FINANCIAL INCLUSION: FACTOR THAT EXPEDITES SUSTAINBALE ECONOMIC GROWTH

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ABSTRACT

In the eleventh five year plan of India, growth and inclusiveness was considered as co-equal objectives in acknowledgement of the fact that GDP growth cannot be an end in itself as a goal. Inclusive growth, a global term nowadays, implies participation as well as sharing of the benefits from the growth process with the socially disadvantaged and can be thought as both an outcome and a process. Financial inclusion may be defined as the process of ensuring access to financial services and offering timely and adequate credit to the vulnerable groups at an affordable cost. A systematic and meaningful study on the state of and policy on the financial inclusion is crucial for the true assessment of the state of development of economy as a whole, as far as financial objectives of development are concerned.

KEYWORDS: Inclusive Growth, financial inclusion, financial instruments, financial literacy, sustainability.

INTRODUCTION

The Indian economy entered the twelfth plan period with a great potential, but with some great challenges in the years ahead. In view of the so called 'Performance of Macroeconomic variables', the eleventh Plan can be considered as a success, but not as much when we talk about 'Inclusion'. In the eleventh five year plan, growth and inclusiveness was considered as objectives with equivalent weightage in acknowledgement of the fact that GDP growth cannot be an end in itself as a goal. Growth with economic and social support programmes can bring about an environment that is conducive to the improvement of incomes and standard of living for a greater section of population and can complement the growth of national income aggregates.

Inclusive growth, a global term nowadays, implies participation as well as sharing the benefits from the growth process with the socially disadvantaged. Therefore inclusive growth can be thought as both an outcome and a process. The key issues of the growth acceleration of Indian economy are demographic dividend, enhanced domestic and international competitive market, cognigible improvement in total factor productivity and the prospering entrepreneurship and so on. But the other part of this bright coin is gloomy – inequalities in distribution of income and wealth have widened, the growth in rural regions is stationary while the urban regions are growing fast. About 400 million people (more than 36 percent of the population) still live below the poverty line in India. Thus at the policy level it was articulated "an opportunity to restructure policies to achieve a new vision based on faster, more broad based and inclusive growth. It is designed to reduce poverty and focus on bringing the various divides that continue to fragment our society."

The term 'financial exclusion' is considered to have been first coined in 1993 by geographers in Britain who were concerned about bank branch closures and resulting limited physical access to banking services. Aynsley (2010) identifies three key aspects of definitions of financial inclusion: (i) access to financial services and products; (ii) financial capability (i.e. managing money effectively etc.); and (iii) financial literacy. However, most definitions emphasize access rather than the other elements. Nevertheless, poverty is an undesirable social condition which occupied the center stage of financial inclusion discourse, in all cases.

The objective of this paper is to make a gross framework of the impact that financial inclusion (F.I.) has produced for inclusive growth in India and/or the role that could have been taken with the tool of financial inclusion for wide spectrum of growth in a developing country like India in twenty-first century.

NEED FOR THE PRESENT DISCUSSION

As M K Gandhi has said India is a country whose soul resides in dehat (villages) and out of total population, 72% lives in villages. But, it is a reprisal that about six and half lakhs of villages does not have a single bank branch which is leading to financial exclusion of rural people. The economic development of the country to a significant extent depends on the improvement of financial status of this unfortunate underprivileged and rural people. So it is a dire need of present time at least to bring the unbanked population within the realm of banking. It was observed that financially excluded people are closely attached to the informal money market like moneylenders even for their everyday needs and borrowing at excessive rates eventually weakens their financial capability further. Ignorance of these people about the other financial products like crop insurance or agricultural credit makes the situation even worse. In this context, a systematic and meaningful study on the state of and policy on the financial inclusion is essential for a true assessment of the state of development of the economy as a whole.

CONCEPTUALISATION OF FINANCIAL INCLUSION: INDIAN DISCOURSE

It is more difficult to assess the performance of inclusion than of growth. It is mainly due to three reasons. First, inclusiveness is multidimensional and required to be assessed from different angles. Second, data in this regard is available only after a considerable time lag and often not available even and the third, most policies aimed at inclusiveness have a long gestation time before making an impact. (Ahluwalia, 2012) Expansion of formal financial sector of which F.I. is a part is obviously a continuous process. Some determined efforts had been taken by GOI as well as by Reserve Bank of India (RBI) to extend F.I. since independence. But the earlier measures were not been much productive while some recent measures, in a limited sense, have been successful.

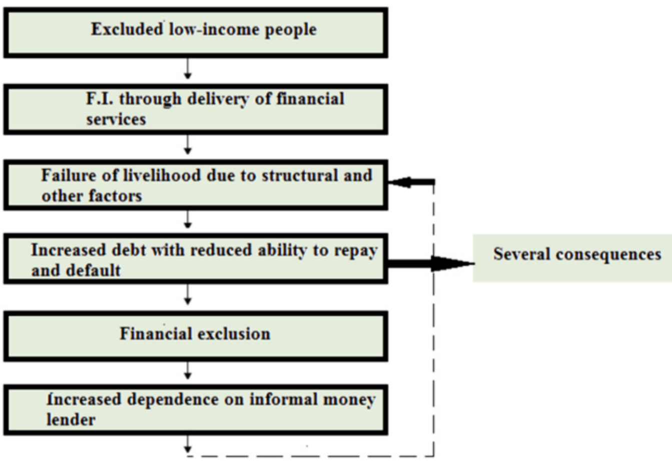
Financial inclusion is an important element for social inclusion of poor and vulnerable. It is in fact, one of the essential conditions for reduction of poverty and socio-economic inequalities in the society. (Rangarajan, 2008) A comprehensive working definition of financial inclusion in Indian context as defined in Rangarajan Committee (2008) is "Financial inclusion may be defined as 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." In this case the services include a wide range of facilities like access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. The goal of these services is to provide economic confidence to the lower income households. In this case the insinuation for financial inclusion is both ethical as well as based on economic efficiency. Measures and mechanisms intended to reach the people without bank account and the poor have been encouraged and consciously employed in India for long. But the discussion on financial inclusion has pivoted mainly on definitions, coverage and implementation of strategies for the banking system as the part of the programme of poverty alleviation. A variety of institutions and interpolations have been endorsed for delivery of financial services to the poor starting from cooperative models and plans for asset creation for the poor families. Specified institutions like regional rural banks (RRBs) have been launched but somehow moved away to a large extent from the narrow focus on poverty. It is during the last decade, that both financial inclusion and definite strategies have been employed and put to revive former concepts of universal coverage of financial services for the entire population.

In RBI documents and publications, financial inclusion has generally been defined as 'the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players'. The landmark Rangarajan Committee Report on Financial Inclusion (2008) stated that F.I. is to 'ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household and money transfer facilities….'

Previously Y.V. Reddy, the then RBI governor in his annual policy statement of 2005–06 have insisted banks to align with the objective of financial inclusion for ensuring access to suitable financial products and services needed by 'all' sections of the society in general and vulnerable groups such as 'weaker sections and low income groups' in particular at an 'affordable cost' in a 'fair and transparent manner' by the mainstream financial organizations. So, it can be perceived that each of these ideas underlines some different characteristics of the financial inclusion discourse and process. One directly addresses weaker sections, while another emphasizes values like affordability, transparency and suitability. Again another version emphasizes on access to all individuals and to enable them to apprehend the value of these financial services. Some also highlights the need for a collection of products that cover various needs of the poor households.

Discussion on financial inclusion discourse in India may also indulge a close look on the association between financial inclusion and poverty. Once the connection between the larger poverty condition and financial exclusion is identified it would involve in more practical and extensive agenda of development where F.I can be an important tool. Arunachalam (2008) raised the question that whether financial inclusion can help the reversal of the existing state of inequitable development and if so, how to practice that into outcome. He stresses that to truly include the poor financially, we require some consistent and simultaneous mechanisms for the control of a variety of risks and vulnerabilities; else, people included for the time being would be excluded again and would be pushed into a cycle of inclusion and exclusion as shown in Figure 1.

Fig-1: Inclusion and Exclusion Cycle



Source: Arunachalam, 2008

If financial inclusion does not address the structural causes that result in the failure of livelihoods, the process is bound to fail. So just by opening savings accounts and providing consumption credit cannot be enough to tackle this problem. Arunachalam asked for a new pattern of financial strides that can reduce risk and vulnerability in the livelihoods of the poor, (i) resulting from market imperfections (ii) that helps to form strong security shield for the poor (iii) enables the poor to follow varied and migratory livelihoods and create some risk-management mechanisms and products, such as post-harvest loans and warehouse receipts for small holders, to ensure that they remain financially included always. This accentuate that the financial inclusion paradigm should become the integral part of an overall livelihoods framework capable to protect and encourage occupation and living. Similar to the financial capability approach, this approach too involves a wider and enduring methodology centered on the economic security of the poor rather than the current concerns of financial inclusion.

EXTENT OF FINANCIAL INCLUSION IN INDIA: SOME ESTIMATES

Some of the major estimates made in recent years of the extent of financial access and inclusion are presented as below:-

I. The All India Debt and Investment Survey 2002 (as quoted in Christabell and Vimal Raj, 2012) estimated that 111.5 million households had no access to formal credit. It also showed that the lower the asset volume or income, the higher the degree of exclusion.

II. The World Bank estimated that 59.5 per cent of rural households did not have a savings bank account; the figure was 70 per cent in the case of the landless/marginal farmers' category (Basu, 2006).

III. Data from the 2011 Census of India indicates that 58.7 per cent of the households in India avail of banking services - 54.5 per cent in rural areas and 67.7 per cent in urban areas. The comparable figure for Census 2001 was 35 per cent (Government of India, 2013).

IV. Chattopadhyay (2011) classified Indian states into three categories, i.e., states having high, low and medium extent of financial inclusion using the Index of financial Inclusion (Table-1) which is based on three basic dimensions—(i) banking penetration, referring to the size of the banking population having a bank account as a percentage of the overall population in a geographical area; (ii) availability of the banking services, measured by the number of bank outlets per thousand population; and (iii) usage of the banking system with the volume of outstanding deposit and credit as a proportion of net domestic district product as the criteria. Kerala, Maharashtra and Karnataka are the top three players in terms of rank; West Bengal is 11th in rank exhibiting low F.I status showing even lesser figure than the national average.

V. The Global Financial Inclusion Index (Global Findex) measures how people in 148 countries including the poor, women, and rural residents save, borrow, make payments and manage risk. As per the Global Findex, in India only 35 per cent of adults over the age of 15 had an account with a formal institution (44 per cent of males and 26 per cent of females) and 8 per cent took a formal loan.

VI. The Financial Access Survey (FAS) database of the International Monetary Fund (IMF) currently contains annual data for 189 jurisdictions covering a nine-year period (2004–12). The latest data for India (2012) suggests that there were on an average 892 deposit accounts with commercial banks for every adult and 23 household loan accounts for every 1000 adults. In view of this the extent of financial inclusion in India is found to be higher than many developed and some of the major emerging economies.

VII. Most recently, the Nachiket Mor Committee (2013) using certain assumptions has estimated, that for overall India the extent of financial inclusion was 36 per cent [i.e. proportion of eligible population having at least one bank account, eligible population being individuals aged 18 years based on Census 2011 as against 35 per cent by the Global Findex]. Overall 45 per cent of the urban residents and 32 per cent of the rural residents were estimated of having bank accounts. But some significant variations are found in study from district to district.

Table-2 reveals that there is significant variation between the states regarding average monthly spending, while in terms of percentage of people below this average, there is not much variation. Among rural populations Uttarakhand has the most number of people below the average monthly expenditure line and Assam has the lowest. West Bengal is having 60.6 % of people below the average. Among urban population, Uttar Pradesh has the maximum number of people below the average monthly expenditure and Sikkim has the least percentage. West Bengal has 68.4% (even greater than national average) of people below the average monthly expenditure.

Table 3 shows the state-wise analysis of banking facility availed in the year 2011-12, which shows that Uttar Pradesh is having most number of branches (11261) as on 31 March 2012. In the whole country there are 93659 branches in total during that time. 58.7 percentage of household in the country is availing banking service. Himachal Pradesh is showing highest percentage (89.1) while in West Bengal 48.8 percent household availing banking services. Manipur has recorded the lowest percentage figure. (29.6)

Table 4 shows the comparative figures of households availing banking services in 2001 and 2011. There is an overall betterment in terms of availing banking service in these ten years. In 2001 30.1 percent of rural people, 49.5 percent of urban and 35.5 percent of overall Indians availed banking service while in 2011 54.4 percent rural, 67.8 percent of urban and 58.7 percent of Indians as a whole availed banking service. So, it shows an overall improvement of more than 20 percent during this decade.

Table 5 summarizes India's performance in the area of financial inclusion as compared with other developing as well as developed countries. The data given in the table relates to 2010. However, for rows or cells indicated as (*) relates to 2009. It shows that in terms of number of branches or ATM as per one lakh adult population, India's position is not very much inspiring but in terms of bank credit or bank deposit as percent of GDP, it is even better than some developed countries like Austria, Brazil, France and USA.

Table 6 exhibits the progress of the country's F.I. in terms of Banks and RRBs during 2010/15. The estimates of the table reveal that the socio-economic changes are reflected in a significant spout in terms of banking transactions, Kisan Credit cards (KCC) and General credit cards (GCC) during these time period.

The estimates of table 7 shows figures of Pradhan Mantri Jan Dhan Yojona (PMJDY), a national mission for financial inclusion to ensure access to financial services, namely banking savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. This financial inclusion campaign was launched by the Prime Minister Narendra Modi on 28 August 2014. The estimate reveals that 16.3 crore accounts opened nationwide as of 2015 (9.8 crores rural and 6.5 crores urban) with 18684.6 crores deposit and 14.5 crores debit cards are issued showing a considerable improvement in F.I. countrywide, although the state-wise data of this mission in future might be helpful in providing more insight in this regard.

CONCLUDING REMARKS

As far our discussion is concerned we could make a definite outline of the concept of inclusive growth and the extent of financial inclusion (and obviously, exclusion) in India. We tried to highlight the role of F.I. for inclusive growth. We may list out our observations as follows:-

1. India's position in terms of bank credit and deposits as percentage of GDP has improved suggestively in contrast with other developed countries and it may be indicative of the growth process of the country.

2. Branches of public as well as private sector banks, RRBs have increased considerably over the years which reflect more financial coverage of the poor people across the region.

3. Coverage of Banking Services has shown some promising result.

4. Various schemes like Kisan Credit Card (KCC) & General Credit Card (GCC) etc. emerged which can generate enough assistance to the small as well as marginal farmers and poor citizens of the country.

5. Various technology options such as- ATMs, Mobile Banking, Aadhar Enabled Payment Systems (AEPS) etc. have been started to help in the speedy delivery of cash.

Financial inclusion makes growth widened and sustainable by progressively encompassing the previously excluded population. Thus financial inclusion is no longer a policy choice but a policy compulsion (RBI, 2011b). Empirical evidences are there that reveals that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Faster growth rate is indisputably obligatory for noticeable poverty reduction, but for the long run sustainability of growth, it should be include a large part of the country's labour force. Again, practical findings reinforce the argument that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita reflects relatively higher levels of income inequality, low rates of literacy, low urbanization, poor connectivity and appear to be less financially inclusive. Financial inclusion, therefore, assumes high importance as a policy objective (RBI, 2011b).

Financial inclusion is expected to make significant changes in a developing country's economy, especially the rural economy. In Indian context availability of financial instruments like PMJDY, gold monetization scheme and others can be transfiguring the pace of F.I. The success of PMJDY depends on the success in some edges- enhancement of access points and transactions limit. In this regard few experts had opined for the use of post-offices for expansion of banking services. Near about 28 crores accounts in post-offices can be used for this resolve. Strengthening of Microfinance Institutions, business facilitators & business correspondents can contribute in easy access to banking services especially for the rural poor. Financial awareness should be enhanced. More number of rural bank branches should be established in the rural areas. Most importantly, egalitarian dispersal of financial services is the key for inclusive growth- it is time for the Governments to acknowledge that.

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TABLES

Table 1: State-wise Index of Financial Inclusion (IFI) based on Selected FII: Intra-Country Analysis (2011)

State	D1 (Penetration)	D2 (Availability)	D3 (Usage)	IFI (Index of FI)	IFI Rank
High Financial Inclusion (0.5-1)					
Kerala	0.7	0.81	0.28	0.54	1
Maharashtra	0.62	0.29	1	0.53	2
Karnataka	0.72	0.47	0.46	0.53	3
Medium Financial Inclusion (0.3-0.5)					
Tamil Nadu	0.7	0.43	0.38	0.48	4
Punjab	0.45	0.69	0.29	0.45	5
Andhra Pradesh	0.56	0.3	0.41	0.41	6
All-India	0.27	0.22	0.55	0.33	7
Himachal Pradesh	0.42	0.4	0.18	0.33	8
Sikkim	0.28	0.33	0.34	0.32	9
Haryana	0.39	0.5	0.12	0.32	10
Low Financial Inclusion (<0.3)					
West Bengal	0.24	0.38	0.23	0.28	11
Gujarat	0.32	0.3	0.16	0.26	12
Uttar Pradesh	0.28	0.31	0.15	0.24	13
Meghalaya	0.21	0.28	0.14	0.21	14
Tripura	0.31	0.22	0.08	0.2	15
Orissa	0.26	0.23	0.11	0.2	16
Rajasthan	0.25	0.22	0.12	0.19	17
Arunachal Pradesh	0.2	0.16	0.14	0.17	18
Mizoram	0.13	0.26	0.09	0.16	19
Madhya Pradesh	0.18	0.21	0.08	0.16	20
Bihar	0.15	0.24	0.08	0.15	21
Assam	0.17	0.17	0.07	0.13	22
Nagaland	0.03	0.04	0.07	0.05	23
Manipur	0	0.01	0.01	0.01	24

Source: *RBI Working Paper (Chattopadhyay, 2011)*

Table-2: Average Monthly Spending and percent Below the Average – State wise Analysis

State	Rural		Urban	
	Average monthly spending	% Below	Average monthly spending	% Below
Andhra	1,234	63.9	2,238	67.8
Arunachal	1,546	64	1,947	61.9
Assam	1,003	59.4	1,755	60.2
Bihar	780	60.6	1,238	66.2
Chandigarh	784	62.1	1,674	66
Delhi	2,068	62.1	2,654	63.2
Goa	2,065	61.2	2,644	62.5
Gujarat	1,110	60.6	1,909	60
Haryana	1,510	60.6	2,321	69.2
Himachal	1,536	64.5	2,654	64.9
J&K	1,344	61	1,759	66.6
Jharkhand	825	64.6	1,584	67.9
Karnataka	1,020	62.8	2,053	64.6
Kerala	1,835	67.3	2,413	69
MP	903	64	1,666	66.8
Maharashtra	1,153	61	2,437	69.1
Manipur	1,027	60.1	1,106	68.7
Meghalaya	1,110	61	1,629	59.8
Mizoram	1,262	59.5	1,947	58
Nagaland	1,476	60.8	1,832	60.8
Orissa	818	62.4	1,548	67
Punjab	1,649	65.9	2,109	65.5
Rajasthan	1,179	67	1,663	65.3
Sikkim	1,321	68.7	2,150	53.5
Tamil Nadu	1,160	63.3	1,948	64.9
Tripura	1,176	63.8	1,871	64.4
Uttar Pradesh	899	62.8	1,574	70
Uttarakhand	1,747	83.6	1,745	62.6
West Bengal	952	60.6	1,965	68.4
All India	1,054	64.47	1,984	66.7

Notes : Average daily consumption expenditure per capita per day for rural areas is Rs. 35.10 and for urban areas in Rs. 66.10.

Source: *Sunday Times of India, "Times Nation" , New Delhi Edn. 29 April 2012-P 15*

Table 3: Banking Facility Availed in the year 2011-12: State-wise Analysis

State	Number of Branches as on 31.3.2012	Percentage of households availing banking services	No. of households availing banking services	No. of households not availing banking services
ANDHRA PRADESH	7785	53.1	11163283	9861251
ARUNACHAL PRADESH	88	53	138730	122884
ASSAM	1549	44.1	2807169	3560126
BIHAR	4373	44.4	8409554	10531075
CHHATTISGARH	1471	48.8	2744180	2878670
DELHI	2631	77.7	2595302	745236
GUJARAT	5172	57.9	7049297	5132421
HARYANA	2807	68.1	3214296	1503658
HIMACHAL PRADESH	1106	89.1	1315900	160681
JAMMU & KASHMIR	1062	70	1410565	604523
JHARKHAND	2009	54	3334876	2846731
KARNATAKA	6598	61.1	8054677	5125234
KERALA	4681	74.2	5728876	1987494
MADHYA PRADESH	4495	46.6	6975245	7992352
MAHARASHTRA	8927	68.9	16414892	7415688
MANIPUR	84	29.6	150009	357143
MEGHALAYA	224	37.5	201812	336487
MIZORAM	101	54.9	121285	99792
NAGALAND	100	34.9	139523	260442
ORISSA	3126	45	4351103	5309982
PUNJAB	4012	65.2	3527688	1882011
RAJASTHAN	4581	68	8557822	4023481
TAMILNADU	6988	52.5	9712804	8780199
TRIPURA	247	79.2	667765	175016
UTTAR PRADESH	11261	72	23711472	9212794
UTTARAKHAND	1344	80.7	1611901	385167
WEST BENGAL	5703	48.8	9783629	10283670
INDIA	93659	58.7	144814788	101877879

Source: *Census of India (2011), RBI (2012)*

Table 4: Households Availing Banking Facility – 2001 & 2011

	2001			2011		
Areas	**Total no. of households**	**No of households availing Banking services**	**Percent**	**Total no. of households**	**No. of households availing Banking services**	**Percent**
Rural	138271559	41639949	30.1	167826730	91369805	54.4
Urban	53692376	26590693	49.5	78865937	53444983	67.8
Total	191963935	68230642	35.5	246692667	144814788	58.7

Source: *Census Data (2001, 2011)*

Table 5: Financial Inclusion: India's Performance in contrast to Other Developed and Developing Countries

Country	No. of branches	No. of ATM s	Bank credit	Bank deposits
	(per 1 lakh adults)		(as % of G D P)	
India	10.91	5.44	43.62*	60.11*
Austria*	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
United States	35.74	173.75*	46.04	53.14
Korea	18.63	250.29*	84.17	74.51
Afghanistan	2.25	0.5	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Source: *World Bank, Financial Access Survey,*

Notes: Data given in the Table pertains to 2010. However, for rows/cells indicated as* Data relates to 2009.

Table 6: Progress of Financial Inclusion- Banks and RRBs

Particulars	F. year ended 2010	F. year ended 2011	F. year ended 2012	F. year ended 2013	F. year ended 2015
Banking Outlets in Villages					
Branches	33378	34811	37471	40837	46126
Branchless Mode	34316	81397	144282	227617	337678
Total	67694	116208	181753	268454	383804
Urban Locations through BCs	447	3771	5891	27143	60730
Basic Saving Bank A/c- branches					
No. in Million	60.19	73.13	81.20	100.80	126.00
Rs. in billion	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank A/c- BCs					
No. in Million	13.27	31.63	57.30	81.27	116.90
Rs. in billion	10.69	18.23	10.54	18.22	39.00
Overdraft facility- in BSBDA's Account					
No. in Million	0.18	0.61	2.71	3.92	5.90
Rs. in billion	0.10	0.26	1.08	1.55	16.00
KCC					
No. in Million	24.31	27.11	30.24	33.79	39.90
Rs. in billion	1240.10	1600.05	2068.39	2623.00	3684.50
GCC					
No. in Million	1.40	1.70	2.11	3.60	7.40
Rs. in billion	35.10	35.07	41.84	76.30	1096.90

Source: *GOI (2014c), RBI (2013, 2014, 2015)*

Table 7: Status - Pradhan Mantri Jan Dhan Yojona
(Fig in Crores)

	No. of Accounts opened			No. of Rupay Debit Cards	Balance in Accounts	% of zero balance A/c
	Rural	**Urban**	**Total**			
Public Sector Banks	6.9	5.8	12.7	11.9	14357.5	52.3
Private Banks	2.5	0.4	2.9	2.1	3258.5	52.1
RRBs	0.4	0.3	0.7	0.6	1068.6	49.3
Total	9.8	6.5	16.3	14.6	18684.6	52.2

Source: *GOI (2015a)*