FINANCIAL INCLUSION IN INDIA: RETROSPECT AND PROSPECTS

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Financial inclusion has always remained a cherished objective of the planners and policymakers in India but with the launching of Pradhan Mantri Jan Dhan Yojana in August 2014, it has once again come to the centre-stage. The main area of concern in this context is that despite the realisation of the significance of 'financial inclusion' for economic development and social welfare and initiation of active steps in this direction in the form of bank nationalisation, establishment of Regional Rural Banks, launching of Lead Bank Scheme, promotion of Co-operative Banking and Self-Help Groups in the provision of finance etc., the actual progress achieved on the front of 'financial inclusion' remained far from satisfactory in India. In view of this, the monetary authority in recent years has done a thorough reappraisal of its past policies concerning financial inclusion and has identified some major defects and serious lacunae in this respect. By bridging these lacunae and correcting for past policy defects, the Government and Reserve Bank of India have of late come out with a renewed strategy that considers financial inclusion as a commercially viable option and relies more on information technology and envisages a better co-ordination among all stakeholders ranging from monetary authority and other regulators to Non-Government Organisations, Civil Society Institutions and the public at large. This new well-thought out, measured, balanced and focussed policy approach can be reasonably expected to bring about 'financial inclusion in India' in the real sense of the term in the foreseeable future.

INTRODUCTION

With the launching of Pradhan Mantri Jan Dhan Yojana on 28 August 2014, the issue of 'financial inclusion' has yet again come to the fore in the Indian economy. The idea of financial inclusion, however, is not so new at least in the Indian context wherein the planners and policymakers had realised well in time that with a view to establishing a *welfare state*, banking and other financial services must be made accessible to the ordinary public and common people especially those belonging to the poor and downtrodden sections of the society.

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Accordingly, 'financial inclusion' in some form or the other has always remained a priority area on the part of monetary authority in India. Whether it was the nationalisation of 14 and subsequently 6 major scheduled commercial banks in 1969 and 1980 respectively, the setting up of Regional Rural Banks (RRBs), the launching of Lead Bank Scheme & Service Area Approach, the promotion of Co-operative Banking, Micro-Finance and Self-Help Groups in the provision of finance, or simply the "cross-subsidisation" of poor by the rich under the so-called "priority sector advancing", all of them reflected on the commitment of the State towards ensuring financial inclusion in the Indian economy.

In this connection, Khan (2013) observes that Financial inclusion as a concept, process and business proposition is not new for the banking sector of India and, in fact, it dates back to the phase of nationalisation of banks and even beyond that when the Imperial Bank was nationalised to become the State Bank of India in 1955 and its subsidiaries were formed following the recommendations of the All India Rural Credit Survey Committee (AIRCS) in 1954.

Yet, it has been empirically observed that in actual practice, very little progress could actually be achieved on the front of 'financial inclusion' till recently in India as a large part of rural and economically weaker segments of the population practically remained 'excluded' *i.e.* deprived of the services offered by formal banking channels and regulated & organised financial markets in India.

Against this backdrop the present article tries to trace the developments on the front of 'financial inclusion' in India with a view to identifying as to what went wrong in the past and how learning from its past mistakes, the monetary authority has, of late, geared up to achieve 'financial inclusion' in every possible sense of the term in India.

Towards this end, the next section takes a closer look at the very concept as also significance of 'financial inclusion' with special reference to the Indian economy. This is followed by a detailed discussion of the potential benefits that are likely to accrue from the attainment of financial inclusion especially in the case of a developing economy like India. In the light of the significance and likely benefits of financial inclusion, what active steps have been undertaken by the State and Reserve Bank of India in the direction of its attainment forms the point of discussion of the subsequent section. The current state of financial inclusion in the Indian economy is briefly analysed in the next section. How the monetary authority, deriving lessons from the past failures, is trying its best to correct for the sorry state of affairs in this respect so as to achieve 'financial inclusion' in the real sense of the term in India is discussed in detail in the next section. And finally, the concluding section records the main findings and conclusions following from our analysis.

Concept and Significance of Financial Inclusion

One of the primary guiding principle of economic planning and policy-making in India is "Inclusive Growth". What this essentially implies is that the benefits of economic growth shall percolate down to the economically weaker and deprived sections of the society who shall also be made to participate in and contribute to the process of planning and policy making. This is very much in line with our long-cherished objective of 'people-oriented planning' and uplift of the downtrodden sections of the society with a view to ultimately establishing a *welfare state*.

Owing to the inter-linkages between economic development and financial development, however, it directly follows that the process of 'inclusive growth' cannot reach its logical conclusion till its domain is widened and extended from the real sector to cover even the financial sector in its ambit. This is what led to the increasing realisation of the significance and importance of 'financial inclusion' on the part of planners and policy makers in India. For, financial inclusion is nothing but the counterpart of inclusive growth in the context of the overall financial system and delivery of financial services in the economy.

Thus construed, financial inclusion may be defined as the process of making the poor and economically weaker sections of the society an active participant in the functioning of the financial system so that the benefits of financial services could reach out to the masses rather than a selected few, *i.e.* rich people in the society. Towards this end, it is imperative for the State and monetary authority to play a pro-active role in ensuring the provision of timely and affordable financial services to the deprived, downtrodden and economically worse-off sections of the society. This reasoning is quite analogous to the State being called upon to directly play a pro-active role in ensuring a fairer distribution of the fruits of growth so as to achieve 'inclusive growth' in the strict sense of the term in view of various *institutional rigidities and infrastructural bottlenecks* due to which we can no longer rely on the so-called "GNP Trickle-Down Hypothesis."

It is against this backdrop that according to the Deputy Governor, Reserve Bank of India,