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Index Of Financial Inclusion In Haryana (Inter-District Comparision)

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***Abstract:** According to World Bank report of 2016, India is a Lower Middle Income country, that needs planned saving and investment so that the objective of growth and development can be achieved. Now after the policy of Jan Dhan Yojna of Prime Minister Narender Modi ji, most of weaker section or poor people have opened their account in banks but only opening bank account is not financial inclusion. There are many determinants which spreads financial inclusion such as banks, insurance companies, post-offices, micro-finance institutions and self-help groups etc. This study is based on banking facility provided to people in Haryana (District wise) in 2015. The main determinants to find out financial inclusion are number of offices, saving and loan. The researcher has found out the effect of socio economic factor on financial inclusion. By applying the index of financial inclusion, it is denoted that zero value define complete financial exclusion and one shows complete financial inclusion.*

I. INTRODUCTION

Financial inclusion plays crucial role to achieve the goal of inclusive growth in the country. Financial Inclusion includes many institutions like banks, self-help groups, LIC, post offices and micro finance institutions etc. But the present paper has taken only financial inclusion through banking services. Banking includes savings, loans, credit payment, number of offices and ATM etc. but three determinants have been taken to show district- wise financial inclusiveness i.e. number of offices, amount that includes deposit and credit amount. There are the many socio-economic factors like per capita income, urban and literate population that have the major effect on extent of financial inclusion. According to the report of RBI (2015), RBI has suggested that Financial Literacy Camps Apart from direct initiatives should be conducted at least once a month by financial literacy centers and rural branches of banks.

II. GOALS OF FINANCIAL INCLUSION

United Nations states in its report that credit should be available to all at reasonable cost through savings, short and long-term credit, mortgages, insurance, old age and widow pensions, payments, local money transfers and international remittances through well functioning institutions. To gain this goal PMJDY was launched at 28 august, 2014. Its main objective is to bring about financial inclusion among rural as well as urban areas by covering every person of country. This is why the JDY account is bundled with insurance and pension products, need-based credit and overdraft and remittance facilities. According to the report of ibef (2017), 26.68 crore bank account has been opened in all public and private banks under the scheme of PMJDY till 11 jan, 2017.

Financial inclusion has many objectives (Figure 1.).

A brief description is as under: (chart)

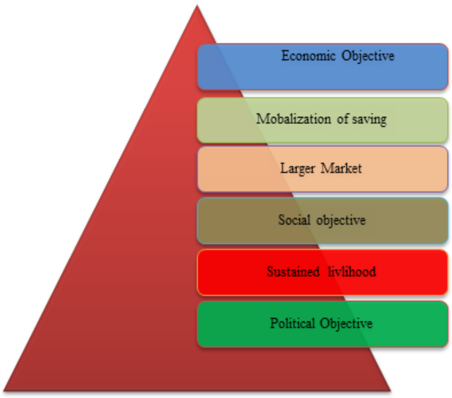

Figure 1

- ✓ Economic objective: Society is divided into different sections on the basis of income, occupation, caste, etc. Financial inclusion embraces all the sections in the financial ambit. Equitable growth in all the sections leads to eradicate disparities in terms of income, wealth, investment and savings. Thus, financial inclusion serves as bigpush for the developing and underdeveloped countries.
- ✓ Mobilisation of savings: By financial inclusion, banking services are now also enjoyed by weaker section of society. This facility creates the savings, which is generally done by household sector. This can be utilized to generate production and employment in effective manner.
- ✓ Larger market: There is dire need of large financial market to fulfill the need and requirement of people. This step will enhance the scope of new investors in financial sector and it will lead to growth of financial sector also.
- ✓ Social objective: It is considered that removing poverty is an important objective of the financial inclusion scheme because these scheme fill the gap between low income income groups and their living standard. If the financial condition of the people is strong, then if will defiantly effect their social standard positively.
- ✓ Sustainable livelihood: Once low income and poor people get money in the form of loan, they can invest in their education, in starting business, in agriculture and to generate their livelihood.In this way financial inclusion is playing very important role to increase the living standard of present generation as well as future generation.
- ✓ Political objectives:The strong political status can be gained by a country if the financial condition of the residents of that country is strong.

In this way, financial inclusion is an important step towards inclusive growth. The economic and social development is done with the help of financial inclusion.

Financial inclusion plays very significant role in increasing the business opportunities by formal institutions. It helps in increasing production, investment, productivity of every sector, employment and profit. In fact formal institutions are playing major role in building physical and social infrastructure. There are many factors like education, employment, production, per capita income and employment that are increasing the status of financial inclusion.

OBJECTIVE OF STUDY

- ✓ To construct a composite index of financial inclusion in Haryana for the year 2015.

To find out the inter-district variation of determinants (offices, saving and loan) of financial inclusion

III. REVIEW OF LITERATURE

Many researchers have different views about financial inclusion and they have applied distinct method to find the extent of financial inclusion. According to Leeladhar (2005), main emphasize to provide the banking services to the poor and needy people. The study argued that financial inclusion is very important, because financial inclusion plays an important role to improve the living standard of the poor people and also contribute in economic growth through generating financial resources for financial initiations. On the other hand financial exclusion may lead to increase the incidence of crime in society, decrease the investment in the economy.

Arora and Meenu (2010) focused on the major issues like formal and informal finance and intervention of micro finance to achieve the greater financial inclusion. The study got take off with introducing the micro finance as a supply of loans, savings, and other basic financial services to the rural poor to fulfil their small and uncertain needs and provide a chance to them to contribute in economic development. The study also put a light on the outreach and performance of Micro finance as well as adding the references on financial awareness and customer's perception. Tejani (2011) in her study has described role of co-operative banks in rural ares in increasing financial inclusion. The objective of the study was to find out the performance of the banks which are working in the rural areas which mainly include the co-operative banks and regional rural banks by taking 200 sample size in three villeges of Gujrat. Many indicaters have been taken for the study as no. of Cooperative Banks, Deposits, Borrowings, Loans and Advances Issued, Investments, Amount of Profit, Amount of Loan, Loans Outstanding, Recovery of Loans to Demand (Per cent). The study concluded that government should take strong steps to develop the rural area as there are many opportunities to do this. Sarma (2012) in her study has found out country wise (94), financial inclusion for the years (2004 – 2010).The IFI values computed for various countries for the years indicates thatcountries around the world are at various levels of financial inclusion. . She concluded that literacy, easy accessibility of banking facilities, urbanization are very important to increase the status of financial inclusion. Singla (2013) in his paper has stated that Financial inclusion provide various benefits to the poor section of the society such as knowledge about financial services, identity to the poor, improving standard of living, economic equality etc. The study concluded that Inclusive growth is very essential for the development of the country. But due to the various constraints the inclusive growth is prohibited such as lack of financial literacy, poverty, lack of advanced technology etc. There is a huge need to adopt various strategies for the financial inclusion such as adaptation of advanced technology, opening up the bank branched in rural areas, introduction of new saving schemes for low income people etc. Gupta and Singh (2013) in their research have stated that there is low correlation between financial inclusion and literacy. To find out the extent of financial inclusion, three determinants have been taken like banked population, availability of financial services like bank branches and ATM, no. of the transaction in account.

Gupta and Singh (2013) in their research have stated that there is low correlation between financial inclusion and literacy. To find out the extent of financial inclusion, three determinants have been taken like banked population, availability of financial services like bank branches and ATM, no. of the transaction in account. To find out state wise correlation between literacy level and financial inclusion, they have applied Karl Pearson coefficient of correlation. The results have depicted a large variation in extent of correlation among the different states of the country with a very low correlation at the national level. They have stated many reasons of financial exclusion like high cost, more formalities' like documents and behavior aspect etc.

Garg, Agarwal (2014) have stated in their paper that finance has become an integral part of an economy for growth and development of the society as well as economy of nation. For, this purpose to maintain sustainable development in underdeveloped, developing and developed economies, there should be a strong financial system. To achieve the main objectives of the study was that to understand tha financial exclusion and take steps to remove it.

III. METHODOLOGY AND DATA DESCRIPTION

The methodology employed in the present work is twofold. First is construction of an index of financial inclusion. In the first stage indices of various dimensions are constructed like (c_1), (c_2) and (c_3), in the second stage these indices are aggregated to give a composite index of financial inclusion.

CONSTRUCTION OF INDEX OF FINANCIAL INCLUSION (IFI)

Since banks are the most basic form of financial services, it is only the extent of accessibility (c_1), availability (c_2) and usability of banking services (c_3) that has been treated as equivalent to financial inclusion for the purpose of present work.

Concerning availability of banking services, in an inclusive financial system banking services should be easily available to the users. Thus availability of banking services can be indicated to the number of offices per ten thousand populations and there is no financial inclusion when there is no office per person.

In context of banking penetration, an inclusive financial system should have as many users as possible, that is, an inclusive financial system should penetrate widely amongst its users. The size of the 'banked' population, for example the proportion of people having a bank account with amount deposited, is a measure of the banking penetration of system. Thus, if every person in an economy has a bank account with deposited amount then the value of this measure would be 1. The data has been presented in ten thousand population to avoid the biasedness due to the different geographical areas and population of all districts. The availability of banking services can be indicated to the number of offices, saving and loan per ten thousand populations. For the purpose of constructing index for each component of financial inclusion, we utilise an approach similar to that used by United Nation Development Programme (UNDP) for computation of some well-known development indexes. The index of i^{th}component of financial inclusion is computed as

$$Ci = \frac{Ai-mi}{Mi-mi} \quad i = 1, 2, 3.$$

Where Ai is the actual value of the i^{th} component, mi is the minimum value and Mi is the maximum possible value of i^{th} component. It can be varied from the above formula that index of each component of financial inclusion varies between zero and one. Zero value corresponds to complete absence of financial inclusion and one corresponds to complete financial inclusion.

In the second stage, the three indexes c_1, c_2 and c_3 are combined into one. c_1, c_2 and $c_3$are denoted as offices, saving and loan.Since, the indexes of components separately do not satisfactorily denote financial inclusion. These component indexes should be aggregated into a single composite index of financial inclusion (IFI).

The index of financial inclusion, IFI, for a state, is then measured by the normalized inverse Euclidean distance of the point c= (from the ideal point I = (w_1, w_2, w_3). The exact formula is

$$IFI = 1-- \frac{\sqrt{(w_1-c_1)^2+(w_2-c_2)^2+(w_3-c_3)^2}}{\sqrt{(w_1{}^2+w_2{}^2+w_3{}^2}}$$

In formula, the numerator of the second expression is the Euclidean distance of c = (c_1, c_2, c_3) from the ideal point w = (w_1, w_2, w_3), normalizing it by the denominator and subtracting from 1 gives the inverse normalized distance. The normalization is done in order to make the value lie between 0 and 1 and the inverse distance is considered so that higher value of the IFI corresponds to higher financial inclusion.

For simplification, if we consider all dimensions to be equally important in measuring the inclusiveness of a financial system, then w_i = 1 for all i. In this case, the ideal situation will be represented by the point I = (1, 1, 1) in the n-dimensional space and the formula for IFI will be

$$IFI = 1-- \frac{\sqrt{(1-c_1)^2+(1-c_2)^2+(1-c_3)^2}}{\sqrt{3}} \ldots\ldots$$

by adopting this method of UNDP, values and ranks of financial inclusion of all districts of Haryana have been find out.

IV. RESULT AND DISCUSSION

By applying the index of financial inclusion, the result shows that in composite index of financial inclusion Gurugram (new name) attained the value (0.974) and Punchkula have attained (0.744) value of index of financial inclusion and gained 1^{st} and 2^{nd} rank respectively. It means that these two districts have highest financial inclusion. On the other hand mewat and pawal have gained 21^{st} and 20^{th} rank respectively. These two districts have lowest status of

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financial inclusion. Yamuna Nagar and Hisar districts have 11th and 10th rank respectively. These districts are in the stage of medium status of financial inclusion. In Gurugram and Punchkula have better living standard because of high income and better education facilities. Mewat and Palwalhave very low status of financial inclusion. If we talk about each determinant about offices, saving and loan, then Gurugram has maximum value (1.00) and Mewat has lowest value (0.00) in context of offices. In the same way Gurugram and Mewat have highest (1.00) and lowest (0.00) performance in saving. But in loan, Punchkula has highest value (1.00) and mewat has lowest value (0.00). Because there is low standard of education and most of population is unemployed or doing unskilled work.

		DISTRICT -WISE INDEX OF FINANCIAL INCLUSION OF HARYANA IN 2015			
District	C_1 **(Value of office)**	C_2 **(value of saving)**	C_3 **(value of loan)**	**IFI**	**Rank**
Ambala	0.484	0.166	0.157	0.253	5
Bhiwani	0.157	0.038	0.068	0.087	18
Faridabad	0.281	0.266	0.328	0.291	3
Fatehabad	0.270	0.033	0.116	0.134	14
Gurgaon(Gurugram)	1.000	1.000	0.955	0.974	1
Hisar	0.214	0.070	0.284	0.185	10
Jhajjar	0.282	0.083	0.128	0.160	13
Jind	0.161	0.026	0.104	0.095	17
Kaithal	0.237	0.030	0.143	0.132	15
Karnal	0.378	0.093	0.367	0.267	4
Kurukshetra	0.438	0.097	0.165	0.220	8
Mahendragarh	0.185	0.042	0.034	0.084	19
Mewat	0.000	0.000	0.000	0.000	21
Palwal	0.102	0.025	0.040	0.055	20
Panchkula	0.934	0.562	1.000	0.744	2
Panipat	0.369	0.092	0.262	0.233	7
Rewari	0.330	0.108	0.084	0.167	12
Rohtak	0.351	0.165	0.156	0.219	9
Sirsa	0.227	0.041	0.131	0.130	16
Sonipat	0.329	0.108	0.296	0.238	6
Yamunanagar	0.307	0.100	0.119	0.170	11

Source: Calculated by researcher through the index used by UNDP.

Table 1.1: District-Wise Index of Financial Inclusion In Haryana (2015)

V. CONCLUSION

A number of studies have established a link between financial development and economic development. Ina democratic country like India, where people are free to choose their occupations or means of earning, their livelihood, it necessitates that the fruits of financial development reach to the vast majority of our population, so that they can bring efficiency in their occupation. Although there are many dimensions of financial inclusion that very important for growth and development of every country yet Socio-economic factors plays very important role in increasing the status of financial inclusion. In Haryana most of the people are engaged in agricultural activities. So to increase the financial activities people should have better jobs, good education and accessibility of financial services.

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