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FINANCIAL INCLUSION FOR INCLUSIVE GROWTH WITH REFERENCE TO INDIA'S BUSINESS ENVIRONMENT

Dr. Shweta Tiwari[1], Dr. Sanchet Singh Deshmukh[2]
[1]Associate Professor, Deptt. Of Business Management IES University, Bhopal
E -mail –shwetaani123@gmail.com
[2]Guest Lecturer, Deptt. Of Commerce Govt. JST PG College, balaghat, E-mail-manishdg60@gmail.com, Mobile no.–7447014825, 8982967340

Abstract :-
With 1.41 billion people, more than 900 million people spread around more than 6 lac villages. In the post liberalization period especially during 2003-04 to 2007-08, the Indian economy witnessed high growth. The major drivers of high growth have been LPG policies, improvement in economic and social infrastructure, IT industry, increasing entrepreneurship and many other factors that were transforming India into a major emerging economy. But this growth has been uneven and discrete. The progress in growth has not been uniform and the benefits of growth went to certain sections of the society and by passed marginalized and vulnerable sections of the society. This growth has been termed as jobless growth and has increased regional inequalities. Poor have become more poorer and the divide between urban and rural has increased. India is still the home of world's largest number of poor and under-nourished children. Indian Rural economy constitutes around 46 % of national income. The study highlights the profound changes experienced by India's rural economy and employment This paper is an analytical effort in the area of financial inclusion and inclusive growth and also provides insight into India's business context.
Key Words: –*IT Industry, Marginalized section, Livelihood, MUDRA Bank.*

Introduction :-
India is one of the largest and fastest growing economies of the world. In the post liberalization period, especially during 2003-04 to 2007-08, the Indian economy witnessed high growth. The major drivers of high growth have been LPG policies, improvement in economic and social infrastructure, IT industry, increasing entrepreneurship and many other factors that were transforming India into a major emerging economy. But this growth has been uneven and discrete. The progress in growth has not been uniform and the benefits of growth went to certain sections of the society and by passed marginalized and vulnerable sections of the society. This growth has been termed as jobless growth and has increased regional inequalities. Poor have become poorer and the divide between urban and rural has increased. India is still the home of world's largest number of poor and under-nourished children. A vast section of society is excluded from the access of the basic amenities of life and livelihood resources and exclusion become a challenge to the policy makers. Former Finance Minister, P. Chidambaram also shown his worry on this exclusion and remarked, "India's economy is driven by one half of the population. The other half is mute witness to what is happening in India.

If the other half also becomes a part of the driving forces of growth, India's economy will grow not by 8-9 percent, it will easily grow between 10-11 percent." Realizing the need for inclusion of entire population in growth process, the 11thand 12thFive Year Plans focused on faster and inclusive growth.

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OBJECTS AND METHODOLOGY

OBJECTIVES OF THE STUDY-

1).To study the current position of business in India & analysis future of business context. 2). To study the challenges faced by business players in India.

METHODOLOGY –The Research design in this study is Descriptive research design. In order to achieve the research objectives, the study is based on secondary data. The data has been collected from various websites, news papers.

Inclusive growth refers to both the pace and the pattern of 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 programs." Thus, inclusive growth as a strategy for economic development should not only aim at equitable distribution benefits but also at creating economic opportunities along with equal access to them for all. India needs inclusive growth for equitable, balanced and sustainable development. Inclusive growth can be attained through resources which can be generated and mobilized to all especially marginalized one. In India, a large number of populations is financially excluded. Financial inclusion is one of the ways to achieve inclusive growth.

Financial Exclusion:—The term Financial Exclusion was used, for the first time, in 1993 by Leyshen and Thrift for the limited access of banking services. This limited access forced the closure of bank branches and affected banking industry badly. In 1999, Kempson and Whyley defined Financial Exclusion and identified financially excluded people as those who have been excluded access to the main stream financial services and products. In India, the extent of financial exclusion is very high.

Here one segment of the population has access to assortment of banking facilities and portfolio counseling, the other segment of under-privileged and lower income group is totally deprived of even basic financial services. It is estimated that only 59 percent of adult population have bank accounts in India. This is 39 percent in rural areas and 61 percent in urban areas. There also exists glaring regional disparity in availability of financial resources. Financially excluded population is highest in North-East and East. The unbanked population is 25 percent in South, 7 percent in North-East, 8 percent in eastern and 9 percent in central region. Thus, the North-East region has highest percentage (93%) of financially excluded population. Financially excluded population basically depend on non-institutional financial system for their financial needs. Marginal farmers, landless labor, workers from unorganized sector, self- employed, urban slum dwellers, migrants, ethnic minorities, socially excluded groups, senior citizens and women are among financially excluded groups. The main reasons for financial exclusion are lack of awareness, poverty, social exclusion, illiteracy, language, staff attitude towards poor and vulnerable sections, high transport cost, distance from bank branches, poor infrastructure, and difficult access to banks especially in remote and hilly regions, ease of availability of informal credit, compulsion of KYC documents etc.

Financial Inclusion:—The term 'Financial Inclusion' refers to the delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantaged people and groups including individuals, household, enterprises, self-employed and traders. Thus, Financial Inclusion means the provision of affordable financial services by the formal financial system to the financially excluded and marginalized people. Rangarajan Committee (2008) defined 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 affordable prices." The Committee further interprets Financial Inclusion as an instrument for social

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transformation and reiterates. "Access to finance by the poor and vulnerable groups is a prerequisite for inclusive growth.

Financial Inclusion in India: —In India, banking industry has grown both horizontally and vertically but the branch penetration in rural areas has not kept pace with the rising demand and need for accessible financials services. Even after decodes of bank nationalization (whose rationale was to shift the focus from class banking to mass banking) the usurious money lenders still exploit poor in rural areas and urban slums. After adoption of new economic reforms in 1991 it was realized that the country can ill afford not to include the poor in the growth paradigm because sustainable growth must be inclusive.

MUDRA Bank :—In the budget of 2015, Micro Units Development and Refinance Agency (MUDRA) bank were announced and was launched on April 8, 2015. The basic objective of MUDRA Bank is to refinance and regulate Micro Finance Institutions (MFIs) and fund small units that are typically excluded from the mainstream banking system. In India, Micro Finance Institutions are seen as exploitative institutions as large number of MSEs borrowing from the MFIs fall into the debt trap on account of exorbitant interest charges by MFIs. MUDRA Bank would be a single regulator for all types of entities in the microfinance and a prominent source of funding to Non-Banking Finance Companies-Microfinance Institutions and other players in the sector.

Payment Bank :—The GOI is proposing to create payment banks and small banks to help India reach its financial inclusion targets. A payment bank is a type of non-full-service niche bank in India. A payment bank can only receive deposits and provide remittances. It cannot carry out lending activities.

Current Status of Financial Inclusion in India :—Despite various measures taken for financial inclusion, poverty and financial exclusion continue to dominate socio-economic and political discourse in India even after more than six and half decades of independence. Though economy has shown impressive growth during post liberalization era from 1991, its impact is yet to percolate to all sections of the society. The Government has launched various schemes to make available formal financial services to the excluded household but these services are inadequate and still lots more to be done in this regard. Table-1 provides information about availability of banking services in India.

Table 1 Availability of Banking Services (%) to Households

Rural	30.1	54.4	24.3
Urban	49.5	67.8	18.3
	35.5	58.7	23.2

Source: RBI Annual Report 2020-21.

The Table-1 shows that in 2001 only 30.1 percent of rural households were provided with banking services. It increased to 54.5 percent in 2011. For urban households, this percentage was 49.5 in 2001 and 67.8 in 2011. While comparing the change in 2001 and 2011, it is observed that 24.3 percent increase in financial services is registered in rural sector households. This increase is only 18.3 percent in urban areas. The reason of more increase in availability of banking services to the rural households may be the high focus of Government schemes in rural areas. The progress of all banks in Financial Inclusion has been depicted in Table- 2.

Table 2 Progress of All Banks in Financial Inclusion (Year Ended)

Particulars	2016	2017	2018	2019	2020
Banking outlets in villages					
(a) Branches	33,378	34,811	37,471	40,837	46,126
(b)Villages covered by BCs	34,174	80,802	141,136	2,21,341	3,37,678

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(c) Other modes	142	597	3,146	6,276	—
(d) Total	67,674	1,16,208	1,81,753	2,68,454	3,83,804
Urban locations through BCs	447	3,771	5,891	27,413	60,730
Basic Saving Bank Deposit A/c Branches					
(a) No in millions	60.19	73.13	81.20	100.80	126.00
(b) Amount in billions	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/c-BCs					
(a) No in millions	13.27	31.63	57.30	81.27	176.90
(b) Amount in billions	10.69	18.23	10.54	18.22	39.00
OD Facility Availed in BSBDA'S Account					
(a) No in millions	0.18	0.61	2.71	3.92	5.90
(b) Amount in billions	0.10	0.26	1.08	1.55	16.00
KCCs (millions)	24.31	27.11	30.24	33.79	39.90

Source:-RBI Annual Report 2020-21

Rural Areas :– are defined as those centres which have population of less than 10,000 USSD – Unstructured Supplementary Service Data proposed to be launched by NPCI BC – One BC can cover more than one village

The Table-2 shows that there has been substantial increase in the banking outlets, banking facilities and KCC from 2010-2014 but lots more to be done. But this progress is not sufficient for financial inclusion of entire population. The Government of India is also working on a comprehensive Financial Inclusion Plan (CFIP) to speed-up the progress and wide coverage of the financially excluded population.

The global agencies have also estimated the level of financial exclusion in India. It is estimated that of the 24.67 crore households in the country, 10.19 crore do not have access to banking services. In rural areas, 44 percent households and in urban areas 33 percent still do not have a bank account.

According to World Bank, only 35 percent of Indians have an account with a formal financial institution. This is 42 percent for men and 27 percent for women and indicates towards gender inequality. As per census 2011, 58.7 percent households utilize formal banking services. In Rating Agency Crisis's financial inclusion index – The index Inclusix, all India Inclusix score is 40.1 (only 40% Indians have access to formal banking services). Inclusix has wide regional variations for regional financial inclusion - from 62.2 percent in the southern region to 28.6 percent in the eastern region. According to Nachiket Mor Committee on Comprehensive Financial Services for small Business and Low-Income Households, 60 percent of Indian population did not have a functional bank account. The key challenge to PMJDY is to bolster the usage of PMJDY accounts through financial literacy. As mentioned earlier, there exists regional inequality in financial inclusion in India. It is also observed that financial inclusion is positively linked with literacy and GDP per capita (per annum). The following table-3 presents state-wise index of financial inclusion.

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Table 3

Index of Financial Inclusion Across States in India

State	D1 (Penetration)	D2 (Availability)	D3 (Usage)	IFI	IFI Rank	GDP (Per Capita)	Literacy Rate
High Financial Inclusion (0.5-1)							
Kerala	0.70	0.81	0.28	0.54	1	83,725	93.9
Maharashtra	0.62	0.29	1	0.53	2	101,314	80.1
Karnataka	0.72	0.47	0.46	0.53	3	68,374	75.6
Medium Financial Inclusion (0.3-0.5)							
Tamil Nadu	0.70	0.43	0.38	0.48	4	94,796	80.3
Punjab	0.45	0.69	0.29	0.45	5	74,606	76.7
Andhra Pradesh	0.56	0.30	0.41	0.41	6	71,480	67.7
All India	0.27	0.22	0.55	0.33	7	60,603	74.04
Himachal Pradesh	0.42	0.40	0.18	0.33	8	74,899	83.8
Sikkim	0.28	0.33	0.34	0.32	9	121,440	82.2
Haryana	0.39	0.50	0.12	0.32	10	108,859	76.6
Low Financial Inclusion (<0.3)							
West Bengal	0.24	0.38	0.23	0.28	11	54,830	77.1
Gujarat	0.32	0.30	0.16	0.26	12	81,400	79.3
Uttar Pradesh	0.28	0.31	0.15	0.24	13	30,052	71.7
Meghalaya	0.21	0.28	0.14	0.21	14	52,971	75.5
Tripura	0.31	0.22	0.08	0.20	15	50,750	87.8
Orissa	0.26	0.23	0.11	0.20	16	46,150	73.45
Rajasthan	0.25	0.22	0.12	0.19	17	47,506	67.1
Arunachal Pradesh	0.20	0.16	0.14	0.17	18	62,213	67
Mizoram	0.13	0.26	0.09	0.16	19	48,591	91.6
Madhya Pradesh	0.18	0.21	0.08	0.16	20	38,669	70.6
Bihar	0.15	0.24	0.08	0.15	21	23,435	63.8
Assam	0.17	0.17	0.07	0.13	22	33,633	73.2
Nagaland	0.03	0.04	0.07	0.05	23	56,638	82.9
Manipur	0.00	0.01	0.01	0.01	24	32,284	79.8

The data shown in table-3 highlights the fact that the states which have high to medium degree of financial inclusion also have above national average literacy rate and GDP per capita per annum (literacy 74.04% and GDP per capita pa Rs. 60,603). Among the medium degree of financial inclusion states, Andhra Pradesh is the only state that has literacy rate (67%) less than national average. It shows that for financial inclusion, literacy level should also be increased. Adequate per capita income is also important for effective financial inclusion. It is also observed that people with low incomes do not keep their bank accounts functional.

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Conclusion and Suggestions :-It is evident from the above description that nearly half of India's population remains unbaked even after 68 years of independence. The GOI and RBI have been making concerted efforts to increase banking penetration and access to formal financial system. In this regard, a number of initiates have been taken. However, the progress of financial inclusion has been slow and dissatisfactory. Not only this, the level of financial inclusion varies across states, while compared globally, India is lagging behind. The challenge of inclusive growth cannot be attained without financial inclusion. Education and skill development can play an important role in expansion of financial inclusion. To increase availability and accessibility of formal financial system, banks can further include post offices and fair price shops to provide banking counters for the financially excluded population. There should be diverse products for different sections, occupations and regions (rural-urban, developed-backward etc.). Technological innovations like integrated machine that has functionality of cash withdrawal and deposit and biometric identification of users, voice commands and narration for all facilities in multi-language format could help increase banking penetration. Financial literacy is also required to increase awareness and interest in products offered under various schemes of financial inclusion. This can be done through advertisement in local language on electronic media and in print media with local brand ambassadors of the campaign. Mobile phones and mobile banking can also help spreading financial literacy. Orientation of bank staff especially public sector banks is also important. The banks should people to access banking services and should increase incentives for BCs working at remote and rural areas, with dedicated approach, the mission of 100 percent financial inclusion can be attained.

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