

# Integration of Human Development and Financial Inclusion across Indian States

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## ABSTRACT

In this study, we look into the relationship between financial inclusion and economic growth in India. Secondary sources were used for this study. Research is conducted throughout 2019. Here, we examine the status of financial inclusion across 28 of India's states. The findings imply that most states have a very low degree of financial inclusion, and further study indicates a direct association of financial inclusion with growth and standard of life, and an inverse relation with poverty. Working on this problem led us to discover a beneficial Pearson's  $r$  illustrates a positive relationship between financial inclusion and GDP per capita. As a result, financial inclusion promotes economic development by increasing people's access to and use of formal financial systems, which helps advance human development. On top of that, it helps the Indian economy grow.

**Keywords**— Human Development, Indian States, Economic Growth, Financial Inclusion, GDP

## I. INTRODUCTION

By making financial services accessible to previously unreachable people with the support of financial institutions, the relatively new notion of "financial inclusion" contributes to the sustainable growth of the country. One way to explain financial inclusion is that a lot of people use formal financial services and systems.

When thinking about human progress and broad economic growth, financial inclusion is crucial. The cost of capital is reduced thanks to an inclusive financial system that encourages the effective distribution of available resources. Having access to reliable financial services can greatly enhance the handling of money matters on a daily basis. For the most part, it limits the growth of potentially exploitative informal loan providers like payday lenders. For the bulk of the world's poor, access to sustainable financial services like deposits, credit, etc. remains a distant dream, as former UN Secretary-General Kofi Annan put it bluntly in 2003. He said that creating a financially inclusive economy is essential to bettering people's lives and that our primary

focus should be on removing the barriers that prevent individuals from fully participating in the financial sector.

In India, the term "financial inclusion" has been defined in two ways: the first is by the Rangarajan Committee on Financial Inclusion (2008), which describes it as the "process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost; the second is by the Raghuram Rajan Committee on Financial Sector Reforms (2009), which describes it as "expanding access to financial services successfully." The goal of these definitions is to ensure that all people in an economy have reasonable access to financial services.

Allowing people to create checking and savings accounts and/or extend consumer credit is insufficient to achieve financial inclusion. More attention should be paid to improving the capacity building of the poor. The fragile nature of the poor's livelihoods and the cyclical nature of poverty, which can be attributed to structural deficiencies and other reasons, need the development and distribution of financial products that can aid in risk and vulnerability management (Arunachalam, 2008). Although many regions, populations, and economic sectors have low or insufficient demand for financial services, it is crucial to remember that increasing the supply side or delivery systems can greatly increase financial inclusion. Demand-side initiatives, such as bolstering human and physical resource endowments, increasing productivity, reducing risk, and expanding market linkages, are necessary to increase their degree of inclusion (NABARD, 2008). The process of financial inclusion and human development must be linked. HRD, or human resource development, is the method of enhancing the effectiveness of existing human resources. Everyone engages in human resource development. A person does it when they work on their own personal development; a manager does it when they help their employees grow professionally; and a company's human resource development team does it when they design the company's comprehensive set of training resources. As a result, it's a method of improving the human system that is the company and its employees. Human resource development, in a broader sense, means giving individuals agency and teaching them to use that agency for the betterment of themselves, their teams, their

organisations, and society at large. Enhancing people's freedom of choice is one of the main goals of human progress. In its 1990 report on human development, the United Nations Development Programme (UNDP) highlighted three key indicators that represent people's reasonable choices for maintaining a dignified existence. Having a long and healthy life, getting a good education, and having a comfortable quality of life are seen as the most crucial options. For this purpose, providing easy access to banking services can be considered a useful instrumental strategy. There is no doubt that a deeper financial system is linked to a more advanced state of human development. In light of this, this paper looks at differences between countries to try to figure out if there is a link between financial inclusion and human development.

Increases in the availability of financial resources have a significant impact on the expansion of human capital, which in turn affects the quality of life for the population at large. Although the mechanism of causality is intricate, It's possible that they could reinforce each other in some unseen way. There have been numerous attempts to trace a direct line between progress in the field of finance and improvements in the lives of people. Both poverty and income disparity impede progress toward a better world. It has been stated that economic growth is strongly linked to lowering poverty rates since it increases wages for the lowest-paid workers and decreases income disparity (Beck et al., 2006). To put it simply, a lower poverty rate indicates a more advanced civilization. That's why it's important to have a stable economy: it helps people advance. The fact that having access to a financial system is inversely correlated with poverty and, by extension, positively correlated with human development, lends further support to this theory. Expanding into rural areas between 1961 and 2000 helped reduce rural poverty in India (Burgess et al., 2004; Pande, 2004). Improvements in economic prospects, such as those made possible by financial inclusion, have a multiplicative effect on educational and healthcare outcomes, and hence on the rate of human growth.

Growth's economic benefits should be made available to all segments of society, especially the most disadvantaged. Better economic opportunities can be made available to more people through the process of financial inclusion. For all people to have the same opportunities, it is crucial to improve their skills and qualifications. Effective work In contrast, the chronically poor require a social protection system that includes a social safety net so that they can subsist with respect and dignity. When those in need have access to social safety net programmes, it can serve as a stepping stone toward escaping poverty (Kuri, 2010).

## II. CONTEXTUAL THEORY

Data Envelopment Analysis with human development as an input to analyse the technical efficiency of financial inclusion across Indian states. From 2010–2017, they compiled data from 28 states to create a three-dimensional financial inclusion index. They discovered that the most successful states in terms of FII were those in India's north and northeast that combined high levels of technical efficiency with high levels of human development. The contribution of financial inclusion to economic growth in Brazil was studied by Santos & Filho (2019). Using secondary data from 2004–2017, they discovered a statistically significant link between financial inclusion and economic growth in Brazil. Financial inclusion and human development were two topics that Chaudhary (2016) investigated. She discovered a correlation between a country's human growth and its level of financial inclusion. As measured by the estimated correlation coefficient, there is a highly substantial positive relationship between IFI values and HDI ranks. Financial inclusion was also found to have a positive correlation with a country's per capita income. Financial inclusion in Indian states: an analysis by Ahuja & Pathak (2017) They discovered that the majority of states had a dismal level of financial inclusion, and further analysis indicates a clear relationship between financial inclusion and growth and standard of life, and an inverse relationship between financial inclusion and poverty. In their research study, Kuri and Laha (2011) looked at how having access to formal financial services can affect a country's overall level of human development. They discovered that the modified Human Development Index roughly tracks the ranking of financial inclusion. The results of this study show that a state's level of human development and its level of financial inclusion are linked in a positive way.

**There are two primary foci of this investigation:**

1. The goal of this study is to look at how the level of financial inclusion in the different Indian states differs.
2. The goal is to look at how the HDI and the financial inclusion index in Indian states are related.

## III. METHODOLOGY

For this study, we used secondary sources such as the Reserve Bank of India, the United Nations Development Programme, the Subnational HDI Global Data Lab, the EPW Research Foundation, and many academic journals. The research includes all 28 of India's states. In the beginning, the Financial Inclusion Index (FII) was built on a 3-dimensional basis. The FII of India's 28 states is measured along three equally-weighted dimensions: the number of branches per 100,000

inhabitants (representing accessibility); the number of total staff per 1,000 population (representing availability); and the number of deposit accounts (representing use). In this research, we determine the financial inclusion index (IFI) for all Indian states excluding the union territories, totaling a total of 28 states. Based on a scale where "0" indicates "no financial inclusion at all" and "1" indicates "complete financial inclusion" (one means high financial inclusion). States are divided into three groups based on their IFI values is  $0.5 < IFI \leq 1$ -extremely high financial inclusion, (ii)  $< 0.3$  IFI.

$$D_i = \frac{A_i - m_i}{M_i - m_i}$$

$$IFI_i = 1 - \frac{\sqrt{(1 - D_1)^2 + (1 - D_2)^2 + \dots + (1 - D_n)^2}}{\sqrt{n}}$$

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One statistic that does this is the Human Development Index (HDI), which measures progress in a variety of areas vital to human flourishing. The three most important aspects are: 1) a long and healthy life as measured by life expectancy; 2) access to education as

measured by expected years of schooling of children at school entry age and mean years of schooling of the adult population; and 3) a decent standard of living as measured by Gross National Income per capita adjusted for price level. Human Development Index data for 2019 for all Indian states (excluding union territories) was used in this analysis. High HDIs range from 0.700 to 1.00 on the Human Development Index (HDI), whereas HDIs between 0.555 and 0.699 are considered middle-of-the-road (0.350-0.554). To everyone's surprise, however, the HDI number discovered to be the lowest ever in 2019 was .571. Therefore, this study divides human progress into two groups: highly developed and less developed.

#### IV. RESULTS

Values of IFIs have been estimated for all 50 states in 2019 using data on availability, accessibility, and utilisation. Below is a table displaying the calculated IFI values for each state.

**Table 1:** Evaluation of India's Financial Inclusion by State Index

States	d1	d2	d3	IFI	Rank	Category
Maharashtra	.763	.733	1.000	.794	1	High Financial Inclusion
Uttar Pradesh	1.000	1.000	.577	.756	2	High Financial Inclusion
Tamilnadu	.525	.635	.551	.568	3	High Financial Inclusion
Karnataka	.452	.587	.459	.495	4	Medium Financial Inclusion
West Bengal	.566	.465	.392	.470	5	Medium Financial Inclusion
Gujarat	.362	.462	.334	.384	6	Medium Financial Inclusion
Rajasthan	.337	.422	.287	.346	7	Medium Financial Inclusion
Bihar	.439	.389	.218	.342	8	Medium Financial Inclusion
Madhya Pradesh	.386	.381	.246	.335	9	Medium Financial Inclusion
Andhra Pradesh	.350	.403	.247	.330	10	Medium Financial Inclusion
Kerala	.265	.369	.265	.298	11	Low Financial Inclusion
Punjab	.231	.375	.240	.279	12	Low Financial Inclusion
Telangana	.259	.297	.229	.261	13	Low Financial Inclusion
Haryana	.190	.278	.207	.224	14	Low Financial Inclusion
Odisha	.229	.279	.157	.220	15	Low Financial Inclusion
Jharkhand	.170	.167	.102	.146	16	Low Financial Inclusion
Assam	.162	.132	.101	.131	17	Low Financial Inclusion
Chhattisgarh	.0140	.141	.081	.120	18	Low Financial Inclusion
Uttarakhand	.070	.113	.067	.083	19	Low Financial Inclusion
Himanchal Pradesh	.047	.082	.043	.058	20	Low Financial Inclusion
Goa	.018	.032	.021	.024	21	Low Financial Inclusion
Tripura	.020	.019	.014	.014	22	Low Financial Inclusion

Meghalaya	.007	.012	.007	.009	23	Low Financial Inclusion
Manipur	.007	.002	.002	.004	24	Low Financial Inclusion
Mizoram	.001	.003	.001	.002	25	Low Financial Inclusion
Nagaland	.002	.001	.002	.002	26	Low Financial Inclusion
Arunchal Pradesh	.002	.001	.000	.001	27	Low Financial Inclusion
Sikkim	.000	.000	.000	.000	28	Low Financial Inclusion

Source: Estimation by the Author

Table 2: Human Development Index by Indian State

States	Human Development Index Value	Rank	Category
Kerala	.778	1	High Human Development Index
Goa	.759	2	High Human Development Index
Himanchal Pradesh	.721	3	High Human Development Index
Punjab	.720	4	High Human Development Index
Sikkim	.713	5	High Human Development Index
Haryana	.705	6	High Human Development Index
Mizoram	.701	7	High Human Development Index
Maharashtra	.694	8	High Human Development Index
Manipur	.694	9	Medium Human Development Index
Karnataka	.680	10	Medium Human Development Index
Uttarakhand	.680	11	Medium Human Development Index
Nagaland	.676	12	Medium Human Development Index
Gujarat	.669	13	Medium Human Development Index
Tamilnadu	.665	14	Medium Human Development Index
Telangana	.665	15	Medium Human Development Index
Arunachal Pradesh	.657	16	Medium Human Development Index
Tripura	.655	17	Medium Human Development Index
Meghalaya	.652	18	Medium Human Development Index
Andhra Pradesh	.646	19	Medium Human Development Index
West Bengal	.638	20	Medium Human Development Index
Rajasthan	.625	21	Medium Human Development Index
Chhattisgarh	.610	22	Medium Human Development Index
Odisha	.608	23	Medium Human Development Index
Assam	.602	24	Medium Human Development Index
Uttar Pradesh	.600	25	Medium Human Development Index
Jharkhand	.595	26	Medium Human Development Index
Madhya Pradesh	.591	27	Medium Human Development Index
Bihar	.571	28	Medium Human Development Index

Source: Author's analysis of data from the Subnational HDI Global Data Lab

Financial inclusion affects human progress. As a result of financial inclusion, people are able to get access to and benefit from a variety of financial services. Credit and banking services, among others, help consumers manage their money and budgets. Humans' monetary

needs can be met with the help of financial inclusion. For all 28 of India's states, we've compared how they fare on both the HDI and the Index of Financial Inclusion.

**Table 3:** Financial Inclusion Index and Human Development Index (2019)

States	Financial Inclusion Index		Human Development Index	
	Value	Rank	Value	Rank
Maharashtra	.794	1	.694	8
Uttar Pradesh	.756	2	.591	27
Tamilnadu	.568	3	.665	14
Karnataka	.495	4	.680	10
West Ben	.470	5	.638	20
Gujarat	.384	6	.669	13
Rajasthan	.346	7	.625	21
Bihar	.342	8	.571	28
Madhya Pradesh	.335	9	.600	25
Andhra Pradesh	.330	10	.646	19
Kerala	.298	11	.778	1
Punjab	.279	12	.720	4
Telangana	.261	13	.665	15
Haryana	.224	14	.705	6
Odisha	.220	15	.602	24
Jharkhand	.146	16	.595	26
Assam	.131	17	.610	22
Chhattisgarh	.120	18	.608	23
Uttarakhand	.083	19	.680	11
Himanchal Pradesh	.058	20	.721	3
Goa	.024	21	.759	2
Tripura	.018	22	.655	17
Meghalaya	.009	23	.652	18
Manipur	.004	24	.694	9
Mizoram	.002	25	.701	7
Nagaland	.002	26	.676	12
Arunchal Pradesh	.001	27	.657	16
Sikkim	.000	28	.713	5

**Source:** Financial Index of Inter-states (2019)

There appear to be discrepancies between the IFI and HDI of India's 28 individual states. Human development indexes are high in the states of Maharashtra, Tamil Nadu, West Bengal, and Rajasthan, which also rank

well in financial inclusion. The states of Chhattisgarh, Odisha, Assam, and Bihar are especially bad off because they do badly on both measures of human development and financial inclusion.



**Table 4:** FII and HDI Measurement Together

			<b>HDI</b>
		<b>High</b>	<b>Medium</b>
<b>FII</b>	High		Maharashtra, Uttar Pradesh, Tamil Nadu
	Medium		Karnataka, West Bengal, Gujarat, Rajasthan, Bihar, Madhya Pradesh, Andhra Pradesh,
	Low	Kerala, Punjab, Haryana, Himanchal Pradesh, Goa, Mizoram, Sikkim	Telangana, Odisha, Jharkhand, Assam Chhattisgarh Uttarakhand, Tripura, Meghalaya, Manipur, Nagaland Arunachal Pradesh

**Source:** Summary of the Author's

According to the data presented above, most countries with low FII also have a medium HDI (11). Seven of the states with the highest HDI also had the lowest FII. Because of this, it appears that FII and HDI may be related to one another. We have employed simple linear regression analysis, which is useful for examining relationships if there is just one direction of causality. HDI is the dependent variable, and the coefficients here are and. The random error term is denoted.

The findings point to an association between FII and HDI, suggesting that FII influences both economic development and quality of life indicators. The coefficients have a positive value of. 676. We can conclude that guaranteeing full financial inclusion can lead to higher growth, which in turn can improve the living conditions of more people in society. In the case of India, however, this goal is a long way off. This could be because of a number of things, such as a population with low financial literacy and/or low overall education levels, a market regulatory

environment that is too strict, expensive costs to maintain infrastructure, and so on.

## V. CONCLUSION

This article sheds light, using an index of financial inclusion, on the level of financial inclusion in 28 states. The relationship between financial inclusion and human development is also being investigated. The human development index is also strong in states like Maharashtra, Tamil Nadu, West Bengal, and Rajasthan, which also rank well in financial inclusion. States like Chhattisgarh, Odisha, Assam, and Bihar that score poorly on the indicator of financial inclusion also score poorly on the index of human development. As a result, expanding access to financial services needs to be a priority during the course of social and economic reform. It is important to work together to spread the word about the benefits of financial inclusion.

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