

# 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 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.

**Table 1: Commercial Bank Credit in Andhra Pradesh: Small Borrowers and Total Credit**

Year	Small Borrowers		Amount outstanding		Total Credit	
	Number of Accounts	% in total credit accounts	(Rs.in lakhs)	% in total amount outstanding	No. of Accounts	Amount Outstanding (Rs.in lakhs)
1996	6215160	94.55	446074	24.93	6573434	1789187
2001	6141301	97.72	1168623	33.06	6284673	3534876
2006	9517018	94.19	2806266	27.78	10103766	10100654
2008	10946817	92.22	3833371	22.07	11870763	17367932
2009	10929252	89.72	4337047	18.93	12180876	22907507

Source: Report on Banking Statistical Returns (1998-2007), RBI and Statistical Abstract of Andhra Pradesh (1990-2009), Directorate of Economics and Statistics, GoAP

**Table 2 Annual Compound Growth Rates of Credit in Andhra Pradesh: Small Borrowers and Total Credit**

Period	Small borrowers		Total Credit	
	Accounts	Credit	Accounts	Credit
1996 to 2001	-0.24	21.24	-0.89	14.59
2001 to 2006	9.16	19.15	9.96	23.37
2006 to 2009	4.72	9.10	3.81	17.79
1996 to 2009	4.44	19.12	4.86	21.67

Source: Authors

**Table 3 Percentage Share of Rural Small Borrowers in Total Small Barrowers: Andhra Pradesh**

Year	Accounts	Amount
1996	54.59	47.08
2001	49.50	38.53
2006	45.26	35.46
2008	46.99	38.26
2009	46.24	38.79

Source: Authors

### 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%...

**Table 4 : Per account Agricultural Credit of Borrowers**

Year	Rural Areas			All Areas		
	Small Borrowers	Large Borrowers	All Borrowers	Small Borrowers	Large Borrowers	All Borrowers
1996	6406	117832	8572	6795	188675	10564
2001	14123	500980	16465	14861	927397	20481
2006	21551	567873	27185	22511	928711	36374
2008	26331	214717	32949	28231	831678	43262
2009	31288	408069	42541	33625	730433	58533

Source: Authors

**Table 5 : Growth Rates in Per account Agriculture Credit of Borrowers**

Year	Rural Areas			All Areas		
	Small Borrowers	Large Borrowers	All Borrowers	Small Borrowers	Large Borrowers	All Borrowers
1996 to 2001	17.13	33.57	13.94	16.94	37.50	14.16
2001 to 2006	8.62	2.54	10.55	8.66	0.03	12.17
2006 to 2009	13.59	-10.43	16.10	14.31	-7.69	17.19
1996 to 2009	12.98	10.03	13.11	13.09	10.97	14.08

Source: Authors

**Table 6 : Per account Total Credit of Borrowers**

Year	Rural Areas			All Areas		
	Small Borrowers	Large Borrowers	All Borrowers	Small Borrowers	Large Borrowers	All Borrowers
1996	6190	181560	10884	7177	374884	27218
2001	14811	1158821	22929	19029	1650459	56246
2006	21068	1180789	51287	29887	1233189	99969
2008	28507	302454	62965	35018	1464865	146308
2009	33292	778462	61615	39683	1483709	188061

Source: Authors

**Table 7 : Growth Rates in Per account Total Credit of Borrowers**

Year	Rural Areas			All Areas		
	Small Borrowers	Large Borrowers	All Borrowers	Small Borrowers	Large Borrowers	All Borrowers
1996 to 2001	19.06	44.88	16.07	21.53	34.51	15.62
2001 to 2006	9.30	0.53	17.46	9.15	-5.51	12.19
2006 to 2009	13.29	-13.19	6.33	10.41	6.07	23.45
1996 to 2009	13.82	11.85	14.27	14.06	11.16	16.03

Source: Authors

## 6. Key findings and suggestions

Degree of financial inclusion among small borrowers is not very satisfactory. Per account agricultural credit to small borrowers is dismally lower than that of large borrowers (Table 4). This ratio can be enhanced by the banks through SHG - BLP, Business Correspondent/ Business Facilitator models of Financial Inclusion

## 7. Challenges to Achieve 100% Financial Inclusion

While there has been significant improvement in financial inclusion in recent years, going forward, several challenges remain which need to be addressed. First, a proper assessment of the problem of financial exclusion is necessary for initiating appropriate policy responses for promoting financial inclusion. At present, however, there is no single comprehensive source of such information. There is, therefore, a need to conduct specific survey for gathering information relating to financial inclusion/ exclusion. To develop the database of under privileged population in India, government of India initiated a project to generate Unique Identifier database (UID) under the chairmanship of Mr. Nanadan Nilkeni, former CEO, Infosys. Second, major hindrance to financial inclusion is high operating cost as institutions have to reach out to far away areas and deal in small transactions. The key to enhanced financial inclusion is, thus, reduction in transaction costs. Here, technology can play a major role. Third, financial illiteracy is another issue to be handled by the regulators to achieve financial inclusion. Organising financial literacy awareness programs and credit counselling to the poor people in their local language creates the right conditions for financial inclusion. Fourth, availability

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.

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