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Financial Inclusion: A Prerequisite for Inclusive Growth

Abstract

Financial inclusion is the most important prerequisite for the development of a country. After introduction of economic reforms all economies become open economy, and competition has been augmented in every area. Main indicators of a developed country are per capita income, national income, saving and investment rate, education level, poverty, employment, social upliftment, economic equality, and financial inclusion etc. E-commerce, E-trading, and all other works need access of internet and banking to all. Government has introduced many welfare schemes for the deprived class of the society. Prime minster has introduced a plan JAN-DHAN YOJANA for the financial inclusion. Micro finance has increased the level of financial inclusion in the country. Besides these efforts govt has introducing various schemes for this very purpose. Financial inclusion is only the way to achieve the target of social inclusion and development of the all classes in the society. No doubt that accessibility has increased with high pace in financial inclusion due to efforts of government throughout the country but it needs more attention. One of the prominent requirements for a meaningful progress in the field of financial inclusion is to identify the problems and to chalk out direction in this field for the next decade and onwards.

Keywords: Inclusive Growth, Financial Inclusion, Development, Poverty.

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Introduction

(–“Self realization and self initiative are the two most powerful weapons to wash poverty out from the world”. *CHANAKYA*

India , a developing economy , a country of villages , with majority (68.2%) of its population living in the rural areas Even after 65 years of its independence rural India still plagued with problem of the poverty, unemployment , economic inequality . It is the biggest and fastest growing economies of the world but its growth is uneven and discrete. As the distribution of growth benefits are not equally distributed. Access to finance by poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. For a financial system to be truly inclusive, it should meet the needs of everyone who can fruitfully use financial services. Our ultimate goal is to achieve broad improvement in the living standards of all our people. The approach paper of the eleventh five year plan provides – “An opportunity to build on our strengths to trigger a development process to achieve a new central vision based on faster, more broad –based and inclusive growth. Inclusive growth implies growth process which yields broad based benefits and ensures equality of opportunity for all i.e., participation in the process of growth and also sharing of benefit from growth. In fact, participation without sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome. Financial inclusion is effective in outreach, sound in operations, have a sustainable level of operation and capable of rapid expansion. This paper is a modest attempt to highlight the importance of the financial inclusion in inclusive growth.

Objective

The main goals or objectives of the paper are-

1. To study the meaning and need of inclusive growth
2. To study the meaning and need of financial inclusion
3. To study the role of financial inclusion for inclusive growth
4. To find out some measures to strengthen the structure of financial inclusion.

In research methodology data collected for the work through various secondary sources.

Inclusive Growth

For the developing country like India financial inclusion has come as breakthrough in the philosophy and practices of inclusive growth. Inclusive growth refers the pace and path of the pattern of the economic growth it is stated pro-poor growth. The main objectives of the inclusive growth are removal of poverty, social sector development, environment protection, and agricultural development, deduction of regional disparity and income inequalities. Those countries which have a large proportion of population excluded from the formal financial system shows higher poverty ratio and higher inequality. Now a day the term "bottom of the pyramid" refers to the global poor most of who live in the developing countries. Inclusive growth attainment depends upon equitable distribution of growth opportunities and benefits which can be possible only with the financial inclusion.

Financial Inclusion

Financial inclusion means the delivery of the financial services including all banking services. Rangarajan committee (2008) defined financial inclusion as "The process o 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 European commission manuscript 2008 defines financial exclusion as a process whereby people encounter difficulties accessing and using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead normal life. Financial exclusion included social and economic exclusion. It includes insurance, credit, savings, bank accounts, financial counseling, and remittance. Just about 40 % of the population across the country has bank accounts. The proportion of having any kind of life insurance cover is as low as 10 percent only. People having debit cards comprise only 8%and those having credit cards only a marginal 2% of the population./On the other hand this percentage is 41 % and 8% respectively in China. In India Kerala, Maharashtra and Karnataka have high rate of financial inclusion in comparison to any other state of India. Reserve bank of India's Governor D. *Subbarao* urged bankers to meet the four formidable challenges before them - "Deepening financial inclusion, financial infrastructure, strengthening risk management and improving efficiency. It is a paradigm shift from class banking to mass banking.

Indicators or Components of Financial Inclusion

There are some indicators which highlighted the banking sector outreach as

1. Bank accounts per adult
2. Geographic branch penetration
3. Demographic branch penetration
4. Geographic ATM penetration
5. Demographic ATM penetration
6. Demographic Loan penetration
7. Loan-income ratio
8. Demographic deposit penetration
9. Deposit-income ratio
10. Cash-deposit ratio

Factors Affecting the Financial Inclusion

When discussing inclusive growth, a major factor included is the socio-economic development of the economy. Development strategy therefore needs to continuously strive for broad based improvement in standard of living. Financial inclusion effects the social sector also pertain to health, nutrition, sanitation and education. It helps in better education by provide education about its credit operation It increases the awareness against social evils like dowry, child marriage and child labour, infanticide, etc. Through this inclusion poor people also started to become involve in social and community development activities and improving, self confidence, entrepreneurship skills and disciplines among clients. Financial inclusion acts as an entry point for poor people's economic, social and political empowerment. Major factors affecting the financial inclusion are—

1. Lack of awareness
2. Un affordability
3. High transaction cost
4. Inconvenient
5. Inflexible
6. Low quality of products

Challenges for Financial Inclusion

Financial inclusion is the only hope for inclusive growth shows in some senses the Indian problems in action. But to achieve the targets of 100% financial inclusion there are some challenges ---

Financial Illiteracy

It leads a difficulty to communication about the importance of banking, and understand the terminologies of banking.

Inability to Generate Sufficient Funds

Low level of the income leads a low level of saving. Which causes a insufficient funds

Technological Gap

As New reforms of banking sector generate a new era of technology .which caused new terms and less cost in banking services.

Non–Transparent Pricing and High Transaction Cost

The offering banking services to under privileged and low income groups incur additional burden for capacity building.

Insufficient Infrastructure

It leads a hindrance in the opening up new banking branchs, as to set up a new branch power, telecommunication services and roads are required which are not sufficient.

Language Problem

As the literature in regional language are not available .language is a mode by which people try to identify and connect them self with the banking industry.

Lack of Compassionate and Trained Staff

Which caused often a very embarrassing situation.

Lengthy Process of Documentation

The necessity of large number of paper work creates prone.

Conclusion and Suggestion

It has been widely recognized that financial inclusion is the only powerful instrument for inclusive growth. Reserve bank of India must form a committee of business correspondents and facilitators as to review the process in regular basis. To improve the literacy level there should be adult education programme, public campaigns, usage of mobile phones or electronic media for promotion. Regulation should encourage bonding with the members with savings self-help, education and training, and not just lending. It is not limited to only opening saving bank account with zero balance facility but it means to offer a wide array of financial services from credit counseling, offering insurance and remittance facility etc. Loan must be given for productive purposes only and insurance, self help, education and training and finally credit should be introduced. Financial inclusion is a magic wand for inclusive growth. Evidence from the millions around the world demonstrates that assets to financial services enables poor people to increase their household income ,build asserts and reduce their vulnerability to the crises that are so much a part of their daily lives.

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