Comparative Study of Inclusive Growth: Economic Policy Reforms and Financial Inclusion in India

Ms. Ahuti Siddharth Mishra
Assistant Professor, at MIT School of Business., Pune, INDIA.

Abstract

Microfinance as a concept and as an issue has been perennially debatable, from the perspective of being a feasible, sustainable and progressive economic activity. This paper aims at studying the repercussions of microfinance, on the Individuals belonging to the low Income segment, with special reference to the globally successful economies and India in the Micro finance sector. The study involves an analysis of the efforts over the years by the Micro-economists and the Macro-economists to augment the escalation of the Low Income Group to the subsequent higher Income segment. This research paper examines whether the Economic Policy reforms over the years have been supportive for the growth of the Micro finance as a sector.

Keywords: Economic Policy, Loan Portfolio Outstanding, Micro-Finance Bill, Poverty

I. INTRODUCTION

The paper is based on study of financial inclusion and economic development of India post reforms. Financial sector policies in India have long been driven by the objective of increasing financial inclusion, but the goal of universal inclusion is still a distant dream. For a financial system to be truly inclusive, it should meet the needs of everyone who can fruitfully use financial services, including the poor. This is known as financial inclusiveness.

For the developing countries like India, microfinance has come as a breakthrough in the philosophy and practices of poverty eradication, economic empowerment and inclusive growth. Yet given the enormity of economic compulsions and complexities in developing countries, microfinance is an unfinished agenda. However, over the last several years, the Indian microfinance industry has undergone considerable evolution. It helped the poor to catch up with the rest of the economy as it grows. It also helped the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. But still it has been observed there are many problems faced by poor people in accessing and utilizing these funds not in India but also throughout the world. There is need for poor to be included in the main stream of society. SC/ ST/OBCs are the categories of Indian society where there is need for inclusiveness and poverty alleviation.

II - NEED OF THE STUDY

Micro-finance interventions are well-recognized world over as an effective tool for poverty alleviation and improving socioeconomic status of rural poor. Micro-finance institutions are, other than banks, are engaged in the provision of financial services to the poor.

As a part of the financial sector reforms introduced in the early 1990s, some steps were taken to ensure adequate and timely flow of credit. The prime objectives of financial sector reforms were to improve the allocative efficiency of resources, ensure financial stability and maintain confidence in the financial system by enhancing its soundness and efficiency. The reforms were also undertaken in various segments of financial markets to enable the banking institutions to perform its intermediation role in an efficient manner.

Development alone cannot bring peace and prosperity unless social justice and gender equality are ensured. It has been well accepted that various development programmes are focused on empowerment of woman and the poor in this country. Microfinance can be used as tool for empowering the woman, in globalized world.

DOI : 10.21904/weken/2016/v1/i3/103463

III - REVIEW OF LITERATURE

The reformed economy is also bringing with it, challenges, some SSIs are facing problems due to unproductively and competitions from the other countries. Currently, these enterprises account for about 60 per cent of the net domestic product and 92 per cent of total employment in the country. But during the reforms period (1990s and onwards), this sector seems to have been facing several challenges and therefore striving to sustain with the restructuring process. (SN, R. R., & Mahapatra, M. K. 2009).

India has adopted policies that have stimulated consumer demand and fostered entrepreneurship, while China has adopted policies that have encouraged resource-mobilization. China's physical infrastructure, while impressive, may have come at the cost of social investments (e.g. primary and secondary education). Empirical result shows that social investments are important for an economy's sustained growth, more than incentives to attract foreign direct investments. (Kalyanaram, G. K. 2009) It has been shown that investment in social development is more effective for any country to grow.

Research shows that, investment in financial inclusiveness is good for the country, improvements in Financial outreach led to a perceptible rise in per capita growth. In terms of magnitudes, a rise in demographic outreach by 10 percent raises state per capita growth by 0.3 percent; in case of geographic outreach, the increase is lower. (Ghosh, S. 2011).

Some research on micro finance, proves that this practice is not liability but beneficial to the banks and the conventional view has held that microenterprise finance helps poor people and therefore is a desirable development activity but that it cannot be financially viable. Small loans, it is said, are simply too costly to administer, and the profits from such lending too meager to permit profitability. Microfinance institutions can and indeed need to be self-sustaining if they are to achieve their outreach potential providing rapid growth in access to financial services by poor people.

About the Banking system in India, It has a wide mix, comprising of scheduled and non-scheduled banks, cooperative sector banks, post office saving banks, foreign and exchange banks. The commercial banks can be divided into categories depending on the ownership pattern, viz. public sector banks, private sector banks, foreign banks. Public sector banks viz. State bank of India and its associates, nationalized banks and Regional Rural Banks are constituted under respective enactments of the Parliament. Private sector banks are banking companies as defined in the Banking Regulation Act. The cooperative credit institutions are broadly classified into urban credit cooperatives and rural credit cooperatives. The financial system in India includes banking and non-banking financial companies, as explained by Dangi, V., (2011).

For proper implementation of micro finance schemes public and private sector banks as well as NBFcs should work in tandem, whether the Indian private corporate sector follow stable cash dividend policies, whether dividends smoothen earnings, estimate the implicit target dividend ratio (Kamat, M. S., & Kamat, M. M. 2013).

Study reveals the importance of a region's socio-economic and environmental setup in shaping banking habit of masses. Using test for convergence it is found that regions tend to maintain their respective level of banking activity, without any loss. Kumar, N. (2013).

There is need to study the impact of pro poor banking on Indian banking systems, the need was felt for more innovative, cost effective and easily accessible delivery channel which would take financial services to the nooks and corners of India. (Ranganath, N. S., & Rao, G. T. 2013, and de Soysa, I., & Vadlammanati, K. C. (2013).

Basak, A. (2015), P, R. B. (2015). The policies towards inclusive financial growth are not only beneficial but also promote the growth of economy.

The financial sector reforms, introduced as an integral part of the economic reforms initiated in 1991, included various measures in the area of agricultural credit such as deregulation of interest rates etc., some of these measures are expected to have more funds with the banking institutions and a profound impact on the flow of institutional credit to agriculture and allied poverty alleviation activities in India. In India micro-finance can be used as the tool for reducing the poverty and empowering rural women.

DOI : 10.21904/weken/2016/v1/i3/103463

IV - OBJECTIVES & SCOPE OF THE STUDY

A. To study the repercussions of microfinance schemes on individuals with low income
B. To study the benefits of microfinance on overall economic development
C. To compare economic growth due to policy reforms and financial inclusion

V - RESEARCH METHODOLOGY

The study is based on secondary data; the author has tried to understand the concept of microfinance and its benefits to the Indian economy. This is the descriptive type of study based upon review of the literature and the need for conducting the research.

PROBLEM

The development is uneven; it has been uneven in the sense that there has been no uniformity in the growth and the uneven 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 present paper focuses on to understanding of inclusive growth due to use of promotional policies of micro finance in India.

VI - SCOPE AND LIMITATIONS OF THE STUDY

The study is focused on the role of microfinance in economic development, and financial inclusive growth of the Indian economy. We have reformed our economy in 1990s, and opted for liberal banking polices. But during the year 1970s and 1980s, the Indian banking sector was marked by a high degree of regulation and the parameters like business growth and branch network were the major performance criteria. The government set limits on interest rates, increased cash and statutory liquidity requirements, increased priority sector lending. But the growth was stagnant; now due to the benefits of reforms our banks can take benefits of schemes related to up liftmen of poor section of the society. Microfinance is a tool for removing the poor from the bracket of poverty.

In this study attempt has been made to study and compare the economic growth due to policy reforms after 1990s and due to policies of financial inclusion.

VII - CONCLUSION

Inclusive growth as the literal meaning of the two words refers to both the pace and the pattern of the economic

growth, it basically means, broad based, shared, and pro-poor growth. As per the Planning Commission of India "The term "inclusive" should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process and not simply as welfare targets of development programmes." Dixit, R. Gosh, M (2013) in a simpler and wider sense it means that inclusive growth as a strategy of economic development should not only aim at equitable distribution of growth benefits but also at creating economic opportunities along with equal access to all.

As our economy is in developing phase, but the development is not even, some parts are growing but some parts of the society are still has to see the growth phase. This will create digital divide and is not good for the economy as such.

After 70 years of independence, it is highly regrettable that poor people in India are still not included in the mainstream banking due to the continuous ignorance by the commercial banks. To bridge the gap, India needs financial institutions, whose principle should be based on financial inclusion, equal opportunity provider and fostering the equal distribution of wealth in the society. Then India could be the developed nation.

DOI : 10.21904/weken/2016/v1/i3/103463

REFERENCES

1. SN, R. R., & Mahapatra, M. K. (2009). Growth and productivity performance of small manufacturing enterprises (SMEs). Journal of Indian Business Research, 1(1), 39-56.

2. Kalyanaram, G. K. (2009). India's economic growth and market potential: Benchmarked against china. Journal of Indian Business Research, 1(1), 57-65.

3. Ghosh, S. (2011). Does financial outreach engender economic growth? evidence from indian states. Journal of Indian Business Research, 3(2), 74-99.

4. Dangi, V., (2011). Dynamics of competitiveness in Indian banking industry. Anvesha, 4(2), 1-10.

5. Kamat, M. S., & Kamat, M. M. (2013). Economic reforms, determinants and stability of dividends in a dynamic setting. Journal of Asia Business Studies, 7(1), 5-30.

6. Kumar, N. (2013). Financial inclusion and its determinants: Evidence from india. Journal of Financial Economic Policy, 5(1), 4 - 1 9 . doi:http://dx.doi.org/10.1108/17576381311317754

7. Ranganath, N. S., & Rao, G. T. (2013). Banking and financial inclusion in india-A need for innovation. Srusti Management Review, 6(1), 37-42.

8. de Soysa, I., & Vadlammanati, K. C. (2013). Do pro-market economic reforms drive human rights violations? an empirical assessment, 1981-2006. Public Choice, 155(1-2), 163-187.

9. Basak, A. (2015). The role of urban cooperative banks and non-agricultural cooperative credit societies in financial inclusion: A study in howrah district, west bengal. IUP Journal of Management Research, 14(3), 82-98.

10. P, R. B. (2015). Financial inclusion through commercial banks: A road map towards future growth (with reference to krishna district: Andhra pradesh). I-Manager's Journal on Management, 10(2), 33-42.

11. Dixit, R. Gosh, M (2013) Financial Inclusion For Inclusive Growth Of India - A Study Of Indian States international Journal Of Business Management & Research ,Vol. 3, Issue 1, Mar 2013, 147-156

About Author



Ms. Ahuti Siddharth Mishra

Has done B.E. in (Electronics), and M.B.A. (Finance), Registered for Ph.D at Savitribai Phule Pune University. Presently she is working as an Assistant Professor, at MIT School of Business; she has 9 years of experience in Corporate and scenes from 6 years rendering her services in Academic. She has an expertise as a trainer with National and International Organizations.

Email ID: ahutimishra@gmail.com

DOI : 10.21904/weken/2016/v1/i3/103463