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INCLUSIVE GROWTH

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INCLUSIVE GROWTH

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DEFINING INCLUSIVE GROWTH

Inclusive growth basically means, “broad based growth, shared growth, and pro-poor growth”. Rapid and sustained poverty reduction requires inclusive growth that allow people to contribute to and benefit from economic growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country’s labor force. This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Inclusive growth refers both to the pace and pattern of growth, which is considered interlinked, and therefore is in need to be addressed together. Inclusiveness – a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions – is an essential ingredient of any successful growth strategy.

Why must growth be inclusive?

Inclusive growth is important for very various reasons:

- For ethical consideration of equity and fairness, growth must be shared and should be inclusive across different segments of populations and regions. Economic and other shocks hurt the poor and the vulnerables and growth that results by it leads to high disparity which is unacceptable.
- Growth with persisting inequalities within a country may endanger social peace, force poor and unemployed people into criminal activities, make women more vulnerable to prostitution, force children into undesirable labor, and further weaken other disadvantaged and susceptible sections of population—resulting in a waste of vast human capital that could otherwise be used productively in creating economic outputs for sustainable growth.
- Continued inequalities in outcomes and access to opportunities in a country may result in civil unrest and violent backlash from people who are continually deprived, derailing a sustainable growth process. This may create political unrest and disrupt the social fabric and national integration, undermining the potential for long-term, sustained growth.

NEED AND IMPORTANCE OF INCLUSIVE GROWTH

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 India, bringing 600 million people living in rural areas into the mainstream is the biggest concern. The challenge is to take the levels of growth to all sections of the society and to all parts of the country.

The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing income for excluded groups. Inclusive growth focuses on ex-ante analysis of sources of, and constraints to sustained, high growth, and not only on one group – the poor. Policies for inclusive growth are an important component of most government strategies for sustainable growth. For instance, a country that has grown rapidly over a decade, but has not seen substantial reduction in poverty rates may need to focus specifically on the inclusiveness of its growth strategy.

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 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 neighbouring 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 some of the problems of 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. Studies have estimated that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.
5. Although child labour has been banned by 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 due to labour work.
6. Literacy levels have to be raised to provide the skilled workforce required for higher growth.
7. Achievement of 9% of GDP growth for country as a whole is one of the boosting factors which gives the importance to the Inclusive Growth in India.
8. Inclusiveness benchmarked against achievement of monitorable targets related to (i) Income & Poverty (ii) education (iii) health (iv) women & children (v) infrastructure (vi) environment.
9. Even at international level also, there is a concern about inequalities and exclusion and now they are also talking about inclusive approach for development.

MEASUREMENT OF INCLUSION – A MULTI – DIMENSIONAL CONCEPT

A. Pillar One- Growth and Expansion of Economic Opportunity-

1. **Economic Growth and Employment:—**
    - Growth rate of GDP per capita at PPP
    - Growth rate of average per capita income/consumption (lowest quintile, highest quintile, and total)
    - Employment rate
    - Elasticity of total employment to total GDP (employment elasticities)
    - Number of own-account and contributing family workers per 100 wage and salaried workers
    - 2. Key Infrastructure Endowments-:
    - Per capita consumption of electricity
    - Percentage of paved roads
    - Number of cellular phone subscriptions per 100 people
    - Depositors with other depository corporations per 1,000 adults

B. Pillar Two -Social Inclusion to Ensure Equal Access to Economic Opportunity-

1. **Access and Inputs to Education and Health:-**
    - School life expectancy (primary to tertiary)
    - Pupil-teacher ratio (primary)
    - Diphtheria, tetanous toxoid, and pertussis (DTP3) immunization coverage among 1-year-olds
    - Physicians, nurses, and midwives per 10,000 population
    - Government expenditure on education as percentage of total government expenditure
    - Government expenditure on health as a percentage of total government expenditure
2. **Access to Basic Infrastructure Utilities and Services:-**
    - Percentage of population with access to electricity
    - Share of population using solid fuels for cooking
    - Percentage of population using improved drinking water sources
    - Percentage of population using improved sanitation facilities
3. **Gender Equality and Opportunity:-**
    - Gender parity in primary, secondary, and tertiary education

- Antenatal care coverage (at least one visit)
- Gender parity in labor force participation
- Percentage of seats held by women in national parliament

C. Pillar Three- Social Safety Nets-

- Social protection and labor rating
- Social security expenditure on health as a percentage of government expenditure on health
- Government expenditure on social security and welfare as percentage of total government expenditure

Fig.: Policy pillars for inclusive growth

D. Pillar Four: Good Governance and Institutions-

- Voice and accountability
- Government effectiveness
- Corruption perceptions index

INDIAN PLANNING AND INCLUSIVE GROWTH

Economic Planning is to make decision with respect to the use of resources. Economic Planning is a term used to describe the long term plans of government to co-ordinate and develop the economy. Economic planning in India which was started in 1950 is necessary for economic development and economic growth.

Need for Economic Planning

- Mass Poverty and Low Per Capita Income
- High Rate of Growth of Population
- Low Level of Literacy
- Lack of infrastructure
- Regional disparities
- Backward Technology
- Social and Economic Problem Created By Partition Of Country

Objectives of Economic Planning

- Economic Growth.
- Reduction of Economic Inequalities.
- Balanced Regional Development.
- Modernization.
- Reduction of Unemployment.

First five year plan (1951-1956) **–** India's first Prime Minister, Jawaharlal Nehru presented the first five- year plan to the Parliament of India on 8 December 1951. The plan addressed, mainly, Industrial sector , Energy and Irrigation, Transport and Communications , Land rehabilitation, Social services, Development of agriculture and community & Miscellaneous issues. The most important feature of this phase was active role of state in all economic sectors. After independence, India was facing basic problems—deficiency of capital and low capacity to save. The target set for the growth in the gross domestic product was 2.1 percent every year. In reality, the actual achieved with regard to gross domestic product was 3.6 percent per annum. This is a clear indication of the success of the 1st five year plan.

Second five year plan (1956-61) - Unlike the First plan, which focused mainly on agriculture, domestic production of industrial products was encouraged in the Second plan, particularly in the development of the public sector. The plan followed the Mahalanobis model. The second five- year plan focused on industry, especially heavy industry, Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Rourkela were established. Coal production was increased. More railway lines were added in the north east.

- Atomic energy was also formed in second five year plan.
- The total amount allocated under the second five year plan in India was Rs. 4,800 crore. This amount was allocated among various sectors:
- Mining and industry
- Community and agriculture development
- Power and irrigation
- Social services
- Communications and transport.

(Targetted Growth was 4.5% and 4.0% Growth was achieved during the plan.)

Third five year plan (1961-66) - The third plan stressed on agriculture and improvement in the production of wheat, but the brief Sino-Indian War of 1962 exposed weaknesses in the economy and shifted the focus towards the Defence industry and Indian army. In 1965–1966, India fought a War with Pakistan. Due to this there was a severe drought in 1965. The war led to inflation and the priority was shifted to price stabilisation. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab began producing an abundance of wheat. Target Growth was 5.6% and 2.4% Growth was achieved during the plan. Due to miserable failure of third plan the Govt. was forced to declare “plan holidays”(from 1966-67,1968-69) .Three annual plans were drawn during this intervening period. During 1966-67 there was again the problem of drought. Equal priority was given to agriculture ,its allied and industry sector. The main reason of plan holidays was Indo-Pak war, lack of resources and increase in inflation.

Fourth five year plan (1969-74) - The Indira Gandhi government nationalised 14 major Indian banks and the Green Revolution advanced agriculture in India. In addition, the situation in East Pakistan (now Bangladesh) was becoming dire as the [Indo-Pakistan War of 1971] and Bangladesh Liberation War took Funds, earmarked for the industrial development, had to be diverted for the war effort. India also performed the Smiling Buddha underground nuclear test in 1974. Targetted Growth was 5.7% and Actual Growth was 3.3%.

Fifth five year plan (1974-79) - Stress was laid on employment, poverty, alleviation, and justice. The plan also focused on self-reliance in agricultural production and defense.• The Indian national highway system was introduced for the first time. In 1978 the newly elected Morarji Desai government rejected the plan. Electricity Supply Act was enacted in 1975, which enabled the Central Government to enter into power generation and transmission. (Targetted Growth: 4.4% Actual Growth: 5.0.)

Sixth five year plan (1980-85) - The sixth plan also marked the beginning of economic liberalisation. Price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian socialism and Rajeev Gandhi became the Prime Minister during this period. The sixth five year plan was a great success to Indian economy. (Targetted Growth: 5.2% Actual Growth: 5.4%)

Seventh five year plan(1985-90) - As an outcome of the sixth five-year plan, there had been steady growth in agriculture, control on rate of Inflation, and favourable balance of payments which had provided a strong base for the seventh five Year plan to build on the need for further economic growth. The plan laid stress on improving the productivity level of industries by upgrading of technology. The main objectives of the 7th five-year plan were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment. The thrust areas of the 7th five year plan have been enlisted below:

- Social Justice
- Using modern technology
- Agricultural development
- Full supply of food, clothing, and shelter
- Increasing productivity of small and large scale farmers
- Making India an Independent Economy. Under the Seventh Five Year Plan, India strove to bring about a self-sustained economy in the country with valuable contributions from voluntary agencies and the general populace. (Targetted Growth: 5.0% Actual Growth: 6.1%.)

Eighth five year plan (1992-97) - 1989–91 was a period of economic instability in India and hence no five-year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in Foreign Exchange (Forex) reserves. It was the beginning of privatization and liberalization in India. Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt. Meanwhile India became a member of the World Trade Organization on 1 January 1995.This plan can be termed as Rao and Manmohan model of Economic development. The major objectives included, controlling population growth, poverty reduction, employment generation, strengthening the infrastructure, Institutional building, tourism management, Human Resource development, Involvement of Panchayat Raj, Nagar Palikas, N.G.O'S and Decentralisation and people's participation. Energy was given priority with 26.6% of the outlay. An average annual growth rate of 6.78% against the target 5.6% was achieved.

Ninth five year plan (1997-2002) - The main objectives of the Ninth Five Year Plan were :

- to develop the rural & agricultural sector
- to generate employment opportunities and promote poverty reduction.
- to provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy.

During the Ninth Plan period, the growth rate was 5.35 per cent, a percentage point lower than the target GDP growth of 6.5 per cent.

Tenth five year plan (2002-07) – The main objectives of the tenth Five Year Plan were :

To Attain 8% GDP growth per year.

- Reduction of poverty ratio by 5 percentage points by 2007.
- Providing gainful and high-quality employment.
- Reduction in gender gaps in literacy and wage rates by at least 50%.

Inclusiveness and Eleventh Plan (2007–2012) - The 11th Five Year Plan provided an opportunity to restructure policies to achieve a new vision of growth that will be more broad based and inclusive, bringing about a faster reduction in poverty and helping bridge the divides that are currently the focus of greater attention. The first step in this direction were in fact initiated in the middle of the Tenth Plan. The strength of the fundamentals of the State economy was evident from a noteworthy transition to a high growth path during the 10th Five Year Plan period. With this backdrop of an impressive record of economic growth coupled with an assured positive upsurge in the living standards of the people, the State along with the Nation approached culmination of the Eleventh Five Year Plan on an optimistic note. 'Rapid and inclusive growth' was the core theme of the 11th Five Year Plan with main emphasis on the Social sector and delivery of services therein. Education, in particular, was accorded utmost priority during the 11th Five Year Plan period.

The Eleventh Five Year Plan (2007-08 to 2011-12) had aimed at achieving faster and more inclusive growth. Rapid GDP growth, targeted at 9.0 per cent per annum, was regarded necessary for two reasons: first, to generate the income and employment opportunities that were needed for improving living standards for the bulk of the population; and second, to generate the resources needed for financing social sector programmes, aimed at reducing poverty and enabling inclusiveness.

The economy performed well on the growth front, averaging 8.2 per cent in the first four years. Growth in 2011-12, the final year of the Eleventh Plan was originally projected at around 9.0 per cent continuing the strong rebound from the crisis, which saw an 8.5 per cent growth in 2010-11. Instead, the economy actually slowed down somewhat in 2011-12 compared to the previous year – a phenomenon common to all major economies reflecting the fact that 2010 was a rebound from depressed levels in 2009. The economy achieved an average GDP growth of around 8.2 per cent over the Eleventh Plan period, which was lower than the 9.0 per cent targeted originally, but higher than the 7.8 per cent achieved in the Tenth Plan. This implied a nearly 35 per cent increase in per-capita GDP during this period. It also led to a substantial increase in government revenues, both at the Centre and the States, resulting in a significant step-up of resources for the programmes aimed at inclusiveness. A healthy increase in aggregate savings and investment rates, particularly in the private sector, testified to the strength of our economy as it entered the Twelfth Plan period.

The acceleration in the growth in the Eleventh Plan period compared with the Tenth Plan was modest, but it nevertheless was a good performance, given the fact that a severe global economic crisis depressed growth in two of these five years, and also that in the year 2009 India had the weakest monsoon in three decades.

Inclusiveness- The progress towards inclusiveness is more difficult to assess, because inclusiveness is a multidimensional concept. Inclusive growth should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and in improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of the SC/ST and OBC population. Women and children constitute a group which accounts for 70% of the population and deserves special attention in terms of the reach of relevant schemes in many sectors. Minorities and other excluded groups also need special programmes to bring them into the mainstream. To achieve inclusiveness in all these dimensions require multiple interventions, and success depends not only on introducing new policies and government programmes, but on institutional and attitudinal changes brought about, which take time.

Inter-State and Inter-Sectoral Variations- One important feature of the growth experienced in the Eleventh Plan, which was relevant for inclusiveness, was that high rates of economic growth had been more broadly shared than ever before across the States. While most States showed sustained high rates of growth, several of the economically weaker States demonstrated an improvement in their growth rates. Amongst them were Bihar, Orissa, Assam, Rajasthan, Chhattisgarh, Madhya Pradesh, Uttarakhand and to some extent Uttar Pradesh. According to the available data, no State averaged GSDP growth of less than 6.0 per cent during the Eleventh Plan period. While the economically-weaker states caught up in growth rates, there was growing concern about the backwardness of individual districts, several of which are located in States that were otherwise doing well. Many of these districts were also affected by Left-wing Extremism. The Backward Regions Grant Fund (BRGF) and various other regional initiatives have been specially designed to address this problem.

Progress in Reducing Poverty- Reducing poverty is a key element in our inclusive growth strategy and there is some progress in that regard. According to previous official poverty estimates, the percentage of the population living below the poverty line had declined by 8.5 percentage points between 1993-94 and 2004-05. The Eleventh Plan had set a more ambitious target of achieving a decline in poverty ratio of 2 percentage points per year. While the actual performance in this regard was below this target, it was better than it was in the earlier decade. A summary assessment is that the pace of poverty reduction had accelerated, though it may still be short of the target. Nevertheless, it is heartening to note that looking ahead; India is well poised to meet the Millennium Development Goal target of 50 per cent reduction of poverty between 1990 and 2015.

Plan Programs for Inclusiveness-The Eleventh Plan gave a special impetus to several programmes aimed at building rural and urban infrastructure and providing basic services with the objective of increasing inclusiveness and reducing poverty. Some of these programmes were new, while others augmented existing initiatives.

Employment and Livelihood- For growth to be inclusive it must create adequate livelihood opportunities and add to decent employment commensurate with the expectations of a growing labour force. The 66th round NSSO Survey of Employment shows that the vast majority of new jobs created between 2004-05 and 2009-10 were in casual employment, mainly in construction. While such jobs are often more attractive for rural labour than casual work in agriculture, there is a potential for an accelerated pace of creation of more durable rural non-farm jobs/livelihood opportunities. Such job opportunities could come from faster expansion in agro-processing, supply chains and the increased demand for technical personnel for inputs into various aspects of farming that is undergoing steady modernisation, and also the maintenance of equipment and other elements of rural infrastructure. The service sector too has to continue to be a place for creation of decent jobs/livelihood opportunities, in both rural and urban areas.

Eleventh Plan Achievements on Inclusive Growth

The following are some important indicators showing the extent to which the Eleventh Plan succeeded in fulfilling the objective of inclusive growth.

- GDP growth in the Eleventh Plan 2007–08 to 2011–12 was 8 per cent compared with 7.6 per cent in the Tenth Plan (2002–03 to 2006–07) and only 5.7 per cent in the Ninth Plan (1997–98 to 2001–02). The growth rate of 7.9 per cent in the Eleventh Plan period is one of the highest for any country in that period which saw two global crises.
- Agricultural GDP growth accelerated in the Eleventh Plan, to an average rate of 3.7 per cent, compared with 2.4 per cent in the Tenth Plan, and 2.5 per cent in the Ninth Plan.
- The percentage of the population below the poverty line declined at the rate of 1.5 percentage points (ppt) per year in the period 2004–05 to 2009–10, twice the rate at which it declined in the previous period 1993–94 to 2004–05.
- The rate of growth of real consumption per capita in rural areas in the period 2004–05 to 2011–12 was 3.4 per cent per year which was four times the rate in the previous period 1993–94 to 2004–05.
- The rate of unemployment declined from 8.2 per cent in 2004–05 to 6.6 per cent in 2009–10 reversing the trend observed in the earlier period when it had actually increased from 6.1 per cent in 1993–94 to 8.2 per cent in 2004–05.
- Rural real wages increased 6.8 per cent per year in the Eleventh Plan (2007–08 to 2011–12) compared to an average 1.1 per cent per year in the previous decade, led largely by the government's rural policies and initiatives.
- Complete immunization rate increased by 2.1 ppt per year between 2002–04 and 2007–08, compared to a 1.7 ppt fall per year between 1998–99 and 2002–04. Similarly, institutional deliveries increased by 1.6 ppt per year between 2002–04 and 2007–08 higher than the 1.3 ppt increase per year between 1998–99 and 2002–04.
- Net enrolment rate at the primary level rose to a near universal 98.3 per cent in 2009–10. Dropout rate (classes I–VIII) also showed improvements, falling 1.7 ppt per year between 2003–04 and 2009–10, which was twice the 0.8 ppt fall between 1998–99 and 2003–04.

Twelfth Five Year Plan (2012–2017)- Faster, More Inclusive and Sustainable Growth:-

India's 1.25 billion citizens have higher expectations about their future today, than they have ever had before. They have seen the economy grow much faster in the past 10 years than it did earlier, and deliver visible benefits to a large number of people. This has understandably raised the expectations of all sections, especially those who have benefited less. Our people are now much more aware of what is possible, and they will settle for no less. The Twelfth Five Year Plan must rise to the challenge of meeting these high expectations.

Highlights of 12th Five Year Plan (2012-17):

- The Plan aims to achieve average growth rate of 8 per cent during the 12th Five Year Plan (2012-17)
- It aims to raise the farm sector growth rate to 4 per cent and achieve a growth rate of 10 per cent in the manufacturing sector.
- The target is to generate 50 million new jobs while achieving 8% growth target.
- The Plan aims at increasing investment in infrastructure to 9 per cent of the GDP by the end of the Plan period (2012-17).
- The aggregate Plan resources are estimated at Rs 37.16 lakh crore during the five year period.
- The 12th Plan also seeks to reduce poverty by 10 percentage points in the five-year period.
- The other targets include increasing green cover by one million hectare every year and adding 30,000 MW of renewable energy generation capacity in the Plan period.
- It also seeks to reduce emission intensity of the GDP in line with the target of 20-25 reduction by 2020 over 2005 levels.

Based on an intensive process within the Planning Commission, the following Twelve Strategy Challenges have been identified for the 12th Five Year Plan-:

1. Enhancing the Capacity for Growth- Today, India can sustain a GDP growth of 8 percent a year. Increasing this to 9 or 10 percent will need more mobilization of investment resources; better allocation of these resources through more efficient capital markets; higher investment in infrastructure through both public and PPP routes; and more efficient use of public resources.

2. Enhancing Skills and Faster Generation of Employment- It is believed that India's economic growth is not generating enough jobs or livelihood opportunities. At the same time, many sectors face manpower shortages. To address both, we need to improve our education and training systems; create efficient and accessible labour markets for all skill categories; and encourage the faster growth of small and micro enterprises.

3. Managing the Environment- Environmental and ecological degradation has serious global and local implications, especially for the most vulnerable citizens of our country. How can we encourage responsible behaviour, without compromising on our developmental needs?

4. Markets for Efficiency and Inclusion- Open, integrated, and well-regulated markets for land, labour, and capital and for goods and services are essential for growth, inclusion, and sustainability. We have many sectors were markets are non-existent or incomplete, especially those which are dominated by public provisioning. How do we create or improve markets in all sectors?

5. Decentralization, Empowerment and Information- Greater and more informed participation of all citizens in decision-making, enforcing accountability, exercising their rights and entitlements; and determining the course of their lives is central to faster growth, inclusion, and sustainability. How can we best promote the capabilities of all Indians, especially the most disadvantaged, to achieve this end?

6. Technology and Innovation- Technological and organizational innovation is the key to higher productivity and competitiveness. How can we encourage and incentivize innovation and their diffusion in academia and government as well as in enterprises of all sizes.

7. Securing the Energy Future for India- Faster and more inclusive growth will require a rapid increase in energy consumption. Since we have limited domestic resources, how can we meet this need equitably and affordably without compromising on our environment?

8. Accelerated Development of Transport Infrastructure- Our inadequate transport infrastructure results in lower efficiency and productivity; higher transaction costs; and insufficient access to our large national market. How can we create an efficient and widespread multi-modal transport network?

9. Rural Transformation and Sustained Growth of Agriculture- Rural India suffers from poor infrastructure and inadequate amenities. Low agricultural growth perpetuates food and nutritional insecurities, which also reduces rural incomes. How can we encourage and support our villages in improving their living and livelihood conditions in innovative ways?

10. Managing Urbanization- Most of our metros and cities are under severe stress with inadequate social and physical infrastructure coupled with worsening pollution. Migration pressures are likely to increase. How do we make our cities more liveable? What can we do today to ensure that smaller cities and towns are not similarly overwhelmed tomorrow?

11. Improved Access to Quality Education- Educational and training facilities have been increasing rapidly. However, access, affordability, and quality remain serious concerns. Employability is also an issue. How can we improve the quality and the utility of our education, while ensuring equity and affordability?

12. Better Preventive and Curative Health Care- India's health indicators are not improving as fast as other socio-economic indicators. Good healthcare is perceived to be either unavailable or unaffordable. How can we improve healthcare conditions, both curative and preventive, especially relating to women and children?

FINANCIAL INCLUSION AND INCLUSIVE GROWTH

The Rangarajan Committee on Financial Inclusion defines financial inclusion as "a comprehensive and holistic 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". Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. It means extending the banking habits among the less privileged both in urban and rural areas.

"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." The main objectives are to connect people with banking system and to give people access to payment & credit system.

By financial inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. Among the key financial services that are of great relevance here are risk management or risk mitigation services vis-à-vis economic shocks. Such shocks may be an income shock due to adverse weather conditions or natural disasters, or an expenditure shock due to health emergencies or accidents, leading to a high level of unexpected expenditure. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families.

Financial Inclusion As a Quasi-Public Good-It is well recognized in the literature that finance performs the important functions of mobilizing savings, allocating capital and transforming risk by pooling and repackaging it. There is growing evidence that a well-functioning financial system fosters faster and more equitable growth. Access to financial services allows the poor to save money outside the house safely, prevents concentration of economic power with a few individuals and helps in mitigating the risks that the poor face as a result of economic shocks. Providing access to financial services is increasingly becoming an area of concern for policy-makers for the obvious reason that it has far-reaching economic and social implications.

First and foremost, enhanced financial inclusion will drastically reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides.

The second important benefit is that it will lead to more rapid modernization of Indian agriculture. New agriculture, by nature, needs more working capital and is capital intensive as it depends on improved seeds, fertilizers and other modern inputs and equipment. Since enhanced financial inclusion means better risk management tools for the farmers, they will be encouraged to adopt new technologies at a faster rate.

Yet another benefit will be increased growth, as well as more equitable growth, in both rural and urban areas because financial growth will mobilize what Prof. C. K. Prahalad calls "the bottom of the pyramid". By providing greater access to educational loans for all sections of society, improved financial inclusion will also mean India becoming a more equal opportunity nation—a pre-condition for promoting inclusive growth.

Finally, a very positive impact of promoting financial inclusion will be the boost given to grass-roots innovations and entrepreneurship.

Present State of Financial Inclusion in India:-

The focus of financial inclusion is on promoting sustainable development and generating employment for a vast majority of the population, especially in the rural areas. In the first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52 per cent of urban households have access to banking services and 34 per cent of India's urban population with annual income of less than 50,000 have access to banking services. The latest National Sample Survey Organisation survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services such as savings accounts, credit, remittances and payment services, financial advisory services, etc. Low-income groups do not have access to the formal banking systems, as they usually do not have the documents needed to open a bank account. As a result, they depend on the informal sector for their savings and loan requirements. Thus, financial inclusion is considered to be critical for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognising the importance of inclusive growth in India, efforts are being taken to make the financial system more inclusive.

Causes of Financial Exclusion in India

Access to formal banking system is affected by several barriers such as culture, financial literacy, gender, income and assets, proof of identity, remoteness of residence, and so on. Over a period of time several measures are being taken by the banks in India to improve access to affordable financial services through financial education, leveraging technology, and generating awareness. There are number of factors affecting access to financial services by weaker section of society in India. The lack of awareness, low incomes and assets, social exclusion, illiteracy are the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure and requirements of documents for opening bank accounts, unsuitable banking products or schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side. Hence, there is a need for financial inclusion to build uniform economic development, both spatially and temporally, and ushering in greater economic and social equity.

Measures for Financial Inclusion in India

Several measures have been taken by both the Reserve Bank of India and the Government to bring the financially excluded people to the fold of the formal banking services. The important financial inclusion initiatives of RBI are given below:

- Introduction of 'No-Frills' account
- Relaxing 'Know Your Customer' (KYC) norms
- General Purpose Credit Card (GCC) Schemes
- Role NGOs, SHGs and MFIs
- Business Facilitator (BF) and Business Correspondent (BC) Models.
- Nationwide Electronic Financial Inclusion System (NEFIS)
- Project Financial Literacy
- Financial Literacy and Credit Counseling (FLCC) centres
- National Rural Financial Inclusion Plan (NRFIP)
- Financial Inclusion Fund (FIF)
- Financial Inclusion Technology Fund (FITF)

Regional Inequality and 'Inclusive Growth' in India:-

The Indian development scenario looks optimistic, not only in terms of the pace of economic growth but also in its capability to stand out in periods of global economic crises. In the context of growth in employment, too, the economy has done reasonably well over the past decade, allaying fears of jobless growth, the key concern that emerged in the late 1990s. The growth rates, as per all three alternate definitions of employment adopted by National Sample Survey Organization, namely usual status, weekly status, and daily status, have been exceptionally high since the early years of the present decade. The impact of growth in poverty reduction, too, has been significant, although the estimated elasticity of poverty reduction has been lower than several countries in the South Asian region.

The high growth in employment can partly be attributed to demographic dividend the country is currently enjoying due to decline in the natural growth rate in population. Many of the states, particularly in southern India, like Kerala and Tamil Nadu have experienced fertility decline over the past couple of decades, making the Net Reproduction Rate equal to or less than unity. The growth of population in several other states, especially in north and central India has, however, been high, reporting either no decline, or in some cases, even an increase, in recent years, which is a cause for concern. However, as a result of general reduction in fertility, the percentage of adults in the age group 20–35 is expected to grow rapidly over the next few decades. This would help these states to pick up their growth momentum, provided the incremental adult population can be meaningfully absorbed in productive sectors. In the absence of such employment opportunities, a north-south transfer of adult population on a massive scale would have to be considered, which has serious societal implications. Such transfers may indeed be difficult due to the emerging socio-political scenario in the country, which would put enormous pressure on land and infrastructure in many less developed states.

There seems to be a shared concern that the country has not been very successful in transforming its growth into development, which manifests most significantly in serious regional imbalances despite very positive macro economic trends, as discussed above. The major questions confronting policymakers today are: (i) which are the states getting excluded in the development process and how can these be brought into the mainstream of development? (ii) what are the deficiencies in the macro economic growth strategy or the special programmes launched as a part of the policy of inclusive growth and how can these be remedied?

Trends and Patterns of Economic Inequality across States

It would be important to begin an exploration of the regional scenario of development in the country by looking at the trend of certain indices that articulate regional

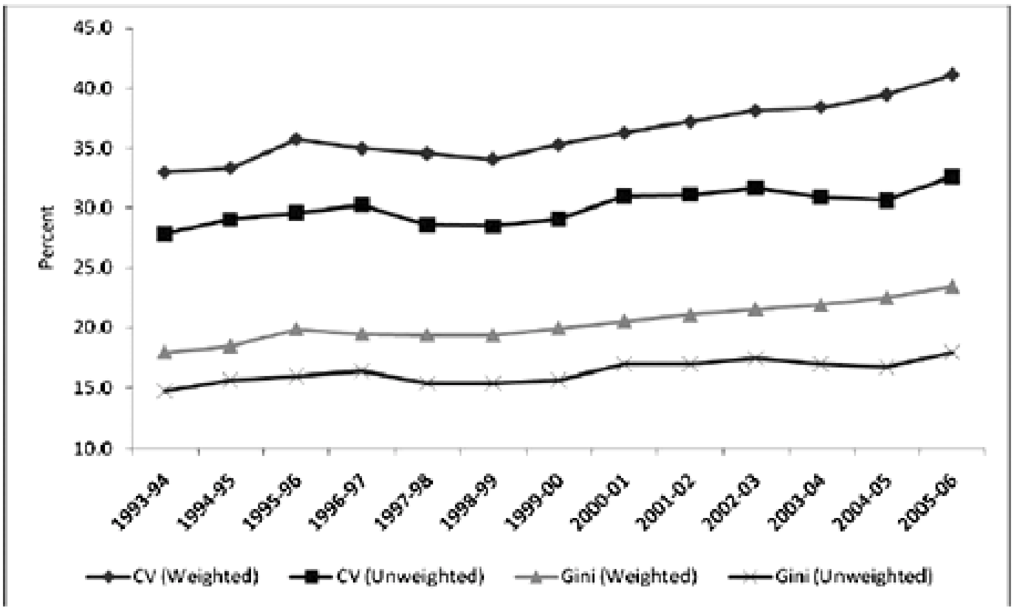


Fig. Trend in Inter-State Inequality in Per Capita Income: Unweighted and Weighted Indices.

It is a matter of concern that the values of the Coefficient of Variation (CV) and Gini Index for per capita state domestic product (SDP) have gone up systematically during the period from the early 1990s to the middle of the present decade. It is, however, not for the first time that regional inequality has shown an increasing trend in the country. It had gone up during 1960s, and was attributed then to the Green Revolution and its regional concentration in north-west India and a few southern districts. Similarly, the later half of the 1970s saw an increase in inequality explained in terms of industrial stagnation in backward states. However, the 1980s saw little increase in regional disparity.This is extremely important since this has been considered a period of financial instability resulting in macro economic crisis, compelling the policy makers to opt for policies of economic liberalization in 1990–91. The period since the early 1990s has come under closer scrutiny as the emphasis has been on economic efficiency, reduction of subsidy, and greater accountability under the strategy of globalization. The latter, that have been impacting, and even reshaping, the programmes and schemes for infrastructural development, have favoured the relatively developed regions. Consequently, except for a year or two in mid-1990s, inequality has been on the increase over the past decade and a half.

It has been argued that the governmental strategy of regional development, particularly of federal resource allocations, has not gone simply by the development deficit of the states and their population share, but also by other socio-political considerations. One can take a critical view of this as reflecting vested interests influencing the process of planning and resource allocation, which is responsible for poorer states with a larger share in the population not being able to improve their economic conditions. One can, however, argue that a federal system would always force governments to take into account various social, ethnic, and historical factors in designing development strategy, particularly in devolution of central resources. Understandably, emerging regional identities, aspirations, feelings of deprivation, etc., besides the vulnerability of states due to locations at the national borders, would weigh the system of fund disbursal.

In a study undertaken as a part of background research for the World Development Report, 2009, Ahmad and Narain (2008) classified the Indian states into ‘high’, ‘medium’ and ‘low’ income categories. The north-eastern states that belong to a special category, and thereby enjoy special grants from the Finance Commission, as well as other preferential treatment, constitute a separate category. The study shows that most of the states that had low levels of per capita income recorded low income growth, not only in the 1980s, but also in the 1990s. The low income category states and the north-eastern states were noted to have registered growth rates of 2.5 per cent and 2.8 per cent respectively during the 1980s, which was much below the national average. These went down further to 2.3 and 2.5 per cent respectively during the 1990s. These states were in the bottom rung even in the early 1970s. The growth rates for the high and middle income states, on the other hand, increased from about 3.4 and 3.2 per cent to 3.6 and 4.9 respectively during this period.

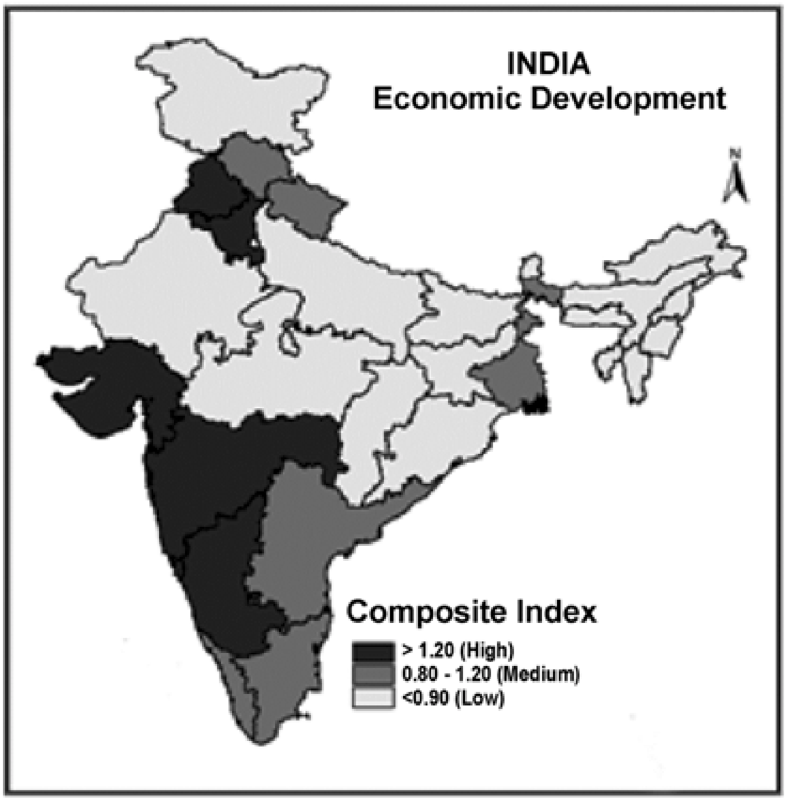
Considering the growth performance of individual states, one would note that the low income states like Assam, Bihar (including Jharkhand), Madhya Pradesh (including Chhattisgarh), Orissa, and Uttar Pradesh (including Uttarakhand) have reported very low average growth rates during the 1980s, which has further gone down in the 1990s. A more alarming fact about these states (excluding Rajasthan)is the instability in growth rates as assessed through their coefficient of variation over time. Furthermore, these states have reported a decline in the absolute figure of per capita income or no growth in at least two years during the 1990s, a problem not encountered in the middle or high income states. Based on the level of per capita SDP and the growth therein, a set of eight states (including three newly formed states) can be identified as belonging to the lagging region category in the first stage operation. These are Bihar, Jharkhand, Orissa, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Uttarakhand, and Assam.

TABLE: Annual Growth Rates in State Domestic Product in Different Plan Periods

S.No.	State/UT	Eighth Plan (1992-97)	Ninth Plan (1997-2002)	Tenth Plan (2002-07)	Eleventh Plan (2007-12)
	Non Special Category States				
1.	Andhra Pradesh	5.4	4.6	6.7	9.5
2.	Bihar	2.2	4.0	4.7	7.6
3.	Chhattisgarh	NA	NA	9.2	8.6
4.	Goa	8.9	5.5	7.8	12.1
5.	Gujarat	12.4	4.0	10.6	11.2
6.	Haryana	5.2	4.1	7.6	11.0
7.	Jharkhand	NA	NA	11.1	9.8
8.	Karnataka	6.2	5.7	7.2	9.5
9.	Kerala	6.5	5.7	7.2	9.5
10.	Madhya Pradesh	6.3	4.0	4.3	6.7
11.	Maharashtra	8.9	4.7	7.9	9.1
12.	Orissa	2.1	5.1	9.1	8.8
13.	Punjab	4.7	4.4	4.5	5.9
14.	Rajasthan	7.5	3.5	5.0	7.4
15.	Tamil Nadu	7.0	6.3	6.6	8.5
16.	Uttar Pradesh	4.9	4.0	4.6	6.1
17.	West Bengal	6.3	6.9	6.1	9.7
	Special Category States				
1.	Arunachal Pradesh	5.1	4.4	5.8	6.4
2.	Assam	2.8	2.1	6.1	6.5
3.	Himachal Pradesh	6.5	5.9	7.3	9.5
4.	Jammu & Kashmir	5.0	5.2	5.2	6.4
5.	Manipur	4.6	6.4	11.6	5.9
6.	Meghalaya	3.8	6.2	5.6	7.3
7.	Mizoram	NA	NA	5.9	7.1
8.	Nagaland	8.9	2.6	8.3	9.3
9.	Sikkim	5.3	8.3	7.7	6.7
10.	Tripura	6.6	7.4	8.7	6.9
11.	Uttarakhand	NA	NA	8.8	9.9

All India GDP	6.5	5.5	7.7	9.0
Developed States	7.2	5.2	7.0	9.6
Special Cat States	5.7	5.8	7.3	7.3
Less Dev States	3.7	3.8	7.2	8.0
CV in Growth Rates	38.8	29.9	27.8	21.7

Map



Identification of Socio-Economic Dimensions and Indicators of Development and Composite Indices

In order to understand the nature and pattern of the contemporary process of development, (i) economic, (ii) basic amenities, and (iii) social, have been considered the three important dimensi

(a) Economic Development

It is well acknowledged in development literature that analyses based on the levels of SDP in per capita terms and growth rates therein do not capture several important aspects of economic development at the macro- or state-level. Inclusion of a number of other indicators reflecting other aspects of economic well-being has been considered indispensable. Like per capita SDP, per capita consumption expenditure is an important summary.

(b) Basic Amenities

A set of nine indicators pertaining to basic amenities have been selected. All these have been taken from the National Health and Family Survey III and pertain to the year 2005–06. The percentages of female and male literates have been included to reflect the level and access to educational facilities in the states. These have been considered more appropriate than the information on the facilities given by the individual states. The percentages of men and women reading newspapers have been taken as a proxy of transportation and social linkages of the distant rural and urban areas to the nearby large centres. These linkages contribute in a significant way to the dissemination of growth impulses in a region. The percentage of households having electricity, improved sources of drinking water, toilet facility, non-solid fuel for cooking, and residing in puccahouses are direct measures of availability of basic amenities, and consequently, have been included under this dimension.

TABLE : Per Capita SDP and Growth in SDP for Select States

	Growth in SDP			Per Capita SDP		
STATES	**1997–99**	**2003– 05**	**2007–09**	**1997–99**	**2003–05**	**2007–09**
Andhra Pradesh	5.12	9.25	9.10	10160	13996	18001
Assam	1.32	4.90	6.36	6585	7602	8640
Bihar	2.47	5.48	14.11	3539	3992	5332
Chhattisgarh	2.90	10.26	8.10	8256	10412	12701
Gujarat	3.44	12.36	10.89	15613	20349	26447
Haryana	4.88	9.07	9.69	14742	20260	25110
Himachal Pradesh	6.74	8.06	8.42	11625	15590	19162
Jammu & Kashmir	5.11	5.52	5.90	8601	9608	10696
Jharkhand	9.75	4.49	8.08	8448	9297	10967
Karnataka	8.32	8.95	8.44	11715	14518	18529
Kerala	5.83	8.46	10.00	10961	15339	20104
Madhya Pradesh	7.36	6.83	4.94	8759	9374	10204
Maharashtra	6.23	8.79	9.01	16494	20319	25190
Orissa	6.87	11.23	8.23	6466	8290	10309
Punjab	4.74	5.17	6.70	16320	18900	21603
Rajasthan	5.82	11.24	8.76	9708	11021	12862
Tamil Nadu	6.35	9.78	6.75	13243	16663	21090
Uttar Pradesh	2.73	4.77	10.71	6452	7090	8573
Uttaranchal	1.43	15.28	7.52	8356	12844	16827
West Bengal	7.16	6.27	7.72	9827	12540	14929
Mean	**5.23**	**8.31**	**8.47**	**10293**	**12900**	**15864**
SD	**2.28**	**2.91**	**2.04**	**3566**	**4814**	**6223**
CV	**0.436**	**0.350**	**0.240**	**0.347**	**0.373**	**0.392**
Weighted CV	**0.409**	**0.325**	**0.244**	**0.383**	**0.422**	**0.441**

Indicators pertaining to the Dimension of Basic Amenities	
S. No.	**Indicator**
1.	Education Female
2.	Education Male
3.	Per cent women (15–49) reading newspaper at least once a week
4.	Per cent men (15–49) reading newspaper at least once a week
5.	Percentage of household with electricity
6.	Percentage of household with improved source of drinking water
7.	Percentage of household with toilet facility
8.	Percentage of household using non-solid fuel for cooking
9.	Percentage of household living in a pucca house.

(c) Social Developmen:

Ten indicators identified under the dimension of social development, reflect 'deficit in development' and can be described as negative indicators. The first two indicators—infant mortality rate and total fertility rate—articulate the basic demographic character of the state. In a way these two bring out the sum total of the developmental interventions on the demographic front. The indicators of malnourished children in the age group of 0–3 years and of underweight children below 5 years reveal the physical health of the children. The indicator pertaining to anemia in women captures the health status for persons in the reproductive age group.

The sixth and seventh indicators reflect the pre-natal and post-natal facilities to expectant women, young mothers, and children. The eighth indicator captures malnutrition among people as also absence of preventive facilities against tuberculosis. The last two indicators have been included to articulate the prevalence of modern values relating to family planning among men and women.

Map

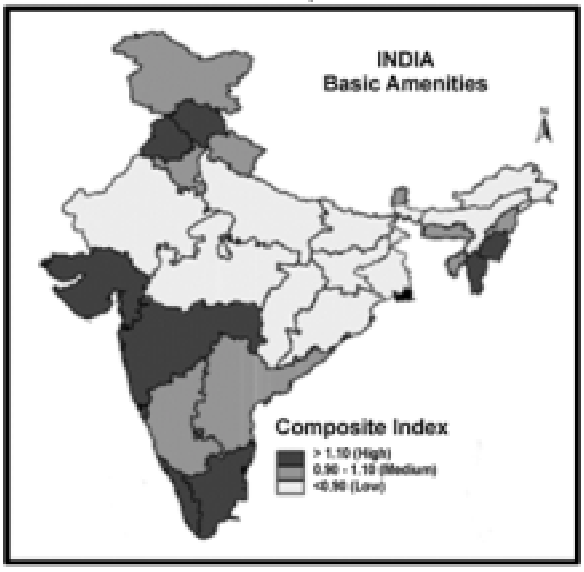


TABLE: Indicators pertaining to the Dimension of Social Development	
S.No.	**Indicator**
1	Infant Mortality Rate Current
2	Total Fertility Rate Current
3	Malnutrition of Children (0–3 Years) Current
4	Percentage of children under age 5 years with weight for age -3SD
5	Anemia among Women (15–49 Years) Current
6	Percentage of women who had no antenatal care by doctor
7	Percentage of children (Below 6 years) who has not received any ICDS service
8	Number of persons per 100,000 suffering from Tuberculosis
9	Percentage of Women (15–49) wanting children
10	Percentage of Men (15–49) wanting children

Map

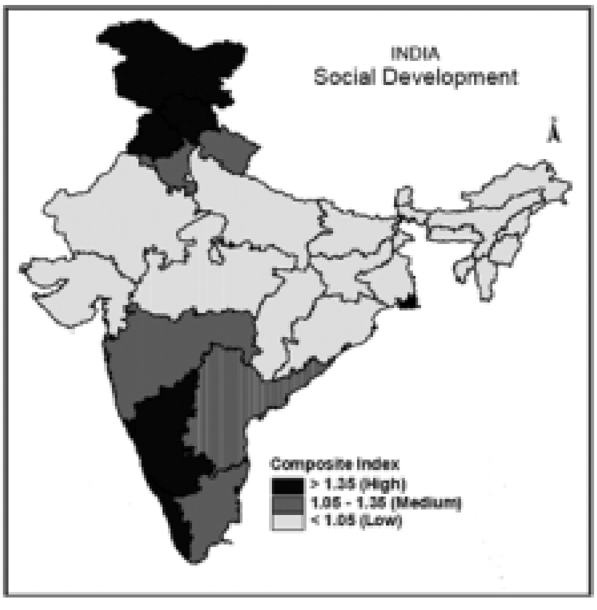


TABLE : The Composite Indices Articulating Three Different Dimensions of Development and their Correlations

States	Economic	Amenities	Social
Andhra Pradesh	1.12	0.98	1.10
Arunachal Pradesh	0.76	0.81	0.67
Assam	0.75	0.85	0.81
Bihar	0.72	0.58	0.66
Chhattisgarh	0.89	0.68	1.04
Goa	1.90	1.51	1.52
Gujarat	1.49	1.18	0.94
Haryana	1.20	1.05	1.05
Himachal Pradesh	1.10	1.13	1.50
Jammu & Kashmir	0.78	1.03	1.47
Jharkhand	0.82	0.58	0.75
Karnataka	1.41	1.06	1.44
Kerala	1.13	1.51	1.58
Madhya Pradesh	0.69	0.74	0.91
Maharashtra	1.76	1.25	1.31
Manipur	0.74	1.14	0.89
Meghalaya	0.77	0.96	0.78
Mizoram	0.79	1.52	1.00
Nagaland	0.83	0.95	0.95
Orissa	0.73	0.67	1.00
Punjab	1.45	1.22	1.38
Rajasthan	0.84	0.83	0.91
Sikkim	0.77	1.05	1.04
Tamil Nadu	1.17	1.15	1.17
Tripura	0.74	0.92	0.92
Uttar Pradesh	0.78	0.73	0.83
Uttarakhand	0.92	1.06	1.10
West Bengal	0.94	0.88	0.95

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