



# Financial Inclusion and Economic Growth of Rural India

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## ABSTRACT

In the world prevails the heterogeneous nature in view about the financial inclusion and economic development. Since the needs and availability of financial products varies from the individual to individual according to their economic and social status in India. Majority of policy makers, planners and researchers opinion that financial inclusion is the easy availability of all banking services at an affordable cost, reasonable time & adequate quantity to all needy people and which should also be available in appropriate forms. The purpose of this study is to assess the chain between the vast dimensions of financial inclusion and economic development of the emerging Indian rural economy. India is became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China. Recently India is taken 6<sup>th</sup> rank in economic growth for the worldwide lack behind the France. The Economy of India is the sixth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). One of the G-20 major economies, India is classified as a newly industrialized country. India's economy growth rate for the last two decades is approximately average 7%. So, financial inclusion and economic growth is playing a vital role in sustainable rural development of India.

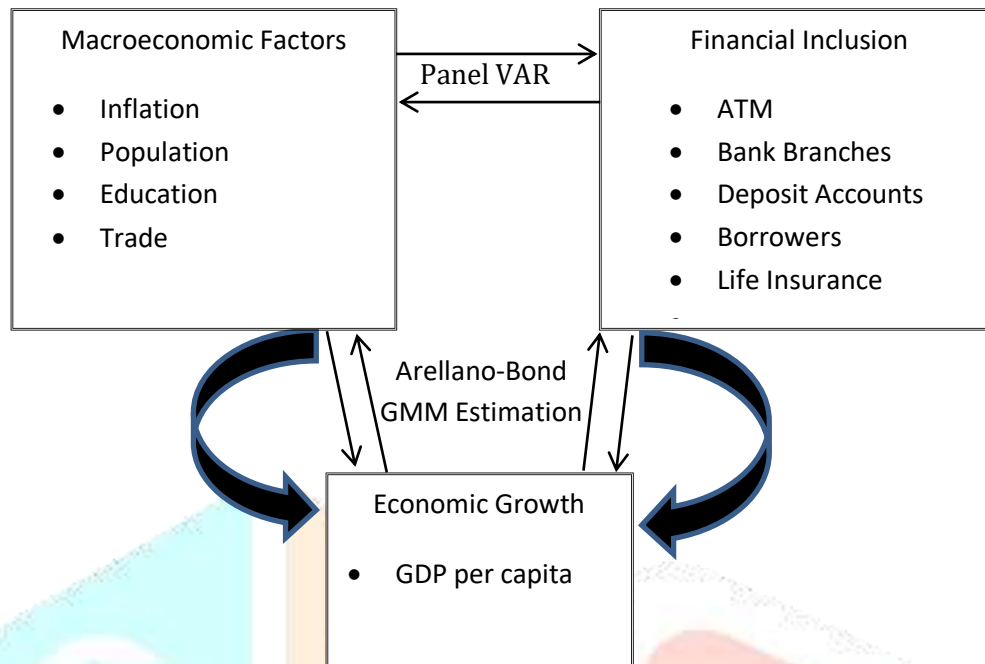
In this study, vector auto-regression (VAR) models and grandeur causality test was followed to tent the main research in Indian context. This study examines weather financial inclusion can help to promote economic development in rural India. We analyze the determinants of financial development using a system, generalized method of moments (GMM) in states during 2004-2017. Specially, we analyze and found that the impact of financial inclusion on economic development is positive and significant. The gross domestic product (GDP) per capita has a positive and significant related to financial development, thus enhancing of financial inclusion postulates financial development and hence economic development.

**Keywords: Financial, Inclusion, Dimension, Sustainable, Regression.**

## 1. INTRODUCTION

India's population is at present time according to the 2011 census, 1.21 billion and second largest population after china on a globe worldwide. This population is divided by according to inhabitant two types, first urban population and second rural population. India's most population is inhabitant that rural areas approximately 73% of the total population. So we are finding that social, economic and political development depends upon on the rural development. Rural India main primary occupation is agriculture and secondary animal husbandry, handloom, handicraft etc. When India is taken independent from British rule than ours legislative assembly faces multidimensional challenges like food crisis, child morality, malnutrition, health, illiteracy, social imbalance, unemployment, poverty etc. Faces for the all those types of problems Indian assembly council or cabinet was formed planning commission in 15 march 1951. Agriculture development was adding in a first five years plan 1951-56 for the boost up of Indian economic growth rate. Increase for the employment and an economic development Govt. had submitted heavy industries development programme in second five years plan 1956-61.

Provide the huge financial allocation for the twelfth five years plan 2012-17 in economic growth of rural people. Financial inclusion is recently playing a vital role in development of rural entrepreneurs. Recently many nationalized, private, rural and co-operative banks are functioning in rural areas by monitoring of RBIs.



Financial inclusion term is derived from the importance since early 2000s, a result of identifying financial exclusion and it is a direct correlation to poverty. Former United Nations secretary Kofi Annan, on December 2003, said "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The United Nations aims to increase financial inclusion of the poor by developing appropriate financial products for them in partnership with the National Bank for Agriculture and Rural Development. The United Nations is increasing awareness on available financial services strengthening financial literacy particularly among women.

*The United Nations defines the goal of financial inclusion as follows:*

- (i) Access of reasonable cost for all households to a full range of financial services, including savings or deposits services, payment and transfer services, credit and insurance.
- (ii) Sound and safe institution governed by clear regulation and industry performance standards.
- (iii) Financial and institutional sustainability, to ensure continuity and certainty of investment.
- (iv) Competition to ensure choice and affordability for clients.

World Bank published survey data in 2011, that data was prepared with observed included our country, financial exclusion measured in terms of bank branch destiny, ATM destiny, bank credit to GDP and bank deposit to GDP is quite low as compared with most of developing countries in the world.

Table 1: Select Indicators of Financial Inclusion, 2011 by World Bank

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 km		0.1 million		As % to GDP	
1	India	30.43	25.43	10.64	8.09	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07		18.8		80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
8	UK	52.87	260.97	24.87	122.77	406.54	445.86
9	USA	9.58		34.43		57.78	46.83
10	France	40.22	106.22	41.58	109.08	34.77	42.85

Source: Financial Access Survey, IMF

## 2. OBJECTIVE OF THE STUDY

- To study about financial inclusion system in India and its impact on Indian economy.
- To study about financial inclusion can help promote of rural development.
- To understand about the challenges of financial inclusion in rural India.

## 2. SCOPE AND METHODOLOGY OF THE STUDY

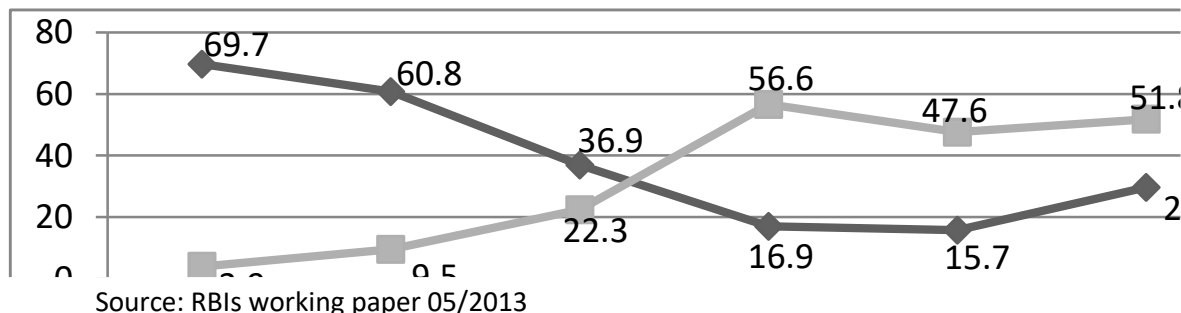
The study looks into the relationship between the financial inclusion, macroeconomic factor and economic growth with per capita income in different circumstances in India and its impact on Indian rural economy. In the study adopted of the exploratory research design methodology. Sources of Data: The study is primarily based on the secondary data collection method and collected from the magazine, journals, banking reports, government websites, news articles and reports.

## 3. FINANCIAL INCLUSION IN INDIA

The term 'financial inclusion' was used for the first time in the Indian context April 2005 by Y. Venugopal Reddy, the then governor, Reserve Bank of India in the Annual Policy Statement presentation. After sometimes, this concept is accepted by the ground level and came to be widely used in India and abroad. When recognizing of the banking practices in this country than attract vast sections of population, banks were urged to review their existing practices to align them with the financial inclusion. The Report to examine of the Internal Group uses concerning to Rural Credit and Microfinance by Khan committee in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06. Wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system in the Khan committee report some point suggested of the Reserve Bank of India and the RBIs exhorted the bank with a view to achieving greater financial inclusion to make available a basic "no-frill" banking account. Later 2005, financial inclusion term again used by K. C. Chakrabarty, the chairman of Indian Bank. Manglam Pudducherry became the first village in India where all households were provided banking facilities. Norms became less strict and create friendly environment for people intending to open accounts with annual deposits of less than Rs. 50,000. Main motive to the help of poor and disadvantaged people issued of the general credit cards (GCCs) them access easy credit. The Reserve Bank of India permitted in January 2006 of all commercial banks to make use of the services of non-governmental organization (NGOs/SHGs), micro-finance institution and other civil society organizations as intermediaries for providing financial and banking services. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories such as Puducherry, Himachal Pradesh and Kerla announced 100% financial inclusion in all their districts. The RBIs vision for 2020 is to open nearly 600 new customers' accounts and services them through variety of channels by leveraging on information technology. Today's unemployment,

illiteracy, low income, savings, lack of awareness about banking services and lack of branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

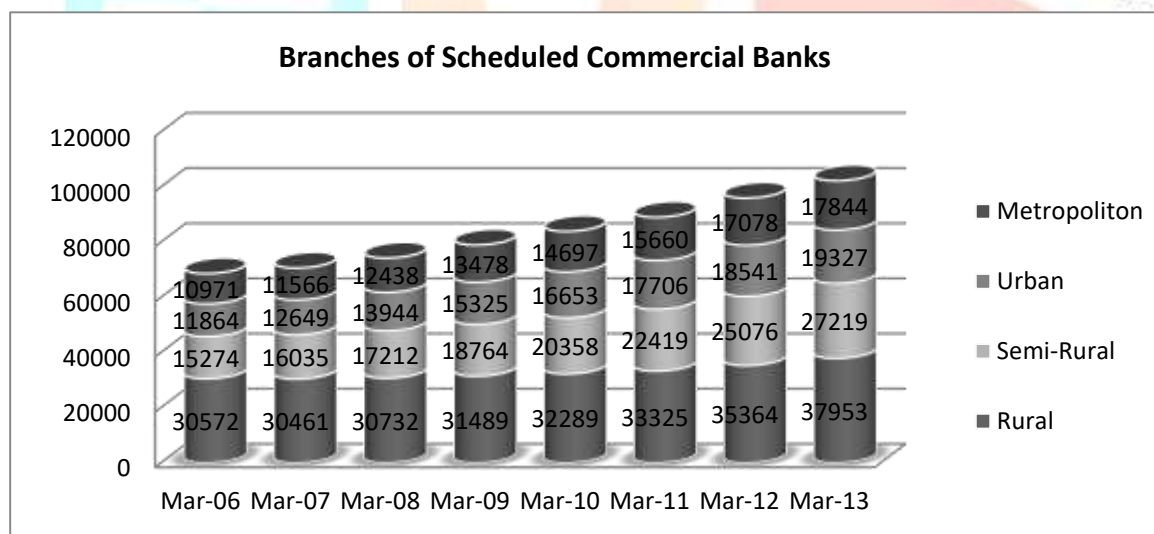
Figure 1: Access to formal and informal sources of credit by rural household



4.1 Progress in Financial Inclusion;

When we are analyzed the progress of financial inclusion in India, we find out that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD Accounts, grants of credit through KCCs and GCCs. Due to efforts of RBIs since 2005, the number of banks manifold from 68,681 March 2006 to 1,02,303 in March 2013, spread across length and breadth of the country. The number of branches is increased in rural areas during March 2006 to March 2013 from up to 30,572 to 37,953. As a compared with rural areas, number of branches in semi-urban areas increased more rapidly.

Figure 2: Branches of Scheduled Commercial Banks from March 2006-13



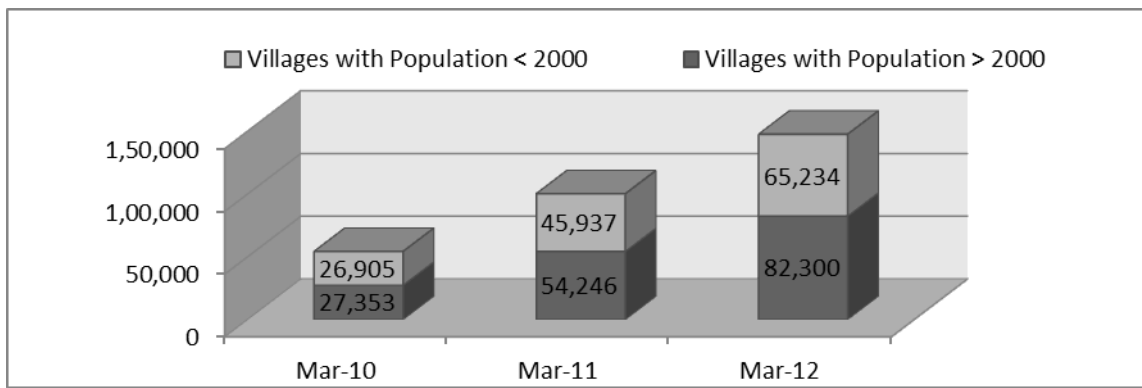
Source: Basic Statistical Returns, RBI and DFS, Govt. of India

4.2 Number of Banking Outlets in Villages with Population;

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased constantly since March 2010. The government main motive is to provide schemes and subsidized amount facility of beneficiaries through this banking branches.



Figure 3: Banking Outlets in Villages with Population from March 2010 to 12

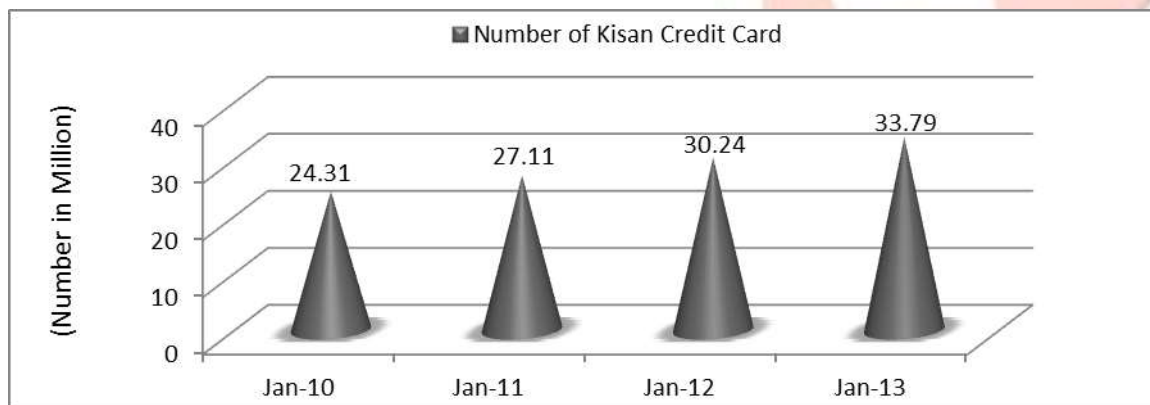


Source: RBIs Annual Report, 2011-12

4.3 Kisan Credit Card (KCC) Issued;

The Kisan Credit Card (KCC) scheme was introduced in 1998 for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that farmers may use them to readily purchase agriculture inputs such as seeds, fertilizers, pesticides etc. and draw cash for their production needs. The scheme was further extended for the investment credit requirement of farmers viz. allied and non-farm activities in the year 2004. The scheme was further revisited in 2012 by a working Group under the Chairmanship of Shri T. M. Bhasin, CMD, Indian Bank with a view to simplify the scheme and facilitate issue of Electronic Kisan Credit Cards. The scheme provides broad guidelines to banks for operationalizing the KCC scheme. According to RBIs regulation banks have been advised to issue KCCs to small farmers for meeting their credit requirements. The total number of KCCs issue to farmers up to March 2013 remained at 33.79 million with a total outstanding credit of Rs. 2622.98 billion.

Figure 4: Number of KCCs Issued

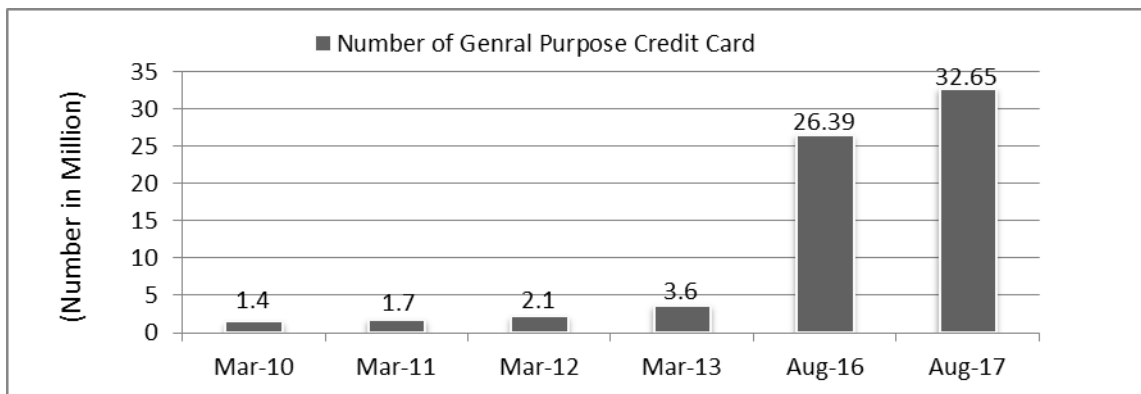


Source: RBIs Annual Report, 2012-13

4.4 General Credit Card (GCC) Issued;

Banks have been advised to introduced General Credit Card facility up to Rs. 25,000 at their rural and semi-urban branches. Banks had provided credit up to March 2013, aggregating to Rs. 76.34 billion in 3.63 million GCC accounts. Now at present time banks are provided credit card in different name, like Visa card, Master card, Rupay card etc. As per RBIs data released on December 2017, total credit card outstanding surged from Rs. 43,200 crore at the end of September 2016 to 59,300 crore in September 2017, registering an increase of 39 per cent. When compared to the outstanding two years ago, the rise is whopping 77.4% cumulatively. The cash crunch that followed demonetization led to people resorting to digital technologies for making payments. Besides income in the outstanding amount of credit cards, the number of credit cards too has risen. By the end August 2017, the number of credit card stood 32.65 million against 26.39 million at the end of August 2016.

Figure 5: Number of GCCs



Source: RBIs Annual Report 2016-17

#### 4.5 Pradhan Mantri Jan Dhan Yojna;

Pradhan Mantri Jan Dhan Yojana (PMJDY), is financial inclusion programme of Government of India, that aims to expand and make affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions. The Prime Minister of India Narendra Modi was launched financial inclusion campaign on 15 August 2014. This scheme was launched by PM Narendra Modi on 15 August 2014 with a slogan "Mera Khata, Bhagya Vidhata". Run by Department of Financial Services, Ministry of Finance under the scheme 1.5 crore (15 million) bank accounts were opened on inauguration day. This achievement is stating recognized in the Guinness Book of World Records. The most bank account opened in one week as a part of the financial inclusion campaign is 18,096,130 and was achieved by the Government of India from August 23 to 29, 2014. By 27 June 2018 over 31 crore (318 million) bank accounts were opened and over 792 billion were deposited under the scheme.

Table 2: Pradhan Mantri Jan-Dhan Yojana statistics as on 29 August 2018 (in crores)

Types of Bank	Number of Accounts				Balance in Accounts	Number of RuPay cards
	Rural	Urban	Total	Female		
Public Sector Banks	14.14	12.12	26.26	13.76	Rs. 65,369.04	19.86
Regional Rural Banks	4.46	0.82	5.28	2.90	Rs. 14,476.20	3.71
Private Sector Banks	0.60	0.40	1.00	0.53	Rs. 2,194.12	0.93
<b>Total</b>	<b>19.20</b>	<b>13.34</b>	<b>32.54</b>	<b>17.19</b>	<b>Rs. 82,039.36 crore</b>	<b>24.50</b>

Source: www.pmjdy.gov.in

#### 4.6 Liquidity Support to Banks for SHG-bank Linkage;

The National Bank continued to provide 100 per cent refinance assistance to banks for financing SHGs. The journey so far traversed by the Self Help Group – Bank Linkage Programme (SHG-BLP) crossed many milestones – from linking a pilot of 500 SHGs of rural poor two decades ago to cross 8 million groups a year ago. Similarly from a total savings corpus of a few thousands of Indian Rupees in the early years to a whopping Rs 27,000 crore today, from a few crore of bank credit to a credit outstanding of Rs 40,000 crore and disbursements touching Rs 20,000 crore during 2012-13. The geographical spread of the movement has also been quite impressive -from an essentially Andhra Pradesh – Karnataka phenomenon in the beginning now spreading to even the most remote corners of India. Over 95 million poor rural households are now part of this world's largest micro Credit initiative. The Self Help Group-Bank Linkage Programme has now completed more than 21 years of existence. It was originated in GTZ-sponsored project in Indonesia. NABARD has set up a task force with the APRACA to identify the existence of SHGs. Starting from a modest scale as a pilot in the year 1992, the SHG-Bank linkage programme has turned into a solid structure with more than 73.18 lakh savings-linked Self Help Groups (SHGs) covering over 9.50 crore poor households as on 31 March 2013. The total savings of these SHGs with banks amounted to Rs. 8,217.25 crore. The number of credit-linked SHGs under the programme stood at 44.51 lakh. NABARD expended a sum of Rs. 50.44 crore during 2012-13 from Micro Finance Development and Equity Fund and Women Self Help Group

Development Fund for various micro finance related activities such as formation and linkage of SHGs through SHPIs, training and capacity building of stakeholders, livelihood promotion, documentation and awareness, etc.

NABARD continued to extend support to NGOs, RRBs, CCBs, Farmers Clubs and Individual Rural Volunteers (IRVs) for promoting and nurturing SHGs During 2013-14, grant assistance of Rs. 36.33 Crore was sanctioned to these agencies. The cumulative assistance sanctioned to various agencies was Rs. 262.83 crore for promoting 7.46 lakh SHGs. Cumulative assistance of Rs. 79.04 crore was released for formation of 4.99 lakh SHGs as on 31 March 2014. The NGOs were the most dominant SHPI, forming more than 3.79 lakh SHGs. Grant assistance of Rs. 76.74 crore was sanctioned for promotion of 3.99 lakh JLGs across the country as on 31 March 2014. During 2013-14, Rs. 1,392.58 crore was disbursed by banks to around 1.29 lakh JLGs and the cumulative loan disbursement as on 31 March 2014 was Rs. 6,075.91 crore to 6.58 lakh JLGs.

Table 3: Self Help Group- Bank Linkage Programme (Amount in Rs. Crore)

Year (End March)	No. of SHGs financed by Banks			Bank Loan		
	During the year	Cumulative	Growth (%)	During the year	Cumulative	Growth (%)
2005-06	620109	2238565	14.9	4499.09	11397.55	50.0
2006-07	1105749	3344314	78.3	6643.19	18040.74	47.7
2007-08	1227770	4572084	11.0	8849.26	26890.00	33.2
2008-09	1609586	6181670	31.1	12253.51	39143.51	38.5
2009-10	1586822	7768492	-1.4	14453.30	53596.81	18.0
2010-11	1196154	8964626	-24.6	14548.23	68145.04	0.65
2011-12	1148000	10112626	-4.0	16534.56	84679.60	13.66
2012-13	4451434	14564060	-	20585.00	105264.60	-

Source: NABARD

#### 4. ECONOMIC GROWTH OF RURAL INDIA

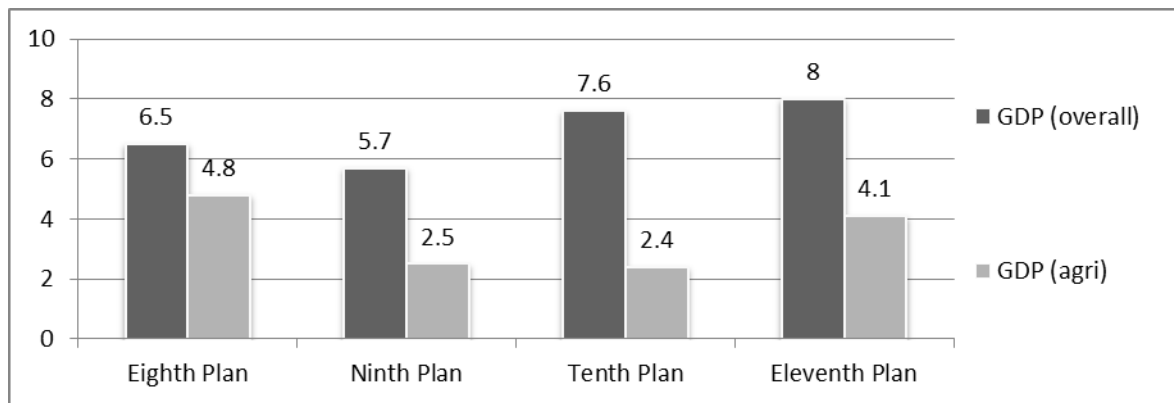
India lives in its villages nearly 73% of the total population lives in rural areas where agriculture and allied activities are the main stay of their lives. The country development is largely depends on the development of rural areas and the standard of living of its rural mass. Rural entrepreneur is one of the most important inputs in the economic development of a country and of regions within the country. Most of the rural entrepreneurs face peculiar problems like illiteracy, fear of risk, lack of training and experience, limited purchasing power and competition from urban entrepreneurs. Mahatma Gandhi says that "the real solution to India's economic problem is not mass production but production by masses". Rural industrialization through the development of rural entrepreneur seems to be the solution to poverty, unemployment and backwardness of Indian economy.

Main Economy Process and Rural Development Schemes for the Development of Rural Economies:

##### 5.1 Agriculture;

Today, the rural economy in India and its subsequent productivity growth is predicated to a large extent upon the development of its 700-million strong rural population. The agricultural economy of India is drafted according to the needs and requirement of rural India since majority of the population lives in about 600,000 small villages. In India, agriculture accounts for almost 19% of Indian gross domestic products (GDP). The rural section of Indian population is primarily engaged with agriculture, directly or indirectly. The Ministry of Agriculture, the Ministry of Rural Infrastructure, the Nitti Aayog and the Planning Commission of India are the main governing bodies that formulate and implements the policy related to rural economy in India and its subsequent development for the overall growth of the Indian economy.

Figure 6: Agricultural Growth Rate during Different Plan Periods



Source: Central Statistics Office (CSO)

### 5.2 Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS);

The list of permissible works under MGNREGA has been expanded with a focus to strengthen the synergy between MGNREGA and rural livelihoods, particularly agriculture, and create durable quality assets. The permissible activities under MGNREGA (Schedule-1 of MGNREGA Act, 2005) that directly relates to agricultural works. Improving productivity of lands of households specified in Paragraph 5 of the Schedule-1 of MGNREGA Act, 2005 through land development and by providing suitable infrastructure for irrigation including dug wells, farm ponds and other water harvesting structures. This aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. (Budgetary allocation in 2012-13: INR 33,000 billion).

### 5.3 National Rural Livelihoods Mission (NRLM);

The basic objective of the National Rural Livelihood Mission is to create efficient and effective institutional platforms of the rural poor that enable them to increase their household incomes through sustainable livelihood enhancements and improved access to financial services. In this scheme central government doing the work with participate of the state government and public private partnership (PPP) model. Animal husbandry is key role play in the contribution of rural economies. This scheme is cover-up rain fade area. Where lands are cover from water and not assign of agriculture work. It plans to cover 70 million households living below the poverty line (BPL) in rural India. (Budgetary allocation in 2012-13: INR 3,563 billion).

### 5.4 Integrated Watershed Development Programme (IWDP);

The main objectives of the IWDP are to restore ecological balance in a watershed by harnessing, conserving and developing degraded natural resources such as soil, water and vegetative cover, and thereby, help provide sustainable livelihoods to the local people. (Budgetary allocation in 2012-13: INR 2,744 billion).

### 5.5 Indira Awaas Yojana (IAY);

This scheme provides financial grants to rural BPL families and the next of-kin of defence personnel killed in action for construction of houses and up gradation of existing unserviceable kutcha houses. (Budgetary allocation in 2012-13: INR 9,966 billion).

### 5.6 National Rural Drinking Water Programme (NRDWP);

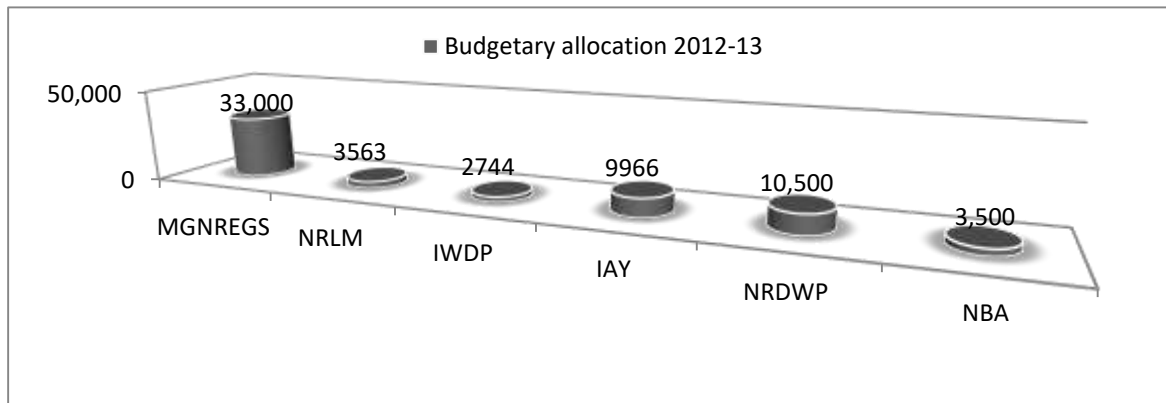
The goal of this scheme is to provide adequate safe water for domestic uses on a sustainable basis. (Budgetary allocation in 2012-13: INR 10,500 billion).

### 5.7 Nirmal Bharat Abhiyan (NBA);

The Total Sanitation Campaign, now renamed as the Nirmal Bharat Abhiyan, assists Gram Panchayats to achieve comprehensive sanitation coverage. (Budgetary allocation in 2012-13: INR 3,500 billion).



Figure 7: Budgetary allocation in 2012-13 for different Schemes and Programmes (in billion)



## 6. CONCLUSION

This study examines whether the financial inclusion can help to promote financial development or not. We analyze the determinants of financial development using a system generalized method of moments (system GMM) in a country during 2004-17. I conclude that we have endeavored to convey easily and smoothly assessment of financial inclusion in the country. By the guideline of United Nation General Assembly Secretary, Govt. of India modified banking rules through RBIs in financial inclusion. New regulation is provide to support of the common man easily access to financial services. Many schemes are implemented in rural areas through banking- linkages program. Govt. of India provide subsidized amount of a rural entrepreneur with the co-operation of banking organization. PMJDY is to help provide of the rural BPL people abroad in a country.

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