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FINANCIAL DEVELOPMENT AND FINANCIAL INCLUSION IN INDIA: AN INTERSTATE COMPARISON

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ABSTRACT

Financial development plays a decisive role in economic development. It encourages economic growth of the nation through capital accumulation and its efficient allocation. By widening the financial access to the poor and vulnerable sections of the people it reduces poverty and inequality. The financial development results in the financial inclusion. As per the UNO reports, 2.5 billion peoples across the world are excluded from financial services. India is not exempted from this. India is second largest country in the population and majorities are living in the village. According to the 59th NSSO survey estimates, about 73% of the households in India were located in the rural areas. Among them only 24.3 % of the peoples gets the banking facility. From the 27% of the urban people only 18.1% of the people avails the banking facility. Even though RBI has initiated different schemes for the financial inclusion, still a large section of the peoples are unbanked. The poor and weaker sections of the society are kept out of the financial services. The present study focuses on the depth of financial inclusion provided by these banks. This is an interstate comparison on financial development and financial inclusion. Empirical results show the extent of disparity in the financial development and financial inclusion. Region-wise analysis reveals that the Northern Region, Western Region and southern regions of India are financially developed than any other regions. These regions also more included in the financial services provided by the bank

Introduction

Financial development plays a decisive role in the economic development of any nation. It encourages economic growth of the nation through various financial services such as savings, payment, credit, and risk management. By widening the financial access to the poor and vulnerable sections of the people it reduces poverty and inequality. Access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development (Global Financial Development Report 2014**,** The world Bank).Financial deepening fosters economic growth and reduces income inequality (Bekaert et al., 2005, Beck, Levine, and Levkov, 2010). The financial development provides spectrum of services to the people. These services allow the people to take advantage of business opportunities, invest in education, and insure against risks. Thus the policy makers in the developing countries adopt various policy measures to reap the benefit of financial development. These measures include judicial and regulatory reforms.

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The financial development shows the development of financial institutions, financial markets and financial products. It is a process of reducing the costs of acquiring information, enforcing contracts, and making transactions (GFDR, World Bank). The financial development results in the financial inclusion. The delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups is termed as financial inclusion. These services include not only banking services but also other financial services like insurance. The accessibility of financial services is more important than the use of service. Because some group of the peoples are self excluded from the financial services. Personal, religious, cultural and other beliefs are responsible for this self exclusion. Financial inclusion ensures equity and inclusive growth in the economy. Financial inclusion is an inevitable tool for the economic growth and poverty alleviation. Financial exclusion leads to poverty traps and inequality (Aghion and Bolton 1997).

According to the 59th NSSO survey estimates, about 73% of the households in India were located in the rural areas. Among them only 24.3 % of the peoples gets the banking facility. From the 27% of the urban people only 18.1% of the people avails the banking facility. This shows that the majority of the peoples are still out of the banking services. The Government of India and RBI have been made a serious effort to foster the financial inclusion in the country. These efforts include nationalization of banks, expansion of branches of various banks, initiative on priority sector lending, lead bank scheme, zero balance account, etc. Even though RBI initiated these schemes for the financial inclusion, still large sections of the peoples are excluded from the formal financial institutions. The poor and weaker sections of the society are kept out of the financial services. At the national level, commercial banks play a decisive role in promoting financial inclusion. The present study focuses on the depth of financial inclusion provided by these banks.

Objectives:

1- To compare the financial development of various states
2- To examine the extent of financial inclusion in the different sates of India.

For handiness, this paper is divided into five sections. The first section gives the back ground of the study. The second section considers the methodological aspects of the present study. Section three examines the degree of financial development of different states of India. Section four analyse the financial inclusion of various states and UTs of India. Conclusion and summary are given in the last section.

Data and Methodology

In this section, we describe the data sources and other methodology used in this study. We have drawn data from RBI, CSO, and NSSO. Empirically, the direct measurement of economic development is difficult. The financial development can be measured by its depth, access, efficiency, and stability. In this paper we consider only financial depth and access. The depth of financial development can be measured by various indicators like credit to NSDP ratio, deposit to NSDP, gross value added by the financial sector to NSDP and the number of financial

institutions in the state. By using the indicators of number of branches per 1000, accounts per 1000, number ATMS we can measure the accessibility.

Financial Development in India

The analysis clearly indicates a wide disparity in financial development across the region. The volume of credit to NSDP is found to be high in the Western Region (0.950) and Northern Region (0.862). The Credit to NSDP is very poor in the North-Eastern Region (0.198) and Eastern Region (0.359). In the case of deposit to NSDP the western Region and Northern Region has placed at the top level. Their Deposit to NSDP ratio is 0.98 and 1.09 respectively. Based on the indicator of value added by the financial sector to the NSDP the financial depth can be found in the Western and Northern, and Southern states. These three indicators clearly depict the financial development of Western and Northern Region.

Table 1: Basic Financial Development Indicators (Region Wise)

SL NO	REGION	CREDIT-NSDP	DEPOSIT-NSDP	VALUE ADDED
1	Northern	0.862	0.983	7.775
2	North-eastern	0.198	0.580	3.557
3	Eastern	0.359	0.708	4.896
4	Central	0.314	0.665	4.665
5	Western	0.950	1.092	8.978
6	Southern	0.698	0.730	6.259

Sources: Author calculation based on BSR2012 and Handbook of Statistics of Indian Economy

Table 2: Basic Financial Development Indicators-Highest and Lowest States

	STATE	CREDIT-NSDP	RANK		STATE	DEPOSIT-NSDP	RANK
CREDIT-NSDP RATIO	Delhi	2.194	1	DEPOSIT-NSDP RATIO	Delhi	2.296	1
	Chandigarh	2.163	2		Chandigarh	1.873	2
	Maharashtra	1.22	3		Maharashtra	1.329	3
	Tamil Nadu	0.815	4		Goa	1.208	4
	Manipur	0.137	29		Manipur	0.438	29
	Nagaland	0.137	30		Andaman & Nicobar Islands	0.428	30
	Arunachal Pradesh	0.136	31		Rajasthan	0.409	31
	Uttarakhand	0.032	32		Uttarakhand	0.092	32

Sources: Author calculation based on BSR 2012 AND NSDP DATA

In the state wise analysis the credit to NSDP is found to be high in the states of Delhi, Chandigarh, Maharashtra and Tamilnadu. A poor ratio is found in the some states like Arunachal

Pradesh, Manipur, Meghalaya , Nagaland and Uttarkhand (see table 2). Delhi, Chandigarh, Maharashtra and Goa have been occupied highest position in the Deposit to NSDP ratio. Delhi and Chandigarh occupied highest position in the Deposit to NSDP ratio. A poor indicator is observed in Manipur, Andaman, Rajathan and Uttarkhand .

The next financial development indicator is the value added by the banking and insurance sector in to the NSDP. It is found to be high in Delhi, Chandigarh, and Maharashtra. But at the same time the states like Arunachal Pradesh, Meghalaya, Assam, Sikkim, Rajastan and Chattisgarh ranked poorly in this indicator (see table 3). This analysis shows a great disparity in the financial development of the states.

Table 3: Value Added By the Banking and Insurance Sector

STATE	Value added	RANK
Chandigarh	18.21	1
Delhi	18.202	2
Maharashtra	10.785	3
Tamil Nadu	7.071	4
Manipur	2.51	29
Andaman & Nicobar Islands	2.494	30
Arunachal Pradesh	2.218	31
Uttarakhand	0.503	32

Sources: Author calculation based on Handbook of Statistics of Indian Economy

Financial Inclusion in India

The analysis shows a wider interstate disparity in the financial inclusion indicators. Northern region, southern region and western region holds more than one account per individual. The branches of commercial banks are concentrated in the northern, southern and western region. The percentage of unbanked population is higher in north-eastern and eastern regions. North-Eastern Region, Eastern Region and Central Region have less bank branches than the all India average of 0.96 branches per 10000 adult populations.

Table 4: Basic Financial Inclusion Indicators (Region Wise)

SL NO	REGION	ACCOUNT/100	BRANCH/10000	ATM/10000
1	Northern	105	1.3215	2.12736
2	North-eastern	60	0.6691	1.86273
3	Eastern	62	0.6812	1.442562
4	Central	73	0.7630	1.256833
5	Western	99	1.0259	1.950803
6	Southern	109	1.2567	2.044258

Sources: Author calculation based on BSR 2012, NSSO and CSO Data

Table 5: Basic Financial Inclusion Indicators (State Wise)

SL.	STATES	ACCOUNT/100	BRANCH/10000	ATM/10000
1	Haryana	107	1.3755	2.5293
2	Himachal	122	1.9124	2.2853
3	Jammu	96	1.1385	1.8009
4	Punjab	131	1.7619	2.6136
5	Rajasthan	62	0.8525	1.1321
6	Chandigarh	277	3.8781	6.4742
7	Delhi	226	2.1451	5.8685
8	Arunachal	62	0.8194	1.3401
9	Assam	63	0.6169	1.1010
10	Manipur	35	0.4211	0.9901
11	Meghalaya	58	0.9882	1.2842
12	Mizoram	53	1.1953	0.9907
13	Nagaland	43	0.6400	1.4934
14	Tripura	74	0.8427	1.0821
15	Bihar	47	0.5473	0.5696
16	Jharkhand	49	0.5940	0.7577
17	Odisha	72	0.9043	1.2722
18	Sikkim	81	1.6286	2.8913
19	West Bengal	79	0.7511	1.1095
20	A&N Islands	108	1.3541	2.7377
21	Chhattisgarh	58	0.7298	1.1611
22	Madhya	66	0.7773	1.1563
23	Uttar Pradesh	75	0.7157	0.7177
24	Uttarakhand	109	1.6608	2.3561
25	Goa	294	3.9652	6.6289
26	Gujarat	90	1.0535	1.7931
27	Maharashtra	101	0.9700	1.9405
28	Dadra& Nagar Haveli	117	1.3661	3.1419
29	Daman & Diu	136	1.5718	4.1606
30	Andhra	105	1.1046	1.9008
31	Karnataka	111	1.3233	2.3334
32	Kerala	121	1.6724	2.3599
33	Tamil Nadu	107	1.1806	2.4716
34	Lakshadweep	111	2.0972	1.9225
35	Puducherry	136	1.5335	3.1477
	ALL-INDIA	**86**	**0.9566**	**1.5188**

Sources: Author calculation based on BSR 2012, NSSO and CSO Data

If we consider the bank accounts per hundred peoples, states like Haryana, Himachal Pradesh, Goa, Punjab, Delhi Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, Pondicherry, Uttaranchal, Chandigarh, , Haryana, Andaman and Nicobar

islands, Maharshatra, Dam and Diu, Dadra & Nagar Haveli and Gujarat occupies highest position, above the national level(86). It means an average individual has more than one bank account. But at the same time there are highly unbanked areas in the country. These state include Arunachal Pradesh, Meghalaya, Assam, and Chattisgarh, approximately 40 % of the people do not have any bank account. It is very worst in the case of Jharkant, Bihar, Manipur and Nagaland.

An interstate disparity can also be seen in the availability of banking services. This is measured by the number of branches and the number of ATMs per 10000 people. The availability of bank branches is very low in the states of Assam, Manipur, Nagaland, Bihar and Jharkhand. Delhi occupies highest position in the availability of bank branches. It is evident that Northern Region , Sothern Region and Western Region has more ATMs than any other group of states. The availability of ATMs is high in Goa and Delhi. The worst case is observed in Manipur, Mizoram, Jharkhand, and Uttarpradesh (see table 5)

Summary and Conclusion

In this paper an attempt has been made to compare the financial development and financial inclusion of various states and UTs in India. Empirical results show the extent of disparity in the financial development and financial inclusion. Region-wise analysis reveals that the Northern Region, Western Region and southern regions of the country are financially developed than any other regions. These regions also more included in the financial services provided by the banks. In India, still a large section of the population is excluded from the formal financial services. The supply of financial services provided by commercial banks is very low in the certain regions of the country. It is evident from the availability of bank branches and ATMs/1000 people. Thus the Government must design a special inclusion plan for these financially excluded areas. This will automatically bring them in to the net of financial services. The Reserve Bank of India must consider a special priority lending facility to the areas with low level of financial inclusion, especially for the North-eastern and eastern region.

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