THE INTERNATIONAL JOURNAL OF
BUSINESS & MANAGEMENT

Level of Financial Inclusion in Rural Assam: A Study Based on the Accessibility of Banking Service in the Barbhag Area of Nalbari District, Assam

Manisha Devi
India

Abstract:
There is a general belief among the economist that financial development stimulates the process of economic growth. They believe that if a country a country is able to have a decent level of financial development than it would lead the country towards a growth which will be inclusive in nature. In this paper an attempt is made to see the level of financial inclusion in the Barbhag area of Nalbari District, Assam. This paper is based on the secondary data collected from the banks, development blocks etc. For the analysis of the data simple statistical tools are used. As the availability of banking services is considered as an important indicator of financial inclusion therefore in our study we are trying to see the level of financial inclusion entirely on the basis of the availability of banking services. Since the inception of the process of financial inclusion through SWABHIMAN campaign various initiatives has been taken by the Government of India and the Reserve Bank from time to time for promoting financial inclusion and as a consequence considerable improvement in the access to the formal financial institutions have been observed in our country. But despite of the efforts made by the govt. to achieve 100% financial inclusion, a large section of the marginalized class are still omitted from financial inclusion. The portion of population who are under the ambit of financial institutions after the implementation of financial inclusion in 2005 are mostly the same who are there before its inception i.e. the basic goal of financial inclusion is still unattained.

1. Introduction

There is a general belief among the economists that financial development stimulates the process of economic growth which has been theoretically articulated and empirically supported in studies across the world. It is believed that if a country is able to achieve a decent level of financial development then this financial development will led the country towards a growth which will be inclusive in nature. They believed that if a country is able to have a well developed financial sector then this will make the people of that country to have easy access of credit and this will encourage the people to introduce some newness in the production process which in turn will accelerate the rate of growth of the country. According to R. Mohan, a developed financial system broadens access to funds, empowers the poor and low-income people both socially and economically by lifting the financial condition and standards of living and integrates them into the economy of their country in a better way (2006). There has been a large volume of literature both theoretical and empirical which has presented evidence on the importance of the development of financial sector for economic growth. According to those literatures, financial intermediaries play an important role in mobilizing savings, reducing transaction and information costs, improving risk management and thus enhancing economic growth.

Joseph Schumpeter (1911) in his theory of growth shows how the easy availability of finance can lead a country towards a cumulative economic growth. Again the empirical work by Goldsmith [1969] and McKinnon [1973] illustrates the close ties between financial and economic development for a few countries. Empirical work seems consistent with this argument. For example, on the basis of data from 35 countries between 1860 and 1963, Raymond W. Goldsmith (1969 p. 48) concludes that "a rough parallelism can be observed between economic and financial development if periods of several decades are considered."

In relation with this, the concept of financial inclusion in India was first mooted by the RBI in 2005and the GOI gave a serious push to the programme by undertaking the 'SWABHIMAN' campaign to cover more than 73000 villages with population more than 2000 (as per 2001 census) with banking facility. The Approach Paper to the 11th Five Year Plan has also asserted that access to financial resources enables the poor to exploit investment opportunities, reduces their vulnerability to shocks and promotes economic growth. After the financial sector reform in 1991, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. But despite of the tremendous development of the Indian banking sector the banks have not been able to reach and bring vast segment of population, especially the vulnerable sections of the society, into the fold of basic banking services. Such a high level of financial exclusion of the underprivileged section of the society, especially the low-income households, mainly located in rural areas, has remained a major concern as it involves various social and economic costs. To overcome from these difficulties, the need for financial inclusion i.e. the delivery of basic banking services to all sections of society at an affordable rate has been felt urgent in our country.

Defining financial inclusion is not an easy task. A review of literature reveals that there is no universally accepted definition of financial inclusion. The definitional emphasis of financial inclusion varies across countries and geographies, depending on the level of social, economic and financial development of that place and priorities of social concerns. Broadly, financial inclusion means access to finance and financial services for all in a fair, transparent and equitable manner at an affordable cost (Thingalaya et al, 2010).In the Indian context the concept emerged prominently in the post-liberalization period with the rising exclusion in the country followed by a restrictive financial policy. According to the Raghuram Committee, 2008, financial inclusion broadly means universal access to a wide range of financial services at a reasonable cost. In a more concise manner it can be defined as delivery of basic banking services at an affordable cost to all sections of the society, especially the vast sections of disadvantaged and low income groups who tend to be excluded(Leeladhar,2005).The Committee on Financial Inclusion in India defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008).

1.1. Objective

The main objective of our study in this paper is to see the level of financial inclusion in the greater Barbhag area Nalbari District, Assam.

1.2. Methodology

This paper is based on the secondary data collected from the banks, development blocks etc. For the analysis of the data descriptive method along with simple statistical tools are used.

2. Description of the Study Area

The greater Barbhag area is situated in the Nalbari district of Indian state, Assam. The area is located in the 6792.48 hectors landscape under the Barbhag Development Block which are subdivided into 60 villages. According to census 2011, the population of the area is 67580.Under the Block there are overall 11659households and of them 3318 are BPL families i.e. 30% families in the block are BPL families and they are the 'low category customers' in the bank. The average numbers of persons in a family are 6. Since, there are 3318 BPL families in the block, therefore the total population related to the BPL class is (6x3318) 19908. Though 30% of the families in the Barbhag Block are BPL, but, the overall marginalized class is more than 50%.

2.1. Level of Financial Iclusion in Assam

Assam is one of the seven sisters of the North Eastern Region of India. It is located between the latitudes of 24008c N and 27009c N and the longitudes of 89042c E and 96010c E. It covers a geographical area of 78,438 sq. km constituting 2.4 percent of the country's total geographical area. Since the inception of the process of financial inclusion through SWABHIMAN campaign various initiatives has been taken by the Government of India and the Reserve Bank from time to time for promoting financial inclusion and as a consequence considerable improvement in the access to the formal financial institutions have been observed in our country. Over the years, various financial institutions such as SCBs, RRBs, co-operative banks and societies, post offices and insurance companies also have played an important role in meeting the financial needs of the people. A prominent source of information on financial inclusion is the Census of India who since 2001 started providing information on the households' availing banking services. According to the Census, a household is considered to be availing banking services if the head and/ or any other member in the household are holding any type of account provided by banks or post office.

Bhavani and Bhanumurthy (2012), while analyzing the information of Census 2001 on the households' use of banking services, found that out of 28 Indian states, five states, namely Assam (20.5%), Bihar, Chhattisgarh, Orissa and Tamil Nadu were at the lower end with less than 25% of their total households and less than 20 per cent of the rural households an account in the bank. In addition, four out of five states, namely, Assam, Bihar, Chhattisgarh and Orissa also had significant rural-urban disparities in availability of banking services with the percentage of the urban households (53.3% in Assam) having a bank account being more than double that of the rural households (15.0% in Assam).As our analysis of financial inclusion in rural Assam is based o the accessibility of banking services to the people therefore a brief sketch of the households' access to banking service in Assam in 2001 and 2011 is shown I the following table---------

	Census 2001			Census 2011		
	Total Households	**Households having Banking services**	**%**	**Total Households**	**Households having Banking services**	**%**
Rural	4220173	632093	15.0	5374553	2060792	38.5
Urban	715185	381159	53.3	992742	746377	75.2
Total	4935358	1013252	20.5	6367295	2807169	44.1

Table 1
Source: Census of India, 2001 and 2011, H- series

The table reveals the low level of financial inclusion in Assam. Though the level is low in Asssam but in the last ten years level of availability of banking services has registered significant improvement in Assam, particularly in rural Assam. The percentage of households having banking services in Assam which was 20.5% in 2001 became 44.1% in 2011 i.e. making an improvement which is more than double over the percentage registered in2001. This remarkable achievement is guided by the improvement in the availability of banking services in the rural Assam. The % of rural households having banking services has increased from 15% in 2001 to 38.5% in 2011 while that of urban households has increased from 53.3% in 2001 to 75.2% in 2011.
Though the above table reveals the improvement of the share of Assam in rural banking but one thing which we should not forget to make a proper analysis of the journey of the financial inclusion in Assam is that Assam has around 86 per cent of rural population in comparison to all-India average of almost 65 per cent.

2.2. Level of Financial Inclusion in the Study Area

According to Todaro and Smith (2003), in an economy with vast majority of the people living in the rural areas, if development is to take place and become self- sustaining, it should start in the rural areas in general and the agricultural sector in particular. In India, more than 740 million people live in rural areas. Therefore, to accelerate the pace of economic development of the country focus has to be put on the development of the rural economy, which is mainly characterized by agriculture sector (Mohan, 2006). The same logic applies to our study area where around 86 per cent of the population lives in the rural areas (Census, 2011).As banking system is a significant component of financial system and as most of the definitions describe financial inclusion in terms of banking services, contextualization of financial inclusion in Assam has been done here mainly with respect to banking inclusion.
The most important indicator of an inclusive financial system is its availability to its users. Unless the banking services are available, there is no point in discussing the accessibility/penetration and its uses. There are different numbers of indicator which can be used for measuring the availability of financial services such as number of bank branches (per 100000 population), the number of bank branches per 1000 km of area, the number of ATMs per 100000 people, the number of bank employees per 100000 population, etc. But in the present study, due to the unavailability of data on various indicators, the number of bank branches (per 10000 populations) is used to measure the availability of banking services. In the greater Barbhag area there are 67580 people therefore to have easy accessibility of credit the area should have at least 7 banks or bank branches. But, against them there are only four bank branches in the area and this indicates the scarcity of banking services in the area.
Another important indicator of an inclusive financial system is its accessibility amongst its user, i.e., it should be easily accessible to all and it should have as many users as possible. The size of the 'banked' population, i.e. number of people having a bank account is a measure of the banking penetration of the system. Since data on 'banked' population is unavailable, the number of bank accounts as a proportion of the total population is taken as a proxy indicator for this dimension. However, this may provide an overestimation of the data on 'banked' population as there may be many individuals having more than one account. Moreover, there are various types of bank accounts, viz. deposits (savings, current, time, etc.) and credit accounts. As savings and credit are integral components of financial inclusion, both the number of deposit accounts per 1000 population and the number of credit accounts per 1000 population are used here for measuring the accessibility/penetration dimension. In the study area there are two SBI branches viz SBI Kalag and SBI Kamarkuchi and two Assam Gramin Vikash Banks (AGVB) viz, AGVB Karia and AGVB Morwa i.e. in total four banks.

Different numbers of accounts in these 4 banks under the Block are shown in the following table-------

Accounts	AGVB Karia	AGVB Morwa	SBI Kalag	SBI Kamarkuchi
Savings	6709	11811	13140	NA
BSB	1838	1149	2143	NA
CSP	2440	3729	2143	3860
Govt. & other corporation	46	12	20	NA
KCC	705	686	500	NA
NPS	65	59	NA	NA
SSI	53	6	20	30
Agriculture & allied	63	751	640	600
PMEGP	NA	44	41	80
SHG	NA	93	NA	NA
Fixed deposit	NA	863	NA	NA
Term deposit	NA	1275	NA	NA
Total	11419	12000	13140	12500

Table 2
Source: SBI Kalag, SBI Kamarkuchi, AGVB Morwa and Karia

From the table it is clear that the total numbers of a/c in Block is about 49059 while total number of populatio67580.Therefore the number of accounts per person is 0.73. Again if we see the number of a/c s per 1000 population bank wise then we find that the total number of accounts under AGVB Karia is 11419, therefore no. of a/c s per 1000 population in AGVB Karia is approximately 11. Again, the total number of accounts under AGVB Morwa is 12000; therefore no. of a/c s per 1000 population in AGVB Morwa is approximately 12. While the total number of accounts under SBI Kalag is13140, therefore no. of a/c s per 1000 population in SBIKalag is approximately 13 and the total number of accounts under SBI Kamarkuchi is 12500, therefore no. of a/c s per 1000 population in SBI Kamarkuchi is also approximately 13. Thus total accounts opened under the banks are less than their installed capacity. Again, of these accounts the BSB and the CSP accounts can be opened either free of cost or at a low cost. But, despite of that the numbers of accounts opened under these two categories are very low. This indicates the low level of financial penetration in the area. So, we can't only blame the govt. or the banks for the failure of the financial inclusion, to make financial inclusion a success the general people must have to cooperate.

Financial inclusion should be measured not only by the number of bank accounts held by the weaker sections, but also by the amounts borrowed by them and it is shown in the following table------

	Karia	Morwa	Kamarkuchi	Kalag
Total deposits	92000000	165300000	141900000	2700000000
Total loans & advances	95100000	156800000	85000000	395000000
SSI Loan	5048972	2005241260	NA	1676895
KCC Loan	17839092	NA	NA	206000000
Agricultural Loan	8275639	1419027245	NA	

Table 3

Source: SBI Kalag, SBI Kamarkuchi, AGVB Morwa and Karia

After analyzing the data we found that, in the Assam Gramin Vikash Bank Karia total loans and advances are greater than the total deposits of the bank. So, the bank is suffering losses and this is due to bad debt recovery of the bank. Actually banks can't provide more loans than 80% of their deposits to its customers, but, in all the 4 banks in the area the proportion of loans & advances are greater than 80%. So, from this we can imagine about the banks financial situation. This happens mainly because of the lesser availability of financial institutions in the area.

2.3. Category of Customers in the Banks

As the financial inclusion can be defined as delivery of banking services at an affordable cost to the vast section of disadvantaged and low-income groups therefore we can measure the level of financial inclusion from the size of the customers of the bank. The size of the customers in the banks are shown in the following table---------

Customers category	AGVB Karia	AGVB Morwa	SBI Kalag	SBI Kamarkuchi
Low	40%	2%	60%	30%
Medium risk	60%	98%	30%	65%
High risk	0%	0%	10%	5%

Table 4

Source: SBI Kalag, SBI Kamarkuchi, AGVB Morwa and Karia

After analyzing the condition of customers in the banks we found that most of the customers are medium risk customers. In fact, in AGVB Morwa, about 98% of the customers are medium risk customers. The % of low category customer is very low as compared to the medium risk customers. Again, if we ignore the SBI branches; the main motive behind the development of AGVBs is to include the vulnerable section of population of the state under the banking ambit but, when we study about the category of customers of the banks we found that less than 30% of population related to the vulnerable groups are financially included. That is the banks have failed to bring about more than 70% of population related to the vulnerable groups under the ambit of financial inclusion i.e. they are financially excluded.

Thus, we find that despite of the efforts made by the govt. to achieve 100% financial inclusion, a large section of the marginalized class are still omitted from financial inclusion. The portion of population who are under the ambit of financial institutions after the implementation of financial inclusion in 2005 are mostly the same who are there before its inception i.e. the basic goal of financial inclusion is still unattained. Thus we can say that though the govt. introduced the financial inclusion programme with great enthusiasm in a formal way in 2005, even after seven years of its inception only 35% of the population is engaged in formal banking. According to Invest India Income and Savings Survey, 2007, 55% of the entire household does not have a bank a/c, 97% do not have any health insurance and 61% do not have life insurance. Right now about 37.2% of the populations are still below poverty line (Tendulkar Committee).

3. Findings

After studying and analyzing the data we found that-------------

1. The penetration of banking in Assam in general and Greater Barbhag area in particular has traditionally been very low.
2. Despite of various efforts provided by the govt. to bring a large section of the population under the ambit of financial inclusion, the approach of the people towards financial institutions are very low and this is because to open a formal a/c in the bank they have to provide lots of evidence to the banks, which they don't required to do in case of private financial agencies.
3. Even after nine years of the inception of financial inclusion programme around 70% people belonging to the marginalized class are still out of financial inclusion i.e. they are financially excluded.
4. According to the new bank law there should be one bank between 10000 populations. But, in the greater Barbhag area there are 67580 people and against them there are only four bank branches and this scarcity of banking institutions makes financial inclusion a distant goal to achieve.
5. The banks are faced with high operating cost in extending the financial services to the remote areas under the Block.
6. In the greater Barbhag area out of total population 15834 are illiterate and can handle only with the local language and this indirectly showers the level of financial inclusion in the area.
7. Unduly lower ceiling on interest rates for bank loans also encourages exclusion in that area, because the small borrowers are interested in adequate supply of credit rather than such low rates of interest.
8. The mindset of the people lacking in social concern is the basic cause of financial exclusion.
9. Despite of various measures for financial inclusion, poverty and exclusion continue to dominate the socio- economic condition of the area.

4. Conclusion

From the review of literature it is clear that the introduction of financial inclusion in India is not a reformative strategy but rightly the need of the hour. Though the govt. introduced the financial inclusion process with great enthusiasm in 2005 but even after seven years of its inception less than 40% people are under the ambit of financial inclusion. Still the policy is miles away to achieve its sole goal of achieving inclusive growth. Thus, we can say that financial inclusion in India is a matter of distant path.

5. References

i. Rangarajan Committee (2008), Report of the Committee on Financial Inclusion, Committee Report, Government of India, January.
ii. Mohan, R. (2006), 'Economic Growth, Financial Deepening and Financial Inclusion', lecture delivered at the Annual Bankers' Conference 2006, at Hyderabad on November.
iii. Kelkar, Vijay (2008), "Financial Inclusion for 'Inclusive Growth'", lecture delivered at the N.P. Sen Memorial Lecture at Administrative Staff College of India, Hyderabad, January 13.
iv. Goyal, C.K."An Investigation into Financial Inclusion among the Rural Households in Assam".
v. Census of India (2001), H Series, Registrar of Census, Government of India, New Delhi.
--- (2011), H Series, Registrar of Census, Government of India, New Delhi.
vi. Saruparia, C."Financial Inclusion for Inclusive Growth in India"
vii. Bhavani, T. A. and N. R. Bhanumurthy (2012),Financial Access in Post-reform India, Oxford University Press, New Delhi.
viii. Misra, S.K. and Puri V.K. Economics of Development and Planning –Theory and Practice.
ix. Thiriwall, A.P. Economics of Development, Palgrave Macmillan.
x. Ray, Debraj (1997), Development Economics, Oxford University Press.
xi. Records and reports of SBI Kalag and Kamarkuchi and Assam Gramin Vikash Bank Karia and Morwa and reports of Barbhag Development Block.