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FINANCIAL INCLUSION FOR INCLUSIVE GROWTH OF INDIA

Article Particulars

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Abstract

India happens to be among the world's biggest and most rapidly developing economies. However, the most dangerous aspect of its growth seems to have been its tendency to be uneven and discrete. It is uneven in the way that its average productivity is not uniform, and it is discrete and disconnected in terms of growth and distribution of growth benefits to specific sectors of the economy. As a result, the need for inclusive growth has become the Indian Economic Development picture. However, in order to achieve the goals of inclusive growth, resources must be generated and mobilized, and financial inclusion is required for resource generation and mobilization. Its importance in the process of economic growth cannot be overstated.

This research focuses on understanding the inclusive growth phenomenon, its need, and financial inclusion; asan instrument. It's considering parameters like, literacy rate, unemployment rate, GDP, per capita and index of financial inclusion.

Objectives

- *To study and understand the meaning and need for inclusive growth.*
- *To examine the significance of financial intermediation in India's economic progress.*
- *To know the extent of financial exclusion, and inclusion in India.*

Need for Inclusive Growth

- *Removal of poverty and unemployment*
- *Removal of income inequalities*
- *Agricultural Development*
- *Reduction in regional disparity*
- *For social sector development*
- *Protecting environment*

Keywords: *Consumer, Consumer perception, Consumer awareness, Consumer Protection Act, Kerala, Redressal of grievances.*

Introduction

India happens to be among the world's biggest and most rapidly developing economies. However, the most dangerous aspect of its growth seems to have been its tendency to be uneven and discrete. It is uneven in the way that its average productivity is not uniform, and it is discrete and disconnected in terms of growth and distribution of growth benefits to specific sectors of the economy. Even though the Indian economy experienced rapid growth from 2003-04 to 2007-08, it was unable to reduce unemployment and impoverishment to acceptable levels. Furthermore, during this period of rapid growth, the vast majority of the people remained outside the reach of basic health and education services. Social as well as economic inequalities have drastically expanded high growth rates in recent decades, resulting in greater regional disparities. More than a quarter of Indians are still impoverished. As a result, the Union government has designated inclusive growth a national policy priority. And thus, the need for inclusive growth comes into the pictureof Indian economic development. The context of Indian growth planning, it is a relatively new terminology that got theattention of policymakers in the Eleventh Five Year Plan.

Inclusive growth, as the literal meaning of the two words, refers to both the pace and the pattern of economicgrowth it basically means, broad-based, shared, and pro-poor growth. As per the Planning Commission of India, “The term“inclusive” should be seen as a process of including the excluded as agents whose participation is essential in the verydesign of the development process and not simply as welfare targets of development programs.” In a more straight forward and broadersense, it means that inclusive growth as a strategy of economic development should not only aim at the equitable distribution of growth benefits but also at creating economic opportunities along with equal access to them for all. The current study attempted to comprehend the inclusive and sustainable occurrences, its require, and financial inclusion as a tool to achieve it in terms of its scope in India.

Review of Literature

Levine (1997) empirically tested the neo-classical view and founds that, countries with larger banks and more activestock markets grow faster over subsequent decades, even after controlling for many other factors underlying economic growth. Equally important is access to finance by all segments of society (Levine 1997, Pande and Burgess 2003). Finance can also play a positive role in poverty reduction. A well-developed financial system accessible to all reducesinformation and transaction costs, and influences saving rates, investment decisions, technological innovation, and long-rungrowth rates (Beck *et al, 2009*). According to Binswanger and Khandker (1995) and Pande and Burgess (2003), the Indian rural division advancement programme reduced regional disparities and enhanced non-agricultural earnings.

A key objective in development economics is to find ways to lift people out of poverty. Access to finance has seen as a critical factor in enabling people to transform their production and employment activities and to exit poverty (Aghion and Bolton 1997, Banerjee 2001, Banerjee and Newman 1993, Pande and Burgess 2003, Yunus 1999).

In recent years, financial inclusion has assumed public policy relevance. Many countries like India (Government of India 2008) and the United Kingdom (UK) (2006) and International organizations like the United Nations (2006), and World Bank (2008, 2009) have set up task forces/committees to understand financial inclusion and to improve its scope. These studies throw light on various aspects of financial inclusion. However, the measurement aspect of financial inclusion has, sofar, not extensively covered by these reports.

For India, being a very well-diversified economy and society, it is imperative to give adequate attention tothe measurement of financial inclusion. Honohan (2007) estimated the fraction of the adult population using formal financial intermediaries using the information on number of banking and MFI accounts for more than 160 countries, and then correlated it within equality (Gini Coefficient) and poverty. Sarma (2008) developed an Index for financial inclusion using aggregate banking variables likethe number of accounts, number of bank branches, and total credit and deposit as a proportion of GDP for 55 countries. Mehrotra *et al.* (2009) also built up an index for financial inclusion using similar kinds of aggregate indicators like the number of ruraloffices, number of rural deposit accounts, the volume of rural deposits, and credit from banking data for sixteen significant states ofIndia. World Bank (2008) provides a composite measure of access to financial services, that is, the percentage of the adult population that has an account with a financial intermediary for 51 countries. While World Bank (2009) in *Banking the Poor* analyzed the association between access to banking services, as measured by the number of bank accounts per thousand adults in each country, and several other factors like transactions offered at banks, or required by banks, and regulations adopted by country authorities that may affect banking access for 45 countries. Beck*et al.* (2009) discuss the availability of the copious amount of data on many aspects of the financial system, but systematic indicators of inclusiveness of the financial sector are lagging.

Sadhan Kumar Chattopadhyay studied the level of economic growth in West Bengal in a working paper for the RBI on Inclusive Growth in India: A Case Study of West Bengal (2011). The research utilized information on multiple factors related to financial inclusion to create an index of financial inclusion (IFI).

The present research paper focuses on financial inclusion as an instrument for attaining inclusive growth- in the context ofIndia, for which a fair deal of effort has taken to understand the extent of financial inclusion in India as a whole.

Objectives

- To study and understand the meaning and need for inclusive growth.
- To examine the significance of financial intermediation in India's economic progress.
- To know the extent of financial exclusion,and inclusion in India.

To promote substantial and conscientious growth, India requires inclusive development. Inclusive growth is required for long-term development and the fair sharing of wealth and good fortune.Achieving inclusive growth is essential andis one of the biggest challenges for India. The challenge is to take the levels of change to all sections of society andallparts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms ineducation, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, makingall sections of society equal stakeholders in growth, and above all, good governance will ensure that India achieves what itdeserves. The main thrust areas the need for inclusive growth can be summarized below:

- Removal of poverty and unemployment
- Removal of income inequalities
- Agricultural Development
- Reduction in regional disparity
- For social sector development
- Protecting environment

However, in order to achieve the goals of inclusive growth, resources must be mobilized, generated, and financial inclusion must be implemented. It is critical to the development of the economy. Access to finance through adequate investment services can address the issue of available resources, mobilization, and allocation, especially for those with limited access to such resources. Thus in the current paper, an effort is make to study therole of financial inclusion in inclusive growth.

Financial Inclusion

By financial inclusion, we mean providing financial services, such as lending and banking, at a low price to the vast majority of low-income people who are currently excluded. Availability to the formal credit system's savings, insurance, loans, payments, and remittance facilities are among the different financial services available.

According to the ***Rangarajan Committee (2008)***, financial inclusion is "the method of guaranteeing prompt and sufficient credit where required by underprivileged groups such as women and moderate communities at a reasonable rate." In simpler terms, financial inclusion entails along with the excluded in the nation's financial system and ensuring that their socioeconomic security needs are met through effective suppliers of financial services.

Given below is the diagram that briefly describes the essential contents of financial inclusion:

Source: Rangarajan Committee Report

Role of Financial Inclusion

With so much more over 25% of its electorate struggling to survive, the government's liability towards their advancement and prosperity is enormous, and integrated finance is one well measure that, if aimed and attained properly, can offer an apt solution towards the significant issues of unemployment and destitution.

The availability of financial services has the capacity to assist the poor break free from the poverty spiral.

Financial inclusion encourages and evolves a tradition of saving while also enabling efficient financial transactions, which strengthens the financial organization's resource base and contributes to economic growth by making funds accessible for easy payment systems and utilization.

Financial Inclusion for Inclusive Growth of India

Poor's are typically most vulnerable to financial exclusion is simply because of their significant problems arise fromthe need for finances. Payment systems could very well minimize or eradicate financial barriers and promote financial inclusion of such poor, eventually creating greater incomes by leveraging scale benefits and making prudent use of shared resource. Poor people's utilization of financial amenities would result in smoother consumption and spending on learning, health, and revenue activities, thereby expanding their potential for growth.

If specifically aimed strategically, inclusive growth can result in financial consistency, asset constructing and fund mobility, and enfranchisement of the middle of the scale.

However, one need to understand that inclusive finance is a long run phenomenon thatcannot be achievedovernight, especially about developing country like India, where access to financial products constrained byseveral factors such as lack of awareness, unaffordability, high transaction costs, and inconvenient, inflexible and lowquality of products. The different section of the paper, will find out the extent of financial inclusion in India.

The Extent of Financial Inclusion in India

Several countries across the world now look at financial inclusionmore comprehensive growth,wherein each people of the country can use their earnings as an economic resource that can effort to work toimprove their future financial status and simultaneously contribute to the nation’s progress.Financial inclusion has always been accorded high importance by the Reserve Bank and the Government of India toaid the inclusive growth process for the economy.The origin of India's financial inclusion predates the structured adoption of the goal.

Conclusion

Inclusive growth attainment depends greatly on the equitable distribution of growth opportunities and benefits.And financial inclusion is one of the most crucial opportunities is need to be equitably distributed in the country to attain comprehensive growth. It needs to be understood by the state that to bring orderly development, an orderneeds to developed about inclusive finance. The percentage of financial inclusion in the country varies differently. For instance, Kerala, Maharashtra, and Karnataka account for the higher rate of financial inclusion,but still, the conditions such as Gujarat, Manipur, Assam, Bihar, Uttar Pradesh, and Madhya Pradesh, etc. stand poorly on the groundsof financial inclusion.

Undoubtedly the expanding the geographical and demographic reach poses challenges from theviability/sustainability perspectives, and appropriate business models are still evolving, and various delivery mechanisms arebeing experimented with by the various government agencies at the central and state level. But somewhere, the efforts takenreasonableencounter this staggering issue of financial exclusion. Financial literacy and level of awarenessabout theusage of financial services/products. It calls for coordination of all thestakeholders, like sectorial regulators, banks, governments, civil societies, NGOs, etc., to achieve the objective of financialinclusion. Challenges of financial exclusion were faced by most of the states of the country,and to solve it, stateshave to develop their customized solutions drawing upon their own experiences and features and those of their peers acrossthe country.

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