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Inclusive Growth through Financial Inclusion: A Study with special reference to India

[1]Arindam Jana
[1] Assistant Professor, Department of Economics, Goenka College of Commerce and Business Administration, Kolkata, India
Email – arindam.jana100@gmail.com

Abstract: *Financial inclusion is an innovative term which includes techniques in promoting banking habits among rural people because India is considered the largest rural population in the world. Inclusive growth of an economy is possible only with the help of a proper mechanism which channels all the resources from top to bottom. Financial inclusion is an innovative term which includes techniques in promoting banking habits among rural people because India is considered the largest rural population in the world. In this paper, an attempt was made to understand financial inclusion and its importance for the overall development of society. This study focuses on approaches adopted by the Government of India and Reserve Bank of India (RBI) towards achieving the ultimate goal of financial inclusion for inclusive growth in India.*

Key Words: *Financial Inclusion, Self Help Group, Joint Liability Group, Inclusive Growth, Compound Annual Growth Rate.*

1. INTRODUCTION:

Access to finance by the poor, disadvantaged and unprivileged groups is a prerequisite for poverty reduction and social upliftment. The only option available to a sizable portion of the rural populace without access to financial services is to borrow money from money lenders, who demand high interest rates. To promote inclusive growth, financial inclusion is a crucial strategy. An inclusive financial system mobilises more productive resources leading to economic growth and better opportunities for poverty reduction (Joarder, 2021). Against this backdrop, the present paper focuses on the concept and extent of financial inclusion, the need for inclusive growth and the impact of financial inclusion on inclusive growth in India. Financial inclusion can be defined as the delivery of the financial system of an economy among its members. Banking inclusion can be thought of as an approximation of financial inclusion because banks assist in the coordination of most financial services. Thus, in the context of banks, financial inclusion is concerned with the spreading of banking activities among various sections of the population. The Committee on Financial Inclusion defined the term financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008).

In India, many people are not considered for fair treatment either from the social institutions or from the financial institutions. The concept of financial inclusion can be traced back to the year 1904 when cooperative movement took place in India. It gained momentum in 1969 after the nation's 14 largest commercial banks were nationalised, and the lead bank system was soon after implemented. In India, the main slogan of the 11th Five Year Plan (2007-12) was "faster and more inclusive growth". Financial sector inclusion is a very important component of inclusive growth because of poverty, deprivation and other socio-economic problems due to financial exclusion (Sethy and Goyari, 2008).

India has a well-structured banking system which caters to the financial needs of individuals and households and also contributes towards the growth, development, improvement and advancement of the nation. To achieve the financial needs, necessary reforms and continuous monitoring are required to ensure a modern and up-to-date banking practice, for ensuring healthy competition, and financial inclusion.

Financial inclusion gradually includes the previously excluded people, resulting in broad based and sustained growth. Financial inclusion is no longer a policy choice but a policy compulsion (RBI, 2011). Empirical evidence shows that countries with a large proportion of the population excluded from the formal financial system also show higher poverty ratios and higher inequality (Gandgi, 2013). An inclusive financial system is essential in all countries for many reasons firstly, it helps in the efficient allocation of productive resources. Secondly, with the help of financial inclusion access to financial services will significantly improve the management of finances (Aggarwal, 2014). This paper aims to provide an overview of financial inclusion in India as well as the institutional initiatives adopted by different government agencies.

2. OBJECTIVES OF THE STUDY:

In the light of these above motivations andbackground, the specific objectives of the present studyare:

- To understand the present status of India's financial inclusion,
- To see the initiatives taken by the government and monitory authority to strengthen the process of financial inclusion and
- To evaluate the contributions of different financial institutions in financial inclusion in India.

3. LITERATURE REVIEW:

Chandran (2011) in his theoretical research into the financial inclusion strategies for inclusive growth in India, has highlighted four such strategies microfinance institutions, business correspondents or facilitators, agent banking like Indian post offices and mobile banking.

Sharma and Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Although there are a few outliers, financial inclusion and human development levels are generally correlated when using the indicator of financial inclusion. As might be predicted, income is a socioeconomic characteristic that positively correlates with the degree of financial inclusion. Increased road network, phone, and internet usage, as well as more physical and electronic communication and information availability, all contribute to improved financial inclusion.

Bell and Rousseau (2001) have shown how financial intermediaries in India have played a leading role in influencing its economic performance. The financial sector, among other things, not only led to promoting aggregate investment and output but also to attaining finance-led industrialisation.

Studies by Burgess and Pande (2005) have shown that rural branch expansion in India was associated with non-agricultural growth and has helped in reducing rural poverty.

Manta (2014) explains that the deepening of the financial sector is essential for a developed and mature economy. Financial deepening is only possible when individuals and households are financially literate to make informed choices about how they should save, borrow, and invest. The nationalization of banks, Lead Bank Scheme, Regional Rural Banks, formation of SHGs has helped to expand the financial sector across the length and breadth of the country. Poor people, in general, are financially excluded, but women in many countries are frequently more financially excluded at similar levels of income because of biased attitudes of banks, inadequate collateral, and lack of financial literacy and so on. Initiatives that are taken to provide benefits to women are: designing affordable loan products, reaching women customers through effective and low cost delivery channels, crafting marketing strategies through an effective sales force, women entrepreneurship etc. Microfinance has definitely made a major contribution to women's access to credit opportunities.

4. MATERIALS AND METHOD:

The present study is descriptive. The data used for the study is secondary and has been collected from Research Articles, Research Journals and various publications of Reserve Bank of India (RBI) and National Bank for Agricultural and Rural Development (NABARD).

5. CONCEPTS OF FINANCIAL INCLUSION:

Financial inclusion is defined as the process of ensuring access to financial services timely and adequately, and credits where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost (Rangarajan Committee, 2008). The report identified the demand and supply sides of financial services and emphasised on improving human and physical resource endowments. In 2009, Planning Commission of India in its Report of the Committee on Financial Sector Reforms, the Planning Commission of India stated: "Financial Inclusion is not only about credit but involves a wide range of Financial Services including savings accounts, insurance, and remittance products." Moreover, credit provision without adequate measures to create livelihood opportunities and enhance credit absorption amongst poor will not yield desired results."

Emphasizing the importance of those financial products, the report recommended that access to safe and remunerative methods of savings, remittances, insurance and pension needs to be expanded. They suggested crop insurance for farmers and health insurance for the poor as vulnerability reducing instruments (NABARD, 2020).

The traditional brick-and-mortar banking infrastructure, such as staffed branches, has been replaced by an automated teller machine (ATM), credit/debit cards, internet banking, online money transfers, mobile money, UPI, and other channels. These technological advancements in banking have completely changed the banking industry. The fact that such technology is exclusively available to some societal groups is a moot argument, though. Indeed, some trends, such as increasingly sophisticated customer segmentation technology – allowing, for example, more accurate targeting of certain sections of the market – have led to restricted access to financial services for some groups. There has been a growing divide, with an increased range of personal finance options for a segment of the high and upper middle-income population on one hand and a significantly large section of the population who lack access to even the most basic banking services on the other. This is termed "financial exclusion". These individuals, especially those with low incomes, are unable to obtain traditional financial goods like credit, bank accounts, insurance, remittance and payment services, and financial advising services. The goal of financial inclusion is to make sure that everyone has access to a variety of suitable financial services and that they are able to comprehend and utilize such services. "Sampoorn Viteeyea Samaveshan" (SVS), or total financial inclusion, is intended to encompass six major areas.1) Ensuring that, by March 2016, every district having 1,000-5,000 households had access to banks within 5 kilometers, 2) Providing financial literacy, 3) Provide basic banking for all beneficiaries of government schemes by March 2016, 4) An overdraft of Rs. 5,000, 5) Micro insurance and 6) Pension scheme for the unorganized sector (Mehta and Shah, 2014). Now the question arises, how do we get to know the level of financial inclusion of a population in geography? This necessitates the measurement of the level of financial inclusion through an objective tool such as the financial inclusion index. Broadly, the policy approach adapted to financial inclusion in India can be divided into two categories - the minimalist approach and the expanded approach:- (a) The minimalist approach for financial inclusion focuses on the provision of a bouquet of basic financial products and services; whereas, (b) In addition to offering essential ancillary financial products, the expanded approach to financial inclusion places a strong emphasis on consumer protection and education, especially financial literacy for those who are new to the formal financial system (Khan, 2012).

6. POLICY INITIATIVES OF RBI:

The RBI has implemented several regulatory measures and given banks institutional support to expedite their financial inclusion initiatives in order to meet the set targets. Various financial inclusion initiatives are:

1. Basic Saving Bank Deposit (BSBD) accounts: The Reserve Bank of India recommended that all banks to open BSBD accounts with the following minimal common features: no minimum balance requirements, cash deposits and withdrawals at ATMs and bank branches, electronic payment channel receipts and credits, and ATM card availability.
2. Relaxed and simplified know your customer (KYC) norms: The Reserve Bank of India (RBI) has relaxed the restrictions for opening bank accounts, particularly for minor accounts with balances under Rs. 50,000 and overall credits under Rs. 1 lakh annually. In addition, banks are allowed to use a unique identification number (UID) i.e. Aadhar Card as proof of both identity and address.
3. Simplified Branch Authorization Policy: Domestic Scheduled Commercial Banks (SCBs) have the general licence to open branches freely in Tier 2 to Tier 6 centres with a population of less than one lakh, subject to reporting, in order to solve the issue of unevenly dispersed bank branches. In the North-Eastern States and Sikkim, domestic SCBs can open branches without having any permission from RBI. In an effort to further liberalise, domestic scheduled commercial banks (apart from RRBs) are granted universal authorization, subject to certain requirements, to open branches in Tier 1 town
4. Compulsory Requirement of Opening Branches in Un-banked Villages: banks are directed to allocate at least 25% of the total number of branches to be opened during the year in unbanked rural centres.
5. Opening of intermediate brick and mortar structure: To encourage the opening of branches in rural areas and to improve penetration of banking services and financial inclusion rapidly, the need for the opening of more brick and mortar branches, besides the use of Business correspondents (BC), was felt. Accordingly, banks have been mandated in the monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.
6. Financial Inclusion Plan (FIP): Public and private sector banks are advised to submit to board three year Financial Inclusion Plan (FIP) starting from April 2010. Scheduled commercial banks (except from RRBs) are given universal authority to open branches in Tier 1 towns, subject to specific restrictions, in an attempt to further liberalise.
7. Financial Literacy Centres (FLCs): In June 2012, RBI revised guidelines on financial literacy centres (FLC) and all the rural branches of scheduled commercial banks should make financial literacy efforts through the conduct of outdoor

Financial Literacy Camps organised at least once a month, to facilitate financial inclusion through the provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. As of the end of March 2013, 718 FLCs had been established as a result. From April 2012 to March 2013, 2.2 million people received education through awareness camps, seminars, and lectures.

8. Opening of no-frills accounts: In order to make basic banking accessible to a large portion of the public, RBI makes it easier to open no-frills accounts with minimal fees and no minimum balance requirements. It has been recommended that banks offer modest overdrafts in these kinds of accounts.

9. Use of technology: RBI recognizes that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner. In order to ensure transaction security and boost customer confidence in the banking system, banks are advised to effectively utilise information and communications technology (ICT) to offer doorstep banking services through the BC model, where accounts can be operated by even illiterate customers by using biometrics.

10. Generally, credit cards: To help the poor and the disadvantaged sections with easy access to credit, banks have been asked to consider the introduction of a general purpose credit card facility of up to Rs.25, 000 at their rural and semi-urban branches. The main purpose of this scheme is to provide hassle-free credit to the bank's clients based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is like revolving credit entitling the holder to withdraw up to the limit sanctioned.

7. STATUS OF FINANCIAL INCLUSION IN INDIA:

1. **Branch Network of Banks**

In India, 80 Commercial Banks (comprising 12 PSU Banks, 22 Private Sector Banks and 46 Foreign Banks), 43 Regional Rural Banks, 11 Small Finance Banks, and 3 Payments Banks currently provide services to the country. Moreover, a large number of Cooperative Banks consisting of State Cooperative Banks, District Central Cooperative Banks, Urban Cooperative Banks, State Cooperative Agriculture and Rural Development Banks and Primary Cooperative Banks are in operation in various states. The details of bank branches and the number of ATM counters are given in the table below:

Table -1: Branch Network in India

Year	No of Branches	Of which Rural & Semi urban	No. of ATMs
2016-17	116394	67323 (74%)	208354
2017-18	119912	70019 (77%)	205199
2018-19	120535	69764 (79%)	200352
2019-20	122994	71752 (82%)	208818
2020-21	122976	71987 (83%)	211332
2021-22	123272	72053 (85%)	215396
% CAGR	1.10	1.30	0.85

Note: Figures in bracket are percentage of Total
Source: Report on Trend and Progress of Banking in India, RBI.

As can be observed, there is a 0.85 % annual compound growth rate for ATM installation and a 1.30 % annual compound growth rate for branch networks, indicating a greater digitization of banking services. As of September 2022, India's average population served per brick and mortar branch (excluding cooperatives) was approximately 9598.

2. **Kisan Credit Card (KCC)**

Since 1999–2000, the Kisan Credit Card system has been in place to give farmers access to sufficient and timely credit at a reasonable rate. There have been attempts to periodically adjust the programme to meet all of the farmers' credit requirements and include all of the eligible farmers. Table-2 provides agency-by-agency achievement under the KCC Scheme.

Table-2: Status of Kisan Credit Card issued and Amount Disbursed

Agency	2020-21		2021-22	
	Nos. ('000)	Amt. Disbursed (Rs. Cr.)	Nos. ('000)	Amt. Disbursed (Rs. Cr.)
Commercial Banks	30696	456736	26870	476271

		(61%)		(51%)
Regional Rural Banks (RRBs)	12892	149416 (20%)	13348	162060 (17%)
Cooperative Banks	30181	146981 (19%)	13131	299282 (32%)
Total	73769	753133	71349	937612

Notes: Figures in bracket are percentage of Total
Source: Report on Trend and Progress of Banking in India, RBI.

Disbursements were made in 73769 thousand A/Cs in 2020-21, and 71349 thousand A/Cs in 2021–22. The percentage shares of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperative Banks in the total amount of KCC loans disbursed in 2021–2022 were 51%, 17%, and 32%, respectively. As of September 30, 2022, the average loan amount per KCC for 2020–21 and 2020–22 was Rs. 1,02,093 and Rs.1,31,412 respectively. During the 2021-22 fiscal year, the CBs, RRBs, and Co-operative Banks have issued 26,870 thousand, 13,348 thousand and 13,131 thousand KCCs, respectively. There are roughly 118. 8 million cultivators in the country according to the 2011 census. This indicates that there were significantly fewer KCCs in operation (38 %) than there were farmers.

3. Microfinance Scenario

Banks are viewed as the means of achieving financial inclusion under the Self Help Group –Bank Linkage Programme (SHG-BLP) since they are required to provide a range of financial goods and services to the most vulnerable segments of society (Elayaraja, 2020). NABARD launched the nation's first SHG-Bank linkage scheme in 1992. 134.03 lakh SHGs in India were tied to savings as of March 31, 2023 and 42.96 lakh were related to credit. India’s average SHG savings as of March 31, 2023, were Rs. 43939 and the average loan sanctioned per Self-Help Group (SHG) in India was Rs. 337989.

Table-3: Status of SHGs in India during the last three years

Year / Particulars	2020-21	2021-22	2022-23
No. of SHGs saving linked (Lakh)	112.23	118.93	134.03
Amount of saving (Rs. crore) as on 31 March	37477.61	47240.48	58892.68
No. of SHGs issued loan during the year (Lakh)	28.87	33.98	42.96
Loan issued (Rs. crore)	58070.68	99729.00	145200.23
Loan o/s (Rs. crore)	103289.71	151051.00	188078.80
Average Saving per A/c (Rs.)	33393	39721	43939
Average Loan per A/c during the year (Rs.)	201145	293493	337989

Source: Status of Micro Finance in India, NABARD

Financing of Joint Liability Groups (JLGs) was introduced as a pilot project in 2004-05 by NABARD. The progress of JLGs in India is presented in Table-4 below.

Table-4: Status of Achievement under Joint Liability Groups (JLGs)

Year	No. of JLGs formed	Amount disbursed (Rs. Cr.)
2020-21	4126882	58311.78
2021-22	5408798	112772.75
2022-23	7000476	133372.85
CAGR %	30.24	51.24

Source: Status of Microfinance in India, NABARD

During 2022-23, a total of 7000476 JLGs were promoted as compared to 5408798 JLGs during 2021-22 and 4126882 JLGs during 2020-21. During 2022-23, Rs. 133372.85 crore was disbursed to JLGs as compared to Rs.

112772.75 crore during 2021-22 and Rs. 58311.78 crore during 2020-21 respectively. The CAGR was estimated to be 30.24 % and 51.24 % for the number of JLGs formed and the amount of loans disbursed respectively.

8. CONCLUSION:

Financial inclusion is one of the factors or rather the main factor for inclusive growth. It mobilizes resources which are being utilized for the increase in productivity leading to higher economic growth and reduction in poverty. For achieving complete financial inclusion and for inclusive growth, the RBI, State as well as Central Government, NABARD and the implementing agencies will have to put their minds and hearts together so that financial inclusion can be taken forward. The Government of India and the Reserve Bank of India have now realized that uniform financial inclusion is an essential component of overall economic growth. The Reserve Bank of India has designed specific schemes for increasing the access of rural credit to the rural poor. Government of India along with RBI and NABARD has come up with some specific schemes for balanced financial inclusion for the whole country. Despite several initiatives taken by the RBI, cheaper financial services could not be able to reach the vulnerable section of society completely. Still, they are more comfortable with informal financial services in the unorganized financial market. That's why till today the impact of financial inclusion on inclusive growth of our society is one of the important topics for discussion. An overall effective framework is to be prepared by the policymakers to include the excluded section in the economic development of our country. More and more multi-lingual financial literacy awareness campaigns and credit counselling programs are to be conducted to reach the remotest area of the country. At the same time, various government agencies and financial institutions should coordinate with each other to make the process of financial inclusion a success.

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