



Financial inclusion and its impact on economic growth in India

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Abstract

Financial Inclusion is the process of ensuring the access of financial services to the weaker sections and low-income groups at an affordable cost. It is the universal access to a wide range of financial services at a reasonable cost. It refers both the place and pattern of growth, which are very much interlinked. It focuses on productive employment rather than on direct income redistribution. It should be broad-based across sectors and it should also be inclusive of large part of the country's labors force. According to this concept inclusiveness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for business and individuals.

Recently India has taken several steps towards financial inclusion for achieving faster inclusive growth. This study seeks to examine the achievement of the Indian states regarding the financial inclusion. Applying the methodology of Rotated Principal Component Analysis this study has computed a comprehensive measure of financial inclusion for each state. For this analysis ten indicators of financial Inclusion have been considered. This study has used the data published by the Reserve Bank of India (RBI) and the Government of India. Ranks of the states in accordance with the Composite score show that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However, the levels of financial inclusion of the states in India have a low mean and high disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the states in India. The paper concludes that it is more challenging for any developing country like India to achieve inclusive growth than getting 7 to 10 percent growth in GDP.

Keywords: Inclusive growth, broad based growth, developing countries, agriculture, poverty reduction, employment generation, social sector development, regional disparities, environmental development

Introduction

Financial Inclusion is the process of ensuring the access of financial services to the weaker sections and low income groups at an affordable cost. It is the universal access to a wide range of financial services at a reasonable cost. Financial Inclusion is way to achieve 'Inclusive Growth' in the national economy. The term inclusive growth may be defined as a system that allows people to contribute and benefit from economic growth. It refers both the place and pattern of growth, which are very much interlinked. It focuses on productive employment rather than on direct income redistribution. It should be broad-based across sectors and it should also be inclusive of large part of the country's labors force. According to this concept inclusive ness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for business and individuals.

Therefore, Inclusive Growth is a concept which advances equitable opportunities for economic

Participants during the process of economic growth with benefits incurred by every section of

Society. Making growth more inclusive and addressing widespread poverty is a key challenge for India in this century. Inclusive growth is a political, social and economic necessity in our Country now a day.

So there is a need to have a broad based and inclusive growth to benefit all sections of society and progress economic growth. It is more challenging for any developing country to achieve inclusive growth than getting 7 to 10percent growth in GDP. There are strong social, economic

and political reasons for achieving broader and inclusive growth:

- Socially, lack of inclusive growth leads to unrest among many people.
- The economic argument is that the measures which raise equality also promote economic growth
- The political argument is that no government in a democracy can afford to ignore large sections of workers and non-working population.

Thus, socially, politically, and economically it can argue that having a stable and democratic society country needs to have inclusive growth.

Objectives

1. To explore the need and significance of financial Inclusion through Inclusive Growth for economic and social development of society.
2. To analyze the current status of Financial Inclusion and the affectivity of Inclusive growth in India.
3. To Study the Concept of Financial Inclusion
4. To Study the major factors affecting access to financial services.

Background

As the majority of rural people are still not included in Inclusive Growth, the concept of Financial Inclusion becomes a challenge for the Indian economy. Since 2005 many concerted measures are initiated by RBI and the govt. of India in favor of Financial Inclusion but the impact of

these did not yield satisfactory results. Govt. of India (2008) examined Financial Inclusion a delivery mechanism providing financial services at an affordable cost to the vast sections of the disadvantage and low-income groups.

Kamath (2008) attempted to understand the impact of Micro Finance Institution (MFI) on daily household cash flows by analyzing cash inflow and cash outflow patterns of borrowers of MFI and comparing with non-MFI household.

Development Research Project (2013) attempted to understand the finance need of poor in long term and short term by exploring how surplus fund is used to meet short term, long term and emergency requirements to develop strategies for financial inclusion and designing.

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. CRISIL gave ground level information regarding the progress of financial inclusion in the country's rural and also urban areas.

RBI (2014) focused on the provision of financial services to the small business and low-income household. RBI (2014b) presented a report to study various challenges and evaluate alternatives in the domain of technology that can help large scale expansion of mobile banking across the country.

Despite concerted efforts by the government, RBI and NABARD, issues related to financial inclusion need to be looked at more carefully in order to address the several significant issues especially at micro level.

In India, the first concrete step in financial inclusion was taken in 2005, when the then Chairman and Managing Director of Indian Bank, K.C. Chakrabarty and the then RBI Governor Y.V. Reddy met the Puducherry chief minister and suggested the idea of providing a bank account for every household in Puducherry. Consequent to the meeting, the first circular on financial inclusion was drafted the very same evening at a meeting of bankers and Mangalam village in Puducherry became the first village to be introduced to the financial inclusion programme in India on December 30, 2005. Since then and especially from the year 2010 onwards, one of the important objectives of the RBI has been financial inclusion. Financial Inclusion gained momentum during the RBI's Platinum Jubilee Celebrations in 2010 when the RBI chose it as its focus area. Banks, mainly from the public sector, were advised by the RBI to come out with a plan on how they would reach complete financial inclusion in India by 2012. The financially excluded sections in India largely comprise marginal farmers, landless labourers, self-employed and unorganised sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. The majority of the group includes people living in rural areas. However, in spite of concerted efforts of nearly a decade, in India, even today a significant number of people remain largely excluded from the formal financial system.

RBI and GOI has taken a lot of initiatives and policy measures for Financial Inclusion. These initiatives and policy measures are:- No-frill accounts• Overdraft facility in savings• account Financial Literacy programs• Simplification of Know Your• Customer (KYC) Simplification of Savings Bank• Account Opening Form Simplified branch authorization• General Credit Cards Kisan Credit Cards (KCCs)• Business Correspondents

(BCs)• and Business Facilitators (BFs) Model SHG Bank-Linkage Programme• Opening of branches in unbanked• rural locations Use and promotion of ICT in• Banking Branch Expansion/Coverage of• villages Rural Infrastructure Development• Creation of Funds for Financial.

Apart from this government of India has started following schemes as an initiative for Financial inclusion

1. Swabhimaan Earlier Financial Inclusion programme for opening of villager's bank account only.
2. 2. Pradhan Mantri Jan Dhan Yojana The PMJDY has been conceived as a national mission on financial inclusion with the objective of covering all households in the country with banking facilities and having a bank account for each household. Under the Jan Dhan Yojna anyone who is Indian citizen above age of 10 years and does not have a bank account, can open the account with zero balance. Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, specially designed for the purpose of opening the accounts under this scheme.
3. 3. Jeevan Jyoti Bima Yojana on payment of Rs 342 per year one can get Rs.2 lacs life insurance and Rs. 2 lacs accidental insurance.
4. 4. Atal pension yojana Pensions ranging from Rs 1,000 to Rs 5,000 a month can be enabled under this scheme.

Factors Affecting Access to Financial Service

Some of the major factors affecting access to financial services are

1. Psychological and cultural barriers- Self exclusion is often seen among low income group due to psychological barrier that services are meant for rich class only. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs.
2. Gender: Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow. It was found that states having a relatively higher share of rural population and a higher share of female population generally have a comparatively lower level of financial inclusioni
3. Legal identity-Lack of legal identity like identity card, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.
4. Terms and conditions-Banks lay down many Terms and conditions for the access of financial services such as minimum balance, geographic place, minimum transactions etc resulting in less consumer interest for services
5. Limited literacy- Limited literacy, particularly financial literacy, i.e., basic mathematics, business finance skills as well as lack of understanding often constrains demand for financial services.
6. Place of living- Commercial banks prefer profitable areas for operations. This restricts the access for people living in remote areas.
7. Social security payments-In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

8. Types of occupation-Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan .
9. Attractiveness of the product-Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.
10. Risk associated: Banks normally provide services (such as loans) to low risk profile consumer such as middle age', financial stability and good occupation. Conclusion Inclusive growth attainment depends a great deal on equitable distribution of growth opportunities

Significant Factors for Financial Inclusion

Agriculture

The most important element of inclusive growth in India is agriculture. It is the largest economic sector of most of the developing countries like India and plays a significant role in the overall socio-economic development of the nation. According to World Bank 'India country overview 2008'- Slow agricultural growth is a concern for policy makers as some two thirds of Indian people depend on rural employment for living. Current agricultural practices are neither economically nor are environmentally neither sustainable nor Indian yields for many agricultural commodities low. Poorly maintained irrigation system and almost universal lack of good extension service are among the factors responsible. Farmers' access to markets is hampered by poor roads, market infrastructure and excessive regulation.

Poverty Reduction Employment Generation

Below poverty line is an economic benchmark used by government of India to identify individuals and households who need government assistance and aid. It is determined using various parameters, which vary, from state to state and within states.

The concept of inclusive growth is used for poverty reduction by spreading the benefits of economic development to all section of people throughout the country. World bank estimates 42% below \$1.25 poverty line. Asian development bank 65% with \$ 1.35 poverty line. India's 80% poor are from rural areas and it is concentrated among agricultural labours, casual workers, and schedule cast and schedule tribe.

Therefore, planned and controlled economic growth is required for solving the unemployment problem. Recently the UPA government is come up with rural employment guarantee programme which aims to provide minimum days of employment to people living in the village. Emphasis has to be given on creation of opportunities for self-employment. So with out solving this basic problem the objective of inclusive growth can never be achieved in India.

Social Sector Development

India ranks 127 out of 170 countries in human development index. The social sector development is a major activity which is undertaken by government. Development and utilization of human resources and the improvement in the overall quality of living of the people are the prime objective of every nation. If people are healthy educated and

adequately skilled, they can participate fully and contribute more to economic development process. The government of India performs and discharges a number of duties and functions for human development. The expenditure of India government has grown at a significant 20% per annum in post reforms period (public finance statistics by Government of India).¹

Therefore, unless and until social sector development has not been done the objective of inclusive growth in India not achieved.

Regional Disparities

In India, a regional imbalance has been found as a most crucial problem before policy makers and planners. World Bank (2006) in its report entitled 'India inclusive growth and service delivery: Building of Indian success' has observed sharp differentiation access state since early 90's. reflects acceleration in growth in some states but deceleration in others. The World Bank (2008) again in its release 'the growth report strategies sustain growth and inclusive development' has mentioned that disparity in income distribution in India has risen during 1993-2005. The 13-finance commission, government of India (2010-2015) should assign due weightage to this factor in its scheme of devolution of taxes/ grants for states such that inter state economic disparities may be rectified effectively.

Environmental Development

The last but not the least element of Indian inclusive growth is environmental development. Environmental aspect plays a vital role for overall socio-economic development of any country. For the last two decades, climate change is a major environmental problem for economic growth in India. Unplanned industrial developments increase the pollution level, which have a negative impact of all the elements of inclusive growth.

Indicators of Financial Inclusion

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include – nationalization of bank, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, formation of self-help groups, zero balance BSBD accounts etc. The fundamental objective of all these initiatives is to reach the large sections of hitherto financial excluded Indian population.

Government of India Population Census 2011

As per Census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking service in rural areas.

CRISIL Inclusix

India's first financial inclusion index was launched in 2013 with the objective of becoming that crucial gauge and policy input. It is based on four dimensions—branch penetration, deposit penetration, credit penetration and insurance penetration. The last dimension was added for the first time this year as data became available.

CRISIL Inclusix measures progress on financial inclusion down to the level of each of the 666 districts in the country,

and is based on data provided by the RBI, the MicroFinance Institution Network, and the Insurance Information Bureau of India.

The index's readings for fiscal 2016 (the latest period for which data is available) show financial inclusion has improved significantly in India, with the all-India score rising to 58.0 in fiscal 2016, compared with 50.1 in fiscal 2013.

The score would have been even higher at 62.2 had we excluded the effect of rebasing of the index and inclusion of insurance data. The Pradhan Mantri Jan Dhan Yojana, and the RBI's steadfast focus on unbanked regions, have really made a difference.

As many as 600 million deposit accounts were opened between fiscals 2013 and 2016, or twice the number between 2010 and 2013. Nearly a third of this was on account of Jan Dhan. This gets well reflected in the deposit penetration index of CRISIL Inclusix, which surged over 16 points.

On the credit side, there was a sharp 31.7 million increase in new credit or loan (banks and microfinance) accounts in the two years up to fiscal 2016, which is the most since fiscal 2013. Notably, microfinance institutions contributed significantly to the financially under-penetrated regions.

The Digital India initiative, payments banks and small finance banks have all helped improve the reach of formal financial services to economically disadvantaged sections of the populace and geographically remote regions.

Underserved pockets, particularly in the North-East and the east, have logged a sharp rise in credit penetration. The credit penetration index of these two regions is up an average 9 points compared with 6 points at the all-India level.

But despite the strong growth, only 200 million borrowers have had access to credit from formal channels. This is the reason why the credit penetration index of CRISIL Inclusix remained low at 56.0 compared with 78.3 for deposit penetration.

Conclusion

Inclusive growth attainment depends a great deal on equitable distribution of growth opportunities and benefits. And financial inclusion is one of the most crucial opportunities which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be understood by the state that in order to bring orderly growth, order needs to be developed with regard to inclusive finance. Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts. The hurdles in accessing financial services should also be removed to enable citizens to access financial services more and more.

Thus, inclusive growth can be characterized as broad-based growth that includes non-discriminatory participation. It belongs to below poverty line extend belong to people below poverty line. Financial inclusion is the only way to secure inclusive growth as well as overall socio-economic development of the nation. Although since independence, a significant improvement in India's economy has been done but the result has not been reached to each and every section of the people. Therefore, inclusive growth is the only

approach for the balanced overall socio economic development in India. It is a political, social and economic necessity of India in this century.

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