimension i

Formula (1) ensures that $0 \leq d_i \leq 1$. Higher the value of d_i higher the country's achievement in dimension i. If n dimensions of financial inclusion are considered, then, a country I will be represented by a point $D_i = (d_1, d_2, d_3, \ldots d_n)$ on the n-dimensional Cartesian space.

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

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

In formula (2), the numerator of the second component is the Euclidean distance of D_i from the ideal point I, normalizing it by √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 of the IFI corresponds to higher financial inclusion.

Using the dimensions, we can represent a country 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 country 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 ideal situation (complete financial inclusion)[57].

The IFI for the country 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,

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

Accordingly, availability dimension is indicated by branch, BC and ATM per 100000 adults. As an addition the indicator, Business Correspondents per 100000 adult population is also considered keeping in view the growth of the outreach banking. Accessibility dimension is indicated by the deposit and credit account per 1000 adults. Per capita deposit, per capita credit and CD ratio represents the usage dimension. The IFI value between 0 to 0.3 represents low financial inclusion, value between 0.3 to 0.5 is categorized as medium financial inclusion and those having value between 0.5 to 1 is considered as high financial inclusion.

Table 2: Indicators of financial inclusion

District	**Availability dimension**			**Accessibility dimension**		**Usage dimension**		
	Branch per 100000 adults	**BC per 100000 adults**	**ATM per 100000 adults**	**Credit a/c per 1000 adults**	**Deposit a/c per 1000 adults**	**Per capita deposit**	**Per capita credit**	**CD Ratio**
BAKSA	7.15	12.30	3.99	59.83	1530.55	9152	4487	49.03
BARPETA	11.91	46.20	14.86	229.25	2133.03	21356	14427	67.56
BONGAIGAON	13.97	27.04	25.02	203.99	2107.27	35287	18420	52.20

CACHAR	14.71	29.24	18.72	240.26	1990.89	44198	18220	41.22
CHIRANG	9.41	13.59	4.88	111.74	2242.28	22846	9841	43.08
DARRANG	13.17	51.38	19.85	208.02	2064.98	19808	12714	64.18
DHEMAJI	10.80	52.02	12.02	144.71	2229.18	17697	11482	64.88
DHUBRI	7.58	37.79	8.87	165.44	1522.22	13766	7801	56.67
DIBRUGARH	20.80	27.24	31.38	302.77	2353.30	66718	31130	46.66
DIMA HASAO	19.47	28.81	14.79	119.50	1893.75	39451	10747	27.24
GOALPARA	11.32	42.70	10.63	125.14	2003.59	18008	8784	48.78
GOLAGHAT	16.49	41.88	16.20	329.41	2162.30	28051	19900	70.94
HAILAKANDI	11.31	48.14	14.21	139.15	1921.70	21319	8045	37.74
JORHAT	17.95	27.19	26.11	341.43	2076.44	53835	30436	56.54
KAMRUP	18.78	39.52	19.09	461.45	2099.05	45178	31296	69.27
KAMRUP METROPOLITAN	41.31	2.46	80.16	485.78	4394.45	461656	167771	36.34
KARBI ANGLONG	10.26	20.17	7.56	100.45	1252.92	22062	8500	38.53
KARIMGANJ	12.34	28.74	12.62	176.19	1788.08	26334	9043	34.34
KOKRAJHAR	8.29	32.97	11.11	87.01	1719.08	29155	8156	27.98
LAKHIMPUR	13.75	38.10	14.23	256.66	2169.83	23193	17258	74.41
MORIGAON	12.42	41.08	8.76	269.06	2202.66	17120	13473	78.70
NAGAON	9.62	37.70	13.43	188.92	1764.79	17948	11885	66.22
NALBARI	17.03	41.79	19.61	255.49	2035.57	30636	17843	58.24
SIBSAGAR	13.77	19.67	18.62	221.05	1457.44	36860	19899	53.99
SONITPUR	10.74	20.56	20.06	182.22	1525.19	25783	15572	60.39
TINSUKIA	17.47	29.44	23.45	217.63	2119.25	44171	22603	51.17
UDALGURI	6.93	13.86	4.81	95.40	1906.25	13357	9152	68.52

Source: Researcher's own computation from secondary data

Table 3: Index of Financial inclusion

District	**Availability Index**	**Rank**	**Accessibility Index**	**Rank**	**Usage Index**	**Rank**	**IFI**	**Rank**
BAKSA	0.068	27	0.044	27	0.141	21	**0.084**	***27***
BARPETA	0.390	9	0.339	9	0.290	6	**0.339**	*8*
BONGAIGAON	0.326	16	0.305	12	0.209	17	**0.278**	*13*
CACHAR	0.320	17	0.329	10	0.144	20	**0.260**	*15*
CHIRANG	0.103	25	0.218	18	0.124	22	**0.147**	*24*
DARRANG	0.459	2	0.303	13	0.264	11	**0.337**	*10*
DHEMAJI	0.406	7	0.255	14	0.264	10	**0.305**	*11*
DHUBRI	0.265	20	0.167	23	0.201	18	**0.210**	*20*
DIBRUGARH	0.421	5	0.460	5	0.223	15	**0.359**	*6*
DIMA HASAO	0.346	13	0.172	22	0.035	26	**0.175**	*22*
GOALPARA	0.342	14	0.196	20	0.155	19	**0.227**	*17*
GOLAGHAT	0.411	6	0.461	4	0.328	5	**0.398**	*3*
HAILAKANDI	0.394	8	0.200	19	0.084	24	**0.216**	*19*
JORHAT	0.370	10	0.462	3	0.276	8	**0.365**	*4*
KAMRUP	0.430	4	0.606	2	0.354	3	**0.453**	*2*
KAMRUP METROPOLITAN	0.667	1	1.000	1	0.726	1	**0.751**	***1***
KARBI ANGLONG	0.167	24	0.048	26	0.091	23	**0.101**	*26*

KARIMGANJ	0.267	19	0.222	17	0.068	25	**0.181**	*21*
KOKRAJHAR	0.250	21	0.106	25	0.027	27	**0.123**	*25*
LAKHIMPUR	0.351	12	0.377	7	0.342	4	**0.356**	*7*
MORIGAON	0.334	15	0.397	6	0.358	2	**0.362**	*5*
NAGAON	0.304	18	0.233	15	0.274	9	**0.270**	*14*
NALBARI	0.431	3	0.354	8	0.244	13	**0.339**	*9*
SIBSAGAR	0.246	22	0.222	16	0.225	14	**0.231**	*16*
SONITPUR	0.229	23	0.187	21	0.250	12	**0.221**	*18*
TINSUKIA	0.369	11	0.323	11	0.218	16	**0.300**	*12*
UDALGURI	0.080	26	0.146	24	0.280	7	**0.165**	*23*

Source: Researcher's own computation

Baksa with 0.08 and Karbi Anglong with 0.10 are ranked lowest in terms of IFI. The performance of Baksa district in all the dimensions is found dejected. A difference in the availability, penetration, usage and IFI rank of a district is also observed from the above table. For instance, Darrang is ranked 10th as per the IFI whereas it is ranked 2nd in terms of availability index but 13th for penetration index. Kokrajhar and Udalguri district also depicts very low IFI of 0.12 and 0.16 respectively. The IFI value of Kamrup ranked 2nd and Golaghat ranked 3rd reveals that with improvements in the indicators the district can make headway towards higher level of financial inclusion. Jorhat, Morigaon and Dibrugarh are ranked 4th, 5th and 6th respectively. The only district with high index for all the dimensions and high financial inclusion index is Kamrup metropolitan with 0.75 IFI value. Overall, the financial inclusion index presents a gloomy scenario of Assam since 16 districts falls under the group of low financial inclusion index whereas 10 districts fall under medium financial inclusion index.

CONCLUSION

As argued by Amartya Sen (2000) poverty cannot be defined as mere insufficient income, rather it describes the absence of wide-ranging proficiencies including security and ability to contribute to economic and political systems. Financial inclusion is crucial for inclusive growth of a country, which will enable the people to get equality of economic opportunities. Since majority of the districts in Assam falls under low financial inclusion category, a robust mechanism for strengthening the branchless banking network and usage of banking services is of utmost importance. Structured financial products harmonizing the requirement of rural segments as per various factors such as income, age etc. can help in boosting the financial inclusion scenario in Assam.

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