

A Comparative Analysis Of Financial Inclusion And Household Indebtedness In The North-Eastern Region Of India: Evidence From AIDIS 2019

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Abstract

This study provides a comprehensive comparative assessment of financial inclusion and credit dynamics across the eight states of the North-Eastern Region of India. Utilizing secondary data from the 77th Round of the All-India Debt and Investment Survey conducted in 2019, the research evaluates key indicators including the Incidence of Indebtedness, Average amount of Debt, and the relative shares of institutional versus non-institutional credit agencies. The findings reveal sharp intra-regional disparities: while states like Tripura and Assam show higher levels of institutional credit penetration, others like Manipur and Arunachal Pradesh exhibit a persistent reliance on non-institutional sources, particularly in urban centres. The study identifies a "mountain paradox" where high bank account ownership does not necessarily translate into effective credit utilization. Policy recommendations emphasize the need for strengthening regional rural banks, bridging the "collateral gap" through land record digitalization, and leveraging the extensive post office network to improve the quality of financial inclusion in the region's unique topographical context.

Keywords: financial inclusion, household indebtedness, credit agency.

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I. Introduction

Financial inclusion, the provision of accessible, affordable, and appropriate financial services, is a critical enabler for equitable economic growth and poverty reduction. While national flagship programs like the Pradhan Mantri Jan Dhan Yojana (PMJDY) have significantly boosted bank account ownership across India, regional disparities remain a major concern, particularly in the North-Eastern Region (NER). The NER, comprising Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura, presents a unique developmental landscape characterized by difficult terrain, geographic isolation, and diverse socio-cultural structures that pose significant challenges to formal financial deepening.

Existing research suggests that financial inclusion in mountain economies must go beyond mere account opening to be "meaningful," encompassing access to productive credit, insurance, and investment products. However, the NER has historically registered some of the lowest Financial Inclusion Index (FII) scores in India. This research utilizes the most recent 77th Round of the All India Debt and Investment Survey (AIDIS) to provide a data-driven comparison of how different states within the NER are navigating the transition from traditional community-based economies to modernized, monetized financial systems.

Statement of the Problem

The central problem confronting the NER is the persistent gap between financial "access" (account ownership) and financial "usage" (credit utilization). While banking penetration has increased, the Credit-to-Deposit (CD) ratio in many NER states remains well below the national target of 60%, with states like Arunachal Pradesh and Meghalaya recording ratios as low as 25% and 32% respectively. This indicates that capital mobilized in the region is often not re-invested locally. Furthermore, there is a structural reliance on non-institutional credit sources, which often carry opaque or higher interest rates, particularly in urban areas where formal institutions are physically present but may be functionally inaccessible due to rigid documentation requirements. Understanding these intra-regional variations is essential for crafting state-specific interventions.

Objectives of the Study

1. To assess the status of household indebtedness, specifically the Incidence of Indebtedness (IOI) and Average amount of Debt (AOD), across rural and urban sectors of the NER.

2. To analyse the comparative share of institutional and non-institutional credit agencies in providing finance to households in these states.

II. Research Methodology

This research is based solely on secondary data sourced from the 77th Round of the National Sample Survey Office (NSSO) "All India Debt and Investment Survey" (AIDIS), covering the period from January to December 2019. The survey utilized a stratified two-stage design with villages and Urban Frame Survey (UFS) blocks as first-stage units. The data reflects the status of assets and liabilities as of June 30, 2018. The study focuses on the eight states of the NER, comparing state-level metrics against national averages to identify regional specificities. Statistical indicators such as Amount of Outstanding Debt, Incident of Indebtedness, and percentage distributions are interpreted through a descriptive and comparative analytical framework.

III. Results And Discussion

Indebtedness Patterns in the NER

The AIDIS 2019 data reveals significant variance in debt profiles across the North-Eastern states.

Table 1: The Share of Average amount of Debt (AOD), Incidence of Indebtedness (IOI) in North-Eastern States.				
State	Rural		Urban	
	AOD (000'Rs)	IOI (%)	AOD (000' Rs)	IOI (%)
Arunachal Pradesh	14	15	30	22.1
Assam	16	19.2	77	20.1
Manipur	15	17.5	24	14.5
Meghalaya	4	9.2	13	5.1
Mizoram	32	13.2	109	19.7
Nagaland	6	6.6	21	10.2
Sikkim	40	18.8	81	22
Tripura	17	21.2	33	20.3
All India	60	35	120	22.4

Source: All India Debt and Investment Survey (AIDIS), NSSO, 2019.

Note: AOD: the average amount of cash dues per household.

IOI: the percentage of indebted households to total households.

Indebted Households: Households having cash loan outstanding.

DAR: the average amount of debt (AOD) outstanding for a group of households expressed as a percentage of the average amount of assets (AVA) own by them.

Tripura (21.2%) and Assam (19.2%) lead the region in rural indebtedness, while Nagaland (6.6%) and Meghalaya (9.2%) show the lowest incidence. In urban areas, Sikkim (22.0%) and Arunachal Pradesh (22.1%) are nearly at par with the national average (22.4%), yet their Average amount of Debt (AOD) remains considerably lower than the national figure of Rs. 120,000. Mizoram is an outlier with an urban AOD of Rs. 109,000, suggesting a higher level of credit mobilization compared to its neighbours.

Institutional vs. Non-Institutional Credit Distribution

A critical marker of financial inclusion is the source of credit.

Table 2: Percentage Distribution of IOI (%) by Credit Agency of Rural and Urban Household of North Eastern States and India.								
State	Rural				Urban			
	Institutional	Non-institutional	Both	All	Institutional	Non-institutional	Both	All
1	2	3	4	5	6	7	8	9
Arunachal Pradesh	5.9	7.8	1.4	15.0	9.4	11.9	0.8	22.1
Assam	15.4	3.1	0.6	19.2	18.6	1.2	0.2	20.0
Manipur	2.2	14.7	0.6	17.5	4.7	9.4	0.3	14.5
Meghalaya	5.3	3.5	0.4	9.2	4.0	1.0	0.1	5.1
Mizoram	8.4	4.4	0.4	13.2	16.5	2.7	0.5	19.7
Nagaland	2.2	4.2	0.1	6.6	5.1	3.8	1.3	10.2
Sikkim	11.3	7.0	0.5	8.8	14.9	5.6	1.4	22.0
Tripura	18.2	2.6	0.4	21.2	19.1	0.7	0.5	20.3
All India	17.8	10.2	7.0	35.0	14.5	4.9	3.0	22.4

Source: All India Debt and Investment Survey (AIDIS), NSSO, 2019.

Tripura and Assam exhibit the strongest institutional credit penetration in both sectors. Conversely, Manipur and Arunachal Pradesh show a concerning trend: in rural Manipur, 14.7% of households rely on non-institutional credit compared to just 2.2% from formal sources. Arunachal Pradesh stands out for having the highest urban non-institutional reliance (11.9%) in the region, more than double the national urban average of 4.9%.

Table 3: Percentage Share of Outstanding Cash Debt by Credit Source in North-Eastern India.

State	Institutional		Non-Institutional	
	Rural	Urban	Rural	Urban
Arunachal Pradesh	68.8	81.6	31.2	18.4
Assam	88.3	98.7	11.7	1.3
Manipur	40.6	58.4	59.4	41.6
Meghalaya	88.5	97.9	11.5	2.1
Mizoram	94.8	96.4	5.2	3.6
Nagaland	86.1	91.9	13.9	8.1
Sikkim	86.4	95.9	13.6	4.1
Tripura	93.7	98	6.3	2
All India	66.1	87.1	33.8	12.9

Source: All India Debt and Investment Survey (AIDIS), NSSO, 2019.

While the incidence of non-institutional borrowing is high in some areas, the share of volume of debt in Mizoram (94.8% rural) and Tripura (93.7% rural) is overwhelmingly institutional. Manipur remains the most vulnerable state in this regard, with 59.4% of its rural debt volume held by non-institutional agencies.

Interest rate dynamics

State	Table 4: Interest Rate Distribution of Institutional Debt (%) in North Eastern States.							
	Rural				Urban			
	Nil	Below 15	15-30	30-50	Nil	Below 15	15-30	30-50
Arunachal Pradesh	1.4	97	1.7	0	1	83.2	15.8	0
Assam	0.2	78.5	20	1.5	0.1	94.8	5.2	0
Manipur	0.6	96.7	1.3	1.4	0.4	86.7	7.4	5.4
Meghalaya	0	100	0	0	0.1	95.1	4.7	0
Mizoram	0	99	0.9	0	0	100	0	0
Nagaland	1.3	93.6	3.3	0	0.2	98.3	1.5	0
Sikkim	0.1	99.9	0	0	1	99	0	0
Tripura	0.4	63.5	36.1	0	0.9	76.6	22.4	0
India	1.3	90.5	7.8	0.2	0.3	93.2	6.3	0.1

Source: All India Debt and Investment Survey, NSSO, 2019.

Most institutional debt in the NER is provided at rates below 15%. However, Tripura (36.1% rural) and Arunachal Pradesh (15.8% urban) show high proportions of debt in the 15-30% interest. This likely reflects the higher penetration and lending costs of Microfinance Institutions (MFIs) and NBFCs in these states.

State	Table 5: Interest Rate Distribution of Non-Institutional Debt (%) in North Eastern States.									
	Rural					Urban				
	Nil	Below 15	15-30	30-50	50-100	Nil	Below 15	15-30	30-50	50-100
Arunachal Pradesh	40.1	57.7	2.0	0.0	0.0	50.4	10.6	38.9	0.0	0.0
Assam	13.2	54.0	13.4	3.4	16.0	80.6	9.3	6.4	3.1	0.6
Manipur	11.0	8.2	3.7	56.7	20.3	8.8	1.1	9.9	69.2	11.0
Meghalaya	83.0	3.5	12.6	0.8	0.0	52.7	0.0	36.6	10.7	0.0
Mizoram	75.7	17.2	7.2	0.0	0.0	62.8	34.5	2.7	0.0	0.0
Nagaland	80.3	9.6	1.8	0.0	8.4	67.5	32.5	0.0	0.0	0.0
Sikkim	57.8	31.0	7.6	3.2	0.4	70.9	22.8	6.3	0.0	0.0
Tripura	23.0	9.2	49.5	17.4	0.7	33.5	5.5	6.5	54.5	0.0
India	20.2	6.6	49.8	18.7	4.5	31.4	9.9	38.4	16.1	4.3

Source: All India Debt and Investment Survey, NSSO, 2019.

A significant portion of non-institutional credit in states like Mizoram (75.7%) and Meghalaya (83.0%) is interest-free, indicating a strong reliance on social capital and community-based lending. Conversely, rural Manipur shows a predatory pattern with 56.7% of non-institutional debt carrying interest rates of 30-50%.

Deposit Account Penetration by Social Category

The baseline of financial inclusion is the ownership of a deposit account.

Table 6: Percentage of Adult Population (18 years and above) having deposit account in Bank and Post Office for North Eastern and India.										
State	Deposit Account in Bank									
	ST	SC	OBC	Others	All	ST	SC	OBC	Others	All
Arunachal Pradesh	77.0	84.3	30.3	73.0	75.6	87.7	84.4	76.8	81.3	84.9
Assam	75.7	82.4	85.1	75.0	78.9	80.0	81.4	88.0	81.8	82.9
Manipur	64.3	72.4	67.8	74.7	66.4	71.3	82.9	74.8	90.4	76.4

Meghalaya	71.6	50.0	69.4	92.0	73.6	87.4	70.3	49.3	74.6	82.8
Mizoram	73.3	56.0	0.0	0.0	73.2	83.7	100.0	96.6	0.0	83.6
Nagaland	43.9	0.0	73.3	50.0	43.9	76.3	67.9	66.9	78.4	75.9
Sikkim	80.2	90.9	85.2	97.9	83.4	79.8	93.8	88.2	85.6	85.4
Tripura	83.9	87.4	89.1	87.8	86.7	95.2	93.0	94.1	94.1	93.9
All India	80.4	84.9	85.0	85.1	84.4	80.4	83.6	84.9	86.7	85.2
Deposit Account in Post Office										
Arunachal Pradesh	3.2	3.3	1.9	5.0	3.5	11.8	21.1	42.5	20.1	15.8
Assam	0.6	2.8	2.2	0.9	1.5	0.9	5.7	9.6	5.0	5.7
Manipur	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Meghalaya	0.5	0.0	0.0	1.3	0.5	4.9	0.9	0.4	4.1	4.4
Mizoram	0.4	0.0	0.0	0.0	0.4	0.9	0.0	0.0	0.0	0.9
Nagaland	0.4	0.0	0.0	0.0	0.4	2.4	0.0	0.0	0.0	2.1
Sikkim	1.4	1.7	1.5	0.0	1.4	0.8	3.5	3.6	2.1	2.3
Tripura	0.7	6.6	4.1	5.6	3.7	8.1	7.5	9.9	11.7	10.1
All India	2.4	2.7	3.3	4.5	3.4	3.2	3.8	4.1	5.6	4.6

Source: All India Debt and Investment Survey, NSSO, 2019.

Tripura leads the region in account penetration (93.9% urban), while Nagaland shows the lowest rural penetration at 43.9%. Interestingly, while the region has relatively high bank account ownership, the use of Post Offices for savings is uniquely high in some states. In urban Arunachal Pradesh, 15.8% of adults have Post Office accounts, and 10.1% in Tripura, both significantly higher than the national urban average of 4.6%.

IV. Findings

Thus, the study found that the financial inclusion is not uniform across the NER. Tripura and Assam have the most institutionalized credit markets, whereas Manipur remains heavily dependent on high-interest informal sources. Moreover, high account ownership, particularly among STs in urban areas, has not eliminated non-institutional credit. Arunachal Pradesh exhibits the highest urban non-institutional reliance in the region, suggesting that formal banks are not meeting the specific needs of urban individuals. States like Nagaland and Meghalaya show very low IOI (6.6-9.2%), which may reflect involuntary exclusion due to geographic remoteness rather than a lack of credit demand. While states like Mizoram and Meghalaya benefit from interest-free social lending, rural Manipur faces exorbitant interest rates (30-50%) from informal lenders.

V. Policy Recommendation

- Banks should introduce simplified microcredit products (like PM-SVANidhi) which require light documentation to compete with urban informal lenders.
- State governments must accelerate the digitalization of land records and the issuance of Land Possession Certificates to resolve the collateral gap that hinders formal lending.
- Programs should specifically target social groups with lower penetration, such as rural OBC populations in Arunachal Pradesh (30.3% penetration) and rural STs in Nagaland.

VI. Conclusion

The financial landscape of North-East India is a study in contrasts. While national policies have succeeded in expanding account ownership, the transition to formal credit usage is stalled by geographic, structural, and social barriers. The persistent reliance on non-institutional credit in Manipur and Arunachal Pradesh highlights a critical need for formal financial products that match the flexibility of informal sources. By bridging the infrastructure gap and recognizing the unique land tenure systems of the hill states, the NER can ensure that financial inclusion leads to genuine economic empowerment for its diverse population.

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