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CONTENTS

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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

REFERENCES

APPENDIX/ANNEXURE

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CONTRIBUTION OF FINANCIAL INCLUSIONS FOR ECONOMIC GROWTH

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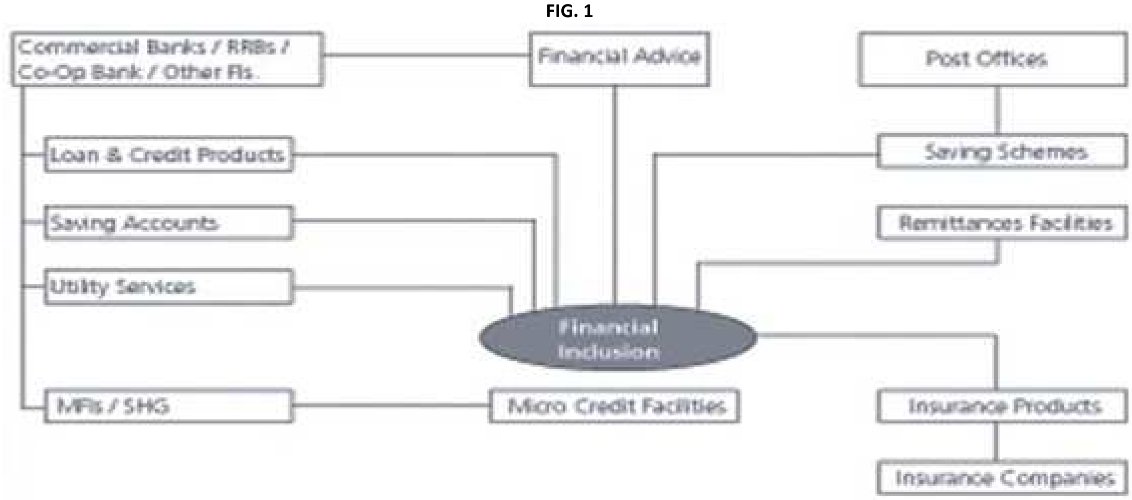
ABSTRACT

The economy is in the path of growth route and with vibrancy in all round economic activities as well as creation of new activities apart from a lean period of 18 months resulting from the global turmoil the economy resilience needs to be appreciated. The main driver being the manufacturing sector which grew at 16.3% in the last quarter, mining 14% (Q4) and the overall GDP growth was 7.4% in the year 2009-10 only China surpassed with higher growth rate at 11.9% in the January–March quarter whereas rest of the word are witnessing fragile recovery aftermath the global financial crises. At present the financial depth in Indian scenario is not that encouraging against Asian countries though it has gained momentum. As deepening financial system and widening its reach is crucial in terms accelerating the growth and achieve equitable objectives. With sudden burst in entrepreneur drive across the country will require additional financial support to nurture them. With pressure for credit delivery will need to mobilize additional resources from a wider deposit base. Thus financial inclusion will help strengthen financial deepening and enable resource mobilization for extending and broadening credit leading to economic development and accelerate growth. Inclusive Growth depends mainly on equitable distribution of growth benefits and opportunities and Financial Inclusion is one of the most critical parts, which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be assumed by the state that to bring higher growth, there should be inclusive finance irrespective of all sections of people. But, it is felt that the efforts taken are not good enough to meet this awe-inspiring issue of Financial Inclusion. Financial Literacy and Awareness continue to remain a matter of concern with regard to usage of financial services or products. It appeals for harmonization of all the participants like-Banks, Governments, Civil Societies, and NGOs etc. to reach the objective of Financial Inclusion.

KEYWORDS
banking services, financial inclusion, financial exclusion, inclusive growth.

INTRODUCTION
The term "Financial Inclusion" means the transfer of banking services at a reasonable cost to the huge sections of deprived and low income group. "Inclusive Growth" by its definition implies an impartial distribution of resources with profits gained to every sections of the society. Financial inclusion and inclusive growth are the two sides of a coin. Both are interrelated and interdependent. For growth to be inclusive, all people should be come under access to financial services. In India, we can see that growth is hampered by Financial Exclusion, which is just the opposite of financial inclusion. Many a times, banking services etc. are not delivered adequately; especially in rural areas. So, there is a need to examine or verify the contribution of financial inclusion (i.e. delivery of financial services to poor) to mould the growth of India which is inclusive i.e. proper allocation of resources to every corners of the country.
The theme of the paper is to understand the inter- relation between financial inclusion and its overall contribution to economic growth and the impediments to financial inclusion. Financial inclusion has much wider perspective not confined to bare minimum access to no frill accounts but on a larger canvas it is to deliver affordable financial services to vast section of the society, devoid of any disparities in income and other social structures.

FIG. 1



Source: Financial Inclusion: A Viable Option for Inclusive Growth

WHY SPEAKING ABOUT FINANCIAL INCLUSION?
"Financial Inclusion" literally means the transfer of banking services at a reasonable cost to the huge sections of deprived and low income group. The services which normally comes under Financial Inclusion, It include – credit, savings, insurance, payments and most importantly remittance facilities. It is imperative that inclusive growth without financial inclusion will not succeed in achieving equitable objectives as financial inclusion can truly fortify the economic standards of the

poor and the disadvantaged whose enrichment is foremost prerequisite for a nation encumbering growth trajectory. And the issue is aptly discussed in academic literature that there exists a correlation between financial development and economic growth. “Inclusive Growth” implies an impartial distribution of resources with profits gained to every sections of the society.

RESEARCH METHODOLOGY
The Data source of this paper is Secondary, collected from various journals, research papers, reports, books, E-Journals, RBI Report, Report of NABARD etc. Then, a broad framework is made on the role of Financial Inclusion over comprehensive growth pattern in India. The study covers entire India.

OBJECTIVES
- The main goal of study is to find out the influence of economic growth on financial inclusions
- How financial inclusions depend on economic growth? And how both go hand in hand.

REVIEW OF LITERATURE
“Financial inclusion may be interpreted poor households’ access to basic financial services from formal and semiformal service providers which include savings, loans and insurance and other financial services in a manner that is reasonably convenient and flexible in terms of access and design.” In this perspective, the study attempts to measure financial inclusion as a composite measure that takes into consideration access to transaction banking, savings, credit and insurance.
TRANSACTION BANKING: refers to access to bank’s financial services other than savings, credit and insurance.
SAVINGS: Lesser savings leads to lesser capital formation implying lesser development. Not having a savings account can lead to financial exclusion. Credit: credit is the most valid indicator for assessing the status of financial inclusion. Though other indicators are measured, credit access and indebtedness of a family determines the level of wellbeing achieved. Credit measured as a sole measure of financial inclusion can also be useful that it may provide status of the stakeholder considering aspects like source, cost of borrowing, adequacy, proximity etc.
INSURANCE: Insurance provides coverage to the accidents/emergencies arising in a society affecting human lives, assets or livelihoods. Recent developments have Review of Literature Department of Applied Economics, CUSAT 4444 increased popularity and access to insurance. Also Government has enacted insurance policies for the benefit of sea faring fishers. Insurance inclusion is measured as sub element in the financial inclusion designating appropriate weights.
Macro indicators of financial inclusion are built up on available financial monitoring indicators such as number of bank accounts, coverage of population by bank branches, per capita credit, deposit etc. Alternatively, this does not suffice an indicator explaining access to financial services. Access is not easy to measure, and empirical evidence linking access to development outcomes has been quite limited because of lack of data. Existing evidence on the causal relations between financial development, growth, and poverty is consistent with theory. However, most of the evidence comes either from highly aggregated indicators that use financial depth measures instead of access or from micro studies that use financial or real wealth as proxy for credit constraints (World Bank, 2008). Economic approach to measuring financial inclusion/exclusion depicts it based on simple economic concepts using ‘exclusion curve’, which plots the proportion of the population in a particular income band that consumes a particular financial service.

SHORTCOMINGS
LACK OF FINANCIAL LITERACY: Low literacy rate has been a great impediment for financial inclusion as ignorance caused low levels of awareness causing difficulty to communicate the necessity for banking habits and what savings can do to enrich their living standards. With little knowledge it turns out to be difficult task to make them understand the product features and second the complex legal terminologies.
GAP IN TECHNOLOGY: Next generation of banking is era of technology, an inevitable source to improve branch infrastructure in terms of usage, increase outreach and help in scaling up activities. With growing spread in clientele and the need for servicing them once the relationship is established will call for low cost delivery alternatives and technology can be leveraged to increase delivery channels at lower cost, have better internal controls, augment the competency, safety and reliability of the payments and remittances system and develop a credit information system for future requirements. IT can reduce cost and time in processing of applications, maintaining and reconciliation of accounts and enable banks to use their staff at branches for making that critical minimum effort in sustaining relationship especially with new accountholders.
LANGUAGE BARRIER: One of the major hitch in financial inclusion being non availability of printed literature in regional vernaculars which is otherwise a prerequisite for reaching the masses. Thus a barrier is immediately created for communicating the need for inculcating banking practices. As most of the literature in the banking industry are in bilingual mode (Hindi / English), with large demographic spread are habitually jeopardize by the ignorance of language which creating a fear psychosis. As it’s often found that language is a mode by which people try to identify and connect one self. Here every possible effort should be made to present printed literature in regional languages so that the message can be delivered in a larger vein thereby attracting people from all walks of life. Though the procedure will attract lot of man — hours, language authenticity and expensive printing expenditure but in the long run it will be highly beneficial in cutting across the myth and create a social relevance of inclusion and contributing to nation’s development.
TRAINED AND COMPASSIONATE MANPOWER: Human resource has been the crux for successful endeavours. In all counts trained manpower is a versatile asset which can be harnessed to achieve visionary goals. This has been the void that needs to be plugged from the grass root level as found most of the staff are either semi-skilled or trained only for performing regular banking activities, but what needed is versatile manpower with a human touch who can feel the pulse of the consumers and shifting gears as according to circumstances.
STATUTORY DOCUMENTAL REQUIREMENTS: The necessity for simplifying the documentation procedures in opening a SB account is utmost prerequisite as people from both urban and rural belt with low incomes face problem when they approach banks or in turn are approached by the banks or financial service provider for opening accounts. RBI should set guidelines for alternative mode of identification as the essence of Know Your Customer is to identify a person by profession and class and second prevent any unforeseen event harming the interest of the nation. In case of rural belt, the help of Gram Pradhan or Sarpanch (Village Head) can be used to identify a person if a document can be issued in his or her name stating his or her credentials it can be taken as viable document. Eccentric practices need to be advocated otherwise the vision reaching the mass with banking services will receive a setback.
LACK OF CUSTOMIZED PRODUCTS: As people differ in their perception, opinions and thoughts so does their needs. The banking industry has to understand this basic philosophy and develop customer centric innovative products. The whole banking industry is offering generic products matching the needs of urbanized population and arsenal of other services whereas the unbanked still remains to see the light of the dawn.
INFRASTRUCTURAL REQUIREMENTS: With the liberalization branch opening under new branch authorization policy of RBI which encourages the opening of branches in under banked or unbanked areas. But they are still excluded population in all the parts of the country stretching from North- Eastern Belt, the Eastern and Central zone. Infrastructural deployments are not that enthusiastic to run even a satellite operation which requires power, telecommunication services and roads for geographical access.

HOW FINANCIAL INCLUSION CAN BE FACILITATED?
Financial inclusion in India can be facilitated by following ways:
1. Restructuring financial architecture fitting to the needs of inclusive growth
2. Usage of Mobile Banking
3. More use of Business Facilitator and Business Correspondent
4. Micro Finance Institutions
5. Active role of educational institutes for furthering financial inclusion

In this way financial inclusion is necessary for inclusive growth in India. Financial inclusion is the need of the hour which is possible through coordination between banks, government and others to facilitate access to bank accounts among the financially excluded.

MEASURES TAKEN BY RBI

1. Introduction of ‘No frill accounts’: In November 2005, the banks were advised to open no frill accounts with minimum balances. The required documents for no frill accounts have been provided in regional language. Overdraft facility was extended on no frill account by various state banks.
2. Relaxing Know your customer (KYC) norms: KYC norms for account holder wit Balances not greater than Rs 50000 has been simplified. Ration card and voter Id are taken as KYC norms. Bio-metric cards have been issued.
3. General Purpose Credit Card Schemes: revolving credit facility in the form of General Purpose Credit Card (GCC) with Rs 25000 as credit limit has been sanctioned. Overdue loans up to Rs 25000 are eligible for one-time settlement. The borrowers availing one-time settlement schemes are very much eligible for fresh loans.
4. Intermediaries: From January 2006, banks were permitted to take assistance from non government organizations; Self Help Groups (SHGs) and Micro Finance Institutions (MFI) and other societal association as business facilitator. SHG are the association of women who contributes their savings to extend loan to the members against the guarantee of members.
5. Business Facilitator and Business correspondent model: RBI based on the recommendations of the Internal Group on Rural Credit and Microfinance adopted the ICT based agent bank model for ensuring door step delivery of financial products and services.

GOVERNMENT INITIATIVES

The ‘inclusive growth’ as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. Apart from addressing the issue of inequality, the inclusive growth may also make the poverty reduction efforts more effective by explicitly creating productive economic opportunities for the poor and vulnerable sections of the society. The inclusive growth by encompassing the hitherto excluded population can bring in several other benefits as well to the economy. 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)[1].

The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. The Plan document notes that the economic growth has failed to be sufficiently inclusive particularly after the mid-1990s. The Indian economy, though achieved a high growth momentum during 2003-04 to 2007-08, could not bring down unemployment and poverty to tolerable levels. Further, a vast majority of the population remained outside the ambit of basic health and education facilities during this high growth phase. In recent decades, economic and social inequalities have increased alongside high growth rates which have exacerbated regional inequalities. The latest seventh quinquennial survey by the National Sample Survey Organisation (NSSO) (61st Round) reveals that growth rate of employment increased from an annual 0.98 per cent in the period 1993-94 to 1999-00 to 2.89 per cent in the period 1999-2000 to 2004-05, while the acceleration in the rate of growth of labour force from 1.03 per cent to 2.93 per cent during same period had negative impact on employment rate.

Thus, the Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society. It clearly stated that ‘The development of rural India is an imperative for inclusive and equitable growth and to unlock huge potential of the population that is presently trapped in poverty with its associated deprivations’ (GoI, 2007). Huge investments in education and health, and rural infrastructure were the key elements of the inclusive growth strategy as envisaged.

The draft 11th Plan recognizes the importance of **small-scale industries** (SSI). It has a share of over 40 per cent of the gross industrial value added in the economy. About 44.0 per cent of the total manufactured exports of the country are directly accounted for by the SSI sector. In terms of employment generation, this sector is next to agriculture sector, employing approximately 295 lakh people.

SUGGESTIVE LINE ACTION

TECHNOLOGICAL INTERVENTION: Rural belts are poorly connected and customers needs to be drawn into the system as under privilege and low income groups are in the pursuits of daily employment and hence it calls banks to make extra efforts to reach them through a variety of devices like branch on wheels’ concept, Biometric ATMs and using mobile phones as a platform for banking transactions as the penetration in both urban and even in rural areas has surpassed expectations. Biometric voice interactive Hand held devices backed by technical support rendered by telecom service provider can be effective instrument for banking in unbanked areas for real time settlements at extreme low cost. Once the data base and track record is established then an array of financial services can be offered apart from general banking transactions like utility payments, loans and insurance products. Technology will open new frontiers for financial inclusion and offer a huge potential in terms of business and banks therefore need to take aggressive steps to use technology, as a mechanism to exploit potentials in innovative and creative manner. In fact, technology is critical block for future endeavors apart from providing operational support, to building massive database for referrals, reducing the transaction cost and valuable man hours.

EFFICIENT DELIVERY MECHANISM: The use of intermediaries will only augment the process of financial inclusion by connecting people to banks. And the involvement SHG, community leaders and especially the state-level administration at grass-root level (PRIs) in India would bolster the concept of door step banking and enable effective penetration into under-served areas. Focus should be to synergize the local entities with the broad based goals for improving bankable activities and up-scaling this program for financing productive actions. While up-scaling the SHG–bank linkage program, care needs be taken to identify the group, ensure their integrity and their reputation before exercising the project. Up-scaling additionally call for knowledge enhancement and capacity building. Though Khan Committee spelt out the agent related risk in the CGAP paper but on the contrary intermediaries’ functionaries enables risk reduction where the group is disciplined and social capital acts as credit enhancements. Banks should enter into agreement with postal authorities to use their wide area network and reach of post offices as business correspondents to outreach the masses by leveraging the proximity of the postman to the local population, his intimate knowledge of their backgrounds and the trust reposed on him.

PROACTIVE INVOLVEMENT OF RBI is required**,** when such unconventional mode operandi is facilitated. RBI should set framework on use of business correspondents and facilitators as outsourcing agents and review the process in regular basis to provide solidity. The use of MFIs as indirect mode for credit disbursals to large segment of poor and needy customers can add another dimension one helping banks to minimize credit risk and the second social upliftment.

SPREADING FINANCIAL LITERACY: An aggressive drive is recommended to raise literacy standards to spread financial literacy “which is a mechanism by which an individual can understand the concepts and risks embedded in a financial product and develop skill to build confidence and identify the potential financial hazards and prospects to make informed choices to improve economic standards”. The context of financial education has a broader understanding which involves understanding the behavioral and psychological factors which is innate to an individual which could be major barriers. Thus promoting intensive awareness by adult education programme, enacting village stage shows, public campaigns, usage of mobiles phones, using electronic media for promoting innovative advertisements, village panchayats, local school masters, and platforms like e-choupal and SreiSahay can provide extrav edge to reach the goal. Banks should avail the support of social organizations and village leaders who are well informed and undergone schooling to spread the need of joining the mainstream and remove any unnecessary fear housing in their minds.

CONCLUSION

The economy is in the path of growth route and with vibrancy in all round economic activities as well as creation of new activities apart from a lean period of 18 months resulting from the global turmoil the economy resilience needs to be appreciated. The main driver being the manufacturing sector which grew at 16.3% in the last quarter, mining 14% (Q4) and the overall GDP growth was 7.4% in the year 2009-10 only China surpassed with higher growth rate at 11.9% in the

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Inclusive Growth depends mainly on equitable distribution of growth benefits and opportunities and Financial Inclusion is one of the most critical parts, which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be assumed by the state that to bring higher growth, there should be inclusive finance irrespective of all sections of people. But, it is felt that the efforts taken are not good enough to meet this awe-inspiring issue of Financial Inclusion. Financial Literacy and Awareness continue to remain a matter of concern with regard to usage of financial services or products. It appeals for harmonization of all the participants like- Banks, Governments, Civil Societies, and NGOs etc. to reach the objective of Financial Inclusion.

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