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THE IMPACT OF CREDIT DELIVERY AND FINANCIAL INCLUSION IN INDIA

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Abstract

Financial inclusion ensures every citizen can access formal financial sources. It strengthens the availability of economic resources. The present study aims to examine the impact of financial inclusion on the growth of the economy over the past nine years. Secondary data is used, which has been analyzed by correlation, and trend analysis as the main statistical tool. The results of the study found a positive and significant impact of the number of bank branches and credit deposit ratio on the GDP of the country.

Keywords:

FIP Progress, Banking Sector, Financial Inclusion, Branch Network

1. INTRODUCTION

The Indian economy has made rapid strides in the recent past. However, a sizeable section of the population continues to remain excluded from even the most basic opportunities and services provided by the financial sector. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost, honestly and transparently, by mainstream institutional players [1]-[4]. The objective of financial inclusion is to extend financial services to a large section of the unreserved population of the country. It strives to achieve more inclusive growth by making financial services available to poor households. Thus, keeping in view the interests of the poor, the government of India has taken many measures so that the underprivileged sections of society can reap the benefits of financial services. This study has attempted to present the status and progress of financial inclusion in India [5]. In 2006, the United Nations elaborated that financial inclusion is "a financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms, and to savings and payments services for everyone [6]. Inclusive finance does not require everyone to do so. Inclusive finance does not require that everyone eligible should use each of the services, but they should be able to choose to use them if desired.

In 2008, a government-constituted committee under the leadership of C. Rangarajan defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost."

2. FINANCIAL INCLUSION

It is now widely acknowledged that financial exclusion leads to the non-accessibility, non-affordability, and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high-cost credit from informal sources such as moneylenders [7]-[10]. Due to a lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. The absence of a bank account also leads to a security threat and loss of interest by holding cash. All these impose real costs on individuals [11]-[15].

Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions, causing social exclusion. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in the country. Therefore, there is a need to study the status of financial inclusion in India.

3. REVIEW OF THE LECTURES

Their research suggested that there should be a nationwide goal to measure the steps taken in Kazakhstan for financial inclusion. They also suggested coordination among the educational institutions and the financial sector. Their study encouraged further studies in this aspect, considering local customs and traditions in order to gain a better understanding of the targeted segment of the population [16].

In the work of [17] financial inclusion as measured by the CRISIL Inclusix score, which in India is very low in comparison to other countries. But considering statewide financial inclusion, the level of financial inclusion in some states was good; some were less. The study indicated that the rank of financial inclusion is 3 for Tamil Nadu when compared with 35 states and union territories in India.

The authors [18] have attempted to measure the financial inclusion status with the availability of bank branches, including off-site ATMs to cover the unbanked areas, and two access products, such as deposit accounts and credit accounts, which measure financial inclusion.

It is carried out a significant study examining the various determinants of financial inclusion by using data from 29 states and union territories from 1995 to 2008. He pointed out that the supply-side measures were showing remarkable progress, but the demand-side penetration was not able to keep pace with population figures to the expected level. Generating employment activities in backward areas, industrial boosts, and entrepreneurship-focused activities can correct this situation to a great extent for reducing poverty. His study suggested that generating indicators would increase the employability of people [19].

On SME's development and its role in the Indian economy. The objective behind the research was to determine the viable and alternative financial resources of SMEs and the government's role in MSME's development. Secondary data in the form of a review of the literature was utilized in the study [20]. The suggested various options were crowdfunding, venture capital, leasing, factoring and invoice discounting, trade credit, business angels, SME's owners, and friends and family. Debt financing and equity

financing. The research concludes that there are various options available, with the exception of bank financing [21]-[25].

3.1 OBJECTIVE OF STUDY

The following are the main objectives of the present paper:

- To study the present scenario of credit delivery and financial inclusion in India.
- To examine the impact of credit delivery and financial inclusion on the growth of the Indian economy.

4. RESEARCH MYTHOLOGY

The present study is analytical in nature and is based on secondary data. The required secondary data has been collected from various journals, books, Reserve Bank of India websites, etc. The relevant websites were only visited for the collection of necessary literature and data. Statistical tools such as percentage, mean, standard deviation, GAGR, correlation, and trend analysis were used for data analysis. The study covers six financial years, from 2012–13 to 2017–18.

5. ANALYSIS AND DISCUSSION

Table.1. Growth of Priority Sector Lending by SCBs in India: (Amount Rs. Billion)

Year	PSBs	Growth rate (%)	PVTSBs	Growth rate (%)	Foreign Banks	Growth rate (%)
2013-14	16190	-	4645	-	907	-
2014-15	17512	8.17	5303	14.17	970	6.95
2015-16	19850	13.35	6480	22.20	1104	13.81
2016-17	19889	0.19	7110	9.72	1238	12.14
2017-18	20723	4.19	8046	13.17	1402	13.25
2018-19	23000	10.99	10180	26.52	1543	10.06
2019-20	23142.42	0.62	12727.45	25.02	1671.08	8.30
Mean	20043.77		7784.49		1262.15	
Std Deviation	2586.03		2840.50		289.46	
CAGR	5.24%		15.49%		9.12%	

Source: RBI various Annual Reports

From Table.1, the study shows an increase in the lending of the PSB sector by SCBs in India, with a growth rate ranging from 0.19 percent to 13.35 percent. The highest growth rate was observed in 2013-20 and the lowest in 2016-17. The compound annual rate is 5.24 percent, with mean and standard deviation of 20043.77 and 2586.03. The growth rate of PVTSB sector lending also increased, with the highest growth rate in 2018-19 and the lowest in 2016-17. The growth rate of foreign bank sector lending by SCBs in India also increased, with the highest growth rate in 2015-16 and the lowest in 2014-15.

Table.2. Growth of Agricultural credit by SCBS in India: (Amount Rs. Billion)

Year	Target	Growth rate (%)	Achievements	Growth rate (%)
2013-14	4750	-	5090	-
2014-15	5400	13.68	5997	17.82
2015-16	5900	9.26	6430	7.22
2016-17	6250	5.93	7998	24.39
2017-18	7040	12.64	8711	8.91
2018-19	7920	12.5	9496	9.01
2019-20	13500	70.46	13738	44.67
Mean	7251.43		8208.52	
Std deviation	2945.35		2895.54	
CAGR	16.09%		15.24%	

Source: RBI various Annual Reports

From Table.2, the study shows an increase in target credit and achievements credit growth by SCBS in India, with the highest growth rate in 2013-20 and lowest in 2016-17. The mean and standard deviation are 7251.43 and 2945.35, respectively, and the compound annual rate is 16.09 percent. The highest growth rate was in 2019-20.

Table.3. Growth Credit to MSME Sector by SCBs in India: (Amount Rs. Billion)

Year	A/c	Growth rate (%)	Outstanding	Growth rate (%)	A/c ANBC	Growth rate (%)
2013-14	12.6	-	8510.9	-	15.7	-
2014-15	13.8	9.52	9664.8	13.5	17.8	13.38
2015-16	20.5	48.55	9957	3.02	14.6	-17.98
2016-17	23.2	13.17	10698.2	7.44	14.3	-2.06
2017-18	25.9	11.64	114935	974.34	14.6	2.10
2018-19	31.8	22.78	13132.3	-88.57	15.05	3.08
2019-20	379.69	1093.99	15460.7	17.73	17.56	16.68
Mean	**72.50**		**244710.34**		**15.66**	
Std deviation	**187.07**		**575170.31**		**1.45**	
CAGR	**213.70%**		**81.21%**		**2.26%**	

Source: RBI various Annual Reports

From Table.3, the study reveals that the growth rate of agricultural credit by SCBs in India varies between 9.52 percent and 1093.99 percent between 2019-20, with the highest rate in 2014-15 and the lowest in 2014-15. The mean and standard deviation are 72.50 and 187.07, respectively. The growth rate is fluctuating, with the highest in 2017-18 and the lowest in 2018-19. The compound annual rate is 81.21 percent. The growth rate is increasing.

Table.4. Growth of BankBranch Outlets in Villages in India: (Amount Rs. Billion)

Year	Total Branches	Growth rate (%)	Village Branches	Growth rate (%)	Village Branches BCs	Growth rate (%)	Branches other	Growth rate (%)
2013-14	383804		46126		337678		3537	
2014-15	553713	44.27	49571	7.46	504142	49.30	3425	-3.17
2015-16	586307	5.89	51830	4.55	531229	5.37	3761	9.81
2016-17	598093	2.01	50860	-1.87	543472	2.31	3248	-13.64
2017-18	569547	-4.77	50805	-0.10	515317	-5.18	3,537	8.90
2018-19	597155	4.85	52489	3.32	541129	5.01	3,537	0
2019-20	5,99,217	44.27	54,561	7.47	72,581	49.29	3,481	-1.58
Mean	**365437.778**		**37787**		**371702.5**		**1553.5**	
Std deviation	**281613.60**		**23212.32**		**238693.53**		**1686.89**	
CAGR	**6.52%**		**2.43%**		**-19.72%**		**-0.23%**	

Source: RBI various Annual Reports

From Table.4, the study shows an increase in the growth of total branch outlets in villages in India, with varying rates from -4.77% to 16.68% between 2019-20. The highest growth rate was 44.27% in 2017-18, followed by a -4.777% growth rate in 2019-20. The compound annual rate is 6.52 percent. The highest growth rate was 7.47 percent in 2019-20, followed by a -5.18% growth rate in 2014-15 and a -5.18% growth rate in 2018-19. The compound annual rate is -19.72 percent. The growth rate also increased between -13.64 percent and 9.81 percent in 2015-16.

Table.5. Impact of Financial Inclusion on GDB: (Amount Rs. Billion)

Year	GDP	Priority sector	Agricultural Achievements	MSMEs	Banking Branches
2013-14	11233522	21742	5090	6847.97	268484
2014-15	12467959	23785	6044	9612.0	553713
2015-16	13771874	27434	6047	9964.3	586307
2016-17	15362386	28237	7998	10698.2	598093
2017-18	17095005	30171	8711	114935	569547
2018-19	19010164	34793	9496	13132.3	597155
2019-20	20012156	37540.9	13737	15460.7	5,99,217
Mean	**15564723.7**	**29100.41**	**8160.43**	**25807.21**	**352624.44**
Std deviation	**3306483.13**	**5637.90**	**2932.14**	**39396.46**	**283291.99**
CAGR	**8.60%**	**8.12%**	**15.24%**	**12.34%**	**12.15%**

Source: RBI various Annual Reports

6. RESULTS OF REGRESSION ANALYSIS: MODEL SUMMARY

Table.6. Summary Output

Regression Statistics	
Multiple R	0.99
R Square	0.97
Adjusted R Square	0.97
Standard Error	1029.81
Observations	7

Multiple R measures linear relationship strength, R square indicates coefficient of determination, adjusted R square adjusts for non-significant predictors, and standard error measures regression analysis precision.

Table.7. ANOVA

	df	SS	MS	F	Significance F
Regression	1	185413229.6	1.85E+08	174.8335	4.42068E-05
Residual	5	5302565.974	1060513	-	-
Total	6	190715795.6	-	-	-

The formula for calculating the significance of a model is as follows: Df represents degrees of freedom, SS represents sum of squares, MS represents mean square, F is the F-test for null hypothesis.

Table.8. Results

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	2932.45	2016.96	1.45	0.21	-2252.32	8117.23	-2252.32	8117.233741
X Variable 1	0.002	0.0002	13.22	4.42	0.002	0.002	0.001	0.002008084

Table.9. Summary Output

Regression Statistics	
Multiple R	0.93
R Square	0.86
Adjusted R Square	0.83
Standard Error	1205.22

Observations	7

Multiple R measures linear relationship strength, R square indicates coefficient of determination, adjusted R square adjusts for non-significant predictors, and standard error measures regression analysis precision.

Table.10. ANOVA

	df	SS	MS	F	Significance F
Regression	1	44322036.37	44322036	30.51323	0.003
Residual	5	7262757.34	1452551		
Total	6	51584793.71			

The formula for calculating the significance of a model is as follows: Df represents degrees of freedom, SS represents sum of squares, MS represents mean square, F is the F-test for null hypothesis.

Table.11. Results

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-4633.66	2360.51	1.97	0.12	-10701.55	1434.23	-10701.55	1434.23
X Variable 1	0.0008	0.0002	5.52	0.003	0.0004	0.0012	0.0004	0.0012

Table.12. Summary Output

Regression Statistics	
Multiple R	0.27
R Square	0.07
Adjusted R Square	-0.11
Standard Error	41562.99
Observations	7

Multiple R measures linear relationship strength, R square indicates coefficient of determination, adjusted R square adjusts for non-significant predictors, and standard error measures regression analysis precision.

Table.13. ANOVA

	df	SS	MS	F	Significance F
Regression	1	675072947.1	675072947.1	0.39	0.56
Residual	5	8637411205	1727482241		
Total	6	9312484152			

The formula for calculating the significance of a model is as follows: Df represents degrees of freedom, SS represents sum of squares, MS represents mean square, F is the F-test for null hypothesis.

Table.14. Results

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-24124.3	81404.32	-0.29	0.78	-233380.79	185132.15	-233380.79	185132.2
X Variable 1	0.003	0.005	0.63	0.56	-0.01	0.02	-0.01	0.0164

Table.15. Summary Output

Regression Statistics	
Multiple R	0.27
R Square	0.07
Adjusted R Square	-0.11
Standard Error	41562.99
Observations	7

Multiple R measures the strength of a linear relationship between variables, with larger absolute values indicating stronger relationships. R square indicates goodness of fit, with 0.07 indicating excellent fit. Adjusted R square adjusts for non-significant predictors. Standard error measures the precision of regression analysis.

Table.16: ANOVA

	df	SS	MS	F	Significance F
Regression	1	36354008024	36354008024	3.58	0.12
Residual	5	50712482357	10142496471	-	-
Total	6	87066490381	-	-	-

The formula for calculating the significance of a model is as follows: Df represents degrees of freedom, SS represents sum of squares, MS represents mean square, F is the F-test for null hypothesis.

Table.17: Results

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	172513.85	197248.23	0.88	0.42	-34	679556.55	-334528.86	679556.55
X Variable 1	0.02	0.012	1.89	0.12	-0.008	0.06	-0.008	0.056

7. CONCLUSION

The study considers the impact of credit delivery and financial inclusion in India. For the period of six financial years, from

2012–13 to 2017–18, the growth of total bank branch outlets in villages in India is increasing. The growth of ICT accounts is increasing. The study highlights the positive impact of financial inclusion activities on GDP growth. It is concluded that financial inclusion can be achieved faster by the Indian economy.

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