ROLE AND PERFORMANCE OF BANKS IN FINANCIAL INCLUSION:

A STUDY OF EAST SIKKIM

Dissertation submitted to Sikkim University in partial fulfilment of the requirement for Award of Degree of

MASTER OF PHILOSOPHY

Prepared Under the Supervision of Dr. Manesh Choubey

Submitted by
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2016.

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गुणवत्तापूर्ण प्रबंधन प्रणाली ISO 9001:2008 हेतु प्रमाणित संस्थान
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DECLARATION

I, Keshar Prasad Sharma, hereby declare that the dissertation entitled **"Role and Performance of Banks in Financial Inclusion: A Study of East Sikkim"** submitted to Sikkim University in partial fulfilment of the requirement for the degree of Master of Philosophy in Economics Department, Sikkim University.

The interpretations put forth are based on my reading and understanding of the original texts and they are not published anywhere in the form of books, monographs or articles. The other books, articles and websites, which I have made use of are acknowledged at the respective place in the text.

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CERTIFICATE

This is to certify that the dissertation entitled **"Role and Performance of Banks in Financial Inclusion: A Study of East Sikkim"** submitted to Sikkim University in partial fulfilment of the requirements for the degree of Master of Philosophy in Economics embodies the result of *bonafide* research work carried out by Mr. Keshar Prasad Sharma under my guidance and supervision.

The present dissertation is the result of his own original research work and to the best of my knowledge no part or full of this dissertation has not been either submitted to any other university or institution for award of any degree.

All the assistance and help received during the course of the investigation have been duly acknowledgement by him.

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ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to my supervisor, Dr. Manesh Choubey, for his excellent guidance, caring, patience, and providing me with an excellent atmosphere for doing research. I would also like thanks UGC for providing us UGC Non Net Fellowships.

I would also like to thank all professors from the Department of Economics, Sikkim University for valuable suggestion and comment during my thesis writing. I would also like to thank officials of State Level Banker Committee, Gangtok for providing me necessary supports and data.

I will be failing if I do not list my father Shri. Tikaram Sharma and my mother Mrs. Amrita Maya Sharma. Without their encouragement, support and love, this dream would not have been a reality.

I would like to thank Tiken Das, who as a good brother and Suman Ghimiray, who as a good friend, was always willing to help and give their best suggestions. I would also like to thank my elder and younger brother; they were always supporting me and encouraging me with their best wishes. I would like to thank my wife, Heema Karki, She was always there cheering me up and stood by me through the good times and bad.

I also place on record, my sense of gratitude to one and all who directly or indirectly have lent their helping hand in this venture.

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ABBREVIATION

ATM	Automated Teller Machine
GDP	Gross Domestic Product
FI	Financial Inclusion
FII	Financial Inclusion Index
GOI	Government of India
HDFC	Housing Development Finance Corporation
ICICI	Industrial Credit and Investment Corporation of Indi
IDBI	Industrial Development Bank of India
KYC	Know Your Customer
NABARD	National Bank for Agriculture and Rural Development
GCC	Generalise Credit Card
SBI	State Bank of India
SBS	State Bank of Sikkim
UCO	United Commercial Bank
RBI	Reserve Bank of India
PMJDY	Prime Minister Jan Dhan Yojana
SLBC	State Level Banker Committee
SHGs	Self Help Groups

CHAPTER I

INTRODUCTION

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INTRODUCTION

1.1 Background of the Study

Financial services, especially in poor countries, are considered as the important determinants of the economic well-being of the household. Earlier it has been considered that person having the bank account as financially included but now it is a broader concept. RBI has defined the financial inclusion is the way of providing services which are totally helpful for the poor and backward class which include various services like deposit, loan, payment services, money transfer, and insurance (RBI, 2008). Financial inclusion does not mean only the credit and deposit it includes various services such as insurance, money transfer (Rajan, 2008). Financial institution in last one decade played the progressive role in economic growth of the country. It has been considered that well powered financial system help to empower individuals and actively contributes to the economic development and also helps to protect individual from economic shocks. By providing financial services such as saving, insurance product and payment scheme help the low-income groups to lift them from the poverty. Access to the financial institution or financial inclusion is important to manage household income and improve their living standard in the society through improving their economic position. Poverty and finance are highly interconnecting terms, financial inclusion of the poor mean the reduction in the poverty and lead to inclusive growth which in turn means that equal opportunity for all section of people and opportunity are available for the all. A developed financial system helps poor people to bring into the mainstream of the economy and help them to contribute more actively to their personal economic development and help to increase their income (Ramji, 2009). FI is the process of providing timely and adequate credit and financial services to the poor and disadvantage groups or low-income strata at the lowest cost (Rangarajan, 2007). Dependencies on the informal sources decline due to an expansion of banks in rural areas (Goyal, 2008). Financial inclusion befitted both bankers and the users. In the user perspective, it provides the opportunity to the poor people to build saving, make an investment, and avail credit. Chances of robbery can be reduced if the entire customer has financial knowledge about how to use various services such as money transfer, mobile banking. RBI and Government also done tremendous work in order to literate people financially and work have been started by providing various schemes such as old age pension, LPG subsidy to the people account directly. It has been stated that if we do not understand the functioning and evolution of the financial system we are not able to understand long run economic growth (Levine, 1997).

In the user perspective, it provides the opportunity to the poor people to build saving, make the investment, and avail credit. If bank accounts are opened which is customize, then a problem of sending the money to the living place will be solved and people will not have to suffer. Migrants sitting in urban centres would be able to send money to their native places, without paying commission to the intermediaries and as a result, people can have faith in banks as well. The stronger urge for saving that, let the money earn for you; the better life, better living, and real income. It helps poor people insure them self against income shocks and equip them to meet the emergencies such as illness or loss of employment. If we look at the banker perspective low-cost deposit will offer an opportunity to reduce their dependency from corporate. Low-cost deposit help bank to earn a profit. A large number of low-cost benefits help the bank to manage both liquidity risk and asset liability mismatches.

Financial inclusion can be undertaken by providing access to financial product and services but financial services should be provided in a fair and equitable manner. A large number of people below the poverty line have no access to financial services due to inappropriate policy, services and loan product. Banks focus on the commercial objective with emphasis on profitability lead to poor people dependency in informal sources and they have to pay the high-interest rate in the informal sources and further their situation will be deteriorated. The everyday problem of unemployment encounter, due to unavailability of services and the large section of the people have excluded from the financial inclusion. In recent years, the Indian government has been considerably trying to make the financial system more equitable in the sense that poor people also equally benefited. The government of India has tried to widen up the banking system in rural part of the country as well. But there is still a concern that bank has not able to include the large section of the society especially excluded groups like women, unorganised sector workers, casual labourer and self-employed into its ambit (Dev, 2006). A well developed financial system allowed people access to funds, help to empower low-income group people and help them to improve their standard of living and help to take part in economic activity very well (Mohan, 2006). The formal institution is considered as more secure than an informal source. Poor household depends on informal sources such as money lenders for credit and they are unable to return the money because of the high rate of interest and as a result of that they were a force to sell their land or it may also the lead to become a bonded labour (Chakravarty, 2006).

A country like India in which large chunk of people are depending on agriculture or poor need for financial inclusion which can deliver the basic banking services such as saving, credit, insurance and other financial product at low or affordable cost is considered to be key for both economic and social reason (RBI, 2006). The importance of financial inclusion lies on the problem of financial exclusion where nearly 3 million people of the world masses do not have formal financial services across the world and nearly half of the adult population of the world does have a bank account or does not access to formal financial services such as opening an account, credit, deposit (World Bank, 2013). Financial exclusion includes in four vital areas such as saving, credit, transaction banking and insurance (World Bank, 2005). Financial exclusion is broadly defined as the inability to the access to basic financial services and section of society who are excluded from the formal financial services are marginal farmers, landless labourers, unorganised sector, urban poor people, migrants, minorities groups who is already suppressed in the society and women. The reason behind the financial exclusion is due to low income, lack of awareness, illiteracy, social exclusion, and sparse population in remote and hilly, poor infrastructure, lack of physical access, easy availability of informal credit.

There is no single factor which can hamper the financial inclusion; it has the overriding factor which can state above. There is the lack of institution credit in the rural areas as compared to urban areas in India. Some of the causes of low expansion of institutional credit in rural areas can be risk perception, high level of transaction cost, the density of population and difficult terrain and much more. Another reason may be the low level of income of the rural masses where a larger proportion of their money income used for the consumption of various goods and they are unable of to save more. Their capacity to take a loan is small as a result bank reluctant to give them a loan at frequent interval. As the result of this, they are unable to take a loan from the formal credit sources and they force to take a loan from the informal sources. They sometimes unable pay loan in time. Inability pay loan in time due to monsoon failed or low price of the product in the market cause rural people to sell their asset. Non-availability of knows your customer (KYC) requirement (document requirement for opening an account or taking a loan from financial sources) is considered to be the one of the barrier of the financial inclusion or having the bank account specially for the rural people. Access to easy, affordable and safe credit by the poor and lower income group are recognised as the most important condition for the reducing income inequality and poverty and give the way for the economic growth of the country. Financial inclusion of a lower section of the people by creating the better opportunity of equal opportunity can enable economically and socially excluded people to take part in the economic development of the country and protect themselves from economic shocks.

1.2 Financial inclusion Scenario in India

Recent years there has been a great consensus that widening of the financial system depend on the financial institution in which banking sector is considered as the most vital factor. But there is the consensus that bank is not able to cover the lower group of the population into their ambit such as marginal labour, pensioners, women, unorganised sector workers such as artisans, self-employed (Dev,2006). In Indian context financial development has seen as the main factor of economic growth (Bhattacharya and Sivasubramanian, 2003; Sahoo and Patra, 2006). It is often seen that lack of formal credit lead to the higher dependency in the informal source of credit as a result of this farmer sell their land and also the emergence of bonded labour (Chakraborty, 2007). Therefore, delivery of banking services at an affordable rate to all section of the society is considered to be urgent for both economic as well as social reason. Under the Five-Year Plan (GOI, 2006) postulate that access to financial sources especially the formal financial sources allow the poor to make an investment and reduce their vulnerability to shocks. Due to a low level of investment, there is a considerable reduction in the productivity of people and reduces the profitability of the banks and government necessitated reforms in the financial sector in order to increase the investment and increase the income of the people (Kumar et al., 2005). The Indian financial system, banking is considered as the important component of the FI but there concerns about the various issues like bank are not able to bring the vast section of poor people into an umbrella of the financial services. Under the 11th five-year plan Reserve Bank of India (RBI) has taken various initiatives to enlarge the financial services to the vast mass of disadvantaged and low-income groups. The share of priority sector in total bank credit is 31 percent in the year 2001 and which is 43 percent in the year 1990, which show a decreasing trend and again it was increased to 35 percent in the year 2006. RBI has used financial inclusion mantra in order to lift poor people from poverty. In the report RBI, it has been highlighting the banks to achieving greater financial inclusion to make available a basic no-frill banking account to those who do not have. K.C Chakraborty, the Chairman of the Indian Bank is the person who introduces the FI in the year 2005 and Mangalam is the first village in India where all people have banking facilities. Various programmes have been initiated such as general credit card for the poor and disadvantaged section of the society. RBI permitted financial institution such as the commercial bank in the year 2006 to make use of other organisation for the inclusion of people into the usage of the financial system. Reserve Bank of India’s vision for 2020 is to open nearly six hundred million new customers' accounts in the different financial institution (RBI, 2006). The government of India also announced Pradhan Mantri Jan Dhan Yojna (PMJDY) to provide a bank account to nearly 75 million people by January 26, 2015. Various programmes have been initiated by the RBI in order to achieve higher financial inclusion such as No Frill Account, Business Correspondence Model, Relaxation on Know your Customer, Electronic Benefit Transfer, Generalized Credit Card and the opening of banks in unbanked areas in the country.

One common measure of financial measure is adult population having a bank account. In India about 59 percent of the adult population is financial included and remaining 41 percent of the population has no access to banking. In rural areas, the coverage is 39 percent against 60 percent in urban areas. North Eastern and eastern region of the country is lag behind in the access of banking. Access to formal credit by rural population is still low at 14 percent of the adult population. Rural credit in India is only about 9.5 percent which shows very less in number and financial inclusion is most important in this region. According to the government of India estimated in 2008 out of 203 million households in the country 147 million are in the rural areas, 89 million are farmer household; about 51.4 percent of farm household have no access to any source of credit, even formal or informal. 73 percent have no access to formal sources of credit (Reserve Bank of India, Report on Financial Inclusion, 2013).

Recent years there has been the great consensus that widening of the financial system depend on the financial institution in which banking sector is considered as the most vital factor. But there is the consensus that bank is not able to cover the lower group of the population into their ambit such as marginal labour, pensioners, women, unorganised sector workers such as artisans, self-employed (Dev,2006). It is often seen that lack of formal credit lead to the higher dependence on the informal source of credit as a result of this farmer sell their land and also the emergence of bonded labour

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1.3: An Initiative Taken For Financial Inclusion

It is important to see the initiative undertaken by the RBI, GOI and various other financial institutions to promote the financial inclusion in the country. It is necessary to look into the various new form of financial service provider which can help to fulfil the goal of financial inclusion through the formal financial institution. In this chapter we try to cover the various initiatives taken for the promotion of financial inclusion and also try to look new form of financial service provider as well.

The enactment of the Cooperative Society Act in 1914 is considered as the first step in the institutionalisation for financial inclusion in India. The All India Rural Credit Survey Committee was establishing in the year 1954 was another effort of India towards financial inclusion since independence. Government of India and Reserve Bank of India has trying to increase banking penetration since independence the great emphasis has been put forward recently for the financial inclusion in India. Earlier greater emphasize were given to the lower section of the people or neglected section of the society. And then the importance were given to the strengthening the financial institution and try to focus on financial reform. Under this financial reform SHG bank linkage programme (1990) Kisan Credit Card (KCC), was initiated for providing credit to the farmers. From April 2005 Financial Inclusion was considered to be the major policy objective for the financial inclusion by the Reserve Bank of India.

In the Earlier stage since from the Independence to the year 1991 GOI and RBI try to include people in the formal credit sector and effort has been made on banking penetration. Since this period various initiative were made in order to equitable growth of the banking system in India. In the year 1950 rural cooperative bank were establish for the intension of providing deposit and credit towards the agriculture and small scale industry. Through the recommendation of the AIRSC to create state sponsored bank, state bank of India was establish in the year 1955. Again in the year 1969 great decision has been taken and 14 major commercial banks were nationalised and again in the year 1980 six banks were nationalised, followed by the lead bank scheme in the year 1969. To increase the bank credit to the lowest income group or the neglected section of the society priorities sector lending were issued by the reserve bank of India and again to provide credit at low level of interest to the lower income group people in the country. In the year 1970 and 1980s branch licensing policy was introduce, followed by the establishment of the regional Rural banks in 1975 to fulfil the credit demand of the lower section of the rural society who need small and flexible financial product in bigger number. 1: 4 licensing system were introducing in 1977, under bank can only open their branches after opening of bank branches in the unbanked area. Similarly NABARD was establish in 1982 which is the main body to deal with the issue related to agriculture and rural development and similarly other step like Service area approach scheme was announced which can make plan towards specific area development. During these phase of development number of bank branches increases considerably, decrease average population per branch, deposit increases and more importantly the number of people depend on the informal sources decreases considerable.

During the year 1991 to 2005 has shown a tremendous improvement in the banking sector during this period programme like SHG bank linkage scheme in 1992 and the KCC scheme was uninitiated in 2001 for providing credit to farmers. During this period special focus were given to the microfinance. NABARD scheme of KCC help people especially to the farmers where free loan were provided under this scheme. Again in 2003 SCC scheme was introduce by NABARD in 2003 for providing credit to the small borrower and rural micro enterprises like the fishermen, rickshaws owners, SHGs, self employed person, handloom weavers etc.

2005 onward GOI and RBI by have initiate number of program to strengthening our financial system. Annual policy statement of RBI 2005-06 considered financial inclusion as basic objective to bring financially excluded people in the umbrella of the financial inclusion.

1.4: The Government of India Approach

For promoting financial inclusion in India time to time GOI initiated number of measure and also issue several directive to the RBI of the country for promoting financial inclusion. Some of the step taken by the GOI as follows

- Committee on financial inclusion (2006)
- High Level Committee on Financial Sector Reform (2011)
- Review of Rural Co-operative Credit Institution
- Adaption of Electric Benefit Transfer (2008-09)
- Road Map for Providing Banking Services in Unbanked Villages with a Population of More than 2000 (2012)

- Swabhiman (2011)
- Unique Identity Number (UID)/Aadhaar (2009)
- Direct Cash Transfer (2013)

1.5: RBI Approach

Reserve Bank of as the head of the bank had great influence in the banking sector and it playe vital role in the promotion of the financial inclusion under the Annual Statement Policy FY 2005-06. Some of the measure taken by the RBI are the

- No Frills Accounts (November 2006)
- Simplification/Relaxation on KYC Norms
- General Credit Card (GCC)
- 100% Financial Inclusion Drive
- Business Facilitator (BF)/Business Correspondent (BC) Model
- Simplified Branch Authorization/ATM Expansion
- Opening of Branches in Unbanked Rural Centres
- Use of Information Technology
- Mobile Banking
- Financial Literacy
- Financial Literacy and Credit Counselling Centres (FLCCs)
- Financial Curriculum in Schools and Colleges

- Financial Inclusion Plan for Banks
- Priority Sector Lending
- Special Package for North Eastern States

1.6 Financial inclusion scenario in Sikkim

Sikkim has good banking network spread all over the four district of State. As on 30 June 2014, there were 27 banks (22 Public Sector Banks and 6 Private Sector Banks) having 95 and 18 branches respectively. Sikkim has only one cooperative bank, which has 14 branches spreading over Sikkim different places. Lead bank of Sikkim is State Bank of India; it has 32 branches all over the state. There are 74, 28, 15, and 10 different banks in East, South, and North and West district respectively. Altogether around 29 different banks in Sikkim and it consists public sector, the private sector and cooperative banks. There are 148 ATM in the state of Sikkim. Around 103 and 6, 26, 13 ATM in the north, south and west district respectively. The share of public sector banks was recorded as 86.4 percent whereas private sector bank is 9.13 percent (SLBC Report, 2014). Although the share of the cooperative has only 4.40 percent which is much lower than the public sector banks. The share of Public Sector Banks and Private Sector Banks in advances portfolio was 80.54% and 17.11percent respectively in the year 2012-13, whereas the share of a cooperative bank has been only 2.35percent (SLBC Report, 2014).The CD Ratio extended by the banks operating in the state for the current year, was poor and stood at 40.10 percent while CD Ratio of both the Public Sector banks and State Cooperative bank stood at 30.40 percent and 39.70 percent respectively, the CD Ratio of private sector banks was encouraging and stood at 131.67 percent (SLBC, Report, 2013). After taking into account the outside credit the CD Ratio as on 31, March 2013 stood at 74.60% against

64.60% as on 31.3.2012. The CD ratio of commercial banks stood at 76.20% as on 31.3.2013 as against.64.57% as on 31.3.2012. (SLBC, Report, 2013).

Sikkim comes under the best mountain state in terms of financial inclusion and no block in Sikkim is unbanked. Around 43 villages with over 2000 population in Sikkim have been extended to banking facilities through bank branches and business correspondence model. 989 villages with a population below 20000 in Sikkim are being covered in a phased manner. Chief's Minister's Universal Financial Inclusion scheme which was launched by the chief minister of Sikkim in 64th Independence Day celebration and till now three gram Panchayat Unit in East District in Sikkim facilitated with the transaction of MGNREGA payment through bank.

1.7 Financial Inclusion in Present Day Context

Financial inclusion is no longer the establishment of the account but it is the wider concept, it's the way of availing of save banking product to the customer. To bring the deprived and lower privilege group into the process of development (GOI, 2006) has made the development model under the 11th Five Year Plan. Objective set for the inclusive development which is nothing but the higher level of financial inclusion. It has been found that country with high level of income inequality tends to have higher level financial inclusion and India is the country where the income inequality is very high. Bank is main medium to mobilise the rural saving and it is also crucial to attaining economic objective which set to be higher and equitable growth of the country. Now the question arises how this can be achieved? However, it can be achieved through expanding banking branches in the villages. Inclusive banking is the medium of attaining sustainable and economic inclusive growth (Joseph, 2007). Countries with banking development are considered as the good predictor of the economic growth because with an efficient banking branch in the unbanked area can lead to inclusive growth through the different financial product. According to Sinha and Arvind (2007), in India's society and economy financial inclusion has the multiplier effect.

1.8 Limitation of the study

The limitation of the study is that study does not used payment, mutual fund, money advice etc which are equally important part of the financial inclusion. The study covers the East Sikkim, whereas there are four districts. Study does not include the four districts for primary survey because of the limitation of the time. In East Sikkim also we considered only six villages because of the shorter period of the time. Moreover study tries to examine the financial inclusion among the household in selected village in Sikkim. Further study is only considered the role of the commercial bank in the financial inclusion because of the unavailability of data on other financial institution of the state.

CHAPTER II

REVIEW OF LITERATURE

CHAPTER II

REVIEW OF LITERATURE

The theoretical literature available on financial inclusion deals with the number of dimension. The present review has been categorised into the four subheadings, each of the issue deal with an important issues. This are categorised into concept and definition of financial inclusion, role of financial inclusion on the economic growth, role and performance of banks in financial inclusion, determinants of financial inclusion.

2.1 Conceptual Framework

In theories of economic development it is advocated that the lack of access to finance is a critical reason of income inequality as well as slower growth. Many financial institutions has been playing important role to bridge this gap by providing various financial services and product to lower section or low income groups people in a free and fair manner. Financial inclusion is the process of providing financial services to the lower strata of people (Archana, 2013). Financial inclusion particularly benefited the poor and reducing the income inequality (Divya 2013). It is the process of access, usage and availability of financial product and services to the people of the economy (Sharma and Kukreja, 2013). Financial inclusion means the availability of the financial service to weaker section of the society at low and affordable rate. Financial inclusion not only provides credit to the small farmers but it also provides credit to the nonfarm activity in the villages to uplift the poor people from the poverty. It includes micro credit; branches of banking, no frill account, saving product, old age pension, microfinance, SHGs, entrepreneurial credit etc. Study will try to analyse the role of bank in the financial inclusion of the Sikkim growth and economic development.

There are two basic measures for measuring financial inclusion is supply and demand side. Providing the financial market, services that people want are comes into the supply side. the demand side issues in financial inclusion includes knowledge of product and services, credit absorption capacity of the financial institution etc. the supply side also cover the financial market, network of branches, appropriate design of the product and services etc.

Access does not mean use of financial services, this two are different term. Access to financial services means availability of branches, ATM, correspondence, mobile and internet banking and use of financial services refers to the using of some services like deposit, loans, insurance, transaction, pension, and investment etc. People are using formal as well as non formal financial services. Non financial inclusion user is of two types that are voluntary and involuntary. Voluntary exclusion people do not used services either they not require or due to cultural or religion reason behind this. Involuntary exclusion includes insufficient income, high risk, and lack of information, discrimination and price of product. Indicator of the financial inclusion is categories in four component, Macroeconomic, access, Usage and Barrier. Macroeconomic indicator includes private credit GDP, Total deposit GDP, Literacy rate, poverty etc. Access indicator includes, branches, ATMs, banking agent, Mobile banking and internet. Usage indicator includes, deposit, credit, insurance, pension, investment, transaction. Transaction cost, distance comes under the barrier indicator. In quantitative indicator we can use gender, caste and religion, age group, education level, ATM, internet banking, mobile banking, service fulfilment like deposit, withdraw money, fund transfer, investment, bill pay, loan etc. In qualitative indicator we can use customer education, credit counselling, risk minimisation, innovative, speed of service, easy to used, efficiency, responsiveness and problem handling etc.

2.2. Study Based on Concept of financial inclusion

For developing the conceptual framework and underlying the factor which affects the FI, it is important to define FI in an effective way. It has been found from the literature that there is no universally accepted definition and it depends on the level of economic, social and financial development of the native places. According to the finance minister of India in 2006-07 budget speech, financial inclusion is defined as ‘’the process of ensuring access to timely and adequate credit and financial services by lower section or vulnerable group at an affordable cost’’ union budget, (2007-08).

According to Leyson and Thrift (1995) financial exclusion means to prevent some group from accessing the financial services. It may be due to low level of income or the lower level of education qualification.

Sinclair (2001) define financial exclusion as inability of the different individual to access financial services due to various reason like prices, problem related to access, condition of the individual etc. Similar attempt has been made the RBI (2008) in which RBI categorized the definition of financial exclusion as the degree, focus and breath of the exclusion.

However Bermanke (2006) put a dimension in different way as he consider to understand the FI , effort has to be made in understanding need of the customer so that they can use financial services in the better way.

Vein Committee Report on Financial Inclusion (2008) stated that the process of ensuring access to financial services and timely adequate credit where needed to vulnerable groups such as weaker section and low income groups at an affordable cost.

Suryanarayan (2008) attempt to conceptualise the FI in the year 1904, period where the cooperative moment were started and highlight the issue of the 1969 nationalisation of the 14 banks, then it gained momentum when lead bank scheme were initiated and banks branches were establish in many parts of the state. These exclusion from the financial sources lead to the reduction in the GDP as a result RBI has initiated Mid Term Review of Monetary Policy (2005-06) in order make FI as the major objective of the banks.

World Bank (2008) defined FI as the broad way of accessing the financial services without any price or non price barrier

Mehrotra et al., (2009) Voluntary exclusion' refers to those who claim that they do not want a financial service, even if they are not disallowed by the institutions. Whereas 'involuntary exclusion' refers to all those who would like to avail the financial services but are unable to do so because of some barriers. The challenge of financial inclusion is the 'involuntarily excluded' as they are the ones who, despite demanding financial services

Thingalaya et al., (2010) define FI as the access to easy, fair and transparent financial services to all people. In India the concept of FI arise just after the liberalisation policy started by the GOI in the year 1991, it is therefore important to understand the concept of financial exclusion.

World Banks Spring Meeting (2013) Together, must build inclusive financial sectors that help people improve their lives." More recently, Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted on 24 April 2013 progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: "Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leaderships.

2.3 Role of financial inclusion in economic growth

Ramji (2009) analysed the financial inclusion in Gulbarga by collecting primary data. study found that the there is negative relation with the bank account and the NREGA, which implies that people open account when government of India made mandatory rule for receiving payment of NREGA through bank before that many people does not have bank account. Cost of travelling to the bank is about 20 rupees from study area and average weekly save for the SHG is 10 rupees which means it cost twice to visit bank so study find that people prefer to save elsewhere.

Bhatia and Charterjee (2010) examined the role of financial inclusion in the slums of Mumbai. Study found that only one third of the urban slum dweller had bank account. Study revealed that there no respondent which has bank account in private bank. Surprisingly only one or two respondent are aware of the rate of interest prevailing in the bank. Study also found that only 96 percent of the respondent has proof identity, it may be no proof identity they could not open the bank account.

Ghatak (2013) analysed the demand side factor effecting financial inclusion. Study found that accessibility, culture, asset, literacy and income are the important factor of the financial inclusion and against it most significant factor is accessibility. Correlation result also shows that accessibility has the highest correlation which is followed by literacy, income, culture and asset.

Kukreja (2013) study the role of financial inclusion and its need for the social and economic development of the society has been defined. Study found that financial inclusion has playing important role in economic development of the country. study stated that even various effort made by Government and Central bank nearly half of the population still not aware about the financial inclusion and they are largely depend on money lenders.

Sahu (2013) analysed the role of commercial banks on financial inclusion and economic growth in India. To show the relationship between index of financial inclusion and net capita state domestic product study has used regression analysis and found that this two are positively associated with each other. Study found that no state in India belong to high index of financial inclusion and only two state Delhi and Chandigarh belong to medium IFI and rest belong to low IFI.

Fadun (2014) study examined role played by the financial inclusion for alleviate poverty and redistribute income in developing countries, with special reference to Nigeria. It explore the financial inclusion efforts made at the global level, and highlights the financial inclusion strategy developed in Nigeria. It has been found that the number of Nigerians that are excluded from financial services decreases over the year. The findings indicate that financial inclusion constitutes important tool for alleviating poverty and redistributing income in developing countries, particularly in Nigeria.

Jagtap & Barhate (2014) The research study includes study of sector wise credit allocation in Thane district for the year 2009-10 to 2012-13 and study focuses on the activities of lead bank in Thane. It was found that the Lead Bank has a greater impact on the country's economic growth and development. The scheme has been made successful in providing credit mainly to the low income group of people in the society and promoting coordination among different agencies for the development of the country the year 2009-10 to 2012-13.

Mir et al, (2014) tried to analyse the progress of financial inclusion in state Jammu and Kashmir, study found that over the year total credit in the Jammu and Kashmir shows an increasing trend. It has also been found that this credit include both priority and non priority sector of the state.

Mor and Anand (2015) attempt has been made to see the role played by ICICI bank and also tries to focus on empirical issue. it has been found that from the empirical study that financial inclusion has positive impact on the poverty alleviation and the growth of the country.

Kananth, R. (2015), the emphasis as to be on innovation and creating financial instruments, which capture the advantages that borrowers receive in taking loans from the informal sector. Recognition of the role of social collateral embedded in National Bank for Agriculture and Rural Development led self-help group (SHG)-bank linkages, the need for a hassle free, no frills bank accounts and issuance of timely credit through the KKC are only a beginning in this direction

2.4 Role and Performance of Banks in Financial Inclusion

Srinivasan (2007) examined the policy issue and role of banking system in financial inclusion. Study found that present branch network and staff strength are not sufficient for business expansion. In the year 1996-2005 it has been found that 10 percent reduce in the employee whereas 6.3 percent increase in network. The study has been made to relate the number of deposit account and loan account of the commercial bank. Across the country 193.6 million household, 466.7 million deposit accounts are held with commercial banks. Study also found that there are 10 states where more than half the adult population does not have deposit account.

Venkataramany (2009) this paper recognizes the overwhelming efforts of the Government of India and focuses on the success of the linkage between commercial banks and self-help groups (SHGs). The SHGs comprise mostly women groups help in the social cause of lessening of poverty, , increase of sustainability, reduction of helplessness, improvement of capacity building and help the weaker sections build resources.

Rai and Saha (2010) attempted to study the operationalisation of no frill account on financial inclusion. Study highlighted the two steps procedure for the financial inclusion in first stage considered the opening of the financial services and second stage considers the use of these services by the customer. Finding of the study reveal that the opening of the no frill account is beginning of the financial inclusion and further extension activity are needed to use these services by innovative thinking, providing financial literacy, hard work etc.

Rachana (2011) analysed the financial inclusion and cooperative bank in Gujarat by collecting data from 200 household. Study found that out of 200 respondent only 17 percent doesn't have bank account. Study found that there is positive impact of job in the bank account and negative impact of gender on their bank account. Education also showed positive impact on the opening of the bank account.

Raman (2012), attempts to analyse the financial inclusion and growth of Indian banking system by secondary data and descriptive and empirical study had been used to analyse the role of RBI. Study revealed that 41 percent of the adult population doesn't have bank account and 39 percent of the rural household and 60 percent of the urban household had bank account and in the credit market only 14 percent of adult population has loan account in bank. Finally study concluded that bank has played an important role in financial inclusion.

Anjum and Tiwari (2012) examined the role of private sector bank in the financial inclusion. Study revealed that ratio of gross state domestic product and bank branches had little correlation. There is positive association between number of branches and economic variable in many states.

Mishra (2012) Study tries to analysed financial capability and saving very low income earner. The study are to provide a critical review of facts about the low-income people's financial savings & the role of commercial banks depth, the programs used to promote their saving capability & aware their knowledge about financial product, services and the information uncovered about the programs by evaluation. The lack of a full-fledged banking system has often been identified as a major weakness of the centrally planned economies.

Nalini and Mariappan (2012) try to analyse the measure taken by banks in financial inclusion, difficulties involved in adoption of financial etc. Study found that about 56 percent of the exclusion is due to illiteracy and 64 percent felt that adoption of financial was neither easy nor difficult.

Another study done by Gupte et al (2012) tries to analyse the banking dissemination by using household level data of India and Kenya. First study computes the financial inclusion index for the India. The study has using four critical dimension like outreach, usage, and ease of transaction and cost of transaction following the method used by UNDP in computing HDI. Using the above four dimension indices study found that improvement comes largely through better outreach that is geographic and demographic branch penetration and geographic branch and ATM also play a vital role in financial inclusion. Cost of transaction and annual charges for ATM cards on account were actually reducing the cost level of financial inclusion. Other study found that with the advancement of the banking branches in Kenya (Equity bank mainly) had improve the access of credit of the lower section of the population and clams that with the expansion of banking services at the rural level probability of having the bank account and uses of bank account has considerably increase.

Archana (2013) Paper was directed towards understanding the importance towards financial inclusion. Paper tries to analyse the role of institution like MFIs, RRBs, and SHGs towards financial inclusion. Study found that despite various initiative taken there are still many obstacles in financial inclusion. Study recommend that both private and public sector should go together to overcome this problem.

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Parameshwara and Raghuma (2013), attempt to analyse the role of banks in financial inclusion by taking secondary data from different sources. Study found that despite various attempt made by government of India and central bank still majority of people do not know the concept of financial inclusion. Study recommended that it is essential play major role to include this excluded people into financial inclusion through financial literacy.

Tamilarasu (2014) examined the role of banking sector on financial inclusion. Study found that household with low income group is not able to open account on the bank.

Study also found that number of banks, population per office showing the decreasing trend and aggregate deposit and credit showing the positive trend. Granting credit by the bank also shoe positive trend in study period.

Vijayudu (2014) Study attempt to highlight the role of Public, Private, RRBs and Foreign Banks in financial inclusion. Attempt has been made in order to show the progress of financial inclusion plans during 2013-14. Study found that banks have succeeded in increase the penetration of bank branches and opening of 10 Million NFAs and payment and settlement system also show healthy growth. Commercial Banks have not benefited from the financial inclusion in terms of deposit and not get any profit from of transaction.

Hameedu (2014) tries to identify the issue of measurement and Analysis of Financial Inclusion. Study found that 50 per cent of adult population worldwide report owning an account with a formal financial institution, but actual operation and use of these accounts for transactions varies widely across regions and economies.

2.5 Determinant of Financial Inclusion

About half of the world adult population is excluded from formal financial services (Beck et al., 2007). According to Thingalaya et al (2010), appropriateness of the financial products/services and how their availability is marketed are crucial in financial inclusion. Sinha and Subramanian (2007) express the similar view that the consumer/clients don't want to settle for cheap, stripped-down versions of mainstream products. They want attractive offers. The poor economics of serving this group, however, undercuts the formal sector's ability to develop products for them. Many offerings in the informal sector provide features like suitability, timeliness, convenience, flexibility, adequacy and better understanding of the demands of the needy, etc., whereas most offerings in formal sector are comparatively rigid, unsuitable and inconvenient. This gives the informal sources an edge over the formal sources.

Wambua & Datche (2013) Analyze the innovative factors that affect financial inclusion specifically focusing on perceived risk on innovated channels, trust and confidence on innovated delivery channels, user friendliness of innovated delivery channel and anti-money laundering requirement on the innovated delivery channels in Mombasa County. The study utilized the descriptive survey research design with quantitative and qualitative approaches. The target population for the study was 20,585 equity customers operating in 5 branches within Mombasa County. The sample size for the study was 2000 customers. The study found that innovated channels of distribution are generally underutilized, the banks that roll out new channels of distribution such as Agency banking, E-Banking and M-banking are still experiencing influx long queues inside their banking halls especially at enquiry and customer service counters despite these innovated channels .

Divya (2013) examined the impact of financial inclusion on daily wage earner. Research finds that married wage earner are utilizing financial inclusion as compared to unmarried. study also found that more people are working in the public sector are utilising financial inclusion against people working in the private sector and male participation is higher as compared to women in financial inclusion. Another study Uma et al (2013), examined the impact of bank led financial inclusion model on the socio economic status of Saral saving account holder. They used primary data through the Random sample survey method. To see the changes in economic condition electricity consumption, toilet, electronic goods, vehicles, tools and equipment has been used. Study used the chi square test and t test has been utilised. Study found that there was a positive impact of this variable on the financial inclusion and there is a positive change has occurred after the financial inclusion.

Bajrang and Kumar (2013) study the role of self helps group in financial inclusion of Narnaul Block in Haryana. Study used primary data on factor associated with financial literacy, financial inclusion, economic decision and participatory democracy. Study found that member is unaware about the service provided by the commercial bank and they don't have post office saving as well. After joining the SHGs they open a group account but they do not have individual account except one member.

Uma and Rupa (2013) highlight the role of SHGs in financial inclusion by collecting primary data. Study found that after joining them group number of bank account has enormously increased. Annual repayment of the loan and credit availed by the member also show positive trend. Research also found that NGO and banks has actively participating in SHGs activities.

2.6 Research Gap

Well-functioning financial systems serve a vital purpose, offering savings, payment, credit, and risk management products to people with a range of needs. Inclusive financial systems allowing broad access to appropriate financial services are especially likely to benefit poor people and other disadvantaged groups. Majority Sikkim's people especially live in rural areas and financial inclusion is the need of the people in Sikkim. One of the special ways to lift people from the poverty is to through inclusive growth, so this can be done through the financial institution like bank. Much study has been done in national and state level but very few studies have been done in household level. And till now no such study has been done in Sikkim so far, so this study will try to fulfil this gap**.**

2.7 Statement of the Problem

Financial institution has playing important role in economic development of the country. still large number of rural people are excluded from the banking services due to high cost of reach bank, chances of robbery, low income etc. If we look at the case of Sikkim about 85 percent of the population are live in villages and most of them are financial excluded because of various reason. The financial excluded section largely comprises marginal framers, landless labourers, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizen and women. To achieve greater financial inclusion, financial services should reach the poor of socially excluded group's particularly poor people. Micro finance, Banks and other financial institution has played a vital role in filling up this gap. The availability of easy credit is more important in the financial inclusion agenda as the poor people access timely and adequate credit. Due to wide geographical coverage and large volume of banking business commercial banks played a vital role in Indian financial system.

2.8 Research question

The study attempt to probe into the following specific research question

- What is the status of financial inclusion in Sikkim?
- How far the banks succeeded in serving the financial excluded people into the financial inclusion?
- What are the reasons of Financial Exclusion in selected villages?
- What are determinants of financial inclusion in selected village?

2.9 Objective of the study

- To estimate the status of financial inclusion and its role in economic growth in Sikkim
- To know the role and performance of banks in the financial inclusion of Sikkim
- To find out the determinants of financial inclusion in the selected villages
- To suggest policy for financial inclusion in Sikkim

2.10 Hypotheses

- Growth in number of deposit and credit account has positive impact on the economic growth of Sikkim.
- Financial inclusion depends upon Socio economic status of the households

CHAPTER III

METHODOLOGY

CHAPTER III

METHODOLOGY

The present study is an attempt to find out the financial inclusion among the rural people of East Sikkim. The present study covers the period from 2005 to 2015. This chapter employ the way of collecting data, statistical tools used for data analysis and model used for the study area.

3.1 Data Source and Methodology

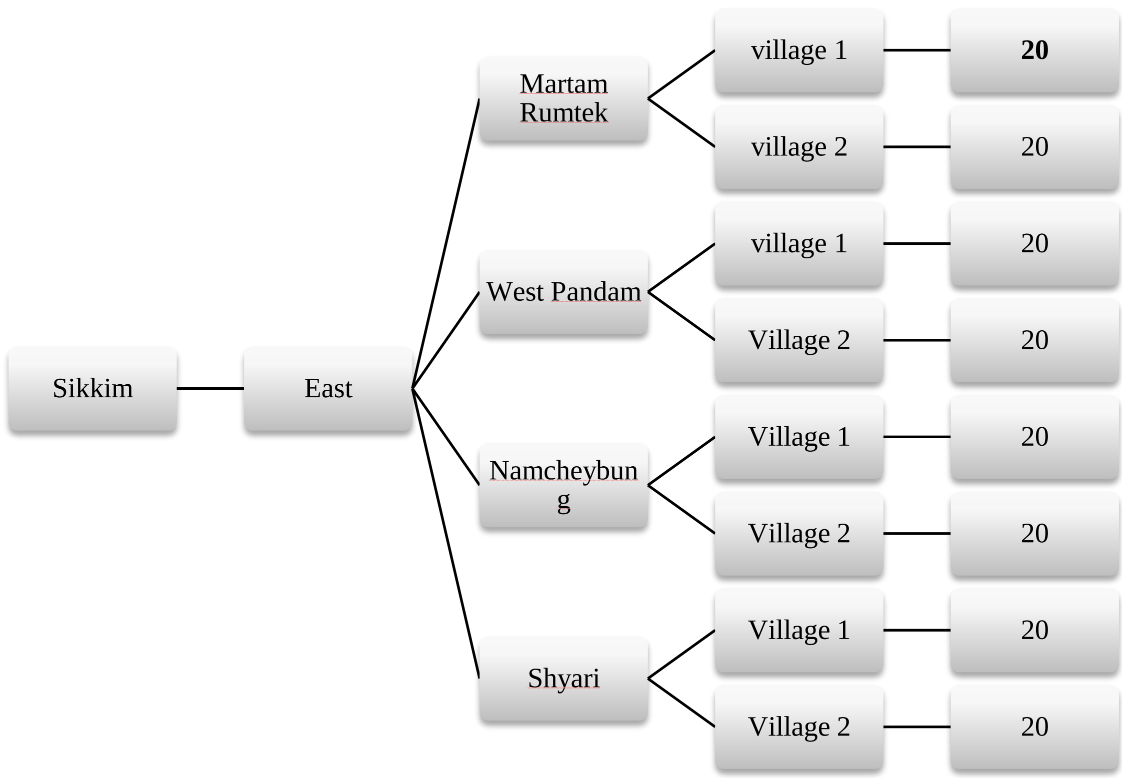
Present study has been carried out on both primary and secondary data sources. Data on different aspect of financial inclusion of the state have been collected from the Reserve Bank of India, State level Bankers Committee Report, Census of India, NABARD and various round of NSSO survey, Directorate of Economics and Statistics Sikkim, Planning and Development Department Government of Sikkim, other publish source like Planning Commission of India and Various independent studies and report. This secondary data was providing us broad pictures of a status of Financial Inclusion in Sikkim. Further Primary data will be collected from the household level survey, which was conducted in 120 household from 6 villages of East Sikkim.

3.2 Sampling Design for Primary Data Collection

Primary data has been collected with the help of technique of stratified random sampling. In the first step East Sikkim were chosen for the study depending on the distance from the main market. Firstly three constituencies were identified for the sample and from each constituency two villages were chosen. Villages have been chosen according the distance from the market. Two villages namely Marchak and

Nandok have been chosen which is nearer to the main market. Again two villages namely Syari and Nandok have been chosen which is little far away from the main market as compare to Marchak and Nandok. Lastly two villages East Pandam and Ahoo were chosen which about 8 kilometres away from the main market. From Each village 20 household have been selected at random from each village and total 120 household from 6 villages has been gathered at random as ultimate sample unit for observation.

Table 3. 1: Sampling Design for Primary Data collection



3.3 Analytical Methodology

Banking system is playing the significant impact on the promotion of financial inclusion in the country and present study contextualization of financial inclusion in Sikkim is mainly considered the banking inclusion. Due to the limitation of the secondary data study tries to look financial inclusion through the household level data. First study has been trying to compare the financial inclusion of Sikkim and India. To look into the banking inclusion various indicators has been collected from secondary sources. To measure the financial inclusion at district level comparison, secondary data has been collected from the different sources. To investigate the present status of financial inclusion, primary data has been collected from six villages of East Sikkim.

To investigate the financial inclusion in the Sikkim, we used the total deposit, total saving with saving account and deposit account. To investigate the role of banks in the economic growth of Sikkim, we used the Gross Domestic Product of Sikkim. Study has been carried out on the basic of three services credit, deposit and insurance as well as the number of socio economic variable. Index of financial inclusion has been developed to measure, extends of financial inclusion in Sikkim as well as the household level. Demand side FI index has been calculated. In order to compute financial inclusion index of demand side we used six indicator and index for loan is calculated separately because loan has been taken from the formal, semiformal and informal sources, whereas other indicator has been consider only the formal sources.

Very limited literature is available for measuring financial inclusion through using index. The first index was developed by the Sarma (2008) to measure the extents of the financial inclusion and variable like number of account, total deposit and credit, number of bank branches and proportion of GDP have been used. Formulation for measuring financial inclusion index is similar to that of the formula used by the UNDP to measure development index. Similarly by using variable like number of rural bank branches, number of deposit account, borrowing from banking, which was measure for sixteen big state of India by Mehrotra et al.,(2009). World Bank (2008) used the data from 51 countries to show the percentage of adult population who use the formal banking services. Similarly another study which has been done by using the FI index was the Kumar and Mishra (2011) which used both demand and supply side FI index. Das and Choubey (2014) attempt to measure FI by looking at the demand and supply side indicator for constructing separate composite index at both formal and informal sources. Similar indicator has been used in our study.

For measuring demand side of financial inclusion we use six indicators for formal sector-

- Proportion of household having bank account per village
- Proportion of household who save money per month per village
- Proportion of household having insurance per village
- Proportion of household using ATM card per village
- Proportion of household using mobile banking per village
- Proportion of household having No Frill account per village

$FII^{D}_{F} = \quad (\Sigma_q Y^{t}_{qs})/6$

Where,

Y^{t}_{qs} is the value of indicator q for the village at time t q = Formal bank account, formal save, formal insurance, using ATM card per village and number of No. Frill account, using mobile banking.

Financial inclusion index for formal, semiformal and informal loan calculated separately. It has been measure separate because it was found from the survey that people are borrowing money from formal, semiformal and informal sources. For this three indicator were used such as

- Proportion of household having formal borrowing
- Proportion of household having semiformal saving
- Proportion of household having informal saving
- $FII^{D}_{F} = \quad (\Sigma_q Y^t_{qs})/3$

Where,

Y^t_{qs} is the value of indicator q for the village at time t

q Is the formal, semiformal and informal borrowing

The normalisation has been done in order to make the value lie between 0 and 1, where value 1 represents the totally financial inclusion and 0 represent the totally financial exclusion

In order to look at the role of different banking indicator in the financial inclusion in Sikkim the Ordinary Least Square Regression method has been used. For calculating OLS estimation, data has been collected from the secondary sources. For this data is used for the year 2005 to 2014. The formula used for running the regression is

$Y_i = B_1 + B_2X_1 + B_2X_2$

Where,

Y_i is the Gross Domestic Product of Sikkim

X_1 is deposit account

X_2 is the credit account

Ui is the random disturbance term

3.4 Model Specification

In order to see the impact (determinants) of various socio economic factors on financial inclusion we used the binary probit regression model. For this dependent variable is dichotomous in nature which take the value zero and one. The statistical software Stata 10.0 was used to carry on the probit regression. Account, Loan and insurance were taken as the dependent variables and various socio economic variables as the independent variables. The dependent variables is dichotomous in nature, implies that if the person has Account, Loan and Insurance taken the value 1, 0 otherwise.

In probit model, assume that the ith household who financially included or not depends on an un-observable utility index I_i (known as latent variable), which is determined by one or more explanatory variables X_i, in such a way larger the value of index I_i, the greater the probability of a household being financially included.

$I_i = B_x + U_i$-------------------------------- (i)

I_i (BV) = 1, if the respondent belongs to formally included category

= 0, otherwise, that means

I_i =1: if the person has bank account, loan and insurance

= 0 otherwise, now it is reasonable to assume that there is a threshold or critical levelof the index, which is I_i^*, such that if I_i exceed I_i^*, the household will financially included, otherwise it will not. Threshold I_i^* , like I_i, is not observable, but if we assume that it is normally distributed with the same mean and variance, it not only to estimate the parameter of the index give in equation (i) but also to get some information about unobservable index.

Given the assumption of normality, the probality that I_i^*, less than or equal to I_i can be compute from the standardized normal cumulative distribution function (CDF).

$P_i = Pr(Y=1/X) = Pr(I_i^* \leq I_i) = Pr(Z_i \leq BX) = F(BX)$

where Pr (Y/X) means the probability that the respondent are financial included given the value of the X variables and Z is the standard normal variable (with zero mean and unit variance), F is the standard normal CDF, which can be written as:

$$F(BX) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{BX} e^{-z2}/2dz$$

$$= \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{\beta 1+\beta 2Xi} e^{-z2/2} dz \text{...} \quad (ii)$$

Since P represents the probability that household are financially included and it is measure by the area of the standard normal curve from -∞ to I_i. F is called the probit function.

Independent variables used in the study are Age, gender, education, occupation, no. of family member, per-capita income, no. of adults, no. of children studying, types of house and whether person is member of SHGs or not.

Therefore model fitted for the study is

$$Y_i = B_1 + B_2AGE + B_3GEN + B_4OCC + B_5FM + B_6ADU + B_7EDU + B_8HOU + B_9CHI + B_{10}PCI + B_{11}SHGS + U_i$$

Where

Y_i is the depth of the financial inclusion which takes the value 1 if the person has account, loan and insurance and 0 otherwise.

AGE: Age of the respondent

GEN: Gender of the respondent (takes value 1 if male 0 otherwise)

OCC: Occupation of the respondent (takes the value 1 if the person is employed, 0 otherwise)

FM: number of family member

ADU: number of adult in the family

EDU: education of the respondent

HOU: house of the respondent (takes the value 1 if the person has pucca house, 0 otherwise)

CHI: number of children in the family

PCI: per capita income of the family

SHGs: whether person is member of the SHGs (takes value 1 if the person is member of the

SHGs 0 otherwise

U_i= random error term

3.7 Expected Sign of Variables

Various factor are effecting the depth of financial inclusion which determine the extent of the financial inclusion (Rangarajan, 2008; Dev, 2006; Sinha and Subramanian, 2007). However, because of unavailability of data and the context of present study, following variable have been selected as the independent variable.

SGE (Age of Respondent): Age can play the crucial factor in determining the FI among the respondent. Age may impact on different way if person is belong to working age group than it is high chance to be financial included or he may prefer to save money for the future. If the person categorize as working age then coefficient of variable is expected to be positive.

GEN (Gender of the Respondent): This variable is dichotomous in nature which take value 1 if the person is male: and 0 otherwise. The relationship between FI and GEN might exist positive if the person is male because man is one who take care of all economic needs of the family member.

OCC (Occupation of the Respondent): this is dummy variable taking 1 if the person is employed; 0 otherwise. The expected sign for the OCC is positive if the person is employed, because good income of the household tends to be financially included.

ADU (Number of Adult in the Household): There may be two expected sigh for the number of adult member in the household. If the household have more than one adult member and if all of them are working then there were high chance of financial included and expected sign is positive and negative otherwise.

EDU (Level of Education Attainment of the Respondent): Education may affect the using of financial services of the respondent. There may be positive relation between the education level of the respondent and using of the financial services. Higher the level of education higher will be the chances of being employed as a result person may used different kind of financial services.

HOU (Types of House or Ownership): This variable take the value 1 if the person has their own house; 0 otherwise. Expected sign for this is positive because their might be positive relation between ownership of house and FI. if the respondent have their own house then they don’t have to pay any rent as result small part of their income remain in their hand and this money can save for future.

CHI (Number of Children in the Household): more the number of children in the household more will be the consumption expenditure as result person are not able to used any financial services because most of the income of the household were spend for the consumption purposes. Therefore expected sigh for this is negative.

PCI (Per Capita Income of the Respondent): The relationship between the FI and the PCI expected to be positive because higher per-capita may tends people to use financial service.

SHG (Whether the Respondent Belong to Member of Self-Help Group): Expected sign for this is positive because if the respondent is member of SHGs than they may do some type of economic activity which help them to earn income as a result they may use financial service.

CHAPTER IV

OVERVIEW OF THE STUDY AREA

CHAPTER IV

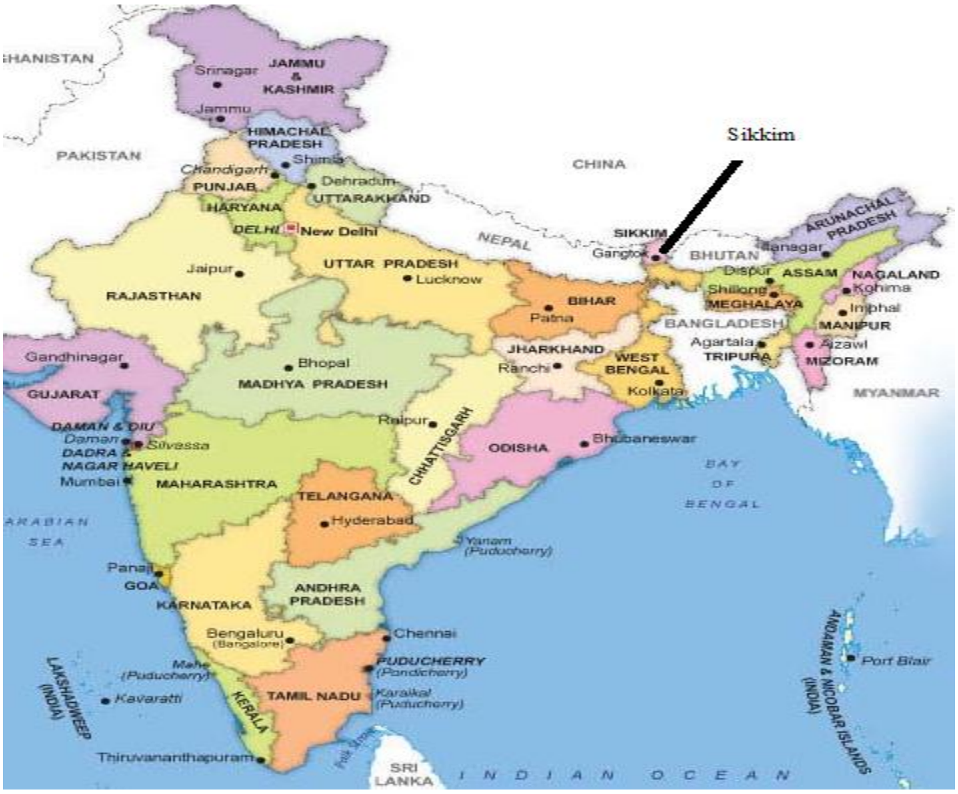
OVERVIEW OF THE STUDY AREA

4.1 Introduction of the Study Area

Sikkim is the least populous state of India, having population around 610577 in 2011 census. In terms of land area it is ranked in second after Goa with an area of 7096sqkm and almost the entire area is mountainous. Population is unevenly distributed across the four district of the Sikkim. In the north Sikkim the population density is 10 persons per square kilometre. The total area of north Sikkim is 4226 square kilometre, which occupy largest area of the state but in terms of population there is only 43709 across district. Around 46 percent of the population reside in the east district of Sikkim and density of the population is 297 and area comes under the east district is only 954 square kilometre. The world third highest mountain Khangchendzonga (8586 metres) is located in India. Sikkim is considered for the hop tourist destination. Sikkim has many mountain peak, 84 Glacier, 315 Glacial lakes like Tsomgo, Gurudongmar and Khecheopalri) but in most of the part due to rocky and high slopes makes agriculture, transportation and communication difficult, (Human development report). Sikkim has also the rich biodiversity and diverse climate condition. Area experience heavy rainfall due to the proximity of the Bay of Bengal. Sikkim share its boundary with country like China, Nepal and Bhutan which has strategic benefit in term of trade and pursuing India act east policy. According to human development report growth of Sikkim gross domestic product and the per capita income is slow due to the low agriculture production and limited manufacture production unit. Seventy five percent of the population of Sikkim is live rural area.

The closest state of Sikkim is Bengal in the west. The economy of Sikkim is based on animal husbandry and agriculture. About 11 percent of land is used for the agricultural practices in Sikkim. Sikkim agriculture is mixed types and at the subsistence level not at the commercial level. As per the census 2011 workforce participation rate is around 50.3 percent with 53.3 percent in rural areas and 41.9 percent in urban areas. Over the one decade the population growth of Sikkim is 12.9 percent. The total male population of Sikkim is 321661 and female population is 286027 which are quite lower than male population. The sex ratio of Sikkim is 889 female per thousand male. The literacy rate of Sikkim stands 82.3 percent and 87.3 percent for male and 76.4 percent for female.

Fig. 4.1: Location Map of Sikkim in India



Source: http//common wikepedia.org

4.2 Historical Background of Sikkim

Sikkim inhabited three tribes namely Chang, Naong and Mon and gradually Lepcha people were absorbed towards Sikkim. The origin of Lepcha people is unsolved but it has been considered that they come from Brahmaputra valley; other believed that they came from Tibet and Burma. Sikkim was ruled by the Namgyal dynasty for long time. Dr. Cambell and Dr. Hooker visited in connection with the botanical research. When india got independence from the foreign power Sikkim was king state under the Namgyal dynasty. In the year 1970 political situation of the Sikkim change as result Sikkim was merge with India in the year 1975. Kazi Lendub Dorjee was elected as the first chief minister of Sikkim. Presently majority of the people are Nepali followed by Bhutia and Lepcha respectively. Sikkim share it border with Nepal and neighbouring state Bengal.

4.3 The Economy

To look into the progress of economic development of the Sikkim or any state the most efficient indicator is the State Gross Domestic Product and the per-capita income which directly show the economic development of the state. Net State Domestic Product (NSDP) of the Sikkim in the year 2012-2013 is reported highest among the Northeast State which was stood at Rs 142625. The NSDP show the value which is almost double to the average of the India which is only Rs 68757. From the year 2004-05 to 2011-12 the per capita income of the state is recorded almost to double which is 26690 and 70477 respectively. The main occupation of the people of Sikkim is agriculture. Once Sikkim is being considered as the landlocked state, now the scenario has been changed and lots of developments have taken place in Sikkim. Most importantly Sikkim is became pharmaceutical hub and large number of people are employed by this development. Spring and summer season are most popular with tourist, during this period tourist flow is highest in Sikkim.

4.4 Banking Facilities

Large number of banks was started operating in Sikkim. The lead bank of Sikkim is State Bank of India which has 32 branches in all the constitution. The State Level Bankers Committee (SLBC) is an forum where the management and execution of improvement has been done. SLBC Sikkim comprises of council of all Commercial Banks, State Co-operative Banks, and RBI, and NABARD, central as well as state representative. SLBC synchronize all the meeting of Commercial banks in which various directions have been provided to Commercial Banks. SLBC also continually check the District Credit Plans and prepare State Credit Plan and launch. As per survey done in villages it has been found that most of the people take loan from the informal sources, which signify that banks are not able to bring people into the umbrella of financial Inclusion.

4.5 Financial Literacy

There is no such type of data available in the secondary level but study try to establish the financial literacy through the primary survey conducted in different villages. It has been seen that there was a lack financial knowledge among the surveyed household but presently Government as well as the financial institution are providing different types of financial knowledge to the people by opening different institute in different places of Sikkim. Financial literacy among the poor was very low and they are not able to use financial product in regular basic. In order to do any official work in the banks they have to take help from the others.

4.6 Infrastructure Facilities

Almost all the villages of Sikkim are connected by road facilities but road condition in most of the region is very poor or is being under construction. Because of lack of unavailability opportunity people generate entrepreneurial spirit among them. In order to boost the entrepreneurships in villages State Government are initiated various programmes and opportunity. Basic importance has been given to rural enterprises in order to reduce income disparities among the people. These incentives will be in addition to the already existing Central Government incentives. Industries like cottage, handlooms and handicrafts and khadi industries were encouraged in order to increase the production of our local or traditional goods.

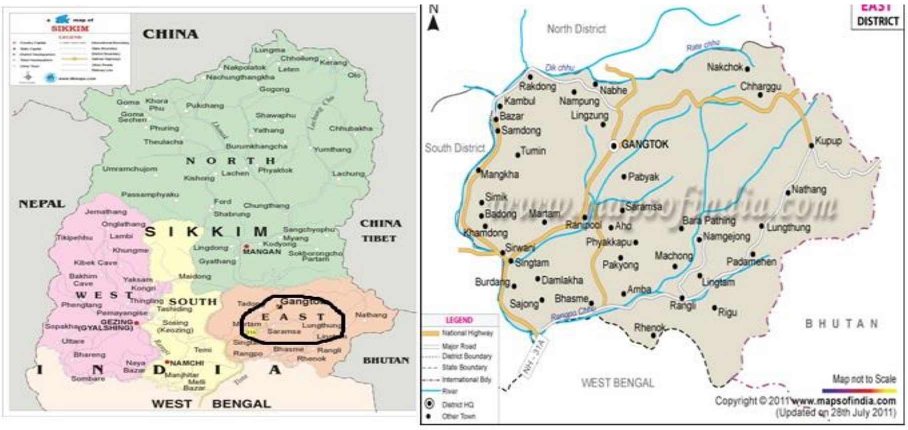
4.7 Education Facilities

Sikkim is known for the traditional education and indigenous system of education. Gurukul system is one of the oldest form of education system in Sikkim like India. Presently education play a significant role in the economic growth of the country and Sikkim has built it platform on way of modernization of the education system. In the year 2001 the literacy rate of Sikkim was 68.81 percent which was increases to 82.2 percent in the year 2011 (Census of India, 2011). Almost all the villages were cover by opening up the school. In order to fulfil the growing demand of higher education state government has initiated number of training programme through capacity building programmes. Government of Sikkim provide free education up to college.

4.5 Brief Study of Selected Villages

Geographically East Sikkim situated in the South – East corner of state. Gangtok is the state capital and it is hub to all administrative activity. As per the 2011 census total population of East Sikkim was 281293. The density of population in East Sikkim was 295 per square kilometre. East Sikkim has sex ratio of 872female per every 1000 males. Sikkim has four administrative units Rhenock, Gangtok and Pakyong. Srudy has been carried out in six villages of East Sikkim.

Fig. 4.2: Location Map of East Sikkim



Source: http://www.mapsofindia.com/maps/sikkim

CHAPTER V

RESULTS AND DISCUSSIONS

CHAPTER V

RESULTS AND DISCUSSIONS

5.1 Status of Financial Inclusion in Sikkim

Number of financial institution like commercial banks, cooperative banks, RRB, post office and insurance companies are playing the creative role for the promotion of the financial inclusion Sikkim as well as in the country as a well. This institution is also playing the progressive role for fulfilling the financial need of the different section of the society. In present study we considered only the role of commercial banks in promotion of financial inclusion.

Table 5.1: Network of Bank Branches in Sikkim (2014)

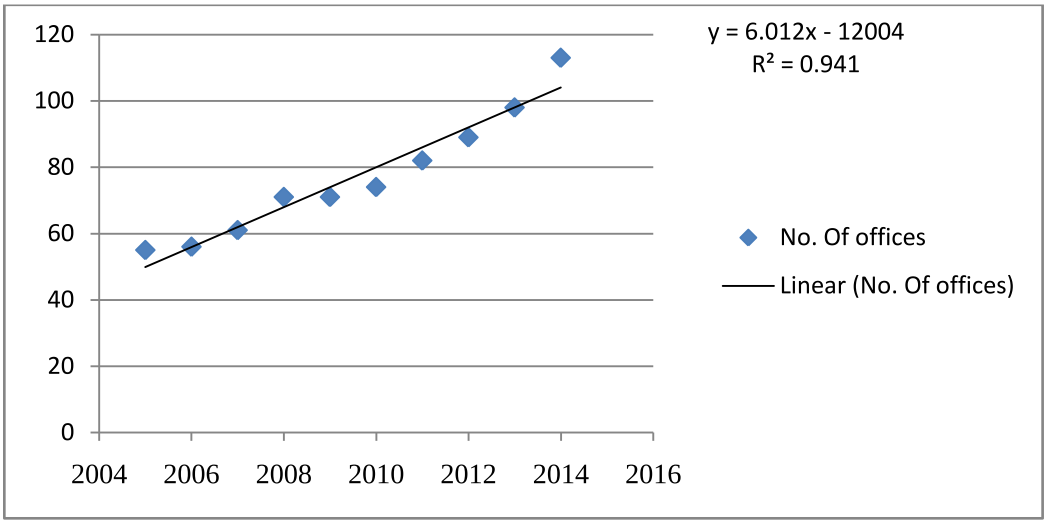
Types of Banks	No. of Banks	No. of Branches	Percentage Share of each sectors
Public Sector Banks	22	95	74.80
Private Sector banks	6	18	14.17
Co-operative banks	1	14	11.02
Total	29	127	100.00

Source: SLBC Report of Sikkim (2014)

From the above table 5.1 we can see that public sector banks have played the dominant role in the Sikkim. Out of 29 Banks 22 are public sector banks, 6 are private sector banks and 0nly 1 are cooperative banks. Public sector banks has 95 branches in whole Sikkim followed by 18 and 14 branches of private and co-operative banks respectively. The percentage share of public sector bank is highest in number, followed by private sector and co-operative sector respectively.

From 2005 when FI policy was implemented, the offices of CB branches increase rapidly. Presently almost the block was cover by the CB by opening the banks branhes.

Figure 5.1 Numbers of Commercial Banks Offices in Sikkim (2007 To 2014)



Sources: SLBC Report of Sikkim (2014)

Figure 5.1 give the trend line on number of office of the commercial banks of Sikkim between the years 2005-2014. Above figure show that over the year the number of offices of commercial bank in Sikkim is increasing over the year which shows that Sikkim has the high demand of the banking services. Result reveal that the growth rate of expansion of bank branches is 6 percent per year.

Table 5.2: Types of Banks in Sikkim

Commercial and Co-operative banks in Sikkim	Banks Branches			
	Rural	Semi Urban	Total	Percentage share
State Bank of India	28	4	32	25.2
Central Bank of India	15	1	16	12.6

UCO Bank	4	1	5	3.94
Corporation Bank	6	2	8	6.3
Vijaya Bank	0	1	1	0.79
Bank of Baroda	0	1	1	0.79
Bank of India	0	1	1	0.79
United Bank of India	7	1	8	6.3
Punjab National Bank	0	1	1	0.79
Oriental Bank of Com	1	1	2	1.57
Alied Bank Limited	3	1	4	3.15
Union bank of India	1	2	3	2.36
HDFC Bank	4	2	6	4.72
IDBI	3	1	4	3.15
Corporation Bank	0	1	1	0.79
Allahabad Bank	0	1	1	0.79
Indian Bank	2	0	2	1.57
Indian Overseas Bank	2	1	3	2.36
Syndicate Bank	0	1	1	0.79
Andhra Bank	0	1	1	0.79
ICICI Bank Ltd.	2	2	4	3.15
Indian Bank	0	1	1	0.79
Dena Bank	1	1	2	1.57
Bank of Maharashtra	0	1	1	0.79
YES Bank	0	1	1	0.79
Punjab & Sind Bank	0	1	1	0.79
SSCB	13	1	14	11.02
Bharatiya Mahila Bank	0	1	1	0.79
KotakMahindra Bank	0	1	1	0.79
Total	92	35	127	100

Source: SLBC Report of Sikkim (2014)

Table 5.3 show the number of different types of banks in Sikkim. It has been seen that SBI has highest percentage share of bank branches which is stood at 25.2 percent. Out of 32 bank branches of SBI 28 of them are located in rural areas and 4 banks located in semi urban areas. Percentage share by the Central Banks of India is 12.5 which are stood at second number, followed by SSCB and HDFC at 11.02 and 4.72 percent respectively.

Table 5.3: District wise profile of ATM in Sikkim of different Bank

Banks	East	North	South	West	Total	Percentage Share
State Bank of India	29	3	10	4	46	31.08
Union Bank of India	4	1	2	1	8	5.41
UCO Bank	4	0	0	0	4	2.70
United Bank of India	2	0	1	0	3	2.03
Punjab National Bank	2	0	0	0	2	1.35
Oriental Bank of Com	2	0	0	0	2	1.35
AXIS Bank	20	0	5	1	26	17.57
IDBI Bank	4	0	1	0	5	3.38
HDFC Bank	5	0	2	0	7	4.73
Corporation Bank	1	0	0	0	1	0.68
Central Bank of India	8	1	1	6	16	10.81
IndusIand Bank	1	0	1	0	2	1.35
ICICI Bank Ltd.	4	0	0	0	4	2.70
Syndicate Bank	1	0	0	0	1	0.68
Bank of Baroda	1	0	0	0	1	0.68
YES Bank	1	0	0	0	1	0.68
Indian Bank	1	0	0	0	1	0.68
Allahabad Bank	1	0	0	0	1	0.68
Indian Overseas	1	0	0	0	1	0.68

Bank						
Dena Bank	1	0	1	0	2	1.35
Vijaya Bank	1	0	0	0	1	0.68
Bank of India	2	0	0	0	2	1.35
Punjab & Sind Bank	1	0	0	0	1	0.68
Canara Bank	4	1	2	1	8	5.41
Andhra Bank	1	0	0	0	1	0.68
Bank of Maharashtra	0	0	0	0	0	0.00
Bharatiya Mahila Bank	1	0	0	0	1	0.68
Total	103	6	26	13	148	100

Source: SLBC Report of Sikkim (2014)

Above table 5.4 shows the number of ATM offices of different bank of Sikkim. Data reveal that East District has highest number of ATM centre. South District has occupied second position which is 26 in number and West District and North 13 and 6 ATM centre respectively. Total number of ATM centre in whole Sikkim is 148. Table also reveal that almost all bank has ATM centre in Sikkim except Bank of Maharashtra which as no ATM centre in any district. State Bank of India has highest number of offices in East, South and North District which has 21, 10 and 3 centres respectively. Central Bank of India has 6 ATM centre in West District which is highest in number as compare to other bank in West. Overall if we see the SBI has highest number of bank offices in Sikkim and Axis Bank stood at second position. Central Bank of India has occupied third position in Number of ATM centre in Sikkim, which has 16 in number.

5.2: Number of Household Availing Banking Services in Sikkim

Only from the year 2001, the census of India focuses on collecting data at the household level on banking services. Census of India and RBI (2011) information on the household use of banking services, found that Sikkim (65.5 percent) household are availing banking services. In Manipur percentage of household availing banking services is very low which is only 29.6 percent and highest number of household availing banking services in Himachal Pradesh which is 89.1 percent followed by Andaman and Nicobar island which is 89.3 percent ranking top in the India. In overall India number of household availing banking services is 58.7 percent which shows that Sikkim has good performance as we compare whole country level data (Census of India, 2011). The total number of household availing banking services in rural India is 54.4 percent, followed by urban areas 67.8 percent which show there is low level of performance in rural sector of India as compare to urban areas.

5.4: Household Availing Banking Services in Sikkim

Areas	Number of household	Number of household availing banking services	Percentage share
Rural	92370	58696	67.89
Urban	35761	27761	32.11
Total	128131	86457	100

Source: HH-Series Tables, Census of India 2011

From the above table 5.5 the total number of household in Sikkim is 128131 and total number of rural household is 92370 followed by 35761 in urban area. Number of household availing banking services in rural Sikkim was 67.89 followed by 32.11 in urban area. Picture of Sikkim is completely different as compare to India as a whole.

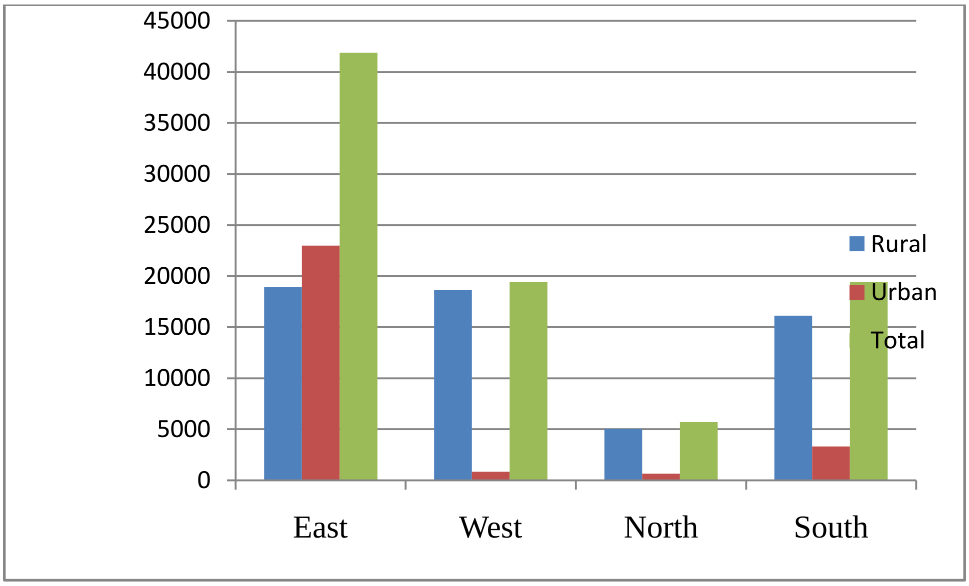
In case of Sikkim proportion of household availing banking services in rural areas is higher whereas in India result is reverse.

Table 5.5: District Wise Profile of the Household Availing Banking Services

District	Rural	Urban	Total	Percentage Share
East	18899	22973	41872	48.43
West	18625	831	19456	22.50
North	5040	651	5,691	6.58
South	16132	3306	19438	22.48
Total	58696	27761	86457	100

Source: HH-Series Tables, Census of India 2011

Figure 5.2: District Wise Profile of the Household Availing Banking Services



Source: HH-Series Tables, Census of India 2011

From the above bar graph we can see that household availing banking services is highest in East District. The reason may be due to the larger number of banks in East Sikkim, highest population and financial literacy etc. North Sikkim is lack behind in availing banking services. One of the interesting fact is that rural household has shown greater number of availing banking services in all three district except East Sikkim.

5.3: Availability of Banking Services in Sikkim

For measuring financial inclusion index we used the various indicators but one of the most important indicators is the availability of the banking services to the users. Financial inclusion will be built up by taking the indicator such as number of branches, number of bank account, coverage of population by bank branches per thousand population, number of ATM per thousand populations, coverage of population by bank branches, per capita credit, deposit etc. Banking penetration will be measure through the number of branches per thousand population and we can also used the number of ATM per thousand population. Number of branches per 1000 population will be measure for the both rural and, urban areas separately.

Table 5.6: Number of Branches Per Thousand Populations

Areas	Number of household	Number of household availing banking services	Branches	Average population per branches
Rural	92370	58696	92	638.00
Urban	35761	27761	35	793.17
Total	128131	86457	127	680.76

Census of India, 2011

Above table reveal that average population per rural and urban branches in Sikkim as per the 2011 census data. It has been found that average population per branches is higher in semi urban area which is 793.17 and average population per rural branches is 638 which are slightly lower than urban areas. The total population per branch in Sikkim is 680 which are quite lower than other state of India**.**

5.4: Credit and Deposit Ratio

Credit and deposit is also one of the important factors of financial inclusion. Ground level credit flow is important aspect of economic growth of Sikkim. Since Sikkim is an agrarian state the performance of banks in Sikkim is not satisfactory.

Table 5.7: Sector Wise Credit Flow of Income

Year	2012			2013			2014		
Sector/bank	Target	Achievement	% Achievement	Target	Achievement	% Achievement	Target	Achievement	% Achievement
Agriculture	72.05	33.59	46.6	70	21	30	147	31.05	21.13
Industries	11.03	19.55	177.3	11	19.71	179.18	12.63	8.01	63.49
Service/Tertiary	187	257.82	137.9	200	159.78	79.9	204	133.56	65.47

Source-SLBC Report 2014

Above table reveal that Sikkim as an agrarian state the performance of banks in agriculture and allied activities is not at expected level and performance is below 50 percent over the three year. The data reveals contradictory picture in industry where the achievement percent is 179.18 percent is 2013 whereas it has decline 63.49 percent in the year 2014. Service sector show a tremendous improvement.

Table 5.8: Credit Deposit Ratio Quarter Ended March 2015 (Amount in Thousands)

District name	Deposit	Credit	CD Ratio
East	47915192	38819811	81.02
West	3176671	1256662	39.56
North	1227106	614736	50.10
South	4601892	2296328	49.90
Total	56920861	42987537	75.52

Source-SLBC Report, 2015

Above table reveal the district wise credit deposit ratio for the quarter ended march 2015. It has been revealed the credit deposit ratio of Sikkim is stood at 75.52 percent. East Sikkim has shown a tremendous improvement in the credit deposit ratio at 81.02, followed by 39.50 in west Sikkim, 50.10 in North Sikkim and 49.90 in South Sikkim. Reason of low CD ratio in three districts may be due to the less number of populations, number of bank branches and may be due to the financial illiteracy.

5.5: Role of Banks in Economic Growth of Sikkim

To see the role of banking in economic growth we used credit and deposit account with state gross domestic product. The data cover for the OLS estimation is taken from the year 2005 onward. OLS estimation has been done by using the software Stata 10.

Table 5.9: Result of Regression Analysis

Dependent variable: GDP

Variable	Coefficient
Deposit	0.011*
	(0.0013)
Credit	0.032
	(-0.157)
Constant	-151
No. of observation	120
R. Square	0.91
F statistic	39.37*
P value	0.013

Note: *denotes 1% level of significance.

Source: Author's calculation

$GDP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + U_i$

Where,

GDP is the Gross Domestic Product

X_1 is the bank Credit Account

X_2 is the bank Deposit Account

Holdings the other variable constant, if Bank Deposit Account increases by 100%, then on an average GDP increase by 1.1%. On the other hand, if Bank Credit Account increases by 100%, on an average GDP increase by 3.2%, ceteris paribus. The value of R^2 0.91 which means 91 % of variation in GDP is explained by the variation in bank deposit account and credit account. The F value is given as 39.37 with a p value of 0.013. It suggests that collectively both the explanatory variables have an impact on GDP. Therefore our hypothesis that there is increase in number of deposit and credit account has positive impact on the economic growth of Sikkim is accepted.

5.6: Socio Economic Profile of the Household

Below Table 5.10 represent the personal profile of the household from six villages of East Sikkim.

Table 5.10: Distribution of Household According to Personal Profile

Village Name		Marchak	Tumlabong	Syari	Nandok	Aaaho	Pandam
HHs		20	20	20	20	20	20
Head of the household	Male	14 (70)	13 (65)	15 (75)	13 (65)	12(60)	14 (70)
	Female	6 (30)	7 (35)	5 (25)	7 (35)	8 (40)	6 (30)
Religion	Hindu	12 (60)	13 (60)	9 (45)	10 (50)	15(75)	13 (65)
	Budhist	5 (25)	3 (15)	10 (50)	7 (35)	4 (20)	5 (25)
	Christian	3 (15)	4 (20)	1 (5)	3 (15)	1 (5)	2 (10)
Social Group	ST	5 (25)	4 (20)	6 (30)	4 (20)	2 (10)	3 (15)
	SC	2 (10)	6 (30)	1 (5)	2 (10)	2 (10)	1 (5)
	OBC	3 (10)	4 (20)	7 (35)	7 (35)	2 (10)	4 (20)
	GEN	9 (45)	6 (30)	5 (25)	5 (25)	14(70)	11 (55)
	Primitive	1 (5)	0 (0)	1 (5)	2 (10)	0 (0)	1 (5)
Occupation	Labourers	3 (15)	4 (20)	3 (15)	2 (10)	3 (15)	4 (20)
	Farmers	3 (15)	2 (10)	3 (15)	2 (20)	3 (15)	4 (20)
	Selfemployed	6 (30)	9 (45)	7 (35)	5 (25)	9 (45)	6 (30)
	Salaried	8 (40)	9 (45)	7 (35)	11 (55)	5 (25)	6 (30)
Education	Illeterate	1 (5)	0 (0)	2 (10)	2 (10)	3 (15)	1 (5)
	Below Primary	13 (65)	14 (70)	12 (60)	10 (50)	9 (45)	9 (45)
	Metriculatio	5 (25)	6 (30)	5 (25)	6 (30)	4 (20)	7 (35)

	n to UG						
	Graduate & above	1 (5)	3 (3)	1 (5)	2 (10)	3 (15)	3 (15)
Household Having	Bank Account	18 (90)	19 (95)	218(90)	19 (95)	18(90)	20(100)
	Not Habing Account	2 (10)	1 (5)	2 (10)	1 (10)	2 (10)	0 (0)
Household Having	BPL	6 (30)	5 (25)	4 (20)	4 (20)	3 (15)	6 (30)
	Not BPL	14 (70)	15 (75)	16(80)	16 (80)	17(85)	14 (70)
Types o House	Pucca	10 (50)	12 (60)	14(70)	11 (55)	14(70)	7 (35)
	Kucha	10 (50)	8 (40)	6(30)	9 (45)	6 (30)	13 (65)

Source: Primary Data

(Figure in the parenthesis represents percentage)

Above table 5.10, show the socio profile of the different household. It has been seen that out of 20 household in marchak village 70 percent are the male household followed by 65, 75, 65,60and 70 percent of male in Tumlabong, Syari, Nandok, Aaho and Pandam respectively. From the above it has been observed that Hindu has highest number followed by Budhist and Christian. In social group as well there was variation. It has been seen that salaried household are highest in the entire village. Number of household availing banking account is show an tremendous number in all the villages and percentage of people having below primary education is highest in all the villages.

5.11: Banks Wise Account Holder of Sample Household

Name of Banks	Frequency	Percentage Share
Axis Bank	4	3.3
Canara Bank	5	4.2
Cooperative	1	0.8
HDFC	3	2.5
ICICI	1	0.8
No Account	8	6.7
Post Office	5	4.2
SBI	55	45.8
SBS	11	9.2
UCO	8	6.7
Union Bank of India	19	15.8
Total	120	100

Source: Primary Source

From the above table it has been find that number of people having bank account is highest in SBI bank which is 45.8 percent followed by Union bank of India and SBS which is stood at 15.8 and 9.2 respectively. Percentage of population having bank account in Cooperative bank is only 0.8 percent show and lower performance.

5.12: Access to Loan

Access to loan	Frequency	Percentage Share
No	53	44.2
Yes	67	55.8
Total	120	100

Source: Primary Data

From the table it has been found that number of household taking loan from the different sources is about 55.8 percent. It means that number of household borrowed from the different sources is more than a half. 44.2 percent of the household does have any time of borrowing from the different formal and informal sources.

5.13: Type of Loan

Types of Loan	No. of Respondent	Percentage share
Business Loan	25	20.8
Education Loan	5	4.2
Health Related Issue	12	10
Housing Loan	21	17.5
Marriage of Daughter	1	0.8
No loan	53	44.2
Vehicle Loan	3	2.5
Total	120	100

Source: Primary Data

It has been seen from the above table 44.2 percent does not take any type of loan. 20.8 percent of household take loan for the business purpose and 17.5 percent borrow money for making house. Only 4.2 percent of the household take loan to meet their education needs. 0.8 percent of the household take loan for the marriage purpose.

5.7: Computation of Financial Inclusion Index

Demand side financial inclusion index has been calculated in order to look into the financial inclusion among the rural household. For measuring demand side of financial inclusion we use six indicators for formal sector

- Proportion of household having bank account per village
- Proportion of household who save money per month per village
- Proportion of household having insurance per village
- Proportion of household using ATM card per village
- Proportion of household using mobile banking per village
- Proportion of household having No Frill account per village

$FII^{D}_{F} = (\Sigma_q Y^t_{qs})/4$

Where,

Y^t_{qs} is the value of indicator q for the village at time t

q = Formal bank account, formal save, formal insurance, using ATM card per village and number of No Frill account, using mobile banking.

People take loan from both formal and informal source in order to meets their demand for money. For this we used two indicators for formal and informal loan.

Proportion of household having formal loan

Proportion of household having informal loan

$FII^{D}_{F} = (\Sigma_q Y^{t}_{qs})/2$

Where,

Y^{t}_{qs} is the value of indicator q for the village at time t

q = formal and informal credit (loan)

Demand side index are shown in percentage and it has been normalise with a minimum of zero and maximum of 100. Formal sector include commercial banks and informal includes money lenders and private saving groups.

5.14: Demand Side Financial Inclusion Index

Village	FII D(a/cl) q1 a/c	FII D (Formal save) q2	FII insurance q3	FII no frill a/c q4	FII ATM q5	FII D
Marchak	0.9	0.55	0.55	0.3	0.85	0.63
Tumlabong	0.95	0.65	0.65	0.2	0.9	0.67
Nandok	0.95	0.5	0.5	0.3	0.85	0.62
Syari	0.9	0.65	0.3	0.25	0.7	0.56
Ahoo	0.9	0.7	0.55	0.1	0.8	0.61
Pandam	0.1	0.65	0.4	0.25	0.85	0.45
Total	0.78	0.62	0.49	0.23	0.82	0.59

Sources: Primary Data

From the above table we compute the financial inclusion index. Index reveals that village Pandam show a greater performance in number of account per village, followed by Tumlabong and Nandok. In the formal save village Ahoo show the good performance and Nandok village show the poor performance. Financial insurance is also considered as the component of the financial inclusion and Tumlabong show a greater performance in insurance whereas Pandam show the poor performance. Village Syari has highest number of people who have open no frill account and village Ahoo show less number of people who have open no frill account. Proportion of people using ATM is highest in Tumlabong whereas people of Syari use lesser number of ATM. In overall Tumlabong has good performance in financial inclusion and Pandam show the lower performance. It has been observed from the index that more than 50 percent of people are financially included in the selected villages.

Study found that villagers are taking loan from formal, semiformal and informal sources. In order to see the performance of loan on different sector we compute index for financial inclusion differently.

5.15: Financial Inclusion Index for Formal, Semiformal and Informal loan

Village	Formal	Semiformal	Informal	FII D
Marchak	0.8	0.2	0.5	0.5
Tumlabong	0.9	0.2	0.3	0.47
Nandok	0.2	0.2	0.7	0.37
Syari	0.2	0.2	0.5	0.3
Ahoo	0.4	0.1	0.3	0.27
Pandam	0.2	0.2	0.5	0.30
Total	0.45	0.18	0.47	0.37

Sources: Primary Data

Table above indicate that Marchak village has show greater performance in all the three sources, access to formal sources in Tumlabong village is high as compare to other village. But performance of access to semiformal is very poor in the entire village. Access to informal source is very high as compare to semiformal and formal. In overall we found that people prefer to take loan from the informal sources, which implies that dominance of informal source is high in selected villages.

5.8: Determinant of Financial inclusion: Evidence from the Household Level Data

The Probit analysis was done to understand determinants of financial inclusion. Stata 10 software has been used in order to run probit analysis.

5.16: Determinant of Financial Inclusion

Variables	Coefficient	Marginal Effects(dy/dx)
AGE	-0.00736	-.002
	(-0.0152042)	
GEN	0.71948**	.272
	(.3203952)	
OCC	0.16399	.065
	(-0.3503667)	
FM	0.1233651	.048
	(-0.1347915)	
ADU	-0.7899866*	-.312
	(.2519774)	
EDU	0.0287207	.011
	(-0.0462957)	
HOU	1.303107*	.463
	(.4778066)	
CHI	0.3042715	.120
	(-0.2200479)	
PCI	-0.0000516	-.000
	(-0.0001357)	

SHGs	0.9007995**	.342
	.(4012257)	
Constant	-0.61531	
	(-0.79017)	
No. of observation	120	
LR	29.22*	

Note: ** , * stands for 5% and 1% level of significance respectively

By using software Stata 10 probability of each respondent was estimated. Unit change on X (Financial depth) on the probability that Y=1, that is respondent are financially included. The person with the given characteristics, age 36,male employed, having family member 4 , education of class 10, with one adult member, having own house with 2 children and PCI of 4500 who is not a member of the SHGs . The probability of such person to be financially included is 95 percent. In our sample the person is financially included. Similarly the person age 27, female unemployed, having family member 4, education with class 5, with two adult members in the household, does not have own house, with 1 children with having 1750 of per-capita income and who is the member of the SHGs. The probability of sun person to be financially included is 26 percent. In our sample the person is financially excluded.

To interpreted the coefficient of the probit model given in table 5.17 we estimate the Marginal Effect by using software Stata 10. The independent variable which show significance is only be interpreted. The marginal effect of being male on probability of financially included is increase by 0.272, which is about 27 percent. The marginal effect of being educated on probability of financially included is .011 which is 1.1 percent. Similarly the marginal effect of having own house on the probability of financial inclusion is 0.463 which is nothing but the 46 percent. Again marginal effect of being the member of SHGs on probability of FI is 0.342 which is 34 percent, holding all other variable constant. Therefore our hypothesis that financial inclusion depends upon Socio economic status of the households was accepted, because most of the socio economic variable like gender, number of adult, having own house and being the member of SHGs has positive impact on the level of financial inclusion.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Present study tried to analyse the Role of Commercial Banks in the financial inclusion at the state and the village level as well. The s question like, what is the status of FI in Sikkim, how far the bank succeeded in serving this financially excluded people into FI and what is the determinant of FI inclusion in selected villages has been tried to answer. The work is based on both secondary and primary data. Primary data was collected from six villages of East Sikkim. The study only covers the role of Commercial Banks because of the unavailability of data on the other financial institution such as Regional Rural Bank and Cooperative Banks.

Major findings of the study are the followings

i. Public sector banks have played the dominant role in the Sikkim. Out of 29 Banks 22 are public sector banks, 6 are private sector banks and only 1 are cooperative banks. Public sector banks has 95 branches in whole Sikkim followed by 18 and 14 branches of private and co-operative banks respectively. The growth rate of expansion of bank branches is 6 percent per year.

ii. It has been found that Credit and deposit account has the positive impact on the GSDP.

iii. Total number of ATM centre in whole Sikkim is 148. East District has highest number of ATM centre. South District has occupied second position which is 26 in number and West District and North 13 and 6 ATM centre respectively.

iv. Census of India and RBI (2011) information on the household use of banking services, found that Sikkim (65.5 percent) household are availing banking services.

v. Number of household availing banking services in rural Sikkim was 67.89 followed by 32.11 in urban area.

vi. Household availing banking services is highest in East District. The reason may be due to the larger number of banks in East Sikkim, highest population and financial literacy etc. North Sikkim is lack behind in availing banking services.

vii. It has been found that average population per branches is higher in semi urban area which is 793.17 and average population per rural branches is 638 which are slightly lower than urban areas. The total population per branch in Sikkim is 680 which are quite lower than other state of India**.**

viii. It has been revealed the credit deposit ratio of Sikkim is stood at 75.52 percent. East Sikkim has shown a tremendous improvement in the credit deposit ratio at 81.02, followed by 39.50 in west Sikkim, 50.10 in North Sikkim and 49.90 in South Sikkim.

ix. From the primary data, it has been found that number of people having bank account is highest in State Bank of India which is 45.8 percent followed by Union bank of India and SBS which is stood at 15.8 and 9.2 respectively.

x. Study found that out of total number of observation 44.2 percent of the household does have any time of borrowing from the different formal and informal sources.

xi. It has been observed from the index that more than 50 percent of people are financially included in the selected villages.

xii. By computing Financial Inclusion Index found that dominance of informal source is high in selected villages.

xiii. Variables like gender, number of adult in the family, having own house and being the member of the SHGs shows a positive impact on Financial Inclusion of the people.

Recommendations

i. In order to encourage people to use financial services, policy makers such as RBI and Government must a use various programme to reduce the financial barrier among the people.

ii. To induce the saving habit among the rural household and to extend credit through the formal financial institution various awareness program should be initiated by the financial institution

iii. Government of Banks should focus on increasing the number offices in the unbanked areas so that people from remote areas also able to use the services without any difficulties.

iv. Though many of the banks are providing the technical services to the customers, most of the customers are not aware of the services which were provided by them or they are unable to use effectively, hence the banking sectors have to create the awareness programme to the customers.

v. Practical knowledge should be provided to user regarding how used various services like ATM, mobile banking etc.

vi. Mere opening of no-frill bank accounts was does not mean the totally financial inclusion. Unless they don’t have any type of income earning activities they were not able to save money in regular basic, for this formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages. As a result they can start their own enterprises through bank credit.

vii. Local funds arrange for cash collection pickup on a daily basis, making it convenient for the customers.

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ANNEXURE A

ANNUAL CREDIT PLAN 2015-16

BANK BRANCH-WISE , SCHEME-WISE TARGET UNDER GOVT .SPONSORED PROGRAMMES INCLUDING S.G.S.Y. FOR EAST DISTRICT

(Amt.Rs'0(

Sect Code	Scheme / Activity	STATE BANK OF INDIA													
		Gangtok		Zero point		Tadong		Penengla		Rumtak		Pakyong		Singtam	
		NO.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
4	SGSY (Agri)														
5	SGSY (AH)														
6	SGST (NFS)														
	Sub Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
49	SJSRY														
68	PMEGP Spon. By DIC	0	0	2	1634	1	817	2	1634	1	585	0	0	1	585
69	PMEGP Spon.By KVIC	0	0	0	0	0	0	0	0	1	577	1	577	2	1153
70	PMEGP Spon.By SKVIE	0	0	0	0	0	0	0	0	1	587	1	587	1	587
	PMEGP Total	**0**	**0**	**2**	**1634**	**1**	**817**	**2**	**1634**	**3**	**1749**	**2**	**1164**	**4**	**2325**
17	Otger Govt.Spon. Prog.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	GRAND TOTAL	**0**	**0**	**2**	**1634**	**1**	**817**	**2**	**1634**	**3**	**1749**	**2**	**1164**	**4**	**2325**

ANNEXURE B

Sect Code	Scheme / Activity	STATE BANK OF INDIA															
		Majhitar		Rangpo		Makha		Dikchu		Rakdong Tintek		Ranipool		Ranka		**SUB - TOTAL**	
		No.	Amt.	No.	Amt	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	**No.**	**Amt.**
4	SGSY (Agri)															0	0
5	SGSY (AH)															0	0
6	SGSY (NFS)															0	0
	Sub - Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
49	SJSRY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
68	PMEGP Spon. By DIC	0	0	1	585	0	0	0	0	0	0	2	1634	0	0	11	8059
69	PMEGP Spon. By KVIC	1	577	2	1153	1	577	1	577	1	577	0	0	1	577	12	6922
70	PMEGP Spon. By SKVIB	1	587	1	587	1	587	1	587	1	587	0	0	1	587	10	5870
	PMRGP Total	**2**	**1164**	**4**	**2325**	**2**	**1164**	**2**	**1164**	**2**	**1164**	**2**	**1634**	**2**	**1164**	**33**	**20851**
17	Other Govt. Spon. Prog.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	GRAND TOTAL	**2**	**1164**	**4**	**2325**	**2**	**1164**	**2**	**1164**	**2**	**1164**	**2**	**1634**	**2**	**1164**	**33**	**20851**

ANNEXURE C

Sect Code	Scheme / Activity	UCO BANK												IOB				BMB	
		Gangtok		Ranipul		Rangpoo		Singtam		Sub - Total		Cnt Pendam		Gangtok		SUB - TOTAL		Gangtok	
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
4	SGHY (Agri)																		
5	SGHY (AH)																		
6	SGHY (NFS)																		
	SUB - TOTAL	**0**	**0**	**0**	**0**	0	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0
49	SJSRY			0	0														
68	PMEGP Spon. By. DIC	1	1	0	0	1	585	0	0	**2**	**1402**	0	0	1	817	**1**	**817**	1	817
69	PMEGP Spon. By. KVIC	0	0	0	0	0	0	1	577	**1**	**577**	1	577	0	0	**1**	**577**	0	0
70	PMEGP Spon.By. SKVIB	0	0	0	0	1	587	1	587	**2**	**1174**	1	587	0	0	**1**	**587**	0	0
	PMEGP TOTAL	**1**	**817**	**0**	**0**	2	1172	**2**	**1164**	**5**	**3153**	**2**	**1164**	**1**	**817**	**3**	**1981**	**1**	**817**
17	Other Govt. Spon. Prog	0	0	0	0	0	0	0	0	**0**	**0**	0	0	0	0	**0**	**0**	0	0
	GRAND TOTAL	**1**	**817**	**0**	**0**	2	1172	**2**	**1164**	**5**	**3153**	**2**	**1164**	**1**	**817**	**3**	**1981**	**1**	**817**

ANNEXURE E

Financial Inclusion in Sikkim: Case Study of Selected Villages of East Sikkim

Place of Survey: __________________ Date of Survey: ______________________

Name: ____________________________ Age: ______________________________

Gender: Male/Female:___________ Occupation: ______________________

No. of Family member: __________Adults__________ Children____________

SAVINGS

1. Is your household having the one bank account?
   i. yes
   ii. no
2. No. of account in your household_______________
3. In which bank do you have account?
4. Which type of account do you have?
   i. Saving Bank Account
   ii. Current Account
   iii. Recurring Deposit
   iv. Fixed deposit account
   v. If others (Please specify) ____________________________

5. Is the bank account with the CHECK book, ATM, CREDIT CARD.?

    i. Yes

    ii. No

6. What were the reasons that your household opened the account?

    a. To receive Govt. payments from NREGA

    b. To receive Govt. payments from schemes other than NREGA

    c. For receiving remittances

    d. For saving money

    e. To request a loan

    f. If others, (please specify)

    ____

7. Who helped you open the account?

    a. Village Panchayat Officials

    b. Bank Officials

    c. Neighbour Friends/Relatives

    d. If others, (please specify)_______________

8. How frequently do you save in your account?

    a. Don’t save / never

    b. At least once a month

    c. Less than once a month

    d. I put in money as and when I can

    e. I have paid money in but not in past 12 months

    f. I have not added money since account was opened

    g. If others, (please specify) ___________________________________

9. Reason for not having the bank account?

a. I have no money/little money to put in
b. No bank in this area
c. No point - benefits received in cash
d. No point - paid in cash
e. Concerned there may be too many charges
f. Tried to open but was refused
g. Lengthy processes
h. Not important to me
i. Anticipated rejection
j. If others, (please specify) ________________________________

10. Reasons for being refused a bank account:
    i. No ID
    ii. Previous bad credit history
    iii. No job, unemployed
    iv. Had to have a minimum amount
    v. Had debts
    vi. Thought it was not trustworthy
    vii. If others, (please specify)_______________________________

11. Are you aware that banks are opening zero min. balance accounts for everyone?
    i. Yes
    ii. No

- How you get information about the banking and other information regarding financial inclusion?
- Television/Newspaper/Radio

- Bank officials
- Friends and relatives
- Nearby organisation/clubs

12. How did you find out that banks were opening such ‘no-frills’ accounts?
    i. Bank Officials SHG Members NGOs Neighbors
    ii. Village Panchayat Farmer Clubs Posters Village Meetings
    iii. Newspapers/Advertisements
    iv. If others, (please specify)________________________________

BORROWINGS

1. Have your household ever borrowed or taken a loan?
    a. Yes
    b. No
2. If yes, from where?
    a. Banks/Cooperative
    b. Relatives Friends
    c. Moneylenders
    d. If others, (please specify)__________________________
3. If borrowed from the bank/cooperatives which of the following reason led to this choice
    a. Low rate of interest
    b. It is easy
    c. Offered by the banks

d. subsidy/interest free for the short term/period

4. If borrowed from sources other than banks, which of the following reasons led to this choice**?**
    a. Being able to borrow relatively small sums
    b. I did not need to provide security or guarantees
    c. It was available locally
    d. I can make repayments in cash in small weekly or fortnightly sums
    e. It is convenient because they come to the door to collect
    f. It is because I know the lender/collector
5. Purpose of the loan

    a) Housing loan

    i. Business loan
    ii. Training / educational loan
    iii. Vehicle loan
    iv. If others, (please specify) ___________________
6. If loan was availed, what difficulties were faced in the process?
    i. --
    1. ---.
7. Amount of loan: ____________________________________
8. Sources of loan: ____

Other financial Services

1. Are you using any other form of financial service or product?
2. If yes, then which one: Insurance, Credit card, Debit card, KCC, Rupay card, Green Card
3. If others, (please specify
4. What were the reasons for not availing any form of insurance?
    i. Too expensive, can't afford it
    ii. Just don't bother, no real reasons
    iii. No need for it
    iv. I don't have much, nothing valuable
5. I am in process of doing it
    i. No insurance men coming to door now
    ii. Have to have bank account
    iii. If others, (please specify)___________________________________
6. If already having insurance, which of the following type is it?
    i. Life insurance
    ii. Health/Accidental insurance
    iii. Vehicle insurance
    iv. If others, (please specify) ________________________________
7. Reason for using the above said financial service(s)?
    a. ____
8. What difficulties were faced in the process of accessing the above financial service(s)?
    a. ____
9. Is there any financial advice centre/credit counselling centre in your area?

i. Yes

ii. No

10. If yes, how satisfied are you with its working and the advice it provides?

i. Completely satisfied

ii. Satisfied

iii. Just ok

iv. Unsatisfied

v. Completely unsatisfied

11. If you are not satisfied with its working, then please give reasons.

a. ____

12. **At** present how worried are you about getting into debt?

i. Very worried

ii. Fairly worried

iii. Not very worried

iv. Not at all worried

13. What would you do if you needed money in an emergency**?**

a. Ask family or friends

b. Take out a bank loan or overdraft

c. Take out loan from other sources

d. Use my credit card

e. Sell something

f. Draw on savings

g. Don't know

h. If others, (please specify) _________________________

14. Level of interest in local financial services

a. Very interested

b. Fairly interested

c. Not very interested

d. Not at all interested

e. Not sure

15. Are you satisfied with the BC/BF model or you feel the need of a bank branch at your place?

    a. Yes

    b. No

    c. Please Specify____

16. What do you think that the Government, local bodies, banks, NGOs and others might need to do to further achieve financial inclusion?

    _______________________________-