Role of Financial Inclusion and Inclusive Growth on the Economic Development of the Country

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Abstract

India is the 2nd largest country in the world having a population of about 121 crores. Even after six decades of independence, nearly 50% of its population is poor, hungry, malnourished, uneducated. This large chunk of population is characterized by shabby clothes, poor housing with cities and town full of slums. Poor people's access to bank accounts is not that good. A large chunk of rural population still relies heavily on private moneylenders. They are the neglected lot in terms of getting bank finance. Near about half of the country is unbanked. 145 million household in India has been excluded from banking Service. Of 6 lakh villages in India only 50,000 (approx) villages have been tagged with barking Service. Only 10% population of the country having life insurance and 9.6% of the population has non-life insurance. Thus much is still desired in terms of financial inclusion in the country. In this backdrop, the present study attempts to find out the current status of financial inclusion in the country with the bottlenecks causing impediments in the area of financial inclusion and inclusive growth. The paper also suggests some measures to rectify the dismal situation.

Key-words: *Financial Inclusion, Financial Services, Inclusive Growth.*

1. Introduction

India is the 2nd largest country in the world having a population of about 121 crores. Even after six decades of independence, nearly 50% of its population is poor, hungry, malnourished, uneducated. This large chunk of population is characterized by shabby clothes, poor housing with cities and town full of slums. The largest democracy of the world, especially the so called elite and privileged section of the society should bear the burden of this shame. Even after so much of governmental pronouncements and efforts our country is still bracketed not under the group of developed country. Prime reason of this is the very slow rate of economic development in the country as compared to the developed countries. In this backdrop, the effect of financial inclusion and inclusive growth on economic development of the country needs to be scrutinized in details. This paper attempts to find out this effect.

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2. Financial Inclusion: Basic Overview

Poverty still rules over Indians. The history of India shows that every one from Britishers' to Mughals' came here for exploitation and taking away its valuable property to their own country and India remained a poor country. In that context the view of Amartya Sen regarding poverty is ought to be cited: "It is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and politics systems……..."[1].

Financial inclusion refers to a process of providing financial products and services needed by poor, weaker sections and low income group of people of the society at an affordable cost in a fair and transparent manner by the mainstream institutional players. Thus, financial inclusion can be achieved through the mainstream institutions. According to Rangarajan committee financial inclusion may be defined "as the process of ensuring access to financial services, timely and adequate credit where needed by vulnerable groups such as weaker section and low income groups at an affordable cost"[3] (Report of the Committee on Financial inclusion in India 2008). Financial inclusion is essential and it might take the form of delivery of financial services like savings facility, credit and debit card access, electronic fund transfer, overdraft facility, cheque facility, entrepreneurial credit, micro credit, micro insurance, financial advice, pension for old age and investment schemes, low cost financial service, payment and remittance etc to the poor and weaker section of people in the country[2]. The issue of financial inclusion arises from the problem of financial exclusion.

The nature of financial exclusion can be perceived if we look at the following facts. Presently 38% of branches of commercial banks (out of 32,000 branches) are located in the rural areas and only 40% of population of the country holds the bank account. India's rural areas' bank accounts cover barely 9% of total deposit, 7% of total credit, 10% of life insurance and 9.6% of non-life insurance, only 13% of population has debit cards, while people having credit card comprise merely 2.0%. Out of total 89.3 million households only 43.4 million households have access to credit either from financial and non-financial institutes and remaining 45.9 million households do not have access to credit from any type of financial institutes. (NSSO, 2008). This problem of financial exclusion is acting as a stumbling block in the process of development in the country. Certain sections of the population including the urban slum dwellers, marginal farmers, landless labourers, oral leasees, women, migrants, senior citizens, self employed and unorganized sector enterprises are the worst suffers. In the matter of financial exclusion a wide range of regional disparity is also prevailing in the country. People from the north-eastern, eastern and central regions contain most of financially excluded population..

3. Inclusive Growth: Basic Overview

Literally, inclusive growth refers to the pace and pattern of economic growth. Inclusive growth should focus on the productive employment rather than on short term income distribution. In India financial exclusion is affecting the various sectors badly. As a result, even during the high growth period (2003-04 to 2007-08) unemployment and poverty could not be brought down to any tolerable level. In eleventh five year plan inclusive growth was planned to allow people to "contribute to and benefit from economic growth".

Inclusive growth bears two sides i.e., supply side factor and demand side factor. Supply side factor enables the provision of financial services to the poor and the disadvantaged group. But due to several causes like lack of awareness about the financial products, high transaction cost, and low level of literacy etc our economy fails to attain the equitable growth. On the

other hand, from the demand side very high proportion of low-income and financially weaker people urges the economy to do a lot more than what it is doing now. The concept of 'inclusion' should be seen as process of including the excluded. These excluded should be taken as agents whose participation is essential in the very design of the developmental process, and not simply as welfare targets of the development programmes (Planning Commission, 2007). Therefore it can be said that inclusive growth is completely dependent on the financial inclusion[4].

4. Financial Inclusion: Basic Objectives

Financial inclusion is essential for the economic development of a country. The main objectives of financial inclusions can be stated as under:

Provision of Financial Services: The main objective of financial inclusion is to deliver the financial service and products to the weaker section of the society.
Reasonable Cost: Financial inclusion does not mean mere provision of different financial services to the underprivileged. It actually means provision of financial services at a low transaction cost and other financial charges.
Quality Institution: For providing various financial services, a sound institutional framework is required. The governmental efforts should be directed towards promoting and managing institutions which can provide better financial services and products.
Continued Service: Financial institutes should be managed in such a way that it can provide its services on a continuous basis and not as 'bits and pieces'.
Large Variety of Financial Services: The basket of financial services should be big enough to accommodate services products like saving facility, debit and credit card facility, loan facility and insurance facility etc.. These are all required for the upliftment of the economic life.
Economic Development: The systematic performance of all activities of financial inclusion indicates the development of the county. So, financial inclusion is a pre-condition for balanced economic development.

5. Financial Inclusion for Inclusive Growth: Steps Taken

The following steps are taken for financial inclusion for inclusive growth in India:

Nationalization of Banks: The banks are nationalized by the government at first in the year 1969. Then in 1980 the second phase of nationalization came in. Through nationalization the government tries to give the better financial service to the public.

Establishment of Co-operative Society: Different types of cooperative societies are formed to cater to the needs of the people as consumers, marketer, farmer, housing provider, producer etc. Co-operative credit societies are also formed for cheaper and easier loans. The societies' primary objective is to foster economic development of members of the society.

Decentralization Strategy: Govt. is also paving the way for de-centralization policy in banking system. To promote such policy State Level Bankers Committee (SLBC) and District Level Bankers Committee (DLBC) are formed for the development of Co-operative and Regional Rural Banks.

Use of Newer Technology: For inclusive growth and to achieve its ultimate objective of eradicating poverty from the country the govt. has taken various steps through RBI. But in order to make the banking system efficient enough to cater to the needs of the target

population of inclusive growth acceptance of newer and finer technology is of utmost importance. Government of India is taking several steps in this direction.

Promotion of RRBs, Lead Bank Scheme and SHGs: Government has launched the above schemes to remodel the financial structure of the country and to give better financial service to the down trodden of the society.

No Frill Account: Govt. has advised the banks to open 'No Frill' account to attract the poor people and to enable them to save in a more methodical way.

Financial education: It is important for the financial inclusion and inclusive growth to impart financial education. It can be defined as the process by which financial consumers/investors improve their understanding of financial products, concepts and risk through information and develop the skill and confidence to become more aware of financial risks and opportunities to make the choice to improve their financial well being. Govt. has already started different types of financial literacy programme for financial awareness.

Encouragement to different groups and segments: Govt. has tried to encourage the different groups and segment like NGOs, business correspondents (BCs) in poorly banked areas, system of agency in dealing with different financial services and products so as the put more people under the umbrella of financial inclusion.

6. Financial Inclusion for Inclusive Growth: Review of Progress

Financial inclusion is required for the inclusive growth of the developing country like India. Government and its different wings especially RBI is putting in great effort to ensure financial inclusion and inclusive growth so as to make 'Vision 2020' a reality. But due to several constraints the achievement is still far from being what is targeted. The constraints include fear to take loan, lack of awareness about financial products, legal identity, limited literacy, low income group, clumsy terms and condition for getting loan, complicated procedure, cultural barrier and place of residence etc.

The Reserve of Bank of India has set up 'Khan Commission' in 2004 and according to its recommendation a review policy was taken in the year 2005-06 and based on its report RBI urged the banks to achieving greater financial inclusion to make available a system of 'No Frill' banking account[5]. In addition to this, Govt. reduced norms of Know Your Customer (KYC). General Credit Card and Kisan Credit Cards were issued by the Govt. to weaker section for improving economic activities. In 2006 RBI permitted Commercial banks to make use of service of non-governmental organizations (NGOs), Self Help Group (SHGs), Micro Financial Institutes (MFIs), NABARD, etc. These are used as Business Facilators (BFs) or Business correspondents. Government also prepared a road map for 73,000 inhabitant for providing banking service by the year 2012. For easy access to banking services Govt. established Unique Identification Authority of India, which is entrusted with the task of providing Unique Identification Number and Card by which identification problem for taking financial services is easily solved.

Following descriptive statistics is presented so as to show the condition of financial inclusion and inclusive growth in the country.

Table 1: Bank A/C of Different Earning Groups (Percentage)

Yearly Income (Rs)	Urban	Rural	Total
<50,000	43.1	26.8	28.3
50,000-100,000	75.5	71.2	73.0
100,000-200,000	91.8	87.4	89.0
200,000-400,000	95.5	93.6	94.9
>400,000	98.0	96.3	97.6
All	61.7	38.0	44.9

Source: Report on Currency and Financial 2006-00 (IIMS, 2007)

From the above table it is sent that for the high-income group people the majority of bank accounts are opened in rural areas although they have bank access in urban areas. But that access is miniscule.

Similarly, the following table 2 shows that the people of different income group collect their loan from diverse sources. People having annual income less than Rs 50,000 collect their loan from bank is only13%, 34% from money lenders and 53% from other institutional and non-institutional sources. The table also shows the position of other income groups and it is clear that a lower percentage of people related to the banking sector.

Table 2: List of Sources of Loan of Different Earning Groups

Yearly Income (Rs)	Banks	Money Lenders	Other Institutional &Non Institutional Sources	Total
<50,000	13.0	34.0	52.1	100
50,000-100,000	34.5	19.6	45.9	100
100,000-200,000	49.3	12.0	38.7	100
200,000-400,000	51.6	11.8	36.6	100
>400,000	62.8	5.5	31.7	100

Source: Report on Currency and Financial 2006-00 (IIMS, 2007)

Therefore, financial inclusion is essential for the country for inclusive growth. That is why, in India the process of financial inclusion broadly classified into three phases. In the first phase: It consists of a period 1960 to 1990 and in this period put the special attention on channeling of credit to the weaker section of the society. In second phase (1990-2005) the Govt. has concentrated for strengthening the financial institution such as SHG, Bank Linkage Programme, KCC, GCC and NABARD. In third phase i.e, from 2005 onward Govt. made a policy by which it provided the safe facility of savings deposit through 'No Frill" account and enhanced the work of financial inclusion. Present position of financial inclusion in India can be shown as under:

(i) No of No. frill account. 3,30,24,761 at the end of March 2009
(ii) No. of Rural Bank Branches 31,727 constituting 39.7% of total bank branches (as on June 2009)
(iii) No. of ATM 44857 (on Nov 31, 2009)
(iv) No. of Debit and Credit Card 4,70,237 (May, 2009)
(v) No. of Post Office Service (POS)
(vi) No. of Kishan Credit Card 76 Million (2007-08)

(vii) No. of General Credit Card
(viii) No. of cell phone used 771.18 Million at the end of Jan 2011
Source: cellular Operators Association of India

7. Bottlenecks of Employing Financial Inclusion

The following information shows the present position of financial inclusion in India:

a) Near about half of the country is unbanked.
b) 145 million household in India has excluded from banking Service.
c) And of 6 lakh villages in India only 50,000 (approx) villages have been tagged with barking Service.
d) Only 10% population of the country having life insurance and 9.6% of the population has non-life insurance.

Some of the critical indicators for access to financial in India along with benchmark indicators for selected high-income OECD member countries (Table 3) reveal that while there been improvements during 2001-08 but it is still very adverse as compared to OECD economies.

Table 3: List of Critical Indication for Access to Finance in India as compared to Bench-mark Indications

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	Bench-mark (OECD)
Branches per 1,00,000 People	6.42	6.33	6.25	6.26	6.33	6.37	6.35	6.6	10-69
ATMs per 1,00,000 people					1.63	1.93	2.4	3.28	47-167
Deposit Accounts per 1000 people	416.77	421	418.7	426.1	432.1	443	459.5	467.4	976-1671
Loan Accounts per 1000 people	50.99	53.9	55.84	61.88	71.42	78	83.59	89.03	248-513
Branches per 100 km2	22.18	22.3	22.41	22.57	22.99	23.5	24.13	25.49	1-159
ATMs per 1000 km2					5.93	7.11	9.11	12.68	1-437

Source: Getting Finance in South Asia 2010, Kiatchai Sophastienphong, Anoma Kulathunga, the World Bank.

Note: The Benchmark indicator ranges are for selected high-income OECD member countries (Australia, Canada, France, Germany, Italy, Japan, the republic of Korea, New Zealand and the United State.

8. Suggestions and Recommendations

After the above discussion on the topic "effect of financial inclusion and inclusive growth on the economic development" it can be said that financial inclusion is essential for the economic development of the country that is why some suggestions and recommendations are given below for the better implementation of 'financial inclusion and inclusive growth'.

Literacy Rate: Literacy rate should be improved because it helps better understanding about the financial inclusion and its positive effect.

Simplify the Process of Financial Service: Process of providing financial service is lengthy and typical for incompetent person. So it should be brief and simple in which poor and common people can easily participate in it.

Easy Way for Documentation: For acquiring financial services and its product a long list of document is required and it is a tough work to prepare and produce in due time for that people avoid it. So no. of document and procedure for documentation should be easy.

Importance on UIDAI: Govt. makes a plan for Unique Identification Number (UIN) by establishing the Unique Identification Authority of India. It provides an Identify Card having a unique number. It helps to prove the identity of the subscriber and they can easily take financial services. Govt. should give more importance in it and spread rapidly all over India.

Awareness Programme: To provide knowledge about the facilities of financial inclusion and inclusive growth, Govt. should arrange various mediums like print media, electronic media, publicity, directly or through NGOs. It can help the above programmes.

Inclusion in the Syllabus of Educational Institute: Financial inclusion is important for achieving the goal of vision 2020. To achieve it the activities of financial inclusion should be added to the syllabus of educational institutes like Schools, Colleges, Universities and other professional institutes.

Rebuilding the Rural Financial Structure: Rural financial system is an old and backdated system where the money-lenders have exploited the poor people. So, financial structure of rural area should be changed and it should form latest financial structure which can help the poor villagers.

Formation of Training Institute: To inspire the people for obtaining the benefits of financial inclusion and take part in the economic development of the country govt. should formed 'training and motivating institute' in the country by which people will be trained towards the optimum utilization of the programme, financial inclusion.

Establishment of New Technology: Financial inclusion is a large scale programme for inclusive growth and it requires the Indian as well as the world wide networking system for the successful implementation. Therefore, establishment of latest technology is required and govt. should try to employ it.

Formation of National Level Monitoring & Development Committee: A National level Monitoring & development Committee should be formed by the government which can monitor and supervise the activies for financial inclusion and provide various ways for its development.

Enhance the Role of NABARD: National Bank for Agricultural and Rural Development plays a pivotal role for implementation of financial inclusion for inclusive growth. But govt. should provide more and more power to it for the expansion and growth of the functions of financial inclusion.

Giving Importance on Post office and Co-operative society: Co-operative society and post office can act as an important medium for bearing information of financial inclusion to the poor and vulnerable group of people of the society. So government can give more importance for the structural development of Co-operative Society and Post-office

Emphasis on Commercial Bank and Private Bank and NGOs: Banking sectors are closely related to the economic development programmes. Financial inclusion for inclusive growth is also a part of economic development programme and through these institutions govt. can express the views on financial inclusion and fruitfully enact it in the country.

Social Responsibility: Financial inclusion is an economic development programme through which we can develop the economic life of people poor and financially backward in the country which can improve the living standard of these people as well as the nation. Therefore, it is the social responsibility of all the people and institutions of the country to help for the better implementation of financial inclusion programme for financial growth.

Lastly it can be said that if govt. and all political parties will heartily extend their hands towards the better success of this programme than we can easily achieve our goal and reached to the aim of vision 2020.

9. Conclusion

To sum up we are to mention that the economic development of our country can be achieved only when financial inclusion programme is carried out cent-percent. As a result, it can pave the way for the inclusive growth and ultimately the economic development will be achieved smoothly.

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