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Impact of financial Inclusion on Economic Growth – With Special Reference to Banking Sector

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Abstract:
The concept of Financial Inclusion is emerging as a paradigm of inclusive economic growth which is possible only through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is a new and ingenious concept which make every possible attempt to inculcate the habit of banking and other financial activities among people throughout the country. This is a conceptual paper based on secondary sources which includes peer reviewed research papers on financial inclusion. Analysis and evaluation of previous literature has been done through R-Studio Software. It is found that Financial Inclusion is closely related with the Banking, empowerment, economic development and many other aspect of Inclusive development.

Key Words: Financial, Inclusion, Banking, Development, India

Introduction

India is one of the largest and fastest growing economies of the world, but it has been uneven in the sense that there has been no uniformity in its growth performance and it has been discrete and disconnected with regard to growth and distribution of growth benefits to certain sectors of economy (***Emmanuel, 2017).*** Financial Inclusion is considered to be the core objective of many developing nations since last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to ***World Bank report*** *"Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services."* For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion ***(Sharma & Kukreja, 2013).***

The term Financial Inclusion can 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 an affordable cost ***(RBI Speech, 2013).***. Twenty-three years after economic reforms unfurled in India, the financial sector still suffers from many maladies. There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy. From supply side, lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development ***(Joseph & Varghese, 2014).*** Financial inclusion is an innovative concept which helps to achieve the sustainable development of the country, by making available financial services to the unreached people with the help of financial institutions. It can be a great weapon to overcome financial backwardness. Access to financial services plays a critical part in development by facilitating economic growth and reducing income inequality ***(Barot, 2017).***

Literature Review

The Rangarajan Committee on Financial Inclusion (2008) defines it 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. *The Raghuram Rajan Committee (2008)* refers to universal access to a wide range of financial services at a reasonable cost. ***Michael Chibba (2009)*** noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus.

Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. ***Oya Pinar Ardic et al. (2011)*** using the financial access database by CGAP and the World Bank group, states that there is yet much to be done in the financial inclusion arena as Fifty-six percent of adults in the world do not have access to formal financial services. ***Bihari (2011)*** analyzed financial inclusion plans in the light of global practices, and suggested that financial literacy and quality improvement in no frill account can achieve financial inclusion plans growth. ***Band, Naidu and Mehadia (2012)*** argued about opportunities and problems in the path of success of financial inclusion plan.

Research Methodology

This paper follows descriptive research design. An extensive analysis of the existing literature on *Impact of Financial Inclusion on Economic Growth with special reference to Banking Sector* has been done. Research papers have been retrieved from various online sources and conference proceedings etc. Various related key words such as financial inclusion, inclusive growth, economic development, and combinations of these were used to locate the relevant studies for analysis purpose. Financial Inclusion pattern has been studied in various disciplines such as economics, sociology, political science, social work, management, commerce, and so on .

Keeping in mind the objectives and scope of the study, research papers related to the area of financial inclusion have been included. Sixty Two research studies from various double blind peer reviewed journals have been found suitable for this paper. Qualitative Data Analysis (QDA) software R software has been used for preliminary analysis of literature. R software is a software package that allows users to import, sort and analyze text documents, audio files, video files, spread sheets, databases, digital photos, documents, PDFs, bibliographical data, web pages and social media data etc. The qualitative analysis using text mining, Correlation, Word Frequency series and plots, word tree were done to explore financial inclusion in previous researches. The results provided by R software have been analyzed and interpreted in next section of the paper.

Findings and Discussion;

Sixty Two research papers on Financial Inclusion have been analyzed with the help of Word frequency query of R software, looking for 100 most frequently used words and their synonyms. The results are presented below in the form of a word cloud (100 most frequent words 3, .5).

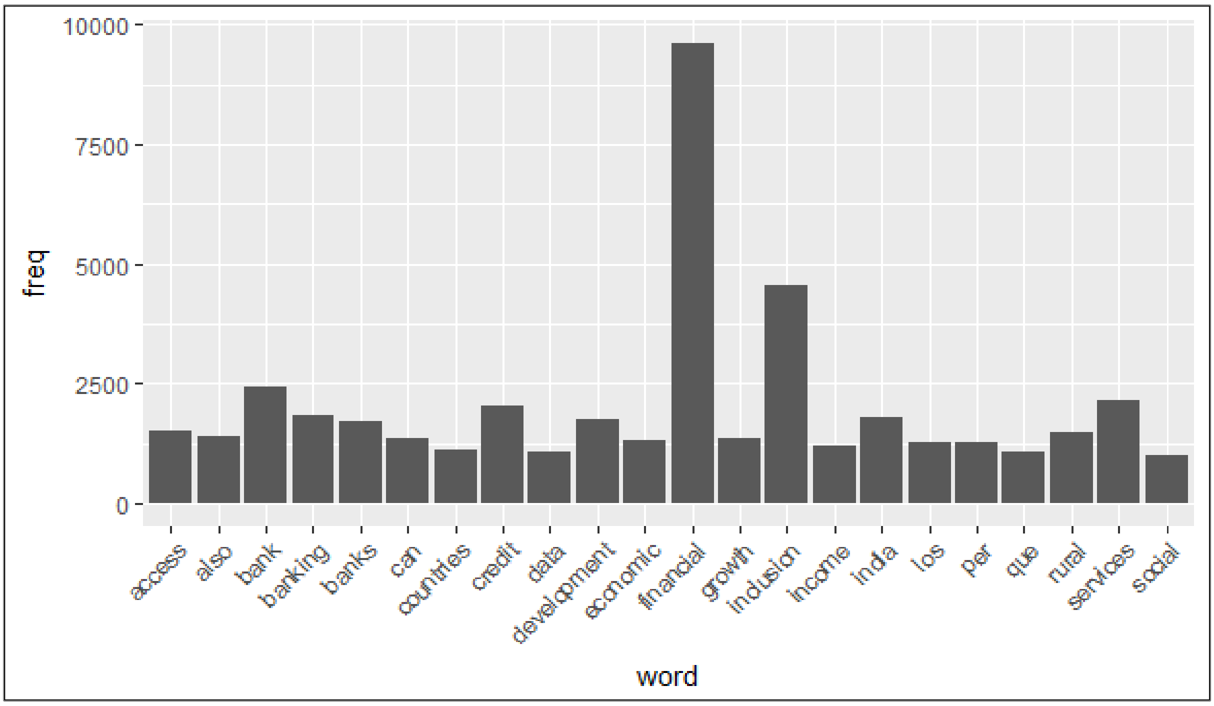
Figure No.1: word Cloud

Out of available literature it has been found that financial inclusion is talked in context of banking and development. The analysis of literature shows that financial inclusion has been explored widely in Indian context. Researcher tries to explore financial inclusion with respect to economic growth and development. The above word cloud shows that economic growth has been explored but needed to be explored more extensively to understand relationship between financial inclusion and economic growth.

At the time of research plan the variables like bank branches, number of ATMS, number of Account holder has been thought to be explored. But the analysis of relevant literature shows that nowhere these variables have been discussed in previous researches.

The following graph shows the words with a minimum frequency of 1000 at a degree of 45.

Figure No. 2: Word Frequency Plot



Analysis of previous literature shows that financial word has been explored most widely having the highest frequency as shown in the graph. Bank related words if taken together shows a good picture but models of bank like Number of ATMS, Bank branches are no where seen. Although it has been thought always that there has been a positive correlation between these factors and financial inclusion but previous literature does not support this argument. As there has been almost 75.52043% increase in the ATM penetration over a period of last five years (2012-2017) but still this factor finds no place in promoting financial inclusion in the previous literature. similarly if we analyze number of bank branches it can be seen that there has been a 49.93% increase over a period of last 10 years (June 2006 – June 2017), and previous literature founds relationship between bank, banks, banking but no where bank branch has been mentioned in previous literature.

In this study it was tried to establish the relationship between financial inclusion and economic growth but from the above graph it is clearly seen that less exploration has been done with regard to economic growth as there frequency is very low.

The following table shows the fifty most frequently used words and the number of times these words have been used in the literature.

Word	Frequency	word	Frequency
Financial	9620	Number	874
Inclusion	4539	Accounts	863
Bank	2423	Model	815
Services	2134	People	811
Credit	2017	Population	798
Banking	1832	Level	795
India	1791	World	790
Development	1764	Poor	767
Banks	1731	Journal	754
Access	1523	Education	751
Rural	1475	New	732
Also	1376	Poverty	727
Growth	1369	System	720
Economic	1323	Value	718
Los	1292	Business	717
Per	1269	Account	715
Income	1187	Microfinance	712
Countries	1105	Policy	705
Que	1060	One	704
Data	1059	Formal	701
Social	1006	Savings	699
Finance	954	Low	695
Research	916	Index	686
Sector	894	May	673
Las	885	Table	672

Table No. 1: Word Frequency

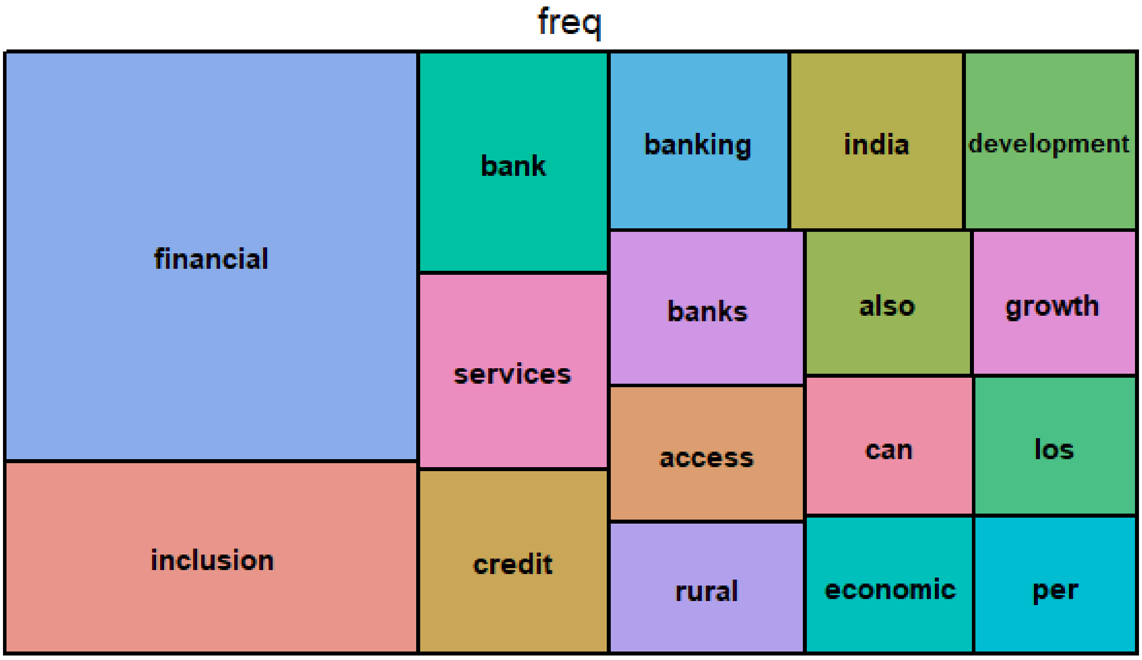
"The test of our progress is not whether we add more to the abundance of those who have much ; it is whether we provide enough for those who have too little." - Franklin D. Roosevelt

In reference to the above quote the word financial inclusion may be defined as the process of ens uring access to financial services and timely and adequate credit where needed by different vuln erable groups such as weak, low income, women, underprivileged, poor, downtrodden, marginal ized people at an affordable cost. But in the previous literature less exploration is done on this as pect. Comparison of the frequency of the word financial , inclusion, poor, poverty clearly present the mismatch between these concepts.

Although the word rural finds significant place (1475 times) in the previous literature with stron g frequency as depicted in the above frequency table and also there has been a more than 100 pe rcentage increase in the rural branches over the time period of (2013 - 2017) still the word poor , farmers, marginalized ,down trodden which are the base of rural areas are missing in the previ ous literature.

Following Word tree shows words with a minimum frequency of 1200 words

Figure No.3: Word Tree



Financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. Financial inclusion is important priority of the country in terms of economic growth and advancement of society. It enables to reduce the gap between rich and poor population. In the current scenario financial institutions are the robust pillars of progress, economic growth and development of the economy. The present study aims to examine the impact of financial inclusion on growth of the economy and finds that there is no strong evidence in the previous literature to support this argument as the tree map clearly defines the areas of financial, inclusion, economic, growth and there is a wide gap between their proportionate shares.
Following table shows the Correlation between the words Inclusion and following words:

Table No.2: Word Correlation

Behavioral	0.94
Male	0.94
Married	0.93
Qualification	0.93
Empowered	0.91
Psychological	0.91
Beneficiaries	0.9
Educated	0.9
Religion	0.9
Socioeconomic	0.9
Hindu	0.89
Self employment	0.89
Family	0.88
Female	0.88
Financial	0.88
Empowering	0.86
Upliftment	0.86
Illiterate	0.84

From the table it is evident that the word inclusion has strong correlation with the words financial implying financial inclusion is an important part of the system and high exploration has been done in this regard.

The word inclusion is more strongly related with the word Male (0.94) as compared to female (0.88) implying biasness in the availability of financial inclusion schemes. Inclusion is also more strongly correlated with qualification (0.93) implying educated people are using financial inclusion schemes more extensively rather than illiterate population (0.84). A strong correlation can be seen between inclusion and empowerment (0.91), upliftment (0.86) empowering (0.86) implying merits of financial inclusion are deeply rooted in people empowerment. Access to credit is a critical link between economic opportunities and outcomes. By empowering individuals and families to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth. In previous literature it shows that religion, socio economic status, individual behavior also play an important role in financial inclusion and economic growth.

Findings:

1. Previous literature highlight the financial inclusion has been explored extensively.
2. Previous literature highlight the importance of bank in financial inclusion process but shows no direct relation with ATM penetration, bank branches.
3. Although financial inclusion is meant for poor, economically backward people but less emphasis is paid on these aspects in previous studies.
4. Previous literature shows trend that financial inclusion is used more by educated people as compared to the uneducated people.
5. Financial inclusion services are more extensively used by male beneficiaries as compared to female beneficiaries.
6. Financial inclusion is highly correlated with empowerment, development as compared to economic growth.
7. Financial inclusion has been explored in rural villages as compared to urban ghettos and suburb areas
8. Here less emphasis has been paid on different dimensions like behavioral, social economic, religion in respect of financial inclusion.

Conclusion:

Financial inclusion is 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 an affordable cost. The analysis of previous literature shows that financial inclusion has a positive impact on economic development, empowerment but more research need to be done in order to correctly establish the relationship between financial inclusion and economic growth. Major studies have been done in this aspect but certain aspects like importance of ATMS penetration, penetration of bank branches, beneficiaries of PMJDY need to be explored. It is needed to move to the next stage where benefit should reach to the silent majority of those individuals with disability.

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