IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

# Role of Financial Inclusion in the Economic growth of India

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**Abstract**

*Financial inclusion or inclusive financing is the delivery of financial services to sections of low income segments of society. A nation can grow economically and socially if its weaker section can turn out to be financial independent. The study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a vital role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes. Financial inclusion is the process that ensures the ease of access, availability, and usage of formal financial system for all members of an economy. Financial inclusions can be voluntary versus involuntary exclusion and it is however important to distinguish between voluntary versus involuntary exclusion. India is considered as largest rural populations in the world and belongs to agriculture activities; financial inclusion is aimed at providing banking and financial services to all people in a transparent and equitable manner at reasonable cost.*

***Keywords:*** *Financial Inclusion, Financial Services, Economic Development, Social Development.*

## Introduction

Financial inclusion has been a efficient tool of high priority which helps in socio economic development of a country like India which is still a developing country. It helps in reducing poverty, financial exclusion and making awareness among people to how to utilize their savings. It is a key for socio-economic development. Thereby it can be said that for enhancing inclusive growth of a country financial inclusion is in essential process that's reason why financial inclusion is important for any country for its growth. However, if a customer is well educated financially, he can make better choices regarding various financial services and products that can fulfill his individual needs. This will result in overall growth of the country as access to financial services at affordable cost will improve life of the poor.

Financial inclusion has not effectively promoted stable financial and marketing support to the economic system in developing economy in terms of poverty reduction. Strong returns on commercial bank branches in rural area can stimulate economic growth through increase in agricultural product and risk reduction. The establishment of commodity market may solve some of the uncertainty problems, transaction costs and information problems between sellers and buyers of agricultural products and thus allow for a more efficient allocation of investments that will encourage economic growth and reduce poverty. Moreover, empirical studies have shown repeatedly that financial inclusion will drive economic development through investment if properly managed and active ATMs are implemented. Also bank lending to rural dwellers has not positively causes economic growth and poverty reduction; therefore, any attempt made by banks to fully finance agriculture in developing economy should be encouraged with attention to inflation and bank lending rates.

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many study correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It has been surprising fact that India ranks second in the world in terms of financially excluded households after china .For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Thus the term Financial Inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

One of the origin of financial inclusions and poverty reduction history can be traced to the developing Asia's success stories is its sustained economic expansion which lifted millions out of poverty. However, it becomes obvious that poverty remains a stubborn challenge in most developing economy. Financial inclusion is critical as increasing the poor's access to financial services is often considered as an effective tool that can help reduce poverty and lower income inequality. The issue of access to financial services for the rural dwellers in every country in terms of development, poverty reduction, decent work and economic empowerment has received growing attention from scholars and policy makers as it concern financial inclusion. In Banking and Finance area, financial inclusion can be seen as the delivery of financial services at affordable costs to some disadvantages and low income segment of the economy, in contrast to financial exclusion where those services are not available or affordable.

In spite of the importance of financial inclusions in any economy, financial inclusions, poverty reduction and economy growth modeling has been in the mainstream of econometric research in developing economy. There has been no model designed to determine the relative impact of financial inclusions, poverty reduction, population and economy growth and their possible linkages with the real or productive sector of the economy. Since the global financial meltdown of 2008, no consensus has been reached by scholars as regards the impacts of financial inclusions and poverty in developing economy. Therefore, there is the need for empirical work to be done in this area. Although financial inclusion has become topical on the global policy agenda for sustainable development, economic literature on financial inclusion is still in its infancy. Most studies have looked into the appropriate measures of financial inclusion both at household and country levels, while some academic scholars focused on the role of financial access in lowering poverty and income inequality.

**Financial inclusion status in India**:

The status of financial inclusion in India has been assessed by various committees in terms of her people's access to avail banking and insurance services. Only 34% of the India's population has access to banking services. The Eleventh Five Year Plan (2007-12) envisions Inclusive growth as a key objective. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion. The process of financial inclusion in India can broadly be classified into three phases. During the First Phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self- Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage programme was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision making by the poor and provide 'door step' banking. During the third Phase the 'financial inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through 'no frills' accounts. The Report Committee on Financial Inclusion headed by Dr.C. Rangarajan has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

**Financial Inclusion and Economic Growth in India**

The Indian growth story started unfolding with the IT Sector in the late '90s. Since then the Indian economy has been going from strength to strength. Today India is the second-fastest-growing economy in the world. The crossing of Indian GDP to over a trillion-dollar mark in 2007 is considered an important milestone. Today India's economy is the 3rd largest in the world by purchasing power parity.

Of late, the service sector is contributing to more than half of India's GDP. This is a very healthy sign. The tremendous growth rate has coincided with a better all-round performance. Indian entrepreneurs have registered noticeable global presence not only in IT and ITES and knowledge-based services but also in world-class manufacturing capabilities be it steel, or aluminum or refinery or anything else. The main drivers of the Indian growth story are domestic consumption, service sector, high tech capital intensive industry, human capital, natural resources, and so on. The success of India's Economy is market-led and entrepreneurs are at the forefront.

**Role of Financial Inclusion in Indian Economy**

The financial system serves as a catalyst for economic development. The formal financial channels collect savings and idle funds and distribute such funds to entrepreneurs, businesses, households and government for investment projects and other purposes with a view of a return. This forms the basis for economic development in modern economic theory.

It also assists in managing the risks faced by firms and businesses, improvement of portfolio diversification, availability of a variety of financial instruments to suit the varied needs of the businesses, people and shock-absorbing capacity from external economic changes. Additionally, the system provides linkages for the different sectors of the economy and economies of scale.

**Measuring Financial Inclusion**

One of the measures of the level of financial inclusion is the Financial Inclusion Index. This index is based on three basic dimensions of an inclusive financial system.

- **Banking Penetration**: Banking penetration is definitely the most critical parameter for measuring the depth financial inclusion and is measured as a ratio of bank accounts to the total population.
- **Availability of the Banking Services:** The second parameter, availability of banking services provides an indication to the number of bank outlets available per 1000 people to deliver financial services. The bank outlets may include the brick and mortar branches, ATMs, business correspondents, etc
- **Usage of the Banking System**: The third parameter seeks to determine the usage of banking services going beyond mere opening of accounts. Therefore, this is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.

According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. According to the empirical results, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension. According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. According to the empirical results, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Bihar, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion.

**Conclusion**

After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a vital role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it's working on the positive side.The financial system plays the role of inter-mediation and acts as a buffer in the mobilization and allocation of savings for productive activities in an economy. Managing the financial liquidity to avoid inflationary pressures and to flush out enough liquidity to sustain the growth are the functions of financial systems. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth. Today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders. A nation can grow economically and socially if it’s weaker section can turn out to be financial independent.

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