Financial Inclusion for Inclusive Growth: An Empirical Study of India

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ABSTRACT

Financial inclusion as a strategy has become a policy concern throughout the world, including India, and it is viewed as a transmission mechanism for poverty eradication and a way of attaining inclusive economic growth.The study attempted to explore the impact of financial inclusion on economic growth in India.The Data was extracted from secondary sources from websites of RBI and covered the period between 2013 to 2023 while the multiple regression analysis was used to test the hypothesis. Based on the empirical analysis, the study concluded that the number of ATM's and loan deposit ratios have a positive impact on GDP, whereas, no. Of newly opened villages and no.of opened bank branches don’t have any impact on GDP. As we can say that inclusive growth has become essential for long term growth and social harmony which can be fostered by technological development by skill development and giving them basic digital literacy and by reducing poverty. It is consequently advised that politicians and financial regulators should take the appropriate steps to guarantee that banks follow the various laws, regulations, and policies that regulate their operations. Regulators must ensure that all aspects of financial inclusion are geared at expanding economic activity in the country, which will contribute to inclusive economic growth.

KEYWORDS: Economic Growth, Financial Inclusion, Financial Services, Poverty Eradication, Per Capita Income

INTRODUCTION

India is one of the world's largest rising economies. It is the seventh-largest country in terms of geographical area and the first-largest in terms of population. Inclusive growth is a priority in the five-year plan and continue a priority in the Niti Ayog mission.Every economy's sustainable economic growth needs inclusive growth, which should be viewed in the long term because its primary focus is on creating employment, rural empowerment, and improving living standards.(Jisha Joseph&Varghese 2014)Many of the world's developing economies have significant obstacles towards achieving inclusive growth. For many years, both the federal and state governments have taken steps to ensure that individuals enjoy equality in their socioeconomic well-being, including equality in health, human capital, food security, and social protection.Recently, the majority of Indians did not even have a bank account, insurance penetration was quite low, particularly in rural regions, and the country lags in many economic and social measurements.Financial inclusion is a key component of inclusive growth, which promotes the overall economic growth of the most marginalized groups in society. Inclusive growth is an approach to economic development that promotes fair opportunities for all economic actors during periods of economic expansion, with benefits flowing to all members of society.Despite recent economic growth rates in India exceeding those of other industrialized countries, the majority of the country's population does not have access to a bank account. The idea behind inclusive growth is to ensure that every segment of society benefits from economic growth by giving all economic players equal chances.The Indian economy has grown rapidly, and it is expected to rank among the top three economic powers in the world within the next 15 years.Inclusiveness, defined as equity, equal opportunities, and protection in the face of market and employment shifts, is a key element of a successful growth strategy, according to the Commission on growth and development (2008).However, attempts to quantify inclusive growth have been limited. The administration has prioritized fostering economic growth, digitising the economy, and providing affordable housing in the Union budget.If it is carefully targeted, inclusive growth may result in financial stability, the accumulation of assets, economic mobility, and the empowerment of low-income individuals.Financial inclusion is a key component of inclusive growth, which promotes the overall economic growth of the most marginalized groups in society.Inclusive growth is one of the strategies for achieving inclusive growth in India, where large segments of the population are either unable or unwilling to access the financial system. A more inclusive financial system generates more resources for productive purposes, leading to higher productivity. Studies have shown that the most effective way to reduce poverty is through financial development..However,economic development can, in any case, leave many individuals in persistent poverty on the off chance that they don't have the vital ability to take part in and benefit from the growth cycle.Financial inclusion offers incremental and integral answers for tackling poverty,to elevate comprehensive turn of events and to address the MDG.(Ozili 2023)Some even allude to financial inclusion as a semi - public great, expressing that there is substantial proof that a well - functioning monetary framework cultivates quicker and more fair development.In order to achieve inclusive growth,financial inclusion is required.Economic possibilities are also equal when growth is inclusive.When rural banks were created across the country over 35 years ago,the seeds of financial inclusion were sowed.Because of the banking industry’s willingness to assume social duties ,the branch network has grown from 8000 in 1969 when banks were nationalized to, over 87000 now.For inclusive growth,the RBI has adopted a bank-led model to ensure financial inclusion by providing low-cost,efficient,ICT based banking services through multiple delivery channels such as intermediary low-cost brick and mortar structures,branch banking through business correspondence ,and other modes such as mobile vans ,rural ATM,and so on.As part of financial inclusion,the RBI encourages the government to disburse social security payments through the banking channel ,utilizing electronic benefits transfers for financial inter mediation.(MR.M.Govindrajan 2012).

LITERATURE REVIEW

1. **Gautam visas (2023) -** The study intended to investigate the influence of financial inclusion on economic growth in four South Asian countries.To uncover the association between economic development and financial inclusion, researchers used a variety of panel data models and financial inclusion indicators.The findings indicate that financial inclusion has a beneficial effect on economic growth in those countries has increased, albeit the magnitude of the benefit differs depending on the measure of financial inclusion.
2. **Nitin kumar(2013)-**The primary goal of this research is to examine evidence on financial inclusion and its determinants in India.Panel fixed effects and dynamic panel generalised methods of moments

(GMM) approaches were used to investigate the determinants of financial inclusion. Kendall's rank concordance index has also been developed to test for state convergence in terms of financial inclusion.The findings show that the Branch network has an positive influence on financial inclusion. Both the fraction of factories and the staff base seem to be important predictors of penetration indicators. The study highlights how a region's socioeconomic and environmental factors influence people's banking habits.

3. **Mohammad naim azimi (2023)-**investigated new perspectives on the impact of financial inclusion on economic growth. The study examines the effects of financial inclusion on economic growth from a global viewpoint, using a large number of panels grouped by income and location from 2002 to 2020.
4. **Aman pushp&rahul singh gautam** (2022)examined the effects of financial inclusion on India's economic development in the context of the moderating effect of internet subscribers.The primary goal of this research is to evaluate whether financial inclusion results in sustainable development growth in India.Data was gathered from secondary sources in 16 Indian states and one union territory.The conclusions of this research suggest that FI has a positively significant link with the sustainable development goals in India.
5. **Tabitha &g.stillaa(2023)**- explored digital finance and its effect on financial inclusion. This study is mainly theoretical in nature and data is collected from various secondary sources.The results concluded that digital finance has the potential to make banking more economical, convenient, and secure. Digital finance gives customers more control over their own finances, allows for faster financial decisions, and allows them to make and receive payments. Financial inclusion is a win-win situation made possible by digital finance.
6. **Nurschefia&sanjay(2022**)-examined the impact of financial inclusion on inclusive growth. The major purpose of this essay is to evaluate the level of financial inclusion and inclusive growth in Indonesia.The financial inclusion index is created from provincial statistics and is based on the accessibility, availability, and use of financial services.According to the research, accessibility has the greatest impact on financial inclusion, with availability and usage playing minor roles.According to the report, the disadvantaged have restricted access to financial services.
7. **Radhika dixit&munmun ghosh(2022**)- The primary goal of this research is to grasp the inclusive development phenomenon and its importance.The investigation was conducted using secondary data sources. The findings show that inclusive growth is significantly reliant on the fair distribution of growth chances and benefits, with financial inclusion being one of the most crucial opportunities that must be distributed evenly throughout the country to achieve comprehensive growth.

RESEARCH OBJECTIVES

1. To investigate the current scenario of financial inclusion in India.
2. To investigate the factors that may foster inclusive growth.
3. To investigate the impact of various indicators of financial inclusion on GDP

RESEARCH HYPOTHESIS

H0- There is no significant impact of no.of ATM on GDP
H0-There is no significant impact of no.of newly opened bank branches on GDP
H0-There is no significant impact of no.of villages on GDP

H0-There is no significant impact of the loan deposit ratio on GDP.

RESEARCH METHODOLOGY

This study aims at examining the impact of financial inclusion on India's economy . The current study is based on secondary data in which the information is gathered from RBI's official website and publication. A multiple regression analysis was used to study the relationship between various indicators of financial inclusion such as no.of atm,no.of newly opened bank branches,no .of villages and loan deposit ratio as independent and GDP as a dependent variable. The main objective was to precisely determine the independent variables that could impact the dependent variable.

THE CURRENT SCENARIO OF FINANCIAL INCLUSION IN INDIA

According to the IMF's latest Financial Access Survey (FAS) data, there has been a significant improvement in the direction of financial inclusion as a result of initiatives taken by the Reserve Bank of India and the Government of India, according to the Report on Trends and Progress of Banking in India 2019-20.The majority of India's population resides in remote areas and these people do not have easy access to financial facilities. Only 38% of scheduled commercial banks have branches in these remote regions, and women constitute more than two-thirds of the unbanked population.Less than 30% of the financially excluded population who have opened bank accounts in the country are operational.The purpose of financial inclusion projects is to bring economic stability to poor communities and households. These communities often do not have access to a bank, term deposit accounts, insurance, remittances, etc.Banks have expanded their presence in these regions throughout the years by building new rural branches, installing ATM's and digital kiosks, offering credit through General Credit Cards (GCC) and Kisan Credit Cards (KCC), employing banking correspondents, and other means.Inclusion is being accomplished on a large scale with the introduction of technology into core banking and the rapid growth of alternative delivery channels. The number of rural branches has increased from 33,000 to over 50,000 over the past seven years, and the number of basic savings accounts has increased from 73 million to a staggering 533 million. And the amount of money deposited in these accounts increased from Rs.55 billion to Rs.977 billion(Ratnawati, k.2020)

Financial inclusion initiatives received significant support from PMJDY and the RBI's attention. In the coming years, it is anticipated that this focus on and acceleration of Financial inclusion will be extremely successful and beneficial to the people.Financial inclusion has been a significant part of the government plan. Numerous initiatives have been launched and a variety of Fintech services have been developed to help the rural population and cover the last mile.

For the millions of unbanked people, traditional banking is not always an option they can afford. Digital India is laying on individuals' readiness to involve the web and establishing the groundwork for a total credit only.(Adeola 2017)

The Digital India initiative has received funding totaling more than $18 billion. It expects to offer types of assistance, for example, last mile web availability, further developed admittance to taxpayer supported organizations, Wi-Fi in open regions, web admittance to 2.5 lakh towns, and the improvement of savvy urban areas. Additionally, it focuses on automating delivery in the government services sector.(Toxopeus 2008)

INVESTIGATE THE FACTORS THAT MAY FOSTERINCLUSIVE GROWTH

1-Skill development:

One of the components of inclusive growth is skill development

According to a UNICEF survey, more than 45% of Indian youngsters are uninterested in obtaining a quality education and the requisite skills for employment.Due to a scarcity of highly qualified people and a lack of employment prospects for traditionally trained individuals, it is reasonable to think that India faces a challenge in delivering sufficient skill development to its workforce. According to the economic survey, more than 31% of people in India were not enrolled in education, job, or training in 2017.When skill development is performed with the goal of contributing to structural transformation, it naturally results in increased labour productivity, allowing public and private investment in education and improved economic growth. Enabling the next generation of workers to improve their skills can help to alleviate the current economic stress. When educational institutions invest in skill development, it can reduce unemployment, increase productivity, and raise living standards. In addition, Skill Development will also equip the labour force with the necessary skills to meet the demands of industry 4.0, driven by the rise of cities, the ubiquity of the Internet and the emergence of new technologies. (India today 2023)

2- TECHNOLOGICAL DEVELOPMENT-

Technology advancement can initially exacerbate inequality, it is eventually necessary for economic growth and sustainable development.

A significant amount of inclusive growth has resulted from digital advancements in fields including cloud computing, blockchain, Internet of Things devices, artificial intelligence (AI), information communication technology (ICT) networks, big data, and algorithms.Technological development provides opportunities to upgrade skills and financial literacy .For example, small farmers and store owners can acquire better pricing from suppliers, more savings, faster payments, credit, and government subsidies by using a digital wallet connected to their debit card to obtain financial services.All of the Sustainable Development Goals may benefit greatly from recent technical advancements, but not everyone has instant access to such advancements, such as life-saving medicine, clean water, specialised expertise, or a piece of equipment.

3-DIGITAL LITERACY-

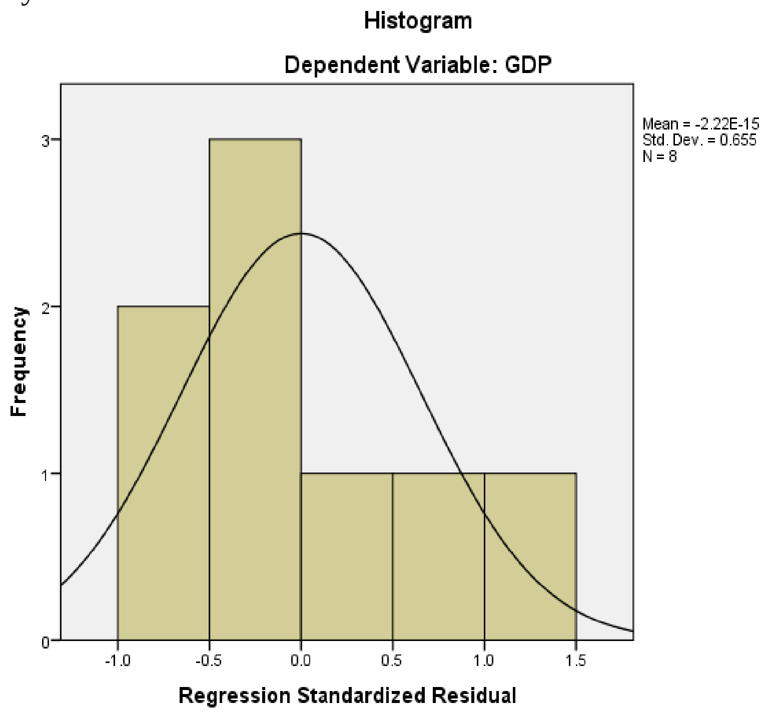
Increasing access to digital tools and platforms and giving people the digital literacy skills they need to use technology to its fullest will be essential to fostering inclusive growth.In India, digitization has become a necessity rather than an extra feature for activities like shopping, banking, and travel. It has now spread across practically every aspect of society, changing governments and corporations to become a new way of life. New India is embracing digitization quickly, whether it's paying online taxes or using a United Payment Interface (UPI) to pay a vegetable vendor. Currently, more than 45% of people in the nation use the internet.This is reflected in the Reserve Bank of India's Financial Inclusion Index for March 2021,which has a rating of 53.9. This shows that more than half of the 1.3 billion people living in the nation are online, have easy access to internet services.Because of the extensive digital on boarding, there is a natural trend towards conducting online business (India Today, 2022)

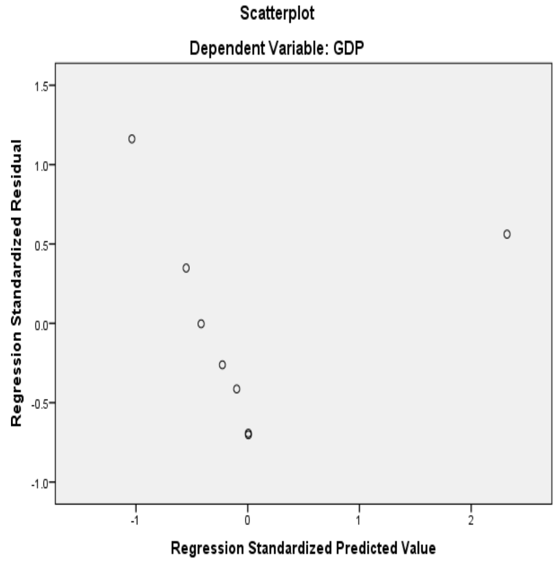
Poverty Reduction-Reducing poverty is a prerequisite for sustainable development, and inclusive growth and sustainable development are inextricably connected. One of the biggest problems facing humanity now is poverty in all of its manifestations (Taghizadeh-Hesary et al., 2021). The ambitious goal of the Sustainable Development Goals (SDGs) is to complete the work that we began and eradicate poverty in all of its forms by 2030.For the first time in more than 20 years, extreme poverty worldwide increased in 2020 as a result of COVID-19's disruption. Today1.2 billion people worldwide, or one in five, survive on less than $1 a day. More than fifty countries have lower real per capita incomes than they did ten years ago, and fifty-six percent of the developing worldwide lacks access to even the most basic sanitation.Poverty reduction is the most powerful instrument for inclusive growth and improving the quality of life in developing countries. Implementing policies that support rapid and consistent economic growth is essential to any effective poverty reduction plan. Combining growth-promoting policies with measures that enable the impoverished to fully take advantage of the opportunities created and thereby contribute to that growth presents adilemma for policymakers.

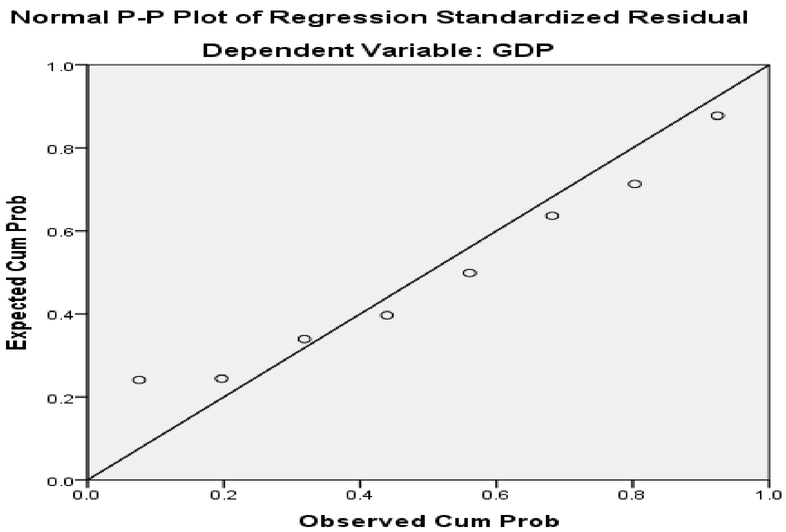
Emplyoment - The Secretary-General of the United Nations' report for the 2006 Economic and Social Council of the United Nations emphasized the importance of employment in achieving equitable growth and eliminating poverty.As the study points out, labour income is the primary source of income for the poor, so increasing employment growth is critical to reducing poverty. In actuality, the majority of the impoverished in India work, but they are nonetheless impoverished. In summary, increasing the productivity of many current jobs and creating new, productive jobs are necessary to alleviate poverty and achieve some degree of inclusively.However, simply creating jobs is insufficient. The fact is that most poor people in India work, but they are still poor. To eliminate poverty - to attain some level of inclusively - the productivity of much existing employment must be increased, and new jobs must be productive.

DATA ANALYSIS AND INTERPRETATION

The histogram and probability plot obtained for the data set are revealed in Figures 1 and 3. According to the histogram and p-p plot, the data set is not normally distributed to some extent and does not meet assumptions of normality.







To analyze the hypothesis,the multiple regression analysis is used at 95% confidence intervals. The analysis(Table no.1) showed that the correlation coefficient(R) indicates the strength and direction of the linear relationship between the independent variable and dependent variable.In this case, R=0.934,suggesting a very strong, positive linear relationship between the independent variables and the dependent variables and R2=0.872 indicates that approximately 87.2% of the variance in the dependent variable is explained by the independent variable .A higher-adjusted R2 value indicates a better fit,considering the complexity of the model here adjusted R2=70.2%of the variance in the dependent variable while adjusting for the number of predictors.The lower value of standard error of estimate indicates that the model predictions are closer to the actual value and F statistics=5.113 indicates the regression model is significant at some level.The significance of the F change tests whether adding additional predictors to the model improves the modal fit significantly.Here,the significance value is 0.106 suggesting that the change in the modal fit may not be statistically significant.The data analysis(Table no,3) indicates that an increase in the number of ATMs correlates positively with GDP (coefficient B = 1.024, t-value = 4.08, p-value < 0.01) and credit deposit ratio also demonstrate a positive association with GDP(coefficient B=1.151,t-value=3.326) Conversely, the analysis suggests that the number of

newly opened villages does not significantly impact GDP (coefficient B = 0.0502, t-value = 1.128, p-value < 0.001)and the number of newly opened bank branches also does not positively influence GDP (coefficient B
= -1.170, t-value = -2.297, p-value = 0.105).The Variance Inflation Factor (VIF) analysis suggests that there is no evidence of multi collinearity among the variables in the datasets.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.934[a]	.872	.702	49283062.80	.872	5.113	4	3	.106

a. Predictors: (Constant), loandepositratio, numberofatm, numberofvillages, numberofnewlyopenedbankbranches

b. Dependent Variable: GDP

Table no.1

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.967E+16	4	1.242E+16	5.113	.106[b]
	Residual	7.286E+15	3	2.429E+15		
	Total	5.696E+16	7			

a. Dependent Variable: GDP

b. Predictors: (Constant), loandepositratio, numberofatm, numberofvillages, numberofnewlyopenedbankbranches

Table no.2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-2012479356	585529866.0		-3.437	.041					
	numberofatm	2739.319	670.757	1.024	4.084	.027	.612	.921	.843	.679	1.474
	numberofvillages	24.411	21.632	.502	1.128	.341	-.152	.546	.233	.215	4.649
	numberofnewlyopenedbankbranches	-106645.032	46430.951	-1.170	-2.297	.105	-.219	-.798	-.474	.164	6.081
	loandepositratio	27368437.56	8229744.918	1.151	3.326	.045	.057	.887	.687	.356	2.808

a. Dependent Variable: GDP

Table no.3

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	numberofatm	numberofvillages	numberofnewlyopenedbankbranches	loandepositratio
1	1	4.402	1.000	.00	.00	.00	.00	.00
	2	.579	2.757	.00	.00	.20	.00	.00
	3	.015	17.384	.00	.58	.21	.06	.01
	4	.004	31.331	.04	.06	.58	.79	.03
	5	.000	98.241	.96	.35	.00	.15	.96

a. Dependent Variable: GDP

Table no.4

CONCLUSIONS AND SUGGESTIONS

Today, inclusive growth is a priority that is felt globally.In today's world, inclusive growth is of the utmost importance.Financial inclusion is an essential requirement for inclusive economic growth. Numerous hurdles to financial services for the impoverished must be removed. The Indian banking industry has taken a number of approaches. Financial inclusion is measured by the number of ATMs, newly opened bank branches, village banking facilities, and credit deposit ratio.The study attempted to explore the impact of financial inclusion on economic growth in India.The study concludes that the number of ATM and loan deposit ratios don't have a positive impact on GDP whereas,no. Of newly opened villages and no.of opened bank branches don't have a positive impact on GDP. The results also reveal that inclusive growth has become essential for long term growth and social harmony, which can be fostered by technological development, by skill development and giving them basic digital literacy and by reducing poverty. It is consequently advised that politicians and financial regulators should take the appropriate steps to guarantee that banks follow the various laws, regulations, and policies that regulate their operations. Regulators must ensure that all aspects of financial inclusion are geared at expanding economic activity in the country, which will contribute to inclusive economic growth.Regardless of the study's findings, there are a few aspects that we believe could improve future studies and that could be interesting to investigate in the future within this research area. To begin, there are some basic things to consider, such as raising the sample period to more years or increasing the number of nations to get more observations and therefore more data. If there is missing data, change the unit of measure to months can address the problem and fill in the gaps in the data. Another improvement for future studies might be to integrate additional approaches to find more evidence and strengthen the findings.

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