



## Mains Practice Question

**Q.** "Financial inclusion is necessary but not sufficient for inclusive growth." In light of this statement, evaluate India's progress in achieving comprehensive inclusive growth. **(250 words)**

08 Jan, 2025 GS Paper 3 Economy

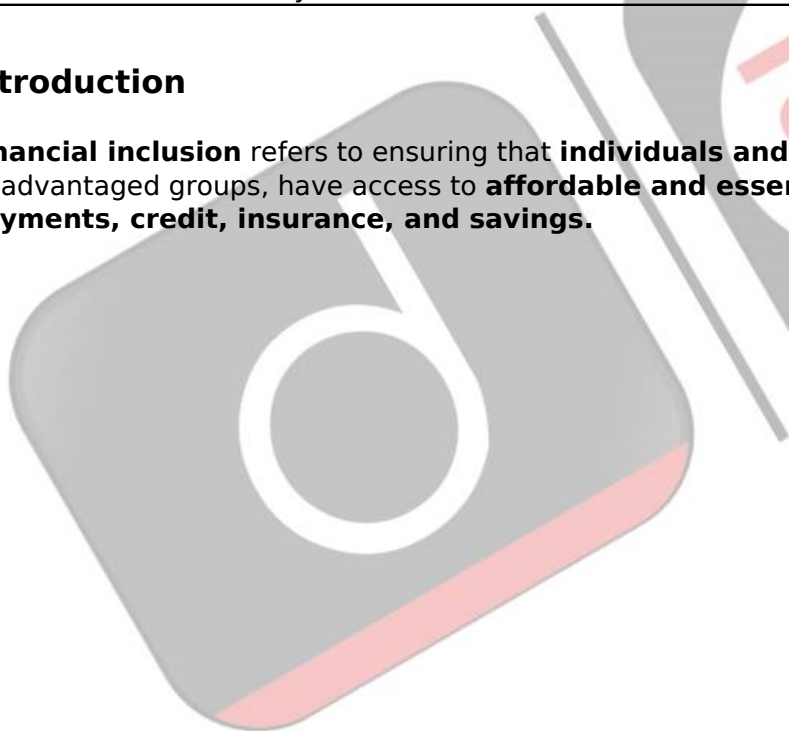
### Approach

- Introduce the answer by defining Financial inclusion
- Delve into the Significance of Financial Inclusion in Inclusive Growth
- Highlight the Limitations of Financial Inclusion for Inclusive Growth
- Delve into overall Challenges in Achieving Comprehensive Inclusive Growth
- Suggest Measures to Promote Inclusive Growth
- Conclude suitably.

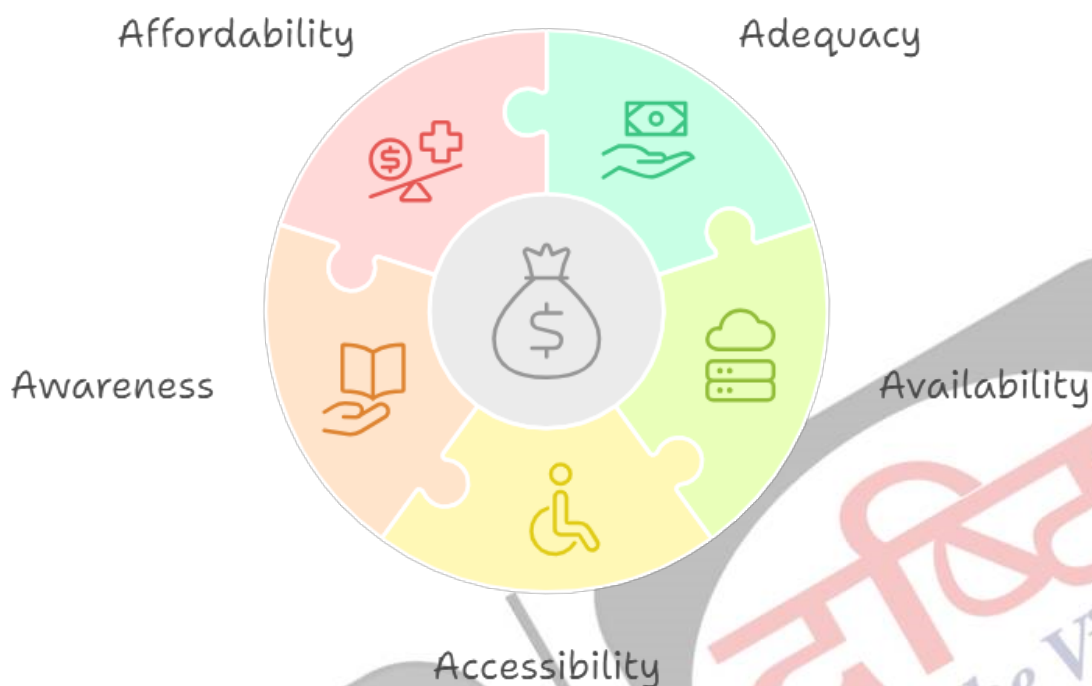
### Introduction

**Financial inclusion** refers to ensuring that **individuals and businesses**, especially those from disadvantaged groups, have access to **affordable and essential financial services** such as **banking, payments, credit, insurance, and savings**.

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# The 5 A's of Financial Inclusion



## Body

### Significance of Financial Inclusion in Inclusive Growth:

- **Economic Empowerment:** Financial inclusion boosts economic participation by enabling access to savings, credit, and insurance. It strengthens entrepreneurship, especially in rural areas.
  - Over **50 crore PMJDY accounts** opened as of August 2023)
  - **63.6%** of the total Mudra beneficiaries in the financial year 2023-24 were **women entrepreneurs (gender-focused financial inclusion)**.
- **Poverty Alleviation and Social Justice:** By ensuring access to **welfare benefits and financial credit**, financial inclusion reduces income inequalities and uplifts marginalized communities.
  - **Direct Benefit Transfer** of Rs 34 lakh crore from the government using PM-Jan Dhan accounts has led to savings of Rs 2.7 lakh crore.
    - The **IMF has hailed it as 'a logistical marvel'**.
- **Digital Financial Ecosystem:** Financial inclusion has accelerated due to a robust digital infrastructure, promoting convenience and transparency in transactions.
  - India tops **world ranking in digital payments**, records 89.5 million transactions in 2022.

### Limitations of Financial Inclusion for Inclusive Growth

- **Low Financial Literacy:** Financial inclusion is ineffective without **sufficient awareness of its benefits, as many accounts remain dormant**. (Approximately **20% of PMJDY accounts** were dormant as of 2022).
- **Regional Disparities:** While urban areas benefit, rural and tribal regions lag due to poor infrastructure and connectivity.

- For instance, **physical access to banking was the weakest in the North-East**, with only **19 branches per 1000 square kilometers in 2020-21**.
- **Limited Multidimensional Impact:** Financial inclusion addresses monetary aspects but **does not solve structural challenges** in education, healthcare, and skill development.
  - **Out-of-Pocket Expenditure (OOPE)** as a percentage of Total Health Expenditure remains **39.4%**, despite schemes like **Ayushman Bharat**.

### Challenges in Achieving Comprehensive Inclusive Growth

- **Persistent Poverty and Inequality:** The richest **1% of the Indian population owns 53%** of the country's wealth, while the poorer half jostles for a mere 4.1%
- **Large Informal Workforce:** 90% of workers are informal, lacking social security (ILO).
- **Regional Disparities:** Economic imbalances between states. (**Per capita GSDP in Bihar is ~1/5<sup>th</sup> of Maharashtra**).
- **Infrastructure Gaps:** Insufficient rural roads, education, and healthcare facilities. (**A quarter of Indians** still do not have access to electricity)

### Measures to Promote Inclusive Growth:

- **Expanding Social Security:** Universalization of schemes like **Pradhan Mantri Shram Yogi Maandhan, Ayushman Bharat**.
- **Targeted Subsidies and DBT:** Better targeting of subsidies (**food, fuel, fertilizers**) like **JAM trinity** for direct transfers.
- **Bridging Regional and Sectoral Gaps:** Invest in backward regions through infrastructure and social programs.
  - World Bank - **10% increase in fixed broadband penetration would increase GDP growth by 1.38%** in developing economies
- **Education and Health:** Strengthen initiatives like **Samagra Shiksha and Ayushman Bharat**.

### Conclusion

While financial inclusion has laid the **foundation for inclusive growth by improving financial access and empowering the underserved**, it remains insufficient by itself. Comprehensive growth requires simultaneous progress in **education, healthcare, employment, and social equity**.