

## **Financial Inclusion in Odisha: An Inter-District Analysis**

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### **ABSTRACT**

Unless the growth is inclusive, the fruits of development gets limited to a small section of the population. Financial inclusion is very important if the average Indian is to be benefitted from various government policies. The focus of the government in recent years has shifted from promoting Incredible India to building Inclusive India. The paper attempts a broad look at the state of financial inclusion among all the districts of Odisha. The present study examines the financial inclusion of Odisha at the district level for the period 2001 to 2020 by taking two variables such as deposit account and number of branches. The variables chosen capture, at least broadly, the spread of the banking sector and thus the extent of inclusion or the lack of it. While the deposit account shows the use and access of banking, the spread of number of branches gives the extent of financial penetration. Indices for each variable are constructed and finally a composite index, i.e., the Index of Financial Inclusion (IFI) is taken. This is done for the period 2001 to 2020 for comparison. The study enables the entire sample space to be categorized into different financial districts class such as advanced, medium and low. An econometric analysis of financial inclusion among districts over a period under study reveals no tendency of decline in disparity among districts with respect to financial inclusion. The new strategy provides a glimpse of hope.

**KEY WORDS:** Financial inclusion, IFI, PMJDY

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Date of Submission: 07-04-2022

Date of Acceptance: 22-04-2022

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### **I. INTRODUCTION**

Since the adoption of liberalization the achievement of Indian Economy in terms of economic growth has been commendable. But there is still not enough reason to sit contented as one finds large sections of people fail to benefit from the spectacular growth India achieved. Hence the focus of the government in recent years has shifted from promoting Incredible India to building Inclusive India. Inclusive growth needs to be achieved in order to reduce poverty and other social and economic disparities, and also to sustain economic growth. In recognition of this, the Planning Commission had made inclusive growth an explicit goal in the Eleventh Five Year Plan (2007-2012). The draft of the Twelfth Five Year Plan (2012-2017) lists twelve strategy challenges which continue the focus on inclusive growth. These include enhancing the capacity for growth, generation of employment, development of infrastructure, improved access to quality education, better healthcare, rural transformation, and sustained agricultural growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long-run, it should be broad based across sectors and inclusive of the large part of the country's populace. An important aspect of inclusive growth is financial inclusion.

In recent years, Indian banking sector, spearheaded by the RBI, is grappling with the issue of financial inclusion. But it is not altogether a new exercise. Financial Inclusion was envisaged and embedded in Indian credit policies in the earlier decades also. By financial inclusion, we generally mean, a delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Rangarajan Committee defined "financial inclusion as the process of ensuring access to financial services and timely an adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". In the words of Pranab Mukherjee, the President of India, "Financial Inclusion is a key determinant of sustainable and inclusive growth, which in turn is essential for building an equitable society."

The most important step towards financial inclusion is the Pradhan Mantri Jan Dhan Yojana (PMJDY) which was launched on 28 August 2014 and on this single day 1.5 crore bank accounts were opened. This shows the accelerated efforts of the government to make financial inclusion a key goal to change lives, reduce risks, and make a broader section of the population a part of the growth process. Almost 7 crore accounts were opened up to 5 November 2014 which means one bank account being opened every 12 seconds. As on December 9, 2015, 195.2 million accounts have been opened and 166.7 million Rupay debit cards have been issued under PMJDY. By 27 June 2018, over 318 million bank accounts were opened and over and over 792 billion rupees

(US \$ 12 billion) were deposited under the scheme. As on January 27, 2021, a total number of 41.75 crore accounts have been opened under PMJDY out of which 35.96 crore accounts were operative. The objectives of the Financial Inclusion Plan (FIP) spearheaded by the RBI & PMJDY are congruent to each other.

To further strengthen the financial inclusion effort and increase the penetration of insurance and pension coverage in the country the Govt. of India has launched some social security & insurance scheme i.e. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Surakshya Bima Yojana (PMSBY) and Atal Pension Yojana (APY) in May 2015. As on December 16, 2015, 92.6 million beneficiaries have been enrolled under the PMSBY & 29.2 million have been enrolled under PMJJBY. Further, 1.3 million account holders have been enrolled under APY. As on 31 March 2019, 5.92 crore people are enrolled under PMJJBY, 15.47 crore people are enrolled under PMSBY and as on 31 March 2020 2.2 crore people are enrolled under APY.

## II. OBJECTIVES

The broad objectives of the study are three fold.

- To highlight the present status of financial inclusion in Odisha.
- To find out the variation of indices of financial inclusion for all the districts of Odisha.
- To understand the scope and coverage of financial inclusion in Odisha.
- To study the inter-district analysis of Financial Inclusion

## III. REVIEW OF LITERATURE

Dev, Mahendra (2006) describe the importance of financial inclusion in improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups and discuss a few important issues and challenges.

Dr. Rangarajan Committee on Financial Inclusion (2008) states that, “Financial Inclusion may be defined as the process of ensuring access to financial services timely and adequate credit where needed by vulnerable group such as weaker sections and low income groups at an affordable cost.” The financial services include the entire gamut of savings, loans, insurance, credit, payment, etc.

The Report on Financial Inclusion by Raghuram G. Rajan and Eshwar S. Prasad (2008) come to the conclusion that “India’s financial system is not providing adequate services to the majority of domestic retail customers, small and medium size newspapers, or large corporation.”

Sarma, Mandira (2008) has computed the values of forty-nine countries using the three basic dimensions of financial inclusion-accessibility, availability and usage of banking services where accessibility has been measured by the penetration of the banking system given by the number of the bank accounts per thousand population, Availability has been measured by the number of bank branches and number of ATMs per one lakh people.

Sharma, Ruchi (2017) analyze an inter-district approach of financial inclusion of The State Punjab. The paper computes FII by taking into consideration 3 dimension index such as banking penetration, bank availability and usage.

Chaudhry, Archana (2017) discuss an inter-district analysis of financial inclusion of Haryana. The paper uses 3 determinants i.e number of offices, total savings and loan amount for the year 2006 and 2016. The paper use IFI taken by UNDP to find the growth of financial services among districts of Odisha.

## DATABASE AND METHODOLOGY

The data which are used to study the district-wise indices of financial inclusion in Odisha are secondary in nature. For this study the basic database has been obtained from RBI Bulletin, Basic Statistical Return of RBI and Census Report. Data has been collected on all districts of Odisha. The state district wise area are obtained from <http://www.india.gov.in/sitemap.php#> website. The population data are taken from 2001 census and 2011 census. District wise data on number of deposit account and number of branches are taken from BSR.

The individual indices of financial inclusion such as index on number of deposit account per thousand population, number of number of branches per thousand km<sup>2</sup> and number of branches per lakh population can be calculated by the following formula.

$$INDEX = \frac{Actual\ Value - Minimum\ Value}{Maximum\ Value - Minimum\ Value}$$

This index is also known as Dimension index.

The Index of Financial Inclusion is measured by the normalised inverse Euclidian distance of the point (D<sub>1</sub>, D<sub>2</sub>, D<sub>3</sub>) from the ideal point (1, 1, 1). Algebraically,

$$IFI = 1 - \frac{\sqrt{(1 - D_1)^2 + (1 - D_2)^2 + (1 - D_3)^2}}{\sqrt{n}}$$

Where,

D<sub>1</sub>- Index of number of deposit accounts per thousand population

D<sub>2</sub> - Index of number of branches per lakh population

D<sub>3</sub> - index of number of branches per thousand km<sup>2</sup>

n=3 \*

Depending on the values of IFI, states and districts are categorised into three categories, viz.

1. 0.5 ≤ IFI ≤ 1 - high financial inclusion
2. 0.3 ≤ IFI ≤ 0.5 - medium financial inclusion
3. 0 ≤ IFI ≤ 0.3 - low financial inclusion

For comparing the variability of two distributions we compute the coefficient of variation for each distribution. A distribution with smaller CV is likely to be more homogeneous or uniform or less variable than the other and the series with greater CV is said to be more heterogenous or more variable than the other.

### INDEX OF FINANCIAL INCLUSION

The index of financial inclusion is a measure of inclusiveness of the financial sector of a country. Financial Inclusion takes into account the exposure of the average man to the financial sector of the economy especially with that of the banking sector. Adequate access to banking facilities is a prerequisite to such inclusion. Hence, access and use of banking services as well as the spread of Banks act as important criteria of Inclusiveness.

The present paper seeks to construct a composite index of financial inclusion by taking into consideration 3 indices such as deposit account per thousand population, no. of branches per thousand km<sup>2</sup> and Number of branches per one lakh population for all the districts of Odisha for the period 2001 to 2020.

**TABLE-(INDEX OF FINANCIAL INCLUSION FOR THE PERIOD 2001 TO 2020 OF ALL DISTRICTS OF ODISHA)**

DISTRICTS	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ANUGUL	0.32	0.31	0.32	0.3	0.3	0.29	0.28	0.28	0.28	0.27	0.29	0.28	0.32	0.27	0.27	0.27	0.27	0.27	0.27	0.27
BOUDH	0.17	0.17	0.17	0.16	0.16	0.12	0.1	0.1	0.1	0.08	0.09	0.08	0.08	0.1	0.12	0.13	0.15	0.15	0.16	0.14
BOLANGIR	0.21	0.2	0.2	0.19	0.19	0.19	0.18	0.16	0.16	0.15	0.15	0.13	0.14	0.15	0.15	0.16	0.16	0.16	0.16	0.15
BARGARH	0.19	0.18	0.19	0.18	0.18	0.19	0.18	0.16	0.16	0.18	0.18	0.14	0.16	0.17	0.17	0.19	0.18	0.18	0.18	0.17
BALASORE	0.26	0.41	0.41	0.4	0.39	0.38	0.35	0.32	0.31	0.3	0.28	0.24	0.23	0.24	0.23	0.27	0.27	0.27	0.26	0.25
BHADRAK	0.17	0.24	0.26	0.21	0.21	0.2	0.23	0.21	0.2	0.2	0.24	0.19	0.2	0.18	0.2	0.23	0.26	0.24	0.23	0.25
CUTTACK	0.62	0.6	0.62	0.6	0.6	0.58	0.59	0.53	0.5	0.51	0.49	0.47	0.44	0.47	0.46	0.45	0.46	0.43	0.43	0.44
DEOGARH	0.22	0.24	0.25	0.24	0.24	0.22	0.21	0.18	0.2	0.17	0.19	0.18	0.17	0.2	0.21	0.21	0.21	0.2	0.2	0.21
DHENKANAL	0.33	0.32	0.31	0.3	0.3	0.29	0.26	0.24	0.23	0.22	0.24	0.21	0.18	0.23	0.24	0.23	0.22	0.22	0.22	0.21
GANJAM	0.43	0.41	0.41	0.27	0.39	0.36	0.35	0.32	0.35	0.35	0.38	0.35	0.33	0.33	0.33	0.3	0.29	0.29	0.28	0.28
GAJAPATI	0.17	0.19	0.19	0.19	0.19	0.18	0.18	0.16	0.16	0.16	0.2	0.21	0.2	0.19	0.17	0.17	0.16	0.16	0.16	0.11
JHARSUGUDA	0.28	0.36	0.36	0.35	0.4	0.38	0.44	0.39	0.37	0.36	0.38	0.33	0.35	0.32	0.31	0.34	0.35	0.35	0.37	0.37
JAFUR	0.36	0.34	0.35	0.33	0.32	0.31	0.29	0.27	0.27	0.3	0.29	0.28	0.27	0.28	0.29	0.32	0.31	0.31	0.31	0.31
JAGATSingHPUR	0.35	0.55	0.55	0.52	0.51	0.5	0.47	0.41	0.45	0.43	0.46	0.41	0.42	0.42	0.42	0.43	0.42	0.42	0.41	0.41
KHURDA	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
KEONJHAR	0.21	0.21	0.22	0.21	0.22	0.21	0.24	0.25	0.28	0.27	0.28	0.22	0.25	0.23	0.23	0.23	0.21	0.21	0.2	0.2
KALAHANDI	0.2	0.19	0.2	0.19	0.18	0.15	0.14	0.15	0.15	0.14	0.15	0.13	0.14	0.13	0.11	0.1	0.11	0.11	0.11	0.09
KANDHAMAL	0.19	0.17	0.15	0.14	0.14	0.13	0.12	0.11	0.15	0.15	0.15	0.13	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.13
KORAPUT	0.17	0.19	0.19	0.19	0.2	0.19	0.18	0.2	0.24	0.22	0.17	0.12	0.11	0.13	0.11	0.11	0.12	0.12	0.12	0.11
KENDRAPARA	0.35	0.34	0.34	0.33	0.33	0.31	0.29	0.26	0.27	0.25	0.26	0.23	0.25	0.24	0.24	0.24	0.23	0.23	0.22	0.2
MALKANGIRI	0.07	0.06	0.06	0.06	0.02	0.01	0.06	0.02	0.02	0.02	0.04	0	0.02	0.05	0.06	0.05	0.04	0.04	0.05	0.04
MAYURBHANJ	0.23	0.29	0.29	0.29	0.29	0.29	0.28	0.25	0.25	0.27	0.29	0.26	0.27	0.26	0.26	0.23	0.22	0.23	0.22	0.19
NABARANGPUR	0.02	0.01	0.01	0.01	0.01	0.01	0.009	0.01	0.01	0.01	0.007	0.02	0.01	0.007	0.007	0.007	0.007	0.003	0.003	0.007
NUAPADA	0.16	0.14	0.18	0.17	0.18	0.16	0.14	0.13	0.13	0.12	0.11	0.09	0.12	0.14	0.15	0.15	0.14	0.14	0.16	0.15
NAYAGARH	0.21	0.26	0.26	0.25	0.25	0.24	0.23	0.21	0.21	0.19	0.22	0.19	0.2	0.23	0.23	0.23	0.23	0.23	0.23	0.23
PURI	0.31	0.48	0.49	0.46	0.46	0.39	0.36	0.36	0.35	0.34	0.32	0.3	0.3	0.31	0.3	0.31	0.29	0.3	0.3	0.3
RAYAGADA	0.22	0.21	0.18	0.17	0.17	0.16	0.15	0.19	0.2	0.2	0.22	0.17	0.16	0.16	0.15	0.14	0.14	0.14	0.14	0.12
SAMBALPUR	0.37	0.44	0.44	0.42	0.43	0.43	0.41	0.39	0.37	0.36	0.35	0.33	0.32	0.33	0.34	0.35	0.35	0.35	0.35	0.33
SUBARNAPUR	0.2	0.19	0.2	0.19	0.19	0.18	0.17	0.15	0.15	0.15	0.18	0.17	0.17	0.18	0.2	0.21	0.21	0.21	0.22	0.24
SUNDERGARH	0.33	0.36	0.35	0.34	0.34	0.33	0.34	0.3	0.29	0.28	0.29	0.25	0.27	0.27	0.27	0.26	0.16	0.25	0.25	0.24
AVERAGE	0.28	0.3	0.31	0.29	0.29	0.28	0.27	0.26	0.26	0.26	0.26	0.24	0.24	0.25	0.25	0.25	0.24	0.25	0.25	0.24
CV	64.1	62.36	61.89	64.31	64.29	67.23	68.11	70.63	68.78	70.58	67.61	75.57	73.56	70.98	70.62	70	71.53	70.43	70.09	73.88

Index calculated from the data for Districts of Odisha, Basic Statistical Return, Reserve Bank of India (for various years)

The above table represents the composite index of financial inclusion for all the Districts of Odisha for the period 2001 to 2020. It can be observed from the table that a few Districts are under the category of High level financial inclusion, some Districts are Medium level financial inclusion and all other are under low level financial inclusion. The District which is continuously under High level financial inclusion category for the period under study is Khurda. Cuttack is under high level financial inclusion category from the period 2001 to 2010 but after that till 2020 it is under medium level financial inclusion category. Jagatsinghpur is under High level financial inclusion category for the period 2002 to 2006 but except these years in all other years it is under medium level financial inclusion category. The District which is under Medium level financial inclusion

throughout the period is Sambalpur. Ganjam is under medium level financial inclusion category from 2001 to 2016 but after that it is under low level financial inclusion category. Jharsuguda is under low level financial inclusion category in 2001 but from 2002 to 2020 it is under medium level financial inclusion category. Kendrapara is under medium level financial inclusion category for the period 2001 to 2006 but from 2007 to 2020 it is under low level financial inclusion category. The Districts which are under low level financial inclusion are Bargarh, Bhadrak, Bolangir, Boudh, Deogarh, Gajapati, Kalahandi, Kandhmal, Keonjhar, Koraput, Malkangiri, Mayurbhanj, Nowrangpur, Nayagarh, Nuapada, Rayagada and Subarnapur. Thus, it is observed that over the period under study we observe no significant change in the performance of the Districts with regard to the IFI under study. Districts have shown a stability in their location, i.e., Districts which are High Level Financial Inclusion District remain at the high level, over time while the Districts which are medium level financial inclusion District at medium level and the Districts which are low level financial inclusion District remain there. In short, there is no evidence of any trend towards greater inclusion with respect to the IFI over study over our chosen time period. The above table also depicts the inter-district disparity increases if we compare 2001 with 2020 that means only few districts performs better and we can't say Odisha is performing better in terms of financial inclusion or Odisha is on the way to achieve inclusive economic growth.

#### **IV. CONCLUSION**

The present paper concludes there is no significant change in the performance of districts with regard to the parameters under study. In almost all the parameters no significant change in the performance of districts is observed. The paper also finds that over the period under study there is no significant change in the performance of the districts with regard to the IFI. Districts have shown a stability in their location, i.e., Districts which are High Level Financial Inclusion remain at the high level, over time while the Districts which are medium level financial inclusion remain at medium level and the Districts which are low level financial inclusion district remain there.

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Mamatamayee Guru, et. al. "Financial Inclusion in Odisha: An Inter-District Analysis." *International Journal of Humanities and Social Science Invention (IJHSSI)*, vol. 11(04), 2022, pp 51-54. Journal DOI- 10.35629/7722