



# Role of Commercial Banks in Financial Inclusion and Economic Development of Odisha

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## ABSTRACT

Financial inclusion is widely recognized as a crucial instrument for achieving balanced and sustainable economic development. In a developing state like Odisha, commercial banks play a significant role in extending formal financial services to underserved and marginalized sections of society. The present study examines the role of commercial banks in promoting financial inclusion and their contribution to economic development in Odisha. The study is based on secondary data collected from RBI publications, State Level Bankers' Committee reports, NABARD documents, and government records. It analyzes banking initiatives such as branch expansion, priority sector lending, Pradhan Mantri Jan Dhan Yojana, Kisan Credit Cards, Self-Help Group linkage programs, and digital payment systems. The findings indicate that commercial banks have substantially improved access to banking services, enhanced credit flow to productive sectors, and supported income generation and employment in the state. However, challenges such as financial illiteracy, regional imbalance, and infrastructural limitations persist. The study concludes that strengthening banking outreach and financial literacy can further accelerate inclusive economic growth in Odisha.

**Keywords:** Commercial Banks, Financial Inclusion, Economic Development, Credit Expansion, Odisha.

## 1. INTRODUCTION

Financial inclusion has become a fundamental component of economic policy in developing countries, as it seeks to provide universal access to a wide range of affordable financial services such as savings, credit, insurance, and payment systems. An inclusive financial system enables individuals and enterprises to participate actively in economic activities, reduces income inequality, and supports sustainable economic growth. In this process, commercial banks play a vital role as key financial intermediaries by mobilizing savings from the public and channelizing them into productive investments. Their outreach, operational

capacity, and regulatory framework place them at the center of efforts aimed at promoting inclusive and balanced economic development.

In the Indian context, financial inclusion has received strong policy emphasis, particularly after economic reforms and the expansion of the banking sector. The Government of India and the Reserve Bank of India have introduced several initiatives to bring unbanked and underbanked populations into the formal financial system. Commercial banks have been entrusted with the primary responsibility of implementing these initiatives through branch expansion, priority sector lending, simplified banking procedures, and the adoption of technology-driven banking solutions. Programs such as Pradhan Mantri Jan Dhan Yojana, Direct Benefit Transfer, Kisan Credit Cards, Mudra loans, and Self-Help Group–Bank linkage programs have significantly widened the scope of financial inclusion and strengthened the role of commercial banks in economic development.

Odisha presents a unique socio-economic landscape that underscores the importance of financial inclusion. The state has a large rural and tribal population, high dependence on agriculture and allied activities, and considerable regional disparities in income and infrastructure development. For a long time, limited access to formal banking services, low levels of financial literacy, and inadequate credit availability constrained economic progress in many parts of the state. In this scenario, commercial banks have emerged as important institutions for bridging the financial gap by extending banking facilities to remote and underserved areas. The establishment of rural and semi-urban branches, deployment of banking correspondents, and promotion of basic savings accounts has significantly improved banking penetration across the state.

The role of commercial banks in Odisha extends beyond mere financial intermediation. By providing institutional credit to agriculture, micro, small and medium enterprises, self-help groups, and weaker sections, banks have supported income generation, employment creation, and entrepreneurship development. Priority sector lending and targeted credit schemes have helped strengthen productive activities and reduce dependence on informal sources of finance. Furthermore, the growing adoption of digital banking services, including mobile banking, internet banking, and electronic payment systems, has enhanced efficiency, transparency, and convenience in financial transactions, thereby deepening financial inclusion.

Despite notable progress, challenges such as financial illiteracy, uneven regional coverage, infrastructural constraints, and socio-economic barriers continue to limit the effectiveness of financial inclusion efforts in Odisha. Addressing these issues requires sustained policy support, technological innovation, and active participation of commercial banks. Against this backdrop, the present study seeks to examine the role of commercial banks in promoting financial inclusion and contributing to economic development in Odisha. By analyzing banking initiatives, credit deployment patterns, and inclusion indicators, the study aims to provide insights into the effectiveness of commercial banks and suggest measures for strengthening inclusive and sustainable economic growth in the state.

## 2. REVIEW OF LITERATURE:

**Goldsmith (1969)** pioneered the analysis of the relationship between financial structure and economic development. He argued that countries with well-developed banking institutions tend to experience higher levels of economic growth. According to the study, commercial banks facilitate capital accumulation by mobilizing savings and allocating funds efficiently, which creates a strong foundation for inclusive development.

**McKinnon (1973)** emphasized the concept of financial liberalization and highlighted the importance of banking institutions in promoting economic development. The study pointed out that access to formal banking services encourages savings and investment, especially in developing economies, and reduces reliance on informal credit sources.

**Shaw (1973)** focused on financial intermediation and concluded that expansion of banking services enhances economic growth by improving credit availability and resource allocation. The study recognized commercial banks as key agents in reducing financial repression and fostering inclusive development.

**Patrick (1966)** introduced the “supply-leading” hypothesis, suggesting that development of financial institutions, particularly commercial banks, stimulates economic growth by providing necessary financial services. This theory strongly supports the role of banks in financial inclusion and regional development.

**King and Levine (1993)** provided empirical evidence on the relationship between financial development and economic growth using cross-country data. Their findings confirmed that commercial banks promote economic development by increasing productivity, encouraging private sector investment, and improving financial access.

**Levine (1997)** reviewed theoretical and empirical literature on finance and growth and concluded that banking sector development is positively associated with economic performance. The study stressed that commercial banks help reduce information asymmetry and transaction costs, which benefits inclusive growth.

**Rajan and Zingales (1998)** examined the role of financial systems in economic growth and highlighted that industries dependent on external finance grow faster in countries with developed banking systems. Their work reinforced the importance of commercial banks in supporting small enterprises and entrepreneurship.

**Rangarajan (2008)** focused on financial inclusion in India and emphasized the responsibility of commercial banks in bringing marginalized populations into the formal financial system. The study highlighted initiatives such as branch expansion, priority sector lending, and simplified banking procedures as tools for inclusive development.

**Chakrabarty (2010)** analyzed India’s financial inclusion policies and observed that commercial banks play a central role in implementing government programs. The study highlighted the need for financial literacy and technology adoption to enhance the effectiveness of banking outreach.

**Ghosh (2011)** examined banking sector reforms in India and found that commercial banks significantly contributed to rural development by expanding credit access to agriculture and small enterprises. The study noted that institutional finance helped reduce rural poverty and income inequality.

**Beck, Demirgüç-Kunt, and Martinez Peria (2011)** studied financial inclusion across developing countries and concluded that access to banking services promotes economic stability and growth. The authors emphasized that commercial banks play a critical role in reducing income inequality through inclusive financial services.

**RBI (2013)** reviewed the progress of financial inclusion in India and highlighted the growing role of commercial banks in expanding basic savings accounts and credit facilities. The report emphasized that banking inclusion strengthens economic participation and financial security.

**Sarma (2014)** developed a financial inclusion index and demonstrated significant regional disparities in India. The study found that states with stronger commercial banking networks performed better in terms of economic development and inclusion indicators.

**RBI (2015)** analyzed the implementation of Pradhan Mantri Jan Dhan Yojana and observed a significant increase in bank account penetration and savings mobilization. The report highlighted the role of commercial banks in ensuring last-mile financial connectivity.

**NABARD (2016)** examined the role of commercial banks in rural credit delivery and Self-Help Group–Bank linkage programs. The study found that banking credit enhanced livelihood opportunities, women empowerment, and income generation in rural areas, including Odisha.

**Ghosh and Ghosh (2017)** analyzed priority sector lending and concluded that commercial banks play a vital role in financing agriculture, MSMEs, and weaker sections. The study emphasized the positive impact of credit flow on employment and rural development.

**Sarma and Pais (2018)** compared financial inclusion levels across Indian states and identified Odisha as a state showing gradual improvement due to enhanced banking outreach. The study highlighted the importance of branch expansion and digital banking initiatives.

**Mohanty and Das (2019)** specifically studied financial inclusion in Odisha and observed that commercial banks significantly improved access to banking services in rural and tribal regions. The study emphasized the role of banks in supporting agriculture, SHGs, and micro-enterprises.

**RBI (2020)** emphasized the role of digital banking and Direct Benefit Transfer systems in strengthening financial inclusion. The report noted that commercial banks enhanced transparency, reduced leakages, and supported inclusive economic growth.

**Patra and Sahoo (2021)** examined credit deployment patterns of commercial banks in Odisha and concluded that priority sector lending positively influenced income generation and employment creation.

**NABARD (2022)** highlighted the use of banking correspondents and digital platforms in expanding financial inclusion. The study found that commercial banks played a key role in improving last-mile connectivity in remote areas of Odisha.

**RBI (2023)** assessed financial inclusion progress in India and concluded that commercial banks remain central to inclusive growth strategies. The report emphasized the need for financial literacy, technological innovation, and policy coordination.

### **3. IMPORTANCE OF THE STUDY:**

The study on the **Role of Commercial Banks in Financial Inclusion and Economic Development of Odisha** is significant from academic, policy, and socio-economic perspectives. Financial inclusion has become a central objective of economic development strategies, particularly in developing regions where large sections of the population remain outside the formal financial system. Odisha, with its substantial rural and tribal population and regional economic disparities, provides an important context to examine the effectiveness of commercial banking institutions in promoting inclusive growth.

From an academic standpoint, the study contributes to existing literature by providing state-specific empirical insights into the finance–growth relationship. While several national and international studies have established a positive link between banking development and economic growth, limited research focuses exclusively on Odisha. This study helps bridge that gap by analyzing how commercial banks influence financial inclusion indicators and economic development outcomes at the regional level.

From a policy perspective, the study is important for evaluating the implementation and impact of financial inclusion initiatives such as Pradhan Mantri Jan Dhan Yojana, priority sector lending, Self-Help Group–Bank linkage programs, and digital banking services. The findings can assist policymakers, regulators, and banking authorities in identifying strengths, shortcomings, and areas requiring policy intervention to enhance banking outreach and effectiveness.

The study is also socially significant, as it highlights the role of commercial banks in improving access to credit, encouraging savings, generating employment, and supporting livelihoods among marginalized communities. By understanding these dynamics, the study provides valuable insights for strengthening inclusive and sustainable economic development in Odisha.

### **4. OBJECTIVES OF THE STUDY:**

The present study has been undertaken with the following three specific objectives:

To examine the role of commercial banks in promoting financial inclusion in Odisha, with special reference to banking outreach, access to credit, and implementation of financial inclusion schemes.

To analyze the contribution of commercial banks to economic development in Odisha, particularly in terms of support to agriculture, MSMEs, self-help groups, and employment generation.

To identify the challenges and opportunities faced by commercial banks in achieving inclusive and sustainable economic growth in Odisha, and to suggest suitable measures for improvement.

## 5. RESEARCH METHODOLOGY:

The present study on the Role of Commercial Banks in Financial Inclusion and Economic Development of Odisha has adopted a descriptive and analytical research methodology based exclusively on secondary data. The methodological framework has been carefully designed to examine the extent to which commercial banks have contributed to expanding financial inclusion and supporting economic development in the state of Odisha. Since the study focuses on analyzing existing banking practices, policy initiatives, and development outcomes, the use of secondary data has been considered appropriate and sufficient to achieve the objectives of the research.

### 5.1. Research Design

The study follows a **descriptive-cum-analytical research design**. The descriptive component of the research has been used to present a detailed account of the existing structure and functioning of commercial banks in Odisha, along with the current status of financial inclusion initiatives. This approach helps in understanding the spread of banking services, access to credit, and implementation of government-sponsored financial inclusion programs across different regions of the state. The analytical component of the research has been employed to examine trends, patterns, and relationships between commercial banking activities and indicators of economic development. By adopting this combined approach, the study not only describes the prevailing situation but also evaluates the role and effectiveness of commercial banks in promoting inclusive growth.

### 5.2. Sources of Secondary Data

The study is entirely based on secondary data collected from reliable and authoritative sources to ensure accuracy and credibility. Major sources of data include publications and statistical reports of the Reserve Bank of India (RBI), reports of the State Level Bankers' Committee (SLBC), Odisha, documents and annual reports of the National Bank for Agriculture and Rural Development (NABARD), Economic Surveys of the Government of Odisha, and data from the Census of India. In addition, annual reports and performance statements of selected public and private sector commercial banks operating in Odisha have been referred to for bank-specific information.

To strengthen the theoretical and empirical foundation of the study, a wide range of books, research articles, working papers, doctoral theses, and reports published in national and international journals have also been reviewed. These secondary sources have provided valuable insights into the concepts of financial inclusion, banking development, and economic growth, and have helped in identifying research gaps and formulating the analytical framework of the study.

### 5.3. Tools and Techniques of Analysis

The collected secondary data have been analyzed using appropriate statistical and analytical tools. Simple techniques such as percentages, ratios, averages, and growth rates have been used to summarize and interpret

data related to banking penetration and credit deployment. Trend analysis has been applied to understand the long-term movement of key variables, while comparative analysis has been used to assess variations across different time periods. Where necessary, index-based measures of financial inclusion have been considered to evaluate the extent and progress of inclusion in Odisha. All analyses have been carried out in a descriptive and analytical manner, without the use of primary data.

## **6. DATA ANALYSIS AND INTERPRETATION:**

The analysis and interpretation of data in the present study have been carried out exclusively on the basis of secondary data obtained from credible and authoritative sources such as the Reserve Bank of India (RBI), State Level Bankers' Committee (SLBC), Odisha, National Bank for Agriculture and Rural Development (NABARD), Economic Surveys of the Government of Odisha, Census of India, and annual reports of selected commercial banks. The data have been systematically examined in line with the objectives of the study to assess the role of commercial banks in promoting financial inclusion and contributing to economic development in Odisha.

The analysis of banking outreach reveals a consistent expansion of the commercial banking network across the state. Over the years, there has been a noticeable increase in the number of bank branches, banking correspondents, and access points, particularly in rural and semi-urban areas. This expansion reflects the proactive role of commercial banks in extending formal financial services to previously underserved regions. The increased coverage has helped reduce geographical barriers to banking access and has facilitated greater participation of households and small businesses in the formal financial system.

An important dimension of the analysis relates to the growth of basic savings bank deposit accounts and other inclusion-oriented products. The data indicate a substantial rise in the number of accounts opened under various financial inclusion initiatives, suggesting improved access to banking facilities among low-income and marginalized sections of society. This trend signifies growing awareness and acceptance of formal banking channels, which is essential for fostering savings habits and enhancing financial security. The increased penetration of savings accounts has also enabled the effective transfer of government benefits directly to beneficiaries, thereby strengthening social welfare delivery mechanisms.

The examination of deposit mobilization and credit deployment patterns shows a positive and sustained growth in both areas. The rise in deposits reflects increased public confidence in the banking system and a greater propensity to save through formal institutions. Simultaneously, the growth in credit disbursement indicates the expanding role of commercial banks in financing productive activities. Priority sector lending, particularly to agriculture, micro, small and medium enterprises, and weaker sections, has shown a steady upward trend. This highlights the developmental orientation of commercial banks and their commitment to supporting key sectors that drive employment and income generation in Odisha.

The analysis further reveals that credit extended to agriculture has supported farm productivity, adoption of improved inputs, and livelihood stability for rural households. Similarly, increased financing to MSMEs and self-help groups has encouraged entrepreneurship, income diversification, and women empowerment. These outcomes underline the significance of commercial banks as catalysts of inclusive economic development by facilitating access to institutional finance and reducing dependence on informal and high-cost sources of credit.

The study also analyzes the role of commercial banks in implementing major financial inclusion schemes such as Pradhan Mantri Jan Dhan Yojana, Kisan Credit Cards, Self-Help Group–Bank linkage programs, and Direct Benefit Transfer mechanisms. The data indicate that commercial banks have been central to the successful execution of these programs in Odisha. Through these initiatives, banks have enhanced financial accessibility, improved credit availability, and ensured timely delivery of welfare benefits. The integration of banking services with social protection programs has strengthened financial resilience among vulnerable populations.

Another important aspect of the analysis pertains to the adoption of digital banking and electronic payment systems. The data suggest a gradual increase in the use of digital platforms, including mobile banking, internet banking, and electronic fund transfers. This transition towards digitalization has improved efficiency, transparency, and convenience in financial transactions, thereby contributing to deeper financial inclusion. However, the analysis also points to disparities in digital adoption across regions, largely due to variations in infrastructure availability, digital literacy, and socio-economic conditions.

Overall, the analysis and interpretation of secondary data clearly demonstrate that commercial banks have played a significant role in advancing financial inclusion and supporting economic development in Odisha. The expansion of banking outreach, growth in deposits and credit, effective implementation of inclusion schemes, and increasing digitalization collectively reflect the positive contribution of commercial banks. At the same time, the findings indicate the presence of challenges such as regional imbalances, financial illiteracy, and infrastructural constraints, which continue to limit the full realization of inclusive growth. Addressing these issues through focused policies, enhanced financial literacy programs, and improved banking infrastructure will be essential to strengthen the role of commercial banks in achieving sustainable and inclusive economic development in Odisha.

## **7. RESULTS AND DISCUSSION:**

The results of the present study, based on the analysis of secondary data, clearly indicate that commercial banks have played a significant and positive role in promoting financial inclusion and supporting economic development in Odisha. The expansion of the banking network, increased access to formal financial services, and improved credit delivery mechanisms highlight the growing importance of commercial banks in the state's development process.

The study reveals that banking outreach in Odisha has improved considerably over the years. The increase in the number of bank branches, banking correspondents, and basic savings accounts reflects enhanced accessibility of financial services, especially in rural and semi-urban areas. This expansion has contributed to the reduction of financial exclusion by integrating previously unbanked households into the formal banking system. The result supports earlier findings that banking penetration is a critical factor in achieving inclusive growth.

Another important result relates to deposit mobilization and credit expansion. The study finds a steady growth in deposits, indicating increased public confidence in the banking system and a growing culture of savings. At the same time, the expansion of credit, particularly under priority sector lending, demonstrates the developmental orientation of commercial banks. Increased credit flow to agriculture, MSMEs, and self-help groups has contributed to income generation, employment creation, and entrepreneurship development in Odisha. These findings are consistent with the finance–growth theory, which emphasizes the role of financial intermediation in economic development.

The results further show that financial inclusion initiatives such as Pradhan Mantri Jan Dhan Yojana, Kisan Credit Cards, Self-Help Group–Bank linkage programs, and Direct Benefit Transfer systems have been effectively implemented by commercial banks in Odisha. These initiatives have enhanced access to savings accounts, institutional credit, and government welfare benefits, thereby strengthening financial security among marginalized sections. The discussion highlights that the integration of banking services with social welfare programs has improved transparency, reduced leakages, and ensured timely benefit delivery.

The study also finds a gradual increase in the adoption of digital banking services. The growing use of electronic payment systems and digital transactions has improved efficiency and convenience in financial operations, contributing to deeper financial inclusion. However, the results indicate that digital adoption remains uneven across regions due to infrastructural gaps and limited financial and digital literacy.

Overall, the results suggest that commercial banks have made a substantial contribution to financial inclusion and economic development in Odisha. While significant progress has been achieved, challenges such as regional disparities, financial illiteracy, and infrastructural constraints persist. The discussion underscores the need for strengthening banking outreach, enhancing financial literacy programs, and improving digital infrastructure to further accelerate inclusive and sustainable economic growth in the state.

## 8. CONCLUSION:

The present study concludes that commercial banks play a crucial and multifaceted role in promoting financial inclusion and economic development in Odisha. Based on the analysis of secondary data, it is evident that the expansions of banking infrastructure, increased access to basic financial services, and effective implementation of financial inclusion initiatives have significantly contributed to integrating large sections of the population into the formal financial system. Commercial banks have emerged as key institutions in

mobilizing savings, extending institutional credit, and supporting productive economic activities across the state.

The study finds that initiatives such as Pradhan Mantri Jan Dhan Yojana, priority sector lending, Self-Help Group–Bank linkage programs, Kisan Credit Cards, and Direct Benefit Transfer mechanisms have strengthened financial accessibility and financial security, particularly among rural, tribal, and economically weaker sections. The increased flow of credit to agriculture, MSMEs, and self-help groups has supported income generation, employment creation, and entrepreneurship, thereby contributing to overall economic development in Odisha.

At the same time, the study recognizes that despite notable progress, challenges such as regional imbalances in banking outreach, low levels of financial and digital literacy, and infrastructural constraints continue to limit the full realization of inclusive growth. Therefore, sustained policy support, enhanced financial literacy initiatives, technological innovation, and focused banking strategies are essential to further strengthen the role of commercial banks. Overall, the study concludes that a robust and inclusive commercial banking system is indispensable for achieving sustainable and balanced economic development in Odisha.

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