



## FINANCIAL INCLUSION IN RURAL SECTOR: AN ANALYSIS

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### ABSTRACT

*Financial inclusion in the rural and agriculture sector has been recognized as a crucial instrument in improving the livelihoods situations of poor households. The system of rural credit in India during last six decades has been witness to many phases and reforms undertaken from time to time. The paper analyses the various policy interventions, phases and trends and patterns and issues of financial inclusion through institutional rural credit including cooperatives, commercial banks, Regional Rural Banks, NABARD and microfinance. Despite the significant success in terms of spread, network and outreach of rural financial institutions, the volume of flow of financial resources to rural sector continues to be insufficient. In short, it had created a structure which is quantitatively impressive but qualitatively weak. The current state of financial inclusion in rural areas is less than the expectations. To streamline the current scenario, the paper suggests implementing proper reforms system of the cooperative credit structure, merging and revamping of RRBs that are predominantly located in remote, poor and tribal areas. Special thrust on small and marginal farmers and non-farm sector should also receive high priority through some new and innovative methods. The paper also suggests adopting microfinance as a good alternative to cope up the problems of rural credit with new innovations in product design and methods of delivery. The current state calls for concerted efforts to augment the flow of credit to rural and agriculture alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.*

### Introduction

Rural and agricultural credit system in India has a long history. Traders, money-lenders and other informal sources have traditionally been providing credit to the rural people, usually at exorbitant rates of interest. The presence of institutional finance in rural India dates back to as early as 1793 when the system of taccavi loans were introduced through which loans were provided to the agricultural sector at low interest rates. The Land Improvement Loans Act of 1883 was the first consolidated law aimed at providing agricultural loans (Karmakar, 1999). The various phases of institutional credit-delivery pattern may be understood by analyzing the background policy-interventions in the Indian rural financial system. The development of the rural credit delivery system had three distinct phases. While the first phase (1904-1969) encompassed the domination of the credit co-operatives, the second phase (1969-1991) was marked by the induction of commercial banks into the rural credit delivery system through their nationalization in 1969 and priority sector lending policy, and the setting up of the Regional Rural Banks (RRBs) all over the country in 1975 with a view to provide low-cost banking facilities to the weaker sections of society. The third phase, concomitant with the introduction of financial sector reforms, is characterized by the transformation of credit institutions into organizationally strong, financially viable and operationally efficient units and also the introduction of microfinance.

### Access To Credit And Rural Indebtedness

The All India Debt and Investment Survey (AIDIS) of National Sample Survey Organization

(NSSO) provide information on the pattern of households' indebtedness. The survey is conducted on a decadal basis<sup>1</sup>. According to the survey, the number of indebted households declined during the period between 1961 and 1981, thereafter increased significantly in rural areas and declined marginally in urban areas. Overall, 24.1 per cent of the total households and 26.5 per cent of rural households were indebted in 2002 as compared to 22.3 per cent and 23.4 per cent respectively in 1991 (Table 1).

**Table 1 : Number of Indebted Households (In Millions)**

End-June	Rural	Urban	Total
1961	43.1 (62.8)	@	43.1 (62.8)
1971	31.8 (41.3)	@	31.8 (41.3)
1981	18.2 (19.4)	5.0 (17.2)	23.2 (18.9)
1991	27.2 (23.4)	8.1 (19.3)	35.3 (22.3)
2002	39.2 (26.5)	9.9 (17.8)	49.1 (24.1)

Note: Figures in parentheses indicate number of indebted households as percentage of total households.

Source: AIDIS survey: various rounds.

@: Surveys of 1961 and 1971 collected information on rural households only.

The share of rural indebted households in the total indebted households increased from 77 per cent in 1991 to 80 per cent in 2002. Indebtedness (households with debt as percentage of total households) was larger in rural areas than in urban areas. Furthermore, the gap between rural/urban indebtedness widened in 2002 as compared to 1991. According to another survey released by the National Council of Applied Economic Research in 2008, at end-June 2005, 23.9 per cent (49.2 million) of all Indian households had loans outstanding with the ratio being 20.9 per cent (12.8 million) in urban and 25.2 per cent (36.4 million) in rural areas. The percentage of indebtedness was 17.9 per cent in STs, 27.1 per cent in SCs and 28.9 per cent in the case of OBCs (Table 2).

**Table 2 : Incidence of Rural Indebtedness by Social Groups**

Indicators	ST	SC	OBC	Others	All
Average debt per household (Rupees)	3205	4641	8288	10437	7539
Debt asset ratio	2.3	3.7	3.1	2.4	2.8
Incidence of indebtedness (%)	17.9	27.1	28.9	25.7	26.5

Source: All-India Debt and Investment Survey, Ministry of Statistics and Programme Implementation, Government of India, NSS 59th Round, 2003.

Between 1981 and 1991, the share of number of households indebted to institutional sources increased sharply, while that of those indebted to non-institutional sources declined correspondingly. Between 1991 and 2002, the number of households indebted to institutional sources in absolute terms, both in rural and urban areas, continued to increase.

However, reversing the trend of previous three decades, the share of households indebted to institutional sources in the total indebted

**Table 3 : Number of Indebted Households -  
Institutional Versus Non-Institutional Sources**

Credit Agency	1961	1971	1981	1991	2002
Million					
I. Institutional Agencies					
Of which:	7.5	7.6	8.9	18.2	19.8
	-	(0.2)	(1.5)	(7.4)	(0.8)
(i) Government	3.7	2.6	1.0	2.0	1.2
(ii) Co-operative Societies	6.9	5.9	6.1	7.8	10.2
	-	(-1.5)	(0.3)	(2.6)	(2.5)
(iii) Commercial banks	0.3	0.3	2.9	8.7	8.4
	-	(2.1)	(24.0)	(11.6)	(-0.3)
II. All Non-Institutional Agencies of which:	35.6	24.2	9.3	11.4	22.9
	-	(-3.8)	(-9.1)	(2.1)	(6.5)
(i) Landlords	0.6	3.6	1.1	1.3	0.6
(ii) Agricultural moneylenders	22.0	8.2	2.4	2.7	4.9
(iii) Professional moneylenders	7.6	5.0	1.9	3.6	10.2
III. All Agencies	43.1	31.8	18.2	27.2	39.2
	-	(-3.0)	(-5.5)	(4.1)	(3.4)
Per cent to Total Indebted Households					
I. Institutional Agencies of which:	17.3	24.0	48.8	66.7	50.6
(i) Government	8.6	8.3	5.4	7.3	3.0
(ii) Co-operative Societies	15.9	18.5	33.4	28.6	26.0
(iii) Commercial banks	0.6	1.1	16.0	32.1	21.5
II. All Non-Institutional Agencies of which:	82.7	76.0	51.2	41.9	58.5
(i) Landlords	1.4	11.2	6.2	4.7	1.5
(ii) Agricultural moneylenders	51.0	25.8	13.2	9.8	12.5
(iii) Professional moneylenders	17.7	15.7	10.5	13.2	26.0
III. All Agencies	100.0	100.0	100.0	100.0	100.0

Note: Figures in parentheses are compound annual growth rates.

Source: All India Debt and Investment Survey (AIDIS), various rounds.

households declined, while that of households indebted to non-institutional sources

increased. The decline was relatively more pronounced among rural households and was due to decline in recourse to all the three major institutional agencies, viz., Government departments, co-operative societies and commercial banks (Table 3).

### **Institutional Sources Of Financial Inclusion**

#### **Co-operatives and Rural Credit**

Rural Co-operative Banking and Credit Institutions<sup>3</sup> play an important role in meeting the growing demand of rural credit in India. Rural credit co-operatives in India were envisaged as a mechanism for pooling the resources of rural people with small means and providing them with access to different kind of financial services. The first institutional initiative in the area of rural credit was the introduction of Co-operative Credit Societies Act 1904. The Committee on Co-operatives in 1915 further recognized the need for the provision of capital to agriculture with an objective to relieve farmers from indebtedness. The All India Rural Credit Survey Committee (1951-52) assessed the role of co-operatives and found that agriculturalist money-lenders together supplied about 70 per cent of the total borrowings of agriculturists, whereas government agencies and co-operatives supplied only 6.4 per cent, and commercial banks only 0.9 per cent. The Committee, therefore, recommended an integrated re-organization of the Co-operative

Credit System, which envisaged state partnership through contribution to the share capital of the Co-operative Credit Institutions - co-ordination between credit and other economic activities, especially marketing and processing, and good administration. To streamline the situation, two funds were constituted in the RBI<sup>4</sup>.

The reform process in co-operatives has taken a much longer time in initiation on account of certain limitations - like the need for generating a consensus among the various state governments which govern and control co-operative credit institutions, and the need to balance the interests of many diversified groups which control, operate and guide the co-operatives. During the 1990s, some important changes took place in the co-operative movement, like extending the scope of co-operative societies, and in place of single purpose societies, emphasis was laid on multi-purpose societies.

#### **Rural co-operatives and Financial Inclusion**

To analyse the financial inclusion through co-operation deposit mobilization and lending operations of PACS, DCCBs and SCBs observed.

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 5). An analysis of the profile of members and borrowers since 2002-03 reveals that there has been an increasing trend in the proportion of small farmers in the total number of members and borrowers of PACS. Further, it is noteworthy that the number of small farmers as borrowers of PACS has grown at a much faster rate (7.2 per cent per annum) than the number of members (2.0 per cent) This indicates that an increasing number of small farmers has been able to seek credit from PACS in recent times. Between 2002-03 and 2007-08, however,

there has been a fall in the percentage of SC/ST in the total number of members and borrowers of PACS barring an increase in 2004-05. Similarly, there has been a fall in the percentage share of rural artisans in total members and borrowers of PACS. Moreover, the actual number of SC/ST members and borrowers too has fallen over this period (Table 6).

**Table 4 : Short Term Credit Co-operatives - All India Rural**

(In Crores)

Year	Deposits			Outstanding		
	PACS	DCCBs	SCBs	PACS	DCCBs	SCBs
1950-51	4	38	22	29	34	18
1960-61	15	112	72	218	220	167
1970-71	69	439	279	784	813	524
1980-81	291	2423	1674	2621	2987	1836
1981-82	316	2770	1880	2951	3733	2477
1982-83	369	3190	2103	3201	4380	2909
1983-84	464	3766	2546	3522	4856	2994
1984-85	526	4322	2976	3904	5178	3159
1985-86	572	5104	3385	4263	5958	3765
1986-87	710	5928	3913	4732	7188	4006
1987-88	809	7149	4512	5242	8815	4710
1988-89	1227	8467	5403	5949	10110	5887
1989-90	1284	9338	6193	6284	11671	6829
1990-91	1467	10357	6708	6486	12070	7813
1991-92	1648	12459	7321	8177	13884	7712
1992-93	1863	14668	8485	10245	15951	10351
1993-94	2979	17600	10977	9399	17391	10887
1994-95	2962	20827	11813	9996	20699	13211
1995-96	-	24534	13463	12980	24606	16585
1996-97	-	30461	17491	13345	28354	18312
1997-98	-	36628	22189	13994	31516	19588
1998-99	-	45612	25788	14894	36853	21902
1999-00	-	53634	29535	28546	43997	25698
2000-01	-	61875	32254	34522	52428	29671
2001-02	-	68586	36321	40779	59283	32710
2002-03	-	73879	39336	42411	64048	34758
2003-04	-	79153	43486	-	67152	35105
2004-05	-	80493	44067	-	72089	35306
2005-06	-	86652	47672	-	76737	38960
2006-07	-	92081	49197	-	85460	46675
2007-08	-	106792	56286	-	96301	49101

Source: Satyasai and Badatya 2000; Trend and Progress of Banking in India, 2008-09

Basic Data on Performance of State Co-operative Banks, the National Federation of State Co-operative Banks Ltd., Mumbai, Various Years.

**Table 5 : Progress of Primary Agricultural Credit Societies**

Years	No. of PACS	Members	Borrowers	Owned funds	Deposits	Borrowings	Total Resources	Loans Outstanding
1994	91.6	89.0	50.5	2,694	2,102	9,117	13,913	10,534
1995	91.1	90.6	38.0	3,412	2,962	10,176	16,550	12,141
2000	101.5	108.6	43.0	5,338	12,459	22,350	40,147	28,546
2002	98.2	102.1	55.5	6,855	14,846	29,475	51,176	40,779
2003	112.3	123.6	63.9	8,196	19,120	30,278	57,596	42,411
2004	105.7	135.4	51.3	8,397	18,143	34,257	60,797	43,873
2005	108.8	127.4	45.1	9,197	18,976	40,249	68,422	48,785
2006	106.4	125.2	46.1	9,292	19,581	41,018	69,871	51,779
2007	97.2	125.8	47.9	11,039	23,484	43,714	78,237	58,620
2008	94.9	132.0	79.0	10984	25449	47848	84281	65666

Note: Number of PACS (thousand), Members and Borrowers (million), Owned funds, Deposits, Borrowings and Loans Outstanding (Rs. Crore)

Source: Trend and Progress of Banking in India, 2008-09

With the unorganized segment meeting a significant portion of the rural debt, there is an urgent need to make PACS more inclusive in their operations. Total deposits in DCCBs increased from Rs. 38 crores in 1950-51 to Rs. 10357 crores in 1990-91, and further to Rs. 106792 crores in 2007-08. In the same way, the loan outstanding increased from Rs. 34 crores to Rs. 12070 crores and further to Rs. 96301 crores during the same years. The deposits in SCBs increased from Rs. 22 crores in 1950-51 to Rs. 6708 crores in 1990-91 and further to Rs. 56286 crores in 2008-09. The loan outstanding increased from Rs. 18 crores to Rs. 7813 crores to Rs. 49101 crores during the same years. Table 7 shows the lending operations of PCARDB and SCARDB respectively over the last two decades.

### Commercial Banks and financial Inclusion

In many studies, it was found that the extensive network of rural co-operative banks failed to materialize the required objectives. As a result, banks were nationalized in 1969 with the objectives of checking the control of banks by a few corporations, organizing savings from remote and rural regions, using the deposits mustered by banks to achieve equitable growth and concentrating on priority sectors<sup>5</sup> (Basu, 2005). Towards this end, at least 40 per cent of bank lending was required to be made in the Priority Sector and 25 per cent of these loans had to be extended to the weaker sections. Other features of nationalized banking included the 'Service Area Approach' wherein a single bank was assigned 15-20 villages and other banks could set up branches there only after obtaining its approval<sup>6</sup>.

Table 8 presents the distribution of commercial bank branches across rural, semi- urban, urban and metropolitan cities from 1995 to 2008.

**Table 6 : Profile of Borrowers and Members of PACS**

Category	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Millions						
Total members of which	1,23,552					
(100.0)	1,35,411					
(100.0)	1,27,406					
(100.0)	1,25,197					
(100.0)	1,25,792					
(100.0)	1,31,530					
(100.0)						
1.SC	(26.9)	(22.6)	(24.3)	(24.4)	(23.4)	(22.6)
2.ST	(9.7)	(8.8)	(9.3)	(9.3)	(8.8)	(8.5)
3.Small Farmers	(35.2)	(37.0)	(38.8)	(35.7)	(35.1)	(37.3)
4.Rural Artisans	(6.1)	(4.7)	(5.7)	(5.2)	(3.4)	(3.6)
Borrowers						
Total borrowers of which	63,880					
(100.0)	51,265					
(100.0)	45,070					
(100.0)	46,081					
(100.0)	47,910					
(100.0)	79,408					
(100.0)						
1.SC	(18.0)	(9.2)	(16.1)	(15.1)	(11.8)	(9.7)
2.ST	(12.6)	(6.7)	(7.7)	(7.2)	(7.2)	(6.3)
3.Small Farmers	(26.9)	(26.3)	(28.2)	(31.8)	(32.2)	(32.8)
4.Rural Artisans	(4.8)	(4.9)	(4.7)	(3.9)	(4.0)	(2.6)

Note: Figures in parentheses are percentages to total.

Source: Same as Table 4

The impact of bank nationalization on the growth of commercial banks is very impressive as the share of rural branches in total branches increased from 22.2 per cent in 1969 to 35.4 per cent in 1972. The share increased gradually and reached the highest level of 58.5 per cent in 1991. From 1992 onwards, there was a slow decline in the share of rural bank branches and the share fell below 50 per cent in 2000 and thereafter. There was an absolute contraction in the number of bank offices in the 1990s: 2723 rural bank branches were closed between March 1994 and March 2000. One of the indicators for measuring banking access is the population per branch. Following the nationalization of banks in 1969, the

branch network of Scheduled Commercial Banks (SCBs) expanded rapidly.

**Table 7 : Long Term Credit Co-operatives – All India Rural (Rs. Crores)**

Year	Deposits		Outstanding	
	PCARDB	SCARDB	PCARDB	SCARDB
1950-51	0	0	-	-
1960-61	0	1	-	-
1970-71	3	7	-	-
1980-81	7	29	1609	-
1981-82	-	-	1716	-
1982-83	-	-	1934	-
1983-84	-	-	1755	-
1984-85	-	-	1846	-
1985-86	-	-	2685	-
1986-87	-	-	1657	301
1987-88	-	-	1574	8
1988-89	-	-	1978	626
1989-90	-	-	1925	1406
1990-91	16	66	2014	1348
1991-92	16	57	2143	30
1992-93	21	76	2480	1906
1993-94	27	113	2701	2091
1994-95	33	122	2709	2500
1995-96	30	158	4098	6857
1996-97	55	163	4936	8016
1997-98	86	207	5840	9182
1998-99	166	240	6820	10443
1999-00	218	422	7602	11578
2000-01	210	536	8295	12553
2001-02	256	571	9982	14147
2002-03	222	546	10775	15385
2003-04	252	605	11209	16212
2007-08	331	645	18217	24403

Note: Not Available Source: Basic Data on Performance of State Co-operative Banks, the National Federation of State Co-operative Banks Ltd., Mumbai, Various Years, Trend and Progress of Banking in India, 2008-09



As a result, the population per branch declined significantly between 1969 and 1991. The population per branch in the rural segment increased after 1991.

**Table 8 : Distribution of Offices of Scheduled Commercial Banks (SCBs)**

Year	Rural	Semi-urban	Urban	Metropolitan	Total
1969	22.2	40.5	19.2	18.2	100
1972	35.4	32.3	18.4	13.9	100
1973	36.2	30.9	18.0	14.9	100
1974	36.4	30.2	18.3	15.1	100
1975	36.3	29.9	18.6	15.1	100
1976	36.2	30.3	18.8	14.7	100
1977	38.5	29.2	18.3	14.0	100
1978	42.1	27.2	17.3	13.3	100
1979	44.2	26.1	16.7	13.0	100
1980	46.6	25.1	16.0	12.4	100
1981	49.4	23.7	15.3	11.6	100
1982	52.1	22.5	14.5	10.9	100
1983	53.9	21.6	14.1	10.4	100
1984	56.0	20.6	13.5	9.9	100
1985	58.7	19.1	12.8	9.4	100
1986	55.7	19.9	13.5	10.9	100
1987	56.1	19.7	13.4	10.8	100
1988	56.2	20.1	13.2	10.5	100
1989	57.2	19.4	13.0	10.4	100
1990	58.2	19.0	13.5	9.4	100
1991	58.5	18.8	13.4	9.3	100
1992	58.2	18.7	13.7	9.4	100
1993	57.9	18.7	14.0	9.4	100
1994	57.2	19.2	14.1	9.4	100
1995	52.9	21.4	14.2	11.5	100
1996	52.4	21.5	14.4	11.7	100
1997	51.8	21.7	14.7	11.8	100
1998	51.2	21.8	14.9	12.1	100
1999	50.6	21.8	15.2	12.3	100
2000	50.0	22.0	15.4	12.6	100
2001	49.4	22.1	15.6	12.8	100
2002	48.9	22.3	15.8	13.0	100
2003	48.6	22.3	16.1	13.0	100
2004	47.8	22.5	16.4	13.4	100
2005	45.7	22.3	17.6	14.4	100
2008	44.7	22.0	18.4	14.9	100

Source: Computed from Banking Statistical Returns (BSR), RBI, various issues.

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The population per branch, however, continued to decline in the urban areas. One of the factors responsible for increase in population per branch in rural areas between 1991 and 2007 was the reclassification of 953 rural centres, classified as rural as per 1991 census, which moved to higher population centres on account of increase in population (RBI, 2008). The number of savings accounts opened by SCBs expanded significantly over the years, especially between the early 1970s and the early 1990s. The expansion in savings accounts was much faster than the population growth, resulting in a substantial improvement in savings account penetration (savings accounts per 100 persons) (Table 9). The improvement was observed both in the urban and rural areas. The number of savings accounts per 100 persons/adults, which declined between 1991 and 2002, increased sharply thereafter. As a result, the number of savings accounts per 100 persons/adults at end-March 2007 was larger than that at end-March 1991. As regards 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, it 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 9).

**Table 9 : Saving and Credit Accounts in Rural Areas with Scheduled Commercial Banks**

Year	1971	1981	1991	2001	2006	2007
No of Accounts (Millions)	--	56.9	153.8	169.8	194.4	213.8
Accounts Per 100 Persons	--	10.9	24.5	22.9	24.2	26.2
Accounts Per 100 Adults	--	17.9	39.2	35.0	35.8	38.8
Total						
No of Accounts (Millions)	23.6	97.8	253.0	290.0	343.4	373.5
Accounts Per 100 Persons	4.3	14.3	29.9	27.2	30.8	33.0
Accounts Per 100 Adults	7.1	22.9	46.9	41.5	45.9	48.9
No. of Accounts (Millions)	--	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
Total						
No. of Accounts (Millions)	4.3	20.7	61.9	52.4	85.4	94.4
Accounts Per 100 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

Source: Same as Table

The significant increase in credit accounts in recent years, particularly in the urban areas, was on account of robust growth in retail, housing and consumer finance. One of the main objectives of the social-banking policy was to expand the flow of credit to the priority-sector. Table 10 shows the share of this sector's advance to total bank credit and share of agriculture within the priority sector.

The share of priority sectors in the total credit outstanding of scheduled commercial banks

raised from 14 per cent in 1969 to 36.6 per cent in 1990-91 and then decreased in the following years<sup>7</sup>.

**Table 10 : Share of Priority Sector in Total Bank Credit by All SCBs in India**

Year	Share of priority sector total bank credit	Share of agriculture in priority sector
1980-81	34.0	44.1
1981-82	37.7	45.5
1982-83	36.4	45.4
1983-84	39.4	44.8
1984-85	39.9	44.2
1985-86	38.4	42.0
1986-87	38.3	45.1
1987-88	40.4	43.5
1988-89	39.9	43.5
1989-90	36.8	43.3
1990-91	36.6	40.9
1991-92	35.7	41.5
1992-93	33.5	40.6
1993-94	32.3	40.3
1994-95	29.5	36.8
1995-96	28.7	39.4
1996-97	28.7	38.8
1997-98	27.5	38.9
1998-99	33.0	31.4
1999-00	33.9	28.5
2000-01	33.8	32.4
2001-02	31.3	34.6
2002-03	33.2	34.0
2003-04	35.4	33.4
2004-05	34.8	32.8
2007-08	33.8	32.6

Sources: Same as Table

The advance to agriculture under priority sector has continuously declined from 1991 onwards. Table 10 represents the distribution of credit outstanding of commercial banks directly to farmers' households by different size of landholding. The distribution of credit is noticeably in favour of large-sized or large farmers. The total amount of credit to large farmers was Rs. 1456 crores in 1981, and for medium and small farmers it was Rs. 396 and Rs. 477 crores respectively. In the year 2007, the amount was Rs. 64810 crores, Rs.

37815 crores and Rs. 37336 crores for the same categories. Thus, it is clear that the rich farmers have more access to institutional sources of credit from the commercial banks than the small and medium farmers. Under social banking, commercial banks were also directed to provide credit to underprivileged sections of society known as weaker sections which includes small and marginal farmers, agriculture labourers, Scheduled Castes and Scheduled Tribes population.

### Regional Rural Banks And Financial Inclusion

With the increasing emphasis on priority-sector loans targeted at the poor and the weaker sections of society, Regional Rural Banks<sup>8</sup> were formed from 1975 onwards. The main objective of RRBs was to provide credit and other facilities particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs to develop the agriculture, trade, commerce, industry and other productive activities in the rural areas. The financial viability of RRBs has engaged the attention of the policy-makers from time to time.

**Table 11 : Savings Accounts with Regional Rural Banks**

Year	No. of Accounts (million)	Deposits Outstanding (Rs. Crore)
1991	26.5	2,552
1992	28.5	2,899
1993	29.7	3,059
1994	30.5	4,016
1995	31.2	5,246
1996	31.4	6,006
1997	32.7	7,354
1998	34.4	9,242
1999	34.4	10,902
2000	35.4	12,777
2001	36.7	14,732
2002	36.7	17,507
2003	40.1	20,803
2004	42.9	25,670
2005	44.9	30,390
2006	47.5	37,559
2007	52.7	45,014

Sources: Same as Table 4.5.

### Regional Rural Banks and Financial Inclusion

The number of savings accounts with RRBs which are included in scheduled commercial banks increased significantly between 1991 and 2006. In tandem with the growth in the number of accounts, the deposits with RRBs also increased (Table 11).

The share of number of accounts in credit limit of Rs.25,000-Rs.200,000, increased between 1991 and 2006. 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. The number of credit accounts with the RRBs also declined somewhat in the late 1990s, but increased during the current decade (Table 12).

### **NABARD, MICROFINANCE AND Financial Inclusion**

NABARD was established as an apex rural development bank in the year 1982 to provide re-finance for agriculture, allied activities, small scale industries, cottage and village industries, rural artisans and crafts in an integrated manner. NABARD supports the rural credit system by way of

**Table 12 : Regional Rural Banks in India – Credit Accounts/Amounts**

(No. of Accounts in 000, Amount in Rupees crores)

End - March	Credit Accounts		Small Borrower Accounts	
	Accounts	Amount	Accounts	Amount
1996	13.056	7.344	12.902	6.120
1997	12.102	8.655	11.885	6.845
1998	12.293	10.200	12.001	7.797
1999	11.138	11.279	11.098	10.194
2000	11.868	13.126	11.801	11.581
2001	12.203	16.352	12.132	14.380
2002	12.627	18.869	12.543	16.435
2003	12.873	22.623	12.776	19.757
2004	12.715	28.020	12.593	22.310
2005	14.167	32.689	14.014	27.878
2006	13.394	38.644	13.195	30.163
2007	14.958	47.855	14.666	37.330

Sources: Same as Table 4.5

re-finance for short-term, production/ marketing activities, medium-term and long-term loans for technically feasible and financially viable projects in both Farm and Non-Farm sectors, through State Co-operative Banks (SCBs), and Regional Rural Banks (RRBs). The State Co-operative Agriculture and Rural Development Banks (SCARDBs) are supported for only term-loans for investment credit. The commercial banks are supported for short-term financing of primary weavers' societies and for term-loans for investment-credit. NABARD provides finance to State Governments for completion of rural infrastructure development projects such as major and minor irrigation projects, soil conservation, rural roads and bridges, SHGs (Self Help Groups) through Panchayati Raj Institutions (PRIs).

**Table 15 : Self-Help Group-Bank Linkage Programme**

Amount in Rs. Crores

Year (End March)	No. of SHGs Financed by Banks		Refinance	
	During the year	Cumulative	During the year	Cumulative
1992-93	255	255	0.27	0.27
1993-94	365	620	0.19	0.46
1994-95	1502	2122	1.67	2.13
1995-96	2635	4757	3.53	5.66
1996-97	3841	8598	4.99	10.65
1997-98	5719	14317	10.74	21.39
1998-99	18678	32995	30.67	52.06
1999-00	81780	114775	98.07	150.13
2000-01	149050	263825	244.85	394.98
2001-02	197653	461478	395.26	790.24
2002-03	255882	717360	622.47	1412.71
2003-04	361731	1079091	705.44	2118.15
2004-05	539365	1618456	967.76	3085.91
2005-06	620109	2238565	1067.72	4153.63
2006-07	1105749	2894505	1292.86	5446.49
2007-08	1227770	3625941	1615.5	7061.99
2008-09	1609586	5235527	2620.03	9682.02
2009-10	1586822	6822349	3173.56	12861.65
2010-11	1196456	8018805	2545.36	15407.01
2011-12	1148000	9166805	3072.59	18479.60

Note: 1) From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojna' (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07. 2) Figures for 2006-07 and 2007-08 are outstanding number of SHGs and outstanding bank loans to SHGs as on 31 March of respective years.

Source: Annual Reports of SHG-Bank Linkage & Status of Microfinance, NABARD, Various years.

The Indian Microfinance sector is characterized by a variety of microfinance service providers<sup>9</sup>. Various traditional as well as innovative approaches have been adopted by formal Commercial Banks, Regional Rural Banks and Co-operatives as well as MFIs, for increasing the credit flow to the segments mentioned above. Within the group based category, there are two sub-categories viz. Self Help Group (SHG) and the Grameen Bank model. Of these two models, the SHG model is most commonly used by many organizations in India. The SHG-bank Linkage Programme adopted by NABARD with partner agencies has emerged as an attractive mode of credit delivery model. The Bank Linkage programme

was started in the year 1992. The linkage helps to promote financial transactions between the formal rural banking system in India (comprising public and private sector commercial banks, regional rural banks and cooperative banks) with the informal SHGs as clients. The programme also provides a model of cooperation between NGOs and banks that is claimed to build on the value added of both of them (Wilson, 2003). Operationally, the programme works in two different ways first under the SHG-bank linkage model and second under MFI-Bank Linkage Model<sup>10</sup>.

The Self Help Group Bank Linkage Program exhibited significant growth in terms of coverage and outreach of credit to the rural poor. Beginning with a modest number of 255 SHGs in 1992-93, a total of 4145191 SHGs were credit linked with banks in 2008-09. The cumulative disbursement of bank loan was Rs. 0.29 crore in 1992-93, which increased to Rs. 480.87 crore in 2000-01 and further Rs. 16999.9 crore in 2007-08. Total refinance was increased from Rs. 0.27 crore in 1992-93 to Rs. 394.98 crore in 2000-01 and Rs. 9282.02 crore in 2008-09 and 114800 crore in 2011-12 (Table 13).

It is clear from the table 14 that in agency wise distribution of rural credit, commercial banks are at top with 54.49 per cent share followed by cooperative banks and RRBs.

#### **Financial Exclusion In Farms And Non-Farms Areas**

According to the Report of the Committee on Financial Inclusion, as per NSSO data, 45.9 million farmer households in the country (out of a total of 89.3 million households) do not access credit, either from institutional or non-institutional sources. The Committee shows that highest financial exclusion (63.88 per cent) is among Scheduled Tribes followed by Scheduled Castes (49.77) and 48.58 per cent in case of OBCs. Banking data reveal that credit exclusion is severe in 139 districts of the country. In these districts, only 10 per cent or less (out of 100 persons) has access to credit. There is also a wide variation across regions, social groups and asset holdings. According to the World Bank (2003), India's financial system has not been able to provide adequate access to the 193 million rural poor and another 180 million rural near-poor. Of the landless and marginal farmers, over 70 per cent have no deposit account and 87% have no access to formal credit. Only 1 per cent of all rural households have access to emergency loans. For the lowest segments of the rural population, the scheduled castes, access until recently has been very low. According to NSSO 59th Round (2003), only 48.6 per cent of the total number of cultivator households received credit from both formal and informal sources and remaining 51.4 per cent did not receive any credit. In the same survey, it is further revealed that 22 per cent of the cultivator households received credit from informal sources. Only 27.6 per cent of the farmer households has availed credit from formal institutions like banks, co-operatives and government (Jeromi, 2007). Further, a Rural Finance Access Survey 2003, conducted by the World Bank and NCAER, revealed that 79 per cent of the rural households have no access to credit from formal sources (Basu, 2006). Access to other financial services such as insurance is even more limited for the rural poor (Basu, 2005).

## Conclusion

In India, the institutionalization of the credit delivery system was initiated by the creation of Co-operative Societies Act, 1904. But the process of institutional credit delivery was intensified with the nationalization of commercial banks in 1969 and further, for greater penetration of credit to weaker sections, Regional Rural Banks (RRBs) were created in 1975. At the apex level, to serve the rural people, NABARD was created in 1982. With all these efforts, the government also launched various poverty-alleviation and rural-development programmes with credit as the main component. These measures resulted in impressive gains in rural outreach and volumes of credit. The problem in the system two-fold - the institutional structure was neither profitable in rural lending nor serving the needs of the poorest. In short, it had created a structure, 'quantitatively impressive but qualitatively weak'. The current state of financial inclusion in rural areas is less than the expectations.

To streamline the current scenario and proper financial inclusion, there is need to implement proper reforms of the cooperative credit structure on the lines proposed by the Task Force on Revival of Rural Cooperative Credit Institutions in order to make PACS truly democratic, member-driven, professional organizations. Merging and revamping of RRBs that are predominantly located in remote, poor and tribal areas should be encouraged as some state have done good in this area. Governments and Sponsor Banks have to come together and cooperate in this area. Special thrust on small and marginal farmers should also receive high priority through some new and innovative methods. In the current scenario, microfinance has emerged as a good alternative to cope up the problems of rural credit but it is in the evolving stage and lot to be done in this area. Since, the access of small and marginal farmers to credit has been constrained by their inability to offer the collaterals, micro finance, which works on social collaterals, can go a long way in catering to their requirements. The Joint Liability Group approach of NABARD for famers is very innovative in nature, an attention, therefore should be given for proper outreach and impact. To conclude, in the current policy-framework in rural finance, new and innovative tools should be used in to ensure proper inclusiveness with sustainability. The current state calls for concerted efforts to augment the flow of credit to rural and agriculture alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

## Notes / References

- 1 The first three surveys, however, collected information in respect of rural households only. The fourth survey (1981), provided information on indebtedness of urban households.
- 2 The Rangarajan Committee on Financial Inclusion (2008) defined financial inclusion "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost"
- 3 The co-operative credit structure in India comprises both short-term (production credit) and long term (investment credit) credit. The short-term credit structure comprises Primary Agriculture Credit Societies (PACS) operating at the village level. During the recent years, the Mutually Aided Co-operative Societies (MACS) have emerged in Andhra Pradesh and other states of India. The short and medium-term lending of PACS is supported by District Central Co-operative Banks (DCCBs) which make loan funds available



- to PACS. DCCBs, in turn, are supported and supervised by State Co-operative Banks (SCBs).
- 4 National Agricultural Credit Fund, that was meant to provide long-term funds for State partnership in Co-operatives and subscription to the debentures of the Land Mortgage banks and the National Agricultural Credit (Stabilization) Fund.
  - 5 RBI has included those sectors as a part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. The categories of priority-sector lending are agriculture, small enterprises, other small business/ service enterprises, micro-credit, education and housing loans.
  - 6 The Reserve Bank of India (RBI) has done away with the service area branch approach from January 2005. Now, the borrowers have a choice to receive credit from any bank of their choice.
  - 7 This is, however, a reversal, by re-definition, of priority sector rather than deepening of credit delivery to the poor per se: "priority sector" lending now includes advances to newly created infrastructure funds, to NBFCs for on-lending to very small units, and to the food-processing industry.
  - 8 The area of operation of RRBs is limited to the area as notified by Government of India, covering one or more districts in the State. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Co-operative Bank).
  - 9 These are NABARD, Small Industrial Development Bank of India (SIDBI) and government owned schemes such as Swarnajayanti Gram Swarajgar Yojana (now National Rural Livelihood Mission) and societies like Rashtriya Mahila Kosh (RMK), formal sector financial institutions, Commercial Banks, RRBs, member-based institutions like Co-operatives, MACS, SHG Federations, private sector companies, specialized Non Banking Financial Corporations (NBFCs), Societies, Trusts, etc..
  - 10 SHG-Bank linkage involves the SHGs financed directly by the banks viz., Commercial Banks (Public Sector and Private Sector) and RRBs and Cooperative Banks and MFI-Bank linkage covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers covered under the microfinance sector. In the first sub-model, bank themselves finance and nurture the SHGs. In the second sub model, NGOs, Farmers' Clubs, Individual Volunteer and formal agencies other than banks in the field of micro finance, act as facilitators. Banks give loans directly to these SHGs. Under the MFIs linkage model, NGOs, SHG Federations, etc. take the ad-on role of financial intermediation. Banks finance these MFIs, federations who in turn finance their member SHGs.
  - 11 Scheme to finance Joint Liability Groups, Support to SHGs federations, Microfinance Development Fund, Setting up of Computer Munshi, Rating of Microfinance institutions, Post Office Linkage Programme, Grain Banks and SHGs, Rural Volunteers as Book Writers, Project on 'e-Grama', Social Security System for SHG Members, SHG-2, etc.

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