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# FINANCIAL INCLUSION STATUS: AN APPRAISAL, WITH SPECIAL REFERENCE TO THE STATE OF ASSAM

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## ABSTRACT

*India is the second most populous country after China and one of the fastest growing economies of the world. The present population of India is more than 600 million; however the population assessing banking services is merely 200 million only. Studies found that among 55 countries India stands 29th in FINANCIAL INCLUSION INDEX. Reports also stated that 45.9 million farmer households do not have access to credit either from an institutional or non institutional source. The report also stressed on poverty as one of the major cause of exclusion. Researchers have argued that financial inclusion has a positive impact on various socio economic indicators. It has a positive impact on the growth and development of a country. A higher level of financial inclusion indicates a high level of employment and low level of poverty. Besides, it also leads towards reducing the inequalities among the population. It allows the poor to access credit without having collateral and credit history etc. There are substantial literatures which endorses the positive impact of financial inclusion on the lives of the population. The objective of the study is to explore the status of financial inclusion of India vis-à-vis Assam and the North Eastern Region of India. The study is descriptive in nature.*

**Key words:** Financial Inclusion, North Eastern Region, Reserve Bank of India, Assam

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## 1. INTRODUCTION

World Bank defined financial inclusion or broad access to financial services as to the absence of price or non price barriers in the use of financial services. It stresses that financial inclusion does not denote that all households and firm should be able to borrow unlimited amounts of money or able to transfer that from one place to another by paying any fees. The report also emphasizes the differences between ‘access and the usage’ of financial services. Access is defined as the supply of services whereas the usage refers to the frequency of the services availed. Usage is generally decided by the demand and the supply of the financial services. Financial exclusion may be of voluntary or involuntary in nature. The push for the inclusion of the excluded sections is for those who despite of demanding the financial services are away from it.

In terms of equation financial inclusion can be expressed as below:

$$NFA + BC = FI$$

Where,

BC= Banks + OFIs + MFI + ITNFA= No Frills Savings Bank Account

BC= Banks + Other Financial Institutions + Micro Finance institutions + Information Technology

OFI= Insurance Companies, Mutual Funds, Pension Companies

Dr C. Rangarajan committee defined financial inclusion as, “the process of ensuring access to financial services and timely and adequate credit where needed by the vulnerable groups such as the weaker sections and low income groups at an affordable cost”. The committee also underlined that the financial services are available to each and every individual accrediting them to recognize and access those services.

India started its financial inclusion journey way back in the year 1956 with the nationalization of insurance companies. After that the nationalization of banks has also taken place in the year 1969 and 1980 respectively. A review of all the literature indicates host of initiatives being taken by the Govt. to promote financial inclusion in India. The policy makers were very much aware of the implications of the large chunk of the population remaining unbanked owing to which the economic challenges and the hardships of the poor becomes more difficult.

India being a member of Global Partnership for Financial Inclusion (GPII) and Organization for Economic Co-Operation and Development (OECD) has also been very much actively engaged globally in the promotion of financial inclusion. India also shares chairs with UK and Indonesia in the Global Partnership for Financial Inclusion group on regulation and standard setting bodies. India also sets policies and regulations relating to digitalization and financial inclusion published by GPII over a period of time. The Reserve Bank of India is currently member of four working groups viz, standards, implementation and evaluation, digital financial literacy and financial education for MSME and core competencies for financial literacy under the International Network for Financial Education. India under the aegis of Financial Inclusion Advisory Committee has set up National Strategy for Financial Inclusion in 2017 with an intention to maintain the financial inclusion pace globally.

In August 2014, Prime Minister Narendra Modi announced the flagship program Pradhan Mantri Jan Dhan Yojna with an intention to combat black money and to bring 75 million Indians under the banking arena. Under this program people were provided zero balance bank accounts featured with wide array of banking facilities which also includes pension, credit and insurance. Hence between the years 2014 to 2018 the proportion of people with bank accounts increased from 54% to 81%.

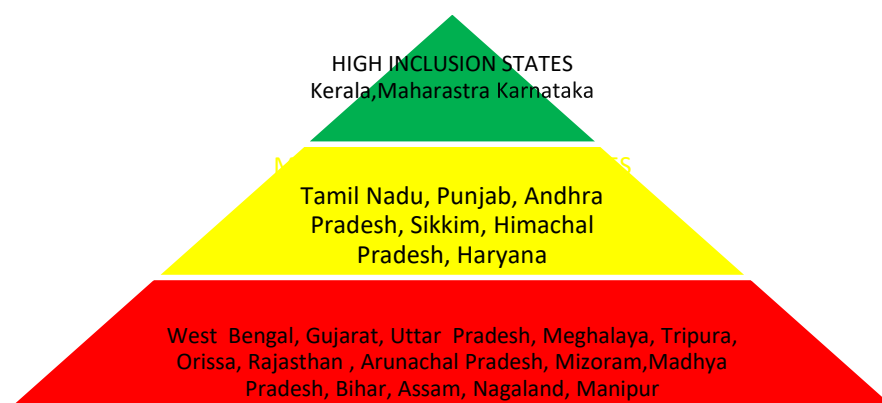
Sharma measured the global financial inclusion of 55 countries, taking into account the following three parameters such as bank penetration, availability of banking services and the usage of the system. Depending on their IFI values, the countries have been classified under three categories viz; high financial inclusion, medium financial inclusion and low financial inclusion. By having data on all three dimensions the researcher has found that 6 countries belong to the high IFI group, 9 countries belong to medium IFI nation and 40 countries belong to the third category. And India with 0.166 IFI valued has featured into the Low Financial Inclusion category which has been depicted below in the table.

**Table 1** Financial Inclusion Status of Countries.

| Degree of Financial Inclusion               | Countries             | IFI value | Countries               | IFI value | Countries       | IFI value |
|---|-----------------------|-----------|-------------------------|-----------|-----------------|-----------|
| High Financial Inclusion<br>[0.5<IFI≤1]     | 1)Spain               | 0.737     | 2)Austria               | 0.667     | 3)Belgium       | 0.637     |
|   | 4)Denmark             | 0.614     | 5)Switzerland           | 0.590     | 6)Malta         | 0.571     |
| Medium Financial Inclusion<br>[0.3≤IFI<0.5] | 7)France              | 0.518     | 8)Greece                | 0.480     | 9)Italy         | 0.415     |
|   | 10)Malaysia           | 0.406     | 11)Mauritius            | 0.403     | 12)Singapore    | 0.393     |
|   | 13)Norway             | 0.388     | 14)Thailand             | 0.360     | 15)Lebanon      | 0.329     |
| Low Financial Inclusion<br>[0≤IFI,0.3]      | 16)Czech Republic     | 0.300     | 17)Jordan               | 0.298     | 18)Iran         | 0.288     |
|   | 19)Chile              | 0.267     | 20)Bulgaria             | 0.246     | 21)Turkey       | 0.219     |
|   | 22)Brazil             | 0.214     | 23)Trinidad and Tobago  | 0.209     | 24)Russia       | 0.205     |
|   | 25)Guyana             | 0.198     | 26)West bank & Gaza     | 0.179     | 27)Namibia      | 0.173     |
|   | 28)Romania            | 0.167     | 29)INDIA                | 0.166     | 30)Lithuania    | 0.164     |
|   | 31)Guatemala          | 0.158     | 32)El Salvador          | 0.153     | 33)Kenya        | 0.147     |
|   | 34)Philippines        | 0.146     | 35)Fiji                 | 0.143     | 36)Colombia     | 0.143     |
|   | 37)Dominican Republic | 0.140     | 38)Bosnia & Herzegovina | 0.128     | 39)Saudi Arabia | 0.127     |
|   | 40)Ecuador            | 0.127     | 41)Honduras             | 0.115     | 42)Pakistan     | 0.104     |
|   | 43)Bangladesh         | 0.103     | 44)Argentina            | 0.101     | 45)Mexico       | 0.097     |
|   | 46)Venezuela          | 0.091     | 47)Peru                 | 0.082     | 48)Zimbabwe     | 0.080     |
|   | 49)Bolivia            | 0.079     | 50)Nicaragua            | 0.078     | 51)Albania      | 0.071     |
|   | 52)Papua New Guinea   | 0.046     | 53)Armenia              | 0.036     | 54)Uganda       | 0.015     |
|   | 55) Madagascar        | 0.013     |                         |           |                 |           |

**Source:** Sharma (2008) *Index of Financial Inclusion*.

The financial inclusion status of India in the regional levels has been shown in the table below. It can be observed that the southern region enjoys the highest level of financial inclusion, whereas, the north eastern region has the low financial inclusion status.



**Figure 1** State-wise Index of Financial Inclusion

*Source: RBI working paper on financial inclusion in India; A case study of West Bengal (2010)*

The Reserve Bank of India in its working paper has identified the various states having the respective level of inclusion among them. The parameters which have taken for the study are penetration, availability of the banking services, and its usage. The findings of the study have indicated that Kerala, Maharashtra and Karnataka have the highest level of financial inclusion. And states like Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh and Haryana enjoyed the medium level of inclusion. However, states such as the West Bengal, Gujarat, Uttar Pradesh, Meghalaya, Tripura, Assam and all the other remaining states have lower financial inclusion status. The study underlined that all the southern states are having high or medium level of financial inclusion and besides Sikkim all the eastern, north eastern and central states are having lower level of financial inclusion.

In the table below financial inclusion level comparison has been shown among all the north eastern states. Here also three dimensions viz, availability, accessibility and usage of financial services have been taken to measure the status. We can observe that there is not even a single state with high level of financial inclusion. Most of the state has featured among the Medium financial inclusion category. There are few states with low level of financial inclusion also. Among all the states Tripura ranked first in terms of financial inclusion followed by the state of Assam.

**Table 2** Financial Inclusion Index of the NER States

| North Eastern States | Dimension1 (Availability) | Dimension 2 (Accessibility) | Dimension3 (Usage) | FII   | Level of Financial Inclusion | Rank |
|----------------------|---------------------------|-----------------------------|--------------------|-------|------------------------------|------|
| Arunachal Pradesh    | 0.197                     | 0.465                       | 0.158              | 0.260 | Low                          | 6    |
| Assam                | 0.379                     | 0.707                       | 0.303              | 0.435 | Medium                       | 2    |
| Manipur              | 0.087                     | 0.355                       | 0.120              | 0.179 | Low                          | 7    |
| Meghalaya            | 0.283                     | 0.371                       | 0.398              | 0.348 | Medium                       | 5    |
| Mizoram              | 0.310                     | 0.681                       | 0.263              | 0.377 | Medium                       | 4    |
| Nagaland             | 0.135                     | 0.000                       | 0.184              | 0.103 | Low                          | 8    |
| Sikkim               | 0.698                     | 0.861                       | 0.055              | 0.422 | Medium                       | 3    |
| Tripura              | 0.531                     | 1.000                       | 0.358              | 0.541 | Medium                       | 1    |
| North Eastern States | 0.214                     | 0.647                       | 0.275              | 0.350 | Medium                       | -    |
| India                | 0.680                     | 0.938                       | 1.000              | 0.812 | High                         | -    |

The state of Assam has been chosen for an inter district study. In the table below we can visualize the level of financial inclusion in all the districts of Assam. Here the financial inclusion level has been categorized under five categories viz, very high financial inclusion, high financial inclusion, medium financial inclusion, low financial inclusion and very low

financial inclusion with respective scores. We can see that no district from Assam has made into the very high financial inclusion category. Even the Kamrup district with high population density and with relatively more availability of banking services has featured in the high financial inclusion category only. Only six districts has made into the low financial inclusion category. And remaining all other twenty districts has featured among the very low financial inclusion category.

**Table 3** Financial Inclusion Status of all the Districts of Assam

| Degree of Financial Inclusion                | Districts       | IFI Value | Districts         | IFI Value | Districts         | IFI Value |
|--|-----------------|-----------|-------------------|-----------|-------------------|-----------|
| Very High Financial Inclusion<br>[0.8<IFI≤1] | -               |           | -                 |           | -                 |           |
| High Financial Inclusion<br>[0.6<IFI≤0.8]    | 1) Kamrup(M)    | 0.694     |                   |           |                   |           |
| Medium Financial Inclusion<br>[0.4<IFI≤0.6]  | -               |           | -                 |           | -                 |           |
| Low Financial Inclusion<br>[0.2<IFI≤0.4]     | 2) Dibrugarh    | 0.286     | 3) Dima<br>Hasao  | 0.210     | 4) Jorhat         | 0.266     |
|  | 5) Kamrup (R)   | 0.312     | 6) Nalbari        | 0.249     | 7) Sibsagar       | 0.221     |
| Very Low Financial inclusion<br>[0<IFI≤0.2]  | 8) Baksa        | 0.044     | 9)Barpeta         | 0.116     | 10)Bongaiga<br>on | 0.117     |
|  | 11) Cachar      | 0.154     | 12) Chirang       | 0.081     | 13) Darrang       | 0.137     |
|  | 14) Dhemaji     | 0.095     | 15) Dhubri        | 0.054     | 16) Goalpara      | 0.085     |
|  | 17) Golaghat    | 0.197     | 18)<br>Hailakandi | 0.090     | 19) Karbi<br>Angl | 0.131     |
|  | 20) Karimganj   | 0.100     | 21)<br>Kokrajhar  | 0.075     | 22)<br>Lakhimpur  | 0.189     |
|  | 23)Morigaon     | 0.120     | 24)Nagaon         | 0.117     | 25)Sonitpur       | 0.181     |
|  | 26) Tinsukia    | 0.176     | 27)Udalguri       | 0.153     |                   |           |
| Assam  | 0.172 IFI Value |           |                   |           |                   |           |

**Source:** Goyal, (2013) *An investigation into Financial Inclusion Among the Rural Households of Assam.*

The Reserve Bank of India has initiated various steps in order to augment the lower financial inclusion imbroglio. In the year 2004 it constituted the HR Khan Committee in order to look after the problems of lower financial inclusion in the country. The committee recommended the use of intermediaries in the use of banking services. The intermediaries in the form of NGO's, government agencies, businesses can cohesively work in achieving the goal of the inclusion landmark. Some of the steps which had been taken by the RBI for augmenting financial inclusion are- offering no-frill accounts to the population, simplification of banking norms, going for the one-time-settlement, appointing business facilitators and correspondents etc.

A brief review of the performance of banks under FIPs reveals the following:

- Banking outlets has been increased up to nearly 3, 84,000. Out of which 1, 15,350 banking outlets were opened during 2013–14.
- The number of rural branches has been expanded. Around 5,300 rural branches were opened out of which nearly 4,600 branches were opened in unbanked rural centers.
- The number of Business Correspondents has gone up from 34,532 (end of FY 2010, i.e., 31 March 2010) to 337,678 (end of FY 2014).

- New BC outlets numbering 33,500 were opened in urban locations taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014. Special emphasis has been given on the urban excluded population.
- Additional 60 million basic savings bank deposit accounts (BSBDAs) were added taking the total number of BSBDAs to 243 million at the end of 2013–14.
- The RBI has adopted bank led model to deepen financial inclusion. The banks were given permission to open branches nationwide especially in the unbanked areas. The banks were also given advice to open branches at village areas with a meager population of more 5000.
- To promote financial inclusion banks have also relaxed the branch authorization guidelines where the fixed points BC are serving more hours a day. An exclusion Financial Inclusion Fund was also set up to scale up the capacity building.
- To facilitate financial inclusion RBI has issued differentiated banking license viz, Small Finance Banks and Payment Bank by provision of savings and supply of credits.

## 2. CONCLUSION

RBI introduced the Financial Inclusion program with an objective to cover more and more people under the banking services. Though many banks are carrying out the program still the progress is not very satisfactory. Among all the states only Tripura and Assam with Tea and Oil industries were historically better served by banks among the states in the region.

The Govt. with an intention to create an universal social security system especially for the poor, rural, women and unprivileged introduced three social security schemes pertaining to insurance and pension sector were announced by the Govt. in the budget 2015 for providing life and accident risk insurance and social security scheme at a very low cost namely viz; Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Yojana and Atal Pension Yojana. Pradhan Mantri Vaya Vandana Yojana to protect elderly aged 60 years.

Banks are said to be the main drivers of financial inclusion. In addition to the Pradhan Mantri Jan Dhan Yojana the Govt. has also taken initiatives to link AADHAR and mobile phone with the bank account to ensure proper availability of Govt. benefits to the poor. These kinds of innovative initiatives have helped in the improvement of financial inclusion level in India.

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