

Analysis of financial inclusion in Raichur District

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Abstract: Financial inclusion is the key driver to achieve vision of inclusive society. In India many efforts has been taken towards enhancing financial inclusion by Government and RBI. The literacy rate in Raichur is 59.56 percent. Which is lower than the state average of 75 percent; Raichur ranks 30th in the Human Development Index (HDI) report 2011 of Karnataka state. As per CRISIL Inclusix survey in Karnataka state Raichur district secures 21th rank (out of 30) in 2018. Hence there are no surprises that financial exclusion in Raichur district is higher than the state average. Hence the present research studies the status of financial inclusion in Raichur district in comparison with Karnataka State and India and indentifying the factors which influencing the financial exclusion of Raichur district.

In the study area researcher found that number of SCB branches per 1000 sq.km is very low in Raichur district compare to the Karnataka and India average. This means a large geographical financial exclusion is exists in Raichur district relatively to Karnataka and India. In Raichur district number of SCB branches per 100000 people is less when compared to Karnataka state average but a little higher than India's average. Credit-deposit ratio is very high in Raichur district compared to Karnataka and India. Number of bank account per 1000 population is also less in Raichur in comparison to Karnataka and India.

The present programmes of financial inclusion has fairly included majority of households into banking system, by opening the savings accounts. But the efforts should continue to spread fruits of financial inclusion to all the districts especially backward rural areas. The findings of this study would have greater implication towards creating more financial infrastructure and bringing financial excluded into banking fold in the backward districts like Raichur district.

Key words: Financial inclusion, Raichur, Karnataka, SCB, banking penetration, Credit-Deposit Ratio

I. INTRODUCTION

Financial inclusion is the key driver to achieve a vision of inclusive society. Inclusive growth encompasses ideas related to basic needs and equity. It seeks to cement the divisions in the society. Reduction in poverty and disparities of income and ensuring everyone a basic minimum standard of living are the main objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a prerequisite for poverty reduction and social cohesion. "Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" Rangarajan (2008). Hence, financial inclusion has become an integral part of the efforts to promote inclusive growth of India. Along with achieving inclusive growth it also helps to attain greater digital economy, implement direct benefit transfer (DBT) scheme, reduction in corruption, increase transparency, productivity social protection in the economy and bring more stability in the banking system.

World Bank's Global Findex Database (2015) indicates that only 53.1 percent of adults in India have an account at a formal financial institution. Only 43.1 percent of adults belonging to the poorest quintile have a formal account. These figures are lower than in other major Asian developing countries.

Exclusion of large segments of the society from financial services adversely affects the overall economic growth of a country. Therefore, GOI and RBI have taken many initiatives towards financial inclusion, important among them are nationalisation of Banks (1955, 1969, and 1980), social control of Banks (1960), Nationalization of Banks (1969), Priority sector lending (1972), Regional Rural Banks (1975), Lead Bank scheme (1969), Microfinance programme, Kisan Credit Card scheme (1998), Self-help Group Bank linkage facilitated by NABARD (1989), No Frills Account (2005), General Credit Card Scheme (2005), Swabhiman Abiyaan (2011), Business Correspondents Model, Basic Savings Banks

Deposit Account (2012), Financial Literacy Programme, Pradhan Mantri Jan Dhan Yojana (2014), and Mobile banking initiatives etc.

‘The countries with high and medium IFI values belong to high human development group and high or medium HDI ranked countries namely Saudi Arabia, Brazil, Lebanon, Venezuela, Argentina and Mexico is found to have a low IFI value and Iran, Thailand, Turkey and Namibia that perform relatively better in financial inclusion than its human development’ (Sarma, M., & Pais, J., 2011). ‘Multiple regression shows a high correlation between dependent variable GDP and independent variables namely Number of Bank branches ($R=0.885$) and Credit deposit ratio ($R=0.254$)’ Iqbal, B. A., & Sami, S. (2017). ‘There is a negative and significant relationship between the number of banks per 100,000 adults and the GINI coefficient (dependent variable) in the MENA countries. Financial inclusion reduces income inequality in the MENA countries’ Neaime, S., & Gaysset, I. (2018).

‘There is substantial progress in financial inclusion during 2013 to 2015 in India. In 2013, 47% of Individuals had a bank account relative to 66 percent in 2015. 90% of the households own at least one bank account and 12% of adults and 31% of households own a PMJDY account’ Günther, M. (2017). ‘The number of households with bank accounts doubled over the duration of the financial inclusion drive. It increased from 12% to 29% of households surveyed in Gulbarga district and 68% of the households opened accounts to receive payments from MGNREGP’ Ramji, M. (2009).

Background of Raichur district and Karnataka State:

Raichur is one among the backward districts of Karnataka. It ranks 30th in the Human Development Index (HDI) report 2011 of Karnataka state. According to the 2011 census, Raichur district had a population of 19,28,812 and 74.58 percent population lives in rural areas. As per 2011 census literacy rate was 59.56 percent in the Raichur district and the Scheduled Caste and Scheduled Tribe population is 20.79 percent and 19.03 percent respectively. It has the highest population of the Scheduled Tribes as a percentage of its total population of the district (19.03%). In 2019, there are 239 SCB branches operating in Raichur District. In 2018 there are 155 business correspondents deployed to the Sub Service Area (SSA) to cover the financially excluded people in Raichur district. As per CRISIL Inclusix survey in Karnataka state Raichur district secured 21th rank in 2013, 25th rank

in 2014, 22th rank in 2015, and 21th rank in 2016 and 2018.

Karnataka is one among few developed states of India which has well developed financial infrastructure. Karnataka is known as the cradle of banking in India because seven leading commercial banks originated from this state. The first Primary Agriculture Credit Co-operative Society of Asia was established in Kanaginahal village of Gadag district of Karnataka in 1904. It secures fourth place in aggregate bank deposits mobilization and gross credit distribution in selected states in the year 2018-19. In March 2018, Karnataka had a network of 7952 Commercial Bank branches, 1797 Regional Rural Bank (RRB) branches and 786 District Co-operative Central Bank and its branches. In the CRISIL Inclusix 2016 survey, Karnataka secured 6th rank in India by scoring 82.1 points out of 100 points.

Objectives

The important objectives of the study are;

1. To assess and analyse the financial inclusion in Raichur district in comparison with Karnataka State and India.
2. To find out the reasons for financial exclusion in the Raichur district.
3. To suggest suitable policy recommendations.

Hypothesis

1. There is a positive and significant relationship between No. of Scheduled Commercial Bank (SCB) branches per 1000 sq.km and bank account.
2. Government Policies and Programmes to boost financial inclusion of the financially excluded people have been highly successful in Raichur district.

II. METHODOLOGY

The present study is based on secondary sources of data consisting of government publications, namely Indian Economic Survey, RBI reports, Government of Karnataka’s Economic Survey, District at a Glance of Raichur District and Reports of Committee on financial inclusion etc. Regression analysis, Percentage, compound growth rate, ratio, and percentage were used to analyse the secondary data.

Financial Inclusion in Raichur District in comparison to State and National average:

In order to study the status of financial inclusion in Raichur district researcher has used many indicators of financial inclusion namely No. of scheduled

Commercial Bank branches per 1000 sq. km, Number of SCB Branches per 100000 People, Credit-Deposit Ratio, and bank account per 1000 population in comparison with Karnataka and India.

2017	27.6	54.6	42.7
2018	27.1	54.1	43.3
2019	28.4	55.9	44.4

Source: Compiled from Various reports of RBI

Results and Analysis:

Scheduled Commercial Bank Branches per 1000 sq.km

The number of bank branches per 1000 sq.km is a very effective indicator of banking penetration.

Table No. 01 No. of Scheduled Commercial Bank (SCB) branches per 1000 sq.km.

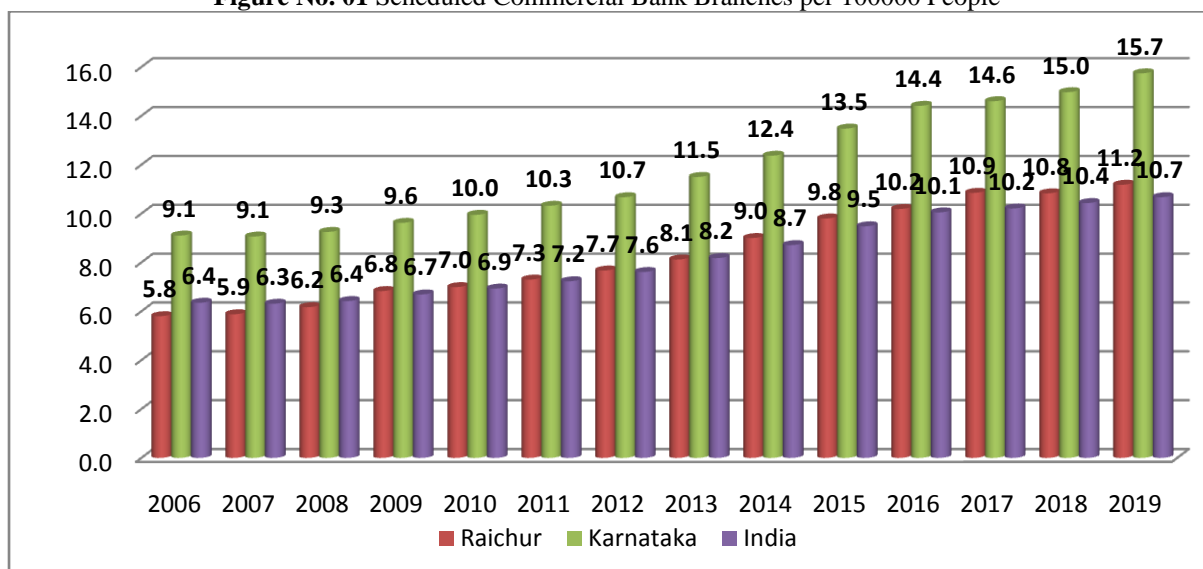
Year	Raichur	Karnataka	India
2006	12.2	27.5	21.1
2007	13.2	28.4	21.8
2008	14.0	30.0	23.0
2009	15.5	31.5	24.3
2010	16.2	33.5	25.9
2011	17.2	35.3	27.6
2012	19.2	38.5	30.0
2013	20.4	41.5	32.4
2014	22.4	46.2	35.9
2015	24.3	49.7	38.5
2016	26.8	52.2	41.2

The above table gives the comparative picture of the banking penetration in Raichur district, Karnataka state and India during 2006 to 2019. In March 2019, number of SCB branches per 1000 sq.km is 28.43 in Raichur district, 55.89 in Karnataka state and 44.42 in India. It reveals that the number of SCB branches per 1000 sq.km is very low in Raichur district compared to the Karnataka state and national average in 2006. This means in Karnataka banking penetration is good and it is above the national average. During 2006 to 2019 banking penetration gradually increased in Raichur, Karnataka and India. But, the banking penetration gap between Raichur, Karnataka and India remains the same.

This reveals that there is an existence of large geographical financial exclusion in Raichur district relative to Karnataka and India. This geographical exclusion results in low banking penetration in Raichur and it limits the access to financial services and thereby increases the financial exclusion in the Raichur district compared to state and national average.

Scheduled Commercial Bank Branches per 100000 People

Figure No. 01 Scheduled Commercial Bank Branches per 100000 People



Source: Derived from Various reports of RBI

Number of scheduled commercial bank (SCB) branches per 100000 people is an effective indicator of measuring demographical access to financial inclusion. The above figure depicts the number of SCB branches per 100000 persons is 5.8 in Raichur district, which is far less than Karnataka state average of 9.1 and India's average of 6.35 in 2006. In 2019, no. of SCB per 100000 is 11.18 in Raichur, 15.74 in Karnataka, and 10.67 in India. This reveals that in Raichur district the number of SCB branches per 100000 people is less when compared to Karnataka state average and India's average. There is a marginal increase in Raichur district average when compared to India but the gap between Raichur and Karnataka remains the same after the implementation of many measures of financial inclusion. This in turn results in less development of banking culture in Raichur district when compared to the Karnataka state.

Credit-Deposit Ratio

Table No. 02 Credit-Deposit Ratio of Raichur district, Karnataka state and India

Year	Raichur	Karnataka	India
2006	121.49	73.8	66
2007	126.42	75.9	72.4
2008	120.27	76.3	75
2009	117.45	78.1	74
2010	110.57	77.3	72.6
2011	113.72	77.6	73.3
2012	107.22	72.7	75.6
2013	108.37	71.4	79
2014	110.87	71.9	78.8
2015	119.67	71	79
2016	124.94	67.7	77.1
2017	116.45	70.1	78.4
2018	124.66	67	73.8
2019	121.06	69.7	76.7

Source: Compiled from Various reports of RBI

Credit-Deposit ratio is one of the effective indicators of the health of banks. The table no. 02 exhibits the Credit-Deposit Ratio in Raichur district, Karnataka State and India. In 2019 credit-deposit ratio is 121.06 in Raichur, 69.7 in Karnataka, and 76.7 in India. Credit-deposit ratio is very high in Raichur district compared to Karnataka and India. This indicates that there is a high demand for credit in Raichur district when compared to its deposit ratio when compared to Karnataka state and India's average.

A very high credit-deposit ratio above a certain limit indicates a pressure on bank resources and capital adequacy issues in bank. This is an alarming situation for banks at Raichur district. This reveals that depositing habits are very less and demand for credit is high in Raichur district when compared to Karnataka and India's average. A low deposit mobilisation in Raichur district is due to the high poverty and low per capita income in district i.e. Rs. 90530 in 2016-17 at current prices compared to Karnataka which was Rs.207062 in 2018-19 at current prices and Rs.126406 in India during current prices at 2018-19.

Regression Model:

The review on the literature confirms that the number of bank accounts depends on the availability of bank branches within the nearby locality. In order to test this regression model has been farmed for the period of 2010 – 2017 is expressed as follows

$$Y_t = \alpha + \beta X_t + \epsilon_t \quad (1)$$

The equation (1) in the log form is given as follows

$$\ln Y_t = \alpha + \beta \ln X_t + \epsilon_t \quad (2)$$

In the equation (2), Y represents the bank accounts per 1000 population and X represents the bank branches per 1000 square kilo meter. Since the equation (2) is linear in parameter, the model is estimated by using OLS method.

Regression Results

Coefficients and Statistics	Raichur	Karnataka	India
α	1.6992	1.0707	1.3025
Std. Error	0.1147	0.1785	0.1449
t value	14.8176	5.9980	8.9866
P value	0.0000**	0.0010**	0.0001**
β	0.2969	0.7098	0.4838
Std. Error	0.0857	0.1098	0.0943
t value	3.4653	6.4611	5.1322
P value	0.0134**	0.0007**	0.0022**
R Square	0.6668	0.8743	0.8145
Adjusted R Square	0.6113	0.8534	0.7835

F value	12.0086	41.7464	26.3393
P value	0.0134**	0.0007**	0.0022**

The results of regression model show the estimated parameters and regression statistics in the equation (2). The regression model of bank accounts per 1000 population on bank branches per 1000 square kilometer in Raichur, Karnataka and India is statistically significant at 5% Since the p value of the F statistics of the model is lesser than 0.05. The regression coefficients (β) of bank accounts per 1000 population on bank branches per 1000 square kilometer in Raichur, Karnataka and India are also statistically significant at 5%.

The regression coefficient of Raichur is 0.2969, which is lower than Karnataka (0.7098) and India (0.4838). Therefore, on an average, every one percentage increase in bank branches per 1000 square kilometer on an average, leads to increase in bank accounts per 1000 population by 0.2929% in Raichur. Whereas in Karnataka on an average, every one percentage increase in bank branches per 1000 square kilometer on an average, leads to increase in bank accounts per 1000 population by 0.7098% and India it was an average 0.4838% increase in bank accounts per 1000 population on every one percent increase in bank branches per 1000 square kilometer.

III. FINDINGS

1. Literacy plays an important role in financial inclusion. As per 2011 Census, Raichur district has 59.56 % average literacy rate, Karnataka has 75.36 % average literacy rate and India has 74.04 % average literacy rate. Raichur district has the lowest literacy rate which is far below than state and National average.
2. Financial infrastructure is not well developed in Raichur district. It secured last place that is 30th rank in the Human Development Report (HDI) 2011 of Karnataka and as per CRISIL Inclusix survey in Karnataka state Raichur district secured 21th rank in 2013, 25th rank in 2014, 22th rank in 2015 and 21th rank in 2016.
3. In 2019, the number of bank branches per 1000 sq.km is 28.4 in Raichur district, 55.9 in Karnataka and 44.4 in India. It shows that the number of SCB branches per 1000 sq.km is very low in Raichur district compared to the Karnataka and India average in 2019. In Karnataka state banking penetration is good and it is above the national average.
4. During 2006 to 2019 banking penetration gradually increased but the gap between Raichur, Karnataka and India remains the same. This

reveals that a large geographical financial exclusion exists in Raichur district relative to Karnataka and India.

5. In 2019, no. of SCB per 100000 people is 11.18 in Raichur, 15.74 in Karnataka, and 10.67 in India. This reveals that in Raichur district the number of SCB branches per 100000 people is less when compared to Karnataka state average but a little higher than India's average.
6. The geographical access gap to banking penetration is more than demographical access in Raichur district compared to Karnataka and India.
7. In Raichur district credit-deposit ratio is very high when compared to Karnataka and India's average. In 2019 the credit-deposit ratio is 121.06 percent in Raichur district, 69.7 percent in Karnataka and 76.7 percent in India. This reveals depositing is very less and demand for credit is more in Raichur district when compared to Karnataka and India's average.
8. A low deposit mobilisation in Raichur district is due to the high poverty and low per capita income in district i.e. Rs. 90530 in 2016-17 at current prices compared to Karnataka which was Rs.207062 in 2018-19 at current prices and Rs.126406 in India during current prices at 2018-19.
9. Bank accounts per 1000 population on bank branches per 1000 square kilo meter is very less in Raichur district in comparison to Karnataka state and India. The regression model of bank accounts per 1000 population on bank branches per 1000 square kilo meter in Raichur, Karnataka and India is tested and found that the regression coefficient of Raichur is 0.2969, which is lower than Karnataka (0.7098) and India (0.4838).

IV. SUGGESTION

1. In Raichur district numbers of bank branches are very less (more geographical gap) compared to state and national average. Hence, brick and mortar bank branches should increase in Raichur district. The Regression coefficient of Raichur will also (0.2969) support this measure.
2. Literacy plays an important role in financial inclusion. Literacy of Raichur district is less hence steps should be taken to increase literacy in Raichur district and financial literacy should also be imparted also with literacy.
3. Need based loans at lesser interest rates for backward districts like Raichur district.

Because the credit deposit ratio is very high (121.06) in Raichur district.

4. In 2018, only 151 Business Correspondents are covering the financially excluded sub service area. But, the BC model is economical and much suitable for the backward areas like Raichur district. Therefore, BC model should be strengthened in Raichur district.

V. CONCLUSION

The present programme of financial inclusion has fairly included the majority of households into the banking system, by opening the savings accounts. But the efforts should continue to spread the fruits of financial inclusion to all the districts, especially backward rural areas. This study is an important effort in indentifying the factors which determine the financial exclusion of Raichur district. The findings of this study would have greater implication towards creating more financial infrastructure and bringing financially excluded into banking fold in the backward districts like Raichur district.

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