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FINANCIAL INCLUSION FOR INCLUSIVE GROWTH OF INDIA

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ABSTRACT

India is one of the largest and fastest growing economies of the world, but what has been the most disturbing fact about its growth is that its growth has not only been uneven but also discrete. It has been uneven in the sense that there has been no uniformity in its growth performance and it has been discrete and disconnected with regard to growth and distribution of growth benefits to certain sectors of economy. The Indian economy, though achieved a high growth momentum during 2003-04 to 007-08, could not bring down unemployment and poverty to tolerable levels. Further, a vast majority of the population remained outside the ambit of basic health and education facilities during this high growth phase. In recent decades, economic and social inequalities have increased alongside high growth rates which have increased regional inequalities. Over 25% of Indians continue to live in abject poverty. As a result, Inclusive growth has become a national policy objective of the Union Government. And thus the need for inclusive growth comes in the picture of Indian economic development. In context of Indian growth planning it is a relatively new terminology which got the attention of policy makers 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 the economic growth, 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 very design of the development process and not simply as welfare targets of development programmes." In a simpler and wider sense it means that inclusive growth as a strategy of economic development should not only aim at equitable distribution of growth benefits but also at creating economic opportunities along with equal access to them for all. In the present paper an effort has been made to understand the inclusive growth phenomenon its need and financial inclusion as an instrument to attain it with reference to its extent in Indian States.

What is Financial Inclusion? Financial Inclusion is about delivery of banking services at an affordable cost to vast sections of disadvantaged, first step in FI is to facilitate people in getting basic facilities like food, shelter and clothing to the people and then comes the provision of bank account, wherein they can save whatever little they can. Financial Inclusion can be thought of in two ways. One is exclusion from the payments system –i.e. not having access to a bank account. The second type of exclusion is from formal credit markets, requiring the excluded to approach informal and exploitative markets.

Objective of the Study:

1. To study the need of financial inclusion
2. To study the role of financial inclusion
3. To study the measure taken by RBI and ROI for financial inclusion

Research Methodology:

The research has been done using secondary data sources from Financial Inclusion in India related books journals newspapers periodicals government reports websites etc.

Need for Inclusive Growth

India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is important and is one of the biggest challenges for India. The challenge is to take the levels of growth to all section of the society and to all parts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms in education, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves. The main thrust areas for need of inclusive growth can be summarized as below:

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

However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources. Thus in the current paper an effort is made to study the role of financial inclusion in inclusive growth.

Financial Inclusion

By financial inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system.

Rangarajan Committee (2008) viewed financial inclusion as "The process of ensuring access to

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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 simpler terms financial inclusion is about including the excluded in the financial system of the country, and to ensure that their financial & social security needs are taken care of through appropriate financial service providers. Given below is the diagram which briefly describes the essential contents of financial inclusion: Financial Inclusion is imperative for inclusive growth of India, with more than 25 % of its population living in abject poverty government's onus towards their growth and development is huge, and inclusive finance is one such measure which if targeted and attained in right manner will provide an apt solution to the severe problems of poverty and unemployment. Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty. Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. Poors are typically more vulnerable to financial exclusion this is simply because their major problems arise from the need for finances. The formal banking services, by exploiting economies of scale and making judicious use of targeted subsidies may reduce or remove market imperfections and facilitate financial inclusion of the poor, ultimately leading to higher incomes. The access to financial services by poors would lead to their consumption smoothing and investments in health, education and income generating activities, thus expanding growth opportunities for them. Inclusive growth if targeted systematically may lead to financial stability, asset building and economic mobility and empowerment of the low income group people.

Measures taken by RBI and GOI for financial Inclusion

The government of India has been taking efforts for inclusion like creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980; initiating the Lead Bank Scheme in 1970; establishing Regional Rural Banks (RRBs) in 1975; introducing a Self-Help Group (SHG)-Bank Linkage Programme in 1992 and formulating the Kisan Credit Card scheme in 2001. The measures taken to structure financial inclusive system by Reserve bank of India and the Government of India are as follows:

1. Introduction of 'No frill accounts': In November 2005, the banks were advised to open no frill accounts with minimum balances. The required documents for no frill accounts have been provided in regional language. Overdraft facility was extended on no frill account by various state banks.

2. Relaxing Know your customer (KYC) norms: KYC norms for account holder with Balances not greater than Rs 50000 has been simplified. Ration card and voter Id are taken as KYC norms. Bio-metric cards have been issued.

3. General Purpose Credit Card Schemes : revolving credit facility in the form of General Purpose Credit Card (GCC) with Rs 25000 as credit limit has been sanctioned. Overdue loans up to Rs 25000 are eligible for one time settlement. The borrowers availing one time settlement schemes are very much eligible for fresh loans.

4. Intermediaries: From January 2006, banks were permitted to take assistance from non government organizations; Self Help Groups (SHGs) and Micro Finance Institutions (MFI) and other societal association as business facilitator. SHG are the association of women who contributes their savings to extend loan to the members against the guarantee of members.

5. Business Facilitator and Business correspondent model: RBI based on the recommendations of the Internal Group on Rural Credit and Microfinance adopted the ICT based agent bank model for ensuring door step delivery of financial products and services.

6. In the Union Budget 2007-08, the government announced the creation of two funds- Financial Inclusion Fund and Financial Inclusion Technology Development Fund for meeting the costs of development and promotional and technology interventions.

7. Project Financial Literacy, Financial Literacy and Credit Counseling were set up.

Conclusions

Inclusive growth attainment depends a great deal on equitable distribution of growth opportunities and benefits. And financial inclusion is one of the most crucial opportunities which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be understood by the state that in order to bring orderly growth, order needs to be developed with regard to inclusive finance. The percentage of financial inclusion in the different states of the country varies differently. For instance Kerala, Maharashtra and Karnataka accounts for higher rate of financial inclusion but the states such as Gujarat, Manipur, Assam, Bihar, Uttar Pradesh, and Madhya Pradesh, etc stand poorly on the grounds of financial inclusion. Undoubtedly the issue of expanding the geographical and demographic reach poses challenges from the viability/sustainability perspectives and appropriate business models are still evolving and various delivery mechanisms are being experimented with by the various government agencies at the central and state level. But somewhere the efforts taken are not good enough to encounter this staggering issue of financial exclusion. Financial literacy and level of awareness continue to remain an issue with regard to usage of financial services/products. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. Challenges of financial exclusion are faced by most of the states of the country and in order to solve it states have to develop its own customized solutions drawing upon its own experiences and features and those of its peers across the country.

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