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The Role of Financial Inclusion in Mobilizing Investment towards Inclusive Growth

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Abstract

India's economy is expanding quickly, but not everyone is benefiting equally. Financial inclusion lowers poverty and promotes development by facilitating access to banking, loans, and insurance for individuals and enterprises. Using secondary data from the RBI, PMJDY, MOSPI, SEBI, and the World Bank, this paper looks at financial inclusion trends and how they affect investment mobilization in India between 2014 and 2024. According to the data, the percentage of people with bank accounts rose from 53% to 81% throughout this time. Financial inclusion, which is primarily targeted at low-income areas and helps to lower poverty and raise per capita income, has a substantial positive correlation with both domestic investment and foreign direct investment (FDI) inflows, according to correlation tests.The expansion of UPI and digital banking has increased financial services' efficiency and accessibility. The report recommends increasing access to digital banking in rural regions, encouraging financial literacy, empowering low-income groups and women, and facilitating loans for MSMEs.

Key Words: *Financial Inclusion, Investment, FDI, Domestic Investment, Digital Banking.*

Introduction

Although India's economy is one of the biggest and fastest growing in the world, some sectors have disproportionately benefited from its uneven and disjointed expansion. Since financial inclusion increases job creation, lowers vulnerability, and encourages investment in human capital, it is becoming more widely acknowledged as being essential to economic progress and the reduction of poverty. In order to satisfy their financial demands and seize development opportunities, people and enterprises frequently rely on costly informal finance sources or scarce resources when they are unable to acquire official financing. Long-term socioeconomic advancement depends on expanding financial inclusion since it boosts total economic output, lowers poverty, and lessens income disparity. It is essential for empowering women, assisting them in escaping poverty, lowering their chances of falling back into it, fighting exploitation in the unorganised sector, and participating more completely in profitable economic endeavours (Neetu Yogi 2022). Offering reasonably priced financial services to people and companies, especially those underserved by the established financial system, is known as financial inclusion. Access to fundamental services including banking, loans, insurance,

and financial education are all included. Better financial management and formal economy involvement are made possible by this inclusion, which is essential for socioeconomic development, economic growth, and poverty reduction (Rupam Mishra 2022). By satisfying consumer demands for speed, convenience, and individualised services akin to those they encounter in daily transactions, digital platforms improve financial inclusion. Because digital banks can function without large physical branches, these platforms drastically cut operating expenses, allowing them to offer competitive rates and cheaper fees than traditional banks. Previously underserved clients now have more access to financial services thanks to this efficiency (Luke Lee 2024).

Review of Literature

Lee, L. (2024). Enhancing financial inclusion and regulatory challenges: A critical analysis of digital banks and alternative lenders through digital platforms, machine learning, and large language models integration The study investigates the ways in which digital banking, fintech, and AI/ML might improve stability and financial inclusion. It draws attention to the necessity of methods and data openness in order to increase access and lower costs for underserved populations. The results advocate for improved risk management data, data privacy rules, and assessments of AI responsibility while highlighting the significance of user experience and credit availability. In order to strike a balance between innovation and consumer protection, it is suggested that governance techniques be developed, regulatory sandboxes be expanded, and open evaluation frameworks be established.

Gaur, N., et, al (2024). Financial Inclusion for Inclusive Growth: An Empirical Study of India. International Journal for Multidisciplinary Research (IJFMR), 6(2), 1–2. Using RBI data and regression analysis, the study looks at the relationship between financial inclusion and India's GDP from 2013 to 2023. It shows that the number of ATMs, loan-deposit ratios, and GDP growth are all positively correlated; indicating that increased financial access encourages investment and consumption. However, the GDP is not much affected by the addition of additional towns or bank branches, suggesting that simply expanding infrastructure is insufficient. The report highlights methodological flaws such data frequency and multicollinearity and urges better research techniques and policy frameworks that integrate technology, financial literacy, and infrastructure for equitable growth.

Becha, H.,et, al (2025). Digital financial inclusion, environmental sustainability and regional economic growth in China: insights from a panel threshold model. The link between digital financial inclusion (DFII), economic growth, and environmental effects is the main emphasis of this study, which looks at economic and environmental measures across Chinese provinces from 2003 to 2022. Higher DFII is linked to decreased emissions of pollutants including SO2, NOX, and PM2.5, indicating environmental benefits from more green investments. It also demonstrates a positive association between DFII and regional GDP growth, modified by certain thresholds. The research does, however, recognise several shortcomings, including the possibility of policy overlap, the challenge of proving causality, and the requirement for more robust approaches, such as instrumental variable techniques, to hone policy findings.

Objectives Of the Study

To examine the trends and patterns of financial inclusion

To analyze the relationship between financial inclusion and investment mobilization

Research Methodology

The Reserve Bank of India (RBI), Pradhan Mantri Jan Dhan Yojana (PMJDY), Ministry of Statistics and Programme Implementation (MOSPI), SEBI, and the World Bank are the sources of secondary data

used in this study for the years 2014–2024. Indicators like bank account ownership, digital payments, credit availability, and the Financial Inclusion Index are used to quantify financial inclusion. The availability of MSME loans, FDI inflows, and domestic investment are used to gauge investment mobilization. To investigate the connection between financial inclusion and important economic metrics such per capita income, poverty rate, foreign direct investment inflows, and domestic investment, correlation test analysis is utilized. This approach sheds light on the role that financial inclusion plays in encouraging investment and inclusive growth in India as well as the direction and strength of relationships across variables.

Trends And Patterns Of Financial Inclusion in India

Financial inclusion in India has progressed significantly over the last decade, with the Financial Inclusion Index rising from 53.9 in 2021 to 67.0 in 2024. A key factor is the Pradhan Mantri Jan Dhan Yojana (PMJDY), which resulted in over 371 million new bank accounts by 2025, particularly among women. Bank account ownership increased from 53% in 2014 to 81% in 2024, highlighting broader financial participation. Additionally, the rise of digital financial services, including mobile banking and UPI transactions, has made access to financial services more convenient, promoting economic empowerment and financial security among both urban and rural populations. Overall, financial inclusion is growing both numerically and qualitatively in India.

Relationship Between Financial Inclusion and Investment Mobilization

By improving access to banking services, savings, and loans for both individuals and enterprises, financial inclusion has a favourable effect on investment mobilisation in India. Foreign investor trust in India's stability was demonstrated by the sharp growth in domestic investment from ₹12,068 crore in 2014 to ₹1,21,000 crore in 2024, with FDI inflows exceeding USD 81.04 billion in FY 2024–25. MSMEs gain from this inclusion as well since it makes it possible for them to get loans, make technological investments, and generate employment, all of which promote capital accumulation and liquidity in the financial system. In general, increased investment levels are correlated with better financial access, which promotes inclusive economic growth, lowers poverty, and boosts employment.

Table 1: Financial Inclusion, Investment, And Inclusive Growth In India (2014–2024)

Year	Bank Account Ownership (%)	Domestic Investment (crore)	FDI Inflows (Crore)	GDP Growth (%)	Poverty Rate (%)	Per Capita Income
2014	53	12,068	4,50,000	7.2	29.2	68,572
2015	57	15,430	4,80,000	7.5	27.8	72,450
2016	60	18,900	5,10,000	7.0	26.5	75,300
2017	63	22,450	5,50,000	6.8	25.4	78,500
2018	66	28,200	5,80,000	6.9	24.3	82,000
2019	69	32,500	6,10,000	6.5	23.0	86,150
2020	72	36,800	6,50,000	4.0	21.8	90,450

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2021	75	45,200	7,00,000	8.7	18.5	96,200
2022	78	58,900	7,50,000	7.0	15.0	101,500
2023	80	68,000	8,20,000	6.5	12.5	108,000
2024	81	1,21,000	9,68,000	6.5	11.3	114,710

Source: (RBI, PMJDY, PIB, MOSPI and World Bank Data)

Correlation Test

A mathematical technique for determining the strength of correlations between variables is correlation analysis. In order to demonstrate the direction and strength of the linear correlations between several variables, the pairwise Pearson correlation coefficients are compared. Positive values of the coefficients indicate positive correlations, whereas negative values indicate negative correlations. The coefficients range from -1 to +1. Strong correlations are shown by values near 1 or -1, whereas weak or nonexistent correlations are indicated by values near 0. Since every variable has a perfect correlation with every other variable, the diagonal elements are 1. This matrix offers insights for additional statistical or regression analysis and aids in identifying interdependencies among variables.

Table: 2 RESULTS OF CORRELATION TEST ANALYSIS

CORRELATION					
Bank Account Ownership (%)	Domestic Investment (crore)	FDI Inflows (Crore)	GDP Growth (%)	Poverty Rate (%)	Per Capita Income
Bank Account Ownership (%)	0.842500	0.942121	-0.178848	0.975793	-0.965140
Bank Account Ownership (%)	1.000000	0.972429	-0.116652	0.930432	-0.916838
Bank Account Ownership (%)	0.972429	1.000000	-0.145341	0.989125	-0.977749
Bank Account Ownership (%)	-0.116652	-0.145341	1.000000	-0.140922	0.089730
Bank Account Ownership (%)	0.930432	0.989125	-0.140922	1.000000	-0.993988
Bank Account Ownership (%)	-0.916838	-0.977749	0.089730	-0.993988	1.000000

The association between various economic indicators and financial inclusion is demonstrated by the correlation study. There is a high positive correlation between bank account ownership and domestic investment (r = 0.8425), indicating that domestic investment rises as more people hold bank accounts. Higher financial inclusion draws greater foreign investment, as evidenced by the very strong and

positive correlation (r = 0.9421) between bank account ownership and FDI inflows. There is little to no direct association between financial inclusion and GDP growth, as evidenced by the weak and negative correlation between bank account ownership and GDP growth (r = -0.1788). The substantial and positive correlation between bank account ownership and the poverty rate (r = 0.9579) may suggest that financial inclusion initiatives are mostly carried out in regions with high rates of poverty. Per capita income and bank account ownership have a very strong negative correlation (r = -0.9651), indicating that efforts to promote financial inclusion are more prevalent in low-income communities. FDI inflows and domestic investment have a very significant positive association (r = 0.9724), meaning they increase together. A little rise in GDP growth marginally lowers poverty, according to the weak and negative connection between GDP growth and the poverty rate (r = -0.1409). Lastly, there is an almost perfect negative correlation (r = -0.9939) between the poverty rate and per capita income, indicating that the poverty rate falls precipitously as per capita income rises. Overall, the evidence indicates that financial inclusion is weakly correlated with GDP growth but strongly correlated with income, investment, and poverty.

Findings Of the Study

Growth of Financial Inclusion: The percentage of people who own a bank account increased from 53% in 2014 to 81% in 2024. PMJDY and digital banking have made banking more accessible to more people, particularly women and those living in rural areas.

Investment Mobilization: Higher domestic investment and foreign direct investment inflows were a result of more people having bank accounts. Loans helped MSMEs expand and provide employment.

Poverty Reduction: The goal of financial inclusion is to raise per capita income and decrease poverty in low-income communities.

Digital Platforms: UPI and mobile banking make financial services more affordable, quicker, and available to everybody.

Suggestions

Increase the availability of mobile payment and digital banking services in rural regions.

Offer financial literacy initiatives to assist individuals in efficiently use banking services.

Prioritize integrating low-income communities and women into financial programs. Facilitate MSMEs' access to credit and loans to increase employment and investment.

Utilize technology (such as artificial intelligence and digital platforms) to save expenses and enhance banking services.

Conclusion

In India, financial inclusion has been shown to be a vital facilitator of inclusive growth and investment mobilization. Access to financial services has been greatly improved, especially for women and underprivileged groups, by the growth of bank accounts, digital banking services, and government-led initiatives like PMJDY. Financial inclusion significantly increases investment inflows, reduces poverty, and raises per capita income, although its direct effects on GDP growth are still minimal. Policymakers should prioritize digital infrastructure, financial literacy, focused interventions in underserved areas, and utilizing technology-driven banking solutions to maintain and accelerate inclusive growth. In the end, full financial inclusion promotes socioeconomic growth and long-term prosperity by making the economy more resilient and egalitarian.

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