

Financial Inclusion of Indian States: An Empirical Analysis

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Financial inclusion is one of the most important policies for economic development. India has also taken measures to accelerate financial inclusion. This paper, incorporating data on traditional and modern banking services as well as data related to transactions of Self-help Groups (SHGs)- linked with banks, re-examines the position of different states in terms of financial inclusion. Researchers have used modified version of Sarma's (2008) multidimensional index and Principal Component Analysis (PCA). Formal banking services have been found to be the main factors in including the financially excluded. Most states have achieved a low rate of financial inclusion. Western, southern and some northern states have done better, whereas north-eastern states have lagged behind.

I Introduction

Financial inclusion means delivery of financial system of an economy to its citizens. The Government of India's Committee on Financial Inclusion in India defines financial inclusion 'as the process ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost' (Rangarajan Committee, 2008). Since most of the financial services are coordinated through banks, we can approximate financial inclusion by banking inclusion. In fact, Leeladhar (2005) defined financial inclusion as 'delivery of banking services....' In the context of banks, financial inclusion concerns spread of banking activities among different sections of the population. There are three dimensions of financial inclusion: a. access to formal and semi-formal financial institutions, b. access to affordable credit and c. monetary advices. While these three dimensions are important for India as well, a significant part of bank credit should be directed towards priority sectors such as agriculture and economically backward sections. It is also necessary to ensure that persons belonging to low income groups do not face difficulty in opening bank accounts because of procedures involved in the process.

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