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UNDERSTANDING THE ROLE OF FINANCIAL INCLUSION IN ECONOMIC GROWTH.

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Abstract

This study analyses the link between financial inclusion and economic growth. The primary focus of the investigation is on the topic of whether or not financial inclusion is a substantial contribution to economic expansion. In addition, a supplementary inquiry was posed, the purpose of which was to investigate whether or not the six proxies that were utilised in the financial inclusion assessment had an influence on the growth of the economy. In order to conduct a more in-depth investigation of this area of study, we have gathered panel data over the period of 19 years from 20 distinct nations with diverse degrees of affluence. For the sake of this specific study endeavour, the years 2002 to 2019 will serve as the focus point. As part of the testing methods for this research project, both the Dickey-Fuller unit root test and the Arellano-Bond dynamic panel GMM technique were executed. Both of these tests were used to investigate the root of the unit. Following the completion of the dynamic panel estimation, we came to the conclusion that economic expansion has a positive correlation with financial inclusion. This outcome lends credence to the concept that we presented. In addition, the findings revealed that three of the six proxies for financial inclusion were statistically significant and have a positive association to economic growth. This was one of the conclusions that could be drawn from the findings. This was shown by the fact that there was a positive connection between the two variables. To summarise, the findings of the study indicate that there is substantial empirical evidence to support the concept that financial inclusion is an essential component of economic growth. This finding was reached at the end of the research process.

keywords : *Financial Inclusion, Economic Growth, economic expansion and literacy.*

Introduction

Banking and other financial services play a very significant part in the growth and development of an economy. This is because of the crucial function that banking plays in the transfer of money. Numerous pieces of research have come to the conclusion that a financial system that is not just effective but also hospitable to any and all participants is related with an economic expansion that is both more fast and more egalitarian. Those with higher and upper middle incomes have access to a large variety of personal finance options in the form of financially designed and creative goods. These alternatives are available to those with access to a wide variety of personal finance options. On the other hand, a considerable percentage of the population does not have access to even the most essential banking services, such as holding a bank account. This is a significant barrier to financial inclusion. This tendency is referred to as "financial exclusion," and it ultimately leads to social isolation for those who are affected by it. Therefore, it is of the utmost importance to provide individuals with access to institutional financial goods and services that are simple to utilise and come at prices that are affordable. This idea is usually referred to as "financial inclusion." It is a generally held opinion that the objective of boosting financial inclusion is to widen the range of operations carried out by the organised financial system in order to include those with lower incomes under its sphere of influence. This idea is based on the fact that the purpose of promoting financial inclusion is to broaden the range of operations carried out by the organised financial system. This viewpoint is held by an overwhelming majority of people. There is an urgent need in India for the nation's banks, the government, and other organisations in the financial sector to collaborate and coordinate their efforts in order to create bank accounts for those who are now unable to do so owing to a lack of financial resources. As a consequence of the necessity for further financial deepening in the nation in order to drive economic growth, there is an urgent need for more financial inclusion in the population. This requirement is directly related to the urgent need for more financial inclusion in the people. Even now, twenty-three years after the first economic reforms were implemented in India, the country's financial sector continues to be afflicted by a variety of issues. This is despite the fact that economic reforms were first implemented in India. There are a variety of sociocultural and economic issues that need to be addressed in order to make progress towards financial inclusion. This slows down the growth of financial inclusion. On the demand side, for example, it includes factors like a lack of knowledge as well as illiteracy. Other examples include not having access to the internet. On the supply side, some of the potential causes for financial exclusion include a lack of investment possibilities, such as inadequate bank penetration, the unwillingness of banks to engage in financial inclusion, or the high cost associated in engaging in financial inclusion. Other possible reasons include inadequate bank penetration, inadequate bank penetration, the unwillingness of banks to participate in financial inclusion, or inadequate bank penetration. Because of either the difficulty involved in providing finance to the weaker element of society or the competition to generate massive profits, formal financial institutions, for the most part, do not give much consideration to the more impoverished segments of society. It is also feasible to define it as the process of ensuring that vulnerable groups, such as weaker portions and low income groups, have access to financial services as well as timely and enough credit when it is needed at a reasonable price. Another way to define it is as the process of ensuring that vulnerable groups have access to financial services. The second interpretation matches this concept more naturally.1. Financial inclusion broadens the resource base of the financial system by fostering a culture of saving among a major portion of the population living in rural areas. This is accomplished through providing access to financial services. This culture has a significant role to play in the process of economic growth as well as its own distinct function to fulfil within the framework of this process. In addition to this, the expansion of financial inclusion into the official banking system allows for the protection of low-income groups' financial wealth and other resources during times of crisis. This protection is made possible owing to the extension of financial inclusion into the formal banking system. By making it easier for people to acquire formal credit, financial inclusion helps lower the possibility that disadvantaged groups will be exploited by predatory lenders that charge excessively high interest rates. Inclusion in the financial system is a forward-thinking concept that helps to contribute to the overall sustainable growth of the nation. The supply of financial services to persons who have not previously had access to them, which is performed with the support of financial institutions, is one method that may be utilised to achieve this objective. The year 2000 marked the beginning of a period in which there was an increase in interest in the idea of financial inclusion. People who reside in low-income brackets and urban slums confront special obstacles when it comes to having access to cheap banking and financial services. This is because there are fewer banking and financial institutions that serve these populations. The term "financial inclusion" was developed with the intention of finding solutions to these problems. It has the potential to be a useful weapon in the fight against economic backwardness because of its potential to be a formidable instrument. Because of the function it plays in promoting economic growth and minimising the impacts of income disparity, access to financial services is a vital component of development. This is because of the role it plays in stimulating economic expansion. When inclusive financial institutions are accessible, persons living in poverty have the ability to level out their consumption and protect themselves against the myriad of economic risks they face, such as being ill or being involved in an accident, as well as being a victim of theft or losing their job. People living on low incomes may build their assets, make investments in education and business endeavours, and eventually raise their quality of life through the process of financial inclusion, which gives them the option to save money and take out loans. This opens the door for them to elevate their standard of living. It is quite likely that groups of individuals who are already at a disadvantage, such as women, young people, and communities located in rural regions, will benefit from it. As a result of all of these considerations, establishing financial inclusion as a policy aim in recent years has gained favour as a means to improve the lives of the poor better. This is because it is one of the most effective ways to make a difference.

Financial inclusion status in India:

Numerous committees have been tasked with the responsibility of determining the extent to which persons in India have access to banking and insurance services. One of the variables that has been taken into consideration by these committees is the degree to which citizens in India have access to these services. Only a third of the population in India has access to banking services, making India one of the least banked countries in the world. Inclusive growth is identified as a fundamental objective for the country's economic development in the Eleventh Five Year Plan (2007–2012), which will run from 2007 to 2012. Inclusive development in India is the most demanding challenge to overcome since it is incredibly difficult to incorporate India's more than 600 million rural citizens into the economic structure of the country. One of the most successful techniques for promoting inclusive growth is to ensure that individuals are included in the financial sector. It is possible, in a broad sense, to divide, into three stages, the advancement that is being made towards greater financial inclusion in India. During the First Phase of the initiative, which ran from 1960 to

1990, the primary focus was on allocating loans to the underserved sectors of the economy. This phase of the programme is referred to as "Phase 1." The people of society that were more marginalised received a substantial amount of additional attention as well. During the second phase of the reforms, which lasted from 1990 to 2005, the major focus was centred on strengthening the financial institutions. This phase of the reforms lasted from 1990 to 2005. During this period, financial inclusion was principally pushed through the establishment of a Self-Help Group (SHG)-bank linkage project in the early 1990s and Kisan Credit Cards (KCCs) for the aim of granting credit to farmers. Both of these initiatives were carried out in order to broaden access to financial services. India was the location of both of these different endeavours. With the help of the Reserve Bank in the form of policy support, the Self-Help Group-bank Linkage Programme was launched in 1992 by the National Bank for Agriculture and Rural Development (NABARD), which is an agency that focuses on rural economic development. The poor were intended to have an easier time participating in group decision-making, and 'door step' financial services were intended to be provided as part of the initiative. During the third phase of the project, "financial inclusion" was announced as an official aim of the strategy. At the same time, the focus turned to providing a safe facility for saving deposits by making use of accounts that had very few additional features. Dr. C. Rangarajan presided over the Report Committee on Financial Inclusion, which came to the conclusion that financial inclusion should be approached in the form of a mission. The committee proposed the establishment of a National Mission on Financial Inclusion (NMFI), which would include the participation of all relevant stakeholders and be tasked with recommending any necessary changes to the overall policy as well as assisting those stakeholders in the public, private, and non-profit sectors. This mission would include the participation of all relevant stakeholders and would include.

Financial Inclusion and Economic Growth in India

In the late 1990s, India's growth narrative was kicked off by the information technology industry, which served as the spark that started the fire. Since then, the prosperity of the economy of India has continued to climb on an unceasingly upward trajectory. The economy of India is now increasing at the second quickest rate in the world, behind only that of China. It is widely seen as a notable accomplishment when India's Gross Domestic Product (GDP) topped one trillion dollars in the year 2007, as reported by the World Bank. India's

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gross domestic product (GDP) is now the third biggest in the world when purchasing power parity is taken into consideration. In recent years, India's service sector has been the primary contributor to the country's gross domestic product (GDP). This is a wonderful indication that one is in good health. The skyrocketing growth rate has been followed by a general and widespread increase in performance. Not just in information technology and information technology-enabled services (IT and ITES) and knowledge-based services, but also in world-class manufacturing capabilities, be it steel, aluminium, refinery, or anything else, Indian entrepreneurs have recorded a remarkable worldwide presence. This is the case not only in the field of information technology and information technology-enabled services (IT and ITES), but also in the field of knowledge-based services. The rise of India's economy is being driven in great part by a variety of factors, including domestic consumption, the service sector, high-tech businesses that demand vast sums of money, human capital, natural resources, and so on, and so forth. The growth of India's economy is mostly being propelled by the market, and those who are successfully running their own businesses are at the vanguard of this success.

Objectives of the Study

1. To acquire an awareness of the scope of the financial inclusion movement in India.
2. To provide a rundown of the many steps and programmes that the government and the RBI have taken to increase financial inclusion.
3. To conduct an analysis of the obstacles that must be overcome and the next steps to take in order to achieve inclusive growth.

Hypotheses of the Study

The following hypotheses, known as null hypotheses (H0), serve as the foundation for this research.

There is no meaningful connection between the availability of financial services and the rate of economic expansion.

Opening of no-frills accounts

The required minimum balance for a simple checking account that doesn't come with any extra perks is normally either zero or a very low amount. It is for the goal of ensuring that major segments of the general people have access to bank accounts, which is the reason why it is being done. It has been suggested that banks and other financial organisations should provide customers with these kinds of accounts that have limited overdraft possibilities.

Transactions

Direct Benefit Transfer

The recent deployment of direct benefit transfer, which makes use of the Aadhaar platform, would help speed the distribution of social welfare payments to recipients in the form of direct credits to their bank accounts. This would be possible thanks to the recent adoption of direct benefit transfer. In the not too distant future, the government plans to install a system that would route all payments linked to social security through the banking system. This will be done in an effort to reduce fraud and increase efficiency. The Aadhaar platform will be utilised in this system in order to provide receivers with a one-of-a-kind identity. To guarantee that the Direct Benefit Transfer (DBT) programme that the government is putting into place goes off without a hitch, the government has requested that banks carry out the procedures that are outlined in the following paragraphs:

- Using the cooperation of the authorities in charge of the local government, open camp mode accounts for all individuals who are entitled to receive them.
- You need to add your Aadhaar number to all of your accounts, both new and old.
- Establish a reliable system to track and evaluate the development of the DBT implementation process.

ANALYSIS OF CONTRIBUTION OF BANKS IN FINANCIAL INCLUSION

It has recently been suggested that in order to go on with the process of ensuring that those who are underserved have access to banking services, financial institutions should design a brand new Financial Inclusion. This recommendation was made in light of recent events. This has to be completed in order for the procedure to move forward.The banks have also been advised that the FIPs that they have produced are being disaggregated and will ultimately penetrate down to the branch level. This comes as an additional point of interest. The plans are being broken down into their component parts in order to facilitate the participation of bank employees at all levels of the organisational hierarchy in the initiatives to broaden access to financial services. This is being done in order to guarantee that the reporting structure that is a component of the Financial Inclusion Plan is standard. Another reason for doing this is to ensure financial inclusion. As part of the push to broaden people's access to financial services, the number of financial transactions that take place in freshly created bank accounts is currently attracting a higher degree of attention than in the past. The number of automated teller machines (ATMs) that have been set up in India has seen an increase as of late. These installations, which have been installed in a number of sites around the nation, have made it possible for individuals to more easily utilise ATMs for the sake of meeting their financial demands. This creates a tremendous opportunity for financial institutions to service newly created demographics and get access to the hitherto untapped financial resources held by the unbanked people.

Table-I Bank Group-wise Number of branches as on 31-03-2019

Bank Group	Rural	Semi -urban	Urban	Metropolitan	Total
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural banks	12722	3228	891	166	17007
Total	37953	27219	19327	17844	102343

Source: www. financialservices.gov.in

Interpretation

The number of bank branches that are now operational in India is specified in the table that can be seen above; the data that it includes is from 2013.According to the statistics, it is clear that international banks have a stronger presence in metropolitan centres, where they operate 166 branches, than they do in rural regions, where they are outnumbered by public sector and regional rural banks. There are 3,228 bank branches located in semi-urban regions, the majority of which are owned by private sector banks. This gives these banks a strong position. There are currently 1,02,343 operational banks in the nation of India. This brings the total number of banks in operation in India to 1,02,343.

Table- II Number of functioning branches of SCB during last five years

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31,2009	31476	19126	15273	14325	80200
March 31,2010	32493	20855	16686	15446	85480
March 31,2011	33905	23114	17599	16419	91037
March 31,2012	36356	25797	18781	17396	98330
March 31,2013	37953	27219	19327	17844	102343
Growth rate %	20.58	42.31	26.54	24.57	27.61

Source: www. financialservices.gov.in

Interpretation

There has been a perceptible increase trend in the number of scheduled commercial banks that have functioning branches over the course of the previous five years. This may be seen as a positive development. For SCB, the growth rate that was recorded in the semi-urban region was the greatest, coming in at 42.31%. The number of branches increased from 19126 to 27219 throughout the course of the course of five years. Even while the growth rate in rural areas is only 20.58%, which is substantially lower than the growth rate in other regions, it is still demonstrating an increasing trend and will increase significantly more as a consequence of the efforts made by the RBI as part of the financial inclusion plan. Between the years 2009 and 2013, the total number of bank branches that were operational in metropolitan regions rose by 14325, reflecting a growth rate of 24.57%. This represents an increase of the total number of bank branches by 24.57%.

Table No. III Number of bank branches of SCBs over the years

Number of scheduled commercial bank branches as on 31-12-1969	8,826
Number of scheduled commercial bank branches as on 31-03-1990	59,762
Number of scheduled commercial bank branches as on 31-03-2013	1,02,343

Source: www. financialservices.gov.in

Interpretation

In the table that can be seen above, the rise in the number of bank branches from the year 1969 to 2013 is shown in a clear and concise manner. This time period covers the years 1969 through 2013.During the course of the research, the number of branches of scheduled commercial banks increased from 8826 to 102343 total locations.This exemplifies the exceptional effort made by the government of India and the Reserve Bank of India (RBI) to make the advantages offered by the banking industry available to the general population of India. Over the span of forty years, the banking sector in India saw extraordinary growth, making it one of the fastest-growing in the world.

Table: IV Bank Group-wise Number of branches as on 31-03-2013

Bank Group	Rural	Semi -urban	Urban	Metropolitan	Total
Public Sector Banks	8552	18445	22518	20137	69652
Old Private Sector banks	768	2760	2354	1684	7566
New Private Sector banks	2214	6484	10995	15842	35535
Foreign Banks	30	21	244	966	1261
Total	11564	27710	36111	38629	114014

Source: www .financial services. gov.in

Interpretation

In 2013, there were 11,4014 operational banks in India, making up the total number of banks across the country.When compared to the number of financial institutions that can be found in other locations, the number that can be found in metropolitan centres is much larger. The metropolitan areas of bigger cities are the primary focus of attention for the majority of international banks, whereas the semi-urban and urban districts of larger cities are the primary focus of attention for the majority of public sector banks. The data that is shown in the table makes it clearly clear that as a component of financial inclusion, banks take steps to extend their presence in underserved and rural regions by building new bank branches. This is made plain by the fact that the data is displayed in a table. There were a total of 1,156 banking facilities that were operational in rural regions as of the end of the month of March in 2013.

Conclusion

An analysis of the pertinent facts leads one to the conclusion that despite the undeniable significance of the role that financial inclusion plays in the sustained expansion of a nation's economy and society as a whole, there is still a significant distance to travel before obtaining the outcomes that are desired. There is no doubt that Financial Inclusion is working towards a more favourable conclusion; despite the fact that it has not achieved the outcomes that were hoped for, and there is still a long way to go, there is no question that it is working towards a more positive outcome.The financial system acts as an intermediary and a buffer in the economy so that it may more easily support the accumulation of savings and the dispersal of those resources across various productive activities. This is done to facilitate the gathering of savings. The management of financial liquidity, with the goal of avoiding inflationary pressures and pumping out sufficient capital to enable expansion, is one of the responsibilities of financial systems. By effectively controlling financial liquidity, it is possible to forestall the onset of inflationary forces. To differentiate itself on the international arena, India needs to place a primary emphasis on attaining inclusive growth, and financial inclusion is a vital component of inclusive growth. Because around half of the population in India does not have access to formal financial services, the remainder of the population relies largely on moneylenders to meet their financial needs. This circumstance is still present in our times. If the less developed sections of a nation are able to become economically self-sufficient, then economic and social progress will occur throughout the entire country.

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