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Financial Inclusion in India: An Assessment.

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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

. Financial Inclusion is a way to achieve "Inclusive Growth" in national economy. Inclusive Growth generally refers to equality of opportunity in terms of access to markets, resources and unbiased regularatory environment for business and individuals. It can be characterized as a broad-based growth that includes non-discriminatory participation. It also focuses on people who belong to below poverty line. This article analyze and discuss with various important factors significant for achieving 'Inclusive Growth' like Agriculture, Poverty reduction and employment generation, Social sector development, Regional disparities and Environmental development etc. through the way of "Financial Inclusion". 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.

"Poverty is the worst form of violence" ***-Mahatma Gandhi***

"If the misery of the poor be caused not by the laws of nature, but by Our institution, great is our sin" ***- Charles Darwin***

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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.Ther 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.

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 floes 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 extant 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 house hold. 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.

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Table 1. Common features of countries with financial inclusion strategies

Dependent variable: Does country have a financial inclusion strategy (0/1)?					
Independent variables	(1)	(2)	(3)	(4)	(5)
Account penetration (people age 15+ with account at a formal financial institution, %)	-0.016*** (.003)	.003 (.007)	.003 (.007)	-.011 (.010)	-0.017 (.014)
Economic development (log GDP per capita)		-1.041*** (.336)	-1.042*** (.336)	-1.817*** (.460)	-1.843*** (.538)
Population density (population/km²)			-.00005 (.00008)	-.001*** (.0003)	-.0009*** (.0003)
Financial markets' depth (stock market capitalization to GDP, %)				.016*** (.005)	.023*** (.007)
Bank concentration (assets of five largest banks as share of commercial bank assets)					-.031** (.014)
Constant	.201 (.186)	3.004*** (.900)	3.007*** (.900)	6.245*** (1.369)	8.945*** (1.781)
Observations	147	139	139	91	77
Pseudo R-squared	.099	.154	.154	.424	.522

Source: Global Financial Development Database, Financial Access Survey and Financial Inclusion Strategies Database

Significant Factors for Financial Inclusion:

These are the important factors for Financial Inclusion in India:

- Agriculture.
- Poverty Reduction & Employment Generation.
- Social Sector Development.
- Regional Disparities.
- Environmental Development

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 concerned 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'

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access to markets is hampered by poor roads, market infrastructure and excessive regulation.
Due to the above mentioned facts deterioration in growth from 3.5% during 1981-1997 to 2% during 1997-2005. But according to commission for agricultural cost and prices, government of India, for balanced inclusive growth India has to achieve 4% growth in agriculture by increasing productivity, diversification of agricultural products, focusing on small and marginal farmers and environmental concerns.

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 planning commission fixed an upper limit of 3.26 lakhs rural BPL families. in 10th 5 years plan BPL for urban areas was based on degree of deprivation in respect of seven parameters:-

- Roof
- Floor
- Water
- Sanitation
- Educational level
- Type of employment
- Status of children in house.

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

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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).
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 foe 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 Financial Inclusion Index (Inclusix):-

- ❖ In June 2013, CRISIL first time published a comprehensive financial inclusion index. For constructing the index CRISIL identified three critical parameters of

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basic banking services namely branch penetration, deposit penetration and credit penetration.

- The CRISIL Inclusix Indicate that there is an overall improvement in the financial inclusion in India.
- CRISIL- Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.
- Sadhan Kumar (RBI Working Paper Series:8/2011) worked out an Index of Financial Inclusion(IFI) based on three variables namely penetration(number of adults having bank account), availability of banking services(number of bank branches per 1000 population) and usage(measured as outstanding credit and deposit). The result indicate that Kerala, Maharastra and Karnataka has achieved high financial inclusion (IFI>0.5), while Tamil Nadu, Panjab, A.P, H.P, Sikkim and Hariyana identified as a group of medium financial inclusion (0.3<IFI<0.5) and the remaining states have very low financial inclusion.

That's where CRISIL Inclusix comes in.

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.

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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:

Thus inclusive growth can be characterized as broad based growth that includes non-discriminatory participation. It belong 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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