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FINANCIAL INCLUSION FOR INCLUSIVE GROWTH IN INDIA: RESEARCH PERSPECTIVES

Dr. PRATHIMA V
Associate Professor and HoD
Dept. of Commerce & Management
Vidya Vikas Institute of Engineering and Technology, Mysore – 570028, Karnataka, India.
Email: prathima.prathima.girish@gmail.com
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ABSTRACT

Financial Inclusion is the process of bringing all segments of society under the official financial sector's cover. It is essential for attaining inclusive growth and, as a result, long-term development and economic growth. There is a worldwide push for inclusive growth, but the workings of industrialised, emerging, transitional, and poor countries differ significantly. As a result, policies implemented in one do not work as well in the other. For the period 2010 to 2017, this article examines the influence of financial inclusion on inclusive growth in India using two subgroups: demand side financial inclusion indicators and supply side financial inclusion indicators. The supply side indicators have a direct impact on four out of the five sectors that contribute to inclusive growth, but the demand side indicators have a mixed impact on those sectors. Finally, a few proposals are given for furthering inclusive growth through financial inclusion.

Keywords: Sustainable Development; Financial inclusion; Economic Growth: Inclusive Growth.

Introduction

Most developed, developing, and transition countries have used inclusive growth policies to achieve economic development. Economic growth through the incorporation of unused assets has been demonstrated to be a successful method for enhancing productivity and development. It's interesting to see how India has made a significant impact and implemented adjustments to promote and facilitate equitable growth. Because India is a developing country, inclusive growth can serve as a tool for rapid and long-term poverty reduction by allowing people to both benefit from and contribute to economic success. For poverty reduction, rapid growth is required, but growth that is broad-based across sectors and inclusive of the majority of a country's labour force is required for long-term sustainability. Inclusive growth implies that the macroeconomic and microeconomic factors of growth are linked. One of the most important tools for ensuring inclusive growth is financial inclusion. Every citizen in the global economy requires access to financial services. Inequality of income and poverty are important roadblocks to a country's growth and development. Access to a variety of financial instruments and services, including as credit, savings, pensions, and insurance, is critical to one's level of living and social security. According to the World Development Report [6,] financial inclusion can aid in the achievement of development goals such as poverty eradication and income equality, food security and sustainable agriculture, supporting infrastructure and industries, better healthcare, encouraging increased consumption and savings, lowering unemployment, and achieving long-term economic growth.

Literature Review

S. C. Aggarwal et al. [1] discovered that existing inclusive growth metrics are biassed toward the priorities and development status of industrialised countries rather than poor ones. While developed countries concentrate on service delivery, developing countries concentrate on service expansion and quality. As a result, they urge that an index for inclusive growth be devised that takes into account the priorities and growth indicators of both developing and developed countries in order to assess total inclusivity. Regional economic growth indicators, Ratio of GDP per capita of the general population to OBC/SC/ST, Quality of service delivery, Relative share of tax paid by different income groups at a time and over time within an economy, [8], Lee, D. J., & Jian, Z., [9], Sustainable growth, Progressive taxes, and Relative growth rate of GDP per capita between genealogies are some of the indicators that may be included in the index.

To achieve inclusive growth, Shukla, Y. [2] advised that all segments of society work together in a disciplined manner. Better governance, healthcare, education, higher agricultural productivity, controlled inflation, and improved infrastructure are all required to attain this goal. Increased public-private partnerships can also help to achieve inclusive growth by encouraging the corporate sector to participate in social projects. In India, disparities between regions, socioeconomic groups, and the rural-urban sector are a fundamental challenge that necessitates broader-based and inclusive economic growth. There is no trade-off between equities and growth, according to research. As a result, the pie can expand and be shared equally. It is also noted that for the effectiveness of macro policies, sectoral interventions, and poverty alleviation initiatives, as well as thinking beyond the Millennium Development Goals, focused government action and expanded participation by non-governmental organizations (NGOs) are required.

R. Anand et al. [3] came to the conclusion that government spending, particularly developmental and social sector spending, is closely associated to inclusive growth and poverty reduction. It has been found that increasing social sector spending by 1% of GDP results in a 0.5 percent reduction in poverty rates. An increase in education spending is linked to greater inclusive growth outcomes, i.e., there is a positive relationship between literacy rates and inclusive growth outcomes, boosting and broadening economic growth. In addition, their research reveals that a lower inflation rate is linked to greater poverty reduction and more equitable growth. They also came to the conclusion that financial inclusion is critical for broadening and maintaining economic growth.

Financial inclusion, according to Demirguc-Kunt, et al. [4], was found to be an efficient and safe process for everyday financial transactions, as well as allowing people to expand their financial risk management options and investments by using the formal financial system, particularly for the bottom 40% of households. All financial tools do not efficiently achieve the development goals of poverty and inequality reduction, but savings accounts have the greatest impact.

Financial inclusion, according to Dhillon, L. K., and Mittal, N. [5,] is a critical component of attaining inclusive growth. Through technological advancement, the banking sector has expanded in terms of inclusion of the excluded strata of society through branchless banking instruments such as internet banking and mobile banking, direct fund transfers, and so on, but such services are only available to a small portion of the population. Financial exclusion is a fundamental impediment to inclusive growth. Financial exclusion is linked to a higher level of poverty. Exclusion does not only affect rural residents; it also affects city dwellers, migrants, and people who work in the informal sector. The extent to which financial inclusion planning has succeeded can be determined by the effective execution of financial inclusion policies. The mere establishment of a bank account will not result in poverty reduction; nevertheless, consistent use of the account will help underprivileged groups improve their standard of living. Financial literacy awareness programmes are required for this frequent usage, and such campaigns must be bilingual because the majority of the low strata are illiterate.

S. Sinha [6] has concentrated on the government's Integrated Rural Development Programme (IRDP) for poverty alleviation, in which commercial banks supply poor individuals with loans of less than Rs. 15000. Over the course of 20 years, this resulted in Rs. 250 billion in financial aid to almost 55 million families. Heavy subsidies of roughly 25-50 percent of each family's project cost were associated with IRDP, which led to fraud and misappropriation of money, resulting in repayment rates of 25-33 percent. As a result, bankers began to doubt the micro-borrowers' integrity, thereby excluding them from official banking services. As a result, self-help groups and non-governmental organisations (NGOs) were able to gain access to microfinance.

Objectives and Methodology

Objectives

- To examine the trend in financial inclusion metrics from 2010 to 2017.
- To investigate the relationship between demand and supply side indicators of financial inclusion and inclusive growth on a case-by-case basis.
- To investigate the influence of financial inclusion on the Indian economy's inclusive growth.

Methodology

Two types of data can be used to estimate financial inclusion: demand side indicators and supply side indicators. In this study, we examine the influence of five demand-side and five supply-side measures of financial inclusion on India's inclusive growth between 2010 and 2017. This work has been written in a descriptive and analytical style. Microsoft Excel was used to create the data tables and charts, while SPSS was used to create the statistical tables. Secondary data was gathered from reports released by the World Bank, the Reserve Bank of India, the Insurance Regulatory and Development Authority of India (IRDAI), and the International Monetary Fund's Financial Access Survey. Line charts have been used to highlight the patterns in the indicators from 2010 to 2017. The impact was calculated using Pearson's correlation coefficient between supply side financial inclusion indicators and indicators from five areas that contribute to a country's inclusive growth, as well as between demand side financial inclusion indicators and indicators of inclusive growth. The descriptive statistics of the indicators have also been provided so that the descriptive coefficients of each indicator under investigation may be understood.

Financial Inclusion and Inclusive Growth in India: A Study

Following India's 1991 economic crisis and the government's liberalization and globalization policies, inclusive growth has become a critical component of achieving long-term poverty reduction and rapid economic growth [7]. The idea has been fermenting since the early 2000s, and it has made its way into every 5-year plan until the 11th (2007-2012), when it took centre stage. In the 11th five-year plan, inclusive growth was emphasised as a method of progress and development that included the marginalised and disadvantaged elements of society, such as Schedule Castes (SCs), Schedule Tribes (STs), Other Backward Classes (OBCs), minorities, and women. The 12th 5-year plan (2012-2017), with the tagline "Faster, Sustainable, and More Inclusive Growth," placed a greater focus on this concept of inclusive growth. Financial inclusion can be measured using a set of metrics that are separated into two categories: supply side indicators and demand side indicators. Table 1 shows the several supply-side indicators and their values for analysing financial inclusion in India from 2010 to 2017. These measures assess the availability and reach of financial services to the general public. These metrics can be divided into three categories: banking penetration, banking service availability, and banking system utilization. Except for outstanding deposits with commercial banks as a percentage of GDP, all of these data show a gradual increase over time, whereas outstanding deposits with commercial banks as a percentage of GDP shows an increase from 2010 to 2011, a slight decrease in 2012, and then a gradual increase until 2015, after which it falls again. As a result, we can deduce that the overall supply of financial instruments has increased over time.

Table 1. Indicators of financial inclusion on the supply side in India

	Subgroup	**Banking penetration**	**Availability of banking services**		**Usage of the banking system**
Year	**Accounts with commercial banks per 1000 adults**	**No. of household deposit accounts with commercial banks per 1000 adults**	**No. of ATM per 100000 adults**	**No. of commercial bank branches per 100000 adults**	**Outstanding deposit with commercial banks as percentage of GDP**
2010	860.51	750.06	7.24	10.00	59.74
2011	930.92	833.20	8.82	10.47	61.69
2012	1018.32	871.81	10.95	11.14	61.12
2013	1156.19	1004.64	12.82	11.80	62.43
2014	1332.16	1210.93	17.73	12.82	63.81
2015	1535.84	1382.63	19.63	13.52	64.79
2016	1724.51	1559.42	21.15	14.21	62.49
2017	1881.57	1732.43	21.98	14.51	62.77

Table 2 shows the several demand-side indicators and their values for analysing financial inclusion in India from 2010 to 2017. These demand-side indicators look at the country's financial services demand. Credit, Insurance, Payments, and Savings are the four subgroups that these indicators can be divided into. We can see from this table that loan demand has increased significantly from 2010 to 2017. Insurance penetration in the industry fell by 1% from 2010 to 2011, then continuously declined until 2013, when it fell by 0.60 percent again in 2014. Between 2015 and 2017, there was an increase in industry insurance penetration. Insurance density fell sharply from 2010 to 2013, then rose slightly in 2014, fell again in 2015, and then increased in the next two years.

Because the availability of digital payments was so limited in 2010 and 2011, there is no data available. It is an indicator that has steadily increased in value from 2012 to 2017. The most volatile numbers are those of Net national savings, which climbed from 2010 to 2011, dipped slightly in 2012, fell abruptly in 2013, and then rose sharply again in 2014, before dipping slightly again in 2015 and growing in succeeding years. From this table, it is evident that digital payments are the most popular service, which has only grown in popularity over time. The trend in the indicator of credit for financial inclusion in India from 2010 to 2017 is depicted in Fig. 6 as a line chart using data from Table 2.

Table 2. Indicators of financial inclusion on the demand side in India

Year	Credit Loan from a scheduled commercial bank (Amount in crores)	Insurance Industry Insurance Penetration (percentage)	Insurance Density (USD)	Payments Digital Payments (in Mn)	Savings Adjusted savings: net national savings (current US$)
2010	35,45,000.00	5.10	64.40		432555000000.00
2011	43,57,500.00	4.10	59.00		448929000000.00
2012	51,58,900.00	3.96	53.20	10,66,529	448760000000.00
2013	59,88,300.00	3.90	52.00	13,12,555	438974000000.00
2014	68,76,818.01	3.30	55.00	14,99,570	462376000000.00
2015	75,61,983.90	3.44	54.70	15,80,617	460737000000.00
2016	81,78,429.22	3.49	59.70	18,09,701	472088000000.00
2017	84,70,662.00	3.69	73.00	22,58,781	479703000000.00

The many indices of Inclusive Growth in India are listed in Table 3. Although there is no definitive index for measuring inclusive growth, these indicators can assist us in determining the country's development through inclusive growth [8]. Health, Gross Domestic Product (GDP), Education, Employment, and Governance are just a few of the components that help us measure inclusive progress. We choose one signal from each component that we believe is the most important. It is obvious from the following table that life expectancy at birth has increased throughout time. GDP fell between 2010 and 2011, then rebounded until 2017, when it fell once more. From 2010 to 2012, there was an increase in basic and secondary schooling, followed by a fall in 2013.

Table 3. Indicators of India's inclusive growth

Year	Health Life expectancy at birth, total (years)	Gross domestic product GDP growth (Annual %)	Education Primary and secondary education, pupils	Employment Labour force participation rate, total (% of total population ages 15-64) (modelled ILO estimate)	Governance Government Effectiveness
2010	66.693	8.49758	246000000	56.2550011	0.03
2011	67.13	5.24134	252000000	55.2960014	0.01
2012	67.545	5.45636	259000000	54.3670006	-0.17

2013	67.931	6.38611	251000000	54.4049988	-0.17
2014	68.286	7.41023	257000000	54.4269981	-0.21
2015	68.607	7.99625	258000000	54.4230003	0.09
2016	68.897	8.16953	259000000	54.3759995	0.08
2017	69.165	7.16789	254000000	54.3069992	0.09

After 2013, the number of students enrolled in primary and secondary school increased until 2016, when it began to decline in 2017. From 2010 to 2012, the labour force participation rate has been steadily declining, with just a minor decrease from 2013 to 2017. Governance, as a qualitative indicator, decreased from 2010 to 2014, reaching negative values in the period 2012-2014, before significantly rebounding in 2015, dipping somewhat in 2016, and growing again in 2017.

CONCLUSION

According to the findings, all indicators of inclusive growth except LFPR are directly and significantly influenced by supply side indicators of financial inclusion, i.e., if the supply of financial services, such as banking penetration, availability, and usage, increases, there will be an increase in the extent of inclusive growth in the sectors of health, education, GDP, and governance, as well as a significant decrease in LFPR. On the other hand, the demand side metrics of financial inclusion have a considerable impact on the indicators of inclusive growth for the GDP and governance sectors [9]. This suggests that financial inclusion has little impact on GDP growth. In the education sector, inclusive growth is directly linked to the credit and savings indicators of financial inclusion, while it is inversely linked to the insurance and payments indicators.

Except for insurance penetration, which varies inversely, inclusive growth in the health industry is directly dependent on all demand side parameters. The employment sector of inclusive growth is directly dependent on financial inclusion insurance indicators, but it is also reliant on credit, payments, and savings. It is widely assumed that as financial inclusion rises, labour force participation will rise as well, as properly structured loans and other financial services become more readily available to India's urban and rural populations. However, we can observe in this study that there is a negative association between the variables. Financial inclusion appears to have a detrimental impact on labour force participation [10]. With the majority of the Indian population being illiterate, belonging to rural areas still devoid of basic financial facilities, having an income below or just above the below poverty line (BPL), and working in the informal sector, financial inclusion plays an important role in the implementation and expansion of the policy of inclusive growth in India. Increased financial inclusion will boost the amount of inclusive growth that can be accomplished.

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