Operationalising Financial Inclusion Index as a Policy Lever: Uttar Pradesh (India) - A Case Study

Rabi N. Mishra

Regional Director, States of Uttar-Pradesh and Uttarakhand, Reserve Bank of India, Lucknow, Uttar-Pradesh, India. rabi60@gmail.com

Puneet Verma[*]

Assistant Adviser- in- Charge, Department of Statistics and Information Management, Reserve Bank of India, Lucknow, Uttar-Pradesh, India. puneetrbi@rediffmail.com

Sanket Bose

Indian Institute of Technology, Kanpur, Kanpur, Uttar-Pradesh, India. sanket.bose@gmail.com

The inter relationship between financial development and economic growth is well explained in the literature. In recent years, the debate has expanded to include the notion of financial "exclusion" as a barrier to economic development and the need to build an inclusive financial system. Recent empirical evidence using household data indicates that access to basic financial services such as savings, payments, insurance and credit can make a substantial positive difference in improving poor people's lives. To be able to gauge the level of financial inclusion can help endeavor in this direction more useful as it can guide policy making towards evening out efforts across territories. India with its diversities in extent of development across provinces and within them across regions badly needs a 'multi-variate index' to reflect extent of financial penetration (and hence economic development) so that policy measures can be effectively organized in sync with requirements. This papers aims at using a Financial Inclusion Index (FII) to rank 71 districts of Uttar Pradesh (in India) in terms of level of financial penetration. Based on the secondary data on influencing factors, suitable FII of all the districts have been enumerated. The main objective of the study is to provide a statistically justified weighing method for assignment of appropriate weights to the factors according to their importance and give a proper method to obtain the individual dimension indices. Instead of one, four methods have been discussed extensively and a comparative study has been carried out. Using principal component analysis the proposed index lies in between 0 to ∞, where 0 represents complete financial exclusion and ∞ indicates possibility of improvement. This ranking will help policy makers choose appropriate levers to mitigate the complex problem of financial penetration-deficit which can steer clear ways towards improving living standards of the populace.

Keywords: Financial Inclusion, Finance, Principal Component Analysis, GDP.