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# Financial Inclusion: India towards the Sustainable Economic Growth

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**Abstract—***The government of India & RBI has out with a main initiative towards making sure the inclusive growth via financial inclusion in order to provide easy access of the banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The main focus of financial inclusion in India is to promote sustainable development and producing employment in rural regions for the rural populace. Out of 19.9 crore households in India, only 6.82 crore families have access to the financial services.*
*The primary theme of this paper is to highlight the extent & dimensions of financial inclusion, to analyse the challenges of the initiatives and to estimate the social benefit from these projects.*
*The RBI statistics shows that as many as 139 districts suffer from huge financial exclusion, with the grownup population in keeping with department in those districts being above 20,000 and best 3 percentages with borrowings from banks. There are several factors which basically and generally affect the access to financial services by weaker section of society in India. For this reason the initiatives of financial inclusion by the RBI and the GOI will bring the financially excluded people to the fold of the formal banking services.*
*This paper seeks to offer evidence on effect of financial inclusion in India, the various factors of financial exclusion, and gift status of financial offerings of India. This paper has intensely analyzed the secondary information to draw the realization.*

**Keywords**: *Economic Growth, Financial Inclusion, Government Initiatives, Sustainability.*

## 1. INTRODUCTION

Financial inclusion empowers enhanced and better practical financial and social improvement of the nation. It helps in the strengthening of the underprivileged, poor and ladies of the general public with the mission of making them independent and very much educated to take better budgetary choices. Financial inclusion considers the investment of defenceless gatherings, for example, weaker areas of the general public and low wage bunches, taking into account the degree of their entrance to money related administrations, for example, reserve funds and instalment account, credit protection, annuities and so on. Additionally the goal of financial inclusion initiative is simple accessibility of financial services which permits most extreme interest in business opportunities, education, put something aside for retirement, protection against dangers, and so forth by the provincial people and firms. The infiltration of financial and banking offerings in the rustic ranges of India is still low. The variables in charge of this condition can be taken a gander at from both supply side and demand side and the real purpose behind low entrance of money related administrations is, most likely, absence of supply. The purposes behind low interest for monetary administrations could be low pay level, absence of budgetary proficiency, other financial balances in the family, and so on. Then again, the supply side elements incorporate no bank office in the region, absence of reasonable items addressing the necessities of the needy individuals, complex procedures and dialect hindrances.

Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) has been attempting endeavours to increment of financial inclusion. Measures, for example, SHG-bank linkage program, utilization of business facilitators and journalists, facilitating of Know Your Customer (KYC) standards, electronic advantage exchange, separate arrangement for urban money related incorporation, utilization of portable innovation, bank offices and ATMs, opening and empowering 'no-frill accounts" and accentuation on financial literacy have assumed a huge part to increase the utilization of formal hotspots for benefiting advance/credit. Measures started by the legislature incorporate, opening client administration focuses, credit guiding focuses, Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme. These recharged endeavors are more engaged than the before measures which were more broad in nature having a much more extensive degree. Despite the fact that the measures were started before, their effect on the country populace should be dissected and reframed keeping in mind the end goal to comprehend the present situation in the rustic ranges.

## 2. DEFINITION OF FINANCIAL INCLUSION:

According to the Planning Commission (2009), financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

GOI (2008) defines Financial inclusion 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. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

According to Chakraborty (2011), financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. This issue started gaining importance recently in the news media.

## 3. ADVANTAGES OF FINANCIAL INCLUSION:

Financial inclusion has numerous advantages. Taking after are a portion of the advantages summed up.

1. It makes ready for foundation of a account relationship which helps the poor to benefit an assortment of funds items, saving tools and credit items for lodging, utilization, and so on.
2. A comprehensive financial framework encourages proficient assignment of profitable assets and along these lines can possibly lessen the cost of capital.
3. This likewise empowers the client to transmit reserves requiring little to no effort. The government can use such financial balances for government disability administrations like wellbeing and catastrophe protection under different plans for distraught. From the bank's perspective, having such standardized savings spread makes the financing of such persons less dangerous. Decreased risk implies more flow of fund at best rates.
4. Access to fitting budgetary administrations can altogether enhance the everyday administration of accounts. For instance, bills for every day utilities (district, water, power, and phone) can be all the more effortlessly paid by utilizing checks or through web saving money, as opposed to remaining in the line in the workplaces of the administration.
5. Transfer of cash should be possible all the more securely and effortlessly by utilizing the check, request draft or through web keeping money.
6. A bank account additionally gives a visa to a scope of other budgetary items, a bouquet of financial products for example, term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.
7. Lastly, the Employment Guarantee Scheme of the Government which is being taken off in200 areas in the country would get vast number of individuals through their savings accounts into the banking domain.

## 4. REVIEW OF LITERATURE:

In recent years, Banks play an important role in meeting credit need of people. More studies have attempted to analyze the role of commercial banks in financial inclusion for sustainable development. An attempt in this section has been made to review some important research studies.

**Finance Minister Pranab Mukherjee (2010)** said financial inclusion was a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential of savings consumption and investment propensities of the poorer sections of society. Transact the national forum for financial inclusion, (2007), financial inclusion is a state in which all people have access to appropriate, defined financial products and services in order to manage their money effetely. It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and advice suppliers.

**Joseph Massey (2010)** said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

**Michael Chibba (2009)** noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

**World Bank (2008)** financial inclusion is also influenced by specific credit needs of various segment people arises for a number activities such as housing, microenterprises, agriculture difficulties in accessing formal sources of credit, the poor individuals and small savings or internal resources to invest in housing, health and education, and opportunities.

**Ansari (2007)** in her study reveals that reaching the poorest and whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. to the poor to meet their simple requirements. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfil the requirements of the poorest.

**Beck & De la Torre, (2006)** financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services.

**NABARD (1999)** remarked that the despite having a wide network of rural bank branches in India which implemented specific poverty alleviation programmes that sought creation of self employment opportunities through bank credit, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking systems.

**Biswal, D. and Dash, H. (1997)** has attempted to study the recovery phenomenon of rural bank credit in Orissa. The banks in financing rural development are of the view that poor recovery and mounting overdue are the major huddles faced by them. They have suggested for adequate development of rural infrastructure in the state to improve the income and financial condition of rural poor which in turn will improve the recovery performance of banks in the state.

**Verrashekharappa (1997)** in his work on "Institutional Finance for Rural Development" has highlighted the importance of institutional finance on farm sector in a changing perceptive. Taking into account the transaction cost, utilization of loan, repayments and over dues, he has advocated for policy implications to be implemented more cautiously to reduce the gap between bank credit and farm sector and to remove the size of landholding as collateral security against farm credit.

**Karmarkar, K.G. (1997)** has highlighted the role of Micro financing (SHGs) on the rural credit delivery system in the state of Orissa with example of successful projects in the different parts of the state. He has suggested for active participation of banks and other development agencies to promote micro financing in large scale to accelerate the pace of rural development.

**Shetty (1997)** in his studies that the 'social banking' policies being followed by the country resulted in widening the 'geographical spread and functional reach' of commercial banks in rural area in the period that followed the nationalization of banks.

**Rangarajan, C. (1996)** has identified three to four major factors which would have impact over the future banking operation including progressive de-regulation of interest rates, a diversified competitive market place, market determined exchange rate mechanism and technological progress. He suggested the banks to provide credit to agriculture and allied sector as provision of credit to high tech agriculture which is almost equal to providing credit to industry.

**Barman, K.K. (1994)** has made an analytical study on the implications of financial sector reforms on rural credit delivery system. He has found that implications are of wide spread; on interest rate of agricultural loans, lending rates, priority sector lending, reserve requirements and institutional restructuring.

**Gundannavar, V.R. (1992)** has highlighted the role of banks in implementing social banking schemes to keep pace with changing social needs. He has strongly opposed any move to reduce resources allocation to priority sectors, which will have an adverse impact on the agricultural credit. He has suggested to increase higher interest rate on commercial lending and to continue concessional rate of lending to priority sectors.

**Farhat Husain (1986)** has made a detailed analysis of the development of Commercial banks in India in the light of reorientation of banking policy, credit planning and resource mobilization for the regional development.

**Choubey, B.N. (1983)** has evaluated that Commercial Banks have failed to fill the serious gap and deficiencies in farm credit, which the RRBs could manage to do. Choubey emphasized that the NABARD would be required to pay special attention to the depoliticisation of the agricultural credit and government credit agencies. He suggested that NABARD might help the agricultural and rural sector in raising their productivity at reasonable faster rate.

## 5. OBJECTIVES OF THE STUDY:

1. To know the extent of financial inclusion in India.
2. To investigate the exercise driven programs of the Government of India for sustainable economic development.
3. To examine the challenges towards achieving the objectives of inclusive growth.
4. To make proposals for development of the current circumstance that may prompt sustainable development.

## 6. RESEARCH METHODOLOGY:

The secondary information has been utilized from different sources to break down the part of Reserve Bank and Government of India in advancing Financial Inclusion. The distinct and observational studies are utilized to break down part of RBI in accomplishing complete financial inclusion in India.

## 7. THE EXTENT OF FINANCIAL INCLUSION IN INDIA

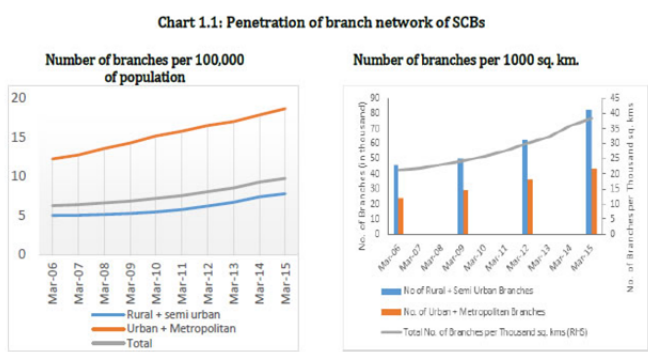
The degree of financial inclusion in India can be all around concentrated on from the examination of the accompanying focuses.

**Table 1.1: Branch Expansion of SCBs**

| As on March | Number of Branches | | | Estimated population* (in millions) | | | Branches/ 100,000 population | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rural + Semi-urban | Urban + Metropolitan | Total | Rural + Semi-urban | Urban + Metropolitan | Total | Rural + Semi-urban | Urban + Metropolitan | Total |
| 2001 | 44,905 | 20,713 | 65,618 | 851 | 177 | 1,028 | 5.3 | 11.7 | 6.4 |
| 2006 | 45,673 | 23,904 | 69,577 | 920 | 195 | 1,115 | 5.0 | 12.3 | 6.2 |
| 2010 | 53,086 | 31,072 | 85,158 | 980 | 211 | 1,191 | 5.4 | 15.2 | 7.2 |
| 2014 | 76,753 | 40,958 | 1,17,711 | 1,044 | 228 | 1,272 | 7.3 | 17.9 | 9.2 |
| 2015 | 82,358 | 43,716 | 1,26,074 | 1,061 | 233 | 1,294 | 7.8 | 18.7 | 9.7 |
| June 2015 | 82,794 | 43,910 | 1,26,704 | 1,065 | 235 | 1,300 | 7.8 | 18.7 | 9.7 |

*Population estimates are based on CAGR between Census 2001 and Census 2011 data

Source: Report of the Committee on Medium-term Path on Financial Inclusion, dated 28th December, 2015




*Source*: Report of the Committee on Medium-term Path on Financial Inclusion, dated 28th December, 2015

Banking penetration of rural and semi-urban areas has increased significantly.

When the new century rolled over, the development of block and-mortar branches, regardless of a few endeavours, was constrained. The low infiltration of formal managing an account drove the Reserve Bank to take a gander at monetary incorporation as a noteworthy arrangement drive. The huge number of measures that took after were the presentation of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while guaranteeing adequate scope to up to this point unbanked ranges. Simultaneously, relaxations in the BC model were made to connect the 'last mile' issue. This quickened the pace of branch opening, with more branches being opened in rustic and semi-urban ranges. Despite this advancement, the quantity of branches per 100,000 of populace in rustic and semi-urban territories is still not as much as half of that in urban and metropolitan ranges (Chart 1.1 and Table 1.1).

**Table 1.2: Growth in Individuals' Savings Bank Deposits Accounts with SCBs**

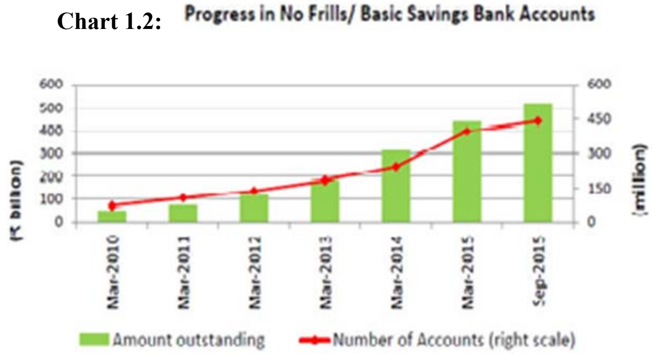
| Population Group | Number of Individual Saving Bank Deposits Accounts (million) | | | | Individual Saving Bank Deposits' Amount Outstanding (₹. billion) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2010 | 2015 | CAGR (%) | 2006 | 2010 | 2015 | CAGR (%) |
| Rural | 104 | 167 | 384 | 15.6 | 962 | 1,703 | 3,601 | 15.8 |
| Semi-urban | 85 | 136 | 320 | 15.9 | 1,124 | 2,155 | 4,470 | 16.6 |
| Urban | 68 | 97 | 186 | 11.8 | 1,246 | 2,381 | 4,541 | 15.5 |
| Metropolitan | 71 | 100 | 180 | 10.9 | 1,838 | 3,731 | 6,476 | 15.0 |
| All India | 329 | 500 | 1,070 | 14.0 | 5,170 | 9,970 | 19,088 | 15.6 |

CAGR is for all scheduled commercial banks (SCBs) including regional rural banks (RRBs) during 2006-15.

Source: Report of the Committee on Medium-term Path on Financial Inclusion, dated 28th December, 2015

CAGR is for all planned business banks (SCBs) including provincial rustic banks (RRBs) amid 2006-15. Simultaneous with higher branch development in semi-urban and provincial ranges, the compound yearly development rate (CAGR) for both the quantity of individual saving bank deposit accounts and also deposit amounts remarkable in that was the most astounding for semi-urban districts took after by rustic, urban and metropolitan locales (Table 1.2).

**Chart 1.2:** Progress in No Frills/ Basic Savings Bank Accounts




*Source*: Report of the Committee on Medium-term Path on Financial Inclusion, dated 28th December, 2015

In the previous five and a half years, these BSBD accounts have risen more than six-fold and about portion of these records were opened through Business Correspondents (BCs) (Chart1.2).

**Table 1.3: Credit Growth of Scheduled Commercial Banks**

| | Credit accounts (million) | | | | Credit outstanding (□ billion) | | | |
|---|---|---|---|---|---|---|---|---|
| **Population Group** | **2006** | **2010** | **2015** | **CAGR (%)** | **2006** | **2010** | **2015** | **CAGR (%)** |
| Rural | 29 | 36 | 50 | 6.4 | 1,261 | 2,493 | 5,982 | 18.9 |
| Semi-urban | 21 | 27 | 41 | 7.4 | 1,514 | 3,200 | 7,600 | 19.6 |
| Urban | 13 | 16 | 21 | 5.8 | 2,458 | 5,585 | 11,039 | 18.2 |
| Metropolitan | 23 | 40 | 33 | 4.1 | 9,905 | 22,174 | 44,170 | 18.1 |
| All India | 86 | 119 | 145 | 6.0 | 15,138 | 33,452 | 68,791 | 18.3 |
| CAGR is for all scheduled commercial banks (SCBs), including Regional Rural Banks (RRBs), during 2006-15 | | | | | | | | |

Source: Report of the Committee on Medium-term Path on Financial Inclusion, dated 28th December, 2015

CAGR is for all planned business banks (SCBs), including Regional Rural Banks (RRBs), amid 2006-15, while the quantity of credit records of SCBs expanded at a CAGR of 6.0 for each penny, the rate of development was higher for provincial and semi-urban ranges. Indeed, even credit development was all the more equitably dispersed around the mean, with a specific tilt towards country and semi-urban ranges (Table 1.3).

## 8. FINANCIAL INCLUSION AND ECONOMIC DEVELOPMENT:

Banks need to activate assets from a more extensive client base and stretch out credit to business exercises which are not financed by banks till now. Financial Inclusion will fortify money related developing and give assets to the banks to grow credit conveyance. The budgetary framework serves as an impetus to monetary advancement. The formal money related channels gather reserve funds and sit out of gear subsidizes and convey such finances to business people, organizations, families and government for venture ventures and different purposes with a perspective of an arrival. This structures the premise for monetary advancement in cutting edge financial hypothesis.

Financial inclusion has dependably been agreed high significance by the Reserve Bank and Government of India to help the comprehensive development process for the economy, the historical backdrop of budgetary incorporation in India is very more seasoned than the formal appropriation of the target. The nationalization of banks, Lead Bank Scheme, joining of Regional Rural Banks, Service Area Approach and arrangement of Self-Help Groups - all these were activities gone for taking saving money initiatives to the masses. The block and mortar foundation extended; the quantity of bank offices duplicated ten-fold - from 8,000+ in 1969, when the primary arrangement of banks were nationalized, to 99,000+ today.

However regardless of this wide system of bank offices spread over the length and broadness of the nation, the degree of financial exclusion in India is stunning. Out of the 600,000 residences in the nation, just around 36,000+ had a business bank office. Pretty much 40 for each penny of the populace the nation over has financial balances. The extent of individuals having any sort of life coverage spread is as low as 10 percent and extent having non-disaster protection is appallingly low at 0.6 percent. Individuals having debit cards contain just 8 percent and those having credit cards just a minimal 2 percent of the populace.

## 9. FINANCIAL INCLUSION AND CHALLENGES IN INDIA:

Spreading Financial Inclusion over a populace of around 1.27 billion is a significant testing assignment being face from both the interest (clients) variables and the supply (banks and other financial institutes) elements. However the supply variables are, all things considered, anticipated that would lessen the supply side requirements with the assistance of execution of couple of central government policies.

**Demand side challenges are:**

- Low proficiency levels.
- Lack of mindfulness about financial & banking services.
- Lack of trust in formal managing of bank account systems.

**Supply side challenges are:**

- Limited service provider.
- Higher levels of controls.
- Non - accessibility of country branches.

## 10. PROPOSAL FOR DEVELOPMENT:

i. The government of India ought to create monetary proficiency among the populace, especially in low salary families. That should be possible by showing it in elementary schools, secondary schools and universities.
ii. Promote the act of agency banking micro finance institutions and business reporters with the goal that they can come to the financially excluded people and make them comprehend the significance of getting required in the formal managing an account framework and utilizing the monetary items.
iii. Such arrangements ought to be executed in which financial institutions make progress toward accomplishing collaborations with the innovation

suppliers so they can achieve the populace everywhere and spread whatever number denied individuals as could be expected under the circumstances furthermore handle low esteem, vast volume exchanges productively and adequately.

iv. Policies being made by the government at various at various levels ought to be kept under a strict check in order to guarantee its powerful usage and advantage being given to the ones in need. Likewise, fitting administrative and danger administration approaches ought to be contrived in order to guarantee monetary incorporation.

v. Relaxations being given on the prerequisites of individual personality proofs for opening ledgers ought to be entirely held fast to by the money related foundations for these go about as major hindrances and along these lines confine the under-special to have entry to formal budgetary channels.

vi. Any government or standardized savings instalments or instalments under all the government plans ought to be entirely steered through the administration territory ledger. This will make individuals in rustic territories to mandatorily have a record in their administration territory branch to profit the administration advantage.

## 11. CONCLUSION:

From the above study, it can reasoned that India is presently at a moderate level of Financial Inclusion and along these lines, it needs to actualize its policies ,government initiatives & the requisite arrangements considerably all the more adequately and effectively in order to accomplish its objective of banking services for all before the year's over 2018. Simply encircling the approaches won't do the needful rather managing their devising ,implementation and concocting such instruments which are for the use of financial management assistance for the financially excluded mass will suffice the activities and help in accomplishing the set objectives.

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