Linkage between Effectiveness of Financial Inclusion Drive
And Performance of Rural Development Programs

A-Case Study of Chamarajanagara District

CHAPTER --I

Introduction

Karl Marx was right, economic development (... invariably) under a capitalist mode of production seems inevitably to be associated with increasing inequality and economic exclusion. The poorest people are marginalized, and are excluded from the benefits of growth; they become poorer, not only relatively, but often in absolute terms as well. (Malcolm Harper 2009).

In the process of high economic growth trajectory, there is an indispensable need for the participation of all sections of society. Lack of accessibility of finance to small and marginal farmers and weaker sections of society has been recognized as a serious setback to economic progress particularly in India. Moreover, a continuous and persistent deprivation of banking sector services to a large segment of the population has the potential instrument for social tension and causing and social economic exclusion.

The Indian economy was in crisis in 1991 due to depletion in foreign exchange reserves, inflation peaked at 16.7 percent and GDP growth has declined sharply to one per cent. In order to overcome these crises, strong and substantial reforms were undertaken, resulting shift in the development paradigm of the country. The post 1991, the Narasimhan Committee Report-I set the framework for reforms in the financial sector. The committee emphasized moving towards a vibrant and competitive financial system to sustain the ongoing reforms in the structural aspects of the real economy.

According to Ross Levine June 1997, financial development and economic growth is a metamorphosis and the flow chart is given below, represents the linkages and the transmission mechanism through which finance and economic growth are linked.
Theoretical Approach to Finance and Growth

Market Frictions
- information costs
- transaction costs

Financial Markets and Intermediaries

Financial Functions
- mobilize savings
- allocate resources
- exert corporate control
- facilitate risk management
- ease trading of goods, services,
  Contracts

GROWTH

Theoretical perspective

In the process of Economic Planning and development the **trickledown theory** was expected that women will equally benefit along with man, this has been belied by actual development. **Prof Kuznets** was the first economist to study the income distribution empirically. He observed that in the early stages of economic growth relative income inequality increases, stabilizes for a time and then decline in the later stages. This is known as the inverted U-shaped hypothesis of income distribution.
Traditional economic theory deals with inter-relationship between finance and economic development. This part of economic theory has evolved from past 150 years. The classical theory of economic growth had examined the significance of an investment function in commencing and increasing the rate of economic growth, but it has not dealt with the different sources of finance available in capitalist economy.

Adam Smith (1776, 1998) had expressed the view about the significant and crucial contribution of high density of banks in Scotland for invigorating and stimulating development of the Scottish economy.

For the first time Joseph A. Schumpeter (1912, 1992) has analyzed the role of commercial banks in financing economic development. One of his hypotheses is an entrepreneur’s use of bank credit to finance innovations, is empirically found true. The Schumpeter theory of economic development lays foundation for bank financing for corporate enterprises. It does not deal with the need for and significance of financing individuals, particularly those who are poor, to come out of their poverty through self-employment activities. In the early 20th Century, Joseph A. Schumpeter contends that technological innovations and their successful implementation is prompted and stimulated by well-functioning banks. More specifically Schumpeter argued that creation of credit through the banking system is an essential source of entrepreneur’s capability to drive real growth by funding and employing new combination of factor use.

Empirically, in the Indian context, Bell and Rousseau (2001) have analyzed how financial intermediaries in India have played a leading role in influencing its economic performance. Financial sector, among other things, not only lead to promoting aggregate investment and output in attaining finance led industrialization.

The institutional credit for agriculture and allied sectors has been a continuous phenomenon of an increasing the production and employment in India. The several policies and programs have also been working towards enhancing the economic activities in rural development. In spite of numerous efforts by governments and institutional efforts, half of the India is not utilizing of formal financial services and half of them are in un-banked regions. There is about 55 per cent of the population have deposit accounts, and as low as 9 per cent have also credit accounts with banks. Moreover, the population and bank ratio is approximately one Bank Branch for
14,000 people. Out of 6 lakh villages in India rural branches of Scheduled Commercial Banks including Regional Rural Banks numbered around 33,495, which comprised of only 5.58 per cent coverage of villages. Another important indicator that only 20 per cent of population has access to Life Insurance Corporation and only 9.6 per cent of the population has non life insurance coverage. Just 18 per cent had the debit cards and less than 2 per cent has credit cards (Financial Inclusion: Dr. K.C. Chekravarthy, Deputy Governor, RBI, and September 2011).

Financial inclusion has multiple dimensions credit, savings, financial services, financial capability, financial education which are expected to influence penetration and percolation of wide coverage among the different sections of society and in turn contribute to enhance production, employment, and income. Credit delivery has been a significant priority of Reserve Bank of India. In this pursuit, formal credit facilities have been expended by Scheduled Commercial Banks, Cooperative Banks and Regional Rural Banks etc. The challenge of Financial Inclusion is to covering all sections of society under umbrella of financial transaction activities of Financial Inclusion Plan of Banks. The importance of Financial Inclusion Plan and expanding the scope of business correspondent model are improving credit delivery procedures of small, medium, and large farming communities and micro small enterprises and the use of information technology and communication solutions. The Indian Bank’s Associations revised the guidelines on the priority sector lending were issued on July 20, 2012, in which overall target under priority sector is retained at 40 per cent and targets for both direct and indirect agricultural lending have also been kept unchanged.

The flow of credit to agriculture sector is concerned a target of Rs 4,750 billion for agriculture credit in 2011-12 was announced in the Union Budget. Against this target banks including cooperative banks and RRBs disbursed to the extent of rupees 5,110 billion accounting the government has fixed a target of Rs 5,750 billion for distribution to agriculture by all agencies. Banks have also been asked to step up direct lending to agriculture and credit to small and marginal farmers.

NSSO data represent that 45.9 million farmer households in the country, 51.4 per cent out of 89.3 million households do not has access to credit, either from institutional or non–institutional sources. The main reason for financial exclusion is
the lack of a regular or substantial income. The financial inclusion is characterized primarily as either general access to loans or access to savings

**History of Strategies for Inclusive growth and Financial Inclusion in India.**

**Phase I. 1960 – 1980**
- Social Control of Banks 1960
- Nationalization of Banks (14 P C B) 1969
- Lead Bank Scheme - 1969
- Priority Sector lending stipulation by RBI 1972
- Setting up of Regional Rural Banks 1975

- Integrated Rural Development programme/ SGSY promoted by Govt. of India.
- Micro finance program – SHG – Bank Linkage facilitated by NABARD.

**Phase III. 2005 onwards**
- Development of MFIs.
- Financial Inclusion in a “mission” mode.

**Financial Inclusion Concepts and Definitions**

Financial inclusion refers to a process that ensures the ease access, availability and usage of the formal financial system for all members of an economy.

- It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.
- An inclusive financial system can help reduce the role of informal sources of credit (such as money leaders) which are often found to be exploitative.
- The importance of an inclusive financial system is widely recognized in the policy circles and become a policy priority in many countries, including India

**Leyshon and Thrift (Ford and Rowling son 1995),** defined financial inclusion as the processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. According to **Sinclair** (2001),
financial exclusion means the inability to get to access necessary financial services in an appropriate form. Exclusion can be about the problems related to access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. Kempson and Whyley it is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to low level of access to the financial system. A review of literature suggests that there is no universally accepted definition of financial inclusion. While measuring inclusion is perceived to be difficult, financial inclusion is generally defined in terms of exclusion from the financial system. Early discussion on financial exclusion was preceded by social exclusion and focused predominantly on the issue of Geographical access to financial services in particular banking outlets. However, financial exclusion is not just about physical access caused by the changing topography of financial services. Therefore, the debate has now broadened to include all types of people who make little or no use of financial services and the process of financial exclusion.

The definitional emphasis of financial inclusion varies across countries and geographical, depending on the level of social, economic and financial development, the structure of stake holding, in the financial sector, socio-economic characteristics of the financially excluded segments, and also the extent of the recognition of the problem by authorities or government, broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate from due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experience or perceptions of individual/entities.

Definitions of financial exclusion in the literature depend up on the dimensions such as “breadth” focus and ‘degree’ of exclusion. The ‘breadth’ dimension is the broadest of all definitions linking financial exclusion to social exclusion, which defines financial exclusion as the process that prevents poor and disadvantaged social groups from gaining access to the financial system, the focus of dimension is in the middle of the spectrum that links financial exclusion in accessing mainstream financial services such as bank accounts/home insurance.

The definitions laying emphasis on the ‘focus’ to include various segments of population such as individuals, households, communities and business. The “degree”
and dimension, which is the narrowest of all definitions of financial exclusion, defines financial exclusion as exclusion from particular sources of credit and other financial services including insurance bill payment services and accessible and appropriate deposit accounts.

The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services. The focus narrows down mainly to the products and services provided by the mainstream financial service providers. Such financial products may include money transmission, home insurance, short and long-term credit and savings.

Furthermore the operational definitions have also evolved from the underlying public policy concerns. There are many people, particularly those living on low income, cannot access mainstream financial products such as bank accounts and low cost loans, which in turn, imposes real costs on them vulnerable people.

The review of literature suggests that the most operational definitions in the context – originating from country specific problems of financial exclusion and socio-economic conditions. Thus, the context-specific dimensions of financial exclusion assume importance from the public policy perspective. Further more, the definitions with a shift in emphasis from the earlier ones. This defined financial inclusion and exclusion largely in terms of physical access to a wider coverage and access to product and Services

According to World Bank Report (2008), this report defined as the financial inclusion is defined as in absence of price or non price barriers in the use of financial services. It recognizes that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some transaction fee. It makes the point that credit worthiness of the customer is critical in providing financial services. Access essentially refers to the supply of services, whereas use is determined by demand and supply.

According to C. Rangarajan (January 2008), this committee suggested that there is an increasing gap with an increased range of personal finance options for a segment of high and upper, middle income groups, and significantly large sections of population who lack access to even the most basic banking services. This is termed as
‘financial exclusion’. These people mainly living on low income, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities etc,. A basic no frills banking account for making and receiving payments, a serving product suited to the pattern of cash flow of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposive insurance etc. Banking technology transformed into the channels like Automated Teller Machines (ATMs) credit/ debits cards internet banking, online money transfers etc. The technology is also restricted to certain segment of society and it has increasingly sophisticated customer segmentation, which create targeting sections of the market and leading to restricted access to financial services for the some groups.

Dr. C. Rangarajan (2008) According to the committee on Financial Inclusion “The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings products suited to the pattern of cash flows of a poor household, money transfer facilities, insurance (life and non –life) etc”.

Raghuram Rajan Committee (2007), according to this committee on “Financial Inclusion broadly defined as universal access to a wide Range of financial services at a reasonable cost. These include, not only banking products but also other financial services such as insurance and equity products” etc.

Chekravarty K .C (2011), in his defined on “Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated main stream institutional players”

Lee ladhar (2005), in this definition financial inclusion is the delivery of banking services at an “affordable cost” to the vast sections of disadvantaged and low-income groups.
Usha Thorat (2007), this definition expressed on Financial inclusion is the delivery inclusion we mean the provision of “affordable” financial services, (access to payment and remittance facilities, savings, loans and insurance services) by the formal financial system to those who tend to be excluded.

Rakesh Mohan (2006), in his definition The lack of access by certain segments of the society to “appropriate” low cost, fair and safe financial products and services from main stream providers.

Pranab Mukherejee said that financial inclusion is necessary for economic growth. Out of the six-lakh habitats, only 13 per cent have debit cards and 2 per cent carry credit cards. The facilities like issue of General Purpose Credit Cards (GCCs), small doses of overdraft, loans, and savings, Electronic Benefit Transfer (EBT) payments for National Rural Employment Guarantee Scheme (NREGS) and other government schemes and Micro insurance are being initiated.

Reserve Bank of India also defined the financial inclusion that implies the provision of financial services like credit card, remittance, and overdraft facilities, for the rural poor. Financial inclusion helps to increase credit deposit ratio, encroach of unbanked areas, opening branches in those areas and to improve adequate flow of credit to agriculture, micro Small Medium enterprises, handicrafts, and handloom sectors, were cited as areas of concern and more loans to farmers.

The intend of financial inclusion, the RBI in 2005 advised the banks to make available a basic banking No-Frills (NF) account with low or nil minimum stipulated balances and charges. These NF Accounts, similar to savings accounts of banks were to improve the outreach of the financial services to vast sections of the population.

Physical Access Barriers can be overcome by Technology: the density of branches in relation to population can provide a first crude indication of Geographic access or lack of physical barriers to access (Beck, Demirgue – Kunt, and Martinez Persia 2007 b). As in the case of usage, Geographic access varies greatly across countries. Less developed country like Ethiopia has less than one Branch per 100,000 people. While Spain has nearly one for every 1000 people, similarly 79 Branches for every 1,000 Square kilometers, while sparsely populated Botswana has one branch for every 10,000 square Kilometers. ATM penetration rather than branch penetration
shows an even wider dispersion in geographic access. These indicators are only crude proxies for Geographic access, however, since branches and ATMs are never distributed equally across the country but are clustered in cities and some large towns. A better measure would be the average distance from the household to the branch or ATM, but these data are available for very few countries, nevertheless, The branch and ATM density figures are highly correlated with aggregate loan and deposit accounts per population and the synthetic headline indicator introduced above, suggesting that they do contain relevant information.

A focus on branches and ATMs ignores other delivery channels that have gained importance over the past decades, among these are non-branch outlets, such as correspondent banking agreements, where bank services are sold by non-financial corporations on behalf of the banks and mobile branches, where trucks drive through remote areas providing financial services at a scheduled interval. Phone finance allows clients to do financial transactions such as payments or even loan applications over the phone. Electronic finance (e-finance) allows clients to access services through the Internet while correspondent bank agreements and mobile branches have helped to extend geographic outreach of financial institutions in many countries, phone and e-finance have been introduced primarily to reduce transaction costs for already existing customers and to make. Service delivery more effective for financial institutions, any of these delivery channels, however, can reduce the costs of access and thus potentially increase the use of financial services.

While no cross-country data are available on the importance of these different alternative delivery channels, a recent Bank- level survey asking banks whether they accept loan applications in non branch bank outlets, over the phone or over the Internet, Beck, Demirgue – Kunt, and Martinez Peria (2007) find a large variation across countries. According to survey- bank customers in Australia, Chile, Denmark, Greece, South Africa, and Spain can submit their loan applications in non branch outlets, over the phone or over the Internet. At the other extreme, loan applicants in Armenia. Ethiopia., Nepal, Sierra Leone, Thailand, Uganda, and Zambia have to travel to bank head quarters or a branch to submit their loan application. While these measures are of course not the only or even the most important determinant of access, it is notable that Chile for example has 418 loan accounts per 1000 people and Thailand has only 248.
Affordability barriers of Fee and minimum Balance:

Physical access and documentation are important barriers of affordability. Standards bank Account charges seem absurdly high when related to average national per capita GDP. To open a checking (transactions) account in Cameroon, a person needs more than $700 an amount higher than the per capita GDP of the country on average, in an average 10 percent of the countries sample, an amount equal to at least 50 percent of per capita GDP is necessary to open a checking account.

The cost to the customers of maintaining these accounts varies widely as a percentage of average per capita GDP. In Uganda the figure is 30 percent, whereas customers in Bangladesh pay no annual fee. There are 229 deposit accounts for every 1000 people in Bangladesh, but only 47 for every 1,000 people in Uganda obviously much of the cross-country variation here reflects the fact that bank charges do not vary across countries as income does, imposing a much greater burden on individuals in poor countries and to get access more difficult. Higher minimum balances to open and maintain Bank accounts and higher annual fees can constitute barriers for large parts of the population in the developing world, checking accounts also often come as expensive package with costly overdraft facilities that can easily be incurred accidentally by those with low and volatile incomes, resulting in great risks.

Assuming that somewhat arbitrarily that poor people cannot afford to spend more than 2 percent of their annual income on financial services, just the fees on checking accounts, can exclude more than 50 percent of the population in some African Countries such as Kenya, Malawi and Uganda from having a bank account.

Payment services for paying bill and sending domestic or international money transfers are an important service for many low-income households, but again these services are too costly in many countries. For example the cost of transferring $250 internationally a typical amount of remittance is 5-10 percent of this amount for half of the sample countries and varies from 30 per cent in Belgium to $50 in the Dominican Republic. The fee associated with. ATM transactions are also above 40 per cent in Pakistan and Nigeria and average 10 percent across countries, while the use of ATMs is free in 50 percent of sample countries.
Theory and measurement of inclusive growth in Indian context:

The nationalization of Banks in 1969 and subsequent Developments led to expansion of the Geographical and functional reach by Commercial Banks, Regional Rural Banks, (RRBs) and Co-operative Credit Institutions. Public Policy aimed at “Social” (social control) and Development Banking by meeting Rural Credit needs and reducing the role of informal sector credit. It may be noted that despite the vast expansion, a large number of groups remain excluded from the opportunities and services provided by the Financial Sector. The excluded groups include small and marginal farmers, women, unorganized sector workers including Artisans, the SCH employed and pensioners.

Recent Experience and Challenges Ahead:

Inclusive growth is not a exclusively new idea defined in the eleventh plan. As Growth process yields broad based benefits and ensures equality of opportunity for all. It stands for “Equitable Development” or “Growth with social justice” which have always been the watch words of Development planning in India. Since inclusive growth” is so widely used in these days by the reputed multilateral institutions as well as the policy makers in India, one wonders whether this usage acquires a special significance. In the present context, it does the belief that there is a significant “Trade off” between growth and equity does not seem to be as wide spread now as before. There is genuine and wide spread recognition about the adverse social consequences of rising inequalities in the recent high growth phase, which do not seem to be mitigated through the so called “trickle down” mechanism.

For about three decades from the early 1950s to the early 1980s, when the country was experiencing a slow, or the so-called “Hindu” rate of growth. The concern for accelerating GDP growth itself was uppermost. Apart from ensuring equity, did arise in the wake of growth. Then but were not as prominent as in the recent phase of accelerated growth with the GDP growth rate rising to 7 to 8 per cent Rural - Urban divide, Regional divide and rich - poor divide became glaring, which brought “inclusive growth” high on the policy Agenda.
The Issues of Inclusive growth

It is not inevitable that growth in GDP should lead to a rise in inequalities in income whether before or after the reforms, much depends on the level and spatial distribution of physical infrastructure, Human Resource Development, prevailing social structure, social policies and Governance pattern. Therefore, the sharp rise in inequalities in the post-reform period cannot be attributed to economic reforms as such rather they can be traced to the initial conditions obtaining in the pre-reform period itself. In China land reforms were successful and infrastructure development was high in the pre-reform period. There was a rapid reduction in poverty following economic reforms and acceleration in GDP growth (Rao 2005), even though inequalities in income started rising. The quality of reform package is of course important. It has to make good the infrastructural and other gaps inherited from the pre-reform period. It should also be effective in coping with the adverse social consequences that predictably result from the implementation of reforms under the given unfavorable initial conditions.

Inadequate physical and social infrastructure like irrigation, power, roads, transport and communications, education and health, in the less developed regions and rural areas in general in the country is a major factor responsible for the growing rural-urban and regional disparities, responsible for the slow growth of manufacturing and other activities in the rural non-farm sector, explains the slow shift of the labour force from agriculture and hence slow reduction in rural poverty. The highly stratified and hierarchical social structure characterized by inequalities in landholdings and other forms of wealth. Status and power is the second major factor leading to the rise in income inequalities in the wake of growth, because of this, achieving inclusive growth is for more challenging than stepping up the GDP growth rate. The Governance pattern, the working of our democracy under the prevailing social structures our planning exercises and policies and the efficiency of implementation mechanisms or delivery systems determines the actual outcomes. We shall look at the recent performance briefly and see what challenges confront the planners and policy makers on these three fronts.

Financial Inclusion should be measured not only by the number of bank accounts held by the weaker sections, as brought out by the above Committees, but
also by the amounts borrowed by them, which show a more dismal picture. For example the share of direct accounts with a credit limit of less than Rs. 2500, in total direct accounts declined from 97 per cent in 1990 and 67 per cent in 2005 while their share in outstanding direct credit declined from 0.66 per cent to 0.23 per cent in the same period (Planning Commission 2007).

Financial Inclusion is no doubt inhibited by the higher transaction costs to deal with a large number of small accounts rather than a small number of large accounts. But such costs can be reduced through organizational innovations. The explicit subsidies unduly lower ceiling on interest rates for bank loans could also encourage exclusion, which need not be insisted upon, as the small borrowers are interested in adequate supply of credit rather than such lower rates of interest. The benefit of which in any case, may not accrue to them but to the middle men.

However, the basic cause for financial exclusion, often missed including by the Raghuram Rajan Committee - is the mindset that lacking in social concerns. This has to be faced squarely if appropriate institutional arrangements are to be made for checking the prevailing distortions in Bank lending. The experience with the linkages of banks with microfinance institutions and self-help groups (SHGs) when margins are low, high volumes can make the business profitable (Joshi 2008). Innovative institutions and methods for the delivery of Credit, including those recommended by the above committees, targets for the inclusion in terms of the number of accounts as well as the amount of credit to be extended.

Inclusive governance has a wider connotation encompassing inclusive politics or empowerment of Social Groups hitherto not having access to political power at different levels. In the ultimate analysis, inclusive growth can be achieved only through inclusive politics. The social change underway in the country through the democratic process holds such a promise.

The Eleventh Five-year plan strategy is towards Faster and more Inclusive growth”. Though the approach paper (Government of India (GOI 2006) has not defined the concept of inclusive growth. The economic survey of 2007-2008 presents some estimates of outcome of the measures (without any evaluation) of inclusive growth in India. Inclusive growth is the new mantra of national and International Agencies, but what does it mean and how does it measure inclusion or
the lack of it. In contrast to policy documents that discuss inclusive growth in loose terms, attempts to define the concept and aims to develop measures of inclusion.

Given the methodological inadequacies of verifying a broad-based growth process in terms of mean based averages of income and absolute norm based growth and the extent of inclusion of the poor in terms of the consumer expenditure distribution. In addition, to facilitate verification and comparison of both inter and intra group inclusion in a plural Society, normalized measures with reference to both mainstream and subgroup averages are worked out.

The tentative estimates indicate that the growth process between 1993-94 and 2004-05 by passed the majority and was not inclusive. At national level, the inclusion co-efficient is higher for the rural sector than for the urban. The association between median Consumption and the inclusion Co-efficient across states is weak which would also imply that there is no cross-sectional evidence to believe that growth in India has been inclusive.

**Financial Inclusion and Rural Development**

During Eleventh Five Year Plan period the Reserve Bank of India (RBI) has taken several initiatives towards financial inclusion of the rural poor and these include introduction of basic ‘no-frills’ saving accounts making them accessible to vast sections of the rural poor, issuance of simplified General-purpose Credit Card (GCC) without insistence on collateral or purpose and relaxation of KYC norms for opening new relationship accounts in rural areas are quite innovative in principle but their implementation tends to hit formidable roadblocks. Intermediaries through banks reach-out to the rural poor in areas where there are no branches including Self-Help Groups, non-Government organizations and Microfinance Institutions.

The Key components of the ‘inclusive growth’ strategy includes a sharp increase in investment in rural areas, rural infrastructure and agriculture; spurt in credit for farmers; increase in rural employment through a unique social safety net; and a sharp increase in public spending on education and health care. In 2008, about 46 million farmer households out of 89.3 million total households did not have access to credit from any kind of institutional or non-institutional source in India. As of June 2007, only 17 credit accounts and 54 savings accounts were recorded per 100 persons.
Only 13 percent in the income bracket of less than Rs. 50,000 are availing loans from banks (RBI, 2009). There is a pressing need for making banking and financial services available to every part of the country. It is very vital in India where diverse social and economic profile, financial education is particularly relevant for people who are resource poor and who operate at the margin and are vulnerable to persistent downward financial pressures.

While the importance of financial inclusion is widely recognized, the literature lacks a comprehensive measure that can be used to measure the extent of financial inclusion across economies. The Index of Financial Inclusion (IFI) is a multi-dimensional index that captures information on various dimensions of financial inclusion in one single digit lying between 0 and 1. Where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy or region of the economy. Several dimensions that have to be included in the index area:

**Banking penetration:** 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.

**Availability of banking services:** Combined number of Bank & ATM outlets per 1000 or lakh population.

**Usage:** It is not only important to have to bank accounts but it is their regular usage, which is important. This again can be categorized into two sub-dimensions:

- **Credit and deposit ratio:** as a percentage of GDP
- **Frequency:** of operating the accounts.

Such an index can be of use to address the relationship between development and financial inclusion and as a benchmark for improvement.
Facilities Identified under Financial Inclusion

Sources: Rangarajan Committee Report on Financial inclusion 2008, RBI
- Imacs Research