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From Exclusion to Inclusion: The Evolution of Financial Access in India

Reena Yadav

Assistant Professor
University of Delhi

Abstract

India has made its way from financial exclusion to inclusion throughout the years. Financial inclusion means providing an access to formal financial services. It has emerged as a critical component in fostering economic growth and development, particularly in rural areas. Despite significant strides in global financial inclusion efforts, disparities persist, with rural populations often facing barriers to accessing formal financial services. Financial Inclusion has a significant role in bringing inclusive growth and in up gradation of all the sectors of Indian economy. If we look at the report of 2021, more than 75% of Indians who are above the age of 15 years owned an account at a bank. It was a significant achievement as it was only 44 percent in 2011. It shows a significant shift towards financial inclusion of marginalized groups - like females, to the daily wagers, less literate and the BPL community. The Government of India and RBI are making continuous efforts to increase banking penetration with various norms and policies like nationalization of banks, establishment of RRB, simple KYC process , Pradhan Mantri Jan Dhan Yojna and promotion of Digital financing This research proposal seeks to explore the role of financial inclusion as a catalyst for rural development, aiming to understand its impact, challenges, and potential strategies for enhancing inclusion in rural communities.

Keywords: Inclusive Growth, Financial Inclusion Index, Financial Literacy, Microfinance, Digital Finance and Mobile Payments

INTRODUCTION

Financial inclusion is identified by the World Bank as an enabler for achieving seven of the Sustainable Development Goals. Definition of World Bank as “Individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.”

Financial inclusion defined by The Committee on Financial Inclusion in India (Chairperson C. Rangarajan) (2008) 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 an affordable cost.”

RBI defines Financial Inclusion as “a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players”.

Financial inclusion means making the financial services accessible to the unserved and underserved population at their doorstep and at the prices where they can afford. Most of the people in rural areas were dependent on informal financial systems like Zamindars, Businessmen etc. who used to exploit these people by charging unreasonable interest rates and keeping heavy collateral. It was necessary to make the formal financial system accessible to all these poor people because it is a great tool for speeding up the process of poverty alleviation, economic development, and social empowerment. Financial inclusion goes beyond traditional banking services, extending to a range of financial products and services such as savings, credit, insurance, and payment systems through physical branches, internet banking and mobile banking. This access to formal banking system can help people to park their money and can help in bringing the inclusive growth with multiplier effects.

Reserve Bank Of India has initiated several measures for promoting financial inclusion, like issuance of Kisan Credit card in 1998 , introduction of "No Frills Accounts" in 2005, issuance of General credit card in 2005 ,Launching of Pradhan Mantri Jan Dhan Yojana in 2014,licensing of Small Finance Banks in 2016 ,Launching of UPI in 2016, Introduction of first payment Bank in January 2017, issuance of digital currency in 2022.Along with all these measures , RBI has made the efforts to promote Micro financial Institutions , Self Help Groups , Business facilitator and Business Correspondents to reach to Unbanked Population.

As per the annual Report 2021-22 of RBI, In 99.94% of the identified villages in mountain areas, a banking outlet is available within 5 kilometer radius of every village.

RBI first constructed a financial inclusion index in 2021 with considering three major parameters: usage, quality and accessibility . The value of FI index was **60.1 for 2023 vis a vis 56.4 in 2022**. **CRISIL INCLUSIX** stood at 58.0 for 2016 vis a vis 40.1 in 2011.RBI reports 2021 indicates that Kerala Maharashtra and Karnataka showed high FI while Tamil Nadu, Punjab, Andhra Pradesh and Haryana reported as medium FI states. As per **IMF FINANCIAL ACCESS SURVEY** reports that branches of commercial bank per 100000 adults has increased from 12.87 in 2014 to 14.31 in 2022.**NABARD ALL INDIA FINANCIAL INCLUSION SURVEY 2017** reported that among agriculture household owning more than 0.4 ha land ,32% reported to be having Kisan Credit Card . Among total 23% reported that any of its members were associated with any micro finance group or to a self help group.

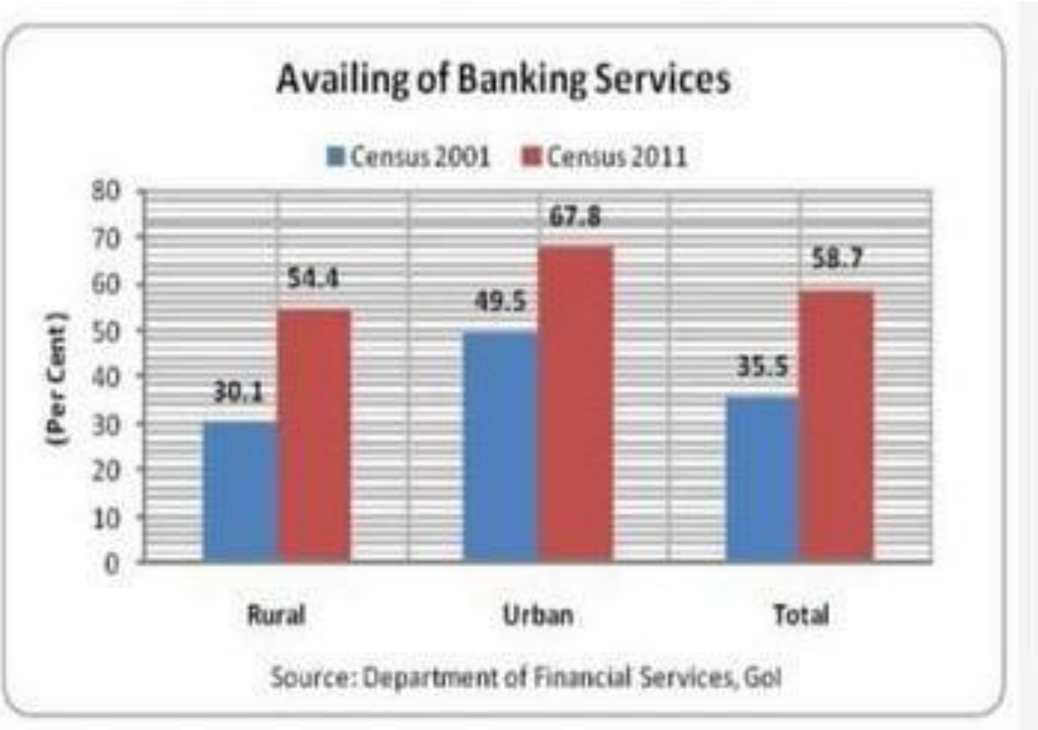
Schumpeter claimed in his study that proper channelization of funds in the market leads to economic growth and innovative entrepreneurship. McKinnon and Shaw (1973) proved the significance of a successful financial system for economic development. The study of S Kodan and S Chhikara indicated that 1% surge in financial inclusion makes a way to an average of .139 percent increase in human development index.

IMF 'Financial Access Survey' 2023 showing financial inclusion growth:

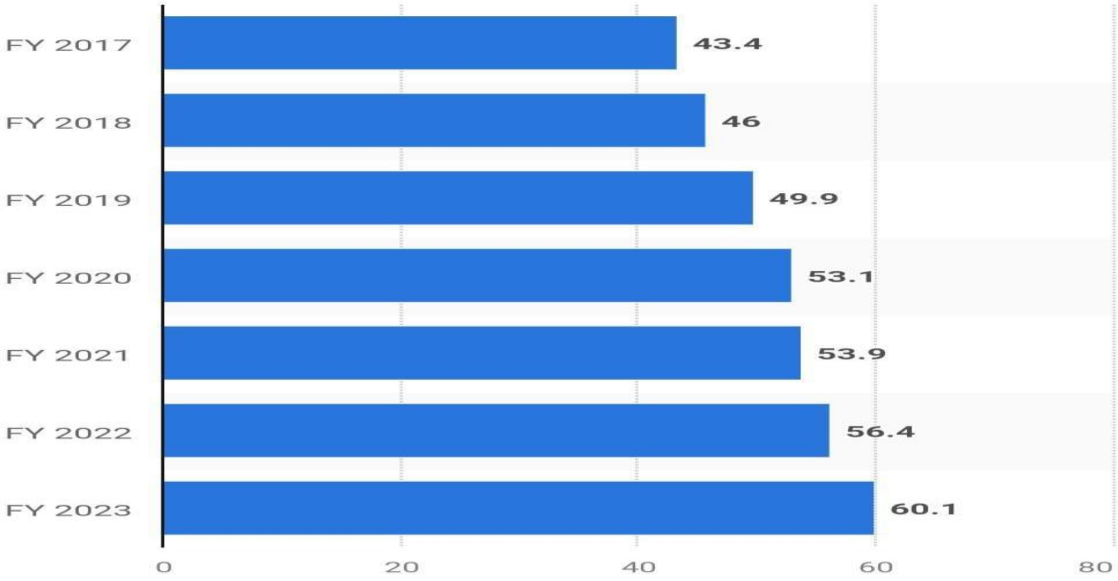
INDICATORS	2018	2019	2020	2021	2022

ATM per 100000 adults	21.65	20.95	21.50	21.21	24.64
Bank Branches per 100000 adults	14.50	14.58	14.74	14.42	14.31
Deposits accounts per 1000 adults	1937.5	1967.61	2030.71	2023.67	2130.48
Loan accounts with commercial banks per 1000 adults	197.34	228.80	264.13	285.22	303.1
Mobile money transactions per 1000 adults	3031.52	4078.93	411.97	3822.87	5008.21

If we compare the government census data of 2011 with census of 2001, there is a huge difference in availing of bank services. In 2001 it was only 30.1% but with the continuous government efforts it was increased to 58.7% in 2011.**Chart 1:**



<u>Chart 2 showing a noticeable growth in financial inclusion index from 2017 to 2023</u>:



RESEARCH OBJECTIVE

- To assess the current status of financial inclusion in rural areas, including access to banking services, credit, and insurance.
- To examine the socio-economic impact of financial inclusion initiatives on rural development indicators such as poverty alleviation, income generation, and job creation.
- To identify the key challenges hindering financial inclusion in rural communities, including infrastructural, regulatory, and socio-cultural barriers.
- To propose effective strategies and interventions for enhancing financial inclusion and promoting rural development**.**

Methodology

The Descriptive and empirical studies are applied on the data received from various journals, articles, reports and literature. The data is collected from both Primary and Secondary sources . Primary source includes the questionnaire filled by respondents from the age of 20 and above, residing in the rural areas of Rewari district. Secondary data is collected from the official website of RBI, recent reports of NABARD, CRISIL reports , Government surveys , IMF financial access survey results and from various literature studies.

LITERATURE REVIEW

There has been a lack of right measures of financial inclusion.

- **In the study of Growth Through Financial Inclusion in India,Suresh Chandra(2011)** attempted to provide an index of financial inclusion using a multidimensional approach, ranging between 0 to 1 where 0 means complete financial exclusion and 1 means complete financial inclusion. This study pointed out the reason for failure is delivery failure and lack of compassion for the poor population.
- **The study of Financial Inclusion in India: an Analysis, Anurag and Tandon,2012** focused on the fact that the way to bring equity in the economy is financial inclusion. They suggested microfinance Models for tackling the disparities among people. This study concludes by saying that for achieving

the financial goal it is required to bring all the regulators like policy makers , financial institutions , MFIs together. Basic financial literacy programs are equally important for bringing financial inclusion and poverty alleviation.

- **In a study of Do Microfinance Institutions address barriers? Savita Shankar,2013** addressed two factors of financial inclusion , demand side factors and supply side factors .Government working on the factors of supply side is not enough for bringing maximum financial inclusion because demand side factors like psychological and cultural barriers are equally holding back the financial inclusive growth .Financial inclusion is an objective of all developed and developing country and it is necessary for the country to evolve the cost effective programs depending on the cultural and legal factors of the country .
- **A Comparative study of Kenya and Ethiopia, Wuddasie Dereje Bekele** shows that Kenya has higher financial inclusion than Ethiopia where lack of documentation , lack of money and lack of trust are the significant differences. But along with all these differences , there are some micro level differences as well like financial liberalization, financial literacy and lack of technology .
- **In the similar study, Financial Inclusion and Its impact on economic growth: An empirical evidence from sub saharan Africa,Chuka Ezoma Ifideria et.al,2022** it is emphasized that availability and penetration dimension of financial inclusion impact the economic growth of a country. This study used the Generalization Method of Moment for analyzing composite index as well as individual index. This study implies that good financial education policies can help Africans in better understanding of financial sources.
- **In a study of A theoretical and Quantitative Analysis of financial inclusion and Economic Growth,S Kodan and S chikara,2013** Financial Inclusion is categorized into three dimensions. First dimension is transmission services which includes receipt and transfer of money and cheques. Second dimension is protective services offers long term and medium term financial security and Third dimension is promotional services includes autonomy to promote themselves. In this study both general and specific variables are used for computing the dimension index. At the end this study indicates that 1 percent increase in financial inclusion led to .139% increase in value of human development index in case of Indian states.
- **In a study of digital money as a driver of digital financial inclusion, Aizaz Sheikh and Robert Hinson,2023**It is considered that mobile money services are a separate domain within the banking and payment sector. This study was conducted to investigate how mobile money services act as a reliable driver of digital financial inclusion. This paper proposed a conceptual model that states that agents of mobile money are the stimuli and customers are the organisms. And it is empirically suggested that the credibility and service quality of mobile money agents push the customer empowerment like it did in Ghana. This study focuses on the role of transformation from physical services to digital and mobile money services on the upward lifting of financial inclusion.
- **Role of financial literacy in achieving financial inclusion: A review ,synthesis and research agenda studied in the paper Financial literacy and financial Inclusion, Ramakrishnan 2023**, This study highlights the role of financial literacy on financial inclusion. It says that it is the responsibility of the education department to involve the financial subjects during secondary and higher secondary education. It is the role of the central bank to open the institutions and to execute the seminars and workshops where youth can be educated about different financial products. This

study concludes that financial literacy has a positive influence on financial inclusion options in Niger.

- **An overview of financial inclusion in India, Sunny Masand and Chandni 2022,** Studied that the major issues regarding financial inclusion are lack of financial literacy and execution of policies without understanding the barriers in it. It states that there is a positive relationship between financial inclusion and economic growth. If the government wants inclusive growth it is necessary for the underserved population to use the financial sources.

Research Questions: There are some research questions covered by the study:

Question1: What are the historical policy measures that have shaped financial inclusion in India?

Question2: How do government initiatives impact the accessibility and affordability of financial services in rural and urban areas of India?

Question3: what is the impact of financial inclusion on economic growth in india and does it help in poverty reduction?

Question4: Is there any role of banks and financial institutions in promoting the financial inclusion in India?

Question5: What are the main challenges and barriers in achieving complete financial inclusion in India?

Question6: How fintech and mobile money promoting financial inclusion in rural areas

RESULTS AND DISCUSSION

Financial inclusion in India has made significant strides over the past few decades, driven by government initiatives, technological advancements, and the growing reach of digital banking. The launch of various programs like Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, and financial literacy campaigns has improved ingress to financial services for millions of previously underserved and unbanked individuals. Moreover, innovations in digital payments, mobile banking, and fintech solutions have accelerated this progress, particularly in rural and remote areas. Financial literacy and awareness are the major tools promoting financial inclusion and enhancing inclusive growth.

Despite these positive developments, challenges persist, including issues related to digital literacy, financial illiteracy, infrastructure gaps, and socio-economic disparities. Additionally, barriers such as gender, caste, and geographic location continue to hinder equal access to financial services. Moving forward, it is crucial for policymakers, financial institutions, and technology providers to collaborate in addressing these gaps and ensuring that financial inclusion efforts are more comprehensive and sustainable.

By leveraging advancements in technology, strengthening financial education, and creating an enabling environment for low-income and marginalized populations, India can build a more inclusive financial system that empowers individuals, fosters economic growth, and reduces inequality. Achieving full financial inclusion in India is not only a goal but also a critical step toward ensuring financial stability, boosting entrepreneurship, and improving overall economic well-being for all its citizens.

CONCLUSION

We can say that India has come a long way from exclusion to inclusion with respect to finance but we still cannot claim that our country has achieved a comprehensive financial inclusion. Financial inclusion promises to be a powerful tool for driving rural development, yet significant challenges remain in ensuring equitable access to financial services in rural areas. Policy makers need to address all the barriers whether it is financial illiteracy and unawareness or it is psychological or cultural barriers while making policies.

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