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More Finance, More Growth: What India Does?

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Abstract: Access of finance by the poor and vulnerable group is a prerequisite for poverty alleviation and development. However, a large section of the world population is excluded from the financial market. In India half of the poor are financially excluded from the banking sector of the country. Financial inclusion or inclusive financing is the delivery of financial services at an affordable cost, to vast section of disadvantaged and low income segments of society. Thus financial inclusion begins the next revolution of growth and prosperity. The theme of the paper is to discuss the current status of financial inclusion in India and the importance of financial inclusion in a developing country like India. The study also discusses the achievements of Financial Inclusion Plan in first phase and the forthcoming plan of RBI for the second phase of financial inclusion.

Keywords: Financial Inclusion, Services, Economic Growth, Financial Exclusion, India.

I. INTRODUCTION

A well-functioning financial system serves the nation by offering services, payment, credit, and risk management products to the people with a range of needs. An inclusive financial system allows broad access to appropriate financial services for the poor people and disadvantages groups of the society (Kunt and Klapper, 2013). Today we are completely aware that there are a vast number of unreached people excluded from formal financial services in India. Financial exclusion is a barrier to attaining a high economic growth rate for a developing country. Such as inferior availability of funds, higher cost of these funds, fewer economic activities that can be financed and hence lower the resulting economic growth. Hence to achieve inclusive growth a proper mechanism is required which channelizes all the resources from top to bottom. Now, the question comes: Does a well-developed financial system serve the poor? There is a fact that broad access of financial services would enable the poor people and disadvantaged groups to finance their projects. This gives a positive impact on growth and poverty alleviation (Ramji, 2009). The financial sector plays a multidimensional role in the progress of financial development. It mobilizes and concentrates resources for investment and allocates them based on an assessment of risk and return, judging creditworthiness and monitoring performance, it offers risk- reduction and risk- pooling services that have both direct effects on welfare and indirect effects on growth (Honohan,2008).

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies in the world. The first step in financial inclusion is to facilitate people in getting basic facilities like food, shelter and clothing to the people and then comes the provision of bank account, wherein they can save whatever little they can. Financial inclusion can be thought of in two ways in India. One is exclusion from the payments system specifically not having access to a bank account and the second is from formal credit markets, requiring the excluded to approach informal and exploitative markets. At present the focus is on establishing the basic right of every person to have access to affordable basic banking services (Thorat, 2007).

II. Objective of the Study

1) To study the importance of financial inclusion in a developing country like India.

2) To examine the current status of financial inclusion in India.

3) To highlight the Forthcoming Plans of Government of India and RBI for promoting penetration of banking services in India.

III. Research Methodology

A secondary research was conducted to review the present status of financial inclusion in India. The data collected through various report published by RBI, NABARD, World Bank and also from various committee reports submitted to the government of India on financial inclusion.

IV. Review of Literature

Many researchers have conducted the study on Financial Inclusion. Some of them are here:

Mahendra (2006) highlighted the issues and challenges for reducing financial exclusion, such as farmer's indebtedness, supply and demand side issues, role of SHGs and productivity of small farmers and other vulnerable groups. It was suggested that Financial Inclusion should cover savings, insurance, payments and remittance facilities for the excluded segment of society.

Mahadeva (2008) in his study recommended a number of alternative initiatives to increase access to institutional financial services for the under-served population. The study suggested the need of increase in number of financial institutions, volume and comfort offered by household savings helps to examine the credit needs of the people. The study also recognised the need to make Panchayat as catalytic institutions in administering public funds for promoting rural development.

Sarma (2008) presented a cross country analysis by using the Index of financial inclusion (IFI) following a multi- dimensional approach to measure the inclusiveness of a country's financial system. The value of IFI lies between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. The study also strengthened the assertion that financial exclusion was indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanisation and poor connectivity seem to be financially inclusive.

Chattopadhyay (2011) in his study examined the coverage of financial inclusion in West Bengal by using the index of financial inclusion based on its penetration, availability and usage dimensions. The study defined the reasons of financial exclusion from both supply side as well as demand side and also revealed the presence of moneylenders in rural areas as a dominate source of rural finance although the wide presence of banks in these areas.

Kunt and Klapper (2013) introduced Global Financial Inclusion ("Global Findex") database. The study explores country and individual level variation in how adults around the world use formal and informal financial products. It was concluded that the share of adults in high-income countries with an account at a formal financial institution is more than twice that in developing countries. The study also examines the barriers to financial inclusion and document the relationship between subjective and objective barriers to access.

V. Why Finance Inclusion is Important?

An inclusive financial system is desirable for many reasons. Such as first, it facilitates the efficient allocation of productive resources, second it improves the day to day management of finance and third it also reduces the growth of informal sources of credit like moneylenders (Sharma, 2012). Financial exclusion is a barrier to attaining a higher economic growth. Due to the lower availability of funds and higher their cost, fewer are the economic activities that can be financed and hence lower will be the economic growth. For achieving the desired economic growth it is necessary to include every last member of the society (Sengupta,2013). For strengthening the banking activities it is required to provide the banking facilities at each and every corner of the country. Banking penetration helps to increase the inclusiveness of the people by increasing the economic activities of these people. This will leads economic growth which leads economic development.

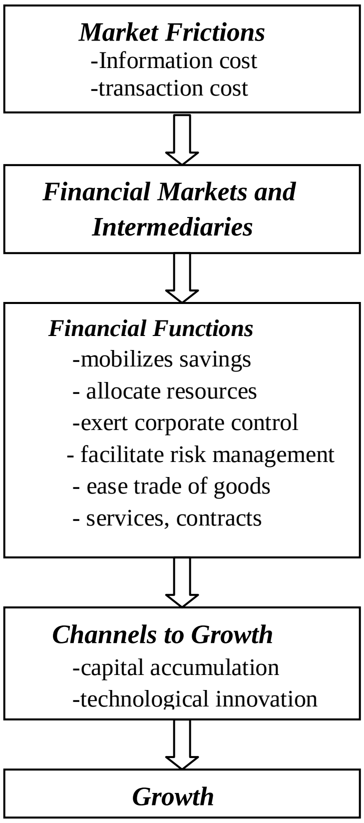

Figure 1: A Theoretical Approach to Finance and Growth
Source: Fig. 1 in Levine (1997)

Figure 1 shows the Theoretical Approach to finance and growth explained by Levine (1997). Levine explained how a particular market friction motivates the emergence of financial markets and intermediaries. Less information cost and transaction cost leads financial contracts, markets and institutions. This facilitates the proper allocation of resources, experts control on risk management, mobilizing savings and easy exchange of goods and services. Capital accumulation and technological innovations are two channels of economic growth. Because financial inclusion helps to reduce the transaction cost and information cost, it helps to generate economic growth and economic development (Levine, 1997).

A strong financial system also encourages growth in the market and competition for existing firms. It ensures that poor people and small entrepreneurs need not to depend on middlemen. On the other hand, an underdeveloped financial system can be uncompetitive, conventional and unfavourable to poor or small entrepreneurs (Rajan & Zingales, 2003).

VI. Initiation of Financial Inclusion in India

In 2004, the Reserve Bank of India set up Khan Commission to look into the matter of financial exclusion of the common man from the banking system of India. The recommendations of the commission were incorporated into the mid-term review of the policy (2005-06) and RBI set the targets for the banks to achieve greater financial inclusion and make available the basic “no-frills” banking accounts.

In 2005, the term “Financial Inclusion” again featured when it was introduced, in a pilot project in Pondicherry, by K. C. Chakraborthy, the chairman of Indian Bank. Mangalam village became the first village in India where all households were provided banking facilities. India has the highest number of households excluded from banks which was 145 millions. There are various socio- cultural, economic issues that hinder the progress of financial inclusion in India. The major reasons of financial exclusion can be studied from both demand side as well as from supply side. On demand side it includes lack of awareness, low incomes, unemployment, illiteracy, social exclusion of people act as barriers. From supply side, distance from bank branch, incorrect branch timings, requirement of complex documents for opening bank accounts, unsuitable banking products/schemes, languages, high transaction cost and attitude of bank officials, procedural rigidity and ineffective govt. intervention are the common reasons for exclusion (Chakrabarty, 2012).

Government of India takes several measures to overcome these obstacles. Such as, for the demand side factors the use of IT innovations, development of rural infrastructure and development initiatives in the farm sector and Farmers Club Programme could lead to widespread and sustainable financial inclusion. The use of No-Frills accounts, Business Correspondents (BCs), Business Facilitators (BFs), Self Help Groups- Bank Linkage Programme, Financial Literacy, Information and Communications Technology- enabled Kisan Credit Card/General Credit Card, mobile banking and mobile banking vans to overcome the supply side factors of financial exclusion (Kumar and Mishra 2011).

Table 1 explain the progress of Schedule Commercial Banks (SCBs) in India during the first phase (2010- 2013) of Financial Inclusion Plan. The following key parameters speak the journey travelled so far:

i) More than 2,68,000 banking outlets have been set up in villages as on March, 2013 beside 67,694 banking outlets in march 2010.

Table 1: Progress of SCBs in Financial Inclusion Plan

Sr. No.	Particulars	Year ended March 2010	Year ended March 2011	Year ended March 2012	Year ended March 2013	Progress (2010-2013)
1	Banking outlets- Rural Branches	33378	34811	37471	40845	7467
2	Banking outlets- BCs	34174	80802	141136	221341	187167
3	Banking outlets- other Modes	142	595	3146	8424	8282
4	Banking Outlets- Total	67694	116208	181753	268454	200760
5	Urban Locations covered through BCs	447	3771	5891	27143	26696
6	BSBD Accounts (No. in lakh)	734.53	1047.59	1385.04	1820.63	1098.77
7	BSBD A/Cs (Amt. in Crores)	5501.71	7612.00	12040.62	18291.89	12790.18
8	OD facility availed in BSBD Accounts (No. in lakh)	1.83	6.06	27.05	39.42	37.59
9	KCCs - No. in lakh	243.07	271.12	302.35	337.87	94.82
10	KCCs - Amt. in Crores	124007.06	160005.04	206839.03	262298.02	138290.96
11	GCCs - No. in lakh	13.87	16.99	21.08	36.39	22.52
12	GCCs - Amt. in Crores	3510.87	3507.06	4184.41	7661.39	4150.53
13	BC-ICT Accounts (No. in lakh)	132.65	316.30	573.01	810.38	677.73
14	ICT Accounts-BC-Total Transactions (No. in lakh)	265.15	841.64	1410.93	2546.51	4799.08

Source: Chakrabarty K.C. (2013). (Data include SCBs excluding RRBs).

ii) At present there are 102,343 branches of Scheduled Commercial Banks (SCBs) in India, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63 per cent of the total number of branches in rural and semi-urban areas of the country.

iii) According to RBI statistics, the total no. of functioning branches of all commercial banks in the country reached to 1,02,343 branches with 37,953 branches were in rural areas as on 31st March, 2013.

iv) More than 7400 rural branches have been opened during this period compared with the reduction of nearly 1300 rural branches during the last two decades.

v) Nearly 1098 lakh Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDAs to 1823 lakh. The share of ICT based accounts to total Basic Savings Bank Deposit Accounts increased from 25% in March 2010 to 45% in March 2013.

vi) The number of Kisan Credit Cards issued by the banking system were reached to 337.87 lakh with a balance of Rs. 2,62,298 crore at the end of March, 2013.

vii) The Average Population per Bank Branch (APBB) fell down from 64,000 in 1969 to 12,100 as on 31st March, 2013.

The nationalization of banks, Lead Bank Scheme, integration of Regional Rural Banks, Services Area Approach and formation of Self-Help Groups- all these were initiatives aimed at taking banking services to the common man. As we all know, Inclusive Growth is necessary for the overall growth and development of the country and Financial Inclusion works as a driver of economic growth and poverty alleviation. For this Banking Services are needed to reach each and every part of the country. Today banks are in the process of implementing Financial Inclusion Plan to provide banking outlets and services in the unbanked villages having a population of over 2000 by March, 2012. The number of bank branches increased 12 times from 8,262 in 1969 to 99,884 in 2012 and the share of branches in rural areas also expand. Table 2 provides the glimpse of the manifold expansion of bank branches in India:

Table 2 Bank Branches in India

Year	Rural	Semi- Urban	Urban & metropolitan	Total	Rural Area Share (%)
1969	1,833	3,342	3,087	8,262	22
1970	3,063	3,718	3,350	10,131	30
1975	6,807	5,598	6,325	18,730	36
1980	15,105	8,122	9,192	32,419	47
1985	30,185	9,816	11,384	51,385	59
1990	34,791	11,324	13,637	59,752	58
1995	33,004	13,341	16,022	62,367	53
2000	32,734	14,407	18,271	65,412	50
2005	32,082	15,403	20,870	68,355	47
2010	32,554	21,053	34,834	88,441	37
2011	33,813	23,236	36,750	93,799	36
2012	35,653	25,542	38,698	99,884	36

Source: RBI

VII. Forthcoming Plan of RBI for Financial Inclusion

Reserve bank of India's vision for 2020 is to open nearly 600 million new customer's accounts and service them through a variety of channels. For this purpose RBI has adopted a structured and planned approach to financial inclusion with a phase of three years. The first phase of Financial Inclusion Plans (FIPs) was implemented over the period 2010-2013 and gets a reasonable progress in penetration of banking services. In order to continue with the process of ensuring access to banking services to the excluded, Reserve Bank of India introduced a second phase of financial inclusion plan for the period of 2013-16. Following are the key activities for Financial Inclusion Plan 2013-16:

1. A roadmap has been prepared for covering the remaining unbanked villages in India. About 4,90,000 unbanked villages with population less than 2000 have been identified and allotted to various banks.

2. RBI has now allowed banks to use Aadhaar Card as a proof of both identity & address and MNREGA Job Card as an officially valid document for opening account. The DBT was rolled out in 43 districts in first phase. On 1st July, 2013 it has been extended to 78 districts. Eventually, all districts will be covered (Joshi, 2013).

3. To ensure the supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion.

4. In order to lead efforts towards greater financial inclusion, the reserve bank of India has constituted a Financial Inclusion Advisory Committee (FIAC) chaired by a deputy governor.

5. Building financial capability through financial literacy is a key element of financial inclusion. For this 718 Financial Literacy Centres (FLCs) have been educated through indoor education and outdoor activities such as awareness camps, seminars and lectures etc. It is necessary for the banks to conduct a minimum of one outdoor financial literacy camp every month.

6. The National Strategy for Financial Education (NSFE) has been prepared under the guidance of technical group of the Financial Stability Development Council (FSDC). Its aim is to establish initial contact with 500 million adults and to educate them on key savings, protection and also about investment related products.

7. Technology holds the key of efficient delivery of small value transactions in large volumes on low transaction cost. National Payment Corporation of India (NPCI) developed Immediate Payment Service (IMPS) system for 24*7 electronic funds transfer. IMPS facilitates customer to use mobile instruments as a channel for accessing their bank account.

8. RBI has mandated to banks to open at least 25% of the branches in unbanked rural areas. The banks can adopt ICT-based BC model, banking outlets, either through brick & mortar branches and branchless mode such as Kiosks, off-site Rural ATMs, Mobile vans etc.

9. Banks have been advised to provide an onsite ATM in all the branches in identified districts for ensuring the expansion of ATM network.

VIII. CONCLUSION

Although the banking technology in India moving fast enough but, still a large number of households are outside the formal banking system. Only 35 percent of adults in India have a formal account and 8 percent a formal loan, according to Global Financial Inclusion (Global Findex) database (Kunt et al, 2013). The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies in the world. To increase the banking penetration in the country Reserve Bank of India (RBI) initiated several important steps. Such as: Opening of No-Frills Accounts, Relaxation of KYC norms, Engaging Business Correspondents (BCs), opening of Branches in Unbanked rural centres, Financial Literacy Programmes, commencement of Direct Benefit Transfer schemes, Establishment of FIAC, use of Mobile Banking etc.

Reserve bank of India's vision for 2020 is to open nearly 600 million new customer's accounts and service them through a variety of channels. Thus the key strategies here would be to educate, to motivate and to encourage the people for availing the banking services. However financial illiteracy, low income savings and lack of bank branches in rural areas continues to be a road block for financial inclusion in various states of the country. Along with financial literacy, there is a need for strengthening the credit delivery mechanisms to improvise the financial economic growth. A nation can grow both economically as well as socially; if it's weaker section can turn out to be financial independent.

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