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Title

ROLE OF BANKS IN FINANCIAL INCLUSION PROCESS IN INDIA

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ABSTRACT:

Access to affordable financial services – especially credit and insurance – enlarges livelihood opportunities and empowers the people to take charge of their lives. Such empowerment aids social inclusion of such poor people and provides political stability. Financial inclusion imparts formal identity, provides access to payment system and brings poor people into savings and safety net. Hence, financial inclusion is considered to be critical for achieving inclusive growth of Indian economy.

India has the second largest financially exclusive population in the world, only next to China. As per National Sample Survey Organization's (NSSO) Survey (59th round), in general category 51.4% of farmer households are financially excluded from both formal and informal sources. Of the total farmer households, only 27% have access to formal sources of credit, one third of this group also borrow from non-formal sources.

Region wise, exclusion is most acute in Central, Eastern and North Eastern regions – having a concentration of 64% of all financially excluded farmer households in the country. Moreover, only 59% of adult population in the country has bank account and 41% of the population is unbanked. In rural areas, the coverage is 39% against 69% in urban areas.

The extent of exclusion from credit is much more. Number of loan accounts constituted only 14% of adult population. In rural areas, the coverage is 9.5% against 14% in urban areas. These kinds of financial exclusion of low income people are the constraints for the development of any economy especially developing economy like India. This article makes an attempt to assess the role of banks in financial inclusion process in India with the help of available data.

INTRODUCTION:

India has a long history of banking development. After Independence, the major focus of the Government and the Reserve Bank was to develop a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. Accordingly, the Government's desire to use the banking system as an important agent of change was at the core of most policies that were formulated after Independence. The planning strategy recognized the critical role of the availability of credit and

financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met satisfactorily.

In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The organized financial system comprising commercial banks, regional rural banks (RRBs), urban co-operative banks (UCBs), primary agricultural credit societies (PACS) and post offices caters to the needs of financial services of the people.

The initiatives taken by the Reserve Bank and the Government of India towards promoting financial inclusion since the late 1960s have considerably improved the access to the formal financial institutions.

Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. This article makes an attempt to assess the role of banking sector in financial inclusion process in India. Role of banks in financial inclusion process in India is examined on the basis data available from the institutional sources.

STATEMENT OF THE PROBLEM:

The Indian economy is growing at a steady rate of 8.5% to 9% in the last five years or so. Most of the growth is from industry and services sector. However, growth in agriculture is quite dismal. Agriculture grows at a little over 2%. The potential for growth in the Primary and SME Sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors.

Access to affordable financial services – especially credit and insurance – enlarges livelihood opportunities and empowers the people to take charge of their lives. Such empowerment aids social inclusion of such poor people and provides political stability. Financial inclusion imparts formal identity, provides access to payment system and brings poor

people into savings and safety net. Hence, financial inclusion is considered to be critical for achieving inclusive growth of Indian economy.

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Region wise, exclusion is most acute in Central, Eastern and North Eastern regions – having a concentration of 64% of all financially excluded farmer households in the country. Moreover, only 59% of adult population in the country has bank account and 41% of the population is unbanked. In rural areas, the coverage is 39% against 69% in urban areas.

The extent of exclusion from credit is much more. Number of loan accounts constituted only 14% of adult population. In rural areas, the coverage is 9.5% against 14% in urban areas. These kinds of financial exclusion of low income people are the constraints for the development of any economy especially developing economy like India.

Therefore, it is essential to focus on development of inclusive financial sector and on role of existing credit delivery mechanism (Banking Sector) in effecting improvements in developing inclusive financial sector through innovative models for outreach.

OBJECTIVES OF THE STUDY:

The main objective of this study is to assess the role of banks in financial inclusion process in India. However, the study has the following secondary objectives.

1. To provide a conceptual framework for financial exclusion/ inclusion
2. To analyze in brief about extent of financial exclusion in India.

REVIEW OF LITERATURE:

The purpose of literature review is to review various studies conducted and published on Financial Inclusion Plan so far, to consolidate different views and opinions and to find out research gap.

In recent years, Indian banking sector is grappling with the issue of financial inclusion. But it is not altogether a new exercise. Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature and emphasis (Rao, 2007). A well developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development (United Nations, 2006). Access to financial services allows lower income groups to save money outside the house safely, prevents concentration of economic power with a few individuals and mitigates the risks that poor people face as a result of economic shocks (Beck, Demirguc-Kunt & Peria, 2006).

The breadth of financial inclusion in a region or a country is usually measured by the percentage of people in the region who have access to bank accounts (Beck & De la Torre, 2006). This is primarily because a bank account enables poor households to perform important financial functioning such as saving money safely outside the house, accessing credit, making loan or premium payments and transferring money within the country. Thus, although a bank account covers only one aspect of financial inclusion, it may determine access for many other financial services (Littlefield et al, 2006).

In India, till recently, the discussion on financial inclusion in policy and academic circles has tended to revolve around the extension of institutional credit, specifically to the rural sector (Basu, 2005; Dev, 2006 Mohan, 2006). The focus on rural banking arises from the fact that poverty in India is extremely well-entrenched in rural areas, with over 70% of India's poor residing in its villages (Basu, 2005). While the area and population served per rural bank branch in India compares favourably with other developing nations, an overwhelming majority of small and marginal farmers do not have access to savings or credit account (Basu, 2006). As such while India's system can be said to be financially deep in terms of access, it would appear that it scores poorly on translating this into usage. Rural households face several barriers when they attempt to borrow from banks (Basu, 2005). Firstly, banks demand collateral which poor people

are unable to provide. Secondly, bank transactions tend to be time-consuming and expensive. Bribes amounting to 20% of the loan amount are not unheard of. Furthermore, on average, bank loans take thirty three weeks to be approved. Consequently, the share of informal sources of credit (money-lenders, pawn brokers, friends and family) has jumped to 27% in 2002 from 17.5% in 1991 (Mohan, 2006).

The focus on credit has meant that policy and practice has thus far ignored the provision of a safe place for savings for rural households (Ghate, 2007), in spite of evidence that poor people do save. India has approximately 300 million savings accounts which would imply that about 59% of India's adult population has access to a savings account (Leeladhar, 2005).

CONCEPT OF FINANCIAL INCLUSION:

Defining financial inclusion is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to low level of access to the financial system. A review of literature suggests that there is no universally accepted definition of financial inclusion.

As measuring inclusion is perceived to be difficult, financial inclusion is generally defined in terms of exclusion from the financial system. Early discussion on financial exclusion was preceded by social exclusion and focused predominantly on the issue of geographical access to financial services, in particular banking outlets (Leyshon and Thrift, 1993). However, financial exclusion is not just about physical access caused by the changing topography of financial services. Therefore, the debate has now broadened to include all types of people who make little or no use of financial services and the processes of financial exclusion (Ford and Rowlingson, 1996; Kempson and Whyley, 1998).

The definitional emphasis of financial inclusion varies across countries and geographies, depending on the level of social, economic and financial development; the structure of stake holding in the financial sector; socio-economic characteristics of the financially excluded segments; and also the extent of the recognition of the problem by authorities or governments. Broadly, financial exclusion is construed as the inability to access necessary financial services in

an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities.

Definitions of financial exclusion in the literature vary depending on the dimensions such as 'breadth', 'focus' and 'degree' of exclusion. The 'breadth' dimension is the broadest of all definitions linking financial exclusion to social exclusion which defines financial exclusion as the processes that prevent poor and disadvantaged social groups from gaining access to the financial system (Leyshon and Thrift, 1995). The 'focus' dimension is in the middle of the spectrum that links financial exclusion to other dimensions of exclusion. It defines financial exclusion as the potential difficulties faced by some segments of population in accessing mainstream financial services such as bank accounts/home insurance (Meadows et al., 2004). The definitions laying emphasis on the 'focus' also vary significantly to include various segments of population such as individuals, households, communities, and businesses. The 'degree' dimension, which is the narrowest of all definitions of financial exclusion, defines financial exclusion as exclusion from particular sources of credit and other financial services including insurance, bill-payment services and accessible and appropriate deposit accounts (Rogaly, 1999). Finally, definitions of financial exclusion vary considerably according to the dimensions such as the concept of relativity, i.e., financial exclusion defined relative to some standard (i.e., inclusion). This line of thinking defines the problem of financial exclusion as that emanating from increased inclusion, leaving a minority of individuals and households behind (Kempson et al., 2000). Thus, there exists duality of hyper inclusion with some having access to a range of financial products and at the same time a minority lacking even the basic banking services. This phenomenon is observed mostly in developed countries with high degree of financial development. Over the years, several definitions of financial inclusion/exclusion have evolved. Important definitions among them are as follows;

Asian Development Bank (2000) defines financial inclusion as "Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises".

In Stephen P. Sinclair (2001) words, "financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of

problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions".

Chant Link and Associates, Australia (2004) describes financial exclusion as "lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes a concern in the community when it applies to lower income consumers and/or those in financial hardship".

Treasury Committee, House of Commons, UK (2004) views financial inclusion as "Ability of individuals to access appropriate financial products and services".

Scottish Government (2005) views financial inclusion as "access for individuals to appropriate financial products and services. This includes having the capacity, skills, knowledge and understanding to make the best use of those products and services. Financial exclusion by contrast, is the converse of this".

According to United Nations (2006 b), "financial inclusion is a financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired".

Report of the Committee on Financial Inclusion in India, 2008 (Chairman: C.Rangarajan) views financial inclusion as "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".

World Bank (2008) is of the view about financial inclusion that "broad access to financial services implies an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimensions".

The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services. The focus narrows down mainly to the products and services provided by the mainstream financial service providers[23] (Meadows et al., 2004). Such financial products may include money transmission, home insurance, short and long-term credit and savings (Bridgeman, 1999). Furthermore, the

operational definitions have also evolved from the underlying public policy concerns that many people, particularly those living on low income, cannot access mainstream financial products such as bank accounts and low cost loans, which, in turn, imposes real costs on them - often the most vulnerable people (H.M. Treasury, 2004).

The review of literature suggests that the most operational definitions are context-specific, originating from country-specific problems of financial exclusion and socio-economic conditions. Thus, the context specific dimensions of financial exclusion assume importance from the public policy perspective.

Furthermore, the definitions have witnessed a shift in emphasis from the earlier ones, which defined financial inclusion and exclusion largely in terms of physical access, to a wider definition covering access to and use and understanding of products and services.

Extent of Financial Exclusion in India – NSSO Survey 59th Round

General*:*

• 51.4% of farmer households are financially excluded from both formal / informal sources.

• Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrows from non-formal sources.

• Overall, 73% of farmer households have no access to formal sources of credit.

Region-wise

• Exclusion is most acute in Central, Eastern and North-Eastern regions – having concentration of 64% of all financially excluded farmer households in the country.

• Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions.

Occupational Groups:

• Marginal farmer households constitute 66% of total farm households. Only 45% of these households are indebted to either formal or non formal sources of finance.

• About 20% of indebted marginal farmer households have access to formal sources of credit.

• Among non-cultivator households nearly 80% do not access credit from any source.

Social Groups:

• Only 36% of ST farmer households are indebted (SCs and Other Backward Classes - OBC - 51%) mostly to informal sources.

Analysis of the data provided by RBI thru' its Basic Statistical Returns reveal that critical exclusion (in terms of credit) is manifest in 256 districts, spread across 17 States and 1 UT, with a credit gap of 95% and above. This is in respect of commercial banks and RRBs.

As per CMIE (March 2006), there are 11.56 crore land holdings. 5.91 crore KCCs have been issued as at the end of March 2006, which translated into a credit coverage of more than 51% of land holdings by formal sources. Further data with NABARD on the doubling of agricultural credit indicates that agricultural loan disbursements during 2006-07 covered 3.97 crore accounts.

Thus, there are different estimates of the extent of inclusion thru' formal sources, as the reference period of the data is not uniform. Consequently, this has had an impact on quantifying the extent of levels of exclusion.

ROLE OF BANKS IN FINANCIAL INCLUSION PROCESS IN INDIA:

The analysis in the following section makes an assessment of financial inclusion from various perspectives, including availability of institutional network, instruments and infrastructure for financial services. Several initiatives were taken in recent years to promote financial inclusion. In June 2004, the Central Government had announced the 'farm credit package' which, among others, stipulated doubling the flow of institutional credit to agriculture in the ensuing three years. The flow of credit to the farm sector, in fact, doubled after two years, ahead of the stipulated time period. The Union Budget 2008-09 has set a target of Rs.280, 000 crore for agricultural credit during 2008-09. The RRBs, which were set up to pay focused

attention to the rural sector, suffered from poor health. However, the recent restructuring has had a positive impact as a result of which there is an evidence of increased credit flow to agriculture/rural sector by RRBs (refer Table 2.21). The share of RRBs in total institutional credit flows to agriculture improved in recent years. There have also been several innovative micro-finance based experiments catering to highly localized needs. Incentives have been provided for penetration of banking into unbanked areas and encouraging intermediaries such as NGOs, MFIs and CSOs. The definition of the priority sector has been modified to encourage the flow of credit to employment intensive sectors. Another major initiative relates to 'no frills' accounts, which have made significant progress in a short period.

Population per Branch:

One of the indicators for measuring banking access is the population per branch. Following the nationalization of banks in 1969, branch network of SCBs expanded rapidly. As a result, the population per branch declined significantly between 1969 and 1991. The population per branch in the rural segment increased after 1991. The population per branch, however, continued to decline in the urban areas (Table 1)[1]. One of factors responsible for increase in population per branch in rural areas between 1991 and 2007 was the reclassification of 953 rural centers, classified as rural as per 1991 census, which moved to higher population centers on account of increase in population. Besides reclassification, there were also instances where certain centers, which were earlier classified as rural, were brought into the jurisdiction of the adjoining municipality / municipal corporations and, thus, classified as urban/metropolitan depending on the population of municipality / Municipal Corporation.

[1] The census population groups are 'rural' and 'urban', whereas the population groups used in BSR data are 'rural', 'semi-urban' are taken as 'rural', and 'urban' and 'metropolitan' are combined as 'urban'. Audit population in this section refers to the population in the age group of 15 years and above. Rural/Urban population for 2007 is estimated on the basis of rural/urban share in 2001 population. SCBs include RRBs unless stated otherwise/given separately.

Table 1: Population per Bank Branch

(Thousand)

End-March	Rural	Urban	Total
1	**2**	**3**	**4**
1969*	82	33	63
1981	20	17	19
1991	14	16	14
2001	16	15	16
2007	17	13	16

***:** As at end June

Source: Basic Statistical Returns of SCBs in India.

Credit Accounts:

The number of total credit accounts per 100 persons/adults, which is one of the indicators of the expansion of credit delivery services, after declining between 1991 and 2001, increased significantly thereafter. At the disaggregated level also, credit accounts per 100 persons/adults in both the rural and urban areas improved between 2001 and 2007 (Table 2). The significant increase in credit accounts, particularly in the urban areas, in recent years was on account of robust growth in retail, housing and consumer finance. This was mainly due to rise in the purchasing power, changing consumer demographics and high potential for growth in consumption, technological innovations in delivery of financial services/products, and recognition of retail business by the financial entities as an important part of their business activities. At present, the retail banking sector is characterised by three basic elements: multiple products (deposits, credit cards, insurance, investments and securities); multiple channels of distribution (call centre, branch, internet and kiosk); and multiple customer groups (consumers, small businesses, and corporates).The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards

and educational loans. Within the retail segment, housing credit increased significantly over the last few years.

Table 2: Credit Accounts with Scheduled Commercial Banks

(End-March)

Year		1971*	1981	1991	2001	2006	2007
Rural	No. of accounts (Million)	-	16.4	49.9	36.6	50.5	53.1
	Accounts per 100 Persons	-	3.1	7.9	4.9	6.3	6.5
	Accounts per 100 Adults	-	5.2	12.7	7.5	9.3	9.6
Urban	No of accounts (Million)	-	4.4	12.1	15.8	34.9	41.3
	Accounts per 100 Persons	-	2.7	5.5	5.5	11.3	13.1
	Accounts per 100 Adults	-	4.5	8.9	8.4	16.7	19.5
Total	No of accounts (Million)	4.3	20.7	61.9	52.4	85.4	94.4
	Accounts per100 Persons	0.8	3.0	7.3	5.1	7.7	8.3
	Accounts per 100 Adults	1.3	5.0	11.7	7.9	11.6	12.4

*: As at end June

Source: Basic Statistical Returns of SCBs in India.

Credit account penetration (credit accounts per 100 persons) declined both in the rural and urban areas in all the regions between 1991 and 2001, barring the urban areas in the Northern and Eastern Regions where they increased moderately and the Western Region where they remained unchanged. Credit accounts penetration, however, increased significantly in both the rural and urban areas in all the regions between 2001 and 2007 (Table 3).

The census population groups are rural and 'urban', whereas the population groups used in BSR data are rural 'semi-urban', 'urban' and 'metropolitan'. There is no unique relationship between the two For comparison purpose and simplicity, therefore rural and 'semi-urban' are taken as 'rural', and 'urban' and 'metropolitan' are combined as 'urban'. Adult population in this section refers to the population n the age group of 15 year and above Rural/Urban population for 2007 is estimated on the bans of rural/urban share in 2001 population SCBs include RRBs unless stated otherwise/given separately.

Table 3: Credit Accounts with Scheduled Commercial Banks –Region-wise

(Per 100 persons)

Region/ End-March	**Rural**			**Urban**			**Total**		
	1991	**2001**	**2007**	**1991**	**2001**	**2007**	**1991**	**2001**	**2007**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Northern	6.6	4.7	5.6	5.9	7.4	10.0	6.4	5.6	7.1
North-Eastern	4.4	2.6	4.4	4.4	3.7	5.5	4.4	2.8	4.3
Eastern	7.2	3.5	4.5	4.3	4.6	6.2	6.6	3.7	4.8
Central	5.8	3.6	4.3	4.4	3.4	5.0	5.5	3.6	4.4
Western	6.2	4.1	4.8	4.8	4.8	18.9	5.7	4.4	10.5
Southern	13.6	9.6	14.4	7.6	7.2	21.6	11.8	8.8	16.8
All-India	7.9	4.9	6.5	5.5	5.5	13.1	7.3	5.1	8.3

Source: Basic Statistical Returns of SCBs in India

For the purpose of financial inclusion, progress in the small accounts is particularly relevant. The breakup of credit accounts suggests that the share of number of credit accounts with credit limit up to Rs.25,000 in total credit accounts and the amount outstanding in such accounts in total credit outstanding declined between 1991 and 2002 and further by 2007. The credit accounts with credit limit of Rs.25, 000-Rs.2, 00,000 and the amount outstanding in these accounts showed a consistent increase during 1991-2007 (Table 4). However, this pattern to a large extent might have been on account of migration of some loans (which are in nominal terms) with credit limit up to Rs.25, 000 to the higher categories due to the impact of inflation.

Table 4: Number of Credit Accounts and Outstanding Credit as per Size of Credit Limit - All SCBs

(Amount in Rupees crore)

End-March	Credit Limit between Rs.25,000 and Rs.2,00,000							Total		
	Accounts (Million)	% to Total	Amount	% to Total	Accounts (Million)	% to Total	Amount	% to Total	Accounts (Million)	Amount
1	2	3	4	5	6	7	8	9	10	11
1990	51.2	95.0	24, 147	23.1	2.3	4.2	14,351	13.8	53.9	104, 312
1991	58. 8	94.9	27,323	22.0	2.7	4.4	17,267	13.9	61.9	124, 203
1992	62.5	95.0	29,945	21.9	2.8	4.3	18,393	13.5	65.9	136, 706
1993	58 .5	94.2	32,091	19.8	3.1	5.0	20,217	12.4	62.1	162,467
1994	55.8	93.6	32,188	18.3	3.3	5.5	21,547	12.3	59.7	175,891
1995	53.9	92.8	34,060	16.1	3.5	6.1	23,882	11.3	58.1	210,939
1996	51.9	91.6	36,253	14 .2	4.0	7.0	28,085	11. 0	56.7	254,692
1997	50.1	90.1	37,446	13.2	4.6	8.3	32,227	11. 3	55.6	284,373
1998	46.8	87.4	41,095	12.5	5.7	10.7	39,457	12.0	53.6	329,944
1999	42.7	81.7	38,285	10.0	8.2	15.8	49,997	13.1	52.3	382,425

2000	39.3	72.2	36,409	7.9	13.6	25.0	66,336	14.4	54.4	460,081
2001	37.3	71.1	37,816	7.0	13.2	25.2	68,478	12.7	52.4	538,431
2002	37.3	66.2	38,501	5.9	16.8	29.8	87,148	13.3	56.4	655,993
2003	36.9	62.0	41,038	5.4	19.7	33.0	104,019	13.8	59.5	755,969
2004	36.8	55.4	38,555	4.4	25.1	37.9	124,144	14.1	66.4	880,312
2005	38.7	50.2	42,992	3.7	32.4	42.0	156,888	13.6	77.2	1,152,468
2006	38.4	45.0	45,217	3.0	38.7	45.3	203,281	13.4	85.4	1,513,468
2007	38.6	40.9	45,903	2.4	45.7	48.4	232,992	12.0	94.4	1,947,100

Source: Basic Statistical Returns of SCBs in India.

Adjusted for inflation, the share of loans with less than Rs.25,000 credit limit continued to decline between 2001 and 2006. However, the decline was much smaller in the case of credit limit adjusted for inflation than unadjusted (Table 5). The share of number of accounts in credit limit of Rs.25, 000-Rs.200, 000, increased between 1991 and 2000 as also thereafter through 2006. However, the increase was relatively lower in the case of credit limit adjusted for inflation than unadjusted. This pattern, **inter alia,** reflected the impact of improvement in real income, resulting in higher amount of credit demand and high growth in retail credit.

Table 5: Number of Credit Accounts of All SCBs Inflation Adjusted Credit Limit

End-March	**Credit limit up to Rs 25,000 (at 1990 prices)**		**Credit limit between Rs25,000 and Rs2,00 000 (at 1990 prices)**	
	Number of Accounts (Million)	**Share in Total (Per cent)**	**Number of Accounts (Million)**	**Share in Total (Per cent)**
1	**2**	**3**	**4**	**5**
1990	51.2	95.0	2.3	4.5

1993	59.2	95.3	2.4	3.9
1997	52.3	94.1	2.7	4.9
2001	43.9	83.5	7.7	14.7
2004	48.9	73.7	16.1	24. 2
2007	57.8	67.6	25.0	29.2

Note: The credit limits for the year 1993 onwards equivalent to 1990 limits have been worked out by applying the GDP deflator to the credit limits of 1990.

Source: Worked out on the basis of Survey of Small Borrower Accounts Reserve Bank of India Bulletin (various issues).

The number of credit accounts with the RRBs also declined somewhat in the late 1990s, but increased sharply during the current decade (Table 6).

Table 6: Regional Rural Banks in India - Credit Accounts/Amounts

(No of Accounts in '000, Amount in Rupees crore)

End March	Credit Account		Small Borrowal Accounts		Col 4 as % of Col.2	Col 5 as. % of Col.3
	Accounts	Amount	Accounts	Amount		
1	2		4	5	6	7
1996	13,056	7,344	12,902	6,120	98.8	83.3
1997	12,102	8,655	11,885	6,845	98.2	79.1
1998	12,293	10,200	12,001	7,797	97.6	76. 4
1999	11,138	11,279	11,098	10,194	99.6	90.4
2000	11,868	13,126	11,801	11,561	99.4	88.1

2001	12,203	16,352	12,132	14,360	99.4	87.8
2002	12,627	18,869	12,543	16,435	99.3	87.1
2003	12,873	22,623	12,776	19,757	99.2	87.3
2004	12,715	26,020	12,593	22,310	99.0	85.7
2005	14,167	32,689	14,014	22,878	98.9	85.3
2006	13,394	36,644	13,195	30,163	98.5	82.3
2007	14,958	47,855	14,666	37,330	98.0	78.0

Source: Basic Statistical Returns of SCBs in India.

Co-operative Credit:

Rural credit co-operatives in India were envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. The short-term rural co-operative credit structure (STCCS) provides mainly short-term credit and other financial services, which are of particular relevance from the point of view of financial inclusion. At end-March 2006, the three-tier STCCS consisted of nearly 106,400 PACS at the village level, 370 district central co-operative banks (DCCBs) at the district level with 12,991 branches and 30 state co-operative banks at the State level with 962 branches. One PACS on an average, serves 6 villages. With a total membership of more than 125 million rural people, PACS is possibly one of the largest rural financial systems in the world. The number of borrowing members increased significantly between 1994 and 2003, before declining thereafter (Table 7).

Table 2.18: Progress of Primary Agricultural Credit Societies

(End-March)

Particulars		1994	1995	2000	2002	2003	2004	2005	2006	2007
Sl.No.	1	2	3	4	5	6	7	8	9	10

1	No. of PACS (thousand)	91.6	91.1	101.5	98.2	112.3	105.7	108.8	106.4	97.2
2	Members (million)	89.0	90.6	108.6	102.1	123.6	135.4	127.4	125.2	125.8
3	Borrowers (million)	50.5	38.0	43.0	55.5	63.9	51.3	45.1	46.1	47.9
4	Owned funds (Rs. crore)	2,694	3,412	5,338	6,855	8,198	8,337	9,197	9,292	11,039
5.	Deposits (Rs. crore)	2,102	2,962	12,459	14,846	19,120	18,143	18,976	19,561	23,484
6.	Borrowings (Rs. crore)	9,117	10,176	22,350	29,475	30,278	34,257	40,249	41,018	43,714
7.	Total Resources (4+5+6)	13,913	16,550	40,147	51,176	57,596	60,797	68,422	69,871	78,237
8.	Loans Outstanding (Rs. crore)	10,534	12,141	28,546	40,779	42,411	43,873	48,785	51,779	58,620

Source: Performance of Primary Agricultural Credit Societies (various issues) NAFSCOB.

UCBs play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. They mobilise savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. These banks in India are financial co-operatives akin to credit unions found abroad, except that they can also accept deposits from non-members. UCBs also form a part of the payment system.

In view of the special thrust on financial inclusion in recent years, co-operative banking has acquired renewed significance in the Indian financial system. Being member-driven institutions working on a collective principle, they facilitate the pooling of resources for the purpose of lending to their members who are also the banks' shareholders and, therefore, have a crucial stake in the affairs of the bank. In some parts of the country such as Maharashtra, Gujarat and Karnataka, UCBs play a significant role in extending banking services in the urban areas. As at end-March 2007, there were 7,670 branches (including extension counters) of 1,813 UCBs in India. Provisional estimates indicate that at end-March 2007, UCBs provided credit to around 7 million borrowers aggregating Rs.78,660 crore.

CONCLUSION:

Until now, government efforts to boost inclusion have been largely protective and prescriptive, interest-rate caps are intended to protect borrowers, for example, and priority lending aims to steer services toward disadvantaged communities and sectors. Although these efforts have met with some success, we believe that a less prescriptive policy framework—one that allows banks to develop the most suitable offerings but does not spell out how and where they should provide them—would be more successful in expanding financial inclusion.

The government can facilitate inclusion, particularly among the rural poor, by improving the financial services environment. Specifically, it should establish a national identification system, strengthen the credit information infrastructure, reform contract enforcement, expedite the process for establishing property rights, and introduce tradable securities to make it easier and more cost effective for companies to meet government mandates.

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