Financial Inclusion for Inclusive Growth in India

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Introduction
The term ‘inclusive growth is very popular all over the globe. Inclusive growth implies participation as well as sharing the benefits from the growth process. In this way inclusive growth is both an outcome and a process. The Indian economy is the fastest growing economy of the world. The major drivers of the growth acceleration are demographic dividend, greater domestic and international competition, sharp increase in total factor productivity, the blossoming of entrepreneurship, and India’s acceptance of globalization. (Kelkar , 2010). But this is the bright side of the coin. The other part is dark – where we find increasing inequalities in distribution of income and wealth. The urban regions are growing rapidly but the growth of rural regions is stagnant. In India about 400 million people accounting for more than 36 percent of the population still live below the poverty line. ¹ The Approach Paper of the Eleventh Five Year Plan provides “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.”

Financial Inclusion
Financial Inclusion is considered to be an important determinant 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)

The review of literature suggests that the most operational definitions are context –specific, originating from country –specific problems of financial exclusion and socio-economic conditions. Thus, the context specific dimensions of financial exclusion assume importance from the public policy perspective.( Report). The operational definitions of financial inclusion have also evolved from the underlying public policy concerns that many people, particularly those
living on low income, can not access mainstream financial products such as bank accounts and low cost loans, which in turn, imposes real costs on them –often the most vulnerable people. (Treasury 2007). A broad 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.” Here the financial services include wide range of services like access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. The objective behind these services is to provide economic security to the lower income households.

**Whether Financial Inclusion (F.I) can be construed as a Public Good?- Rationale of F.I**

Financial Inclusion is perceived as a public good in most of the developing countries. A public good is non-rival in consumption and non-excludable. The positive externalities associated with financial inclusion are (1) The value of the entire national financial system increases) and (2) the fuller participation by all in the financial system makes monetary policy more effective and thus enhances the prospects of non-inflationary growth (Kelkar, 2010). Since financial inclusion is construed as a quasi public good the government should provide it with other agencies.

Financial inclusion has become a policy imperative for many countries for inclusive growth. Several legislative measures have been taken towards this end. In United Kingdom ‘Financial Inclusion Task Force’ was constituted for monitoring the financial inclusion. In United States, 10-12 percent of households lack a bank account and among the low income families, 22 percent do not have either a current or saving account. The Community Reinvestment Act (1997) requires bank to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighbourhoods. In France, the law on exclusion (1998) emphasizes on individual’s right to have a bank account.

**Financial Inclusion in India**

The status of financial inclusion is assessed by different committees in terms of people’s access to avail banking and insurance services. In India about 34 percent of population is engaged in formal banking.\(^2\) According to IISS (Invest India Incomes and Saving Survey, 2007), 55 percent of all the households do not have bank accounts, 97 percent do not have any health insurance and 61 percent do not have life insurance. Also the real rate of financial inclusion in India is very
low and about 40 percent of the bank account holders use their account not even once a month. However, the extent of financial inclusion in India is higher with developed and emerging economies which is depicted in Table 1.

Table 1: Select Indicators of Financial inclusion – Cross Country Analysis

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Branches (per 0.1 million Adults)</th>
<th>No. of ATMs</th>
<th>Bank credit (as percent of GDP)</th>
<th>Bank Deposits (as percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>10.91</td>
<td>5.44</td>
<td>43.62*</td>
<td>60.11*</td>
</tr>
<tr>
<td>Austria*</td>
<td>11.81</td>
<td>48.16</td>
<td>35.26</td>
<td>32.57</td>
</tr>
<tr>
<td>Brazil</td>
<td>13.76</td>
<td>120.62</td>
<td>29.04</td>
<td>47.51</td>
</tr>
<tr>
<td>France</td>
<td>43.11</td>
<td>110.07</td>
<td>56.03</td>
<td>39.15</td>
</tr>
<tr>
<td>Mexico</td>
<td>15.22</td>
<td>47.28</td>
<td>16.19</td>
<td>20.91</td>
</tr>
<tr>
<td>UK*</td>
<td>25.51</td>
<td>64.58</td>
<td>467.97</td>
<td>427.49</td>
</tr>
<tr>
<td>US</td>
<td>35.74</td>
<td>173.75*</td>
<td>46.04</td>
<td>53.14</td>
</tr>
<tr>
<td>Korea</td>
<td>18.63</td>
<td>250.29*</td>
<td>84.17</td>
<td>74.51</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>2.25</td>
<td>0.50</td>
<td>11.95</td>
<td>21.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>7.69</td>
<td>14.88</td>
<td>27.57</td>
<td>53.02</td>
</tr>
</tbody>
</table>


The financially excluded sections comprises of marginal farmers, landless laborers, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women.

Sarma (2008) constructed the Index of financial inclusion based on three dimensions of an inclusive banking system-banking penetration, availability of the banking services and usage of the banking system. The computed Financial inclusion index for India is 0.194 and belong to Medium Financial Inclusion countries with banking penetration Index (0.185), availability of banking (0.096) and usage of financial system (0.186).

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 50,000 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 25,000 as credit limit has been sanctioned. Overdue loans up to Rs 25,000 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.

How Financial Inclusion can be facilitated?

Financial inclusion in India can be facilitated by following ways:
1. Restructuring financial architecture fitting to the needs of inclusive growth
2. Usage of Mobile Banking
3. More use of Business Facilitator and Business Correspondent
4. Micro Finance Institutions
5. Active role of educational institutes for furthering financial inclusion

In this way financial inclusion is necessary for inclusive growth in India. Financial inclusion is the need of the hour which is possible through coordination between banks, government and others to facilitate access to bank accounts among the financially excluded.

References:


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End Notes
2. Swamy V & Vijaylakshmi article downloaded from www.google.com