Financial Inclusion and Economic Growth: A Critical Appraisal for Evidence-based policy (EBP)

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Abstract

Evidence-based policy which is popularly known as EBP is a term in public policy that refers to policy decisions based on rigorously and comprehensively collected evidences. In this connection critical appraisal of extant literatures is a very common and proven method of achieving this objective. Critical appraisal stands for a systematic process to identify strengths and weaknesses of available literatures based on their usefulness and findings. This method has been adopted in the present study to draw policy implications of nexus between financial inclusion and economic growth. As per the findings of the study, there exist empirical evidences on a positive correlation between financial inclusion and economic growth. Based on these findings further researches are suggested to be carried out especially in controlled environment.

Keywords: Financial Inclusion, Economic Growth, Critical Appraisal, Evidence-based-policy (EBP), Literature Review

1. Introduction

Formulation of public policies are unquestionably complex processes are rarely goes through linear or logical roots. Hence, simple presentation of information or data in front of public policy makers and expecting them to design potentially effective public policies is obviously not likely to work. One of the major reason of it is that public policy processes are mostly not at all linear and they pass through various stages which takes varying lengths of time to be completed. Additionally, public policy papers are characterised by secrecy and political expediency. That is why research based evidence has so far proven itself a great contributor to assess policies which have dramatic impact on lives of masses. And formulation of public policies based on research based evidences is in the core of Evidence-based policy which is popularly known as EBP. It is a term in public policy that refers to policy decisions based on rigorously and comprehensively collected evidences. EBP got popularised by the Blair Government (1997-2007) in the United Kingdom (UK) with the objective to end the ongoing ideology led policy making in the UK during those times. EBP is intended to produce policies which can deal with real problems related to public accessibility, human rights, social justice etc. These policies are generally forward looking because they are based on evidences rather than getting designed for tackling short-term pressures. There are however different methodologies followed for drawing evidence-based policy implications. One of these methods is based on tests of theory on policy impacts through critical appraisal of extant literatures. Critical appraisal of extant literatures is a very common and proven method of achieving the objectives of EBP. Critical appraisal stands for a systematic process to identify strengths and weaknesses of available literatures based on their usefulness and findings. This method has been adopted in the present study to draw policy implications of nexus between financial inclusion and economic growth.

2. Financial Inclusion and Economic Growth

The term "financial inclusion" has gained importance since the early 2000s because of United Nations popularising it as an agenda, a result of identifying financial exclusion and it is a direct correlation to poverty. In the Indian context, the term ‘financial inclusion’ was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then governor, Reserve Bank of India. In the Khan Committee Report, 2005; the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. Khan Committee recommendations were incorporated into the mid-term review of the policy (2005–06). Then onwards till the time of launching the optimistic Jan Dhan Yojana by our present honourable prime minister of India Narendra Modi, banks have played pivotal role in policy implementation regarding financial inclusion in India. In a country like India banking sector also has played pivotal role for achieving inclusive growth. 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 in a fair and transparent manner by mainstream Institutional players (www.rbi.org). Financial inclusion protects low income group’s financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. Banking sector in a country has been the catalyst of financial inclusion and the present study has been conducted with the broad objective to portrait the role of banking for inclusive growth at district level local economy. Now, since the policies to promote financial inclusion in any country are getting formulated on the assumption that it will boost economic growth whether actually financial inclusion leads economic growth or not has become debatable while practicing EBP.

3. Problem Statement

Financial inclusion is a concept that engulfs features of public accessibility, human rights and also social justice. Hence in order to practice EBP with reference to financial inclusion, tests of theory on policy impacts through critical appraisal of extant literatures can have significant policy implications.

4. Research Question

Does financial inclusion lead economic growth? If yes, are there enough research based evidences to make it a basic assumption for formulating EBP with reference to financial inclusion?

5. Research Objective

The broad objective of the present study is to make critical appraisal of existing literatures in the field of financial inclusion and its positive impacts on economic growth.

6. Research Methodology

The present study entitled: "Financial Inclusion and Economic Growth: A Critical Appraisal for Evidence-based policy (EBP)" is a combination of descriptive as well as empirical research. It is a descriptive research since it is going to identify the existing literatures in the field of financial inclusion and its positive impacts on economic growth, review them and describe their key findings. It is an empirical research because the key findings are based on evidences the authors of extant literatures considered in this study have collected and represented in their writings. The tool used for analysis in the present study is 'content analyses. Through the content analysis, an attempt to make systematic observations through readings of texts or facts has been done in the present study. After labelling a large set of texts, the proportions of patterns got discovered that helped develop new insights about the subject matter. A total of 57 best scholarly papers available in the area that gives current knowledge as well as substantive findings on the topic have been included for review in the present study. This review has helped understand the theoretical and methodological contributions made by past researchers on financial inclusion and economic growth. All the articles taken for review are from peer reviewed referred journals archived in any of the websites like www.proquest.com, www.ebsco.com, www.jstor.org or www.epw.in. The reviews have been ordered chronologically under the respective topics and an attempt to make distinction between studies done abroad and in India has also been made while making the arrangements. The articles for review in this section have been selected on the basis of their implications to the present study.

7. Key Findings

The present section with the caption 'key findings' has been written to narrate the idea of financial inclusion and its influence on economic growth as represented in the extant literature. This review is to help understand the theoretical and methodological contributions made by past researchers on financial inclusion and economic growth. The reviews have been presented here in this chapter chronologically under the respective topics and an attempt to make distinction between studies done abroad and in India has also been made while making the arrangements. Finally, after this section the final outcome of these reviews with their implications has been given under concluding remarks. The review of extant literature done in the present section is also going to contribute forming more research questions, setting the research objectives and clarifying the methodological issues involved in conducting research in the context of financial inclusion and its impact on economic growth.

7.1 A Critical Appraisal of Financial Inclusion and Economic Growth

The present section with the caption 'key findings' has been written to narrate the

Table 2.1: A Critical Appraisal of Financial Inclusion and Economic Growth

Author(s)	Findings of the Study
	Studies Done Abroad
Akileng, Lawino & Nzibonera, 2018	The key findings of this research indicate that financial innovation and financial literacy are better determinants of financial inclusion than other variables considered like age, income level, education and gender. Hence, financially literate households have significantly higher chances to lead a financially inclusive life.
Okoye, 2017	This study concluded that though financial inclusion has not contributed significantly to economic growth, it has definitely supported poverty reduction.
Riwayati, 2017	It has been found in this study that the company's internal factors and external factors have direct impact on the degree of financial inclusion. Additionally, financial inclusion of an organization in the SME sector has positive influence on its success.
Adeola & Evans, 2017	It has been discovered in this study that financial development though not significantly still has positively influenced economic diversification over the period. But financial inclusion has positive as well as significant effect on economic diversification. Here, financial inclusion has been represented in terms of financial access and usage. As per the findings it is concluded that financial inclusion can be seen as a major accelerator of economic diversification.
Jolevska & Andovski, 2017	There is necessity for a policy intervention by way of financial education to people for achieving financial inclusion as per the study.
Omojolaibi, 2017	It has been revealed from the results that: infrastructural investments is dependent on financial inclusion and Governance indices, per capita GDP is positively correlated with Governance indices and commercial bank deposits, financial inclusion has the potential to reduce income inequality and poverty in the economy.
Boldbaatar & Lee, 2015	It has been found here that there are empirical evidences showing the high importance of financial accessibility for economic growth especially in low income countries and middle income countries.

	However, it is also true that high financial accessibility in general leads to high income generation as per the findings of the study.
Babajide, Adegboye & Omankhanlen, 2015	It has been found in this study that multifold growth potential can be achieved keeping socioeconomic and political factors constant provided that cent percent financial inclusiveness will be achieved.
Odhiambo, 2009	It has been found in this study that there are empirical evidences of interest rate reforms influencing financial deepening and economic growth. And there is a finance-led economic growth that predominates the country.
Studies Done in India	
Sinha & Azad, 2018	It has been concluded here that the project of 'Jan-Dhan Yojana' did not achieve much because financial inclusion does not only stand for opening bank accounts but also it should give access to credit to the account holders from formal sources. The researchers also found out from this study that this campaign did not affect positively the credit-deposit ratio in the banking system, neither the share of small loans stopped declining. Even after this initiative, very few people have benefitted from getting a overdraft facility from bank in the newly opened accounts and banking in rural areas is still an issue today.
Lenka & Sharma, 2017	It has been found in the study that there is positive correlation between financial inclusion and economic growth in the short run as well as in the long run. Additionally, the study identified that the financial reforms undertaken in Indian economy during the post liberalization period has positively influenced economic growth in the short run as well as in the long run.
Raghavan, 2017	This case frames use of personal data in banking system assuring informational privacy. It also gives guidance on bringing regulation to protect citizen's expectations on informational privacy in banking system. The banking service providers must gain the trust of consumers in this respect.
Saxena & Anand, 2017	The influence of technology driven financial inclusion on customers have been evaluated under this study based on awareness, frequency and comfort of usage etc. The technology based initiatives like tele-banking, SMS banking, online banking ATM is getting used by less than 70% of population as per the results of the study. And the frequency of usage of these services ranges between 'rarely to sometimes'. But, it is also

	noteworthy that the users found to be more comfortable with these services.
Ranade, 2017	Since the Jan Dhan accounts, Aadhaar numbers and mobile numbers have started getting linked with each other in a mass scale, fintech will now be able to reach even to the last mile of the country. Though there are many benefits of these initiatives but still there should be some caution followed especially when it comes to the privacy and ownership of personal data lying with service providers. The regulators of financial sector need to take proactive actions by making suitable rules in this connection in today's rapidly evolving technological environment.
Ghosh, 2017	Initially it has been proved in this study through simple univariate tests and then even while conducting multivariate regression on several district and household level data it has been confirmed. Though the magnitude of impact has been different in different districts as per the empirical evidences are concerned, but it has been proved that the public work programmes like MGNREGS can positively influence financial inclusion.
Khaki & Sangmi, 2017	The results of the study revealed that the participants or beneficiaries of this scheme could actually improve their standard of living and reduce multidimensional poverty. Another major finding of this study is that the scheme is not able to reduce deprivation specifically to 'education'. Additionally, it has been found that the scheme is targeting non-poor sections more instead of absolutely poor category of population.
Yadav & Sharma, 2016	The results of the study reveal that value of financial inclusion has increased by 0.045 points over the period of study from 2011 to 2014 for India. The factors those are significant in influencing the scores of states and union territories are: agriculture to state gross domestic product, population density, literacy ratio, infrastructure development and farmer suicides.
Mokhopadhyay, 2016	The study tried to explore the determinants of borrowing from financial sector which is formal. It has been found under it that gender and qualification of the applicant for borrowing plays vital role in getting an approval for credit. Male applicants having higher educational qualifications have significantly higher chances of formal borrowing approvals than their counterparts.
Ghosh & Vinod, 2016	Specifically those households which are headed by

	female members of the family have around 10% less likelihood to have access to formal finance than those households which are headed by male members of the family. And similar scenario persists even in case of usage of finance. Hence, the authors of this paper suggests policy interventions in this context to ensure greater financial inclusion for women in our society.
Lenka & Bairwa, 2016	A major finding of this study is that as per the findings improvement in the level of financial inclusion reduces the level of inflation and brings price stability in any economy. Additionally, the results also reveal that interest rate and exchange rates of any country is negatively correlated with inflation levels.
Sathish & Patil, 2015	After the analysis, it has been found that in the rural areas of the state the main barrier to financial inclusion is the distance that the customers are required to travel in order to reach the bank. Hence, the non bank financial institutions are fulfilling the banking needs of people in rural areas of Goa. The authors suggest that even if the microfinance model is working well in grass root levels, still the banking industry has to come forward to solve the problem of rural poor.
Nair, 2015	The results of the study reveals that the commercial banks in India have actually achieved economic efficiency in terms of productivity, profitability and other areas prescribed by financial management. But, these achievements vis-à-vis their economic efficiency does not commensurate with their performance regarding financial inclusiveness of the community for which they are standing in the market.
Sharma, 2015	The results of the analysis revealed that there are empirical evidences of close positive association between dimensions of financial inclusion and indicators of economic growth. In specific, it has been found from the study that the dimensions of financial inclusion like availability of banking services, banking penetration and usage of banking services in terms of deposits have positive association with economic growth. There is bidirectional causality found between economic developments and geographic outreach while there is unidirectional causality between gross domestic product and number of deposits/loan accounts as revealed from the Granger causality tests.
Mishra, 2014	According to this study a few of the notable initiatives are: bank branches in unbanked areas,

	opening of no frills accounts, simplification of Know Your Customers (KYC) norms, issuing of debit as well as credit cards, introduction of core banking and electronic fund transfer, initiation of financial literacy programmes and also business correspondent model. There are a few barriers to financial inclusion identified in this study which are: poverty, illiteracy, and lack of regular income, lack of reach, higher time and cost of transaction.
Singh & Rastogi, 2014	According to the authors the three focus areas of financially inclusive growth are: infrastructure, advanced technology and network for users on which the Government should mandatorily emphasize. Fourthly, the civil society organizations, SHGs, MFIs etc. can become facilitators and also business correspondents of inclusive growth in the formal financial sector. Lastly, in order to rectify the regional imbalances special efforts should be made.
Majumdar & Gupta, 2013	As per the findings of the study, the scheme of financial inclusion has been largely a failure especially for bringing financial inclusion in the most excluded categories of population like scheduled castes (SC), scheduled tribes (ST), other backward castes (OBC) and those who are least educated. The survey also revealed that the proportion of population to which this scheme is targeted is not getting benefitted by it, rather the higher sections of the society are reaping its benefits.
Source: Researchers' Distillation	

8. Concluding Remarks, Limitations of the Study & Scope for Further Research

Most of the studies discussed in review of literature done in the present study have used secondary data at country level or state level but not district level. However, there are a few primary research studies found which concentrate at district level analysis but still they are either focused on perceptual mapping of people regarding financial inclusion or concentrated on services of SHGs. There are no study found done at district level and considering the roles of banks and SHGs simultaneously on economic growth. That is why probably while describing about the impact of financial inclusion on economic growth of people often the authors have been found to be couched in 'soft' statements like: 'it seems that', 'one is lead to believe that', 'it is likely that' etc. This shows that most of the past researches are not absolutely certain about their findings and further researches are hereby suggested to be attempted in future to fulfil this gap.

9. Acknowledgements

This article is mainly based on the unpublished doctoral thesis of the first author. The second author is the thesis supervisor. The third and fourth authors have greatly contributed by improving the standard of this article through their comments on an earlier version of the manuscript.

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