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## **An Empirical Study of Financial Inclusion In Urban Poor Of Kolkata**

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### **Abstract**

The urban context of the city Kolkata is incomplete without the mention of the staggering scale of urban poverty that besieges it. Kolkata has one third of its population living in slums which is only second highest share of slum population after Mumbai. The city follows the national trend of a growing income gap with over 80% of its population earning under INR 5000. Being the only commercial centre in whole of the eastern India, it attracts migrants from neighbourhood states and Bangladesh who find employment in the informal sector which is unregulated and characterized by low wages, exploitation and overall uncertainties. Further, Lack of official recognition of the informal sector which employs the urban poor ensures that they stay out of the formal financial system of the country. Urban poor unlike their rural counterparts though have physical proximity to the banks yet their financial inclusion remains challenged. This study attempts to evaluate with empirical evidence the levels of financial inclusion of the urban poor living in different regions of the city. It uses a conglomerative index created by previous study to arrive at the index of financial inclusion of an individual. It also tries to find out if the urban poor living in one region of the city fare better in their financial inclusion levels than the others.

**Keywords:** financial inclusion, index, urban poor, urban poverty

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## **Introduction:**

Ever since financial inclusion was highlighted in the annual policy review of the Reserve Bank of India (RBI) in the year 2005, it has been a priority and Government has been implementing various measures to achieve financial inclusion. Previous policy pronouncements towards achieving financial inclusion had implementation of no-frills-accounts, relaxed know your-customer (KYC) norms, Kisan credit card, general credit card and introducing new mechanisms such as the business correspondents (BCs) and business facilitators. Learning from the failures of these measures owing to the non usability and dormancy of the accounts, Government launched the latest *Pradhan mantra Jan Dhan Yojana* (PMJDY) schemes, a mega financial inclusion drive whose primary focus was not limited to opening accounts but also ensuring that the account remained active by means of depositing LPG subsidies and payment of MGNREGA(Mahatma Gandhi rural employment guarantee act) to the account. While the state can at its best ensure transaction banking activities to keep the account from dormancy, the actual level of financial inclusion in terms of usage of accounts, remittance, insurance, investment and credit remains difficult to ascertain at the individual level. Although various studies have measured financial inclusion at the National, state and district level, not much has been done to assess the levels of inclusion at an individual level. This study attempts to measure financial inclusion of the urban poor living in the city Kolkata by calculating an index of financial inclusion for an individual. It further investigates to see if the urban poor of one part of the city have better levels of financial inclusion than the other. This is important to understand in terms of Kolkata because it is a city which has two extremes of economies, while one part of Kolkata is centuries old with its dilapidated structures and conventional business the other is a newly established city with IT firms, SEZ and new age townships. It is thus of interest to explore if living in a particular region for a poor has any influence on their levels of financial inclusion.

## **The staggering scale of urban poverty in Kolkata**

A clear indicator of rapid urbanization and the parallel growth of the urban poor is the growth of slums in a city. "India's slum population has more than doubled, from 43 million in 2001 to 93 million in 2011 in ten years and it is projected to grow at 5% per year, adding nearly two million every year" according to official Government data (Shrivastava, 2012). Across urban India about twelve million more will be added in the slums by 2017. Nearly one in every six urban Indian residents lives in a slum, newly released Census data shows. The new numbers are significantly lower than the slum growth that had been projected for India. Roughly 1.37 crore households, or 17.4% of urban Indian

households lived in a slum in 2011, data released by the registrar general and census commissioner's office showed. A report published in Times of India says "Over a third of India's slum population lives in its 46 million-plus cities. Of the metros, Mumbai has the highest proportion of slum-dwelling households (41.3% of its population). Kolkata is next at nearly 30% with Chennai following closely. Delhi has 14.6% of its households living in slums while Bangalore is the best off of the five metros at less than 10%." (Table 1).

**Table 1. Indian metros and slums proportion**

City	Proportion of slum households (%)
Greater Mumbai	41.3
Kolkata	29.6
Chennai	28.5
Delhi	14.6
Bangalore	8.5

Kolkata's urban context is incomplete without the picture of overcrowded slums and bustees, not to mention the extreme poverty that besieges the city. According to Urmi Sen Gupta (Sengupta, 2010), West Bengal shares 8.2% of the national poverty while its population share is 7.8% and much of the poverty is concentrated in Kolkata. As Kolkata is the only urban centre in whole of the Eastern and North Eastern India, poor people from neighbouring districts of Kolkata, neighbouring states of Orissa, Assam, Bihar and Bangladesh migrate to Kolkata in search of a secure livelihood. A city is a promise to a regular income as compared to the insecurities in a rural agrarian livelihood of a village. The city's unregulated informal economic sector supports the livelihood of these migrants and So migration continues and fuelled by continuous rise in population proliferates the slum settlements and thus population of the urban poor. The urban poor live in such conditions which if declared "unfit for human survival" would be no exaggeration. They not only lack access to clean water but have no systems of sanitation or sewage, in fact the city's sewage lines cross their dwellings. More than 90% of these people do not have access to their own toilet and where available, more than 38 persons share the same toilet and 88 people use the single tap.

As the country continues to experience rising Gini coefficient (a measure of income inequality), so

does the city of Kolkata. In 2016, the International Monetary Fund in its regional economic outlook for Asia and Pacific said that India's Gini coefficient rose to 0.51 in 2013 from 0.45 in 1990. The city follows the national trend of a growing income gap. "Over 80% people in Kolkata earn under INR5000 (US\$107) comprising LIG(Low income group) and EWS(Economically weaker sections). The city's economic poverty is concentrated in poor neighbourhoods where most of the population work in the informal sector which is unregulated and characterized by low wages, exploitation and overall uncertainties" (Sengupta, 2010). A great majority of the urban poor earn less than Rs 80 a day, with such low levels of income their only means to meet the contingent needs is borrowing from money lenders falling prey to the vicious cycle of financial exclusion which only worsens their financial state. Further, Lack of official recognition of the informal sector which employs the urban poor ensures that they stay out of the formal financial system of the country. Most of their financial needs including credit and remittance are executed with the help of local money lenders whose exploitative interest rates prey on the limited resources and the helplessness of the poor. Though microfinance programmes and self help groups play an important role in making a cheaper credit available, the inclusion of the poor in the formal financial system still remains a challenge and calls for participation from many stakeholders along with an accessible enabling technology and financial literacy. This study attempts to analyse empirical evidences of levels of financial inclusion of Urban poor in different regions of Kolkata. It follows a similar research methodology as used by Sangeetha Prathap(Prathap, 2011) for the study conducted in fishermen household of coastal Kerala.

### **Materials and methods**

Determining the status of financial inclusion is very important from both the point of view of policy makers and economist. There have been various attempts to establish a financial inclusion index which would give a comparative status of financial inclusion. There have been various studies to estimate financial inclusion index as an indicator for assessing the levels of financial inclusion by authors including (Sarma, 2008), (Swiston, 2008), (Arora, 2010), Kendall et al (Kendall, Mylenko, & Ponce, 2010). Fewer studies have attempted to measure the level of access to finance from the formal sources and other financial services using primary data sources, notable studies are that of Rangappa et.al (Rangappa, Bai, & AL, 2008) and Delvin (Delvin, 2009). There have been many macro level studies on financial inclusion which have attempted to arrive at an index of financial inclusion indicating the extent of financial inclusion of a country or a district. While (Honohan, 2008), (Sarma, 2008) and (Arora, 2010) have calculated the index of financial inclusion (IFI) at the country level to

rank the countries, Chandan Kumar (C. Kumar & Mishra, 2011) and Nitin Kumar (N. Kumar, 2011) have calculated the IFI at state level. Sadhan Kumar Chattopdhyay (Chattopadhyay, 2011) has calculated the IFI at district level ranking the districts of West Bengal. Sangeetha (Prathap, 2011) has calculated Financial Inclusion index at individual level in fishing households of Kerala. Macro level studies are built on development indicator of financial growth such as number of bank account, average population per bank branch, per capita income, debit, credit etc. “Alternatively this does not suffice an indicator explaining access to financial services. Access is not easy to measure, and empirical evidence linking access to development outcomes has been quite limited because of lack of data” says Sangeetha prathap(2011). She has calculated IFI at individual level suggesting “the core/headline indicators of financial inclusion can be arrived from individual survey data that would help in eliminating data insufficiency barriers of measurement”. It is hence inferred that the outcomes of financial inclusion are most accurately measured at the individual level. To arrive at the value of IFI for an individual, Sangeetha (Prathap, 2011) identifies four major usage dimensions of banking namely Transaction, Credit, Deposit and Insurance. Each of the four usage dimensions are further divided into sub components which are assigned by alphabets ‘a’ to ‘j’ as shown in Table 1. The sub components are then assigned a weightage (refer table 1) depending on its relative contribution towards sustained financial inclusion. The value assigned to each sub component is either 1 or 0. Value ‘one’ implies respondent has association with the sub component and value ‘zero’ implies having no association with the sub component. The index is then calculated by the sum of the weighted values of the sub components (of usage dimensions).

$$IFI = (a*5)+(b*5)+(c*5)+(d*30)+(e*10)+(f*10)+(g*10)+(h*10)+(i*5)+(j*10)$$

The index varies between ‘0 and 100’. Value ‘100’ implies full Financial Inclusion and value ‘0’ implies complete Financial Exclusion. Value of ‘1-29’ implies low financial inclusion, value of ‘30-60’ implies medium financial inclusion and 61 and above implies high level of financial inclusion. The types of financial services that have been used by the respondents during the time of survey i.e between March 2013 to October 2013 have been used in the index. Access to the services provided by formal financial service providers (Listed in Table 2) has been evaluated in the study.

**Table2. Financial Inclusion Index- weightage distribution of Usage Dimension**

Indicator	Sub components	Weight	Sub total	
<b>Inclusion Indicators</b>				
<b>Transaction Banking</b>	a	Usage of Cheque/DD	5	15
	b	Social security pension payments through banks/cooperatives	5	
	c	Usage of ATM	5	
<b>Formal Credit (From banks, MFI and SBLP)</b>	d	From institutional sources in current year	30	50
	e	From institutional sources in past year	10	
	f	From institutional sources in previous years	10	
<b>Deposits</b>	g	Savings account with institutional sources (commercial bank, cooperative bank or post office or SHG bank linkage)	10	25
	h	Fixed Deposit or Recurring Deposit account with institutional agencies	10	
	i	Informal savings in an SHG	5	
<b>Insurance</b>	j	Any source/type of insurance	10	10
<b>Total</b>			<b>100</b>	<b>100</b>

Source:Sangeetha Pratap (2011)

### Sampling

Multistage sampling was done to select the samples. Sampling has been done in two stages as described below:

**Stage 1:** The first stage of sampling consists of selection of highly populated regions of the city for conducting the study. A region with a high population will also have a high population of poor. More so over the urban poor who thrive out of menial jobs and occupations tend to flock near densely populated areas to have more employment opportunities. So to ensure that a true representative sample has been taken, regions with highest population were selected in decreasing order. The city is divided into eight geographic regions each of which constitute characteristic population density. Out of the eight regions five were selected based on decreasing order of population density(Table 3). Five regions namely Esplanade, North Kolkata, South Kolkata, Northern fringes and southern fringes were selected. These five regions also are the ones with large slums dwellings according to the report

of Kolkata slums census 2011.

**Table 3. Division of Kolkata in eight regions**

<b>Geographic Regions</b>	<b>Description</b>
<b>Esplanade</b>	The colonial district is the central business and administrative area and is considered the heart of Kolkata
<b>North Kolkata</b>	The older area of the city, a fascinating district dominated by narrow little lanes and hundreds of century-old buildings, Also situated here are the Sealdah station, one of the largest train hubs in India, and the newly built Kolkata station
<b>Northern fringes</b>	The large industrial area to the north of the city, where there are a number of factories, including jute, paper, cotton, ordnance and chemicals
<b>Maidan</b>	The area consisting of the huge park, called the lungs of Kolkata. Has the Eden garden stadium and various sports club.
<b>South Kolkata</b>	The posh part of the city which has upscale neighbourhoods
<b>Southern Fringes</b>	The rapidly mushrooming localities to the south of the city. There are a number of educational institutes in this area. This is a relatively newer part of the city where a lot of expansion is going on
<b>East Kolkata</b>	Rapidly developing, especially IT sector and home to several malls. Many five star hotels, theme parks, posh housing estates and techno parks are being built in this area
<b>West Kolkata</b>	Houses the headquarters of the Eastern Command of the Indian Army, its premises are under the jurisdiction of the army.

**Stage 2:** Each of these five selected regions have a number of dense and overcrowded colonies of poor people. So from each of the five regions two largest colony (indicated by the size and age of the market place in that area i.e the larger and the older the market, the larger the population of the poor in that area) were selected (Table 4). So the following areas with high level of commercial activity were selected. It was found that most of the population of urban poor consists of people who have migrated from other districts, states, country (Bangladesh) in search of livelihood and are engaged in petty jobs with minimal wages and therefore they tend to throng near old commercial centres as their skills match with the requirement of conventional businesses. The area around the following commercial centres were selected from each of the five selected regions. These areas also are known for their *Bastis* or slums settlements.

**Table 4. Selected slums settlements**

<b>Regions</b>	<b>Popular <i>Basti</i> area/ Slums settlements</b>
<b>Esplanade</b>	Chandnichowk, Burra Bazaar
<b>South Kolkata</b>	Alipore, Khidirpore
<b>Southern fringes</b>	Behala, Garia
<b>North Kolkata</b>	Shyam Bazaar, Baag Bazaar
<b>Northern fringes</b>	Baarackpore, Madhyamgram

An effort was made to select equal number of samples from each area. A total of 547 sample households were interviewed.(Table 5)

**Table 5. Sample size from each region**

<b>Regions</b>	<b>Total</b>
<b>Esplanade</b>	105
<b>North Kolkata</b>	108
<b>South Kolkata</b>	115
<b>Northern Fringes</b>	105
<b>Southern Fringes</b>	114
<b>Total</b>	547

### **Status of financial Inclusion among the urban poor of Kolkata**

The Index of financial inclusion is calculated for each of the respondents and they are categorised into low, medium, high inclusion and excluded categories. The number and percentage of respondents in each category of financial inclusion is represented against their region in Table6. It was observed that 17 percent of the population was completely financially excluded for the past three years (includes the time frame of data collection). 27 percent of the population was in low level of financial inclusion while Majority (45 percent) are financially included at medium level i.e between an index of 30 to 60.Financial inclusion also varied with different selected zones within the city.

Financial Exclusion was highest in South Kolkata covering the areas of Garia and Behala where 34 percent of the respondents were totally financially excluded in stark contrast with only 3.5 percent of the respondents of Southern Fringes. Southern fringes also had the lowest percent i.e 1.7 percent of high level financial inclusion and Majority of the respondents had medium level of financial inclusion.

**Table 6. Region wise distribution of Financial Inclusion Index**

Regions	Slums settlements	Financially Excluded		1-29		30-60		61 & above		Total	
		No	%	No	%	No	%	No	%	No	%
Esplanade	Chandnichowk	23	21.9	30	28.5	41	39	11	10.4	105	100
	Burra Bazar										
North Kolkata	Alipore	17	15.7	28	25.9	39	36.1	24	22.2	108	100
	Khidirpore										
South Kolkata	Behala	39	34	24	20.8	47	40.8	5	4.3	115	100
	Garia										
Northern Fringes	Shyam Bazaar	11	10.4	17	16.1	58	55.2	19	18	105	100
	Baag Bazaar										
Southern Fringes	Baarackpore	4	3.5	48	42.1	60	52.6	2	1.7	114	100
	Madhyamgram										
	<b>Total</b>	94	17.1	147	26.8	245	44.7	61	11.1	547	100

**Source: Survey by the author**

The mean Financial Inclusion Index was calculated for each of the five regions. It is presented in Table 7 along with the standard deviation for each of the five regions. The mean was found to be highest for North Kolkata which just crosses the mark for low financial Inclusion. South Kolkata showed the lowest mean at 24.94 and the only one lagging much behind in the low financial Inclusion bracket.

**Table 7. Region wise Mean Financial Inclusion Index**

Region	Mean	N	Standard Deviation
Esplanade	29.20	105	23.309
North Kolkata	30.25	108	25.637
South Kolkata	24.94	115	19.186
Northern Fringes	32.87	105	27.354
Southern fringes	28.83	114	24.865
<b>Total</b>	29.14	547	22.40

To test the hypothesis that there is no difference in financial inclusion index among the different zones of Kolkata, one way ANOVA was employed. Table 8 presents the results of one way ANOVA.

Hypothesis test for difference of means (one way ANOVA)

**[Hypothesis 1]**

**H0: There is no variation in Index of financial inclusion of urban poor living in different regions of Kolkata**

**H1: Index of financial inclusion of urban poor differ between different regions of Kolkata**

**Table 8. Results of One way ANOVA**

	df	F	Sig
<b>Between groups</b>	4	1.5558	0.1847
<b>Within groups</b>	542		
<b>Total</b>	546		

There were no statistically significant differences between Index of financial inclusion of respondents in different regions as determined by one-way ANOVA ( $F(4,542) = 1.5558, p = .1847$ ). Although Kolkata has different pockets of development and respondents were chosen from the most developed new areas to the oldest crowded areas, the results show that irrespective of the locality of the urban poor of Kolkata their Financial Inclusion level remains similar.

## **Results**

It was observed that 45 percent of the urban poor had medium level of financial inclusion i.e an index of financial inclusion between 30 and 60. 17 percent of the population is completely financially excluded for the past three years. 27 percent of the population has low level of financial inclusion .Financial inclusion also varied with different selected zones within the city. Financial Exclusion was highest in South Kolkata covering the areas of Garia and Behala where 34 percent of the respondents were totally financially excluded in stark contrast with only 3.5 percent of the respondents of Southern Fringes. Southern fringes also had the lowest percent i.e 1.7 percent of high level financial inclusion and Majority of the respondents had medium level of financial inclusion. The mean Financial Inclusion Index was calculated for each of the five regions .It is presented in Table 7 along with the standard deviation for each of the five regions. The mean was found to be highest for North Kolkata which just crosses the mark for low financial Inclusion. South Kolkata showed the lowest mean at 24.94 and the only one lagging much behind in the low financial Inclusion bracket. Although Kolkata has different pockets of development and respondents were chosen from the most developed new areas to the oldest crowded areas, the results show that irrespective of the locality of the urban poor of Kolkata their Financial Inclusion level remains similar.

## **Conclusion**

Kolkata has an image of an old city with traditional manual labour based businesses, artisans, dilapidated structures, crowded narrow lanes and a low cost of living. This image of the city is now also interspersed with new age townships integrated with high end technology, IT parks and lifestyle stores. The new pockets of developments of the city speak of an overall financial well being of its residents as compared to its old city residents. However the same does not hold true for the poor living in either part of the city. They are as much excluded off the formal financial system as their counterparts in the old shanty part of the city. Urban poor's financial untouchability prevails uniformly in all the regions of Kolkata irrespective of the economic development of the region.

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