FINANCIAL INCLUSION…….AN ASSESSMENT OF IMPACT

(FACT FINDER SERIES; 01)

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FOREWORD

*This **(fact finder series)** of research papers is part of a mission mode effort by the author to dwell and get insight into the pressing economic problems and constraints the world in general and India in particular is confronting. Financial exclusion of a massive chunk of populace, fluctuating output and investment in agriculture & ignorance of this growth engine, contemporary issues of foreign direct investment(FDI),gender gap in a vast array of economic spheres, glaring inequalities, economic deformities unleashed by interest based banking system etc are some of the core issues that have engaged the attention of the policy makers throughout the world and the author as well ,are being dealt with in sequence and will be incorporated in this assessment of impact series as part of a noble effort. I propose to deal with the aforestasted issues on the grounds of merit by employing secondary and primary sources of research (whichever the author feels necessary, subject to financial constraints).I feel extremely optimistic that while the research by and large would be India centric but the results and revelations as an outcome of this cutting edge fact finder series would be applicable to the world in general.*

Abstract;-

A well functioning financial system empowers individuals, facilitates better integration with the economy, actively contributes to development and affords protection against economic shocks. For all these reasons financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor. Inclusive growth has been a priority of the Government of India (GoI) over the past decade. The policymaking and regulating institutions (Government of India)have developed regulations and guidelines for strengthening financial

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inclusion but these are yet to have a substantial impact on outreach to the excluded population. Notwithstanding the efforts made so far, a sizeable majority of the population, particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector. Progress towards the inclusive dream has been relatively limited so far and it is apparent that the government's effort to encourage the banking system to promote financial inclusion in an intensive manner needs a substantial impetus if it is to achieve adequate results. Data thus clearly reveals the financial inclusion is increasingly becoming urban oriented and the Share of rural branches in total branches has been showing a declining trend, notwithstanding the fact that two third of population is concentrated in rural areas. To put the accounts right commercial banks show a distinct tendency towards financing bigger farmers and their share in the total institutional lending stands at 74.4% of total ,while as the RRBs are seen to have favored towards small and marginal farmers and to their disadvantage the share of such institutions merely hovers around a nominal of just 9.9% of the total credit disbursement to the rural sector. Nearly 87% of sc,st(considered to be the most vulnerable target group) and OBC population in rural and 90% in urban areas being denied access to institutional finances is thus left out of the race to inclusive growth.This paper stresses the need for paradigm shift & a complete revisit and restructuring of policy framework to achieve complete financial inclusion, the existing framework of initiatives as such has miserably failed to enforce a substantial overhaul so far as the existing scheme of things is concerned. There are still many rocky miles to go……..

Key words; Inclusive finance, Inclusive growth, vulnerable groups, policy framework

1. INTRODUCTION;-

Credit is one of the critical inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes a long way in contributing to the well-being of the people especially in the lower rungs of society.It is one of the three main challenges to input management in agriculture, the other two being physical and human (Hans, 2006). Thus access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save

and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty. But India is lagging behind in this respect so it has become the matter of concern.

Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. 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. The operational definitions of financial inclusion, 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,2007). Thus, over the years, several definitions of financial inclusion/exclusion have evolved. In the Indian context, Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008)) defines it as:

"Financial inclusion may be defined 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 incomegroups at an affordable cost."

Amratya sen(2000) convincingly argued that poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. Today the term'bottom of the pyramid' refers to the global poor most of whom live in the developingcountries. These large numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty.

Accordingly, there is felt a need for policy support in channeling the financial resources towards the economic upliftment of resource poor in any developing economy. This paper is an attempt to comprehend the significance of Financial Inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are very much essential for overall economic growth of a country

2. Methodology of the study;-

Secondry research was conducted to review the present status of financial inclusion in india.The information and data for conducting the research has been collected from a variety of sources like journels,government handouts and reports,RBI publications,books,websites,research papers,articles,committee & reports on financial inclusion.For the purpose of illustration various relevant tables have been incorporated into the research paper.Further subject specific data has been incorporated from the websites of RBI,PBI(press Information Bureau) and government departments.While acquiring data I have restricted my research to data collection pertaining to decade 2000-01 to 2010-11,unless unavoidable.

3. Objectives of the study;-

(i) To examine the extent of financial inclusion in India.

(ii) To bring to light the initiatives taken by GOI towards financial inclusion.

(iii) Assessment of impact of the initiatives**.**

3.1 Financial Inclusion In Practice.

The financial services include the entire gamut - savings, loans, insurance, credit, payments etc. By providing these services, the aim is to help them come out of poverty. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Mahendra S, 2006).

.Thus, 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 poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, FI imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence FI is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women (Thorat, 2007b).

In 1947, the first survey of rural indebtedness (All India Rural Credit Survey) conducted by the Reserve Bank of India (RBI) documented that moneylenders and other informal lenders met more than 90 per cent of rural credit needs. The share of banks in particular was only about 1 per cent in total rural household debt. The ratio remained low until 1971 when it was 2.4 per cent, although the share of formal sources of credit in rural areas increased steadily to 29 per cent due to the rising share of cooperatives.The Situation Assessment Survey (NSSO, 2003) indicated that out of the total 89.3 million farmer households in the country, 84 percent (750 million) households were small and marginal farmers and more than half (51.4 percent) of the total households were non-indebted. Further, out of the total 43.4 million indebted households, 20.3 million (46.8 percent) households had availed financial services from informal sources. The NSSO survey of farmer households for 2003 shows that 45.9 million farmer households in the country that is, 51.4 per cent out of the total 89.3 million households do not access credit either from institutional and non institutional sources. Further, only 27 per cent of the total farm households are indebted to formal sources; in other words 70 per cent of the farmhouses do not have access to formal credit sources. The poorer the group, the greater is the exclusion (Rangarajan, 2007). The results of the All-India Debt and Investment Survey of 2002, also indicate that the share of the non-institutional sources, in the total credit of the cultivator households, had increased from 30.6 percent in 1991 to 38.9 percent in 2002 (Karmakar, 2002). The inference of these findings is that in spite of a large network of the institutional credit

system, it has not been able to adequately penetrate the informal rural financial markets and the non-institutional sources continue to play a dominant role in purveying the credit needs of the people residing in rural areas.

Thus, important challenge facing the banking sector is to extend financial services to all sections of society. Like others, the poor need a range of financial services that are convenient, flexible, and affordable and not just loans. At this juncture the introduction on "financial inclusion" comes from the recognition that this can serve the interests of both society and the banking system.

3.2 Initiatives Taken By Goi Towards Financial Inclusion.

There has been a significant set of regulatory and promotional efforts which, taken together, Could be expected to have a substantive impact on financial inclusion. In sum, these are the

- 1969 Nationalisation of banks.
- 1971 Establishment of priority lending sector.
- 1975 establishment of RRBs
- 1982 Establishment of NABARD
- 1992 Launching of SHG bank linkage programme.
- 1998 NABARD sets a goal of linking one million SHGs by2008.
- 2000 establishment of SIDBI foundation for micro credit.
- Kisan credit card scheme.
- Big push for the business correspondent model by Banks Mandatory Government to Person payments in Banks and Post Office accounts using
- electronic transfers
- Rolling out of the concept of a "no frills" account for small value transactions
- Enabling of the provision of micro-insurance services through facilitating regulation
- Establishment of funds to finance promotional activities that support the above measures and
- reinforce the work of microfinance institutions

- Attempt to revive the cooperative credit system along with a number of small steps that facilitate inclusion within the existing system like
- Simplified Know Your Customer (KYC) norms and interest rate deregulation for small value
- accounts

3.3 Assesment Of Impact;

A well functioning financial system empowers individuals, facilitates better integration with the economy, actively contributes to development and affords protection against economic shocks. Inclusive finance - through secure savings, appropriately priced credit and insurance products, and payment services – helps vulnerable groups such as low income groups, weaker sections, etc., to increase incomes, acquire capital, manage risk and work their way out of poverty. Notwithstanding the efforts made so far, a sizeable majority of the population,particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector.Access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion.Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty. The banking industry in India has recognized this imperative and has undergone certain fundamental changes over the last two decades. Reforms since the early nineties in the banking sector have facilitated increasing competition, the development of new generation private sector banks as well as technological breakthrough in diverse financial products, services and delivery channels. With the recent developments in technology, both delivery channels and access to financial services have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit / debit cards, internet banking, online money transfer, etc.

The moot point, however, is that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology – allowing, for example, more accurate targeting of sections of the market – have led

to restricted access to financial services for some groups. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed “financial exclusion”. These people,particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, low cost credit, remittances and payment services, financial advisory services, insurance facilities, etc. In its landmark research work titled “Building Inclusive Financial Sectors for Development”1 (2006), more popularly known as the Blue Book, the United Nations (UN) had raised the basic question : “why are so many bankable people unbanked?” m An inclusive financial sector, the Blue Book says, would provide 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. “Financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the under-developed, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few.”2 Experience has shown that in the initial phase of real and financial sector reforms, there is a need to build in adequate provisions ensuring that the economically weak segment of population have increased participation in the process of economic growth and social development. Reforms in financial systems, therefore, need to be complemented by measures that encourage the institutions, instruments, relationships and financing arrangements to be properly geared for providing sound, responsive financial services to the majority of the people who do not have such access.

In this section I endeavor to highlight the fundamental loopholes and the achievements so far of our casual inclusive approach spread over decades.

a. Where Does India Stand On The Inclusive Map;,

From the observation of data in table-1 it can be clearly seen that there is great extent of difference inthe level of financial inclusion in India and Germany (Developed World), the percentage of population having an account at a formal financial institution (% age 15+) in India is not even half of what it is in Germany, in India the rate is 35 % whereas in Germany it is 98 %, with regard to financial inclusion of relatively poors, the account at a formal financial institution, income, bottom 40% (% age 15+) in India it is only 27 % and in Germany it is 98 %.

When compared with China (Developing World) the percentage of population having an account at a formal financial institution (% age 15+) in China is 64 % as against 35 % in India, People having debit cards comprise only 8 per cent and those having credit cards only a marginal 2 per cent of the population in India where as in China the percentage is 41% and 8 % respectively. The data clearly shows that India needs to adapt to more aggressive policy for financial inclusion in order to attend holistic growth and stand comparable with the inclusion standards of developing and developed worlds. Thus it is quite clear that the extent of financial exclusion is still quiet huge in India and needs to be rightly encountered, moreover one also needs to understand the state wise distribution and availability of financial services and providers in the country.

Table 01

Indicators of Financial Inclusion

Inicators of financial inclusion	India %	China%	Germany%	World%
Account at a formal institution	**35**	64	98	50
Account at a formal institution(female)	**26**	60	99	47
Account at a formal institution(income bottom 40%)	**27**	47	98	41
Account used to receive wages	**8**	19	46	Na
Account used to receive Govt. payments	**4**	7	62	Na
Saved at a financial institution in the past year	**12**	32	56	22
Loan from a financial institution in the past year	**8**	7	13	9
Loan from family or friends in past year	**20**	25	9	23
Debit card	**8**	41	88	
Credit card	**2**	8	36	15

Source: Demirguc-Kunt and Klapper, 2012, NA- Indicates non Availability of Data on the Mentioned Field

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1 & 2 The book is a result of a project undertaken by the UN Department of Economic and Social Affairs

(DESA) and the UN Capital Development Fund (UNCDF) to analyse the obstacles to financial inclusion and to report on efforts to overcome those obstacles in various countries

In the above table the data related to China is taken in order to give a comparative picture with a developing nation, the data of Germany is taken in order to draw an idea about the gap in financial inclusion between India and one of the developed nations, and world statistics have been taken to show the standing of India in the world with regard to financial inclusion

It can be seen that india badly fares vis a vis rest of the countries on account of nearly all the indicators of financial inclusion mentioned above especially the account penetration(Account at a formal inst.being just 35% for india as against world average of 50%)

b. Trends in share of branches between rural n urban areas(account penetration);

Although the financial penetration indicators of India have improved over the years there is still much scope for improvement. Business from urban and big city areas accounts for more than 75% of the banks' business and has been growing over the years. The size of deposits and advances per account has also increased significantly indicating that the increase in business is not due to the acquisition of additional customers at the bottom of the pyramid. Further, as stated in the latest annual report 4 of RBI, even in the 26 districts that were declared 100% financially included by the State Level Bankers Committees (SLBCs), actual financial inclusion was not achieved to the full extent in all the districts. An RBI-sponsored evaluation study indicated that most of the accounts that were opened in these districts under the financial inclusion drive remained inoperative for various reasons and awareness with regard to no-frills accounts continued to be virtually non-existent in many districts In another paper.The growth in the number of small credit (borrower) accounts shows that: The number of such accounts of size`Rs 25,000 & below' in the banking system rose from 36.8 million in 2004 to39.2 million in 2009 – an increase of 2.4 million (just 6.5%). The number of borrowers with credit accounts of 'less than `200,000' increased from 61.9 million in 2004 to 95.8 million in 2009 – an increase of nearly 34 million (or 54.8%).

Table 02:

SHARE OF BANK BRANCHS

Year	Rural	Semi urban	Urban	metropolitan	Total	Rural/total%
2001	32562	14597	10293	8467	65919	49.4
2002	32380	14747	10477	8586	66190	48.9
2003	32303	14859	10693	8680	66535	48.6
2004	32121	15091	11000	8976	67188	47.8
2005	32082	15403	11500	9370	68355	46.9
2006	39587	15556	12032	11304	69471	44.0
2007	30551	16361	12970	11957	71893	42.5
2008	31002	17724	14397	13019	76142	40.7
2009	31646	18969	15439	13877	79931	39.6
2010	32494	20411	16761	14855	84604	38.4
Source; All india debt and investment survey (RBI)						

The data thus clearly reveals the financial inclusion is increasingly becoming urban oriented and the Share of rural branches in total branches has been showing a declining trend,not withstanding the fact that two third of population is concentrated in rural areas

c. **Trends in source of credit by institution;-**

Table;03 depicts the share of different credit agencies(both institutional and non institutional) in the overall credit off take/total commercial borrowing(TCB) across india.

Table 03

% SHARE OF DIFFERENT CREDIT AGENCIES IN INDIA(2002-03)

credit agency	rural share	urban share
goverenment etc.	2.7	6.2
cooperatives/banks	28	22
commercial banks	22.7	30.6
Insurance	0.3	1.5
provident fund	1	3
financial corporations	0.6	8.4
financial company	0.8	2.5
other institutional agencies	10	1.5

all institutional	57.2	75.7
land lords	0.6	0.2
agricultural money lenders	9.6	0.6
professional money lenders	20.6	13.3
Traders	2.9	1.3
relatives and friends	7.4	7
doctors,lawyers etc.	0.2	0.1
Others	1.5	1.7
all non-institutional	42.8	24.2

source; aidis,nss 59th round, december 2003

It is observed from the data that, at the all-India level, among the institutional credit agencies, co-operative societies and commercial banks are the two most important agencies, in rural as well as urban areas.

Institutional agencies: For rural households, these two agencies, taken together, accounted for 50.7 per cent of the aggregate cash borrowings during 2002-03, with co-operative societies (28.0 per cent) having a larger share than commercial banks (22.7 per cent). In urban areas, about 52.6 per cent of TCB was from these two agencies, with commercial banks (30.6 per cent) taking a lead, unlike the rural areas, over co-operative societies (22.0 per cent). Government departments came next in importance in the rural areas, accounting for 2.7 per cent of rural TCB, as against only 6.2 per cent in the urban areas. Further, financial corporation/institution is seen to be a significant source of borrowing in the urban areas, accounted for 8.4 per cent of TCB.

Non-institutional agencies: Among the non-institutional credit agencies, moneylenders – both professional and agricultural - and in that order, were found to be important sources for household borrowings in rural areas, their shares standing at 20.6 and 9.6 per cent, respectively. In urban areas, ‘professional money lenders’, accounting for 13.3 per cent of TCB, was the most important source of non-institutional borrowings. ‘Relatives and friends’, who accounted for 7.0 per cent of urban TCB, was the second important source. In rural areas too, ‘relatives and friends’ was an important source, accounting for 7.4 per cent of TCB. For ‘traders’, the share *was 2.9 per cent in the rural areas and 1.3 per cent in the urban areas.*

Table 03 clearly depicts the fact that while a considerable gap has emerged between the rural and urban financial inclusion.while as the institutional financial penetration is 75% in urban

areas it is a mere 57% in case of rural areas,pointing towards the unwillingness of the institutions to pierce into the rural fold.

d. **Trends in source of credit by population group;-**

Table 07 reveals the fact file with regard to the trends in credit going to various population groups across india.

Table 07:

TRENDS IN SOURCE OF CREDIT BY POPULATION GROUP

	Population group	IOI	Source of credit		%of credit	
			Institutional	Non-institutional	institutional	Non-institutional
URBAN	SC	27	...	…	45	55
	ST	18	…	…	59	41
	OBC	19	…	...	51	49
	SC+ST+OBC	27*	13	87	57*	43
RURAL	SC	19	…	…	…	…
	ST	12	…	…	…	…
	OBC	21	…	…	65	35
	SC+ST+OBC	18*	10	90	75*	25

Source; Nsso, Pib, Govt of India 30-6-2002 „ IOI…incidence of indebtedness *Including Others, …Data inadequate

About 27% of the rural households were indebted while only 18% of urban households were indebted.The proportion of indebted households was highest for OBCs in both rural and urban,29% for rural and 21% for urban households.For ST households (hhs)the incidence was 27% in rural and 19% in urban areas. In the rural areas about 11% to 13% of the SC,ST and OBC hhs reported institutional agencies as the source of credit. This was 16% for other hhs.In the urban areas about 7% to 10% of hhs reported institutional agencies as the source of credit. In

the rural areas, the share of institutional agencies in total amount of debt for ST, SC and OBC households was about 69 per cent, 45 per cent, and 51 per cent respectively. It was 68 per cent for 'Other' households while the overall institutional share in the amount of debt was 57 per cent. In the urban areas, the share of institutional debt varied from 65 per cent for OBC to 82 per cent for 'Other' group. The overall share of institutional debt was 75 per cent.

Table. 08 clearly illustrates the fact that nearly 87% of sc,st(considered to be the most vulnerable target group) and OBC population in rural and 90% in urban areas being denied access to institutional finances is thus left out of the race to inclusive growth.

e. Incidence of borrowing by occupational catagory;-

Table 08 highlights the incidence of borrowing(iob) and incidence of indebtedness saperatly across the occupational groups both in rural and urban india.The overall population has been catagorised into various functional groups to make the assessment meaningful as below;

Table 08;

Occupation wise borrowing capacity

occupational category of household	%indedtedness (ioi)	%borrowings (iob)
Cultivator	29.7	22.4
non-cultivator	21.8	18.4
rural all	26.5	20.8
self employed	17.9	15.7
Others	17.8	15.2
urban all	17.8	15.3

source; aidis survey, *household borrowings and repayments in india: 2002-2003*

While the incidence of indebtedness (IOI) as on 30.6.02, in the rural areas, was about 27 per cent, the incidence of cash borrowings was 21 per cent during 2002-03. The average amount of cash borrowings per rural household was Rs. 3726. Compared to the rural areas, both the IOI and IOB were considerably lower in the urban areas and the rate of incidence was 18 per cent and 15

per cent, respectively. The AOB for an urban household is found to be Rs. 6162 – about 1.7 times that of the rural areas.

Table 08 indirectly reveals the fact that nearly 79.2% of small cultivators and marginal farmers do not have access to credit (both institutional and non institutional) owing to the non availability of personal security and mortgage (refer to table 10)

f. Incidence of borrowing by asset holding;-

In rural areas: table 09 displays the percentage distribution of TCB of rural households by assets holding class (AHC) at the all-India level. It is clear that households having assets valued up to Rs. 2 lakhs depended more on the non-institutional agencies for their cash borrowings. While households belonging to the second highest AHC viz. having assets valued between Rs. 2 lakhs and 3 lakhs borrowed almost equally from IAGs and NIAGs, among the 'richest' households owning assets worth Rs. 8 lakhs or more, share of institutional borrowings was much higher (74 per cent).

In urban areas:

Table 09 shows that a similar situation prevailed in urban areas. While non institutional borrowing accounted for 87 per cent of the total borrowings among households in the lowest AHC which owned assets valued up to Rs. 15,000, institutional borrowing accounted for about 90 per cent of the total borrowings among households in the top AHC, who owned assets worth Rs. 8 lakh or more

Table 09:

%share of institutional and non-institutional agencies in cash borrowings of households by household assets holding

Asset holding class(rupees 000)	Rural		Urban	
	Institutional	Non institutional	institutional	Non-institutional
Less than 15	18	82	13,4	86.6
15-30	35.5	64.5	40.1	59.5
30-60	26.6	73.4	46.9	53.1
60-100	39.5	60.5	59	40.8
100-150	43.6	56.4	65.6	34.4

150-200	48.1	51.9	47.9	52.1
200-300	51.5	48.5	71.7	28.3
300-450	58.7	41.3	72.5	27.5
450-800	63.4	36.6	84.9	15.1
800 above	73.8	26.2	89.8	10.2
All	57.2	42.8	75.7	24.2

SOURCE; AIDIS SURVEY, *Household Borrowings and Repayments in India: 2002-2003*

The data from table 09 reveals that the financial exclusion increases with the decrease in the asset base.with every decrease in the asset holding as in case of marginal farmers the share of institutional credit decreases while that of the non institutional credit increases nearly proportionately,assuming as the institutions pull back the non institutional sources fill the gap.

g. Incidence of borrowing by type of security;-

In rural areas: Borrowings against 'personal security' accounted for the largest share (49) of TCB, followed by those against 'mortgage of immovable property' (17 per cent) and against 'first charge on immovable' (11 per cent). There was hardly any difference between *cultivator* and *non-cultivator* households in this regard.

In urban areas: Table 10 reveals that While share against ''personal security' was the highest (43 per cent), shares against three other types viz 'mortgage of immovable property' (26 per cent), 'first charge on immovable' (10 per cent) and 'surety security etc.' (10 per cent), were also significant. This was true for both *self-employed* and *other* urban households.

Table 10;

%share in total borrowings (S) during 1.7.02 to 30.6.03 by type of security and occupational category

Type of security	Rural india		Total all india	Urban india		Total all india
	%share cultivator	%share non cultivators		%share self employed	%share others	
personal security	44.6	59.7	49	36.8	47	43.3
surety security etc	6.9	11	8.1	9.2	9.7	9.5
crop	7.2	0.1	5.1	0.4	0.1	0.2
immovable property	12.5	7.1	10.9	10.9	9.8	10.2
mortgage	19.3	12.2	17.2	29.2	24.5	26.2

bullion/ornaments	3	6.2	3.9	4.1	2.1	2.8
share of companies	0.6	0.7	0.6	0.9	1.1	1.1
agricultural commodities	1.4	0.0	1	0.1	0.1	0.1
other movable property	2.3	0.9	1.9	5.4	1.2	2.7
other security	2.2	2	2.2	3.0	4.4	3.9
unspecified	0.0	0.0	0.0	0.0	0.0	0.0

source; aidis survey, *household borrowings and repayments in india: 2002-2003*

h. Purpose of borrowing;-

One of the important aspects of borrowings is the purpose for which it is made. This is because borrowings made and utilised for productive purposes such as capital or current expenditure in household enterprises (agricultural or non-agricultural) may be expected to accelerate the economic activity of the households. Any study on current borrowings, therefore, would be incomplete without knowledge of the distribution of borrowings according to different purposes.

Table 11:

%share in total borrowings (S) during 1.7.02 to 30.6.03 by purpose of borrowing and occupational category

Purpose of borrowing	Rural			
	Cultivators	Non cultivators	Self employed	Others
Capital expenditure on farm	20	4.5	3.5	0.4
Current expenditure on farm	30.8	1.8	3.7	0.5
All expenditure on farm	50.8	6.3	7.2	0.9
Nonfarm capital expenditure	8.1	13.7	25.3	4.2
Nonfarm current expenditure	3	7.6	13.7	0.7
All expenditure on non farm	11.1	21.3	39	4.9

SOURCE; AIDIS SURVEY, *Household Borrowings and Repayments in India: 2002-2003*

In the rural areas the purpose of borrowing is primarily(57.1%) for current and capital expenditure in agriculture,an easy access to cheap and timely credit goes a long way in putting the agricultural sector on a high growth path,at the same time strengthening the rural economy.

i. Borrowing by scheme of lending;-

The percentage share of borrowings of the household from the IAGs under a number of individual schemes of lending do not show any appreciable share (see Statement 21). In 2002-03, in rural as well as in urban India, it is seen that none of the programmes/schemes such as 'Prime Minister's Rozgar Yojana', 'Swarnajayanti Gramin Swarozgar Yojana', 'Swarna Jayanti Sahari Rozgar Yojana', 'advances to minority communities' and various 'selfemployment' schemes was a significant means for providing loans to the rural and urban households. The individual percentage shares of these schemes were very negligible (3 per cent or less) at the national level. Among the various 'self-employment' schemes, the one that signified - with a share of 2.7 per cent in the rural and 3.3 per cent in the urban - is found to be 'Differential Rate of Interest (DRI)' scheme.

There are various government-sponsored credit schemes intended to achieve poverty reduction and financial inclusion objectives. But while most of these are widely discussed within the government system their achievement is dismal,with their percentage shares not exceeding 3% at national level.

Table 12:

%share of total borrowings from institutional agency during 1.7.02 to 30.6.03 by scheme of lending

Name of scheme	All india	
	rural	Urban
DRI	2.7	3.3
PMRY	1.9	0.5
SGSY	1.7	0.0
SGSRY	0.3	1.7
Advances to minority communities	0.2	0.4
Liberalization & rehab. Of Scavengers	0.0	0.0
Exclusive state schemes	7.3	1.2
Priority sector lending (PSL) for minorities	9.4% of PSL (ALL INDIA	2008-09)
SOURCE; AIDIS SURVEY, *Household Borrowings and Repayments in India: 2002-2003*		

j. Regional(Geographical) financial exclusion;-

The Rangarajan Committee (2008) has defined Financial Inclusion as -

"Financial Inclusion is 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." One of the measures of the level of financial inclusion is the Financial Inclusion Index (Sarma, 2008). This index is based on, three basic dimensions of an inclusive financial system:-

(i) Banking penetration, (D1);

(ii) Availability of the banking services (D2),

(iii) Usage of the banking system (D3).

According to the value of the index, Indian States can be classified into three categories,

[A]. States having HIGH extent of financial exclusion.

[B]. States having MEDIUM extent of financial exclusion.

[C]. States having LOW extent of financial exclusion.

Table 13:

IFI INDEX OF VARIOUS STATES

State	DI (Penetration)	D2 (Availability)	D3 (Usage)	IFI Index	IFI Rank
States with high IFI Index(0.5-1)					
Kerela	**0.7**	**0.81**	**0.28**	**0.54**	**1**
Maharashtra	**0.62**	**0.29**	**1**	**0.53**	**2**
Karnataka	**0.72**	**0.47**	**0.46**	**0.53**	**3**
States with medium IFI Index(0.3-0.5)					
Tamil nadu	**0.70**	**0.43**	**0.38**	**0.48**	**4**
Panjab	**0.45**	**0.69**	**0.29**	**0.45**	**5**
Andhra	**0.56**	**0.30**	**0.41**	**0.41**	**6**
Himachal	**0.42**	**0.40**	**0.18**	**0.33**	**8**
Sikkim	**0.28**	**0.30**	**0.34**	**0.32**	**9**
Haryana	**0.39**	**0.50**	**0.12**	**0.32**	**10**
States with low IFI Index					

West Bengal	0.24	0.38	0.23	0.28	11
Gujrat	0.32	0.30	0.16	0.26	12
Uttar Pradesh	0.28	0.31	0.15	0.24	13
Meghalya	0.21	0.28	0.14	0.21	14
Tripura	0.31	0.22	0.08	0.20	15
Orrisa	0.26	0.23	0.11	0.20	16
Rajsthan	0.25	0.22	0.12	0.19	17
Arunachal	0.20	0.16	0.14	0.17	18
Mizoram	0.13	0.26	0.09	0.16	19
Madhya Pradesh	0.18	0.21	0.08	0.16	20
Bihar	0.15	0.24	0.08	0.15	21
Assam	0.17	0.17	0.07	0.13	22
Nagaland	0.03	0.04	0.07	0.05	23
Manipur		0.01	0.01	0.01	24
All india	0.27	0.22	0.55	0.33	7

Source : RBI Working Paper (Chattopadhyay, 2011)

According to the empirical results, (vide Table 13) :-

(a) Kerala, Maharashtra and Karnataka are some of the States having wider (high) extent of financial inclusion
as compared to other States of India.

(b) Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of
medium financial exclusion.

(c) The extent of financial exclusion is found to be significantly low in North-Eastern and Eastern States, i.e.,
Assam, Nagaland, Manipur, Odisha, Bihar, West Bengal, etc.

The afore-stated analysis implies that all the States, except three categorized as/under HFI have to go a long way in achieving financial inclusion.

J.1. Number of households reporting borrowing region wise;

The farm households not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. In terms of absolute numbers these regions taken together account for 64% of farm households not accessing credit from formal sources. The Southern Region, on the other end, exhibits relatively better levels of access to formal / non-formal sources (72.7%)

mainly on account of spread of banking habits and a more robust infrastructure. Derived data indicate that only 27.3% of the total farm households were indebted to institutional sources as detailed below :

Table 14;

No. of farmer households(hhs) reporting credit in lacs

Region	Total households in lac	%of indebtedness	Non indebted households In lac	%HHs indebted to formal sources	%Excluded by formal sources
Northern	109.46	51.40	48.60	25.05	74.95
north-eastern	35.40	19.90	80.10	4.09	95.91
Eastern	210.61	40	60	18.74	81.26
Central	271.33	41.60	58.40	22.41	77.59
Western	103.66	53.70	46.30	43.98	56.02
Sourthern	161.56	72.70	27.30	42.75	57.25
groups of uts	1.48	33.10	60.90	10.14	89.86
all india	893.50	48.60	51.40	27.30	72.70
ne,c & e regions	517.34	39.49	60.51	19.66	80.34

Extracted from REPORT of the committee on financial inclusion(GOI) 2008 headed by C.Rangarajan,, NE=north east, C=central, E=eastern region, hhs=households

The data clearly figures out that the extent of financial exclusion grossly varies across the country. North east and the eastern region taken together with the group of UTs lies at the ebb of financial inclusion with 96%,81% and 80% of households deprived from access to financial institutions.

J.2. Region wise account penetration;-

One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit account (current and savings) held as a ratio to the population. As above table 1 reveals that in northern region out of 100 persons only 43 persons hold a account in a bank.While coming to the North Eastern Region it is quite low that is just 19. Thus table reveals that access to bank services is low, as well as there exists a large variation across the regions in credit accessibility. Another thing is while compared to the developed world; the coverage of our financial services is quite low. For instance, as per a recent survey commissioned by British Bankers' Association, 92 to 94 per cent of the population of UK

has either current or savings bank account (Leeladhar,2005).The figures ultimately reveal that there is lack of outreach of banking services to the population, at this juncture micro finance services doing well in bringing excluded population to the main stream of formal banking system.

Table 15:

Coverage of banking services in india

Region	Current accounts	Saving accounts	Total population	Total no. of accounts	No. of accs/100
North	4215701	52416125	132676462	56631826	43
north east	476603	6891081	38495089	7367684	19
East	1814219	47876140	227613073	49690359	22
Central	2202217	64254189	255713495	66456	26
West	3178102	49525101	149071747	52703	35
South	4666014	83386898	223445381	88052912	39
all india	16552856	304349534	1027015247	320902390	31

source: situation assessment survey 59th round, national sample survey organisation 2003

Conclusion;-

Traditional and conventional banking solutions may not be the answer to address the problem of

financial inclusion in India. They need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner. Financial Inclusion is no longer an option, but it is a compulsion. Inclusive growth has been a priority of the Government of India (GoI) over the past decade. The policymaking and regulating institutions (Government of India) have developed regulations and guidelines for strengthening financial inclusion beginning from bank nationalization(1969)but these are yet to have a substantial impact on outreach to the excluded population. It appears that while some effort has been made to develop a facilitating regulatory framework, it has not yet gone far enough to overcome the substantial cost implications there are in outreach to large numbers of people, often

in dispersed locations, with small value accounts. Some effort has been made by the banks to reach the financially excluded sections of the population, but there is still a long way to go. Progress towards this goal has been relatively limited so far and it is apparent that the government's effort to encourage the banking system to promote financial inclusion in an intensive manner needs a substantial impetus if it is to achieve adequate results. Notwithstanding the efforts made so far, a sizeable majority of the population, particularly vulnerable groups, continue to remain excluded from the opportunities and services provided by the financial sector.Financial inclusion has thus many rocky miles to go.

This fact finder(assessment of impact) has unfolded certain fundamental loopholes that have led to further worsening of the inclusive setup rather than helping it,refuting the tall claims of policy making institutions and concerned stake holders trying to present a rosy picture of state of affairs with regard to financial inclusion. Therefore a right time to introspect, redesigns, rethink and revisit our approach towards this goal**.**

Highlights of *THE FACT FINDER(Bullet Points);*

- ✓ *India badly fares vis a vis rest of the countries on account of nearly all the indicators of financial inclusion mentioned above especially the account penetration(Account at a formal inst. being just 35% for india as against world average of 50%)*
- ✓ *Data thus clearly reveals the financial inclusion is increasingly becoming urban oriented and the Share of rural branches in total branches has been showing a declining trend, notwithstanding the fact that two third of population is concentrated in rural areas.* The growth in the number of small credit (borrower) accounts shows that: The number of such accounts of size`Rs 25,000 & below' in the banking system rose from 36.8 million in 2004 to39.2 million in 2009 – an increase of 2.4 million (just 6.5%). The number of borrowers with credit accounts of 'less than `200,000' increased from 61.9 million in 2004 to 95.8 million in 2009 – an increase of nearly 34 million (or 54.8%).
- ✓ *A considerable gap has emerged between the rural and urban financial inclusion.while as the institutional financial penetration is 75% in urban areas it is a mere 57% in case of rural areas,pointing towards the unwillingness of the institutions to pierce into the rural fold.*

- ✓ *Regional rural banks -- originally conceived as 'social banks' and defined as 'region-based, rural-oriented, low-cost tiny commercial banks with a social approach' -- have 73 metropolitan and 751 urban branches among a combined total of 15,029 branches, as of March 2008. What business did these banks have in urban and metropolitan areas? While their outstanding credit, as of September 2007, is Rs 52,449 crore, their rural credit is only Rs 35,003 crore. Similarly, their deposit portfolio of Rs 85,311 crore contains urban deposits of Rs 32,866 crore*
- ✓ *It is clearly evident that the credit flow from the institutional sources has moved towards much larger accounts and away from smaller and marginal accounts with the average account size growing over time. Assuming that when the institutions fail, the informal sector takes over, and the poorest would be the first to approach the informal structure, the fact about the formal system is catering largely to the bigger farmers is also supported by the growth in the share of moneylenders as reported by AIDIS, NSSO. To put the accounts right commercial banks show a distinct tendency towards financing bigger farmers and their share in the total institutional lending stands at 74.4% of total ,while as the RRBs are seen to have favored towards small and marginal farmers and to their disadvantage the share of such institutions merely hovers around a nominal of just 9.9% of the total credit disbursement to the rural sector. All these financial indicators point towards the pressing need to increase the share of these institutions in the overall credit flow to the sector many fold*
- ✓ *Nearly 87% of sc,st(considered to be the most vulnerable target group) and OBC population in rural and 90% in urban areas being denied access to institutional finances is thus left out of the race to inclusive growth.*
- ✓ *Nearly 79.2% of small cultivators and marginal farmers do not have access to credit (both institutional and non institutional) owing to the non availability of personal security and mortgage (refer to table 10)*
- ✓ *Financial exclusion increases with the decrease in the asset base. with every decrease in the asset holding as in case of marginal farmers the share of institutional credit decreases while that of the non institutional credit increases nearly proportionately, assuming as the institutions pull back the non institutional sources fill the gap.*
- ✓ *There are various government-sponsored credit schemes intended to achieve poverty reduction and financial inclusion objectives. But while most of these are widely*

discussed within the government system their achievement is dismal,with their percentage shares not exceeding 3% at national level

- ✓ *All the States, except three categorized as/under HFI (kerela,Maharashtra and karnataka)have to go a long way in achieving financial inclusion. The extent of financial exclusion grossly varies across the country. North east and the eastern region taken together with the group of UTs lies at the ebb of financial inclusion with 96%,81% and 80% of households deprived from access to financial institutions.*

I conclude with the words of prof. CK.Prahalad……..

"If we stop thinking the poor as a burden and start recognizing them as resilient and creative entrepreneurs and value conscious consumers, a whole opportunity will open up…."

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