

Inclusive Growth and Financial Inclusion

Dr. G. Gangaiah

**Lec. in Commerce
Govt. Degree College,
Nagari, Chittoor**

Abstract: *Inclusive growth is the buzz word for developing economies and key to inclusive growth is financial inclusion. The government has also set up Committee on Financial Inclusion to study the pattern of exclusion, identify barriers, review international experience and provide recommendations for achieving the objectives of financial inclusion. Financial Inclusion means providing financial services to the vulnerable section of the society at an affordable cost. It aims at promoting banking habits by the deprived or poor strata of the society by providing them accessibility to the financial services. Since 2005 several initiatives have been taken by RBI and government for financial inclusion and Inclusive growth but still there are miles to go for achieving hundred percent inclusion. The main objective of this paper is to understand the relevance of financial inclusion for inclusive growth and also to study various initiatives taken by Reserve Bank of India for financial inclusion. The study also focuses on the major concern areas that need to be addressed for the success of the financial inclusion measures taken by the government and Reserve Bank of India. From the study it may be concluded that in spite of several initiatives large strata of the society is deprived of the financial services may be due to illiteracy, insecurity due to lack of awareness about the banking process, more reliability on the informal sources of financing. The government may revisit or redesign the models it follows or come up with some additional model for promoting financial inclusion.*

Key Words: *Indian Startups, Startups Innovations, Inclusive growth, financial inclusion, RBI, financial services, economic development*

Introduction

Inclusive growth is the buzz word for developing economies and key to inclusive growth is financial inclusion. Financial inclusion measures the delivery and reach of banking services at reasonable cost to the vast sections of low income and disadvantaged groups. Strong inclusive financial systems allow people with limited funds, an access to invest in their education and small entrepreneurs chance to pursue promising growth opportunities, thus promoting income equality and higher economic growth. This is the reason why even developed nations are concerned about those excluded from the financial system. Financial Inclusion aims at providing financial services to the vulnerable section of the society at an affordable cost. It aims at promoting banking habits by the deprived or poor strata of the society by providing them accessibility to the financial services. Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the any formal financial services across the world.

With only 34% of population engaged in formal banking system for their financial need, India has, 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. Financial Inclusion has far reaching consequences, which can help in poverty alleviation. It provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded Swamy, V. & Vijayalakshmi (2010). Over half of the world's population (2.5 billion adults) did not use any formal financial services for either saving or

borrowing purposes and that nearly 90% of this population lives in Asia, Africa, Latin America and the Middle East Chaia, Alberto, Schiff Robert and Silva Esteban (2010). Financial inclusion has emerge as priority for policymakers and regulators worldwide with increasing number of nations introducing comprehensive measures to improve access and usage of tailor made financial services, informed by a fast growing body of experience and knowledge. Financial inclusion strategies are the road maps of actions , agreed and well-defined planning at the national or sub-national level, which followed by the concerned stake holders to achieve financial inclusion objectives of the specific country. A strategy can promote a more effective and efficient process to achieve a significant improvement in financial strategy components carried out by the WORLD BANK during June 2012 in its “financial Inclusion Strategies”- References Framework’ document Sakariya, S (2013). “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”- Kofi Annan. (FINANCIAL INCLUSION, 2013). According to the Global Findex data (2012), that measured saving, borrowing, managing risk and payment making habits and attitudes of adults from 148 economies, there is huge gap in the use of financial services between high income developed economies and developing economies. According to this report 50% of adults’ worldwide report having an individual or joint account at a financial institution, while this figure was around 89% in developed or high income economies, it just around 41% in developing economies. Worldwide, more than 2.5 billion adults do not access formal financial system, most of them living in developing nations. In India over 41% of adult population don’t have an account in banks. Out of approx. 19.9 Crore families in India only around 6.82 Crore have access to formal banking services. While in rural areas only 4.16 Crore households out of 13.83 Crore have access to banking services, only around 49.52% of urban households enjoy access to basic banking services. Inclusion of the weaker and vulnerable section of the society to the mainstream will provide them with saving opportunities and

other banking facilities at affordable cost and this will also result in minimizing their dependability on the informal sources that tends to exploit them. The main focus is on sustainable and more inclusive growth. The concept “Inclusion” 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 programmes (Planning Commission, 2007). For accelerated economic growth financial inclusion is an explicit strategy and is critical for the inclusive growth of a nation. According to K.C.Chakrabarty, RBI Deputy Governor, “Even 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”. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road to travel. Due to exclusion India’s economic growth has been unevenly distributed and the imbalance in the growth is having a serious impact on the “inclusive growth” of the nation. The main focus of the Twelfth Five year plan is on inclusive growth and for inclusive growth it is of vital importance to include the excluded and vulnerable section of the society into the financial system

Current Status of Financial Inclusion Numerous initiatives has been taken for augmenting banking services to the vulnerable section of the society residing in rural as well as urban areas. Accessibility to the financial services by the under privileged will help in bringing the financial stability and reduce the imbalances in distribution of the income and the resources that ultimately results in Inclusive Growth. To accelerate economic growth, financial inclusion is an explicit strategy and is critical for the inclusive growth of a developing nation. Accessibility to basic financial services such as savings, insurance and remittances are extremely importance for poverty alleviation and economic development and upliftment of the society. In order to achieve the goal of complete financial inclusion, the policy makers, MFIs, NGOs and regulators have to work together in synchronization. India had invested considerable amount of resources in expanding its banking

network with the objective of reaching to the unbanked strata of the country. During the last four decades huge infrastructure has been created in the banking sector. However, this large infrastructure that has penetrated even remote rural areas has been able to serve only a small part of the potential customers. While India is on a very high growth path, almost at the two-digit level, majority of the people are still not the part of the growth process. This is neither desirable nor sustainable for any developing nation. It is known that one of most important driving forces of inclusive growth is institutional finance Arulmurugan, P., Karhikeyan, P. & Devi, N. (2013). In spite of serious efforts made by the RBI and government agencies the results are still not very appreciable. Six hundred million people of India are still unbanked. Not only the rural sector lack the basis financial services but also the large segment of urban dwellers, migrants and informal sector workers also lack accessibility to basic financial or banking services. According to CRISIL INCLUSIX Report 2011 at an all India level it stood at relatively low level of 40.1 for 2011 on a scale of 100 points. Southern region leads in terms of financial inclusion in the country with a

score of 62.2 for 2011. The Western region is second, and is followed by Northern, Eastern, and North-Eastern respectively. Out of the top 10 states/UTs with highest CRISIL Inklusix score, 6 are from Southern region, most of the states (9 out of 10) with least scores belong to the Eastern and North-Eastern regions. All the top 5 districts with highest scores are from the Southern region; four of them are in Kerala. The CRISIL INCLUSIX report clearly indicates the disparities among the different regions of India in the mission of financial inclusion. According to the World Bank Findex survey (2012) accessibility to formal bank account by an Indian adult is only 35% and formally only 8% used formal source for borrowing in the preceding 12 month. Only 2% of the adults used their bank account for remittances services from their family and relatives and 4% of the adult population uses their account for receiving payments from the government. As compared to the global average of fifty percent and forty one percent in developing economies Indian population holds only thirty five percent formal bank accounts

Exhibit 1: Position of households availing banking services

Households	As per Census 2001			As per Census 2011		
	Total Number of Households	Number of Households availing banking services	Percent	Number of Households availing banking services	Number	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: Census of India and RBI

If we look into the census data of 2001 and 2011 in Exhibit 1 it clearly indicates that the number of household availing banking services has increased and percentage increase in the rural household is greater than the urban household. Reserve Bank of India is also focusing more on reaching the rural

India as compare to the urban. As per the 2011 census, total number of household in the country is 24.67 crores out of which 16.78 crores are rural household and 57.89 crores are urban. Banking facilities avail by the total household is only 58.7 percent

Exhibit 2: No. of functioning branches of Scheduled Commercial Banks.

As	Rural	Semi-Urban	Urban	Metropolitan	Total
March 31, 2014	31476	19126	15273	14325	80200
March 31, 2015	32493	20855	16686	15446	85480
March 31, 2016	33905	23114	17599	16419	91037
March 31, 2017	36356	25797	18781	17396	98330
March 31, 2018	37953	27219	19327	17844	102343
March 31,2019	45717	32,078	22,523	20,026	120,344

Source RBI

As per exhibit 2 we can clearly figure out that SCB's are trying to capture the rural and Semi urban market as they are potential markets. Average population per branch (APBB) of India as on March 31st 2018 stood at 12100. As on 31st March 2019 the total banking network comprises of 1, 15082 branches and 1, 60,055 ATMs. Out of the total branches 38.2% i.e. 43,962 branches and 14.58 % i.e. 23,334 ATMs are in located in rural areas. As per the estimates of the Public sector banks including RRBs total rural household allocated to be covered under banking services is estimated to be 13.14 crores as on 31st May 2019 out of which 7.22 crores household have been covered and 5.94 crores were still uncovered. As an initiative to financial inclusion Pradhan Mantri Jandhan Yojna was launched by our Honorable Prime Minister. The focus of PMJDY is on six main pillars stated as: 1. Universal access to banking services 2. Financial Literacy Programme 3. Providing Basic Banking Accounts with overdraft facility of RS.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rupees one Lakh and RuPay Kisan card. 4. Creation of credit card Guarantee Fund for coverage of default in Overdrafts Account. 5. Micro Insurance 6. Unorganized sector pension Schemes like Swavlamban The Pradhan Mantri Jandhan Yojna will be implemented in two phases. During the first year of implementation under phase I from 15th August 2014 to 14th August 2015, the first three pillars was implemented and ninety six million accounts were opened till 18th December 2014. The second Phase begins from 15th August 2015 to 15th August 2018 and the focus will be on the other three pillars of the programme. The major shift in the implementation of financial inclusion effort is that, the government instead of targeting villages and rural population is now shifted the target to the unbanked households The banking

sector is fully geared up to expand the network by opening new branches and also set up additional 50,000 Business correspondents. The first phase has planned to witness more than 7000 new branches and more than 2000 new ATMs

Financial Inclusion Initiatives of RBI/ Government of India For ensuring complete financial inclusion host of initiatives were taken by Reserve Bank of India/ Government of India and various policy measures were announced from time to time to keep the momentum. The concept of financial inclusion is not new to India. It could be trace back in 1969 when fourteen major banks were nationalized to expand the availability of banking service from class to mass. Soon after nationalization lead bank scheme and priority sector lending were introduced to ensure that adequate credit flows to the vital sector of the economy for economic development. In the year 1975 Regional Rural Banks were set up for enhancing the banking service to the Rural India. Soon in the year 1982 NABARD was established to provide agricultural related credit facilities to the farmers. Self Help Group Bank Linkage programme was launched by NABARD in 1992 to expand the reach of banking services to the unbanked rural segment. The focus of financial inclusion was majorly on the inclusiveness of rural India by including all the villages with population greater than 2000. SIDBI was established in the year 2000 for providing micro credit to the small entrepreneurs. In spite of series of initiatives the goal of financial inclusion was not satisfactory. Khan commission was set up by Reserve Bank of India in the year 2004 to present a report on the Financial Inclusion. The recommendations of the Commission were incorporated in the midterm review policy Of 2005-06. In January 2006 Reserve of India has permitted the banks to use the services of the NGO/SHG, micro finance corporations and

other civil society organization as intermediaries for expanding the reach of banking and financial services to the rural unbanked regions. Above all Reserve Bank of India has taken following major initiative for achieving some concrete results on Financial Inclusion. Opening of No Frill Accounts→ Simplification of Know Your Customer (KYC) norms→ Engaging Business Facilitators and Business Correspondents as intermediaries→ Enhanced usage of Information and Communication technology (ICT)→ Usage of Electronic Benefit Transfer services by the banks→ Mandatory opening of 25% branches in the rural unbanked regions.→ Financial Literacy and Credit Counseling Centers (FLCC)→ Usage of Regional languages→ Constitution of Financial Advisory Committee by RBI→ Introduction of General purpose credit card (GCC) and Kisan credit card (KCC).→ Provision of Overdraft facilities on Saving Bank Account (No frill account)→ Based on the recommendation of the Interim Report of the committee on Financial Inclusion headed by Dr. C. Rangarajan, Government of Indian has constituted two different funds in the name of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) for meeting the cost of development and promotional interventions and also to meet the cost of technology adoption. The total corpus of the fund amounted to Rs. 500 crore with initial contribution by Government of India, Reserve Bank of India and NABARD in the ratio of 40:40:20. The main objective of FIF is to support the development and promotional activities related to financial inclusion. FITF focus on the development of the technology that can provide scalable and sustainable solutions for Inclusive growth and increase the reach of the banking sector beyond the brick and mortar structure.

Issues & Challenges in financial Inclusion in India India being one of the fastest growing economies of the world still it's a home to one third of the world's poor. About three quarters of India's population in poverty lives in rural India and is engaged in agricultural activities. In fact 65 percent of the Indian population is being employed in the agriculture sector but the contribution to the GDP is only 22 percent. The availability of banking services to the small and marginal farmer is very limited and is a big hindrance in the growth of the landless or small farmers. They are forced to utilize informal sector services for their financial need.

The need of the rural and the urban unbanked or the excluded strata are different. Financial inclusion is an expansion policy importance expected at improving conditions of defenseless groups in many countries. The watchdogs of financial system came with several measures on complete financial inclusion. One of the major initiatives taken up by the SAARC nation is of microfinance. According to the assessment of Financial Access 2010 survey on various issues of financial inclusion schedule of the SAARC nations advises that execution devices are weaker than legislative necessities in all the SAARC countries. In India microfinance elevation is very impressive but high interest rate has enlarged household debt burdens leading to suicide cases Kumar, B & Mohanty, B (2011). There is a wide variation in term of financial inclusion across different states and over time Chakravarty, S. R. & Pal, R. (2013). Financial Inclusion positions policy challenges on a measure and with an urgency that is unique for emerging countries which line more than 90% of the world's unbanked population. Established countries policy makers have known that there are multifaceted and multi-dimensional issues that underwrite to financial exclusion and consequently require a broad variety of suppliers, goods and skills that outfits the socio-economic, cultural, political and geographical conditions in these countries. India's involvement as a developing country towards confirming financial inclusion and preparing out financial exclusion has been exceptional. Indian economy has attained a remarkable economic growth throughout the last period of 10 years or so. But this development has not been comprehensive. Mobile phones, E-Mail, E-Commerce, and Swanky Cars, fashionable costumes, artificial cash and 24*7 banking services by ATMs have all become genuineness in the nation however only in the metropolises and municipalities. The reasons for this high-class growth saw in the country has been credited to the failure of the second generation reforms which were broadly related with financial sector reforms aimed to achieve greater financial inclusion. The problem of 'Financial Exclusion' is severe in the country.

Conclusion

Startup India is an initiative taken by Indian government to promote the innovative ideas by young companies. These companies may get enough funding and support at the initial phase of

their life cycle, but later on, they have to rely on their customer base. There are various marketing and financial challenges and issues faced by startup companies in India. The paper aims to explore the various challenges faced by startups by collecting data through a structured questionnaire from founders/owners of the startups. Also some suggestions for how to overcome the marketing challenges can be provided

References

- (CMF),M.R.(2009,JANUARY).financial-inclusion.<http://www.centre-for-microfinance.org/research-projects/financialinclusion/100-financial-inclusion-access-usage-completed/>
- [2]. Ananth , S. &Sabri, T. (2013), Challenges to Financial inclusion in India: The Case of Andhara Pardesh, Economic & Political Weekly, Volume XLVIII No 7; Pg 77-83
- [3]. Arulmurugan, P., Karthikeyan, P. and Devi, N. (2013) Financial Inclusion in India: A Theoretical Assessment, Indian Journal of Applied Research, Vol. 3, Issue 3, pp. 217-222.
- [4]. Bhatia, N and A Chatterjee (2010): "Financial Inclusion in the Slums of Mumbai", Economic & Political Weekly, 45(42): 23-26
- [5]. Bihari, S. (2011). Growth-Through-Financial-Inclusion-in-India. Retrieved SEPTEMBER 08, 2013, from <http://www.globethics.net/web/ge/library/overall-search?title=Growth-Through-Financial-Inclusion-in-India-5140239>
- [6]. Chaia, Alberto, Schiff Robert and Silva Esteban (2010), 'A new idea in banking for the McKinsey's Quarterly
- [7]. Chakravarty, S.R, Pal. R (2013). Measuring Financial inclusion in India: An axiomatic approach, Journal of Policy Modeling, september 2013.
- [8]. Majumdar C, Gupta G, (2013), " Financial Inclusion in Hoogly", Economic & Political Weekly vol xlviii no 2, Pg 55-60.
- [9]. Mohammad Shafi, A. H. (2012). Financial Inclusion in Developing Countries. Retrieved from <http://www.ccsenet.org/journal/index.php/ibr/article/view/18807>:
- [10]. Ramji M. (2009), Financial Inclusion in Gulbarga: Finding Usage in Access, working paper

series No 26, Institute for Financial Management and Research, Centre for micro finance.

[11]. Rangarajan, (2008), the final Report of the Committee of 'Financial Inclusion' under the Chairmanship of Dr. C. Rangarajan,

[12]. FINANCIAL INCLUSION. (n.d.). Retrieved SEPTEMBER 08, 2013, from <http://datatopics.worldbank.org/financialinclusion/>:

[13]. FINANCIAL INCLUSION. (2013, SEPTEMBER 6). From http://en.wikipedia.org/wiki/Financial_inclusion:

[14]. Swamy, V. and Vijayalakshmi (2010), Role of Financial Inclusion for Inclusive Growth in India-Issues & Challenges

[15]. PTI. (2013, MAY 02). INDIAN EXPRESS.