A Study on Extent of Financial Inclusion among Small Borrowers in Andhra Pradesh

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Abstract

The promotion of an inclusive financial system is considered a policy priority in many countries. While the importance of financial inclusion is widely recognized, the literature lacks in assessment of the extent of financial inclusion based on credit flow to small borrowers in Andhra Pradesh economy. This paper attempts to fill this gap by evaluating the extent of financial inclusion in Andhra Pradesh based on the penetration of credit to small borrowers.

Key Words: Financial Inclusion, Small borrowers, Andhra Pradesh economy.

1. Introduction

Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Financial Inclusion is both a crucial link and a substantial first step towards achieving inclusive growth. The liberalized, increasingly global, market driven economy of India today, has failed to facilitate inclusive growth. In recognition of this, the government and the Reserve Bank of India, have initiated steps to create enabling conditions for inclusive growth. Financial Inclusion refers to “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” (Committee on Financial Inclusion, 2008). In other words, financial inclusion is delivery of financial services at an affordable cost (‘no frills’ accounts) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sign of an open and efficient society. 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.

2. Objectives of the Study

The objectives of this paper are to enumerate flow of credit to small borrowers in Andhra Pradesh and to evaluate the extent of financial inclusion based on credit to small borrowers in Andhra Pradesh.

3. Research Methodology to Assess Extent of Financial Inclusion

Distribution of bank branches, number of accounts, deposits and credit indicates extent of financial inclusion in an economy. Therefore, to assess the extent of financial inclusion measures such as population per branch, deposits per population, credit per population, accounts per 100 population, deposits per GDP, credit per GDP, deposits per account and credit per account are used in various studies. In the present study we attempt to evaluate the extent of financial inclusion in Andhra Pradesh based on credit flow to small borrowers with special reference to agriculture credit. The period of study considered for the present study is from 1996 to 2009. Data on banking measures were obtained from report on Banking Statistical Returns (1998-2009), published by RBI and data at regional level sourced from Statistical Abstract of Andhra Pradesh (1990–2009), published by Directorate of Economics and Statistics, GoAP. Population statistics were obtained from Census 2001.

4. Flow of Credit to Small Borrowers in Andhra Pradesh

Total credit increased from Rs 1789187 lacs to Rs 22907507 lacs during 1996 to 2009 with ACGR of 22% (Table 1 & 2). The rate of growth in credit is highest during 2001-2006 and least during 1996-2001. Credit to small borrowers increased from Rs 446074 lacs to Rs 4337047 lacs during 1996 to 2009 with ACGR of 22% (Table 1 & 2). The rate of growth in credit is highest during 1996-2001 and least during 2006-2009. Though there is positive growth in bank credit, proportion of credit to small borrowers in total reduced from 24.93% to 18.93% during 1996 to 2009. More specifically proportion of rural small borrowers decreased from 47.08 to 38.79 (Table 3). Serious measures are to be initiated to enhance the proportion credit to small borrowers in total from mere 18.93% and further to enhance proportion of rural small borrowers in total small borrowers decreased from 47.08 to 38.79 (Table 3). Serious measures are to be initiated to enhance the proportion credit to small borrowers in total from mere 18.93% and further to enhance proportion of rural small borrowers in total small borrowers from 38.79. It is worth noting that proportion of number of small borrowers accounts to total accounts appears to be very large at 90%, but equivalent proportion of small borrowers credit in total credit is dismally low at 20%. Therefore, it is thought appropriate to evaluate credit to small borrowers based on the measure called ‘per account credit’. This measure indicates the penetration of credit to small borrowers, large borrowers and total borrowers.

5. Evaluation of Distribution of Banking Credit

So far we have discussed growth of scheduled commercial banks in terms of accounts, and credit to small borrowers. Now, it is proposed to evaluate the distribution of credit by analysing per account credit to small borrowers.
Credit per Number of Accounts

Credit to number of accounts ratio indicates higher access to banking products to the customers of the bank. This section deals with the distribution of credit among small borrowers and large borrowers. Total small borrowers credit per account increased from Rs 7177 to Rs 39683 during 1996-2009 with ACGR of 14% and total small borrowers credit per account in rural areas increased from Rs 6190 to Rs 33292 during 1996-2009 with ACGR of 13.82%. It is evident that penetration of agricultural credit in rural areas as well as all areas is on par with distribution of total credit per account with ACGR of 13% (Tables 4, 5, 6 and 7).

Total large borrowers credit per account increased from Rs 374884 to Rs 1483709 during 1996-2009 with ACGR of 11.16% and total large borrowers credit per account in rural areas increased from Rs 181560 to Rs 778462 during 1996-2009 with ACGR of 11.85%. It is evident that agricultural credit of large borrowers in rural areas as well as all areas is far less than that of distribution of total credit per account with ACGR of 10%...

All borrowers’ credit per account increased from Rs 27218 to Rs 188061 during 1996-2009 with ACGR of 16.03% and all borrowers credit per account in rural areas increased from Rs 10884 to Rs 61615 during 1996-2009 with ACGR of 14.27%. It is evident that agricultural credit of all borrowers in rural areas as well as all areas is far less than that of distribution of total credit per account with ACGR of 13%...
of financial products which suits the requirements of the lower income groups is to be addressed. RRBs and co-operative banks, which were established to expand the outreach of financial services in the unbanked sectors/segments can design appropriate products tailor made to suit the requirements of the people with low income so that they are not driven to non-institutional sources. Finally, an integrated approach should be adopted by Indian banking sector along with other financial service providers and information technology players to achieve complete financial inclusion in India.

References