

FINANCIAL INCLUSION –THE MEANS OF INCLUSIVE GROWTH IN INDIA

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In

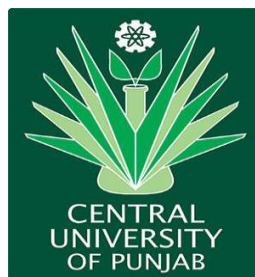
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DECLARATION

I declare that the project work entitled "FINANCIAL INCLUSION – THE MEANS OF INCLUSIVE GROWTH IN INDIA" has been prepared by me under the guidance of Dr. Jajati Keshari Parida, Assistant Professor, Department of Economic Studies, School of Social Science, Central University of Punjab. No part of this project has formed the basis for the award of any degree or fellowship previously.

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CERTIFICATE

I certify that Amritpal Singh Sachdeva has prepared his thesis entitled "FINANCIAL INCLUSION – THE MEANS OF INCLUSIVE GROWTH IN INDIA", for the award of M.A degree of the Central University of Punjab, under my guidance. He has carried out this work at the Department of Economic Studies, School of Social Science, Central University of Punjab.

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Abstract

FINANCIAL INCLUSION – THE MEANS OF INCLUSIVE GROWTH IN INDIA

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India is among the fastest and largest growing economies of the world, but what has been the most disturbing fact about its growth is that its growth has not only been uneven but also discrete. 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. And thus the need for inclusive growth comes in the picture of Indian economic development. However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. The accessibility of sound financial services in rural areas is pivotal for the growth of the economy, as this will let the large number of rural households to fund the progress of their income. The growth of Indian economy is dependent on the growth of the rural market. Hence substantial financial inclusion in these segments is of vital importance.

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FINANCIAL INCLUSION – THE MEANS OF INCLUSIVE GROWTH IN INDIA

Chapter1 INTRODUCTION

1.1 MOTIVATION

Financial inclusion being the significant feature for inclusive growth and development. Financial inclusion means of make sure the access to apt financial services and products required by all sections of the society and includes undefended groups which are low income and weaker sections groups at an appropriate cost in a transparent and fair manner by accepted institutional players.

A large chunk of population is excluded from the mainstream banking which ranges from people with low level of income to people with low accessibility and information to people with no insurance cover or social security. The major reasons for exclusion are: Illiteracy, Insufficient documentation, Lack of awareness, High transaction charges, lack of access and lack of information.

Financial Exclusion is costly to society as well as individual. Lack of financial inclusion forces the unbanked into informal banking sectors where interest rate is higher on borrowing. Financial inclusion protects low-income group's financial resources and wealth by including them within the perimeter of formal financial sector, and expands the resource base through supporting a culture of savings amid the large segment of the population and plays an essential role in the process of development of the economy. Also, a strong financial system support the growth and competition for existing firms. It gives importance and ensures that small entrepreneurs and poor households need not depend on middlemen.

From macroeconomic evidence, it has been noted that strong formal financial systems have a strong positive impact on economic growth over a long period of time. It is

consistent with economic theory that financial inclusion promotes economic growth. Wider access to financial services also leads to distribute economic opportunities more broadly, particularly among poorer businesses and households.

Various literature studies has taken factors like Gender issues, Age Factor, Legal Identity, limited Literacy, Place of living, Psychological and cultural barriers, Terms and conditions, Bank charges, Type of occupation, Level of income, and attractiveness of products. However, access to financial services is not limited by above mentioned factors, perhaps there are other factors which are mainly demand-side which needs to cover, as we can only measure the degree of financial inclusion.

In India the focus of Reserve Bank of India and Government post-independence was to develop a strong banking system that could and boost planned economic development through mobilization of resources and channel them into productive sector. In 2005 Financial inclusion was first promoted and the first village was Mangalam Village in India where people had banking facilities with relaxed Know Your Customer (KYC) norms and basic "no-frills" banking account. In 2006, Reserve Bank granted commercial banks to avail the services of non-governmental organizations such as NGOs and SHGs, microfinance formal institutions, and other intermediaries availing banking and financial services and other civil society institutions.

India requires inclusive growth to achieve disciplined and fast economic growth. Equitable distribution and sustainable development of income and wealth could be achieved through Inclusive growth mainly. The most important challenges for India is to achieving inclusive growth. The levels of growth to all section of the society and to all regions of the country is the objective of the country. Infrastructure development. Sustainable urban growth, a healthy private-public partnership. Inclusivity is ensured by fast growth in the rural economy, creating different and all sections of society equal stakeholders in economic growth, education reforms, health facilities, ensuring energy needs in future and above all good governance will ensure that India achieves Inclusive growth.

The significant areas for need of inclusive growth can be depicted as follows:

- Reduction of unemployment rate
- Decrease regional disparity
- Income inequalities reduction
- Development social sector
- Development of agriculture
- Abolition of poverty
- Environmental Protection

To reach the goal of inclusive growth resources are needed, and for resource generation financial inclusion is vital. It has inevitable role in the process of economic growth. The problem of mobilization, resource availability and distribution especially for those who don't have any access to such resources could be solved through appropriate financial services. Hence, in this research the role and extent of financial inclusion in inclusive growth is examined and observed.

With more than a quarter of population under the poverty line, it is the major duty of the government towards development and growth, inclusive growth is the one which if targeted and achieved in right manner would provide an appropriate solution to the problem of unemployment and poverty.

To uplift the poor from the cycle of poverty financial inclusion has a potential through the provision of financial services. Financial inclusion creates the culture of savings which is needed for the economic growth and also enhance the payment modes by strengthening the resources base of formal financial institutions which helps the Indian economy as resources will be available for credit and thus investments.

The big issue and problem arises from the requirement of credit and finances and the people who are poor are more vulnerable to the financial exclusion. The market imperfection can be reduced and enhance the inclusion of the poor if the formal banking system and services could have the benefits of economies of scale and also by providing required subsidies which may ultimately resulted to higher incomes. The investment in various activities like education, income and health and therefore enhancing growth

opportunities would be possible with the availability of financial services to poor. The asset building, uplift of low income group and financial stability can be achieved with inclusive growth if targeted properly.

1.2 THE LITERATURE REVIEWS

Iqbal and Sami (2017) explained the role of Banks in Financial Inclusion in India and include factors like Place of living, Absence of legal identity and gender biasness, Limited knowledge of financial services, Level of income and bank charges, Rigid terms and conditions, Type of business which affect the access to financial services. The study is based on secondary data reports on trend and progress of banking in India, Newspapers, Research Articles, Report of RBI, Ministry of Finance, Research Journals, E-Journals, Books and Magazines.

The research points out that there has been insignificant improvement in terms of transactions despite the increment of large number of bank accounts during the period 2010 to 2013. Hence, the new Financial Inclusion Plan from 2013 to 2016 for ensuring meaningful access of financial services, and this new FIP was more focused on the volume of transactions which will play a significant role in the growth and development of India. Also, there is positive significant impact of financial inclusion on the development and progress of a country.

Jagtap (2016) studied financial inclusion with growth of banking sector in Indian economy and concluded that the banking industry has shown positive and huge growth in amount, complexity and value during the last ten years which enhanced the financial inclusion in both urban and rural areas. The banks have to take on the role of an advisor for poor and disadvantaged.

Mukhopadhyay (2016) used micro-data available from the Financial Inclusion Insights Tracker Survey, Bharat Ek Khoj, conducted by InterMedia based on demand – side information between 15 October 2013 and 8 January 2014 with a nationally representative sample of 45,024 persons (aged 15 years and above) spread across 22 states in India. Results suggest there is significant need to expand and increase the

accessibility to formal finance in general and more so in states like Uttar Pradesh, Uttarakhand and Himachal Pradesh. Also, there is mismatch between the ranking of the states done on the bases of demand-side information-based index and supply-side information-based index. Having bank account, higher education qualification and being male are positively correlated with the formal borrowings.

Chaudhry (2016) carried out a state level study in India by using secondary data from RBI and Census of India and suggest that Financial Inclusion and development is necessary for the vast majority of the population as people from different occupations can achieve efficiency by better accessibility of financial services and products. This study has found that most of the states have shown improvement in 2014 when compared to 2001 and ranking has changed among the states. Goa being the state with high financial inclusion and Delhi has medium range of financial inclusion.

Bansal (2014) noted the role of technology in achieving Financial Inclusion in rural India, and concluded that main reason for slow inclusion is the absence of appropriate delivery model and products which satisfy the financial need of low income families. It appreciates the steps taken by the Central Government by adding new avenues in providing banking services to the unbanked population with the various technologies recently availed which include modern Information and communication technology (ICT) and linking banks accounts with National Unique identification, but until now we are not able to utilize these technologies up to their potential especially in rural areas.

Aggarwal (2014) studied Financial Inclusion in India in comparison to 11 other developing countries by using secondary data from Financial Access Survey, World Bank for Number of bank branches, ATMs, Bank Deposits and Bank Credit as the factors that determines the degree of Financial Inclusion and found that India has mid- level Inclusive growth comparatively. The study further emphasis on literacy, poverty and advanced technology as the constraints to inclusive growth, but these alone may not assure high inclusive growth. Hence, there is a need to adopt multiple strategies like no-frill account, regional language usage, proximity to access the bank, simplification of KYC norms, access to new saving schemes to improve financial inclusion.

Singh et.al (2014) show that the tapping of financial products and services are still quite low in rural areas. Elements accountable for this state can be examine from both demand side and supply side and the crucial reason for little usage of financial services is maybe lack of supply. The cause for lower demand of financial services may be the lack of financial knowledge, low income level, more other bank accounts in the family. He proposed various recommendations for incentives to Business Correspondents, Post Office Networks and Fair Price Shops, ATMs, Training and Financial Literacy, Banking Technology, Mobile Phones as they may help in creating big difference in the economy.

Sharma and Kukreja (2013) studied the relevance of Financial Inclusion for Developing Nations by comparing India with World's developing nations, using secondary data from World Bank. In this paper the author states that formal financial institution need to gain goodwill and trust of the poor and disadvantage section by developing strong linkages with community based financial ventures and cooperatives as mere opening of no-frill bank accounts is not the end of financial inclusion.

Singh and Tandon (2012) noted that to achieve the goal of inclusive growth major institutions like banks, Micro Finance Institutions, NGOs, policymakers, Self Help Groups, and regulators need to work together as they complement each other to achieve the goal. Financial services like savings, insurance, cheaper credit, transfer of funds, bank accounts, financial advice are needed for poverty alleviation and development. He also gave importance to financial literacy.

1.3 REASEARCH GAP

More villages than town in India and out of the total population, 70% recites in villages. But a notable proportion of 670,000 villages don't have bank branches which leads to financial exclusion of people in rural areas. To a major extent India's development is dependent on its different section's economic growth, so it is the significant to bring the unbanked population in the formal banking system. It has been observed that financially excluded population for their everyday needs depend on money lenders. They get into

the debt trap with the borrowings at the excessive rates. They are completely not literate of financial products such as insurance, which will protect them in unfavorable and adverse situation. Hence, to ensure the growth of Indian economy a meaningful and systematic and thorough study is needed with this background.

1.4 Hypothesis

Null Hypothesis: Financial Inclusion does not have a significant role for inclusive growth in India.

Alternative Hypothesis: Financial Inclusion have a significant role for inclusive growth in India.

1.5 OBJECTIVES OF THE DISSERTATION

The Objectives of the project are as Follows:

- To understand the Inclusive growth.
- To understand the scale and extent of financial inclusion in India.
- To study and know the part of financial inclusion in Inclusive growth.

Chapter 2

DATA AND RESEARCH METHODOLOGY

The source of Data for this project work is Secondary, collected from various research paper, journals, reports, E-Journals, , CRISIL Inclusix report, RBI Reports, World Bank Report, RBI data sources etc.

The data for variables used in the project – Bank branches, credit accounts, insurance holders, deposit accounts are collected from the official site of the RBI, also the data on state-wise data on GDP per capita, literacy rate and unemployment rate was picked by the official site of RBI. Data on MFIs was provided by MFIN which is the self-regulatory organization of RBI.

Then, an extensive framework is formed on the part that Financial Inclusion plays over all- inclusive growth pattern in India with the CRISIL Inclusix which is India's most broad Financial Inclusion Index. The study covers entire India.

CRISIL Inclusix has very comprehensive coverage which ensures greater accuracy and covers 666 districts in 36 states and union territories and is robust, unique and analytical tool that comprehensively measures financial inclusion.

As the secondary data is used and there has not independent verification of data available from MFIN and RBI, the findings of the project are significantly dependent on information and data available.

Chapter 3

Results and Discussions

CRISIL Inclusix being the relative index include various kinds of fundamental financial services into a single metric. The parameters primarily focus on the number of people included in the formal financial sector with the deposit, credit and insurance facilities and not on the amount deposited.

The reach and extent of financial inclusion through financial services and products distribution is important to evaluate and by taking into consideration only the amount of financial services may create an incorrect conclusions as it could be affected by the outliers that may not reflect the inclusion of poor or disadvantaged section of people.

CRISIL Inclusix has quite comprehensive coverage which take care of greater accuracy and over 36 states and union territories and is strong, analytical and unique tool that covers widely the measures of financial inclusion based on four dimensions:

It scales financial inclusion against the appropriate level for the following dimensions.

- Branch penetration (BP)
- Insurance penetration (IP)
- Credit penetration (CP)
- Deposit penetration (DP)

100 being the maximum score, the CRISIL Inclusix ranges between 0-100. For a comparable evaluation, the index has clustered into four categories, 50.0 is the average score of India given by CRISIL Inclusix, it has been used as a benchmark for the evaluation.

TABLE 3.1- Evaluation of FI score

CRISIL INCLUSIX SCORE	LEVEL OF FINNCIAL INCLUSION
>65.0	High
Between 50.1-65.0	Above Average
Between 35.0-50.0	Below Average
<35.0	Low

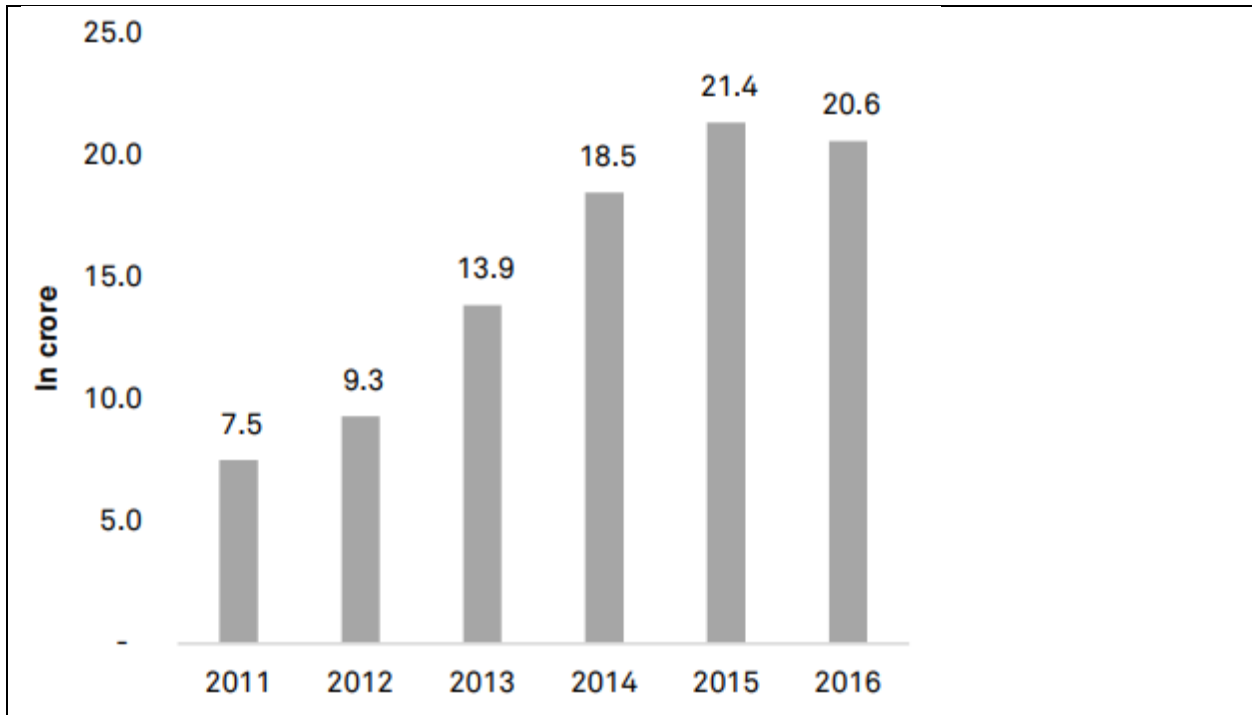
3.1 Findings – National Scenario

The financial inclusion is measured on the basis of Crisil inclusix scores and ranking is given for the financial year 2016. The past years Inclusix scores and conclusion has been compared to the score and ranking of 2016 to know whether the financial inclusion has improved or not during the period of comparison.

Increased pace of financial inclusion can be credited to Jan Dhan Yojna. The Inlussix score has been enhanced from 50.12 to 58.01 frpm year 2013 to 2016 respectively. This improvement is driven by two factors:

- Jan-Dhan Yojana. led increase in the number of deposit accounts and credit accounts.
- credit accounts across regions boomed which is a significant step towards economic development.
- Jan-Dhan yojana resulted in significant and noticeable improvement of banking services. Compound annual growth rate of 16 percent has been registered on deposit accounts in between the fiscal 2013 and fiscal 2016.
- The number of deposit account has seen a two fold increase between the fiscal 2010 and 2013, as approx 60 crore new deposit accounts were opened. The prime driver for improved growth of deposit accounts is due to the Jan-Dhan Yojana. Forty two crore new accounts which is half the number of new accounts opened between fiscal 2015 and 2016 were under Jan-Dhan.

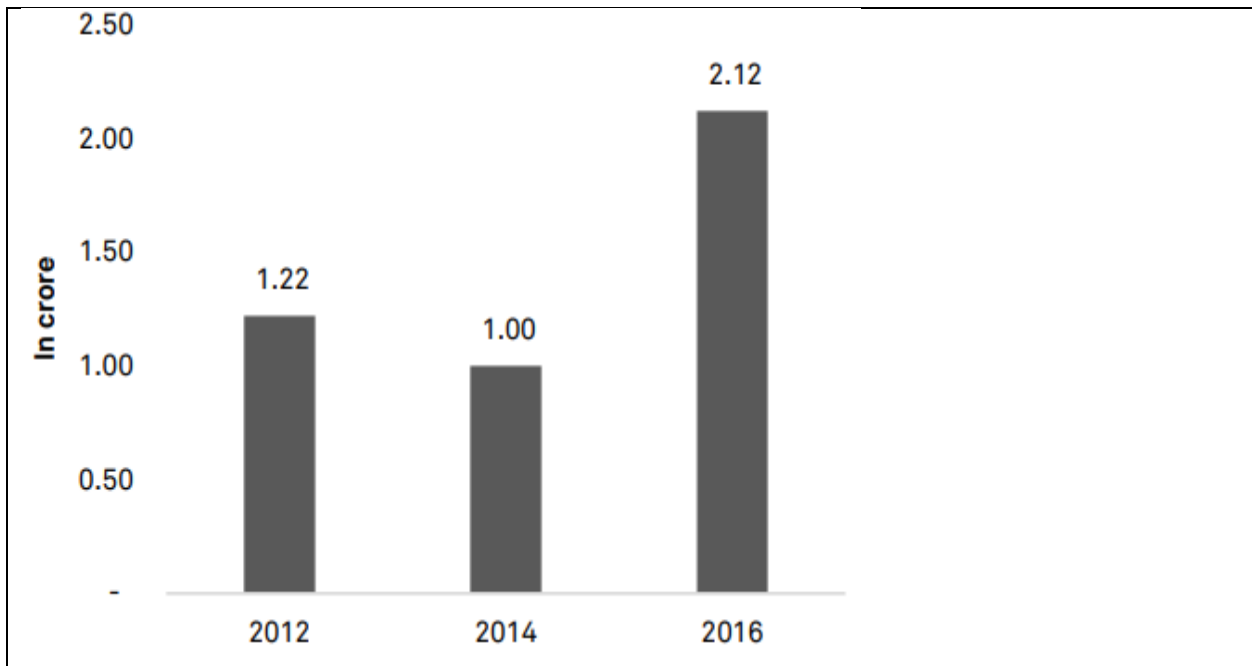
Figure 3.1 - New Deposit Accounts Boomed



Source: CRISIL Inclusix 2018

- About 20 crore borrowers have access to formal credit, despite the good growth in credit accounts in 2016, as the number of credit accounts have been increased sharply. Credit Penetration (CP) remained low at 56.0 but the Deposit Penetration has surged to 78.0 during fiscal 2016. As Credit Penetration being one of the leg of financial inclusion. Hence, to improve the financial inclusion there must be deeper Credit penetration.

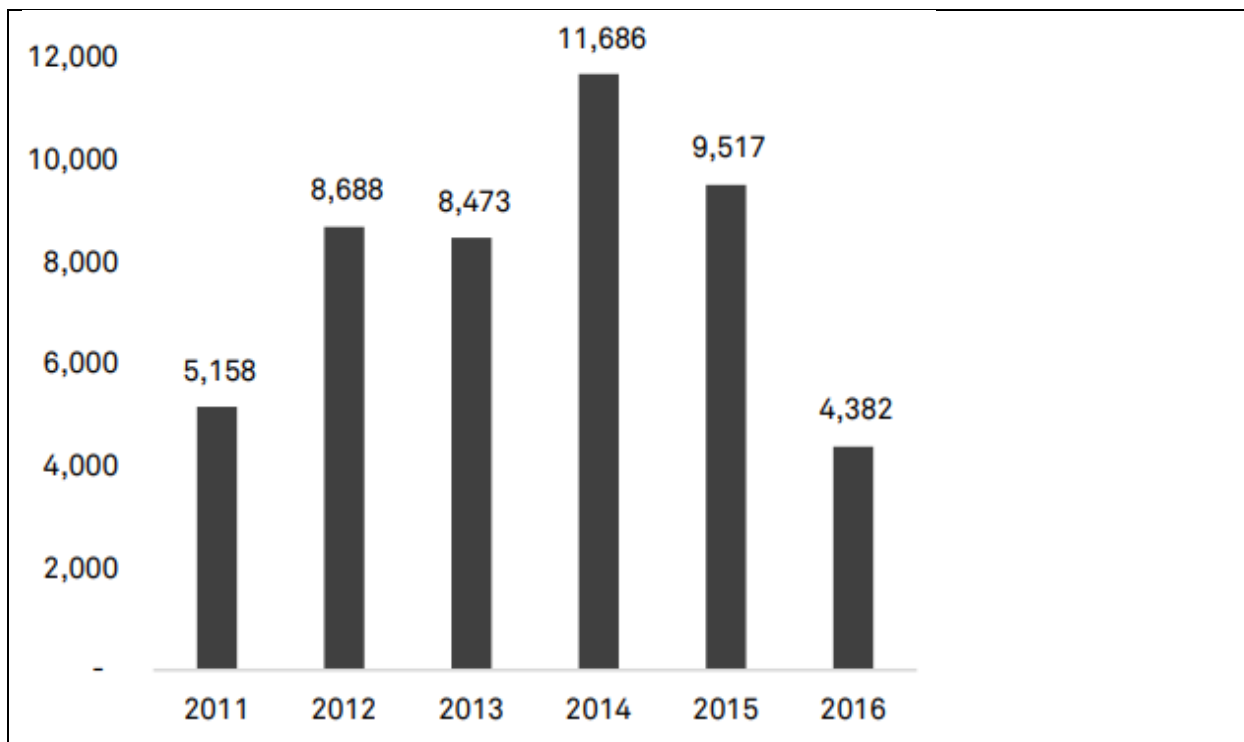
Figure 3.2 - New Credit Account Also Surge



Source: CRISIL Inclusix 2018

- Bank branches penetration has shown the improvement between fiscal 2013 to fiscal 2016 at a not very good rate 7 percent CAGR. In the past six years the new bank branch penetration during fiscal 2016 was the lowest.
- The new trend of branchless banking from the increase penetration of mobile phones and internet also resulted in moderate number of bank branches growth.

Figure 3.3 – Moderate Growth in bank branches

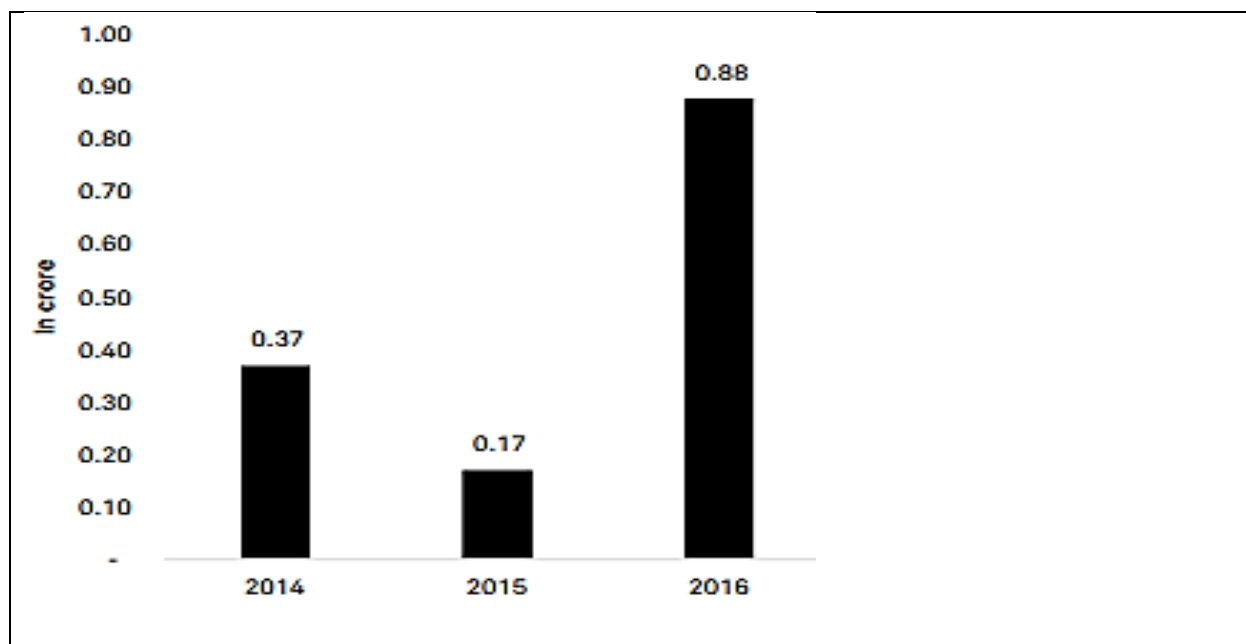


Source: Crisil Inclusix 2018

MFIs also chip in

- MFIs play a pivotal part and role in financial inclusion because of strong presence in the under-banked and unbanked regions, particularly in rural and semi-urban India. Great growth rate of 19% Compound annual growth rate in the number of microfinance credit accounts was seen between year 2013 and 2016.

Figure 3.4 - New MFI loan accounts spurt

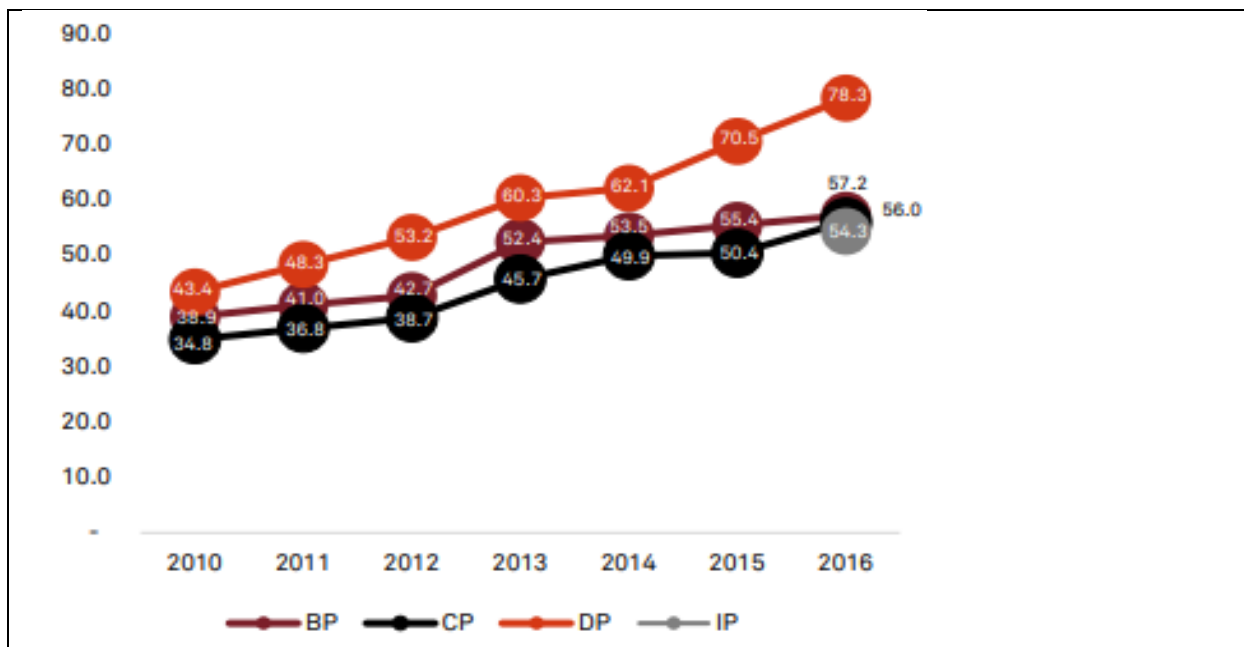


Source: Crisil Inclusix 2018

CP score is getting close to BP score, but DP score surged due to Jan-Dhan Yojana,

- The Credit Penetration (CP) score surged, Increased from 45.7 at 2013 end to 56 at the 2016 fiscal end.
- The Deposit Penetration (DP) score boomed to 78.3 at 2016 fiscal end from 60.3 at 2013 fiscal end, this is driven by Jan-Dhan Yojana. In the past years Inclusix reports CRISIL had anticipated that the DP score for fiscal 2015 would likely to increase by 8 percentage points due to Jan-Dhan Yojana.
- The Branch Penetration (BP) also showed moderate progress, i.e. at a gradual speed. BP has increased from 52.4 to 57.2 from fiscal 2013 to fiscal 2016 respectively with this CP score and BP score came close.

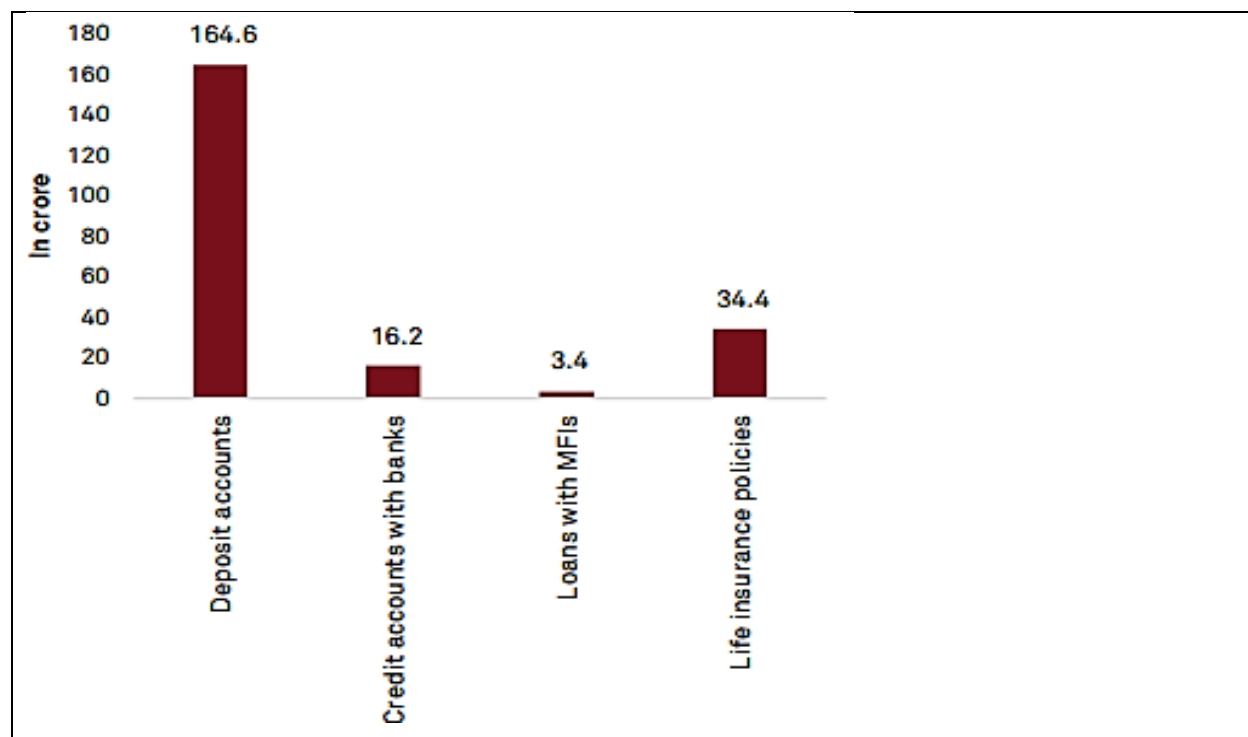
Figure 3.5 - BP, CP, DP and IP scores



Source: Crisil Inclusix 2018

- Substantial pace has been made in the financial inclusion space over the past few years led by JanDhan Yojana. The country's DP score has surged and the CP score has moderately improved getting close to BP score. At the national level however, financial services even deposit and credit services remain underpenetrated.
- Life Insurance policy data available for 2016 only, approx. 34 crore life insurance policies is fairly low in comparison with the 165 crore deposit accounts. Major chunk which is approx. 90% of these life insurance policies are saving linked insurance.
- Credit services from formal financial institutions are not accessible to a large number of population. Only 20 crore borrowers have loans from formal institutions, which is significantly lower than the number of deposit accounts.

Figure 3.6 – Number of bank accounts with different types of financial services- iscal 2016-end



Source: Crisil Inclusix 2018

- Branch and credit penetration is currently mainly focused in the large cities, and needs to be reached to other regions. Policy steps including banking licences are assumed to expand credit services and branches to disadvantaged regions, and improve and enhance financial inclusion over the medium term. Policy makers will have to continue to incentivise increase of branch and credit in the districts with low CRISIL Inclusix score to accelerate financial inclusion across the country and attain the objective of Inclusive growth.

3.2 Findings- A few states comparison

Sadhan Chattopadhyay in a paper for on Financial Inclusion in India: A case-study of West Bengal, has formulated the index of financial inclusion (IFI), which apprehend data and information on various characteristics of financial inclusion. 0 to 1 is the range for IFI.

In the IFI, he took three primary legs of financial system that ensures inclusive growth. Bank penetration (BP), Banking services availability (BS) and banking system Usage(BU). Below given data in Table-3.2 depicts the Financial Inclusion State wise Index(IFI) , literacy rate, GDP per capita, and rate of unemployment in the various states through India.

Table 3.2 – Financial Inclusion- A state wise Index

State	D1 (Penetration)	D2 (Availability)	D3 (Usage)	IFI	*IFI Rank	**GDP (Per Capita)	**Literacy Rate	Unemploy- ment Rate
High Financial Inclusion (0.5-1)								
Kerala	0.70	0.81	0.28	0.54	1	83,725	93.9	2.5
Maharashtra	0.62	0.29	1	0.53	2	101,314	80.1	2.6
Karnataka	0.72	0.47	0.46	0.53	3	68,374	75.6	2.4
Medium Financial Inclusion (0.3-0.5)								
Tamil Nadu	0.70	0.43	0.38	0.48	4	94,796	80.3	2.1
Punjab	0.45	0.69	0.29	0.45	5	74,606	76.7	1.6
Andhra Pradesh	0.56	0.30	0.41	0.41	6	71,480	67.7	NA
All-India	0.27	0.22	0.55	0.33	7	60,603	74.04	NA
Himachal Pradesh	0.42	0.40	0.18	0.33	8	74,899	83.8	1.3
Sikkim	0.28	0.33	0.34	0.32	9	121,440	82.2	NA
Haryana	0.39	0.50	0.12	0.32	10	108,859	76.6	NA
Low Financial Inclusion (<0.3)								
West Bengal	0.24	0.38	0.23	0.28	11	54,830	77.1	NA
Gujarat	0.32	0.30	0.16	0.26	12	81,400	79.3	0.9
Uttar Pradesh	0.28	0.31	0.15	0.24	13	30,052	71.7	2.2
Meghalaya	0.21	0.28	0.14	0.21	14	52,971	75.5	1.5
Tripura	0.31	0.22	0.08	0.20	15	50,750	87.8	
Orissa	0.26	0.23	0.11	0.20	16	46,150	73.45	2.4
Rajasthan	0.25	0.22	0.12	0.19	17	47,506	67.1	1.4
Arunachal Pradesh	0.20	0.16	0.14	0.17	18	62,213	67	NA
Mizoram	0.13	0.26	0.09	0.16	19	48,591	91.6	NA
Madhya Pradesh	0.18	0.21	0.08	0.16	20	38,669	70.6	2.1
Bihar	0.15	0.24	0.08	0.15	21	23,435	63.8	NA
Assam	0.17	0.17	0.07	0.13	22	33,633	73.2	NA
Nagaland	0.03	0.04	0.07	0.05	23	56,638	82.9	NA
Manipur	0.00	0.01	0.01	0.01	24	32,284	79.8	2.5

Source: Financial Inclusion in India: A case-study of West Bengal, census-2011

- From the data depicted above it is quite apparent that the states which have medium or high degree of Financial Inclusion also account for literacy rates and GDP per capita higher than the county's average i.e. 74.04% and Rs. 60,603 respectively.
- It can be observed that the states (Kerela, Maharashtra and Karnatka) with highest Financial Inclusion shows high GDP per capita numbers and Literacy rate which is above the India's average, but also high Unemployment rate.
- Moreover it is observed that Gujarat is an exceptional state where the GDP and Literacy rate are higher than the India's average 74.04%, and the Unemployment rate is also very low, but the financial inclusion of this state is very low.
- It is also found that states with low GDP per capita have low Financial Inclusion.
- However, we could not found the association of financial inclusion with Literacy rate.

Chapter 4

CONCLUSION

Hence, we are able to get a vivid picture of Financial Inclusion. Also we have observed how it can help in attaining the inclusive growth. We have received a clear picture of what inclusive growth is and our objective of the study has been fulfilled to a certain extent with the measurement of the extent of financial inclusion. Our stated Null hypothesis has been rejected, since we received enough evidences to show that financial inclusion has generated a situation of Inclusive growth.

The goals of equitable distribution of resources, growth benefits and opportunities are the pillars of Inclusive growth and one of the significant part to achieve these goals is financial inclusion which needs to be accessible equally in the country. Regardless of the different section of people, there must be inclusive financial services in states with high economic growth.

The challenges are created in a sustainable perspective by the problem of enlarging the demographical and geographical reach, and different suitable models are still being developed by the numerous government agencies the state and the central level. It is also realized that the efforts taken may not be enough to solve the issue of financial exclusion and to enhance financial inclusion. Awareness and financial literacy will pursue to be a concern in relation to usage of financial services and products.

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