

A Study of Financial Inclusion or Social and Economic Development in India

¹Dharmendra Kumar Singh & ²Dr. Mahesh Kumar Saini

¹Research Scholar, OPJS University, Churu, Rajasthan (India)

²Assistant Professor, OPJS University, Churu, Rajasthan (India)

ARTICLE DETAILS

Article History

Published Online: 25 May 2019

Keywords

Financial Inclusion, Financial Services, Economic Development, Social Development, KCCs..

ABSTRACT

India is considered as largest rural populations in the world and belongs to agriculture activities, financial inclusion is aimed at providing banking and financial services to all people in a transparent and equitable manner at reasonable cost. Financial inclusion or inclusive financing is the delivery of financial services to sections of low income segments of society. A nation can grow economically and socially if it's weaker section can turn out to be financial independent. The study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a vital role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

1. Introduction

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It's been surprising fact that India ranks second in the world in terms of financially excluded households after china. For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Thus the term Financial Inclusion can 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.

2. Literature review

Clare Louise Chambers (2004) recognizes that on the off chance those individuals are avoided from utilizing financial items, at that point there is probability that these individuals

may turn out to be socially rejected too. Social rejection is a shorthand term for what can occur, when individuals or territories experience the ill effects of a blend of connected issues, for example, joblessness, poor abilities, low earnings, poor housing, high wrongdoing conditions, awful wellbeing and family breakdown.

Kempson, E. et al. (2004) state that the issues of financial avoidance have been important to researchers for quite a while of the issues brought up in scholastic discussions, a significant inquiry is, regardless of whether monetary advancement prompts comprehensive financial framework. It has been seen that, even created nations like US and UK have not prevailing to be comprehensive and certain fragments of the populace stay outside the formal financial frameworks.

Anjali Kumar (2005) finds that in recent years, there has been developing exertion and enthusiasm for estimating FI yet up 'til now, we have no all-inclusive steady datasets that can give us an unmistakable feeling of how this extent has changed over the previous decade. In any case, proof from nations like Brazil, South Africa, India, and Kenya firmly proposes that there has been an upward pattern.

Bluebook (2006) states that the embodiment of FI is in attempting to guarantee that a scope of fitting financial administrations is accessible to each person and empowering them to comprehend and get to those administrations. FI does not necessitate that everybody who is qualified uses every one of these administrations however they ought to have the option to pick them in the event that they wanted to utilize them.

Devendraprasad Pandey (2007) finds that the subject of FI has risen to the top basically as a result of the financial segment change procedure of the 1990s, which dismissed the rural credit structure and subsequently prohibited most by far of rural craftsman's, ranch network and small scale ventures from credit.

Anderloni et al. (2007) share the view that the responsibility for bank record isn't sufficient to advance important inclusion, for, a record might be difficult to reach due

to being overdrawn or might be utilized for receipt of cash, and may make an instance of 'exclusion within inclusion'.

Raman, G.P. (2008) in the investigation on "Advancement of Financial Inclusion in India", Savings, settlements, protection and advances are said to be its four columns. Financial inclusion will assume a noteworthy job in heading out destitution from the nation. In India, multi day will come when every one of the Indians will have possess bank record and everyone will participate in financial inclusion.

Dhar, S.N. (2009) underscores that the speed with which the microfinance development took off in India in the mid nineties and the limited capacity to focus which it picked up development is unmatched. The vast majority of the microfinance projects work on the standard of 'Borrower knows the best' and moves the concentration from individual to gathering approach as Self Help gatherings (SHGs).

Arun, T.J and Ashok, J (2010) in the examination on, "Financial Inclusion-Indian Experience", discloses that banks need to upgrade their business systems to join explicit designs to advance financial inclusion of low pay gathering treating it both a business open door just as corporate social duty.

Kaul, R.C. (2011) points out that the development pattern of Indian economy in the course of recent years has been very great from all models and shows the start of another period of higher development. The said advancement does not appear to have brought about similar development in assembling work prompting questions about the comprehensive idea of this development.

Ramapal and Rupayanpal (2012) in their examination find that expansion of the extent of family units utilizing formal financial administrations in a state need not really diminish the disparity in FI crosswise over income gatherings or cultivate FI among the poor families in that state.

Gayathri Band; Kanchan Naidu; Tina Mehadia (2012) "Open doors and Obstacles to Financial Inclusion", Access to back by poor people and defenseless gatherings is an essential for neediness decrease and social attachment. This has turned into a necessary piece of our endeavors to advance comprehensive development. Truth be told, giving access to fund is a type of strengthening of the helpless gatherings. Financial inclusion means conveyance of financial administrations at a moderate cost to the tremendous areas of the distraught and low-income gatherings.

Sachin Napate (2013) made an examination titled, "Financial Inclusion in India", tells that financial inclusion has been taken a gander at just from the crystal of making financial administrations accessible, opening no ornament accounts, giving brilliant cards, etc. This paper shows the instances of

financial inclusion in India. While the point was to guarantee that financial inclusion ought not be estimated by the quantity of new gatherings or endeavors however should concentrate on utilization credit over credit-for-money age purposes.

Raja Babu (2015), has contemplated the determinants of financial inclusion in Andhra Pradesh. This investigation goes for discovering the purpose behind financial avoidance and the elements affecting the families to approach informal financial sources. He gathered information from 30 respondents, each from 25 Mandals. His examination uncovered that the vast majority of the rustic individuals rely on the casual financial sources because of absence of reports and financial.

3. Objectives of study

- To explore the need and significance of financial inclusion for economic and social development of society.
- To analyse the current status of financial inclusion in Indian economy.
- To find out the steps taken by the banks in the area of financial inclusion.
- To measure the level of financial inclusion by dimension.

4. Conceptual framework

Although the literature reviews revealed several valuable frameworks that could guide our empirical activity, we decided to apply a conceptual framework recently proposed by Birochi (2011) since the framework itself was built as a result of a synthesis of a comprehensive literature review on critical financial education and ICT-mediated education. The conceptual framework encompasses two main dimensions: informational dimension and communicative dimension (Figure 1). The concept of actors/social groups is central to the framework and it refers to the linkages between individual actors and a set of people who share a common position in their community or society and who are willing to share a set of common assumptions and interests (Pozzebon & Diniz, 2012). The framework shows that often global/local tensions characterizing the informational dimension in remote territories work as barriers to achieving the intended consequences of microcredit programs, financial inclusion and social emancipation. Likewise, the framework proposes that a communicative dimension might play a role in this process. Finally, the framework places ICTs as an important element, the particular role of which should be elucidated.

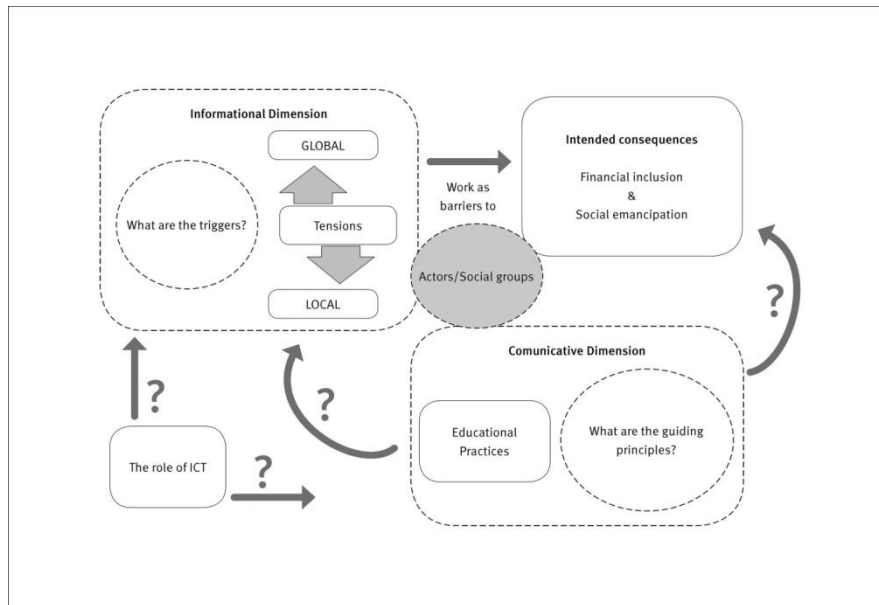


Figure 1 Initial conceptual framework

The informational dimension highlights tensions between the local and global spheres. These tensions are expressed in different ways and can be caused by different factors (triggers). The framework will help us to identify a set of triggers which generate increased tensions between the local and global spheres. We consider that, if these triggers are identified and understood, they may be no longer obstacles to financial inclusion of low-income micro-entrepreneurs but may actually become opportunities for transformation. This reasoning is also applicable to broader cross-cultural financial education literature, as global/local tensions or gaps are one way to analyze social phenomena where different contexts or different cultures are involved. At the heart of global/local tensions we find ICT artifacts, as their overwhelming presence, even in remote corners of the world, have been a source of disruption and also non-intended innovations (Castells, 1998). Although the right to information and knowledge is an important entitlement – its absence can contribute to poverty – this notion needs to be balanced against the broader context of existing social and economic inequalities, which may reinforce themselves through technology (Castells, 1997).

The communicative dimension seeks to identify a set of guiding principles that will guide educational practices involving low-income micro-entrepreneurs. This dimension will grow out of our critical perspective: we see educational practices as a tool for the social emancipation of social actors. To achieve this goal, we propose to investigate the characteristics of low-income micro-entrepreneurs regarding two main aspects: social processes and technological processes. This investigation seeks to understand how the various social restrictions imposed on individuals limit and determine their forms of social interaction. The low-income micro-entrepreneur is affected by social processes, i.e., the interaction of low-income micro-entrepreneurs among themselves and with other groups, like unions and community associations. As a result of the systematic practice of dialogue, aimed at catalyzing critical reflection on reality, the restrictions and limitations imposed by the dominant ideology are broken.

Actors acquire an expansion of their world views, which exceeds not only the geographic boundaries of the community

but the extant framework of established knowledge and notions of truth. The individual and his/her social group begin a process of reviewing established social truths, seeking to identify gaps and fissures in the presumed reality. Besides social processes, the low-income micro-entrepreneur is also affected by technological processes, where local actors seek to overcome the limitations imposed by the local context to gain access to financial services and/or education by technology means, or simply to gather any other type of information from outside the local context. In this process, it is imperative to undo the image of technology as a neutral and non-ideological instrument so as to permit the emergence of underlying factors which disclose the interests linking the technology to the dominant socioeconomic system. With this in mind, we need to look beyond technology and seek to understand the value of ICTs. In the context of our study, the investigation of these two processes will help us to better adapt the critical financial education framework to low-income micro-entrepreneurs' characteristics.

A review of different approaches to financial education and the use of ICTs corroborate our initial determination to explore and propose a financial education framework tailored to micro-entrepreneurs, using technological artifacts and based on a critical approach. We consider this represents an important gap in the literature, and therefore justifies the research line of inquiry guiding our empirical investigation: what are the guiding principles of an ICT-supported financial education framework that can help to improve financial inclusion and social emancipation, particularly of low-income micro-entrepreneurs? To answer to this research question, we conducted our empirical work in a small community in the Brazilian Amazon, where the introduction of financial access through a banking agents' network has brought about unprecedented socioeconomic changes.

5. Financial inclusion status in India:

The status of financial inclusion in India has been assessed by various committees interms offer people's access to avail banking and insurance services. Only 34%

of the India's population has access to banking services. The Eleventh Five Year Plan (2007-12) envisions Inclusive growth as a key objective. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion. The process of financial inclusion in India can broadly be classified into three phases. During the First Phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self-Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage programme was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision-making by the poor and provide 'door step' banking. During the Third Phase (2005 onwards), the 'financial inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through 'no frills' accounts. The Report Committee on Financial Inclusion headed by Dr.C.Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a

National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes.

Measuring Financial Inclusion

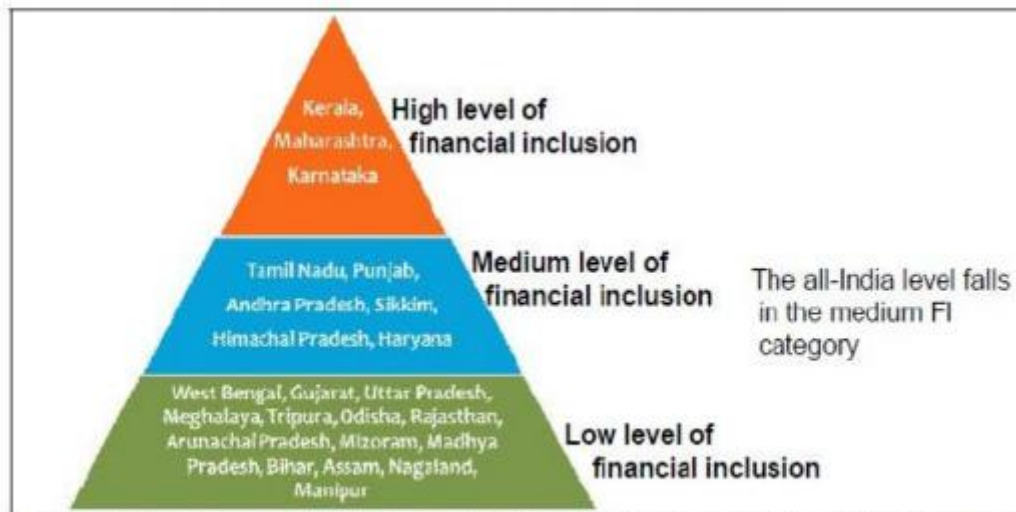
One of the measures of the level of financial inclusion is the Financial Inclusion Index. This index is based on three basic dimensions of an inclusive financial system

1) Banking Penetration: Banking penetration is definitely the most critical parameter for measuring the depth financial inclusion and is measured as a ratio of bank accounts to the total population.

2) Availability Of The Banking Services: The second parameter, availability of banking services provides an indication to the number of bank outlets available per 1000 people to deliver financial services. The bank outlets may include the brick and mortar branches, ATMs, business correspondents, etc

3) Usage Of The Banking System: The third parameter seeks to determine the usage of banking services going beyond mere opening of accounts. Therefore, this is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.

State Wise Analysis Of Financial Inclusion:



Source: RBI Working Paper on Financial Inclusion in India: A case-study of West Bengal by Sadhan Kumar Chattopadhyay

According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. According to the empirical results, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension. According to the value of the index, Indian States can be classified into three categories, i.e., states having high,

low and medium extent of financial exclusion. According to the empirical results, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion.

6. Conclusion

For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth. Today the fact remains that nearly half of the Indian population doesn't have access to formal financial

services and are largely dependent on money lenders .A nation can grow economically and socially if it's weaker section can turn out to be financial independent. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a vital role for the economic

and social development of society but still there is a long road ahead to achieve the desired outcomes. Financial Inclusion has not yielded the desired results and there is a long road ahead but no doubt it's working on the positive side.

References

1. Chambers, C.L. (2004). Financial Exclusion and Banking Regulation in the United Kingdom: A Template Analysis, unpublished doctoral dissertation, Bournemouth University.
2. Kempson, E., Atkinson, A., & Pilley O. (2004). Policy level response to financial exclusion in developed economies: lessons for developing countries, Report of Personal Finance Research Centre, University of Bristol.
3. Kumar, A. (2005). Access to Financial Services in Brazil, Washington D.C., the World Bank.
4. Bluebook (2006). Building Inclusive Financial Sectors for Development, the United Nations, Chapter 1- p 3.
5. Pandey, D.P. (2007). Financial Inclusion: Role of Micro Finance Institutions, Rajiv Gandhi Institute of Professional Management, Allahabad.
6. Anderloni, L., Braga, M.D., & Carluccio, E.M. (2007). New Frontiers in Banking Services: Emerging Needs and Tailored Products for Untapped Markets, Berlin and Heidelberg, Springer-Verlag.
7. Raman G.P., "Progress of Financial Inclusion in India", Indian Economic Panorama, Vol.32, No.4, October-December, 2008, Pp.59-60.
8. Dhar, S.N. (2009). Strategic Issues in Financial Sustainability of SHGs in India- an Empirical Study, South Asian Journal of Socio-Political Studies (SAJOPS), vol.10, no.1, July-December, pp.67-73.
9. Arun.T.J and Ashok.J, "Financial Inclusion-Indian Experience", Indian Economic Panorama, 2010, Pp.46-49.
10. Kaul, R. C. (2011). Financial Inclusion-A business Opportunity for Banks, Indian Economic Panorama, vol.21, No.1, April
11. Ramapal & Rupayanpal. (2012). Income Related Inequality in Financial Inclusion and Role of banks: Evidence on Financial Exclusion in India, WP-2012-013, Indira Gandhi Institute of Development Research, Mumbai, June 2012.
12. Gayathri Band; Kanchan Naidu; Tina Mehadia "Opportunities & Obstacles to Financial Inclusion", Arth Prabhand: A Journal of Economics and Management Vol.1 Issue 1, April 2012, Pp.60-73.
13. Sachin Napate, "Financial Inclusion in India", International Conference on Technology and Business Management March 18-20, 2013.
14. Raja Babu (2015), "Financial inclusion and its determinants: Evidence from District level empirical analysis in Andhra Pradesh", I J A B E R, Vol. 13, No. 5: 3423-3432