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# FINANCIAL INCLUSION :SHARE IN INCREMENTAL GDPs

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## ABSTRACT

In the current (current decade refers to period between FY11-FY20) decade,India's success story is set to enter a new era of inclusive growth. Significant progress will be visible in terms of growth percolating to a larger of the society,an aspiration that has largely remained unaccomplished in the growth story so far. While it might take a longer time to experience fully inclusive growth,the current decade would definitely see India rapidly progressing toward achieving this dream.

Although the need for more equitable growth had been recognized since independence, efforts toward driving benefit of the ongoing strong growth to the underdeveloped regions rose significantly only in the past few years. Many states that have lagged in terms of development are progressively altering their growth dynamics by focusing on changing the politic surrounding economic policy-making.Striking examples of such changes are Bihar, Orissa and Rajasthan.

The idea of inclusive growth seems to be taking precedence not be politically but also on the corporate front with significant emphasis being place on the untapped potential in rural India.However to unlock this potential substantial improvement in education and health service would be required.

**Keywords :**Financial Inclusion, Financial & Banking Services, Economic Policies

## INTRODUCTION

Financial inclusionorinclusive financing is the delivery of financial service at affordable costs to section of disadvantaged and low income segments of society.Unrestrained access to public goods as service is the sine qua non of an open and efficient society. It is argued that as banking service are in the nature of public good,the availability of banking and payment service to the entire population without discrimination is the prime objective of this public policy. The term “financial inclusion” has gained importance since the early 2000s,and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

The key focus of financial inclusion includes four products:

1. A pure savings products with inbuilt overdraft facility
2. A Recurring deposit product
3. A Remittance product and.
4. Entrepreneurship credit in the form of KCC/GCC.

## KEY OBJECTIVES OF FINANCIAL INCLUSION

1. Extending formal banking system among less privileged in urban &rural India.
2. Weaning them away from unorganized money markets and moneylenders.
3. Equipping them with the confidence to make informed financial decision.

## FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India (RBI) set up the khan commission in 2004 to look into financial inclusion and the recommendation of the commission ware incorporate into the midterm review of the policy (2005-06). In report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no– frills" banking account. In India,financial inclusion first feature in 2005,when it was introduced by K CChakraborthy, the chairman of the Indian bank.MangalamVillage became the first village in India where all households were provided banking facilities. Norms ware relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.In January 2006, the reserve bank permitted commercial banks to make use of the services of non –governmental organizations (NGOs/SHGs), micro –finance institution, other civil society organization as intermediaries for providing financial and banking services.

These intermediaries could be used as business facilitators or business correspondents by commercial banks.The bank asked the commercial banks in different regions so start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or UTs likePondicherry, Himachal Pradesh and Kerala announced 100%financial inclusion in all of their districts. Reserve Banks of India's vision for 2020 is to open nearly 600 million new customers' accounts and services them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank braches in rural areas continue to be aroadblock to financial inclusive in many states and there is inadequate legal and financial structure. The first-ever Index of financial inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. Only 34% of Indian individuals have access to orreceivebanking services.

## THE CONTROVERSY

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appreciate regulation oversight or consumer education policies. The result was consumers becoming quickly over – indebted to the point of committing suicide. Lending institution saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans,threatening the existence of the entries 4 billion-a-year Indian micro credit industry .this crisis has often been compared to the mortgage lending crisis in the US.

The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

We believe that over the current decade, Indian would see significant improvement in infrastructure in areas such as education and healthcare.

Another important issue that has inhibited India's economic growth potential is increased activity of Naxals. Naxalism affects vast swathes of 10 states in India, spread across about 180 districts. Many of these districts have huge development potential given their vast mineral resource, forests and potential for power generation. government of India's (GOI) proactive stance to combat this issues are resolved to some extent, significant development benefit would accrue to the states that have been reeling under insurgencies of the Naxalites.

The thirty three (these districts include 10 districts in Jharkhand,7 in Chhattisgarh, 6 in Bihar, 5 in Orissa,2 in Maharashtra, and 1 each in Andhra Pradesh, Madhya Pradesh and Uttar Pradesh) left wing extremist affected district identified by the home ministry to tackle Naxal issues are in particular,likely to move faster on the development path with implementation of forest rights Act and programmes such as the national rural employment guarantee Act (NREGA),National Rural Health Mission and PradhanMantriGram SadakYojana.

Political will to uplift the deprived would be a prerequisite for inclusion of the lowest economic class as India moves ahead on the high growth path. Convergence in policies at the center and state government levels would further drive inclusive growth .We expect the center and state governments to continue to harness growth enabling policies and increase the emphases on development of social infrastructure. As India moves ahead on the economic and social development front, we anticipate significant improvement in governance and reduction in corruption (empirical evidence have shown that greater economic development reduces corruption (corruption in America; by Edward L. Glaeser and raven saks; October 2004).We expect better implementation of government policies and development projects as the economy moves toward 2020.

**STATE-WISE SHARE IN INCREMENTAL GDPs (%)**

**Chart -1: State-wise share in incremental GDPs (%)**

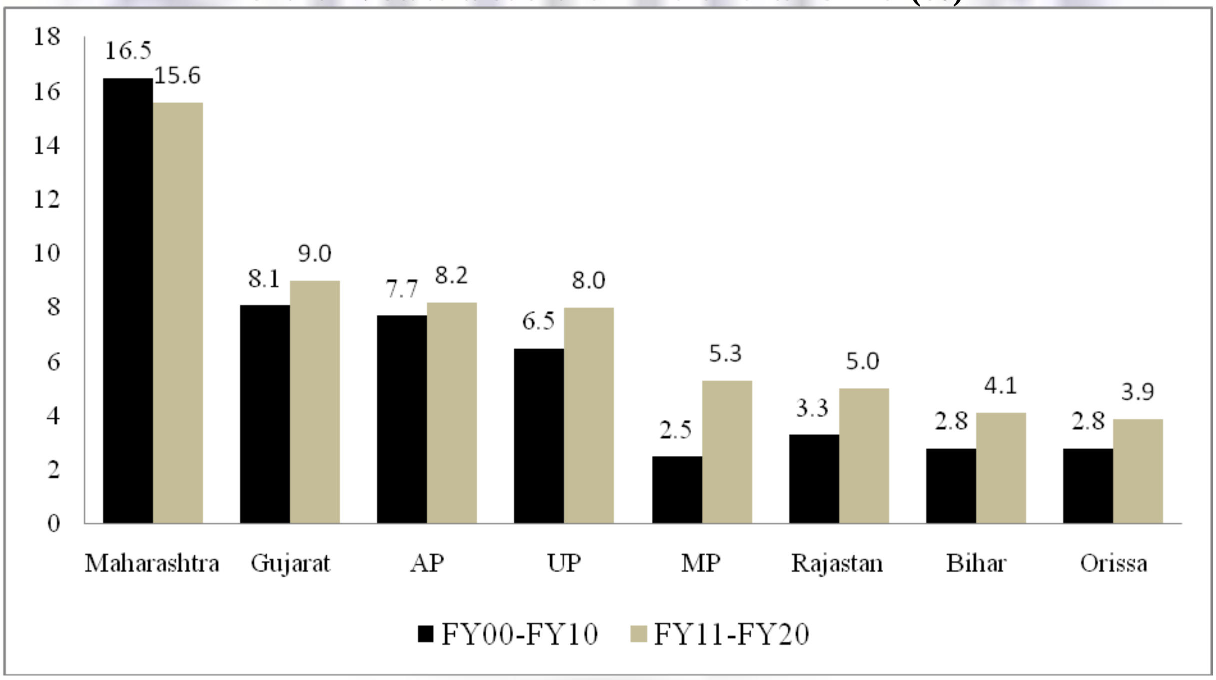
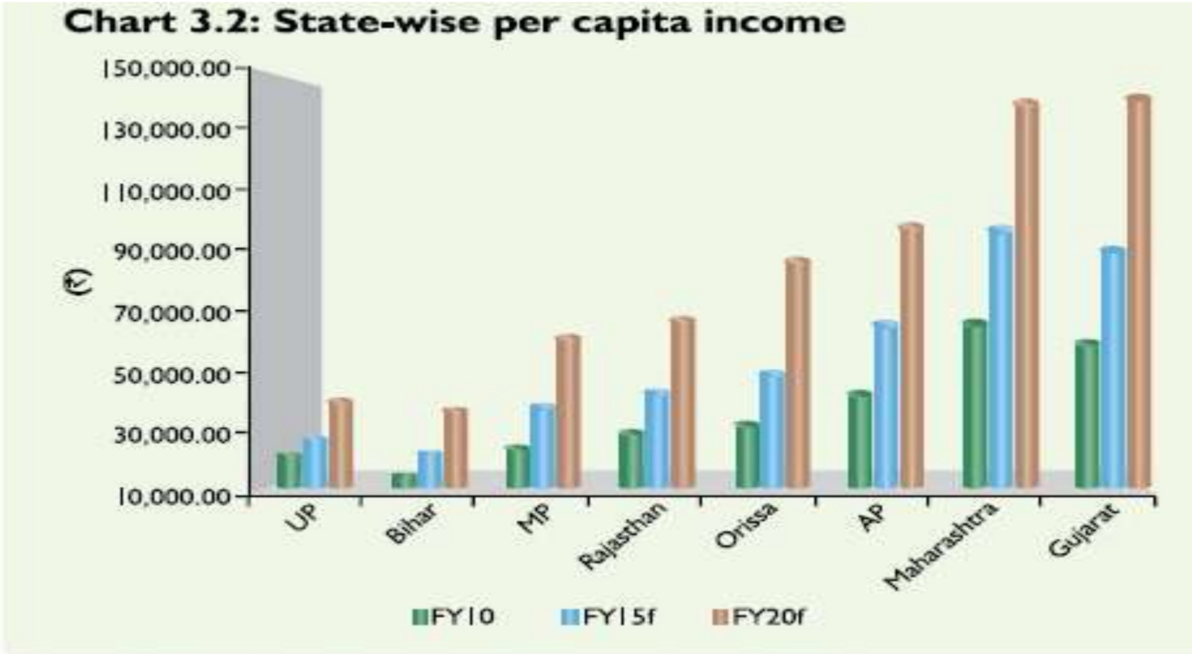



**Chart -1: State-wise Per Capita Income**




*[5] Incremental GDP refers to the addition in GDP during the period under review*
*GSDP is taken at factor cost at constant prices for all states*
*Source: CSO, D&B India*

1. Share of the eight states under consideration – UP,Bihar,Rajasthan,AP,Maharashtra,MP,Gujrat and Orissa-in India's GDP(factor cost at constant price)is expected to incraese to around55.9% by FY20,as against 51.5%during FY10.
2. The contribution of the statates to indiea's real GDP will be approximately 24% by FY20 as compared to 21% during FY10.
3. Gujrat is expected to emerge as the second largest contributor to GDP by FY 17.Gujrat's per capital income (PCI) would surpass that of maharashtra by 2020.
4. Maharashtra would continue to be the largest contributor to India's GDP,maintaning a shared of around 15.6%in FY20E.
5. Four of the five BIMAROU states are expected to see double digit average growth during the current decade.
6. Per capital income (PCI)of Bihar and MP is expected to almost tripale by 2020,although it would remain below the national averge.

**CONCLUSION**

As our former president Dr.Abdul kalam mentioned small aim is a crime. lgnoring the poor,downtrodden is not correct.Banking facility has to reach the underprivileged so that the habit of savings can be inculcated in everybody's mind.Let us all make the villagers in india to understand this concept fully and develop the nation in a remarkeble way.

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