

Financial Inclusion: Strategy for Economic Development of a Nation

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Abstract: Economic development (GDP) is a prime issue for a country for the last few decades. It's considered as a main focus point for every five-year plan. The government adopts various policies and strategies for the enhancement of GDP rate like financial inclusion, opening up of bank branches in rural India, microfinance, micro pension, Etc., Financial Inclusion is considered a key issue of this paper. Two aspects i.e., demand side and supply side is considered as the focal point for understanding the contribution giving by financial inclusion for the enhancement of economic development (GDP Rate) of a nation.

Keyword: Financial Inclusion, Economic Development

I. INTRODUCTION

Economic development (GDP) is a prime issue for a country for the last few decades. It's considered as a main focus point for every five-year plan. The government adopts various policies and strategies for the enhancement of GDP rate like financial inclusion, opening up of bank branches in rural India, microfinance, micro pension, Etc., Financial Inclusion is considered a key issue of this paper.

For understanding Financial Inclusion it's better to go through financial Exclusion. FE is defined as “a population which is still away from the organized financial sector for fulfilling their financial needs, they mainly depend on informal sources like zamindari system, etc.” According to the committee on financial inclusion, Chairman: Dr C Rangarajan “Financial Inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at affordable cost”. Dr Raghuram G. Rajan also defined financial inclusion as “to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products”. In the word of World Bank, financial inclusion defined as – “means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered responsibly and sustainably”.

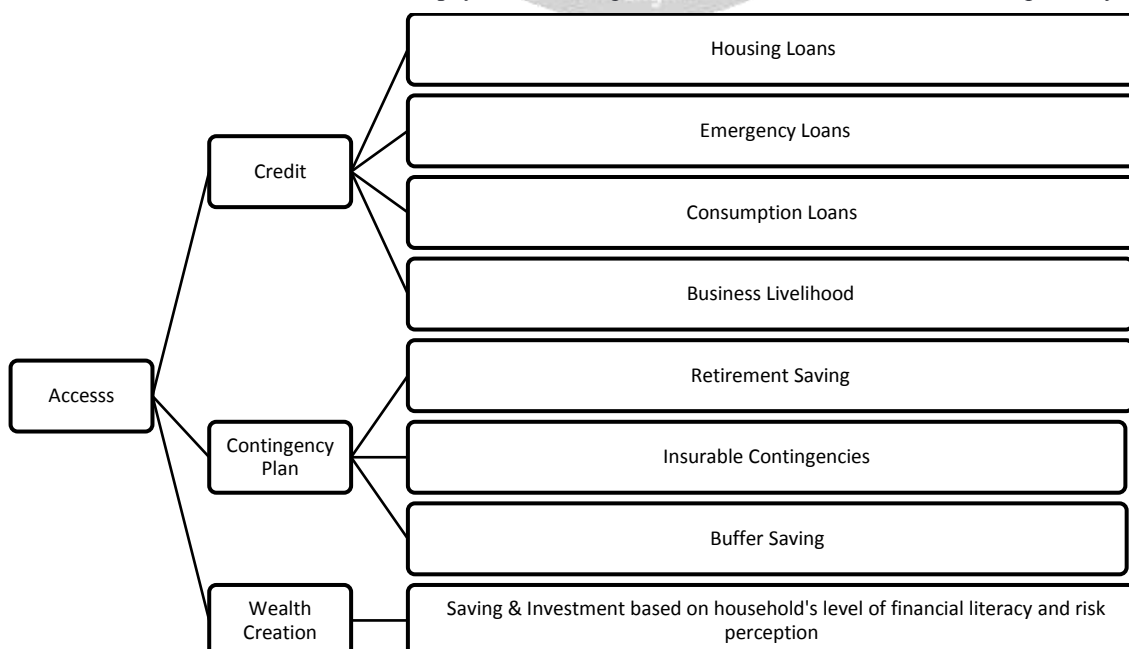


Figure: 1 Household Access to Financial Services

Sources: A Hundres Small Steps – Report of the Committee on Financial Sector Reform (Chairman: Dr. Raghuram G. Rajan)

According to data shown below more than 60%, population get their livelihood from agriculture sector and live in village or most of the people away from financial services i.e., people away from using financial sector for park their saving in the form of investment as well as a way for getting the funds for satisfying their needs for their development. For these people pay a huge amount in the form of interest to the information sources which pull the growth of the people of rural area.

YEAR	RURAL POPULATION	PERCENTAGE
2006	820,863,700	70.43
2007	829,358,800	70.09
2008	837,515,200	69.75
2009	845,260,300	69.41
2010	852,518,000	69.07
2011	859,248,400	68.72
2012	865,365,100	68.37
2013	870,937,000	68
2014	876,035,700	67.62
2015	880,723,800	67.22
2016	885,010,800	66.82
2017	888,869,400	66.4
2018	892,321,700	65.97

Figure: 2 Rural Population in India (Percentage of Total Population)

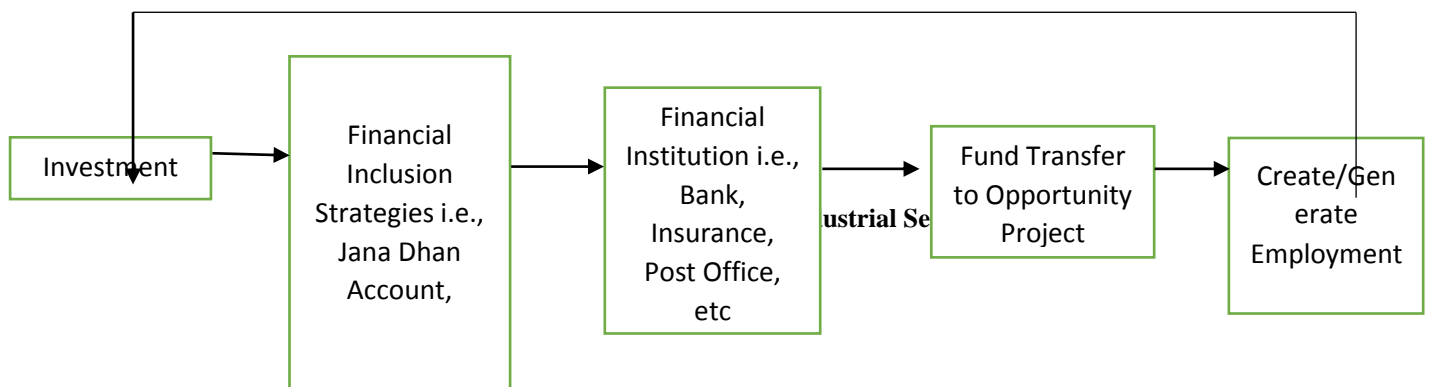
Source: World Bank staff estimates based on the United Nations Population Division's World Urbanization Prospects: 2018 Revision.

How Financial Inclusion works for the Economic Development of a Nation???

Two aspects i.e., demand side and supply side is considered as the focal point for understanding the contribution giving by financial inclusion for the enhancement of economic development (GDP Rate) of a nation.

II. SUPPLY-SIDE (WEALTH CREATION) ASPECT OF FINANCIAL INCLUSION

Financial Inclusion strategy provide opportunity for providing a formal sources for park their saving in the form of investment which is still away from formal financial sector, result in increasing the abundance funds available move towards the economic activity of the nation in the form of granting loan which resulting the growth of the nation in the form of proper utilisation of available economic resources on the one hand and increase in the worth of the investment of rural people in the form of interest, dividend, etc., on the other hand. This is not the end of the story, as the economical and easy to get sources of funds available for industrial sector make increase production activity which demands increase in employment rate as the demand for productive manpower increase resulting increase in wages rates or earning capacity of the employees. As the earning increase, they have more funds to spend as well as investment. It's a continuous process as the easy and more fund available for the industrial sector from the household sector result in increasing the economic activity of the nation or vice versa.



Formal Financial Sector

Figure: 3 Flow of Household Fund towards Industrial Sector

III. DEMAND-SIDE (CONTINGENCY PLANNING & CREDIT) ASPECT OF FINANCIAL INCLUSION

A demand-side aspect of financial inclusion also helpful for the economic development of a nation through various scheme launch by Indian government including Reserve Bank of India like Jana Dhan account, microfinance etc. for financing the basic and small needs of rural people for the betterment of the lives of the people. Past data shown a tremendous increase in the number of the bank branches as well as the number of saving account (no-frill account) for providing easy availability of funds with insurance facilities.

Name of the Bank	Branches					ATMs		
	Rural	Semi Urban	Urban	Metro-politan	Total	On-site	Off-site	Total
Public Sector Banks	29,033	25,647	17,890	18,875	91,445	86,545	62,010	148,555
Nationalised Banks	21,214	18,491	13,460	14,269	67,434	56,960	32,332	89,292

Figure: 4 Number of Banks Branches and ATMs

Source: Reserve Bank of India - <https://rbidocs.rbi.org.in/rdocs/Publications/DOCs> .

Banks	Rural	Urban	No Of Accounts	No Of Rupay Debit Card	No Of Accounts With Zero Balance
Public Sector Bank	83596701	67789831	151386532	134546043	53185861
Regional Rural Bank	29784339	4978030	34762369	25045083	11482927
Private Banks	4369489	2918784	7288273	6426326	3001987
Grand Total	117750529	75686645	193437174	166017452	67670775

Figure: 5 Number of Banks Accounts

Source: data.gov.in

It is not the end of the story, providing financial facilities according to the common needs of the people but it's better to provide based on tailored services.

IV. CONCLUSION

Economic development through financial inclusion is not a single side story i.e. supply side (wealth creation) it also includes demand-side (credit and contingency plan). At present all research focus towards the supply side of the financial inclusion i.e., towards an increasing number of branches in rural India, opening up of Jana Dhan Account (no-frill account), etc.

But for the economic development consideration of literacy rate, Infrastructure, Health status, Poverty rate, etc is also an important factor for any nation. It is only possible by focusing on the demand side of the financial inclusion (credit and contingency plan) by providing customise/ tailored financial services according to the need of the rural people.

Last but not least, Economic development through financial inclusion possible by focusing on both the side i.e., demand side as well as supply side.

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