International Journal of Information Technology and Management
Vol. 18, Issue No. 1, February-2023, ISSN 2249-4510

DOI: https://doi.org/10.29070/57t1yf65

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The Impact of Financial Inclusion as a tool for Inclusive Development

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Abstract: The pursuit of financial inclusion in India has a long and storied history. Financial inclusiondescribes the policy of providing low-income people with easy and affordable access to credit and otherfinancial services. The goal of Financial Inclusion is to promote economic growth by making it such thatpeople from all socioeconomic backgrounds have equal access to, use of, and profit from the formalfinancial system. The promotion of economic parity has recently emerged as one of the most pressingissues facing modern society. In India, the concept of financial inclusion presents a challenge since thegreat majority of the population is still denied access to inclusive economic growth. Credit access isincreasingly seen as a tool for economic growth. Consider the effects of financial inclusion on inclusivedevelopment in this paper.

Keywords: financial inclusion, inclusive development, India, policy, low-income people, credit, financial services, economic growth, socioeconomic backgrounds, formal financial system

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INTRODUCTION

In India, the idea of a financially inclusive society is not new. The promotion of economic participation has risen to prominence as a social goal. Since the vast majority of Indians are still excluded from the benefits of inclusive development, achieving financial inclusion has become a significant and difficult task for the country's economy. The availability of credit is seen as a powerful tool for progress. Countries throughout the globe are working towards financial inclusion as a result of the impact that improved access to financial services has on Inclusive Growth.[1]

Banking and other financial institutions serve as the backbone of every thriving economy. If we want to maintain and even increase the growth rate, we need to make sure that the economically disadvantaged are more represented in the process. India must take the road to financial inclusion if it wants to emerge as a major participant on the international stage.

The availability of financial resources is a powerful weapon in the struggle against poverty and for the expansion of economic opportunity. India is home to a sizable banking industry and a well-developed financial infrastructure. It is much easier for individuals and organisations to save money, invest, divide up risks, and make timely and cost-effective payments if they have access to a variety of credit and transaction services. There are clear correlations between the breadth and depth of the financial system and the expansion of the economy.[2]

The term "financial inclusion" refers to the practise of guaranteeing low-income individuals quick and low-cost access to financial services and credit delivery. If we want low-income individuals to contribute to economic progress, we need to make sure they can easily access, use, and benefit from the official financial system.[3]

THE IMPORTANCE OF FINANCIAL INCLUSION

Creating a level playing field for all citizens is now India's largest problem. To avoid regional discrepancies from derailing India's economic progress, it's crucial to include all members of society in the process of development. As a result, connecting all families who lack access to mainstream financial services is an immediate need today. A no-frills bank account, micro-credit, savings products, remittances & payment services, insurance, healthcare, mortgage, financial advisory services, entrepreneurial credit, pension for old age, business correspondence, self-help group branchless banking, etc. are all examples of financial products and services that contribute to financial inclusion. Several factors, including a deficiency of financial service providers in our rural regions, high information hurdles and poor awareness, limited access to official financial institutions, etc., contribute to this problem. Marginal farmers, landless labourers, unorganised sector employees, those living in urban slums, migrants, members of underrepresented ethnic groups, and others are all examples of socially excluded populations.[4]

Policymakers in India have prioritised expanding access to formal financial services in rural and semi-urban regions to address three critical issues.:

1. Establishing a setting conducive to the formation of a savings habit

2. Having legitimate credit options available.

3. Repair wasteful and inefficient government aid and welfare programmes.

- Primary Reasons for Promoting Financial Inclusion

Financial inclusion seeks to achieve a number of goals, including those in the areas of economy, savings mobilisation, politics, society, expanding access to markets, and livelihood security.

1. Economic Objectives

The goal of financial inclusion is to provide access to financial services to all members of society. As a result, it is equally valued in both developed and developing nations.

2. Social Objectives

Because it helps those on lower incomes get access to credit and banking services, eradicating poverty is seen as a key goal of financial inclusion. Microcredit from banks and other financial organisations may provide a means of income and hence a means of living..

3. Sustainable livelihood

Microcredit from banks and other financial organisations may assist the economically disadvantaged create their own businesses or enhance their agricultural operations, providing them with a more secure and stable means of subsistence.

4. Political Objectives

Political goals are met with the establishment of new government-sponsored programmes to bring the low-income population into the financially included population.

- **Larger financial market**

Expanding the financial market will allow new firms to join the financial sector and assist banks diversify their holdings, both of which are necessary if financial services are to be made available to a wider swath of the population.

- **Savings mobilization**

Mobilising family savings for investment in the economy is a key component of every successful growth strategy.[5]

THE CRUCIAL PART PLAYED BY FINANCIAL INCLUSION IN INDIA'S INCLUSIVE GROWTH

More than 25% of India's population lives in abject poverty, making financial inclusion crucial for inclusive development. Inclusive finance is one such policy that, if targeted and reached in the appropriate way, would give a suitable answer to the primary issues of poverty and unemployment, and the government has a heavy responsibility in this regard. There is much promise in expanding access to financial services as a means of breaking the cycle of poverty. Savings are encouraged, saving habits are formed, and efficient payment mechanisms are made possible thanks to financial inclusion, all of which increase the resource base of the financial institution and, in turn, help the economy.[6]

Since the majority of their difficulties need financial assistance, the poor and the low-income are disproportionately vulnerable to financial exclusion. By making their services available to everyone, traditional banks may help level the playing field in the marketplace and help the financially excluded join the middle class. If the poor had easier access to financial services, they might better manage their budgets and invest in productive areas like healthcare, education, and entrepreneurship, boosting the economy. In order to ensure that the benefits of economic progress are shared by all segments of society, the idea of "inclusive growth" was developed. The aim of the inclusive growth strategy is on creating long-term employment that raises the income and hence the level of life of the poor who are now left out of the growth perspective. If inclusive growth is carefully directed, it may help those in low-income brackets achieve financial security, asset accumulation, economic mobility, and empowerment.[7]

India is on track to become one of the world's top three economic powers over the next 15 years, thanks to its booming economy. Growth stimulation, digitalizing the economy, providing affordable housing, etc., have all received significant funding increases in the Union budget. The government, via programmes like MGNREGA, has also emphasised rural employment as of late. Under the government's Make in India initiative, a number of multinational corporations have established operations in the country. Under its 'Mission Antyodaya,' the Indian government has picked 50,000 gramme panchayats throughout the nation to form partnerships with private businesses and other social organisations in an effort to promote rural development.

THE PART PLAYED BY BANKS IN PROMOTING FINANCIAL INCLUSION

Many Indian financial institutions help expand access to banking services; some of the most notable are listed here.

- **Part Commercial Banks Play in the Economy**

Commercial banks are the backbone of India's financial system and crucial to achieve the objective of financial inclusion. Improvements in the country's financial infrastructure can be attributed in large part to the streamlining of the Know Your Customer (KYC) process for opening accounts, the introduction of no-frills savings accounts, the provision of technology-based banking services like ATM, ECS, BHIM, Mobile banking, UPI, Net banking, etc., the use of Business correspondents to bring banking services to rural villages, financial literacy camps held at rural branches, and the provision of credit facilities like the KCC, the Prad.[8]

- **Place of Regional Rural Banks in the Economy**

In 1975, the first regional rural bank in India was established to serve the country's rural population and economy. Small farmers, craftspeople, and agricultural labourers have their financial needs prioritised. Their primary sphere of influence is the district. Regional rural banks are pioneers in the introduction of low-cost, IT-based services. RRB controls most of the agricultural technology improvements. NABARD has established and is bolstering a fund to promote financial inclusion. Thanks to the aid, all RRBs are now using the Core banking solution platform and have introduced ATM and RTGS services across the country, with the North East area being a particular beneficiary.

- **Cooperative banks' vital part in the economy**

Members of the same local community, the same profession, or those who have a shared interest will typically form a co-operative bank. Common banking services (loans, deposits, checking accounts, etc.) offered by cooperative banks to its customers.They focus on agricultural finance and provide a restricted range of banking services. Farmers, entrepreneurs, and others who work for themselves often rely on cooperative banks for financing. The principle of "no-profit, no-loss" governs the operations of cooperative banks.[9]

FINANCIAL INCLUSION PLAN

Comprehensive Financial inclusion of the excluded parts is thus intended to be realised by 14th August, 2018 in two stages as described below:

Phase I (15th August, 2014-14th August, 2015)

Banking services should be available to everyone.

Offering overdraft protection of up to Rs.5,000 on basic bank accounts and up to Rs.1,000,000 in accident insurance coverage on RuPay debit cards as part of its Financial Literacy Programme

Establishing an Overdraft Account Default Insurance Fund (CGFMU)

Phase II (15th August 2015-14th August, 2018)

Miniature Coverage

Swavlamban and other unregulated pension plans

There would be some duplication between Phase I and II.

Households in mountainous, tribal, and other challenging locations would also be covered at this time. This stage would also prioritise covering the remaining home adults and the student population..

- **Summary of Action Points**

Sub service area (SSA) mapping throughout the nation for financial inclusion. District Level Coordination Committees (DLCCs) have already finished identifying SSAs in their respective districts.

The distribution of SSAs to the various financial institutions has also been finalised.

There would be no gaps in coverage for the 50,000 SSAs who are expected to use bank branches and Business Correspondents.

Department of Financial Services (DFS) site for daily monitoring and follow-up that records the establishment of these SSAs

An empty savings account is opened. Sign-up paperwork is contained inside a single page. Villagers may open camp-style savings accounts.

It is suggested that in order for the financial inclusion programme to be successful, DBT, especially DBT in LPG, should be undertaken.

Financial education classes will be made available to all account holders to help them better handle their finances.

It may be necessary for the bank to set up many camps in each community in order to identify everyone who does not have a bank account. Workers and others living in rural areas were encouraged to participate in account opening camps. Use the mobile banking app to make deposits, withdrawals, and fund transfers. The government has implemented a programme called BHIM (Bharat interface for money) that makes use of technology to teach people about money. UPI, Merchant UPI, point-of-sale terminals, and other digital goods were launched. In addition, district-wide "digi dhan Mela" events were held to advertise digital goods.[10]

Microinsurance product dissemination. The Government instituted PMJJBY, PMSY, and APY.

PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)

"Prime Minister" On August 28, 2014, the government of India officially introduced the Jan-Dhan Yojana

(PMJDY). With the Yojana's help, everyone will be able to open a bank account and learn about money management, as well as have access to credit, insurance, and retirement savings. A Rupay Debit Card with Rs.1.00 lakh in built-in accident insurance will be given to the recipients. Those who met the Yojana's other requirements and opened a bank account for the first time between August 15, 2014 and January 26, 2015 are also eligible to get a Rs.30000/- life insurance cover.[11]

In contrast to the previous financial inclusion programme (Swabhimaan), PMJDY aims to cover all households in the country, regardless of where they live, and provide universal access to banking services. Swabhimaan only served villages with populations of 2,000 or more. In addition, PMJDY streamlines KYC regulations and incorporates the District and State levels for monitoring and follow-up, something that was previously lacking.

An individual may establish an account at any branch of the bank or via a Business Correspondent. PMJDY accounts are not subject to a minimum balance requirement. It's being started with a blank slate of funds. However, in order to get a check book, the account user must meet minimum balance requirements.[12]

Rewards for the PMJDY Account

No minimum balance is needed.

Quick and simple money transfers inside India.

Third, via DBT, recipients of government programmes would have their bank accounts credited with different subsidies.

All Indian banks and financial institutions will be able to take part in electronic payments thanks to Rupay, a new card payment scheme launched by the National Payments Corporation of India (NPCI) to provide a domestic, open-loop, multilateral card payment system. The President of India presented the card to the country on May 8, 2014. If the Rupay cardholder has made at least one eligible transaction at any Bank Branch, Business Correspondents, ATM, POS, E- COM etc. within the 90 days prior to the date of the accident, including the date of the accident, the claim under the Personal Accidental Insurance under PMJDY shall be payable.[13]

If the beneficiary meets the programme's qualifying requirements, the scheme will pay out Rs. 30,000/- upon the beneficiary's death.

After six months of responsible use of the PMJDY account, an overdraft facility will be made available. Only the primary household account holder (often the woman) is eligible for the overdraft facility of up to Rs.5,000/-. As of 30.10.2015, 8.37 million account users have used their approved OD access, out of a total of 22.43 million accounts.

To ensure that all uninsured households have access to basic financial services by January 26, 2015, the government mandated that banks conduct surveys in their designated Sub Service Areas (SSAs) and Wards and open accounts for all uninsured individuals by the end of the month. All of the States and Union Territories have been divided into 2,26,197 Sub-Service regions (in rural regions) and Wards (in urban areas), and 99.99% of the 21.22 billion households that were surveyed have been provided with bank accounts..

SUCCESS STORIES ACROSS INDIA (CRISIL)

CRISIL embarked on the development of a thorough methodology to provide a tool that would assist policymakers and market actors in the formulation, alignment, and monitoring of policies that promote financial inclusion. In terms of advancements in financial inclusion, several states and areas stood out during fiscal 2018, with the South continuing to lead the trend. West Bengal is now one of the top 20 states in terms of financial inclusion, thanks in large part to the existence of significant MFIs like Bandhan Financial Services (the largest in the nation). The total number of bank credit accounts in Jammu and Kashmir rose by 40.3%, putting the state in the "above average" category. More than a billion dollars were deposited into new savings accounts in Meghalaya during the 2018 fiscal year, vaulting the state into third place. Large microfinance institutions (MFIs) and a self-help group bank linking programme contributed to the rapid expansion of credit in the state. Large microfinance institutions (MFIs) in Tripura and Assam are largely responsible for the region's recent success.[14]

ACHIEVING INCLUSIVE GROWTH BY WIDENING ACCESS TO FINANCIAL SERVICES AND FOSTERING ECONOMIC AND SOCIAL PARTICIPATION

- **Social Empowerment**

The term "social empowerment" refers to the process of gaining independence and self-assurance, as well as taking initiative both alone and with others to alter existing social structures. Individual assets (land, savings, housing, livestock) and capabilities (human capital; education; health; social capital; social belonging; a sense of identity; leadership relations); and psychological capital (self-esteem, self-confidence, the ability to imagine and strive for a better future) all play a significant role in the empowerment of the poor. Collective assets and talents, such as people's ability to organise, speak out, be represented, and establish a sense of who they are, are also crucial.[15]

- **Economic Empowerment**

To be economically empowered is to have equal opportunity for men and women to contribute to and profit from the progress of society. It aids economic development and decreases poverty. It gives people more of a say in the economic policies that affect their daily lives and the priorities of society as a whole.

- **Inclusive development**

Everyone in a society should be able to share in the advantages of economic progress, which is why "inclusive growth" is such a popular notion. Health, human capital, environmental quality, social protection, and food security are all expanded upon in this idea, which builds on conventional conceptions of economic development. The emphasis of the inclusive growth strategy is on productive work as a method of enhancing the income and living standards of poor and excluded groups over the long term. To put it more simply, economic development that results in more job possibilities and a decrease in poverty is what we mean. It involves things like making sure everyone has a fair shot and giving individuals the tools they need to succeed like education and training.[16]

India's government has introduced several programs—including the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), the Swarnajayanti gramme Swarozgar yojana (SGSY), the Jawahar rozgar yojana (JRY), and the Swarnajayanti Shahari Rozgar yojana (SJSRY)—in an effort to boost employment opportunities.

The government has established many major initiatives, like as the Sarva Siksha Abhiyan (SSA), the National Rural Health Mission (NRHM), Bharat Nirman, etc., to increase access to and participation in economic development. The government also established a number of social insurance programmes, including pensions for the elderly, subsidies for families, and a national maternity programme. There have been a number of home improvement programmes implemented, including the Pradhan Mantri Awas Yojana (PMAY), the Valmiki Ambedkar Awas Yojana, and the Indira Awas Yojana.

According to a 2016 research, the human poverty index has been superseded by the multi-dimensional poverty index, which considers not just financial resources but also access to healthcare, education, safe housing, and safety from violent crime. Multidimensional poverty in India is second greatest in South Asia, behind Afghanistan. Nearly 41.6% of the Indian population (in terms of $ 1.25 a day) lives below the poverty line, making India's performance in this respect far worse than that of China, Sri Lanka, Kenya, and Indonesia. That's why it's important to broaden people's involvement in the growing process and distribute its fruits more evenly. Inclusiveness may also be achieved through reducing gender discrimination, closing the rural-urban divide, and advancing human development.[17]

Banks and other financial organisations serve a vital conduit for fostering personal and national prosperity by making a wide range of financial services available to its customers. This aids in gaining economic independence, fostering personal growth and self-assurance, and enhancing social connections. By expanding people's access to banking services, governments may help more people become economically self-sufficient, which in turn benefits society as a whole.[18]

CONCLUSION

This research demonstrates that financial inclusion is becoming more important on a global scale, and that significant progress has been made in this area. The government has implemented a number of programmes aimed at fostering financial inclusion in order to boost economic growth at the national level. As a result of more available jobs, the family's financial situation has improved. A rise in GDP is certain to boost activity in the industrial and service sectors, which in turn creates more job openings. As a result, the unemployment rate fell. More jobs will be created as a result of government programmes that aim to expand the economy and ensure that all members of society, regardless of their socioeconomic status, have an equal shot at success. The purpose of this research is to determine whether there is a connection between financial inclusion and inclusive development through Socio- Economic Empowerment.

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