FINANCIAL INCLUSION IN NORTH EAST INDIA: AN ANALYTICAL STUDY

E. Thangasamy, Research Scholar, Department of Commerce, Nagaland University, Lumami, Email: nu.thangasamy@gmail.com (M) 9089244909/9856232081

ABSTRACT - Financial Inclusion is an instrument to involve all the sections of society equally for the achievement of inclusive growth. It paves the way, in providing financial help to the marginalized people, to improve their living standard. The importance of financial inclusion has been engaging the attention of the policy makers internationally. Several countries across the world now have started looking at financial inclusion as the means for more comprehensive growth. It is the process of ensuring access to appropriate financial products and services needed by all members of society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players. India is not an exception in accelerating its efforts to further the goal of financial inclusion whereas the RBI acts as a facilitator in regulating the establishment and monitoring the financial services being provided by the banking sector to the people. However, the slow progress of inclusive financing, especially in the North East India, draws due attention of the policy makers to improve its status and performance.

The objective of the paper is to examine the current scenario of financial inclusion in North East India and highlight major challenges and bring about suggestions to improve its growth in the days to come.

Key words: Financial Inclusion, financial products, financial players, institutional players

I.INTRODUCTION

The term ‘Financial Inclusion’ or ‘Inclusive Financing’ refers to the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It is the process of ensuring access to appropriate financial products and services needed by all members of society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players. The unrestrained access to public goods and services is, therefore, the sine qua non of an open, well-organized and prosperous society. While deliberating on financial inclusion, there have been arguments, among the educationists and researchers, over the availability of banking and payment services to the entire population without discrimination which have therefore become the prime objective of public policies. This is because the banking services are in the nature of public good. Since the early 2000s, the inclusive financing has gained importance and found that it has a direct correlation to poverty alleviation.

Keeping the principle of equity and inclusive growth in view, the concept of financial inclusion has been drawing the attention of policy makers worldwide. Indeed, achieving universal financial inclusion is a global objective which has multiple dimensions. These dimensions include (i) measurement of progress in financial inclusion initiatives by way of building up suitable indicators, (ii) understanding the constraints or barriers for financial inclusion and development of indicators, (iii) collection of transactional data on amount of credit extended, deposits placed, remittances made to gauge the effectiveness of the financial inclusion initiatives, and (iv) diverse data to be pooled and benchmarked at international level. Now, several countries across the world have started realizing the importance of financial inclusion and looking at this process as the means for more comprehensive growth. This growth can become attainable when each citizen of the country is able to use his/her earnings as a financial resource that they can put to work to improve their financial status and simultaneously contribute to the nation's progress. Thus, financial inclusion has become one of the primary objectives for many central banks among the developing countries across the globe.

The share of brick-and-mortar network of branches in India with a total of more than 93,000 branches remains at 36 per cent. According to RBI statistics, all commercial banks in the country had a total network of 93,080 branches at the end of March 2011. Of them, 33, 602 were established in rural areas. In such a situation, most banks prefer using a business correspondent (BC) model for expanding their network in the un-banked areas in the country. The BC units were found doubled during the year, 2011. Of the more than 1.07 lakh villages that came under banking network during the year, 84,274 were covered through BCs till June 2011. This was just 32, 684 villages at the end of March, 2010. It was not that brick-and-mortar model was given a go-by during the year. More than 1,300 brick-and-mortar branches were opened in the un-banked villages of the country in 2011. Other channels like mobile vans made a huge jump from mere 99 in March 2010 to more than 460 during the year, 2010-2011.

II. SIGNIFICANCE OF INCLUSIVE FINANCING

The Financial Inclusion is not only a road map for accessing banking services but also a pre-requisite for inclusive growth and development of a region. This helps the people to improve their income, quality of life and social wellbeing as a whole. There is an enormous banking potential which needs to be exploited positively for ensuring the deliverable financial services in a cost effective manner.

Thus, the principal objectives of inclusive financing include;

Extending formal banking system among less privileged in Urban and Rural India.Weaning them away from unorganized money markets and money lenders, andEquipping them with confidence and making them aware of financial decisions.

The process of inclusive financing, in general, focuses mainly on the following four key products;

- Recurring Deposit Product

- A Remittance product
- Entrepreneurship credits, and
- A pure savings product with inbuilt overdraft facility

III. CURRENT SCENARIO OF FINANCIAL INCLUSION IN INDIA AND NORTH EASTERN REGION

Financial Inclusion has attracted the bankers in India owing to multifarious factors. This includes that almost half of the population does not have deposit accounts in banks. Similarly, less than 10 per cent have loan accounts with banks. Here, it can be witnessed that the extent of financial exclusion is staggering. However, some changes in these depressing numbers are underway. India has, however, ambitious plans to bring everyone under the formal banking network within the next five years. It seems to have made rapid strides in the past year for covering the villages under the financial inclusion programme. At present, at least one-sixth plus villages in the country have a channel to access banking network. The number of villages under the formal banking network, which was around 54,000 in March, 2010, doubled in a span of one year. At the end of June, 2011, the banks in the country had already covered nearly 1.07 lakh villages under the financial inclusion programme. Financial exclusion status also required to be studied for promoting our comprehension of the issue in the present context.

During the period, 2010-2011, the status of financial inclusion is as under in Table 1;

TABLE 1*: Financial Inclusion in India: A Snap Shot*

Particulars	March, 2010	March, 2011	June, 2011
Total Villages covered	54258	100183	107604
Through Branches	21475	22662	22870
Through BCs	32684	77138	84274
Through other modes	99	383	460
Urban locations through BCs	433	3757	4524
No-frill accounts (in crore)	4.93	7.39	7.90
No-frill accounts (in crore)	4257.07	5702.94	5944.73
No-frill account with overdraft (in lakhs)	1.31	6.32	9.34
No-frill account with overdraft (amount in Rs. crore)	8.34	21.48	37.42

Source: RBI Report, 2010-2011

Table 1 indicates in the backdrop of this status of financial inclusion in India that North Eastern Region has been drawing the attention of bankers unprecedently. While only 433 urban locations in the country were covered by BC in March 2010, it increased to 4,524 locations in June, 2011. Most banks have been taking advantage of tapping the potential of un-organized sector such as street vendors and slum-dwellers. North-Eastern India still remains as one of the complex challenges for financial inclusion. The main reasons are: difficult terrain, lower population densities, poor infrastructure, inadequate communication facilities and law and order problems. In 2011, there were 3,250 villages in the North-Eastern Region falling into the category of population of above 2,000 with no-banking facility. Of these, 1,031 villages were covered by banking channels at the end of September 2011.

From the financial inclusion point of view, the region covers 8 per cent of the geographical area of the country which accounts for 3.9 percent of the population and 2.7 per cent of the all-India Net Domestic Product (NDP). The gains of the rapid growth witnessed in the Indian economy during the last two decades have not reached this region in an equitable manner. In fact, the banking development in the NER was, only a post-nationalization phenomenon. Prior to nationalization of banks in 1969, no bank branch of commercial banks existed in Arunachal Pradesh and Mizoram. Only two branches of commercial banks served the entire States of Manipur and Nagaland. Assam, however, with tea and oil industries was historically better served by banks among the States in the region. Since nationalization of banks in 1969, a remarkable progress was made in the banking development both geographically and demographically. Though starting from a low base, the branch network of commercial banks expanded significantly in the North Eastern States. However, the banking development in the region is still lagging far behind all other states in India. Even within the region, the inequalities in availability of banking services are found to be very wide and glaring. Credit to Net State Domestic Product (NSDP) ratio ranges from 9 per cent in Nagaland to 41 per cent in Meghalaya and is lower than the national average of 62 per cent. The ratio of Current and Savings accounts of the banking sector per 100 adult population ranges from 19.5 per cent in Manipur to 40.9 percent in Meghalaya. The regional average is 37.3 per cent which is distinctly lower than the national average of 59.2 per cent. The Credit /Deposit ratios of commercial banks excluding regional rural banks varies between 14 percent in Arunachal Pradesh and 29 per cent in Meghalaya as compared to the all India level of around 60 per cent as at the end of 2008. All these banking development indicators show the slow progress of banking and resultant low level of financial outreach in North Eastern States.

Table 2 shows the major indicators of the financial exclusion in North Eastern States as on 01st April, 2010, taking only one year (2009-2010) into account;

TABLE 2: ***Financial Exclusion in North Eastern States – Major Indicators as on 1st April, 2010***

States	**Bank Branches (Number)**	**Population per Branch (Number)**	**Bank Branches per 1000 Sq.km.**	**C-D Ratio**	**Ratios of Deposit and Credit Accounts to Population**	**Per Capita Deposits and Credit (Amount in Rs.)**

						2009-2010			
	Total	**Rural**				**Deposit**	**Credit**	**Deposit**	**Credit**
Arunachal Pradesh	80	51	17.282	1	27	37.7	4.1	29843	8218
Assam	1,477	791	21,103	19	36	36.8	4.2	15590	5892
Manipur	81	35	33,602	3	41	18.1	2.7	9917	4170
Meghalaya	213	126	13,916	9	26	30.9	3.9	25785	6605
Mizoram	98	54	11.133	4	24	29.7	5.4	20525	10916
Nagaland	90	37	22.007	5	30	24.3	4.6	21140	6406
Sikkim	74	48	8,252	10	37	56.9	7.2	51361	19188
Tripura	192	114	19,120	22	25	46.2	8.3	20319	5999
NER	**2,342**	**1256**	**19,465**	**9**	**35**	**39.8**	**4.9**	**16879**	**6255**
All-India	**86.960**	**32,627**	**13,916**	**26**	**73**	**60.7**	**9.8**	**37688**	**27642**

Source: Report on Expanding Financial Inclusion in the North Eastern States by Justice K. S. Hegde Institute of Management, NITTE, Karnataka

Table 2 apparently exhibits that there is an imperative need for accelerating the spread banking in this region to make it compatible with the rest of the country. Banking development, however, cannot takeplace in isolation. As the geographic peculiarities have also been contributing to the tardy progress made by the banking sector, the necessary conditions for development have to be created through planned investments. The banking sector also has to formulate a specific programme for enhancing its presence in this region.

As on 01.04.2012, according to the report of the Ministry of DONER, the decadal growth and major indicators of the financial exclusion in North Eastern States during the period, 1991-2001 and 2001-2010 are presented in Table 3;

Table 3: ***Financial Exclusion in North Eastern States – Major Indicators as on 01st April, 2012***

States	**Population per Branch (Number)**	**Percentage of rural branches**	**Average Annual Growth rates in Deposits and Credit Amounts and C-D Ratios (Percentage)**					
			Deposit		**Credit**		**C-D Ratio**	
			1991-2001	**2001-2010**	**1991-2001**	**2001-2010**	**1991**	**2010**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Arunachal Pradesh	17282 **(16936)**	63.8 **(81.2)**	15.4	24.4	8.1	34.5	28	27
Assam	21103 **(21803)**	53.5 **(64.5)**	16.2	19.7	11.2	21.7	50	36
Manipur	33602 **(31618)**	43.2 **(55.9)**	14.9	20.7	8.3	23.1	72	41
Meghalaya	13916	59.2	15.8	22.6	12.9	31.5	22	26

	(13687)	**(71.8)**						
Mizoram	11133 **(11707)**	55.1 **(77.2)**	14.4	19.1	12.8	27.2	28	24
Nagaland	22007 **(30360)**	41.1 **(52.1)**	15.4	19.4	1.7	27.7	44	30
Sikkim	8252 **(NA)**	64.9 **(76.6)**	18.9	20.0	6.0	21.1	68	25
Tripura	19120 **(18274)**	49.8 **(65.6)**	NA	20.3	NA	34.4	14	37
NER	**19465**	53.6 **(65.6)**	**16.2**	**19.8**	**10.2**	**22.5**	**47**	**35**
All-India	**13916**	38.1 **(48.2)**	**16.8**	**18.9**	**15.8**	**21.9**	**62**	**73**

Source: Report of the RBI Committee on Financial Sector Plan for NER, 2012

Table 3 shows that the North Eastern Region (NER) has more population per branch (i.e. 19465) as compared with the population at All India level which is having only 13,916 only. Likewise, percentage of rural branches is also higher in the region as indicates as 65 percent against the percentage of 48.2 per cent at All India level comparatively. The C-D ratios, however, indicate that there is a decline ranging from 47 to 35 in the region whereas there is an increase at All India level as it shows 62 percent in 1991 and 73 in 2010. Further, it is also noticeable amongst the States that the C-D ratio is the highest in Manipur indicating the annual growth rate of 41 percent whereas the State of Mizoram accounts for the lowest ratio indicating 24 per cent. The State of Manipur appears to have been maintaining its status quo of the financial inclusion at it is clear from the highest C-D ratios at the rate of 72 per cent and 41 per cent in 1991 and 2010 respectively.

IV. MAJOR CHALLENGES OF FINANCIAL INCLUSION

- Branches of Banks are being established across the nations with all attractive financial services but bringing the prospective customers on board requires an intensive consumer education on the products on offer. This can be a herculean task on the part of the banks to initiate and monitor such programmes.
- Identifying the information gap across the consumer segments, banked and unbanked and formulating appropriate strategies to satisfy the target segments.
- Improvement of domestic savings rate among the people.
- Expansion of the geographic and demographic reach poses challenges from the viability perspectives.

V. FINDINGS OF THE STUDY

Major findings emerged from this study are presented as under**;**

- There is slow progress of banking and resultant low level of financial outreach in North Eastern States.
- As the geographic peculiarities have also contributed to the tardy progress made by the banking sector in the North Eastern Region, the necessary conditions for development have to be created through planned investments.
- The North Eastern Region (NER) has more population per branch (i.e. 19465) as compared with the population at All India level which is having only 13,916 only. Likewise, percentage of rural branches is also higher in the region as indicates as 65 percent against the percentage of 48.2 per cent at All India level comparatively. The C-D ratios, however, indicate that there is a decline ranging from 47 to 35 in the region whereas there is an increase at All India level as it shows 62 percent in 1991 and 73 in 2010. Further, it is also noticeable amongst the States that the C-D ratio is the highest in Manipur indicating the annual growth rate of 41 percent whereas the State of Mizoram accounts for the lowest ratio indicating 24 per cent. The State of Manipur appears to have been maintaining its status quo of the financial inclusion at it is clear from the highest C-D ratios at the rate of 72 per cent and 41 per cent in 1991 and 2010 respectively.
- There is an imperative need for accelerating the spread banking in this region to make it compatible with the rest of the country.
- Lack of financial literacy and awareness/understanding of financial products among the prospective customers do continue to remain an issue in the region.
- C-D ratio is poor in the region comparatively within the country.

VI. SUGGESTIONS AND RECOMMENDATIONS

- The banking sector also has to formulate a specific programme for enhancing its presence in this region.

- Infrastructure with adequate communication network will certainly enhance the access of these financial services by the prospective customers.

- Greater focus on the micro and distributional dimensions may promote the growth of financial inclusion in the region.
- The banks may attempt to achieve at least 60 per cent in respect of their rural and semi-urban branches in the region. They should also try to minimize disparities across the regions, if not eliminated.
- Savings in the NER shall be invested within the region. Respective State Governments and Banks may join hands and work together to attain the goal.

CONCLUSION

Realizing the importance of financial inclusion, every State in the North Eastern Region has to strive hard and cooperate with the Banks in formulating appropriate strategies to overcome the challenges while matching the demand and supply side of financial services. While preparing the Annual Branch Expansion Plans (ABEP) for unbanked rural areas, the prospective customers shall be made aware of the financial literacy for easy access to the financial products on offer. North Eastern Council (NEC) shall come up with viable plans for infrastructural and communication development, along with adequate facilities, within the framework of RBI. This will undoubtedly ensure the presence of more banks and better quality of financial services at an affordable costs to the disadvantaged sections in the region. These efforts will definitely serve the broader goals of the Governments within the region to alleviate poverty in particular and the entire country in general. In conclusion, it can be inferred that the financial inclusion is not an obligation but an opportunity for all in the North Eastern Region.

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