

Banking for Inclusive Growth: A Case Study of

Khordha District

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Abstract

Financial inclusion is a global issue and relevant equally in an emerging economy like India. That is probably why it has attracted many researchers across the country who has explored various dimensions of financial inclusion including the role of banks on it. But, most of the studies have used secondary data at country level or state level but not at district level. However, there are a few primary research studies undertaken in the past which concentrate at district level analysis but still they are either focused on perceptual mapping of people regarding financial inclusion or concentrated on services of SHGs. The present study is an attempt to fulfil this research gap by making a district level analysis in Khordha using secondary data and assessing the efforts of banking sector in bringing financial inclusion in the local economy.

Keywords: Financial Inclusion, Economic Growth, Banking Sector, Khordha

1. Introduction

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players (www.rbi.org). Financial inclusion protects low income group's financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. Banking sector in a country has been the catalyst of financial inclusion and the present study has been conducted with the broad

objective to portrait the role of banking for inclusive growth at district level local economy.

2. Financial Inclusion in Indian Economy

The term "financial inclusion" has gained importance since the early 2000s because of United Nations popularising it as an agenda, a result of identifying financial exclusion and it is a direct correlation to poverty. In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then governor, Reserve Bank of India. In the Khan Committee Report, 2005; the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. Khan Committee recommendations were incorporated into the mid-term review of the policy (2005–06). Then onwards till the time of launching the optimistic Jan Dhan Yojana by our present honourable prime minister of India Narendra Modi, banks have played pivotal role in policy implementation regarding financial inclusion in India. In a country like India also banking sector has played pivotal role for achieving inclusive growth and in order to further explore the role of banking for inclusive growth a review of extant literatures has been carried out here.

3. Banking for Inclusive Growth: A Review of Literature

A total of 57 best scholarly papers available in the area that gives current knowledge as well as substantive findings on the topic have been included for review in the present study. This review has helped understand the theoretical and methodological contributions made by past researchers on financial inclusion and economic growth. All the articles taken for review are from peer reviewed referred journals archived in any of the websites like www.proquest.com, www.ebsco.com, www.jstor.org or www.epw.in. The reviews have been ordered chronologically under the respective topics and an attempt to make distinction between studies done abroad and in India has also been made while making the arrangements. The articles for review in this section have been selected on the basis of their implications to the present study. Banya & Biekpe (2015) conducted a study with the objective to understand whether bank competition improve or decline economic growth. The results of the panel data model in this study indicates that there is positive relationship between competition in banking sector and economic growth in a country. In the same line of research, the paper by Grbic & Lukovic (2013) has empirically examined whether improvement in bank networks and their services lead to economic growth. As per the results of the study, the traditional assumption that growth in banking sector leads to economic growth has also come true for Serbia. Then Ghana is the geographical area on which the study of Idun & Aboagya (2012) is focused on and it aims beyond mere role of financial inclusion in the development of any economy. The authors suggests more regulations towards competition in banking sector and financial innovation so that there can be economic growth led by formal financial sector. In Indian context, the paper by Sukanya (2016) evaluates the expansion of financial infrastructure, specifically the banking sector in India during years. According to the author still today the financial inclusion scenario in Indian economy is not appreciable. Hence, the Government and RBI should intervene in branch expansion and branch location both so that inclusive growth in financial sector can be achieved. The study of Subudhi (2016) has been undertaken with three basic objectives: to appreciate the various innovative banking products/services being offered by the banks in India, to find out the leaders in banking innovations among public sector banks and private sector banks in India, and to examine the various technologies that can help banks in offering various innovative banking products/services in the future. As per the findings of the study, majority of the respondents believe that their banks offer very innovative products, they have not tried all the products offered,

banks will introduce more innovative products in future, Aadhaar related services can lead to more innovative products, role of social media in banking is high and this is the responsibility of the banks to educate customers about innovative products. Then a paper by Bindlish & Pooja (2013) has been written with the sole goal to indentify the general sentiments, opportunities and challenges in Indian banking sector. The authors have observed that the pre and post globalization era shown different environmental changes to the banking sector in India. However, the post globalization era has given new directions to the formal financial sector as a whole and banking sector in specific but it has also brought new challenges. The opportunities and challenges for the Indian banking industry identified by the authors in this paper are: transparency, rural market, management risks, customer expectations, human factor, growth in banking sector, environmental concerns, global banking, ethical and social issues, customer and employee retentions etc.

4. Research Gap

Most of the studies discussed in this section have used secondary data at country level or state level but not district level. However, there are a few primary research studies found which concentrate at district level analysis but still they are either focused on perceptual mapping of people regarding financial inclusion or concentrated on services of SHGs. There are no study found done at district level and considering the roles of banks on economic growth. That is why probably while describing about the impact of financial inclusion on economic growth of people often the authors have been found to be couched in 'soft' statements like: 'it seems that', 'one is lead to believe that', 'it is likely that' etc. This shows that most of the past researches are not absolutely certain about their findings and the present study is an attempt to fulfil this gap. The present study has undertaken a descriptive as well as an empirical phase of research to fulfil this research gap.

5. Problem Statement

Macroeconomic evidence indicates that banking sector has a strong positive impact on inclusive growth over a long period of time; so it is also worthy to take a measurement of inclusion achieved by intervention of banks in the economy.

6. Research Question

From the review of extant literature, the following research question has been formed that are needed to be answered in the present study: What is the level of financial inclusion achieved due to intervention of banking sector in local economy of Khordha district?

7. Research Objective

The broad objective of the present study is to analyze the current status of financial inclusion in Khordha district.

8. Research Methodology

The present study entitled: "banking for inclusive growth: a case study of Khordha district" is a combination of descriptive as well as empirical research. It is a descriptive research since it is going to identify the level of financial inclusion, their depth and breadth. It is an empirical research because the findings are based on evidences. The findings of the present study have been derived from data came from secondary sources: newspapers, magazines, journals, central and state government reports, reports from

international agencies like world bank, doctoral theses from university libraries etc. Secondary data by meaning stands for those which have been interpreted and recorded. As the sources of these secondary data in the present study has already been discussed in the previous section, its credibility can be easily adjudged. However, it is noteworthy that a major aspect of these data in the present study has been the opinions provided. Hence, there are two basic tools which are followed here: (1) trend analysis and (2) content analysis.

Trend Analysis

Through the trend analysis, an attempt to spot patterns from the information collected from secondary sources has been done in the present study. The trend analysis not only helped to predict future events but also to estimate events in the past.

Content Analysis

Through the content analysis, an attempt to make systematic observations through readings of texts or facts has been done in the present study. After labelling a large set of texts, the proportions of patterns got discovered that helped develop new insights about the subject matter.

The Sample

Odisha is one of the most poorest states of India and financial inclusion is extremely necessary in a place like it for economic uplifting of the people. As the researchers of the present study are residing in the state of Odisha and the university in which they are doing their research work is also originally in the state of Odisha, they have direct access to the field and comparatively more familiar to the culture of the state. That is why the state of Odisha has been purposively chosen for the study.

The state of Odisha has 30 districts the 30 districts in Odisha are: Angul, Balangir, Balasore, Bargarh, Bhadrak, Boudh, Cuttack, Deogarh, Dhenkanal, Gajapati, Ganjam, Jagatsinghpur, Jajpur, Jharsuguda, Kandhamal, Kalahandi, Kendrapara, Keonjhar, Khordha, Koraput, Malkangiri, Mayurbhanj, Nabarangpur, Nayagarh, Nuapada, Puri, Rayagada, Sambalpur, Subarnapur, Sundargarh. Mayurbhanj is the largest district and Jagatsinghpur is the smallest district by area and Ganjam is the largest district and Deogarh is the smallest district by population in Odisha. The state capital of Odisha is Bhubaneswar and it is in the district of Khordha. It is the largest city in Odisha and is a centre of economic and cultural importance in Eastern India. The central bank of our country which is popularly known as Reserve Bank of India (RBI) has its regional office for the state of Odisha at Bhubaneswar only. And that is why Khordha district has been always a place for first experimentation for programmes related to financial inclusion and many other programmes undertaken by RBI. Khordha was one of the first districts to introduce the concept of financial inclusion in its socio-economic policy initiatives way back in 1989. Hence, Khordha district has been purposively taken in the present study so that it will be assured that financial inclusion policies have been implemented efficiently in the area and we can go for assessing its economic impact on the people.

9. Analysis & Findings

Since the main objective of the present study is to assess the impact of banking intervention for inclusive growth in local economy of Khordha district, for fulfilling this objective there are a few indicators which are chosen. And in this context, the first indicator is sector wise achievement by banking sector in the district.

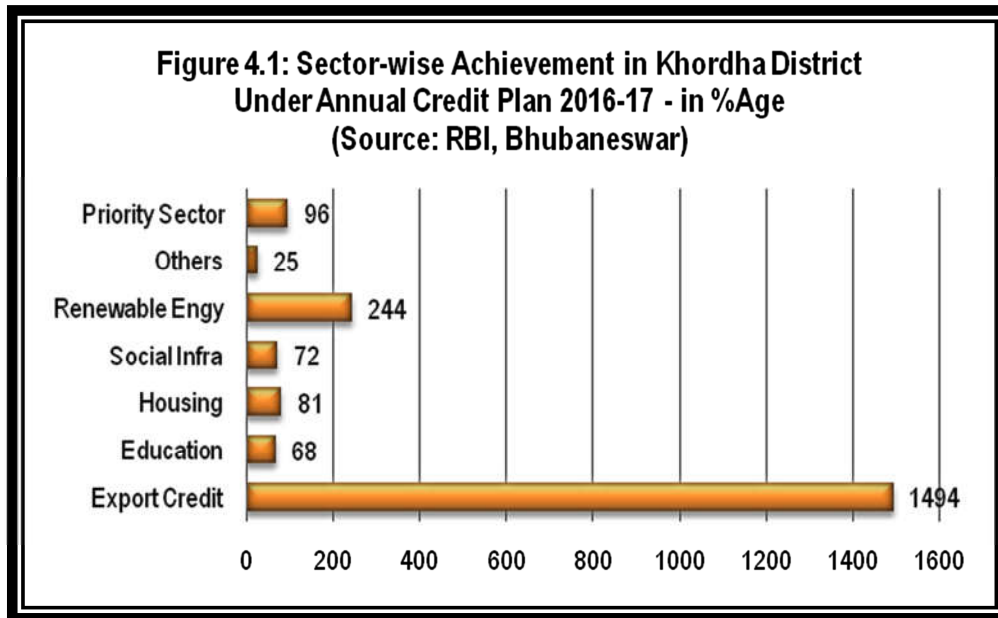


Figure 4.1. Sector-wise Achievement in Khordha District

For inclusive growth of Indian economy, fulfilment of credit needs and fund mobilization among people is necessary. RBI has taken this mandate by introducing lead bank scheme in the year 1969. The main objective behind it was to provide credit to rural regions for growth of businesses, agricultural and consequently financial inclusion of that area. In Figure 4.1, it has been shown that for the year 2016-17 as per the district credit plans for Khordha district the achievement of the banking sector is remarkable. The priority sector lending has reached 96% of its target for the year 2016-17 and export credit has come up as the most vibrant of all sectors taken into consideration by achieving a 1494% of fund allocation in comparison to the actual targets. Then the next indicator of initiatives taken by the banking sector for bringing financial inclusion in the district of Khordha has been taken to be as the banking network. In Table 4.1 it has been shown that the total numbers of bank branches in Khordha district are equal to 612 out of which more than 50% are branches of nationalized banks. There is only one foreign bank branch of Standard Chartered Bank operating in the district of Khordha. Nationalised banks, private sector banks and then SBI are coming to be in the forefront of banking in Khordha district.

Table 4.1: Banking Network in Khorda District

Heads	Number of Branches	Remarks
Total	612	Foreign Banks, Nationalised Banks, Other Public Sector Banks, Private Sector Banks, Regional Rural Banks, SBI & Associates, Small Finance Banks
Foreign Banks	1	Standard Chartered

Natioalised Banks	328	Allahbad Bank, Allahbad Bank, Bank of Baroda, Bank of India, Central Bank of India, Corporation Bank, Canara Bank, Dena Bank, Indian Overseas Bank, Indian Bank, Oriental Bank of Commerce, Punjab National Bank, Syndicate Bank, Uco Bank, Union Bank of India, United Bank of India, Vijaya Bank
Other Public Sector Banks	12	IDBI Bank
Private Sector Banks	116	Axis Bank, Bandhan Bank, Catholic Syrian Bank, City Union Bank, DCB Bank, Federal Bank, HDFC Bank, ICICI Bank, Indusind Bank, Karnataka Bank, Karur Vysya Bank, Kotak Mahindra Bank, Lakshmi Vilas Bank, South Indian Bank, Yes Bank
Regional Rural Banks	55	Odisha Gramya Bank
SBI & Associates	97	SBI only
Small Finance Banks	3	Jana Bank, Suryoday Bank, Ujjivan Bank
Source: RBI, Bhubaneswar		

The next indicator taken into account is SHGs. SHGs stand for Self Help Group which is a village-based financial intermediary committee usually composed of 10–20 local women or men. A mixed group is generally not preferred. Most self-help groups are located in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia. The linkages of SHGs with banks aims at using the intermediation of SHGs between banks and the rural poor for cutting down the transaction costs for both banks and their rural clients, to build mutual trust and confidence between bankers and the rural poor. In Table 4.2, bank wise SHGs A/Cs in Khordha district has been shown. Under the credit linkage to SHGs plan, the Utkal Gramya Bank is standing in the first position in terms active accounts of SHGs in the district of Khordha and next to it is SBI. Total no of accounts is 3937. Then under the credit linkage to SHGs plan, the Utkal Gramya Bank is again standing in the first position in terms amounts (in lakhs) granted to SHGs in the district of Khordha and next to it is SBI. Total amount of money granted is 5906 Lakhs.

Table 4.2: Bank wise SHGs A/Cs in Khorda District

Banks	A/Cs	Amount (Lakhs)
Odisha Gramya Bank	1575	2442
State Bank of India	675	1045
UCO Bank	450	675
Indian Overseas Bank	191	286.88
OSCB	169	219.38
Bank of Baroda	135	202.5
Punjab National Bank	113	162
Bank of India	101	157.5
Andhra Bank	101	151.88
Central Bank of India	101	131.63

HDFC Bank	79	94.5
Allahabad Bank	68	94.5
Indian Bank	56	73.13
Union Bank of India	23	32.63
Axis Bank	23	30.38
Syndicate Bank	20	29.25
Canara Bank	11	15.75
IDBI Bank	11	15.75
ICICI Bank	11	14.63
Oriental Bank of Commerce	11	14.63
Corporation Bank	11	13.5
United Bank of India	2	3.6
Total =	3937	5906.2
Source: RBI, Bhubaneswar		

The above performances depicted by the tables and graphs are part of the roadmap to financial inclusion for the district of Khordha drafted by RBI. Ever since the RBI indicated that it has taken the mandate to grant new banking licences, widening banking access through alternative models has gained popularity. The Nachiket Mor committee report on financial inclusion however has for the first time outlined key elements of alternative banking framework and Table 4.3 represents the roadmap for providing banking services in every village having population below 2000 - progress at quarter ended March 31, 2014.

Table 4.3: Roadmap for providing banking services in every village having population below 2000 - Progress at quarter ended March 31, 2014

Name of Scheduled Commercial Bank selected for allotment of villages with < 2000 population	Achievement								Grand Total = 5+10+11
	No. of villages allotted	BC (Bank Correspondents)					BCs-sub total =6+7+8+9	Other modes	
		Branches	Fixed Locations	Banking through BC visits every week	Banking through BC visits once in a fortnight	Banking through BC visits more than once in a fortnight			
Andhra Bank	48	1	4	29	0	0	33	1	35
Allahabad Bank	25	0	1	3	0	0	4	0	4
Bank of Baroda	35	0	12	0	0	0	12	0	12

Bank of India	40	0	0	25	0	0	25	0	25
Central Bank of India	32	2	0	30	0	0	30	0	32
Indian Overseas Bank	146	2	37	0	0	0	37	0	39
Oriental Bank of Commerce	6	0	0	2	2	2	6	0	6
Odisha Gramya Bank	446	9	0	0	0	0	0	102	111
Punjab National Bank	95	11	1	0	1	0	2	0	13
State Bank of India	247	3	0	162	0	0	162	0	165
Syndicate Bank	6	0	0	0	0	0	0	0	0
UCO Bank	115	0	0	68	0	0	68	0	68
Union Bank of India	6	0	0	0	0	0	0	0	0
United Bank of India	6	0	0	0	4	0	4	0	4
Axis Bank	0	2	0	0	0	0	0	0	2
Total	1253	28	55	319	7	2	383	103	514
Source: RBI, Bhubaneswar									

10. Concluding Remarks, Limitations of the Study & Scope for Further Research

The basic objective of the present study is to 'know the current status of financial inclusion in Khordha district' and this objective has been very clearly satisfied in this phase of secondary research. Khordha comes in the first position in terms of financial inclusion among all other districts of the state and it has been revealed from the descriptive analysis done in this section. But, the study has a few limitations like it has included a few indicators only to assess the influence of banking intervention for financial inclusion in the local economy. It is because of unavailability of data. There remains a scope for further going for a primary research phase so that the causal link between financial inclusion and economic growth can be established.

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