

ABSTRACT

Financial Inclusion, as a concept is ever evolving and comes with multiple dimensions. In order to capture the diverse domains of financial inclusion and thus get a complete picture, various measures are required that not only capture but also determine these domains. The steps of the government towards improving financial inclusion have gained momentum only around the beginning of this millennium. With this view, an attempt is being made to capture this multi-dimensional concept of financial inclusion by constructing an index of financial inclusion and analysing financial inclusion as an unobserved or latent variable that can be subdivided into availability and utilisation of banking services that manifest themselves through measurable indicators. The paper has used the approach of Multiple Indicators Multiple Causes (MIMIC) model to compute the index of financial inclusion which mitigates the problem of bias, inconsistency and arbitrary weightings of indicators. The computed index is used to compare financial inclusion indices for 30 countries from 2004-2010 noting differences between them. Robustness of the model was tested using two criteria and the model satisfied robustness test in both the cases. The presence of convergence in the rankings of the countries was analysed using concordance analysis. Results of the concordance showed convergence in the rankings of availability and utilisation of banking services of different countries.

