IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 6, Issue 4. Ver. I (Jul. - Aug. 2015), PP 35-37
www.iosrjournals.org

Measures for Achieving Financial Inclusion in India and Its Inclusive Growth

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Abstract: *Financial Inclusion is the first and foremost policy option to fulfil social and financial needs across the country. The primary responsibility, in any country, is providing financial services to vulnerable groups to improve their standard of living. "Fifty six percent of adults in the world do not have access to formal financial services"* ***(Oya Pinar Ardic, 2011),*** *whereas "in India 89.3 million farmers i.e., 72.7% of total population, are excluded from formal sources of finance"* ***(KabitaKumariSahu, 2013).*** *The Reserve Bank of India directed commercial banks to promote financial inclusion in India which in turn results in the development of economically backward areas.* ***Rajan&Zingales, (1998)*** *indicates that "there is a positive relationship between financial developments with growth in banking industry through financial inclusion".* ***Leeladhar, (2006)*** *states that liberalization of banking services at an affordable cost to vast sections of disadvantaged and low-income groups is essential for sustainable growth of an economy. As per the directions of RBI, all commercial banks have been taking assistance from various social and financial entities like Joint Liability Groups, Non-Banking Finance Companies (NBFC), Self-help groups, co-operative Banks, and Regional Rural Banks (RRBs) to improve financial inclusion."Financial inclusion is a very important, complementary and incremental approach for inclusive development and poverty reduction"* ***(Michael Chibba, 2009).****The main objective of the study is to know the status of financial inclusion in India and to give appropriate suggestions for inclusive growth of an economy.*

Key words:*Financial Inclusion, Reserve Bank of India, Economic Development.*

I. Introduction

Meaning Of Financial Inclusion

In India, Financial inclusion was launched by K.C. Chakrabothy in 2005. Mangalam is the first village in India where all households had banking facilities. In India, the three states Kerala, Pondicherry and Himachal Pradesh are announced to have 100 percent of financial inclusion.

The Committee on Financial Inclusion defined it as "the process of ensuring access to financial services timely and adequate credit needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost" **C. RangaRajan, (2008).**"The delivery of credit and other financial services are at cost to the vast sections of the disadvantaged and low income groups. Financial inclusion refers to a wide range of financial services at reasonable cost. This includes not only banking services but also other financial services such as insurance and other services." as denoted by **Raghu Ram Rajan, (2009).**

Multi-dimensional definition was given by the Centre for Financial Inclusion (CFI) as "access to quality financial services, provided at affordable prices in a convenient manner delivered to the disabled, the poor, the rural and other excluded populations."

For financial inclusion, there is a necessary condition for financial deepening. It mobilizes savings from saver to user for productive purpose. It is aware that the expansion of financial services results in building-up of economic growth which alleviates poverty and improves the quality of life. Thus, financial inclusion leads to expansion of financial services to all sections of the society.

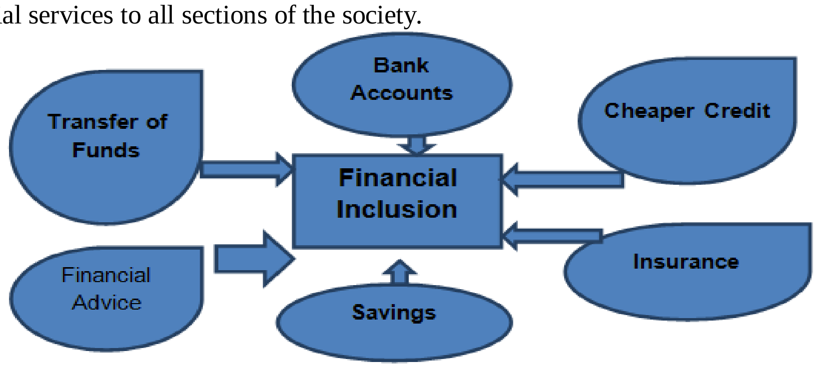

Figure: 01 An Over view of Financial Inclusion Services

II. Review Of Literature

1) **Mira mendoz (2009)** says that "the state of financial inclusion using the case of Madhya Pradesh and suggests micro finance as a tool for successful financial inclusion." This article analyzes the status of efforts in financial inclusion by banks, micro finance institutions (MFI) in the state Madhya Pradesh in India. Finally, this article recommends that policy makers use micro finance and preferably so-called livelihood models, as a tool to achieve greater financial inclusion. This paper refers only the contribution of Micro Financial Institutions for expansion of financial services but not investigates other intermediaries like Self Help Groups and Non-Government Organizations.

2) **Anand Sinha (2012).** Urban co-operative banks have a duty to rise up to the aspirations of the nation to convert the perceived weakness into an exciting opportunity and facilitate inclusive growth. He also advocates a business delivery model through the involvement of all stakeholders to make financial inclusion a reality. Finally, he explicates on the successful experiments from Non-Government Organizations such as Self- employed Women's Association (SEWA) which has started a financial counseling training service for self-employed women, including training trainers and identifies how these run-off successes can be replicated on a larger scale in a cost effective way.

3) **K.C. Chakrabarthy (2012)** highlights the meaningful partnership among banks, Micro Finance Institutions and committees for promoting financial inclusion. He also opines that technology interface is not user-friendly for rural people due to lack of financial literacy. Hence, bankers' frontline staff, managers and business correspondents create friendly environment on the human side of banking.

4) **H.R.Khan (2012)** expressed that financial stability and financial inclusion are two sides of a coin but that a healthy risk-mitigating framework which exploits their complementarities is in-place to ensure that work with each other. He also argues that a combination of business strategies targeted towards the population at the bottom of the pyramid, along with transactions regulatory environment will foster greater financial inclusion stability.

5) **Arup Mukherjee and SabyasachiChakravorty (2012)** critically examined the capacity and the role of other institutions. Finally, they conclude that higher level of performance of the commercial banks is mandatory to ensure financial inclusion in that area.

Objectives Of The Study: The research aims to cover the following objectives

- To know the status of financial inclusion in India
- To give appropriate suggestions for inclusive growth of an economy

Financial Inclusion In India:

In India, the total number of banks has increased from 13,622 in the year 1970 to 1, 11,156 by the end of March 2013. As per survey on financial access in 2011, every 0.1 million population in India had 10.6 branches and 8.9 ATMs, whereas in China 23.8 branches and 49.6 ATM while Brazil had 46.2 branches and 119.6 ATMs. It is observed that in India for every 0.1 million population, there are 10.6 branches and 8.9 ATMs. It is very low compared with a developed country like Brazil.

Table:01 indicates that there is a need for required number of branches for expansion of financial services. In this context, Former Finance Minister **Pranab Mukherjee, (2010)** and the present Governor of Reserve Bank of India Dr.RaghuramRajan gave priority for financial inclusion and issued license to industrial group in order to expand branches in rural, semi-urban and urban areas. Under Jan DhanYojana (JDY) scheme Honourable Prime Minister stressed on public sector banks to open a number of 7.5 crore bank accounts targeted by the end of January 26th, 2015.

Table: 01 Outreach Of Banking Sector Country Wise
Position – India Vis-À-Vis The World Branches And ATMs

Sl. No.	Country	Branches	ATM
		0.1 million Population	
01	China	23.8	49.6
02	Brazil	46.2	119.6
03	India	10.6	8.9

Source: World Bank, Financial Access Survey (2010)

Geographic penetration can be measured in terms of bank branches and ATMs per 1,000sq.km **(ManasChakrabarthi, 2013).** The developing country like Indiatotal ATMs are spread over 1, 76,410 and every one lakh population 8.89 and every 1,000 sq.km 25.43 ATMs and 22.57 branches (World Bank, 2011). Table: 02 specifies number of branches and ATMs per 1, 000 sq.km. It is found that both branches and ATMs are greater in number than developed countries except UK. In developed countries, these were 45.16 branches and 104.46 ATMs in UK, 9.81 branches and 38.43 ATMs in USA, and 3.05 bank branches and 3.72 ATMs in Brazil for every 1,000 sq.kms respectively.

Table: 02 Geographic And Demographic Penetration Of Banking Services In Developed Countries

Country	Number of bank branches 1000sq.km	Number of ATMs per 1000sq.km
UK	45.16	104.46
USA	9.81	38.43
Brazil	3.05	3.72
India	22.57	25.43

Source: World Bank, April, 2012

Financial inclusion is one of the tools for sustainable growth of an economy. It not only increases deposits but also aids in economic development. The primary responsibility is to provide financial services in any country to vulnerable groups for the improvement of their standards of life. In this context, the World Bank has conducted a survey on financial inclusion during April-June 2011. The total respondents were 3,518 but the sample excluded north-eastern states and 10% of remote islands representing total population. The survey suggested that India is one of the developing countries lagged behind in opening bank accounts. As a result, the Reserve Bank of India (RBI) issued directions to commercial banks to promote the process of financial inclusion in India through the development of economically backward areas. Further, financial inclusion is a passport for other financial products and services such as short term credit facilities in order to get other financial products such as insurance and pension products necessarily require to access bank account. Financial Inclusion provides a database for individual borrowers to capture loans, multiple lending and excess borrowings.

III. Conclusion

The Prime Minister of India, Shri Narendra Modi launched 'Financial Inclusion Mission' on the eve of Independence Day. The main objective is to ensure that every household in India has access to banking services such as savings accounts, credit, remittances, insurance and pension.

Inclusive growth of an economy has to be influenced by broad range of financial services such as deposits, loans, payments services, money transfer, and insurance to poor and low income households, and their micro enterprises.In this context, financial literacy and inclusion are a win-win opportunity - for the poor, for the banks and for the nation.

Acknowledgement

I am thankful to the Director, ICSSR, New Delhi for giving me an opportunity to take up research project entitled "A Study on Financial Inclusion in Krishna District: Andhra Pradesh" during 2014-15. I owe an irredeemable debt of gratitude to the ICSSR for continuous monetary support throughout the period of this study.

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