A STUDY ON FINANCIAL INCLUSION AND ECONOMIC GROWTH: WHAT ROLES DO INSTITUTIONS AND FINANCIAL REGULATION PLAY

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ABSTRACT

This study examines the relationship between financial inclusion, economic growth, and the roles of institutions and financial regulation. Financial inclusion, defined as access to and usage of financial services by all individuals and businesses, is increasingly recognized as crucial for fostering economic development. Institutions such as banks, microfinance organizations, and regulatory bodies play pivotal roles in promoting financial inclusion through policies and initiatives that enhance accessibility and affordability of financial services. Effective financial regulation ensures stability and consumer protection, thereby fostering trust and participation in financial markets. By analyzing empirical data and case studies, this study aims to provide insights into how improved financial inclusion, supported by robust institutional frameworks and regulatory environments, can contribute to sustainable economic growth. Understanding these dynamics is essential for policymakers and stakeholders seeking to enhance inclusive economic development strategies globally.

INTRODUCTION

Financial inclusion, also known as inclusive finance, aims to ensure that financial products and services are within reach and economically viable for individuals and businesses of all sizes, irrespective of their personal wealth or company scale. This endeavor seeks to dismantle barriers preventing people from engaging in the financial sector and leveraging these services to enhance their quality of life. Financial inclusion endeavors to extend access to essential financial services to a larger portion of the global population at an affordable rate. It encompasses various dimensions, including geographical areas, gender-specific consumers, specific age groups, and marginalized communities.

Financial inclusion entails ensuring that adults possess access to and can proficiently utilize a variety of suitable financial services. These services should be delivered responsibly and securely to the consumer, while being sustainable for the provider within a well-regulated framework. Fundamentally, financial inclusion begins with individuals having a deposit or transaction account at a bank, financial institution, or via a mobile money service provider, enabling them to conduct transactions, receive payments, and manage their finances effectively

In our economy, both individuals and organizations regularly require financial resources to meet their needs. Financial institutions serve as the primary destination for these entities when seeking to engage in transactions, investments, savings, currency exchange, or financial management. They hold importance as they supply the market with funds and assets, facilitating their efficient allocation as capital whenever necessary.

REVIEW OF LITERATURE

Isaac Ofoeda, Lordina Amoah, Ebenezer Bugri Anarfo, Joshua Yindenaba Abor (2022)

The existing body of literature highlights the direct impact of financial inclusion on economic growth. Previous studies have explored this relationship by investigating the connection between financial inclusion and economic growth. This analysis utilizes balanced panel data covering 52 African countries from 2002 to 2019. The results indicate several key findings:

1. Financial inclusion, financial regulation, and various indicators of institutional quality exhibit robust and significant impacts on economic growth.
2. Institutional quality amplifies the influence of financial inclusion on economic growth.
3. Financial regulation mitigates the impact of financial inclusion on economic growth.

HASANUL BANNA & MD RABIUL ALAM (2021)

This study investigates the relationship between digital financial inclusion (DFI) and bank risk-taking levels. The analysis utilizes a sample comprising 283 commercial banks (including both Islamic and conventional) from six countries, spanning the years 2011 to 2019. Panel-corrected standard errors, two-stage least squares with instrumental variables, and dynamic panel two-step generalized method of moments estimators are employed for the analysis. The results indicate that Islamic banks exhibit a higher propensity for risk-taking compared to conventional banks. Moreover, the empirical analysis suggests that an elevation in the DFI index score correlates with a decrease in overall bank risk-taking and an enhancement in banking stability, particularly for commercial and conventional banks relative to Islamic banks.

LEE-YING, HEN-TOONG TAI&GEK-SIANG TAN (2022)

The COVID-19 pandemic has catalyzed a transformation in digital financial services, highlighting the critical importance of digital financial inclusion to ensure universal access to these services and foster sustainable economic growth. Efforts to promote digital financial inclusion must align with and contribute to the achievement of the 2030 Sustainable Development Goals (SDGs).

This study reveals that developing nations, particularly in Asia, are actively embracing and enhancing digital financial inclusion as a means to alleviate poverty.

I MADE SUIDARMA (2019)

The concept of inclusive growth, particularly within the financial sector as delineated by the notion of financial inclusion, has garnered increasing attention for in-depth examination. Given the pivotal role of the financial sector in stimulating economic activity, particularly within the real sector, its significance cannot be overstated. This study aims to examine the impact and long-term dynamics of financial inclusion, represented by the number of Automatic Teller Machines (ATMs) and commercial bank branches, on the economic growth of ASEAN countries as measured by Gross Domestic Product (GDP). Utilizing secondary data in the form of an annual panel encompassing ASEAN nations from 2008 to 2015, the study seeks to assess the aftermath of the global financial crisis. Employing the Panel Vector Error Correction Model (VECM), the research investigates the long-term relationship and GDP response to shocks in financial inclusion variables..

J. RISK FINANCIAL MANAG (2023)

Numerous previous studies in development finance have sought to evaluate the correlation between financial inclusion and economic growth. We found it imperative to explore the link between financial inclusion and economic growth, as well as determine the causality direction between these variables in twenty-six (26) Sub-Saharan African (SSA) economies. Our research utilized annual secondary data spanning from 2000 to 2019. We employed principal component analysis (PCA) to construct a consolidated index representing financial inclusion. Additionally, we utilized panel unit root, system generalized method of moment (GMM), and ARDL counteraction tests to evaluate stationarity properties, identify factors influencing economic growth, and analyze the long-term relationships between financial inclusion and economic growth, respectively.

RESEARCH METHODOLOGY

RESEARCH GAP

While significant strides have been made in understanding the relationship between financial inclusion and economic growth, there remain notable research gaps that warrant attention. Firstly, there is a need for more empirical studies that explore the causal mechanisms underlying the relationship between financial inclusion and economic growth, particularly in diverse socio-economic contexts. Additionally, existing literature often focuses on the macroeconomic impact of financial inclusion, overlooking its micro-level effects on individual households and small businesses.

NEED OF THE STUDY

Financial inclusion is not only a matter of social justice but also a strategic imperative for sustainable economic growth and development.

PURPOSE OF THE STUDY

The purpose of financial inclusion is to ensure that all individuals and businesses have access to formal financial services, promoting economic growth by fostering entrepreneurship, investment, productivity, and income equality. It aims to empower marginalized populations, enhance financial stability, and drive sustainable development.

PROBLEM STATEMENT

The problem statement concerning financial inclusion and economic growth revolves around the persistent barriers preventing marginalized populations from accessing formal financial services.

OBJECTIVES OF THE STUDY

1. To Facilitate access to formal financial services for all individuals and businesses, especially marginalized populations, to promote participation in the formal economy and reduce income disparities.

2. To Stimulate economic growth by empowering individuals and businesses with tools such as savings, credit, and insurance, fostering entrepreneurship, investment, productivity, and innovation.

RESEARCH DESIGN

RESEARCH TYPE: Descriptive in nature.

DATA COLLECTION METHOD: Primary data: Primary data is gathered through surveys by questionnaire, interviews, and case study observations. **Secondary data:** secondary data is gathered from reports, books, articles, or internet databases.

SAMPLE SIZE: 45

SAMPLE UNIT: Medchal

TOOLS USED: Google forms, percentages, Bar graph.

QUESTIONNAIRE: Please consider participating in our questionnaire examining the link between financial inclusion and economic growth. Your insights are invaluable.

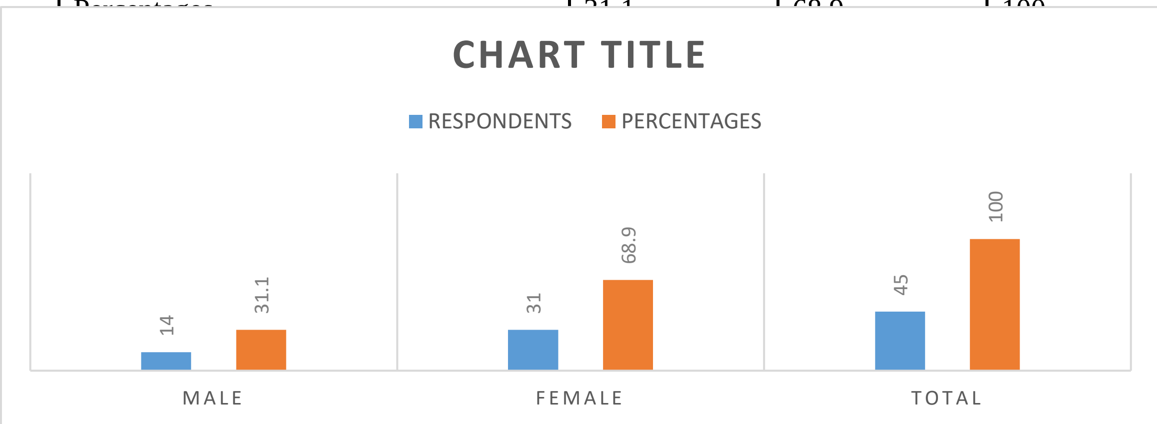
HYPOTHESIS

Ho: there is no significant relationship between financial inclusion and economic growth; what roles do institutions and financial regulation play.

H1: There is a significant relationship between financial inclusion and economic growth; what roles do institutions and financial regulation play.

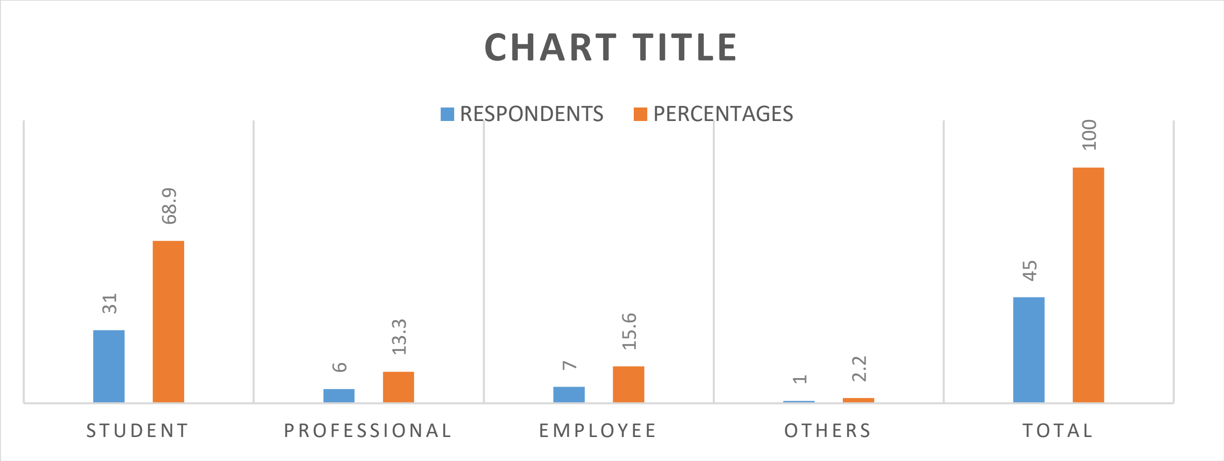
DATA ANALYSIS

Gender	Male	Female	Total
Respondents	14	31	45
Percentages	31.1	68.9	100



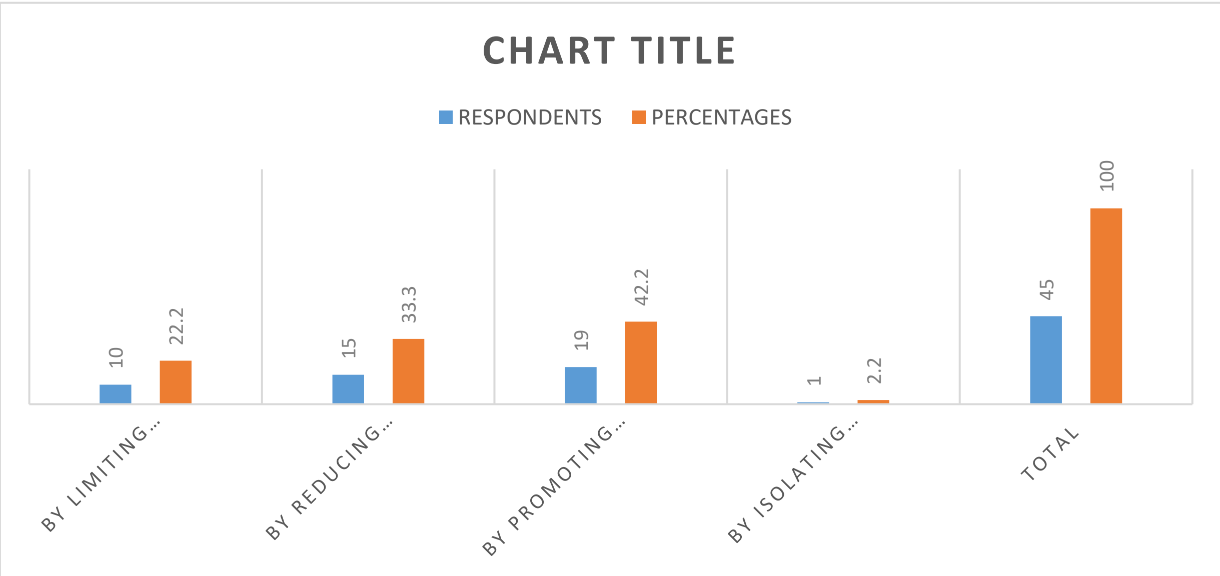
INTERPRETATION: Among the respondents 31.1% are males and 68.9%are females

Occupation	Student	Professional	Employee	others	Total
Respondents	31	6	7	1	45
Percentages	68.9	13.3	15.6	2.2	100



Interpretation: among the respondent 68.9% of students and 13.3% are professionals and employees 15.6%

How does financial inclusion contribute to economic growth	By limiting access to credit	By reducing savings and investment behavior	By promoting efficient allocation of resource	By isolating marginalized population	Total
Respondents	10	15	19	1	45
Percentages	22.2	33.3	42.2	2.2	100



INTERPRETATION: Among the respondents 42.2% of by promoting efficient allocation on of resources is financial inclusion contribute to economic growth and 2.2% of by isolating marginalized population

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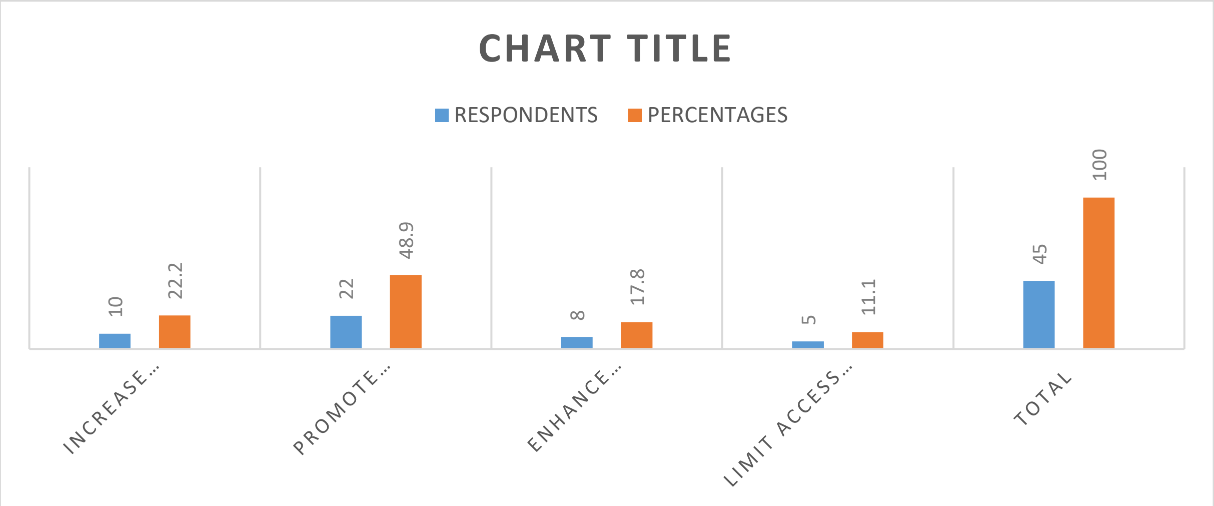
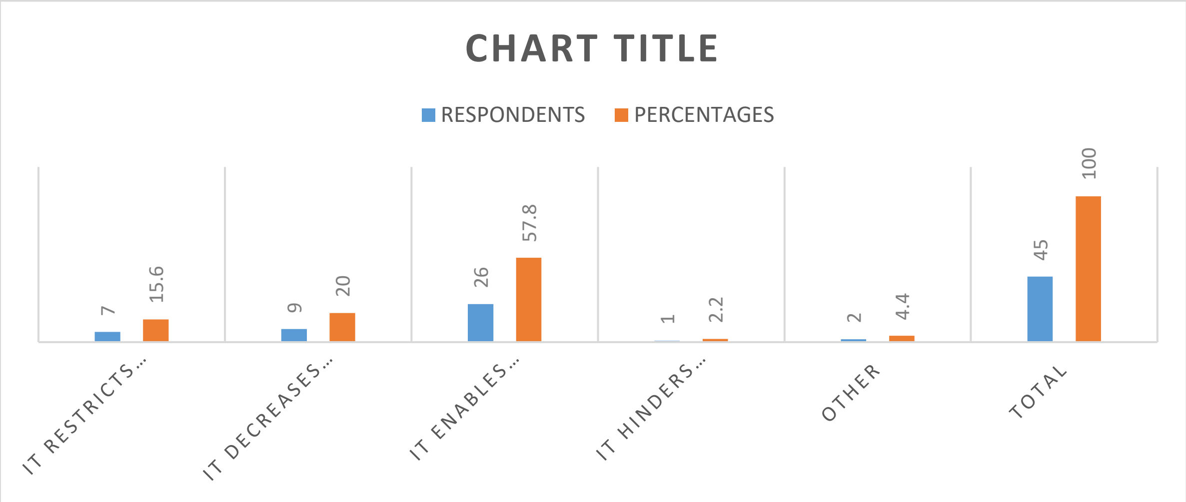
Volume: 08 Issue: 06 | June - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

What does financial inclusion primarily aim to achieve	Increase government revenue	Promote economic development and reduce poverty	Enhance social exclusion	Limit access to banking's services	Total
Respondents	10	22	8	5	45
Percentages	22.2	48.9	17.8	11.1	100



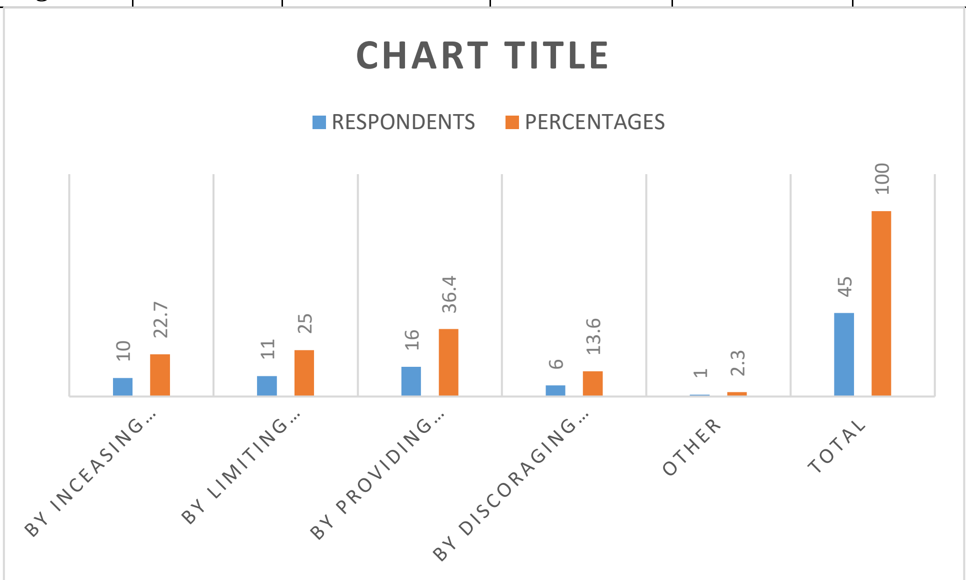
INTERPRETATION: Among The Respondents What Does Financial Inclusion Primarily Aim To Achieve At 48.9% Of Promote Economic Development And Reduce Poverty

What roe does financial inclusion play in boosting agriculture productivity	It restricts access to agriculture inputs	It decreases agriculture development	It enables smallholder farmers to invest in agricultural inputs and technology	It hinders market information access for farmers	Other	Total
Respondents	7	9	26	1	2	45
Percentages	15.6	20	57.8	2.2	4.4	100



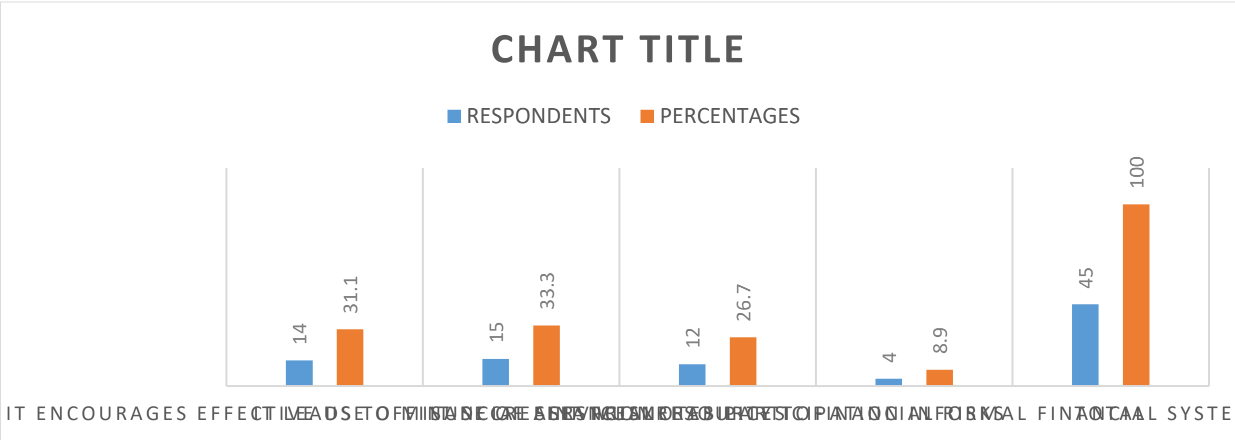
INTERPRETATION: Among the respondents it enables small holder's farmers to invest in agricultural inputs and technologies (57.8%) in financial play in boosting agriculture productivity.

How does financial inclusion contribute to reducing poverty	By increasing inequality	By limiting access to financial services	By providing marginalized populations with access to essential financial service	By discouraging investment in education and healthcare	Other	Total
Respondents	10	11	16	6	1	45
Percentages	22.7	25	36.4	13.6	2.3	100



INTERPRETATION: Among the respondent's financial inclusion contribute to reducing poverty have 36.4% by providing marginalized populations with access to essential financial service.

How does low financial literacy impact individuals use of financial services	It encourages effective use of financial services	It leads to misuse of financial resources	It decreases vulnerability to financial risks	It promotes participation informal financial systems	Total
Respondents	14	15	12	4	45
Percentages	31.1	33.3	26.7	8.9	100



INTERPRETATION: In financial literacy impact individual's use of financial services is leads to misuse of financial resources (33.3%) is more?

What are some challenges related to infrastructure and technology in delivery financial services	Excessive internet connectivity	Outdated banking systems	Over whelming access to banks	Advanced technological barriers	Total
Respondents	13	8	11	13	45
Percentages	28.9	17.8	24.4	28.9	100

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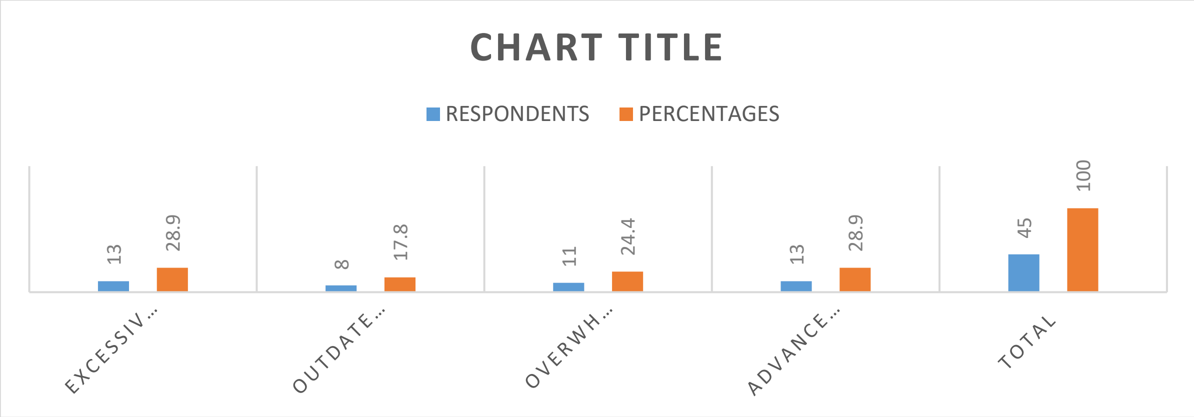
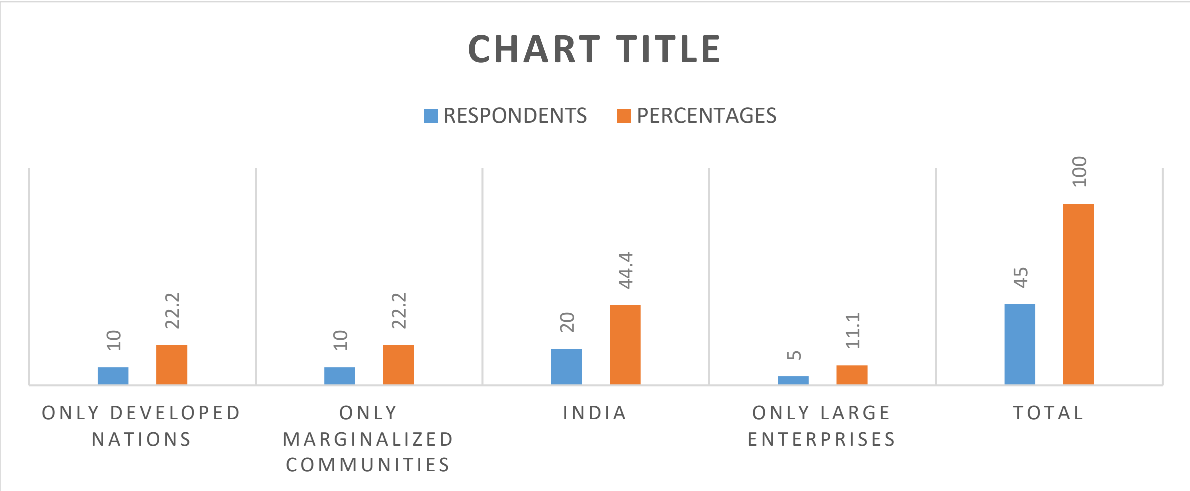


INTERPRETATION: Among the respondent's excessive internet connectivity (28.9%) is more in infrastructure and technology delivery financial services.

Who is earnestly striving to inclusive growth according to the providing information	Only developed nations	Only marginalized communities	India	Only large enterprises	Total
Respondents	10	10	20	5	45
Percentages	22.2	22.2	44.4	11.1	100



INTERPRETATION: Among the respondents India (44.4%) will provide the more information earnestly striving to inclusive growth

International Journal of Scientific Research in Engineering and Management (IJSREM)
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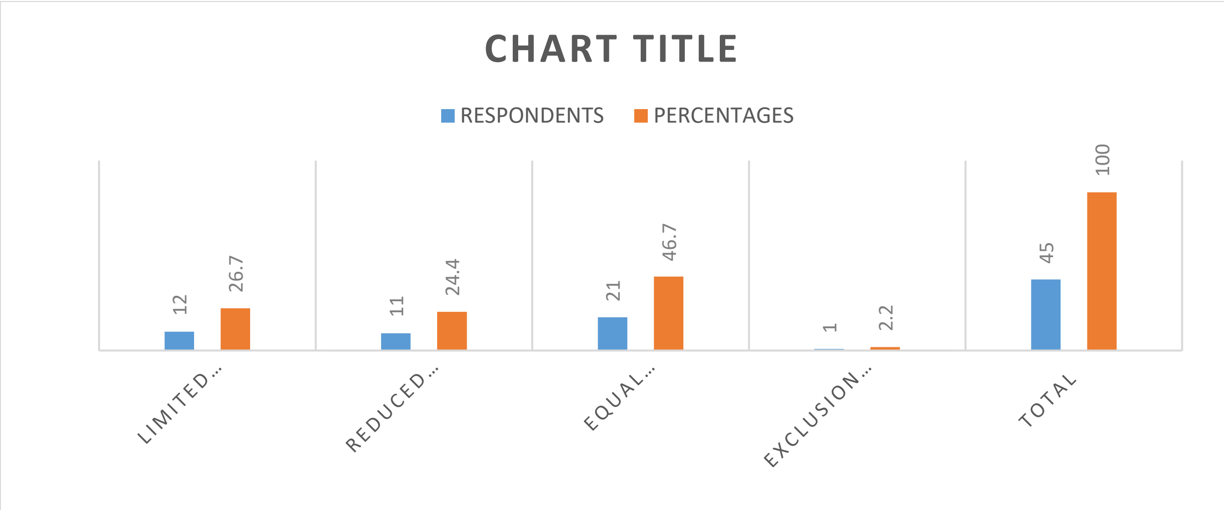
What opportunities does inclusive growth create for small business proprietors	Limited chances of competition	Reduced access to resource	Equal opportunities to compete with larger enterprises	Exclusion from employment prospects	Total
Respondents	12	11	21	1	45
Percentages	26.7	24.4	46.7	2.2	100



INTERPRETATION: The equal opportunities to complete with larger enterprises (46.7%) are more opportunity to growth create for small business proprietors.

What is imperative for every child to receive to contribute to economic growth	illiteracy	education	discrimination	unemployment	Total
Respondents	2	35	7	1	45
Percentages	4.4	77.8	15.6	2.2	100

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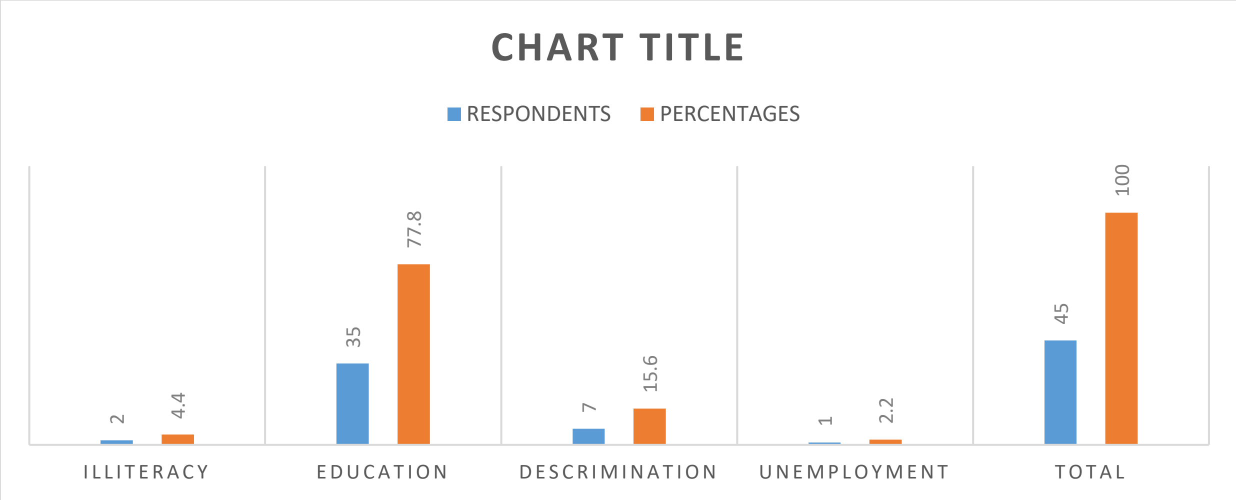
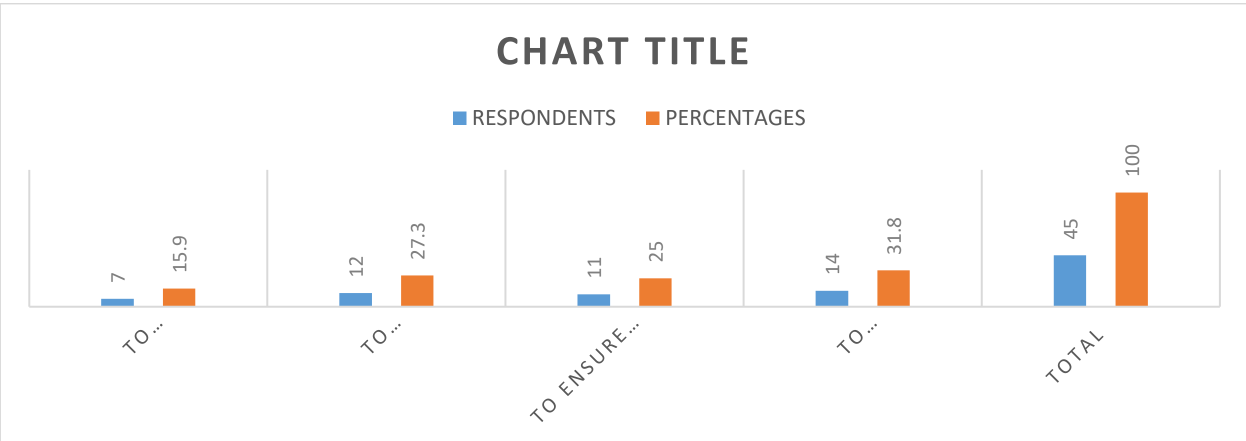


INTERPRETATION: Among the respondent's major education (77.8%) of the child to receive to contribute to economic growth

Why must governments align their economic policies with the principles of inclusive growth	To discriminate based on gender	To exclude certain communities from progress	To ensure that economically disadvantaged segments benefit	To prioritize economic growth over social inclusion	Total
Respondents	7	12	11	14	45
Percentages	15.9	27.3	25	31.8	100



INTERPRETATION: Among the respondents 27.3% to exclude certain communities from progress to increase governments align their economic policies with the principles of inclusive growth.

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STATISTICAL TOOLS FOR ANALYSIS

Ho: there is no significant relationship between financial inclusion and economic growth; what roles do institutions and financial regulation play.

H1: There is a significant relationship between financial inclusion and economic growth; what roles do institutions and financial regulation play.

Gender	By limiting access to credit	By reducing savings and investment behavior	By promoting efficient allocation of resource	By isolating marginalized population	Column total
Female	10 (8.27) [0.36]	11 (8.27) [0.90]	9 (13.09) [1.28]	1 (1.38) [0.10]	31
Male	2 (3.73) [0.80]	1 3.73) [2.00]	10(5.91) [2.83]	1(0.62) [0.23]	14
Row total	12	12	19	2	45

The chi-square statistic is 8.5119. The p-value is .036537. The result is significant at $p < .05$. Since p value is less than 0.5, H0 rejected and accepted H1. Significant relationship between financial inclusion and economic growth; what roles do institutions and financial regulation play.

Age	By limiting access to credit	By reducing savings and investment behavior	By promoting efficient allocation of resource	By isolating marginalized population	Column total
16-20	2 (2.67) [0.17]	2 (2.67) [0.17]	5 (3.52)[0.59]	1 (1.11) [0.01]	10
21-29	6 (6.13) [0.00]	7 (6.13) [0.12	9 (8.18) [0.08]	1 (2.56) [0.95]	23
30-35	2 (1.87) [0.01]	2 (1.87) [0.01]	1 (2.49) [0.89]	2 (0.78) [1.92]	7
Above 35	2 (1.33) [0.33]	1 (1.33) [0.08]	1 (1.78) [0.34]	1 (0.56) [0.36]	5
Row total	12	12	16	5	45

The chi-square statistic is 6.029. The p-value is .737013. The result is not significant at $p < .0$

FINDINGS

- Among the respondents 31.1% are males and 68.9%are females
- among the respondent 68.9% of students and 13.3% are professionals and employees 15.6%
- Among the respondents 42.2% of by promoting efficient allocation on of resources is financial inclusion contribute to economic growth and 2.2% of by isolating marginalized population.
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- Among The Respondents What Does Financial Inclusion Primarly Aim to Achieve At 48.9% Of Promote Economic Development and Reduce Poverty.
- Among the respondents it enables small holder's farmers to invest in agricultural inputs and technologies (57.8%) in financial play in boosting agriculture productivity.
- Among the respondent's financial inclusion contribute to reducing poverty have 36.4% by providing marginalized populations with access to essential financial service.
- Among the respondents India (44.4%) will provide the more information earnestly striving to inclusive growth.

SUGGESTIONS

Financial inclusion, the access to and usage of financial services by individuals and businesses, is increasingly recognized as a crucial driver of economic growth and development. Institutions and financial regulations play pivotal roles in fostering financial inclusion and thereby stimulating economic growth. Institutions such as banks, microfinance institutions, and credit unions serve as the primary channels through which financial services are delivered to the population.

Moreover, regulations that promote transparency and accountability enhance the efficiency of financial intermediation, channeling savings into productive investments that fuel economic growth.

CONCLUSION

In conclusion, the relationship between financial inclusion and economic growth is complex, with institutions and financial regulations playing pivotal roles in shaping outcomes. Financial inclusion, characterized by access to a range of financial services, has been recognized as a driver of economic growth, particularly in developing economies where large segments of the population remain unbanked or underbanked.

By fostering competition, innovation, and risk management, well-designed regulations can enhance access to financial services while mitigating systemic risks. However, it is essential to strike a balance between promoting inclusion and safeguarding financial stability, as excessive regulation or weak enforcement can hinder innovation and impede growth. Therefore, policymakers must adopt a holistic approach, incorporating inclusive policies and robust regulatory frameworks tailored to the specific needs and challenges of each economy, to unlock the full potential of financial inclusion as a catalyst for sustainable economic development.

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