

INCLUSIVE GROWTH AND SUSTAINABILITY: ROLE OF BANKING SECTOR IN INDIA

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ABSTARCT:

India has the potential of becoming a leading economy and has the unique opportunity to make that growth inclusive, provided there is willingness on the part of all sections of society to put in hard and disciplined work, together with serious, sustained and purposeful planning. First, there is much that needs to be done to build up India's potential. Better governance, more and better educational institutions, higher agricultural productivity, controlled inflation and improvement in infrastructure are some of the major and more important steps required in this direction. These are mentioned specifically, because each of these steps has a bearing on the inclusiveness of growth as well. This paper describes the challenges faced by the banking and financial sector in India towards inclusive growth and sustainable development.

Keywords: *Micro-finance, Inclusive Growth, ICTs, Financial Inclusion, Empowerment.*

INTRODUCTION

India' is the new global buzzword. The economy growing at a phenomenal rate, combined with a flourishing democracy is making people sit up and take notice across the world. Yet, it is at cross-roads today. It is far from reaching its true potential. The country remains shackled in corruption, red tape, age old social barriers and a puzzling lack of transparency. Growth is not uniform across sectors; and large cross-sections of the populace remain outside its purview. Several social, political and economic factors need to be tackled for sustaining a high rate of growth, as well as to make this growth inclusive. Elimination of child labour, women empowerment, removal of caste barriers and an improvement in work culture are just a few of the things the Indian society needs to introspect on. Tackling corruption in high places, removing the ills of the electoral system, shunning politics of agitations and keeping national interest above petty politics may not be too much to ask of the country's policy makers. Rapid growth in the rural economy, well planned and targeted urban growth, infrastructure development, reforms in education, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

Few would argue that the Indian economy is growing, salaries are going through the roof for the educated, there are jobs mushrooming in the IT hubs of Bangalore and Hyderabad, disposable income for the 'Call Centre' crowd, that is egging on the foray of several luxury goods never before seen in the nation, is becoming all the more accessible but the fact still remains, that the poor are still poor even though the rich have become super rich and the hitherto not so rich, rich. The growth is far from inclusive. The Oxford English Dictionary gives four meanings to the word 'inclusive', with the most appropriate for the purposes in this paper being, "not excluding any section of society."

Economic liberalization which began in the early 1990s has accelerated India's growth rate to an average of 7% per year since 1997, up from 3.5% in the 1970s. During this period India transformed itself from an agricultural economy to a service economy. Services now form 55% of the Indian economy. The growth and development of the Information Technology and Information Technology enabled Services have had a significant role in changing the face of the economy. The good news does not end here. The growth rate for India is expected to overtake China's double digit growth rate in the next few years.

This news however, hides some alarming trends. Growth continues to bypass a large section of people. A large majority of Indians live in the villages and they have been excluded from India's growth story. Rural India is facing endemic problems – land holdings are shrinking, slow growth in agricultural production and limited

social and economic infrastructure. Women, Children, backward castes & classes and other minorities often are excluded from the growth story. The rise of grass root militant movements which plague nearly one-tenth of India is a direct result of this economic exclusion and the unfulfilled aspirations of the bottom billion.

The task to feed, house, clothe, educate and employ India's growing population, which is expected to reach nearly 1.5 billion by 2030, is enormous. This includes a net increase of 270 million people which will be added to the work force. Bringing them into the economic mainstream both as producers and consumers of goods and services must be the basis of any inclusive strategy.

Today, economic power rests with a precious few. According to Credit Suisse, the top 1% of the population own 15.9% of India's wealth, the top 5% own 38.3% and the top 10% have 52.9% of Indian's wealth. What this really means is that 90% of Indian, the urban and rural poor has a very small stake in the pie. Growth must lead to the re-distribution of this ever growing pie to a situation where the bulk of the population is middle class and a smaller percentage of the population is either very rich or very poor.

The 11th Plan defines inclusive growth to be "a growth process which yields broad-based benefits and ensures equality of opportunity for all". The Inclusive growth implies an equitable allocation of resources with benefits accruing to every section of society, which is an Utopian concept. Inclusive growth is broad-based. It is concerned with the Pro-poor growth, growth with equity. Inclusive growth is aimed at poverty reduction, human development, health and provide opportunity to work and be creative. The allocation of resources must be focused on the indented short and long terms benefits and economic linkages at large and not just equitable mathematically on some regional and population criteria.

The inclusiveness involves four attributes. They are Opportunity, capability, access and security. The Opportunity attribute focuses on generating more and more opportunities to the people and focuses on increasing their income. The Capability attribute concentrates on providing the means for people to create or enhance their capabilities in order to exploit available opportunities. The Access attributes focuses on providing the means to bring opportunities and capabilities together. The Security attribute provides the means for people to protect themselves against a temporary or permanent loss of livelihood. Together Inclusive growth is a process in which economic growth measured by a sustained expansion in GDP contributes to an enlargement of the scale and scope of all four dimension.

NEED FOR INCLUSIVE GROWTH IN INDIA

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is the biggest challenge in a country like India. In a democratic country like India, bringing 600 million people living in rural India into the mainstream is the biggest concern. The challenge is to take the levels of growth to all section of the society and to all parts of the country. The best way to achieve inclusive growth is through developing people's skills. Mr. Jeffrey, Chairman & CEO of Manpower Planning, USA, said that, a multi faceted approach towards education and skills development is necessary to achieve grow. He said the challenge of skills shortage can be addressed through public private partnership.

Since independence, significant improvement in India's economic and social development made the nation to grow strongly in the 21st century. The following factors encouraged the India to concentrate more on inclusive growth.

1. India is the 7th largest country by area and 2nd by population. It is the 12th largest economy at market exchange rate and 4th largest by PPP. Yet, India is far away from the development of the neighborhood nation, i.e., China.
2. The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. are the problems for the nation.
3. Reducing of poverty and other disparities and raising of economic growth are the key objectives of the nation through inclusive growth.
4. Political leadership in the country plays a vital role in the over all development of the country. But, the study has found that politicians in India have a very low level of scientific literacy.

5. Studies estimated that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.
6. Although child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice. Still, many children in India are unaware of education as their lives are spoiled to labour work.
7. Literacy levels have to rise to provide the skilled workforce required for higher growth.
8. Economic reforms in the country are overwhelmed by out dated philosophies and allegations by the politicians and opposition parties in India.
9. Achievement of 9% of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive Growth in India.
10. Inclusiveness benchmarked against achievement of monitorable targets related to (i). Income & Poverty, (ii) education, (iii) health, (iv) women & children, (v) infrastructure, (vi) environment.
11. Even at international level also, there is a concern about inequalities and exclusion and now they are also taking about inclusive approach for development

PROBLEMS BEFORE INCLUSIVE GROWTH STRATEGIES IN INDIA

For a developing country like India, the need of inclusive growth is vital to achieve the over all progress of the country. Though it is positive for macro-economic stability, 2008-09 resulted a relative growth slow down, mostly from the spillover effects of the weakening of the global economic momentum and volatile financial markets. The following problems are the major concerns for developing countries like India to achieve the inclusive growth. They are:

a) *Poverty*

Percent of population living under the poverty line, which is 356.35 rupees or around \$7 a month in rural areas. The World Bank estimates that 456 million Indians (42% of the total Indian population) now live under the global poverty line of \$1.25 per day (PPP). This means that a third of the global poor now reside in India. However, this also represents a significant decline in poverty from 60 percent in 1981 to 42 percent in 2005, although the rupee has decreased in value since then, while the official standard of 538/356 rupees per month has remained the same. Income inequality in India (Gini coefficient: 32.5 in year 1999- 2000) is increasing. On the other hand, the Planning Commission of India uses its own criteria and has estimated that 27.5% of the population was living below the poverty line in 2004–2005, down from 51.3% in 1977–1978, and 36% in 1993-1994.

The source for this was the 61st round of the National Sample Survey (NSS) and the criterion used was monthly per capita consumption expenditure below Rs. 356.35 for rural areas and Rs. 538.60 for urban areas. 75% of the poor are in rural areas, most of them are daily wagers, self-employed householders and landless labourers.

A proportionally large share of poor is lower castes. Many see the caste system as a system of exploitation of poor low-ranking groups by more prosperous high-ranking groups. In many parts of India, land is largely held by high-ranking property owners of the dominant castes that economically exploit low-ranking landless labourers and poor artisans, all the while degrading them with ritual emphases on their so-called god-given inferior status.

According to William A. Haviland, casteism is widespread in rural areas, and continues to segregate Dalits. Others, however, have noted the steady rise and empowerment of the Dalits through social reforms and the implementation observations in employment and benefits.

b) *Employment*

Employment considered as one of the big problems for inclusive growth in India. Raising population at a great speed after independence showed its impact on employment. The unemployment became the big worry to the development of the country. Since poverty is much higher than unemployment, employment is the only source to eradicate poverty. The quality and quantity of employment in India is very low due to illiteracy and due to over dependency on agricultural employment. The quality of employment is also a problem.

Unorganized employed people in India are around 85%. Workers in this sector do not have social security. The generation of productive employment for labour force in the economy, as employment is a key to inclusive growth is the toughest task for the country. The country is also facing in employment generation in all sectors, regions and for all socio economic groups particularly for poorer sections of population, backward regions, lagging sectors and SC/ST/OBC/women etc.

c) Agriculture

Traditionally, India is considered as the agricultural based country. As the majority of Indians are engaged in agriculture for employment, the recent developments in the other sectors decreased this major sector's growth. Some of the problems in Indian agriculture are:

- Long term factors like steeper decline in per capita land availability, shrinking of farm size
- Slow reduction in share of employment
- Low labour productivity in agriculture and the gap between agri and non-agri is widening.
- Decline in yield growth due to land and water problems, vulnerability to world commodity prices, farmer's suicides.
- Disparities in growth across regions and crops, i.e., growth rate declined more in rain fed areas.
- Thus these problems became the hurdles in the key area for the economic development of the nation, i.e., agriculture.

d) Problems in Social Development

Social development is also one of the key concern in inclusive growth. The social development became the hot criteria in the recent past in India. Social development also facing some problems which is making the path critical to inclusive growth in the country. Some of the problems in social sector are:

- Significant regional, social and gender disparities
- Low level and slow growth in public expenditures particularly on health
- Poor quality delivery systems
- Achievement of 119th rank among 170 countries on Human Development index.
- Social indicators are much lower for scheduled castes and scheduled tribes.
- Malnutrition among children is one major problem.
- Since BPO brought the multi culture environment in India, this sector is facing under seivour pressure due to global recession.
- Social advancements in India is still at lower growth due to the strong influence of culture and regional disparities

The vision of inclusiveness must go beyond the traditional objective of poverty alleviation to encompass equality of opportunity, as well as economic and social mobility for all sections of society, with affirmative action for SCs, STs, OBCs, minorities and women. There must be equality of opportunity to all with freedom and dignity, and without social or political obstacles. This must be accompanied by an improvement in the opportunities for economic and social advancement. In particular, individuals belonging to disadvantaged groups should be provided special opportunities to develop their skills and participate in the growth process.

This outcome can only be ensured if there is a degree of empowerment that creates a true feeling of participation so necessary in a democratic polity. Empowerment of disadvantaged and hitherto marginalized groups is therefore an essential part of any vision of inclusive growth. India's democratic polity, with the establishment of the third layer of democracy at the Panchayati Raj Institution (PRI) level, provides opportunities for empowerment and participation of all groups with reservations for SCs, STs, and women. These institutions should be made more effective through greater delegation of power and responsibility to the local level.

e) Regional Disparities

Regional disparities are also a major concern for India due to different culture and traditions. Traditional cultures, caste system and the rich & poor feelings favoured some specific groups as a result, the regional disparities raised in India before and after independence. And also, due to the development in agriculture and industrial sector some regions in India developed fast and some other places still are facing the scarcity. Some of the regional disparities problems are:

- Per capita income is highest at Rs.16,679 in Punjab and lowest per capita income is at Bihar with Rs.3557.
- Female infant mortality varies from 12 in Kerala to 88 in Madhya Pradesh.
- Female literacy varies from 33.6% in Bihar to 88% in Kerala.
- Richer states grew faster than the poorer states

CHALLENGES BEFORE INCLUSIVE GROWTH STRATEGIES IN INDIA

The key components of the inclusive growth strategy included a sharp increase in investment in rural areas, rural infrastructure and agriculture spurt in credit for farmers; increase in rural employment through a unique social safety net and sharp increase in public spending on education and health care. The government also should go for a variety of legislative interventions to empower the disadvantaged. Some of the challenges and opportunities before inclusive growth strategies in India are:

1. Poverty alleviation is one of the big challenges for India. Eradication of poverty in India is generally only considered to be a long-term goal. Poverty alleviation is expected to make better progress in the next 50 years than in the past, as a trickle-down effect of the growing middle class. Increasing stress on education, reservation of seats in government jobs and the increasing empowerment of women and the economically weaker sections of society, are also expected to contribute to the alleviation of poverty.
2. For agricultural growth, the private players can participate in to bridge the gap including providing micro finance. Contract farming, setting up storage facilities for agro-produce, and producing them from farmers. The private sector could also develop heritage sites and tourist spots and encourage the promotion of traditional arts and crafts in joint ventures with rural enterprises. The government of India should also increase its present moratorium on interest payments, lowering of farm credit rates for increase in agricultural growth.
3. Government schemes should target eradication of both poverty and unemployment (which in recent decades has sent millions of poor and unskilled people into urban areas in search of livelihoods) attempt to solve the problem, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc. The decreased role of the public sector after liberalization has further underlined the need for focusing on better education and has also put political pressure on further reforms.
4. Child labor is a complex problem that is basically rooted in poverty. The Indian government is implementing the world's largest child labor elimination program, with primary education targeted for around 250 million. Numerous non-governmental and voluntary organizations are also involved. Special investigation cells have been set up in states to enforce existing laws banning employment of children (under 14) in hazardous industries. The allocation of the Government of India for the eradication of child labor was \$10 million in 1995-96 and \$16 million in 1996-97. The allocation for 2007 is \$21 million. Failure to implement the law and poor rehabilitation policies need urgent attention which is a big challenge for India to achieve inclusive growth.
5. Social development is possible through achieving Women Empowerment and eradicating the regional disparities. Though the Government is giving the women empowerment by giving special reservations, the women's advancement in India is still not matched the expectations for inclusive growth. Presently, the women are dealing with the top posts in India like President, Lok Sabha Speaker and Railway Minister.
6. To bring in inclusive growth, it is necessary to enhance the capabilities of women by providing education, so that they get the opportunity of getting employed and be self sustainable.

Government of India has stepped up for inclusive growth by launching many initiatives with features that are innovative, flexible and reform oriented such as:

- Rural Infrastructure (Bharat Nirman)
- Employment (Mahatma Gandhi National Rural Employment Guarantee Scheme)

- Regional Development (Backward District Development Program)
- Education (Sarva Shiksha Abhiyan)
- Rural Health (National Rural Health Mission)
- Urban Infrastructure (National Urban Renewal Mission)

INCLUSIVE GROWTH: ROLE OF BANKING SECTOR

There is unanimity in thinking among the intelligentsia that if India is to become an economic power, growth has to be inclusive and touch the lives of millions of people living in rural India. It is heartening to note that the Government is conscious of the fact and has taken unique steps to which will go a long way in alleviating the sufferings of poor people. The pattern of growth in the financial sector which is gradually being opened up for private participation also follows the model of inclusive growth. It was rightly expected that the financial sector in its new avatar would provide succor to the rural poor. While efforts have been made in this direction an overall policy is sadly out of place.

In case of banks, Reserve bank has adopted a two pronged strategy to ensure banks participate in the economic revival of all sections of society by controlling distribution and by making lending to priority sectors mandatory. Distribution is managed by granting license for opening new branches with a stipulation that for every three branches opened in rural and semi urban areas one new branch is allowed to be opened in city area which are more profitable. This ensures that more branches are opened in non urban centers. The mandated provisions have certainly been responsible for flow of credit to rural poor and other less financially affluent sections of society. Banks have done a commendable job in this direction.

In case of Insurance, the regulator IRDA has set equally challenging targets for the industry. They have not mandated opening of offices in rural/semi urban areas like Banks. But companies are required to do minimum amount of rural business and cover certain minimum number of lives from the social sector comprising of unorganized sector and groups from socially weak and vulnerable sections.

SEBI has not prescribed any minimum stipulation for mutual funds to distribute products in rural areas or cover people in the social sector. There is also no stipulation like in case of banks that certain minimum branches will be opened in non city and non metro areas. This has lead to concentration of mutual fund branches in urban areas with 75 % of the turnover arising from 16 major towns. One can only guess the reasons for this. Certainly people in rural and semi urban areas need to be encouraged to save under these secure schemes rather than allow them fall to the temptation of entrusting their savings to informal sector and lose their hard earned money. This business may not be as profitable as in the major cities but is in tandem with the road map for growth envisaged by our Government. The regulatory indulgence is quite surprising.

The new NPS is of recent origin. It is too early for any mandated rural foray. But it will be advisable to lay a long term inclusive growth pattern and to make it mandatory at some future point of time. Merely hoping that various POP's in the rural or semi urban areas will get some business may lead the beneficiaries under the scheme to be confined to cities and urban areas as in case of mutual funds. While some major initiatives have been taken in ensuring that financial sector touches all sections in the country there is inconsistency in approach. It is high time that a composite policy is put in place to ensure that all participants in the financial sector contribute to the inclusive growth of the economy.

The number of "no frills" accounts increased from 4,89,497 at end-March 2006 to 3,30,24,761 at end-March 2009. Notably, the public sector banks account for the majority of these "no frills" accounts as at end-March 2009 (Table 1). Similarly, the number of credit as well as savings accounts per 100 adults has also shown increasing trend over the period 2002 to 2007.

Table 1: Progress of 'No frills' Accounts in the Banking Sector in India

Category	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Public Sector Banks	3,32,878	58,65,419	1,39,09,935	2,98,59,178
Private Sector Banks	1,56,388	8,60,997	18,45,869	31,24,101
Foreign Banks	231	5,919	33,115	41,482

Total	4,89,497	67,32,335	1,57,88,919	3,30,24,761
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Source: 1. Report on Trend and Progress of Banking India – 2009-10.

2. Data for 2009-10 are received from banks

All self-employment programmes integrated into *Swarnajayanti Gram Swarajgar Yojana* (SGSY) in April 1999 has made rapid progress over time covering more than 31 lakh (Table 2). However, only 22 per cent of the SHGs were provided with bank finance for undertaking income generating activities including micro enterprises. The bank assistance was abysmally low leading to low level of investment activity. This shortcoming has been attributed to failure of public intervention to enhance the credit absorption capacity of SHGs as well as to the failures of credit delivery systems to reach the poor. The poor credit absorption capacity of poor can be illustrated by the prevalent credit-subsidy ratio under SGSY at about two, much below the target ratio of 3:1, partly due to failure to strengthen the demand side of the credit by improving the capacity of the poor to absorb credit for income generating activities (GoI, 2009).

Table 2: Physical Progress under SGSY since Inception (Thousands)

Years	SHGs formed	No. of SHGs Passed Grade - I	No. of SHGs Passed Grade - II	SHGs taken up Economic Activities	SHG Swarajgars Assisted	Individual Swarajgars Assisted
1999-2000	292	125	--	29	35	586
2000-2001	223	214	74	26	319	687
2001-2002	434	176	54	31	365	573
2002-2003	399	190	95	36	414	112
2003-2004	392	205	91	51	578	320
2004-2005	266	220	106	68	789	327
2005-2006	276	211	92	80	873	278
2006-2007	246	222	156	138	1472	220
2007-2008	306	251	117	181	1154	254
2008-2009	298	201	62	46	557	117
Total	3134	2014	948	685	6869	3772

Source: Ministry of Rural Development, Govt. of India, 2009.

CONCLUSIONS

Indian banking sector is going great guns. The sector was one of the foremost contributors to help the country to overcome the global economic recession. But the question arises whether the banking sector is just a sector of financial activities or has helped the country to achieve inclusive growth. India's GDP could achieve 8.5% growth rate in the current financial year, after dipping during the recession period. Hence, growth is not a worry for the country, but for inclusive growth, the country has to go a long way. There are two factors, supply and demand side factors driving Inclusive Growth. Banks and other financial services players largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system.

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