



## Financial inclusion in West Bengal: An analytical review

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### Abstract

Finance is the lifeline of economic activities in a country. Lack of access to financial resources may be taken as a sign of backwardness as far as the development of a country is concerned. The concept of financial inclusion reveals the scenario of a country concerning the accessibility of financial resources and products by common people. In India, various institutional measures have been taken for financial inclusion. West Bengal stood as the second most popular state in India. Financial Inclusion has spread its roots in West Bengal also. The present study tries to investigate the status of financial inclusion in West Bengal.

**Keywords:** Financial inclusion, microfinance, kissan credit card, self help group, ground level credit

### Introduction

Financial inclusion is increasingly being recognized the world over as a key driver of economic growth and poverty alleviation. Inclusive growth is the buzzword for developing economies like India. After three decades of the post-liberalisation period, we have to think about whether our economic growth is inclusive (Joarder, 2021) [11]. Poverty, unemployment and migration are major drawbacks of the rural economy and access to formal financial capital is a major problem for the unorganised micro entrepreneurs who can help alleviate them. Several studies have provided conclusive evidence suggesting that enhanced access to financial services would result in better economic and social outcomes. They also point out a positive relationship between financial sector development and economic growth (Demirguc-Kunt, *et al*, 2017) [5]. Financial Inclusion can generate positive externalities. It leads to an increase in savings, investment and thereby enhances the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially in the lower income category (Dutta, 2017) [9]. Financial inclusion is one of the factors or rather the main factor for inclusive growth. It mobilizes resources which are being utilized for the increase in productivity leading to higher economic growth and reduction in poverty. The Government of India wishes that the poor people should be benefited by Financial Inclusion. They have to be given loans for trading activities or paying back loans from money lenders. The Reserve Bank of India permits Financial Inclusion by allowing banks to grant loans to non-registered bodies subject to fulfilling certain norms. Based on group performance, groups or individuals may be extended loans. Savings, repayment capacity and cash flows should be the criteria (Paul, 2016) [14]. Along with the rest of India, there was a substantial expansion in banking infrastructure in rural West Bengal in the 1970s and 1980s. Consequently, there was a substantial reduction of the gap between West Bengal and India as a whole, in terms of the average population served by a rural bank branch. In contrast with the previous two decades, the supply of formal credit to rural West Bengal declined sharply in the post-liberalization period (especially in the 1990s). Another

distinguishing trend in the post-liberalization period was a decline in the rural bank branches, credit-deposit ratio and agricultural loans in outstanding credit in rural West Bengal (Rawal, 2005) [16]. The characteristics of rural credit transactions in rural West Bengal have changed to a significant extent in recent years (Datta and Chakraborty, 2005) [4]. With the process of financial inclusion, the level of interlinked credit exploitation has reduced to a noticeable extent, especially with the advent of the process of de-interlinkage (Bhattacharyya, 2005) [2]. More importantly, the wave of micro credit through the formation of Self-Help Group has brought about a paradigm shift in rural credit transactions in West Bengal with a larger inclusion of people in the banking network.

The present study tries to address critical areas of financial inclusion as a policy towards the inclusive process of West Bengal.

### Meaning of Financial Inclusion

With an objective to extend such financial services to a sizeable majority of population particularly who continue to remain excluded from the opportunities and services provided by the financial sector, a Committee on Financial Inclusion (CFI) was set up by the Govt. of India under the Chairmanship of Dr. C. Rangarajan in 2006. This Committee on Financial Inclusion (Rangarajan, 2008) [15] defined Financial Inclusion as a 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 affordable costs. According to the Committee, 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.

Subsequently, Planning Commission, Govt. of India (2009) in a Report of the Committee on Financial Sector Reforms

mentioned “Financial Inclusion is not only about credit but involves a wide range of Financial Services including savings accounts, insurance and remittance products. Moreover, credit provision without adequate measures to create livelihood opportunities and enhance credit absorption amongst poor will not yield desired results.”

**Objectives of the study**

The objectives of the study are

1. To look into the concept of financial inclusion and inclusive growth;
2. To study the impact of financial inclusion on economic growth in India and
3. To study the status of financial inclusion in West Bengal.

**Methodology of the study**

The present theoretical study has done on the basis of secondary data collected from various related articles, research papers, Status of Microfinance in India published by NABARD, State Level Bankers’ Committee, West Bengal etc.

Simple statistical tools are used in this study, like percentage, compound annual growth rate etc.

**Literature Review**

Dixit & Ghosh (2013) [8] have investigated the understanding of inclusive growth and its need, financial inclusion as a key to inclusive growth and its extent to Indian states. The study found that different states of India vary in respect of levels of financial inclusion. The problem of financial exclusion faced by the states of India can be solved by developing a customized solution so that it leads towards comprehensive growth. Banerjee and Gupta (2019) [1] have empirically assessed the present status of PMJDY, mainly in West Bengal, after the completion of four years of its launch by the Indian government. They have conducted a primary survey in selected five districts of West Bengal in which they found that out of 1,000 respondents 500 of them have normal bank accounts and the rest 500 have opened new bank accounts under PMJDY. The study concluded that this scheme only could be able to augment the number of bank accounts or bank account ownership but real objectives like overdraft-enabled small entrepreneurship or more insurance benefits could hardly be achieved at large. Besides, an intense lack of awareness about this scheme and its benefits has been noticed.

Dhillon & Mittal (2016) [7] in their study investigated the current financial inclusion status of India. They found that despite several initiatives taken by the RBI and the government a large section of the deprived population is still being excluded. So new and revised initiatives and financial policies are to be introduced and implemented for the holistic growth and development of the economy.

According to Dev (2006), financial inclusion is required to improve the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. In addition to traditional banking institutions, which ought to view inclusion as a social obligation as well as an economic opportunity, the self-help group movement and microfinance institutions play a significant role in enhancing financial inclusion.

Chakrabarty (2013) adopted a structured and planned approach towards financial inclusion by not just focusing on

improving access to financial services but also encouraging demand for financial services through financial literacy initiatives, by giving permission to non-bank entities to partner banks in the financial inclusion initiatives, encouraging banks to leverage technology to attain greater reach and penetration and to adopt innovative business models and delivery channels.

**Evolution of Financial Inclusion in India**

The origins of financial inclusion may be found in the 1950s, a time when the main goal was to provide credit to underserved segments of the population and previously ignored weaker sections. Over the years, a number of initiatives have been implemented in response to this one, including the branch network expansion, the introduction of Priority Sector Lending (PSL), the launch of the Lead Bank Scheme, the promotion of SHGs and JLGs, the Kisan Credit Card (KCC), the application of the Business Correspondents (BC) model, and most recently, the Pashu Kisan Credit Card and financing for Farmers Producer Organisations (FPOs). The advancement and widespread use of technology have resulted in a significant expansion and enhancement of digital financial services. The concept of universal financial inclusion has been reinvented by the Jan Dhan, Aadhaar, and Mobile (JAM).

**Status of Financial Inclusion in the State of West Bengal**

West Bengal has 10.82 bank branches per lakh people, compared to the 10.16 average for all of India; the state has 12.94 ATMs per lakh people, compared to the 17.25 average for all of India. The total enrollment under the PM Jan Dhan Yojana (PMJDY) programme is 4.63 crore, according to the PMJDY homepage. According to NABARD (2023), the total number of beneficiaries enrolled in social security programmes like as PM Jeevan Jyoti Bima Yojana (PMJJBY), PM Suraksha Bima Yojana (PMSBY), and Atal Pension Yojana (APY) is 0.60 crore, 1.87 crore, and 0.35 crore respectively. Some of the important indicators of financial inclusion are discussed as under-

**1. Branch Network of Banks**

37 Commercial Banks (comprising 12 PSU Banks and 25 Private Sector Banks), 3 Regional Rural Banks, a State Cooperative Bank with 17 affiliated District Central Cooperative Banks, and one SCARDB with 24 affiliated Primary Land Development Banks (PLDBs) currently provide services to the State of West Bengal. The details are given in the table below:

**Table 1:** Branch Network in West Bengal as on 30 September, 2022

Year	No of Branches	of which Rural & Semi urban	No. of ATMs
2016-17	8201	4950 (60%)	10822
2017-18	8228	4943 (60%)	10149
2018-19	8230	4961 (60%)	10735
2019-20	8385	4991 (61%)	10703
2020-21	8637	5081 (58%)	11753
2021-22	9871	6086 (62%)	11916
2022-23 #	9895	6107 (62%)	11739
% CAGR	2.72%	NA	1.17%

**Note:** Figures in bracket are percentage of Total Source: SLBC, West Bengal # Data as on 30.09.2022

As can be observed, there is a 1.17% annual compound growth rate for ATM installation and a 2.72% annual compound growth rate for branch networks, indicating a greater digitization of banking services. As of September 2022, West Bengal's average population served per brick and mortar branch (excluding cooperatives) was

approximately 9598, compared to the national average of 11,000 people.

**2. Flow of Ground Level Credit (GLC)**

The credit disbursements in West Bengal during the last 5 years and till 30.09.2022 are presented in Table-2.

**Table 2:** Flow of Ground Level Credit (GLC) in West Bengal (amount in Crore)

Year	Total Agri. Loan	MSM E	Total Priority Sector	Total GLC	Share of Priority Sector in total GLC (%)
2017-18	42232	37817	92568	106599	87
2018-19	45586	56458	110040	127283	86
2019-20	49066	69408	130610	272731	48
2020-21	57008	87166	157403	362786	43
2021-22	74690	102379	200170	423725	47
2022-23 #	39196	70658	120191	258284	47
%CAGR	15.32	28.27	21.26	41.20	NA

**Note:** Figures in parenthesis represent percentage. (Source: SLBC, West Bengal) Position as on 30.09.2022

As can be observed, the total amount of credit disbursed during the last five years (through 2021-22) has risen sharply, rising from Rs. 1,06,599 crore in 2017-18 to Rs. 423725 crore in 2021-22, a 297% increase. Advances in the Priority Sector rose from Rs. 92,568 crore in 2017-18 to Rs. 2,00,170 crore in 2021-22, a 116% rise. GLC flow to agricultural and related industries rose by 77% throughout that time, from Rs. 42,232 crore to Rs. 74,690 crore. Over the past five years, the GLC flow under the Priority Sector has decreased to 47% of the total GLC flow (2021-2022) from a peak share of 87%.

**3. Kisan Credit Card (KCC)**

Since 1999-2000, the Kisan Credit Card system has been in place to give farmers access to sufficient and timely credit at a reasonable rate. There have been attempts to periodically adjust the programme in order to meet all of the farmers' credit requirements and include all of the eligible farmers. Table 2.9 provides agency-by-agency achievement under the KCC Scheme.

**Table 3:** Status of Kisan Credit Card issued (in nos.) & Amount (in crore) Disbursed

Agency	2020-21		2021-22		2022-23 #	
	Nos.	Amt.	Nos.	Amt.	Nos.	Amt.
Com. Banks	865859	6443 (55%)	1091621	11212 (65%)	611480	3618(56%)
RRBs	267014	1042 (9%)	274519	1470 (9%)	108534	717(11%)
Coop. Banks	1475639	4341 (37%)	1544538	4590 (26%)	813228	2070 (33%)
Total	2608512	11826	2910678	17272	1533242	6405

**Notes:** Figures in bracket are percentage of Total Source: SLBC, West Bengal # Data as on 30.09.2022

Disbursements were made in 23.73 lakh A/Cs in 2019-20, 26.08 lakh A/Cs in 2020-21, and 29.10 lakh A/Cs in 2021-22 over the previous three years. The percentage shares of CBs, RRBs, and Cooperative Banks in the total amount of KCC loans disbursed in 2021-2022 were 65%, 9%, and 27%, respectively. As of September 30, 2022, the average loan amount per KCC for 2020-21, 2020-22, and 2022-23 was Rs. 43,430, Rs. 59,338, and Rs. 41,771, respectively. There are roughly 51.17 lakh cultivators in the state (Main: 7.75 lakh, Marginal: 43.42 lakh) according to the 2011 census. As of September 30, 2022, there were significantly less KCCs in operation (29.10 lakh) than there were farmers. As of September 30, 2022, the CBs, RRBs, and Co-operative Banks have issued 6.11 lakh, 1.09 lakh, and 8.13 lakh KCCs, respectively, during the 2022-2023 fiscal year.

**4. Microfinance Scenario**

Banks are viewed as the means of achieving financial inclusion under the Self-Help Group -Bank Linkage Programme (SHG-BLP) since they are required to provide a range of financial goods and services to the most vulnerable segments of society (Elayaraja, 2020). NABARD launched the nation's first SHG-Bank linkage scheme in 1992. 10.83 lakh SHGs in West Bengal were tied to savings as of March 31, 2022, and 6.13 lakh were related to credit. West Bengal's average SHG savings as of March 31, 2022, were Rs. 47,909, whereas the national average was Rs. 39,721. As of March 31, 2022, the average loan outstanding per Self-Help Group (SHG) in West Bengal was Rs. 1.80 lakh, while the average loan outstanding per SHG nationwide was Rs. 2.24 lakh.

**Table 4:** Status of SHGs in West Bengal during the last four years

Year / Particulars	2018-19	2019-20	2020-21	2021-22
No. of SHGs saving linked (Cumulative)	976358	1036985	1105714	1083052
Amount of saving (Rs. crore) as on 31 March	2819.00	3303.65	3987.58	5188.79
No. of SHGs issued loan during the year	497831	656736	589161	612782
Loan issued (Rs. in crore)	6955.77	10139.00	7516.23	11020.16
Loan o/s (Rs. in Crore)	8585.23	11271.48	12740.91	15440.15
Average Saving per A/c (Rs.)	28873	31858	36063	47909
Average Loan per A/c during the year (Rs.)	139722	154385	101692	179838

**Source:** Status of Micro Finance in India, NABARD

## Conclusion

The practice of incorporating those without formal financial services is known as financial inclusion. Closing the financial inequality requires financial inclusion. Cheaper financial services could not fully reach the poor segment of society, despite multiple government measures. Nonetheless, in the unorganised financial sector, they feel more at ease using informal financial services. Because of this, one of the most crucial subjects for conversation is still how financial inclusion affects the inclusive development of our society. But in recent times, banks' initiatives have dominated the way that the term "financial inclusion" and its associated products are understood, rather than the concerns of a larger spectrum of microfinance players, such as Primary Agriculture Co-operative Societies (PACS), Micro-finance Institutions (MFIs), Self-help Groups (SHGs), etc. Through the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), the National Bank for Agriculture and Rural Development (NABARD) has provided support to the Indian government. Financial inclusion will only proceed if the RBI, State and Central Governments, NABARD, and the implementing agencies pool their resources in order to achieve total financial inclusion and inclusive growth. It is now understood by both the Indian government and the Reserve Bank of India that consistent financial inclusion is a prerequisite for overall economic expansion. The demand for banking services and related products will rise due to a significant increase in the working population and rising disposable income. Policymakers must provide a comprehensive and functional structure to integrate the marginalized group into our nation's economic growth.

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