Financial Liberalization and Extent of Financial Exclusion in India

A Study of Economically and Socially Backward Classes in Kerala

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Dissertation submitted in partial fulfillment of the requirements for the Degree of Master of Philosophy in Applied Economics of the Jawaharlal Nehru University

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CERTIFICATE

I hereby affirm that the work for the dissertation titled ***"Financial Liberalization and Extent of Financial Exclusion in India: With Specific Reference to Economically and Socially Backward Classes in Kerala"***, being submitted as a part of the requirement of the Master of Philosophy Programme in Applied Economics of Jawaharlal Nehru University, was carried out by myself and has not formed part of any other programme and not submitted to any other Institution/University for the award of any Degree or Programme of Study.

June 25, 2009

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Certified that this study is a bona fide work of Sreejith.A, carried out under our supervision at the Centre for Development Studies, Thiruvananthapuram.

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.......to my Mother

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Financial Liberalization and Extent of Financial Exclusion in India: A Study of Economically and Socially Backward Classes in Kerala.

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Abstract

There is a consensus in the growth literature that financial developments promote economic growth and reduce poverty. Therefore the successive governments in India realized the need for providing adequate institutional financial access to the poor people in order to reduce their dependence on the informal sector. Nationalization of banks and setting up of regional banks in rural areas were carried out as part of this objective. However, there has been a distinct shift in the banking policies with the onset of economic reforms in the 1990s. Most of the studies have pointed out that this has led to exclusion of most of the socially and economically disadvantaged rural households from the formal sector credit. This exclusion raises the question of attaining the Eleventh Plan's objective of inclusive growth. The central vision of the Eleventh Plan is not just faster growth but inclusive growth, that is, a growth process that yield broad based benefits and reduction of poverty and inequality. Given this background, the present study examines the extent of financial exclusion among the socially and economically backward classes in India with special emphasis on SC and ST households in Kerala. The study also tries to analysis the paradox of financial inclusion and non-inclusive growth in Kerala. Kerala is considered to be one of the financially inclusive states whereas it lacks inclusive growth. The study is organized into five chapters. Chapter one introduces the problem and provides a detailed review of the literature and sets out the objectives of the study. Chapter two defines the concept of financial inclusion and critically reviews the credit policies in India. Chapter three is a macro level analysis of financial exclusion in India across the states. Chapter four is a case study of financial exclusion in Kerala and chapter five is summary and conclusion.

The major findings of the study are the following. At the macro level, the SC and ST households are still excluded from the formal sector credit. In rural areas the financial exclusion is higher for the SC households than among the ST households but in urban areas both SC and ST households are more financially included. Kerala remained the highest institutional loan lender to the SC and ST households whereas Assam was placed at the bottom during the post liberalisation era. However our macro level analysis based on the secondary sources of information is inadequate to capture the exact nature of availability and credit utilization pattern of the SC and ST households, which has implications for poverty alleviation and inclusive growth. Therefore we conducted a primary survey to obtain the relevant information in Pathanamthitta district of Kerala. From the field survey we found that a good proportion of the SC and ST households in Kerala are still financially excluded, which is contrary to the findings of the State Level Bankers' Committee Report, 2008. Comparing ST households, financial exclusion is higher among SC households. While the SC households depended on different sources of credit, the ST depended only on cooperative banks. Within financially inclusive households, majority of the households used their credit for non-productive purposes. This tendency is very high among ST households. Further, our study reaches the conclusion that even though the Self Help Groups (SHGs) have an important role in shaping the banking habit of the poor people, still a major proportion of the population relied on the informal sector credit.

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ABBREVIATIONS

AIDIS	: All India Debt and Investment Survey
CD	: Credit Deposit Ratio
GCCs	: General Purpose Credit Cards
GDP	: Gross Domestic Product
GOI	: Government of India
IOB	: Incidence of Borrowing
IRDP	: Integrated Rural Development Programme
JlGs	: Joint Liability Groups
KCCs	: Kisan Credit Cards
KYC	: Know Your Customer
MPCE	: Monthely PerCapita Expenditure Class
NABARD	: National Bank for Agriculture and Rural Development
NGOs	: Non-Governemental Organisations
NRFIP	: National Rural Financial Inclusion Plan
NSSO	: National Sample Survey Organisation
PSLC	: Priority Sector Loan Certificates
RBI	: Reserve Bank of India
RRBs	: Regional Rural Banks
SBA	: Small Borrowel Accounts
SC	: Scheduled Caste
SHG	: Self Help group
SLBC	: State Level Bankers Committee
SLR	: Statutory Liquidity Ratio
ST	: Scheduled Tribe

CHAPTER I

INTRODUCTION

1.1 Financial Development, Economic Growth and Poverty Alleviation

There is a general consensus among economists that financial development spurs economic growth (King and Levine 1993; Levine and Zervos, 1998; Beck 2000). Theoretically, financial development creates enabling conditions for growth through either a supply leading (financial development spurs growth) (Rajan and Zinglas 1998) or a demand following (growth generates demand for financial products) channel. Non-financing or under-financing of productive investment opportunities, business activities and trade always have negative consequences for growth and livelihoods as it limits households' ability to meet unexpected expenditures or invest in health and education.

Literature on access to financial services and economic growth begins with Walter Bagehot who noted in 1873 about the important role of the financial sector in England's economic growth when financial markets were able to mobilize savings to finance the implementation of new technologies in England. Walter Rostow linked financial intermediation to economic development in his studies of economic growth in the 1950s (Caskey P John et al 2006). More recent empirical studies have demonstrated not only that the development of a financial sector accompanies economic development but also the financial development is necessary for economic development (Goldman, 1969, King and Levine, 1993). A developed financial system broadens access to funds. In its absence, people resort to high cost informal sources or moneylenders. The lower the availability of funds and higher their cost, the fewer are the economic activities resulting in lower economic growth (Mahadeva, 2008). Access to financial services helps convert aggregate savings to aggregate investment. Savings kept at home cannot contribute to economic growth. So Hernando De Soto (2000) has argued that access to capital and to financial services is the key to economic growth both in advanced economies and the developing world. Thus a formal banking system with widespread coverage is a consistent characteristic of developed economies, while wide spread financial exclusion is associated with lesser-developed countries. Recent research has centered on the impact of access to credit on microeconomic development, suggesting that improving the access of micro enterprises to financial services could have an important positive impact on a country's income distribution (Westley, 2001). The literature on financial intermediation and poverty reduction conclude that development of financial sector contributes to economic growth and thereby to poverty alleviation (Holden and Prokopenko, 2001)

How financial development affects economic growth and how it helps to reduce poverty are clearly related issues because growth is a powerful way to reduce poverty. However, it is possible that in certain countries the benefit of growth for the poor is undermined or even offset by the increase in inequality that may accompany growth. This is particularly important in the context of financial liberalization.

1.2 Theoretical Perspective

The existing literature on the relationship between financial liberalization and poverty has been based on the neoclassical view that financial liberalization mobilizes savings and allocates capital to more productive uses and thereby promotes economic growth (Arestis and Caner, 2004). The contribution to economic growth caused by financial liberalization increases incomes and thereby reduces poverty. The following are the three channels through which financial liberalization is expected to have an effect on poverty.

1.2.1 The Economic Growth Channel

One channel through which financial liberalization can affect poverty is through economic growth (Philip et al 2004). In linking between economic growth and poverty, broadly, there are two ways in which economic growth can benefit the poor. First there are direct benefits in which economic growth favors the sectors and regions where the poor exist and the factors of production that the poor owns. There are also indirect benefits that operate through redistributive policies, especially taxes, transfers and government spending. Economic growth can provide opportunities for redistributing the gains from growth. Growth can generate the fiscal resources for undertaking investments with a view to create assets for the poor or to expand transfers safety nets for the poor.

1.2.2 The Financial Crisis Channel

The existing literature says that financial liberalization can lead to financial crises and crises affect poverty. Financial crisis, including balance of payment and banking crisis, may not only affect the current living standards of the poor but also their ability to get out of poverty. There are a variety of channels through which crisis affect poverty and income distribution (Baldacci et al 2002). Firstly, crisis typically leads to fall in earnings of both formal and informal sector workers due to job losses in the formal sector and a decline in the demand for services in the informal sector. These changes may have different impacts on workers with different skills and different levels of job security. Second, changes in relative prices caused by crisis will have some effects on the distribution of income. Currency appreciation leads to a decline in the price of non-tradable relative to tradable, leading to a fall in the earnings of those working in the non-tradable sector. If an increase in demand for exports follows the currency depreciation, then higher employment and earnings in the exporting sectors may follow, which offset some of the income losses. However, if food is imported, then the exchange rate depreciation would hurt the households that are net consumers of food. Thirdly, contractionary fiscal policy that is traditionally implemented in response to a crisis leads to cuts in social programmes. This may limit the access of the poor to some essential services at a time when their incomes are falling. Fourthly, changes in interest rates as well as changes in asset and property prices affect the income distribution differently for different sections. Especially, higher interest rates that are normally associated with financial liberalization have significant re-distributional effects that affect the poor harshly, but reward the rich.

1.2.3 The Access to Credit and Financial Services Channel

The financial liberalization process may have some profound effects on the availability of credit and financial services for the poor. The proponents of financial liberalization argued that it leads to financial deepening and better access to credit for marginalized borrowers and savers. Reduction of reserve requirements increases the supply of credit for a given level of deposits. A rise in the rate of interest increases savings and bank deposits thereby allowing the banks to supply more loans. Furthermore, the removal of barriers to entry increases competition among the providers of financial intermediation and motivates banks to extend their services to traditionally excluded sections of the population. Nonetheless, it is not clear that financial sector reforms will increase the supply of loans to small firms and the poor. From the bank's point of view, it is generally more costly to lend to the poor than to large and established companies due to higher processing, administrative and monitoring costs and higher risk of default. One fundamental distinction between conventional banks and financial institutions is that bank lending emphasizes on profitability rather than other lending criteria such as the viability of the project or social outreach. Thus, banks may naturally prefer doing business with established companies rather than providing loans to the poor even after financial sector reforms.

Although three channels are discussed here what is most relevant to our analysis is the availability of credit to the poor consequent to financial liberalization. Hence, in our analysis we focus on this aspect of financial exclusion.

1.3 Review of Literature

Although, financial exclusion is a major concern not only for the developing countries but also for the developed countries, the subject matter has not attracted the attention of researchers to the extent it deserves. In this context, Fernando (2007) tried to briefly discuss international experience on efforts to expand the access to finance for low-income households and draw some lessons from it. He argued that formal financial sectors in most developing economies serve only a minority and most households do not have access to even basic financial services. A majority of those who do not have access are concentrated in low-income categories. There is a wide consensus that better access can play a potentially key role in inclusive growth and development. Hence, the problem of lack of access to finance for a majority of the people deserves a great deal of attention.

In this context, it is useful to discuss Amaeshi et al (2007)'s study. The main goal of their study was to integrate the pervasive financial exclusion in developing economies into the global sustainable finance discourse. Drawing from a case study of Nigeria, it highlights the strategic opportunities that could arise from combating financial exclusion by financial institutions operating in developing economies. Using data from the Nigerian Living Standard Survey 2003-04, the author observed a strong association between poverty and participation in the banking system. They sought to explain the reality of financial exclusion from a developing country perspective while drawing insights from the developed economies. One of the factors driving financial exclusion in a developing country like Nigeria is the high proportion of the illiterate. While recognizing the market challenges and the risks inherent in serving the poor and the illiterates, their work suggests that financial exclusion driven by illiteracy can serve as opportunities for financial services providers in Nigeria to further expand their market, brand themselves and enhance self regulation. However the government needs to provide the enabling environment for these financial services providers to thrive. This may include the strengthening of local institutions like the judiciary and the educational system to ensure that defaulters are brought to book and minimize the level of risk involved in serving the poor and the illiterate.

There is widespread and mounting concern about financial exclusion in most developed nation and there are some policy responses also. Kempson (2006) presents an overview of the main characteristics of banking exclusion and a brief overview of the policy responses to financial exclusion in Australia, Belgium, Canada, France, Great Britain, and the United States. Countries with low levels of income inequality tend to have lower levels of financial exclusion, while the highest levels of exclusion are found in the least equal ones. For example, in Sweden just 2 per cent of adults did not have an account in 2000 and in Germany the figure was about 3 per cent. Countries with highest levels of inequality also have the highest levels of banking exclusion. For example, in Portugal about 17 per cent of the adult population had no account of any kind in 2000. Refusal by banks, identity requirements, terms and conditions, bank charges, physical access problems caused by bank closures and psychological and cultural barriers are the main reasons for financial exclusion in these countries. On the policy responses to the banking exclusion, most of the countries enacted banking acts for reducing the wide spread financial exclusion. For example in Sweden, banks are not allowed to refuse to open up savings or deposit accounts under section 2 of the Banking Business Act of 1987. The

USA federal government introduced the Community Reinvestment Act in 1997 partly in response to a concern about bank branch closures in low-income neighborhoods. Voluntary charters and codes of practice, developed by the banks themselves through their trade associations to make provisions for basic bank accounts, are the most common response to financial exclusion. The earliest of these voluntary charters was introduced in France in 1992. In Belgium a voluntary code of practice was introduced in 1997. This code provides for basic banking services for people with modest incomes who lack a bank account. In Germany, the German Bankers Association introduced a voluntary code in 1996. This makes provision for an 'Everyman' current account.

Even though financial exclusion is a major problem for majority of low- income earning people in rural areas, it is also prevalent among the urban low-income peoples. In this context, Caskey et al (2006) examined the ways in which lower income households obtain basic financial services in urban communities in the United States and in Mexico. In addition they discussed the efforts that private sector and government organizations are making for lowering the cost or improving the quality of those services. They summarized the available information on these issues and assessed the rationale and challenges facing both the countries in improving the financial services available for lower income households in large urban areas. In comparing the experiences of the two countries, it reviews the extent to which lower income households are unbanked, their use of non-banking financial services, and strategies for improving financial services for the unbanked. They surveyed among the urban unbanked households in both Mexico and the United States and found both countries' unbanked households were characterized by low level of income and education. The unbanked in both countries tend to rely on cash transactions and on services provided by commercial outlets. Although in Mexico the unbanked rely on informal forms of savings and borrowings, at the same time, the unbanked in Mexico show a high rate of home ownership, suggesting an alternative form of savings. As to why the unbanked do not use banks, in both countries, the issue of trust appears to be a minor degree, but while the unbanked in Mexico perceive cost as barriers and other requirements of financial institutions. In the US, it is their own financial situation and lack of savings as reasons for not using banks. In both countries, the unbanked pay a significant cost in terms of additional transactional fees, time and insecurity for using formal sector financial services.

Several studies have shown that the unbanked earn less and more likely to belong to a marginalized occupational group than the banked population. Mostly such studies are based on limited regional samples and do not account for geographical variation in accessing banking services. So Djankov et al (2008) attempt to control for these region effects by comparing proximate banked and unbanked households across a nationally representative survey data from Mexico. They compare households with savings accounts in formal financial institutions to their neighbours who do not have such accounts. The survey results show that, although neighbouring banked and unbanked households have similar demographic and occupational profiles, the banked households are more educated and have markedly greater wealth. The median banked households spends 32 per cent more per capita income than the median unbanked households and the median per capita wealth of banked households is 88 per cent higher than that of unbanked households. The findings suggest that the correlation between education levels, wealth and unobserved household attributes, play a major role in explaining who is banked. To explain why people remain unbanked, they put forward three main hypotheses. The unbanked are those to whom opening a bank account doesn't make economic sense, because relative to the size of their deposits, transaction cost of accounts is too high. The second hypothesis is that the unbanked are those who do not trust banks, because they have had bad experiences dealing with banks. The third hypothesis states that the uneducated stay unbanked because they are more comfortable dealing with the informal financial sectors even if it is more expensive. The survey reveals that Mexico had only 35 per cent of accounts with banks and 2.7 per cent of accounts with formal micro finance institutions. Households' reports of their main reason for not having a bank account fail to support the notion that the unbanked are primarily those who are poor and find the transaction costs of bank accounts to be too high. The survey design also ensures that distance is not a major determinant of the banking choice of the surveyed households. They find the contradiction of the second hypothesis that the unbanked are those who are uncomfortable dealing with modern banks and also the low levels of education could be the most important reason for staying unbanked.

Mc Donnel (2003) explored the aspects of financial exclusion drawing on fieldwork conducted with aboriginal communities in Central Australia. He observed that lack of access to banking and financial services is one of the key aspects of the social exclusion of low-income groups in Australian Society. Individuals without access to banking services are at an economic disadvantage. Without the ability to save, individuals are denied a range of economic opportunities and in particular the opportunity to break out of the "poverty trap". He argued two main factors in the financial exclusion of indigenous people in Australia are lack of physical access to banking and financial services or "geographical exclusion" and low levels of financial literacy.

From the above survey, it could be observed that the global experience suggests that there is no universally applicable model for bringing about financial inclusion. Countries have achieved impressive results through a range of approaches. The global experience provides useful insights for policy makes in improving access to finance. The literature suggests that the governments need to recognize not only that private sector institution have a potentially major role to play but also the governments themselves have a central role to play. The governments must execute their role in such a way that it will provide space and incentives for the private sector to play an increasing role in providing services in the market led economies. Essentially, the governments need to focus on a number of key areas. First, governments need to explicitly recognize access to finance for all unserved people as an important goal to pursue. Second, the responsibility for improving access to finance must be assigned to the central banks. Third, systematic efforts must be initiated and pursued to collect data on different dimensions of financial exclusion. The Indian government has also explicitly recognized access to finance for all unserved people as an important goal to pursue more so after financial liberalization. Hence the significance and need to understand the different dimensions of financial exclusion is especially important.

1.4 The Indian Context: Policies of Financial Inclusion for Inclusive Growth.

In the Draft Approach paper of the Eleventh Five Year Plan, the Planning Commission has emphasized the need for faster and greater inclusive growth. In this context, access to institutional sources of credit to all segments of the population especially socially and economically deprived sections is reckoned as one of the prerequisites for achieving the Eleventh Plan target of the faster and more "Inclusive Growth" (Mohan 2006 and Thorat 2008). The banking sector is recognized as the most important financial intermediary to mobilize savings leading to increased investments, and facilitating growth (Mohan 2006)[1].

Since the beginning of national plans in the nineteen fifties successive governments in India have emphasized the link between improving access to finance and reducing poverty in rural areas. The need to improve financial access for India's poor motivated the establishment of a vast network of rural cooperative credit banks in the 1950s followed by a big drive of nationalization of commercial banks in 1969. The strategy during the 1970s and 1980s was to give a leading role to the nationalized commercial banks. One of the aims of nationalization of banks was "social and development banking" by meeting rural credit needs and reducing the role of informal sector credit. Under this policy, there was a thrust on setting up bank branches in rural areas. Further, banks were mandated to direct a certain percentage of their credit to backward sectors. These priority sectors mainly include agriculture, small-scale industries along with certain socio-

[1] In India, during the pre-Green revolution period (1951- 1963) poverty declined at a rate less than the GDP growth rate, suggesting that the land reform, tenancy legislation, and cooperative based farming had a negligible impact on reducing poverty. But both poverty and inequality rose at a faster rate during the Green revolution period (1964-1975). During the period 1976-1991, the government intervened with its employment generation and poverty alleviation programmes and allocate more institutional credit (priority sector lending) in favor of small and marginal farmers, this led to the decline in poverty at a faster rate with the rise in the growth rate (Basu and Mallick 2008). After the adoption of the New Economic Policy in 1991, the GDP growth rate in India has been much higher than in the earlier years, but it is accompanied by a paradox of poverty and inequality. In the country as a whole 27.5 per cent of the total population was below the poverty line, and in rural and urban areas the population below the poverty line was 28.3 % and 25.7 % respectively (NSSO 61st Round, 2004-05). Thus growth is important, it is also imperative that growth becomes more inclusive i.e. it must take into account the betterment of every section of society. In this context, Subramanian and Prasad (2008) argued that simultaneous policies of achieving growth rate and reduced level of inequality are necessary for achieving the aim of the Eleventh Five Year Plan of "Pro-poor or Inclusive Growth"

economically backward sections of the population especially scheduled caste (SC) and scheduled tribe (ST) population. The nationalization of banks and subsequent developments led to the expansion of the geographical and functional reach of commercial banks, Regional Rural Banks (RRBs) and Co-operative credit institutions. Access to finance for the rural poor also somewhat improved after nationalization of banks.

However, with the onset of economic reforms in the early nineties there was a distinct shift in the banking policy (Chavan 2007). The focus of the banks during the reform periods has been on enhancing the efficiency and profitability of the banks. As a result, many of the regulations that were applied on the banking system during the pre-reform period have been relaxed in order to allow a market-based and more liberalized operation of the banking system. This has led to exclusion of most of the rural households from the formal financial system. Such excluded groups include small and marginal farmers, unorganized sector workers including artisans, the self-employed and pensioners and individuals or households belonging to economically backward classes especially SC and ST. A large body of literature has also noted that, despite vast expansion of financial institutions, a large number of groups of households still remain excluded from the opportunities and services such as savings, credit, remittance facility and insurance facilities provided by the financial sector since liberalization (Rao 2007).

More recently, in the context of increasing financial exclusion among the poor and vulnerable sections of the society, the government of India constituted a committee on Financial Inclusion in June 2006 under the Chairmanship of Dr. C. Rangarajan to look into the problems and suggest a broad strategy for expanding financial services to poor people. The following are the three major objectives of forming the Committee. Firstly, to study the pattern of financial exclusion among different regions, gender and occupation structure. Secondly to understand the demand and supply (institutional) constraints of financial inclusion among poor people in accessing credit and financial services. Finally, to review the international experience in implementing policies for financial inclusion and examine their relevance/applicability to India. The overall strategy adopted by the Rangarajan Committee was based on effecting improvements within the existing formal credit delivery mechanism, suggesting measures for improving credit absorption capacity especially amongst marginal and sub marginal farmers and poor non-cultivator households, evolving new models for effective outreach, and leveraging to technology based solutions. Some of the recommendations of the Reghuram Rajan Committee were closely related to this issue.

The Planning Commission also had set up a Committee on Financial Sector Reforms on August 2007 under the Chairmanship of Raghuram G. Rajan with a view to outlining a comprehensive agenda for the evolution of the financial sector. The Committee proposed a paradigm shift in the way we see inclusion. Instead of seeing the issue primarily as expanding credit, it urged a refocus to seeing it as expanding access to financial services, such as payments services, savings products, insurance products, and inflation-protected pensions, ultimately, though, it is opportunities in the real sector, created by broader growth, which will give the poor the ability to use credit effectively. Instead of forcing credit to household that could thereby become heavily indebted, the focus should be on making them creditworthy so that when opportunities arise, they have access. In addition, this Committee suggested moving away from a sole focus on rural areas, where undoubtedly many of our poor live, to also include the urban areas where more of them are migrating.

Given this background it seems pertinent and useful to make a critical assessment of financial exclusion in India and with special reference to the socially and economically backward classes in Kerala. Before going to the specific objectives of the study and the reasons for the selection of Kerala for a case study we give below a review of the existing literature in the Indian context.

1.5 The Indian Literature

The growing importance of the topic also spawned some literature on the topic of financial exclusion. Dev (2006) brings out issues and challenges for reducing financial exclusion. Firstly, the author considers the definitional issues on financial inclusion. Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. In the case of credit, the proper definition of the financially excluded would include households who are denied credit in spite of their demand. Many households in rural areas took loans from the informal sectors at exorbitant rate of interest. So these households should not be seen as being financially included. Therefore, financial inclusion refers to households accessing institutional credit including commercial banks, cooperative banks, RRBs, NABARD, SHG-linkage and other self-help groups, and ~~credible micro finance institutions~~. Based on the 59th round of NSSO, the author found that at the all India level around 49 per cent of the farmer households were indebted from all sources. So the study says that remaining 51 per cent of the households are financially excluded. These exclusion levels vary from state to state. But these are misleading figures because the indebtedness covers loans from both formal and informal sources. About 56 percent of indebted farmer households obtained loans from the formal sources and remaining households from the informal sources. Therefore, we can say that only 56 per cent of the indebted farmer households are financially included as they are getting loans from the formal sources. Relating to the inclusion of credit for small and marginal farmers he found that the share of formal loan sources increases with the size of land. Across the social groups, indebtedness through formal sources is lower for ST as compared to others.

According to Dev (2006) there are both demand and supply side factors responsible for financial inclusion. Although there has been significant expansion in banking in the last few decades, there are many supply side problems for commercial banks, RRBs and co-operative banks. Some of the criticisms on the trends in rural credit in the 1990s are: narrowing of the branch network in rural areas, fall in credit-deposit ratio in rural areas, disproportionate decline in agriculture credit to small and marginal farmers and political interference including loan waivers and write offs also have resulted in non-viability and sickness in some of the formal rural credit institutions.

Srinivasan (2007) in his study pointed out that financial exclusion remains a major issue in the unorganized sector. Expansion of services in this area by banks will not be very easy because of the special situation and needs of the unorganized sector. He suggests that while structural solutions are expensive and nevertheless must be pursued, banks should think of designing a process to respond to the problem, drawing on the experiences and practices of the traditional lenders to the unorganized sector.

Rao (2007) made an attempt to analyze the pattern of debt of rural and urban households as reflected in the decennial All India Debt and Investment Survey (AIDIS) conducted by the NSSO and also a profile of the small-borrowal accounts (SBA) as revealed by the Survey of SBAs conducted by the RBI. Firstly it gives a brief review of the credit policies and development in the banking sector in terms of enhancing the flow of institutional credit to priority sectors. After that it reviews the salient features of household debt and investment surveys of the NSSO with special reference to the role of institutional and non-institutional sources in the pattern of debt owed by households. He found that a major segment of the households both in rural and urban areas were outside the ambit of debt from the formal sources. Even though there was an increase in the share of institutional debt over the last few decades, the share of non-institutional sources is also significant. Comparing urban households with rural households, the share of institutional sources was relatively high for urban households.

Chavan (2007) examines the extent of financial exclusion of dalits in rural India from access to formal credit. This analysis is mainly based on the All India Debt and Investment survey (AIDS) conducted by the NSSO and the survey of Small Borrowal Accounts (SBAs) conducted by the RBI. It shows that, for dalit households, commercial banks were the most important source of credit in 1992. There was a sharp fall in the share of debt from commercial banks between 1992 and 2002. Primarily professional moneylenders filled the vacuum thus created. While professional moneylenders did emerge in 2002 as an important source of credit for other rural households also their hold over the dalit households was much stronger than other households. Data from the supply side indicated a growing failure on the part of domestic banks to meet the target set for "weaker sections" after 1991. In the 1990s, commercial banks' credit to dalit through small borrowal accounts was also on the decline (Table: 1.1).

Table: 1.1 Percentage share in the number of small borrowal accounts and amount outstanding

	Number of Accounts				Amount Outstanding			
Caste Category	1993	1997	2001	2004	1993	1997	2001	2004
Dalit	18	17.8	12.2	6.7	12.4	12.7	7.1	4.6

Sources: Chavan, 2007.

The above table 1.1 reveals a fall in the percentage of credit flowing to dalits and the percentage of accounts held by them between 1993 and 2004. The percentage of both credit outstanding and accounts of dalits households in 2004 was three times lower than their corresponding percentages in 1993.

In sum, from the existing literature we can find that the issue of financial inclusion is still a matter of concern for both the developing countries and also for the developed countries. The financially excluded people are low income and socially vulnerable population. There are both demand and supply side factors to this financial inclusion.

A review of the Indian literature clearly shows that most of the studies are based on secondary data. While this is sufficient to give a macro picture, it does not give any clear-cut insights on the nature of the credit availability and its utilization, necessary for a proper assessment and understanding of financial inclusion particularly of the socially and economically backward classes. This is necessary also to assess if financial inclusion can lead to inclusive growth. Such insights can be gained only from a primary survey incorporating state specificities. This study is an attempt to fill this gap. More specifically this study analyses financial exclusion of the SC and ST households in the post financial liberalization period through a case study of Kerala, The case of Kerala seems unique because it is reported as financially more inclusive (Chavan 2007) but where growth has been non-inclusive/exclusive (Subrahmanian and Prasad 2008). Against this background the detailed objectives of the study are the following,

1.6 Objectives of the study

- To provide an overview of the extent of financial exclusion in India during the post reform period with specific reference to SC and ST households.
- And try to explain the paradox of financial inclusion and non-inclusive growth in Kerala. Based on a primary survey, we try to find out the details of the availability of loans and its utilization pattern.

1.7 Data Sources and Methodology

Both primary and secondary data are used for the analysis. The major sources of secondary data used for the analysis are the various publications of Reserve Bank of India (RBI), and various reports of the Government of India and NSSO. For the analysis of commercial banks' state-wise outstanding advances to the weaker sections, we have collected data from the Reserve Bank of India's various issues of Trends and Progress of Banks. To examine the changes in the supply of credit from commercial banks to the SC and ST households since the liberalization period we collected data from the Survey of Small Borrowal Accounts by the Reserve Bank of India. Most of the SC and ST households are farmers and agricultural workers. In this context in order to examine the financial exclusion among the farmers in SC and ST households we collected data from the Situation Assessment Survey of Farmers, conducted by the NSSO during January to December- 2003 as part of its 59th round. Data from the two rounds of the All India Debt and Investment Survey (AIDIS) by NSSO, the 48th round from January to December 1992 and 59th round from January to December 2003 have been used to analyze the changes in the debt profile of SC and ST households. These two reports examine the various aspects of assets, liabilities and financial exclusion of the households belonging to the different social groups.

Since the available secondary data is insufficient to answer the question on whether the financial inclusion leads to inclusive growth, the study conducted a primary survey from two sample villages in Kerala in order to understand the reality at the disaggregate level. We used borda rank method (discussed in detail later) to select the district where banking development and proportion of the SC and ST population is high to draw the sample.

So based on the borda rank method we have selected Pathanamthitta district. The ward No 8 of the Kodumon panchayat was selected for drawing the sample of SC households and, the sample of ST households has been selected from ward No 8 of the Naranammoozhi panchayat. Information regarding household characteristics, economic status and data relating to their banking habits were collected from the primary survey. A structured questionnaire was formulated to collect such information from the households (a copy of the questionnaire is attached in the Appendix). In order to examine the role of SHGs in reducing the financial exclusion among the SC and ST households, we have also collected information regarding the working of SHGs among the surveyed households. Out of the surveyed SC households, 53 households (71%) were members of SHGs and that of ST households accounted for 18 households (24%).

1.8 Chapter Scheme

The study is organized into five chapters. Chapter I introduces the problem, reviews the theoretical and empirical literature and sets out the objectives. Chapter II discusses financial inclusion and provides an overview of credit policies and the empirical evidence on financial exclusion. The chapter III deals with financial inclusion at the national level and at the state level. Chapter IV analyses the results of the primary survey to get more insights on the extent of the financial exclusion and utilization of the credit of SC/ST households at the micro level in Kerala in order to draw inferences on the state of financial inclusion and its relation with inclusive growth at a grass root level and Chapter V gives the summary and conclusions.

CHAPTER II

FINANCIAL EXCLUSION, CREDIT POLICIES AND THE EMPIRICAL EVIDENCE: AN OVERVIEW

This chapter begins with a discussion of the conceptual and measurement issues relating to financial inclusion. This is followed by a historical overview of the credit policies and the empirical evidence on financial exclusion at the macro level.

2.1 Definition of Financial Inclusion/Exclusion

Defining financial inclusion is crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to a low level of access to the financial system. A good review of existing studies suggests that there is no universally accepted definition of financial inclusion. Over the years, several definitions of financial inclusion/exclusion have evolved. The definitional emphasis of financial inclusion varies across countries and geographies, depending on the level of social, economic and financial development, socio-economic characteristics of the financially excluded segments, and also the extent of the recognition of the problem by authorities or governments. Since measuring inclusion is perceived to be difficult, financial inclusion has generally been defined in terms of exclusion from the financial system.

Broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities. The working or operational definition of financial exclusion generally focuses on ownership or access to particular financial products and services. The focus narrows down mainly to the products and services provided by the mainstream financial service providers (Meadows *et al.*, 2004). Such financial products may include money transmission, home insurance, short and long-term credit and savings (Bridgeman, 1999).

It is also seen that definitions of financial exclusion in the literature vary depending on the dimensions such as '***breadth', 'focus' and 'degree'*** of exclusion. The 'breadth' dimension is the broadest of all definitions linking financial exclusion to social exclusion which defines financial exclusion as a process that prevent poor and disadvantaged social groups from gaining access to the financial system (Leyshon and Thrift, 1995). The 'focus' dimension defines financial exclusion as the potential difficulties faced by some segments of population in accessing mainstream financial services from banks and other financial institutions in the form of bank accounts/home insurance (Meadows *et al.,* 2004). The 'degree' dimension, which is the narrowest of all definitions of financial exclusion, defines financial exclusion as the exclusion from particular sources of credit and other financial services including insurance, bill-payment services and accessible and appropriate deposit accounts (Rogaly, 1999).

Deliberations on the subject of financial inclusion contributed to a consensus that merely having a bank account may not be a good indicator of financial inclusion. The ideal definition of financial inclusion should look at the people who want to access financial services but are denied these financial services. If genuine claimants for credit and financial services are denied these financial services then that is the case of exclusion. Based on these considerations, the Committee on Financial Inclusion, set up by the Government of India, (2006) defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed for the vulnerable groups such as weaker sections and low income groups at an affordable cost.

2.2 Measurement of Financial Inclusion/Exclusion

A common measure of financial inclusion is the percentage of adult population having bank accounts (Thorat 2007)[2]. Specific indicators such as number of bank accounts,

[2] Based on available data on the number of savings bank accounts and assuming that one person has only one account, Thorat (2007) found that in 2005 on an all India basis, 59 per cent of adult population in the country have bank accounts- in other words 41 per cent of the population are unbanked. In rural areas the coverage is 39 per cent against 60 per cent in urban areas. The unbanked population is higher in the North Eastern and Eastern regions. Another measure is that, number of loan accounts to adult population. On all India basis, the number of loan accounts constituted only 14 per cent of adult population. In rural areas, the coverage is 9.5 per cent against 14 per cent in urban areas.

number of bank branches, that are generally used as measures of financial inclusion, can provide only partial information on the level of financial inclusion in an economy. Because merely having a bank account is not a good measure of financial inclusion. Another approach is to look at details on the uses of specific financial products such as debit cards, credit cards, life insurance, and home mortgages, but these are highly country specific. *The literature on financial inclusion clearly shows that there is a lack of a comprehensive or uniform measure that can be used to indicate the extent of financial inclusion.* Although financial exclusion covers exclusion from any or all of the financial services necessary for participating in a modern market economy, accessibility of credit to rural poor is one of the important elements of financial inclusion. Hence, exclusion from accessing credit has been looked upon as one of the more significant denial of financial services than that of other services.

2.3 Who are excluded?

The literature on the financial inclusion has identified that the financially excluded sections largely comprise of marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrant ethnic minorities, and economically and socially excluded groups, senior citizens and women (Thorat 2007). While there are pockets of large excluded population in all parts of India, the North eastern and central regions contain most of the financially excluded population.

2.4 Reasons for Financial Exclusion

The nature and forms of financial exclusion and the factors responsible for it are also varied, thus there is no single factor that could explain this phenomenon. There are both demand and supply side factors leading to the financial exclusion of large sections of the people (Thorat 2007). The major reasons for financial exclusion include low income status, being unemployed, belonging to an ethnic group, living in remote or interior areas, suffering from illness or disability, lack of awareness, illiteracy and social segregation (Thorat 2007). The major factors responsible for financial exclusion mentioned in the literature are the following:

a) **Level of Income**: Financial status of the people is always important in gaining access to financial services. Extremely poor people find it difficult to access financial services even when the financial services are tailored for them. They lack income, collateral and connection with bank officials.

b) **Illiteracy:** Most of the literature finds that one of the major important reasons for financial exclusion among the economically and socially vulnerable sections of the population is illiteracy.

c) **Psychological and Cultural barriers**: The feeling that banks are not interested to look into their causes or problems have led to self-exclusion for many of the low income groups. However cultural and religious barriers to banking have also been observed in some of the countries.

d) **Refusal by banks**: The review suggests that in most of the countries the banks have refused people belonging to minority sections who lack an account. These are mainly people who have a history of bad debt.

e) **Identity Requirements**: Steps taken by governments and the banking industry to combat money laundering and terrorism have exacerbated this identity requirement. Banks now routinely require both proof of home address and photographic identification before they open a bank account.

f) **Terms and Conditions**: A range of different types of terms and conditions prevent people with low incomes from opening an account.

g) **Bank Charges:** Like terms and conditions, level of bank charges deters customers with low incomes from using transactions account.

h) **Physical access problems caused by bank branch closures**: Increased competition and the economies of international banking have led to programmes of bank branch closures. Technical developments like cash machines, telephone and internet banking have also accelerated this trend.

However, in spite of the fact that the successive governments in India have initiated many measures for the promotion of the availability of the credit to the rural poor especially, marginal and landless farmers, belonging to SC and ST households, the literature tends to suggest that financial exclusion in India has increased in the post–liberalization period.

This issue however needs to be examined in greater depth, given the different dimensions of financial inclusion/exclusion. Before going into a detailed analysis of the status of financial inclusion in India in general and Kerala in particular we provide a broad overview of the policy framework.

2.5 Credit System in India.

2.5.1 Pre-nationalization period

During the pre-nationalization period, the banking system in India was controlled by group of industrialists and business corporate, which used public funds for satisfying the private needs. Till the end of 1960s banking was largely an urban/semi-urban phenomenon with 80 percent of the branch offices confined to urban/semi-urban areas and almost 97 percent of the deposits were originating in these areas. The rural areas contributed only about three percent of the total bank deposits. Credit markets were imperfect and commercial banks in India bypassed vast segments of the Indian population before nationalization of the banks (Narayana, 2000). As a result, sectoral imbalances crept in. The small scale and household industrial sectors, small business, artisans and rural poor in general were deprived of banking facilities (Raju, 1992). Thus the banking development prior to the nationalization of the banks was lopsided, urban-biased and privately controlled.

2.5.2 Post-nationalization Period

The nationalization of major commercial banks in 1969 marked the beginning of the policy of social and development banking. In order to expand the operations of commercial banks in rural areas, the branch licensing policy was introduced. For every one branch opened in metropolitan areas, banks were asked to open four branches in unbanked rural areas.

It was in the context of the severe neglect by the banks in meeting the credit requirements of various sectors of the economy in the post independence period that led the RBI to chart out policies for priority sector advances (Shajahan, 1998). The nationalization of banks has helped to solve this problem. From early 1970s onwards, banks were required to implement schemes of sectoral targeting in rural areas in the form of priority sector lending. This is the first attempt to encourage target oriented lending to priority sectors. These priority sectors include agriculture, small-scale industries, small transport operators, retail trade and housing, education loans, micro credit and credit to weaker sections and each major bank were given a target.

After the bank nationalization, lending to priority sectors was seen as an essential component of the national agenda. In 1979 the target of priority sector lending was raised to 40 per cent of the total bank credit for all domestic commercial banks. In 1980, a working group headed by K.S. Krishnaswamy undertook a major review of the composition of the priority sector. Initially, priority sectors were defined to include agriculture, small-scale industries, and exports. After a detailed review of the composition of the priority sectors, the Krishnaswamy Group came to the conclusion that while there was serious lack of uniformity in the classification of the priority sector, the main drawback of priority sector bank credit was that it found its way to more affluent sections that was not at all justified. In order to rectify the situation, the group recommended the incorporation of the concept of "weaker sections". Under the priority sector advances "weaker sections" were defined as small and marginal cultivators, agricultural laborers, and SC and ST households. Domestic commercial banks were also asked to direct 10 per cent of their net bank credit to these "weaker sections".

Several other measures were also initiated in the post-nationalization period to increase the flow of credit from commercial banks to rural areas. So the Lead Bank scheme was introduced in 1975. The involvement of commercial banks in the provision of rural credit further increased after the introduction of IRDP in 1980 and other government sponsored poverty alleviation programmes.

The objective of social and development banking was not just to increase the supply of formal credit to rural areas, but also to provide credit at the regulated rates of interest. So the scheme of differential rates of interest was introduced in 1974, for providing loans to economically unprivileged sections of the rural population at an interest rate as low as 4 per cent per annum. So commercial banks became the agencies through which the government directed subsidized credit to the rural poor for the creation of income generating activities.

In the post-nationalization period, the Indian banking system progressed by leaps and bounds. Under the system of branch licensing, bank branches expanded rapidly in both rural and urban areas, especially in the unbanked and neglected areas. By the end of 1989 the rural bank branches consisted of nearly 57 percent of the total bank branches (Narayana, 2000). In addition to this category of branches of Scheduled Commercial Banks, a new class of institutions called the Regional Rural Banks (RRBs) was set up for enhancing rural credit, since 1975. These banks were exclusively meant for financing the economically disadvantaged rural poor (Vyasulu & Rajasekhar, 1991). Banking sector achieved many social and economic goals in the form of extending the geographical reach and financial spread of the banking services. The banking sector had recorded rapid progress in the field of branch expansion, deposit mobilization, expansion of bank credit and increase in the priority sector lending. Despite the impressive progress, the excessive controls such as directed investment and credit programmes enforced on banks by the government, fostered certain rigidities and inefficiencies in the commercial banking system, which not only hindered development but also eroded their profitability (Bhat.et.al, 2000).

2.5.3 Banking Sector Reforms

In order to improve the profitability, productivity and efficiency of the banking sector, Narasimham committee on the Financial System was appointed in the year 1991and the Committee recommended substantial reforms in the banking sector. The Committee recommended phasing out of the bulk of priority sector targeting by the banks. The major recommendations of the Committee are: the directed credit programmes should cover a redefined priority sector constituting small and marginal farmers, tiny sectors or industries, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The credit targets for this redefined priority sector should be fixed at 10 per cent of aggregate bank credit.

It also recommended that the rate of interest on priority sector lending be brought closer to the rates of interest that is imposed on general bank credit, Statutory Liquidity Ratio (SLR) requirements be brought down to 25 percent from the then existing 38 percent of net demand and time liabilities, freedom of entry & exit of banks and allow interest rates to be determined by the market (Narasimham, 1991).

However, in the post reform period, the banking trends seem to be slowly reversing the earlier trends of two decades since nationalization. The liberalization of banking has aggravated the imperfections in the credit market. The natural bias of banks has come to the fore and they are increasingly withdrawing the lending to agriculture, small enterprises and such activities. Bank expansion into rural and unbanked areas has also been stopped. Such withdrawal would have an adverse impact on the investment and output in the agriculture and small industries (Narayana, 2000). This reluctance of the scheduled commercial banks to provide the credit needs of the rural poor had many reasons. The rural poor did not have any capacity to save, they need small credits very often for consumption and production maintenance needs and, the transaction cost in extending small amount of credit emerged as a barrier to the banker to lend to the poor (Fernado, 1995). Further, apart from the high transaction cost, many rural poor lacking exposure to the banks, were unable to offer physical collateral, and submit a proper loan proposal and it is also observed that the formal financial institutions lacked flexibility in their operations. This resulted in the inaccessibility of the services of the formal financial system to the rural poor. Due to this, the rural poor were relying on informal credit channels such as local moneylenders, market vendors, shopkeepers and others including friends and relatives. Credit in the informal system is usually available immediately, when and where required and often without collateral and lengthy documentation facilities, since the lender relies on personal knowledge of the borrower and his surroundings.

As stated earlier the growing concern with financial exclusion led to the setting up of the Rengarajan Committee in 2006 followed by the Reguram Rajan Committee in 2007 for the financial sector reforms. The specific recommendations of Rengarajan Committee are the following.

1) The Committee recommended the setting up of National Rural Financial Inclusion Plan (NRFIP) to provide access to comprehensive financial services to at least 50% of the excluded rural cultivator and non-cultivator households across different states by 2012. The remaining households have to be covered by 2015.

2) The Committee recommended to constitute two funds namely, Financial Inclusion Promotion and Development Fund and Financial inclusion Technology Fund to strengthen and expand the operation of commercial banks in existing rural and semi urban areas, of which the former fund was for meeting the developmental and promotional expenses while the latter was for meeting the cost of technology adoption.

3) In order to deepen the outreach of the micro finance programme in an effective way to the excluded segments, the Committee recommended to strengthen the SHG-bank linkage programme of the commercial banks. The Department of Women and Child Development at state level has to be actively involved in promoting and nurturing of SHGs. The state governments and NABARD should set aside specific funds out of budgetary support and the Micro Finance Development and Equity Fund respectively for the purpose of promoting SHGs in regions with high levels of exclusion. And also the Committee recommended the strengthening of Joint Liability Groups (JLGs) of the poor such as landless, sharecroppers and tenant farmers as another innovative mechanism towards ensuring greater financial inclusion.

4) The committee identified that micro insurance provided greater economic and psychological security to the poor as it reduced exposure to multiple risks and cushions the impact of a disaster. Therefore, the Committee recommended the need for linking of micro credit with micro insurance. Added to this it also recommended to review the existing insurance schemes.

5) Regional Rural Banks should extend their services to unbanked areas and increase their credit to deposit (CD) ratio. It also recommended a separate fund in the annual credit plans of RRBs operating in tribal predominant areas with high levels of exclusion. The Committee noticed that since the post-merger scenario of RRBs poses a serious challenge to the financial inclusion in rural areas, there is no need for further merger of RRBs at state level across sponsor banks.

6) The Committee rightly recognized that the supply side solutions without solving the demand side bottlenecks will not work and thereby recommended to make substantial investment in human development that will lead to enhancement of economic efficiency and consequently demand for financial inclusion, within a few years.

The main recommendations of the Reguram Rajan Committee were (1) allow more entry to private well-governed deposit taking small finance banks offsetting their higher risk from being geographically focused by requiring higher capital adequacy norms, a strict prohibition on related party transactions, and lower allowable concentration norms. Make significant efforts to create the supervisory capacity to deliver the greater monitoring these banks will need initially, and put in place a tough prompt corrective action regime that ensures these banks do not becomes public charges. (2) Liberalize the banking regulation so that a wide range of local agents can serve to extend financial services. Use technology both to reduce costs and to limit fraud and misrepresentation. (3) Offer Priority Sector Loan Certificates (PSLC) to all entities that lend to eligible categories in the priority sector. Allow banks that undershoot their priority sector obligations to buy the PLSC and submit it towards fulfillment of their target. (4) Liberalize the interest rate that institutions can charge, ensuring credit reaches the poor, but require (*i*) full transparency on the actual effective annualized interest cost of a loan to the borrower, (*ii*) periodic public disclosure of maximum and average interest rates charged by the lender to the priority sector, (*iii*) only loans that stay within a margin of local estimated costs of lending to the poor be eligible for PSLCs.

The importance given to the SHGs by the Rengarajan Committee to bring about financial inclusion is very clear. In this context we next discuss in detail the role assigned to SHGs in our policies.

2.6 Role of SHGs in Financial Inclusion

The incapacity or disinterest of the formal banking sector to serve the needs of low income people on the one hand and the increased demand for credit from rural households on the other paved the way for the formal sector to take the initiative to develop a supplementary credit delivery mechanism by encouraging institutional arrangements outside the financial system like Self Help Groups (SHGs) with non-governmental organizations acting as facilitators or intermediaries. The beginning was made with NABARD's pilot project in Karnataka in 1986-87 of linking SHG with formal banks, mediating through NGOs. This project is known as the SHG bank linkage program, which was expected to be advantageous to the banking sector from both angles of fulfillment of social goals and achieving operational efficiency (Varman, 2005). The Self Help Groups are small informal associations created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity and joint responsibility. The benefits include mobilization of savings and credit facilities and pursuit of group enterprise activities. The group-based approach not only enables the poor to accumulate capital by way of small savings but also helps them to get access to formal credit facilities (Shylendra, 1998).

SHGs have been extremely effective in creating the habit of savings among the rural poor and mobilizing it for common good. A fixed amount (normally Rs.10) as decided by members is collected as savings during the group meeting in every week. The members' savings are entered in the passbooks as well as in the savings accounts maintained with the group. The amounts of savings varied with the socio-economic status of members.

By linking SHGs with formal banks, both the banks as well as the SHGs are expected to get the benefit. Whereas the banks gain from the new credit market and the potential surplus sector, at the same time, SHGs enjoy the advantage of much larger and cheaper resources (Dasgupta, 2001). Involvement of SHGs with the banks could help in overcoming the problems of high transaction cost in providing credit to the poor. In addition to this, the character of SHGs and the relation with their members offered a way of overcoming the problem of collateral, excessive documentation and physical access which reduces the capacity of formal financial institutions to serve the poor.

Reviewing the available literature on studies on micro-credit, SHGs and their impact on rural poor, many studies reveal that micro-credit programmes are important institutional devices for providing small credit to the rural poor in order to alleviate poverty. And they suggest that increased availability of micro credit to the poor will enable the rural households to take up larger productive activities, increase savings, empower the poor women and decrease the dependence on exploitative local moneylenders. However there are other researchers who caution against such optimism and point to the negative impacts of micro-finance. One of the papers with reference to Africa argues that despite the incredible growth over a decade in micro credit programmes throughout Africa, there appears to be little evidence to suggest significant and sustained positive impacts for the supposed beneficiaries (Buckley, 1997).

However, it is to be noted that the SHGs by way of joint liability enable the poor and needy members to overcome the problem of collateral security in borrowing money and thus free them from the clutches of moneylenders. This joint liability not only improves group members' accessibility to credit but also creates mechanisms like peer monitoring of loans leading to better loan recoveries.

To sum up the credit system in India was in a very pathetic stage during the pre-nationalization period. As a result of the nationalization of commercial banks in 1969, most of the unbanked sections of the people came under the purview of the formal financial sector. The main objective of the banks during that period was the social and development objective by meeting the credit of the disadvantaged sections of the population. But as a result of the economic reforms, aimed to improve the profitability, productivity and efficiency of the banking sector, the imperfections increased in the credit market. Banks were reluctant to lend to the rural poor. So after the reform period the rural poor were excluded from the formal financial sector. The bank linked SHG programmes also need a critical look since opinion on their performance is divided.

To substantiate some of the points made above we provide some evidence on the operation of the credit policies with special reference to the weaker sections of the society especially the SC and ST population.

2.7 The Evidence

As a result of the banking sector reforms and the new policy changes, the advances to the "weaker sections"[3] as a percentage of net bank credit showed a distinct decline during the reform periods of 1990s (Table 2.1).

Table: 2.1 Commercial Bank's Credit to Weaker Sections

Year	Public Sector Banks (Amount in Rs. crore)	Percent of Net Bank Credit (Amount in Rs. crore)	Private Sector Bank	Per cent of Net Bank Credit
1991	10260	9.7	246	5.2
1992	10881	9.7	269	4.5
1993	11865	8.9	283	4.0
1994	12779	9.1	300	3.1
1995	13918	8.2	339	2.5
1996	15579	8.4	381	2.1
2001	24899	7.2	959	1.7
2002	28974	7.3	1142	1.8
2003	32303	6.7	1223	1.5
2004	41589	7.4	1495	1.3
2005	63492	8.8	1913	1.2
2006	78373	7.7	3909	1.6

Note: Data from 1997 to 2000 are not available.
Sources: Chavan (2007)

Domestic commercial banks, which were mandated to direct at least 10 per cent of their net credit to these sections, were not able to meet this target. Moreover the gap between target and achievement continued to be widening over the years. It is also seen that after the liberalization period, at the national level, the scheduled commercial banks outstanding advances to SC and ST households under the priority sector lending across the states got reduced during the 2007 (Table: 2.2).

[3] Weaker sections were defined as small and marginal cultivators, agricultural labourers, and SC and ST households (Chavan 2007)

what absolute figures specify, proportion to priority sector to be taken up.

Table: 2.2 Scheduled Commercial Banks outstanding advances to SC and ST under Priority Sectors (Amount in Rs. crore)

States	2001	2002	2003	2005	2006	2007
Haryana		1	12	19	25	
Himachal Pradesh	5			205		
Punjab	1	1	1	42	57	
Rajasthan		1	89	30	51	110
Chandigarh	58		1	4		2
Bihar	50	1		11	14	32
Jhargand	27	1		1	1	
Orissa	3	4	5	36	20	6
West Bengal	49	4	10	26	7	294
Madhya Pradesh	12	27	15	6	194	16
Chattisgarh		16	23	11	10	1
Utter Pradesh	33	198	13	22	15	1
Gujarath	15	29	101	56	192	34
Maharastra	680	1237	783	398	2096	233
Andra Pradesh	178	441	160	225	94	173
Karnataka	139	165	138	66	125	50
Kerala	**2**	**7**	**19**	**14**	**60**	**83**
Tamil Nadu	102	292	411	320	313	315
All India	**2237**	**2862**	**1824**	**2945**	**4076**	**1559**

Sources: Trends and Progress of Banks In India, RBI various issues.

From the table 2.2 we can see that the scheduled commercial banks outstanding advances to SC and ST households under the priority sectors was Rs. 2237 crore in 2001 and it increased to Rs. 2862 crore in 2002. And it reduced to Rs. 1824 crore in 2003 and kept on increasing for some years till 2006 and again it got reduced to Rs. 1559 crores in 2007. There was a wide disparity among the states in outstanding advances of the scheduled commercial banks to SC and ST households also. Over the years, the commercial banks' outstanding advances to SC and ST households have been increasing only in some states like Kerala, Punjab and Haryana. In Kerala the commercial banks outstanding advances to SC and ST households was Rs. 2 crores in 2001 and it has dramatically increased to Rs. 83 crores in 2007.

I dont know what you derived from this table?

2.8 Survey of Small Borrowal Accounts

In view of the increased attention accorded to the weaker segments of the priority sectors, in recent years with stipulated targets, it was felt by the RBI that disaggregated data on the small borrowal accounts would be useful. Against this background, the Basic Statistical Return-1 introduced way back in 1972 ~~under~~ the system of Basic Statistical Returns calls for data on various aspects of borrowal accounts and comprises two parts viz; Part A and Part B. In part A, account wise detailed data were collected for all the borrowal accounts each with credit limit above a specified cut-off limit (revised from time to time). In part B, occupation wise consolidated data were collected in respect of borrowal accounts each with credit limit below cut-off point these accounts were classified as Small Borrowal Accounts. The cut off point of credit limit, which was set at Rs.10, 000 at the time of inspection in 1972, was revised upwards to Rs. 25,000 effective from June 1984 and Rs. 2 lakh effective from March 1999. This survey provides some information on weaker sections like SC, ST etc. We here present information for the Survey of Small Borrowal Accounts since financial liberalization.

Table: 2.3 Distribution of Percentage Share in the Number of Small Borrowal Accounts and Amount outstanding.

Years	Scheduled Tribe		Scheduled Caste		Others	
	No: Of A/c	Amount	No: Of A/c	Amount	No: Of A/c	Amount
1993	9.6	5.2	18.0	12.4	71.3	81.5
1997	8.9	6.6	17.8	12.7	72.7	80.1
2001	6.1	3.8	12.2	7.1	80.7	87.8
2004	3.7	2.6	6.7	4.6	87.4	90
2006	3.0	2.1	5.4	3.9	91.6	94.1

Sources: Reserve Bank of India Bulletin, Various Issues.

The above table 2.3 shows that, the share of small borrowal accounts held by both SC and ST households has been decreasing since liberalization. It indicates that, 9.6 percent of the accounts belonged to ST while 18 percent of the accounts belonged to SC during 1993. But this share of accounts got reduced to 3 percent for ST and 5.4 percent for SC households during 2006. The share of outstanding debt to ST was 5.2 per cent in 1993 and for SC it was 12.4. The share of outstanding debt of both the social groups declined drastically. It declined to 2.1 per cent for ST households, and 3.9 per cent for the SC households during 2006. But the percentage number of accounts and the amount allotted to the social group, which is categorized as "others" shows an increasing trend. So this clearly indicates that the number and amount of the small borrowal accounts for both SC and ST households have been reduced over time and these social groups have been excluded from the formal sector since the liberalization period. There is another picture of exclusion of SC and ST from the formal financial system. Many studies have pointed out that, (Chavan 2005) banks prefer to lend to the affluent sections within the weaker sections, for achieving the mandatory targets. This is clear from the average amount outstanding per account increasing over the years for both the social groups (Table.2.4) although their absolute share has been declining over the years.

Table: 2.4 Distribution of average amount outstanding per SB account (in Rs)

Years	ST	SC	Others
1993	2807	3607	5998
1997	5956	5739	8855
2001	13,150	12,234	22,940
2004	18,786	18,309	27,045
2006	22,101	22,964	33,102

Sources: Reserve Bank of India Bulletin, Various Issues.

The average amount outstanding per account was lowest at Rs. 2807 and Rs. 3607 for ST and SC households respectively in 1993. During this period the social group "others" had higher average share per account. From 1993 onwards to the consecutive years, the average amount outstanding per account to all the social groups increased. It increased to Rs. 22,101 for ST households and Rs. 22,964 for SC households in 2006. Of course this increase in average outstanding amount per account since 1993 may be partly because of rising limits of credit delivery to small borrowals.

2.9 Situation Assessment Survey.

Agriculture plays a key role in the overall economic and social well being of our country. More than half of the work force of our country is engaged in agriculture and related activities. But still it is not known that if the farming community in different regions of our country whether they are satisfied with their job or not? In this context, to study the state of the Indian farmers, the Ministry of Agriculture planned a countrywide survey. The survey known as 'Situation Assessment Survey of Farmers' was carried out on the basis of a sample of more than fifty thousand farmer households selected from all over the country. It was conducted by the NSSO during January to December- 2003 as part of its 59th round. Here we present information on the indebtedness of SC and ST farmer households and other related issues. The table 2.5 shows the distribution of indebted farmer households per thousand number of farmer households state wise.

Table: 2.5 State-wise indebtedness of farmer households by social groups
(per thousand farmer)

States	ST	SC	Others
Andhra Pradesh	108	168	247
Arunachal Pradesh	486	0	514
Assam	71	100	616
Bihar	29	170	204
Chhattisgarh	308	167	33
Gujarat	228	66	344
Haryana	5	218	451
Himachal Pradesh	67	278	479
Jharkhand	239	156	125
Karnataka	98	108	364
Kerala	**16**	**45**	**443**
Madhya Pradesh	156	186	176
Maharashtra	93	86	477
Orissa	233	142	185
Punjab	2	261	579
Rajasthan	208	165	157
Sikkim	264	46	345
Tamil Nadu	42	219	10
Tripura	414	170	267
Utter Pradesh	18	257	168
West Bengal	57	296	573
All India.	**100**	**180**	**281**

Sources: NSSO, 2005

The table 2.5 shows that, the highest proportion of indebted farmer households are from the SC farmer households than ST farmer households. Across the states such as Orissa, Rajasthan, Sikkim, Tripura, Andhra Pradesh, Arunachal Pradesh, Madhya Pradesh, Jharkhand, Gujarat, and Chhattisgarh higher percentage of ST farmer households are indebted. In contrast, the indebted farmer households among the SC households are higher in West Bengal, Utter Pradesh, Tamil Nadu, Punjab, Haryana, Himachal Pradesh and Madhya Pradesh than the all India average. These farmer households are indebted from many sources like commercial banks, cooperative banks and moneylenders. So based on the Situation Assessment Survey (59^{th} NSSO round) we brought some insights of the financial inclusion/exclusion among the SC and ST farmer households (Table 2.6)

Table: 2.6 Financial Exclusion across SC and ST Farmer Households.

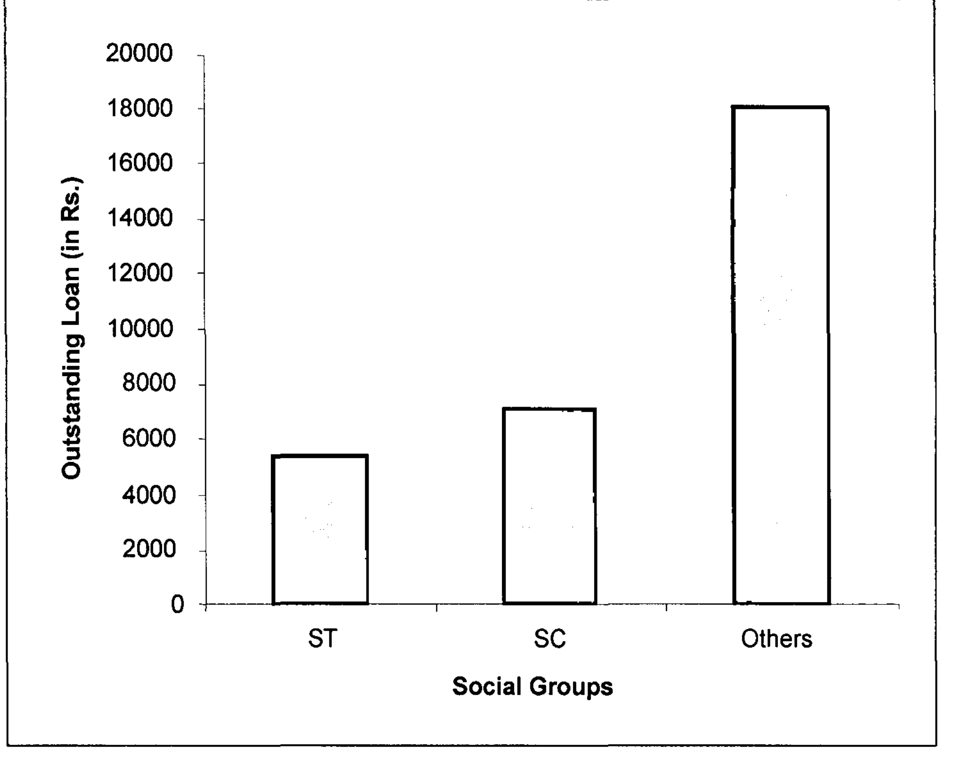
Social Groups	**Number of Farmer Households**			**Percentage**	
	Included	Excluded	Total	Included	Excluded
Scheduled Caste	78323	77603	155926	50.23	49.77
Scheduled Tribes	43304	75937	119241	36.32	63.68
Others	122014	124870	246884	49.42	50.58

Sources: NSSO (2005)

The analysis of the financial inclusion/exclusion shows that, half of the SC farmer households (50.23%) are financially included ~~and the~~ remaining half (49.77) percent of the SC farmer households are financially excluded. For the ST households, we can see that more than half of the households (64 %) are financially excluded. So from the analysis of financial exclusion by social groups we find that ST farmer households are relatively more financially excluded from the formal financial system. Although, in overall, the average amount of loan per farmer household outstanding from the formal financial system varies among different social groups (Figure 2.1), but, comparing different social groups, the average amounts of loan per farmer households are not too much varied among the SC and ST households while it is comparatively high for "others".

S&T SC Exclusion

Figure: 2.1 Outstanding Loan per Farmer households among the social groups.



The figure shows that, the average loan amount per farmer household among different social groups was Rs. 5,500 for ST households, Rs.7,200 for SC households and Rs.18,100 for the category others. So compared to the social group "others", one can see that both the SC and ST farmer households are getting very negligible amount of loan from the formal sources although SC households are better off than ST households. In this situation, for meeting the credit needs, the farmer households are forced to depend on the informal sources. Literature points out that bank prefer to give larger amounts of loans only to those households with high land possession and high income groups. The table 2.7 shows the average amount of outstanding loan per farmer household in different social groups by Monthly Per Capita Expenditure (MPCE) class, which is taken as a proxy for income.

Table: 2.7 Distribution of Average amount of outstanding loan (in Rs.) per farmer household in different social groups by MPCE class

MPCE Class	ST	SC	Others
0-225	2859	5734	8582
225-255	4484	6046	11031
255-300	5326	6383	11370
300-340	5735	6138	13262
340-380	4330	7868	14201
380-420	7254	7706	19037
420-470	8588	8164	19540
470-525	10706	10867	20084
525-615	7652	12460	23851
615-775	10344	9560	32304
775-950	17260	10977	37407
>950	33727	16437	47806

Sources: NSSO, 2005

The average amount of outstanding loan for the SC households are higher than for ST households up to the middle size monthly per capita expenditure class. After that, it could be observed that the amount of loan outstanding for the ST households is higher than the SC households. This gap appears to be widening as one moves up the monthly per capita expenditure class. At the lowest monthly per capita expenditure class, the average amount of loan for SC households is Rs. 5734 while for ST households the average amount of outstanding loan is only Rs. 2859, half of the SC households. As the level of monthly per capita expenditure class increases, although the average amount of loan increases for both the social groups, the gap between the social groups is also increasing. This implies that SC households are better of than ST households in obtaining bank credit. It is also observed that the average amount of outstanding loan per farmer household varies widely from state to state (Table.2.8).

Table: 2.8 Distribution of average amount of outstanding loan (in Rs) per farmer household of different social groups across the states.

States	ST	SC	Others
Andhra Pradesh	12760	12720	37802
Assam	391	1141	971
Bihar	3619	3161	6814
Chhattisgarh	1545	5386	8816
Gujarat	1981	9175	26333
Haryana	23555	13341	31548
Himachal Pradesh	5308	11427	7662
Jharkhand	746	2992	3304
Karnataka	11259	6405	24901
Kerala	10832	13308	38013
Madhya Pradesh	4812	8910	25411
Maharashtra	6379	8845	21417
Orissa	2360	4850	10439
Punjab	118495	10399	66147
Rajasthan	12018	16708	18538
Sikkim	2790	586	2192
Tamil Nadu	20123	12786	23782
Tripura	2656	3239	2718
Utter Pradesh	6706	4893	11290
West Bengal	2349	4298	6118
All India.	**5506**	**7167**	**18118**

Sources: NSSO, 2005

It is observed from the above table 2.8 that, for the ST farmer households the average amount of outstanding loan was quite high for the states of Punjab, Kerala, Haryana, Andhra Pradesh, Tamil Nadu, Rajasthan, and Karnataka. It was quite low for Assam and Jharkhand. At the all India level, the average amount for the ST households was Rs. 5506 while for the SC households it was Rs. 7167.

In short, the credit system in India was in a very pathetic stage during the pre-nationalization period. As a result of the nationalization of commercial banks in 1969, most of the unbanked sections of the people came under the purview of the formal financial sector. But as a result of the economic reforms, aimed to improve the profitability, productivity and efficiency of the banking sector, the imperfections in the credit market were aggravated. So after the reform period the rural poor were excluded from the formal financial sector. During the post reform period the domestic commercial banks did not achieve the mandated credit target of 10 per cent of their net credit to "weaker sections". Moreover the gap between target and achievement continued to be widening over the years. The Survey of Small Borrowal Accounts shows that, the number of accounts held by both SC and ST households have been reducing since liberalization. The amount outstanding through these accounts to both the social groups also declined drastically since the liberalization. The analysis of the financial inclusion/exclusion based on the Situation Assessment Survey data shows that, half of the SC farmer households (50.23%) are financially included and the remaining half (49.77) percent of the SC farmer households are financially excluded. For the ST households, we can see that more than half of the households (64 %) are financially excluded. It is observed that the average amount of outstanding loan per farmer household varies widely from state to state and we can see that compared to other states, Kerala shows a better position in getting loans i.e. Kerala reveals a higher level of financial inclusion yet it is important to note that poverty and inequality among these groups has not reduced i.e. inclusive growth is not happening (Subrahmanian and Syam Prasad, 2008; Surynanarayana, 2009). Hence, Kerala seems to be an ideal case for understanding financial exclusion among the SC and ST. As a prelude to examining the micro evidence, in the next chapter we provide a detailed overview of the status of financial exclusion of the SC and ST at the macro level based on secondary data.

CHAPTER III

FINANCIAL EXCLUSION OF THE SC AND ST HOUSEHOLDS: A MACRO ANALYSIS

This chapter deals with the financial exclusion of SC and ST households from formal sources of credit. Analysis by agency is important to understand financial inclusion from the breadth perspective - that is accessibility to different financial institutions. In order to know the extent of credit exclusion or financial exclusion, ideally we should have data on the households who are denied credit in spite of their demand. Since we don't have such readily available data at an aggregate level, we use here households' indebtedness as a proxy. Here we examine the SC and ST households' indebtedness from formal and informal sources at the all India level and at the state level. The data for this analysis have been drawn from the All India Debt and Investment Survey (AIDIS) conducted by the NSSO for 1992 and 2003.

3.1 Debt Profile of Scheduled Caste and Scheduled Tribe Households

This section examines the degree of financial exclusion (i.e. degree of access to formal secretor credit) for the SC and ST households in India after financial liberalization. The main objective of the AIDIS surveys is to generate reliable estimates on assets, liabilities and capital expenditure of the households sector in the economy. For the analysis of financial exclusion since liberalization, we are taking two rounds of the survey conducted by the NSSO. The first one is the All India Debt and Investment Survey (AIDIS), which was carried out in the 48^{th} round of the NSSO during the period January to December 1992 and the second one is the 59th round of NSSO conducted from January to December 2003. Data from these two rounds have been used in this article to analyze the changes in the debt profile of SC and ST households. These two reports examine various aspects of assets and liabilities of the households belonging to the different social groups. There are four social groups, namely Scheduled Caste (SC), Scheduled Tribes (ST), Other Backward Classes (OBC) and "Others". Those who did not come under any one of the first three social groups were assigned to "Others" meant to cover all other categories. However, our focus is on SC and ST households. The ST households constituted about 8 per cent of all the households in the country and the SC households constituted around 20 per cent of all the households.

3.2 Share of Credit Agencies in Outstanding Cash Debt

The analysis of share of credit agencies in outstanding cash debt for both SC and ST households is very helpful in order to know from which sources or credit agencies, these groups are raising more credit. The table 3.1 shows the reported credit of SC and ST households in terms of the shares of outstanding debts to different agencies for rural and urban areas separately.

Table: 3.1 Percentage distribution of outstanding total debt by credit agency for each social group in Rural Areas.

Credit Agency	**1992**			**2002**		
	ST	**SC**	**Others**	**ST**	**SC**	**Others**
Govt.	7.2	9.2	5.5	3.6	2.9	2.3
Co-op. society/bank	**17**	**15**	23.3	**29.4**	**18.3**	34.9
Commercial bank including RRBs	**37.8**	**34.6**	33.3	**33.8**	**21.6**	27.3
Insurance	0	0.2	0.3	0.2	0.1	0.1
Provident fund	0	1.1	0.7	0.5	0.2	0.3
Financial Corporation/Institution*	NA	NA	NA	0.4	0.6	1.4
Financial Company*	NA	NA	NA	0.2	0.2	0.9
Other institutional agencies	2.9	1	1.6	0.4	0.9	0.4
All Institutional agencies	**64.9**	**61.1**	**64.6**	**68.5**	**44.8**	**67.7**
Landlord	3.8	8.5	3.1	0.3	2.3	0.7
Agriculturist moneylender	**7.5**	**8**	6.8	**9.4**	**15.1**	8.3
Professional moneylender	**11**	**10.4**	10.5	**10.7**	**27.6**	11.7
Traders	2.2	2.4	2.5	3.1	1.4	1.7
Doctors and lawyers	0	0.3	0.2	0.2	0.3	0.5
Relatives and friends	2.3	3.7	6	6.3	6.4	7.3
Others	7	3.3	2.6	1.4	2.1	2.3
All Non-institutional Agencies	**33.7**	**36.6**	**31.8**	**31.5**	**55.2**	**32.3**
Unspecified Source	1.4	2.3	3.6			
All agencies	**100**	**100**	**100**	**100**	**100**	**100**

Note * in 1992 classification of NSSO this classification was not there.
Sources: NSSO (1998, 2006)

It should be noted that in rural areas the percentage debt of SC households from the institutional sources has declined from 61 per cent in 1992 to 45 per cent in the year 2002. The corresponding figures for non-institutional sources sharply increased from 37 per cent to 55 percent during the same period. Further we investigated the sources contributing to such a decline in formal sources of credit as well as that of hike in informal sources. We have found that the share of commercial banks, which is the major source of formal sector credit declined sharply during this period from 34.6 percent to 22 percent. On the other hand, there has been an immense increase in the share of professional and agriculture moneylenders. While the share of professional moneylenders more than doubled during this period from 10.5 percent to 27.6 percent that of agricultural moneylenders increased from 8 to 15.1 per cent.

In the case of ST households it is interesting to note that the share of institutional sources of credit increased whereas that of non-institutional sources declined. This is in contrast to the above trend we have seen for SC households. The share of institutional agencies was 64.9 in 1992 that increased to 68.5 in the year 2002 and that of non-institutional sources reduced from 33.7 percent to 31.5 per cent during the same time. More disaggregated level of analysis shows that even though the institutional sources of credit increased lending to ST households a major portion of this was contributed by cooperative banks (17 to 29.4 per cent) and the contribution of other major institutional sources such as government and commercial banks declined during this time. Even though the share of non-institutional sources marginally declined, the presence of agriculture and professional moneylenders was still high. Among this the share of agriculture moneylenders increased from 7.5 to 9.4 per cent and that of professional moneylenders remained more or less same during this time.

Next we will examine the sources of debt position in urban areas. As can be seen from table 3.2, the share of institutional sources increased both for SC and ST households during the liberalization era. For SC households, the institutional sources constituted 59.2 per cent of debt in 1992 and it increased to 71.2 per cent in 2002 and non-institutional sources declined from 37.5 per cent to 28.8 per cent. Among the SC households, commercial banks including RRBs were the main driver of this expansion. However among the non-institutional sources, the presence of professional money lenders only marginally reduced during this period, and still they have a substantial importance (17 %) in the debt position of urban SC households. For ST households institutional sources increased from 60.9 per cent to 78.8 per cent and that of non-institutional sources considerably reduced from 32.7 per cent to 21.2 per cent during the same time period. Like SC households, in the case of urban ST households also the share of commercial banks including RRBs drastically increased from 6.4 per cent to 15.5 per cent between the two periods whereas that of cooperative banks declined sharply from 34.7 per cent to 11 per cent. Even though the credit policies aimed at abolishing the role of moneylenders, in the case of urban ST households their share is increasing over the period. It was only 1.2 per cent in 1992, which increased to 6.8 per cent in 2002.

Table: 3.2 Percentage distribution of outstanding total debt by credit agency for each social group in Urban.

	1992			2002		
Credit Agency	**ST**	**SC**	**Others**	**ST**	**SC**	**Others**
Govt.	16.2	6.6	11.4	14.9	8.5	8
Co-op. society/bank	34.7	21.7	16.5	11	21.3	21.5
Commercial bank including RRBs	6.4	19	22.1	15.5	28	31.6
Insurance	0.4	0.3	1.5	1.2	0.9	4.5
Provident fund	3.1	5.6	3	1.9	3.3	1.9
Financial Corporation/Institution*	NA	NA	NA	33	5	7.9
Financial Company*	NA	NA	NA	0	1.1	2.7
Other institutional agencies	0.1	5.9	16.7	1.3	3.1	3.9
All institutional agencies	**60.9**	**59.2**	**71.2**	**78.8**	**71.2**	**82**
Landlord	0.2	0.8	0.6	0	0.1	0.1
Agriculturist moneylender	2.7	2.5	0.8	0	0.7	0.6
Professional moneylender	1.2	18.5	8.5	6.8	17.1	8.3
Traders	0.2	2.3	2.3	9.3	1.1	0.7
Doctors and lawyers	0.3	0.5	0.2	0	0.4	0
Relatives and friends	23.3	8.9	9.5	2.7	7.7	6.8
Others	4.8	3.9	3.9	2.3	1.5	1.4
All Non-institutional Agencies	**32.7**	**37.5**	**25.7**	**21.2**	**28.8**	**18**
Unspecified sources	6.4	3.3	3.1			
All agencies	**100**	**100**	**100**	**100**	**100**	**100**

Note * in 1992 classification of NSSO this classification was not there.
Sources: NSSO (1998, 2006)

To sum up from the above analysis, we found that for the rural SC households the share of institutional sources drastically reduced which led to the increased dependence on non-institutional sources mainly moneylenders. Even though in urban areas the share of institutional sources increased during the post liberalization era, the moneylenders play a very important role in filling their demand for credit. For the ST households, the share of institutional sources increased both for rural and urban areas whereas if we take the role of moneylenders it is still predominant. So after the financial liberalization, the poor and vulnerable sections of the people are still dependent on non-institutional sources that make them financially excluded. All this is with reference to the stock of debt, now we move to the incidence of borrowing for SC and ST households.

3.3 Incidence of borrowing for different social groups.

The table 3.3 shows the incidence of borrowings from institutional agencies and non-institutional agencies for each social group for both the rural and urban households. We defined the Incidence of Borrowing (IOB) as the percentage of households reporting cash borrowings during 1992 and 2002.

Table: 3.3 Percentage of households' borrowings in cash (IOB) for each social group and nature of credit agency

	1992			**2002**		
Credit Agency	**ST**	**SC**	**Others**	**ST**	**SC**	**Others**
	(Rural)					
Institutional	6.2	7.6	9.5	4.2	4.7	10.5
Non-Institutional	7.7	12.6	11.8	7.8	16.5	12.2
All	14.0	19.8	20.9	11.6	20.5	20.8
	(Urban)					
Institutional	6.6	9.6	8.1	5.9	5.4	5.5
Non-Institutional	14.2	13.6	10.0	7.9	12.9	6.6
All	20.9	22.1	17.8	13.3	17.1	11.6

Sources: NSSO (1998, 2006)

Table 3.3 shows that a larger percentage of both SC and ST households both in the rural and urban areas rely more on non-institutional sources for their current borrowings than institutional sources. In the case of rural SC households incidence of borrowing was 7.6 per cent in 1992 from institutional sources which declined to 4.7 per cent in 2002. They were mainly depending on non-institutional sources which constituted 12.6 per cent during 1992-93 and which increased to 16.5 per cent during 2002-03. For rural ST households the incidence of borrowing from institutional sources declined whereas that of non-institutional sources remained more or less same. In urban areas overall incidence of borrowing for both SC and ST households declined during the post liberalization period (See table 3.3 for details). Thus it is clear from the table that both SC and ST households in urban as well as rural areas are still depending on non-institutional sources for borrowings. This again proves our earlier point that both the SC and ST households are financially excluded from the formal sector of credit.

Having analyzed the incidence of borrowings next we will move to the average amount of cash borrowings (AOB, hereafter) per household. The AOB per household for both the social groups is different due to dissimilar social and economic characteristics. From the table 3.4 it can be seen that in absolute terms the per head borrowings for all the social groups increased. However per head borrowings of SC households were very high compared to ST households except for urban ST households from institutional sources. If we are taking the percentage share of borrowings from formal and informal sources we can arrive at some interesting picture. In the case of rural SC households the borrowings per households declined from institutional agencies whereas that from non-institutional sources considerably increased. It was 46 per cent in 1992 from non-institutional sources which increased to 56 per cent in 2002. In the case of urban SC households it remained more or less constant during the same period. For the ST households the role of institutional sources increased both for rural and urban areas. For rural areas it was 43 per cent and that increased to 57 per cent and for urban areas it was 49 per cent in 1992 which increased to 81 per cent in 2002 (see table 3.4).

Table: 3.4 Distribution of average amount (Rs.) of cash borrowings per household (AOB) from both sources by social groups

Credit Agency	1992			2002		
	ST	**SC**	**Others**	**ST**	**SC**	**Others**
			Rural			
Institutional	214 (43)	390(50)	759(55)	503(57)	891(44)	3516(66)
Non-institutional	264 (54)	363(46)	569(41)	385(43)	1138(56)	1849(34)
All	**493 (100)**	**783(100)**	**1392(100)**	**888(100)**	**2030(100)**	**5365(100)**
			Urban			
Institutional	713(49)	933(61)	1180(60)	2762(81)	2446(63)	6169(85)
Non-institutional	483(33)	580(38)	734(37)	656(19)	1450(37)	1085(15)
All	**1442(100)**	**1538(100)**	**1961(100)**	**3418(100)**	**3896(100)**	**7253(100)**

Note: Figures in parenthesis shows percentages.
Sources: NSSO (1998, 2006)

In short, based on the All India Debt and Investment Survey by NSSO, we found that at the all India level both in rural and urban areas, a major proportion of SC and ST households are financially excluded from formal sectors of credit given the fact that their dependence on non-institutional sources is high. Moreover the ST households are better-positioned comparing SC households, which is true for all the indicators. Strikingly, even after introducing various reforms to reduce the role of moneylenders, they still play a major role in meeting the finance requirements of both SC and ST households. Here it is to be noted that the dependence of SC households on moneylenders drastically increased during the post liberalization era. Across the states, the financial exclusion among these social groups is also very different. In this context, it is very interesting to examine the nature and extent of financial exclusion among the SC and ST households in different states. The following section deals with the extent of inter-state financial exclusion based on the All India Debt and Investment Survey (AIDIS).

3.4 Financial Exclusion among SC and ST households Across the States

The table 3.5 shows the indebtedness of SC and ST households per thousand households in rural areas across the states (see table 3.5 and table 3.6). It is interesting to note that at the national level the dependence on non-institutional sources increased during the second period for both the SC and ST households. In contrast the number of indebted SC households to institutional sources was only 119 in 2002 compared to that of 171 in 1992. ST households' indebtedness to institutional sources declined to 109 in 2002 from 120 in 1992 and that of non-institutional sources increased to 81 in 2002 from 66 in 1992.

Table: 3.5 State wise indebtedness of SC and ST households in rural areas

(Per '000 households)

States	ST				SC			
	1992		**2002**		**1992**		**2002**	
	Insti	Non	Insti	Non	Insti	Non	Insti	Non
Andhra Pradesh	129	186	115	229	174	227	99	336
Assam	19	5	13	39	41	32	22	90
Bihar	95	13	101	25	97	88	50	189
Gujarat	68	72	82	125	171	18	105	142
Haryana	20	-	0	0	254	95	156	204
Himachal Pradesh	31	22	55	19	208	80	96	62
Jammu & Kashmir	137	-	162	0	97	61	26	11
Karnataka	235	57	121	194	185	75	85	175
Kerala	**294**	**94**	**160**	**54**	**333**	**111**	**351**	**156**
Madhya Pradesh	121	44	119	62	168	86	115	156
Maharashtra	119	22	135	35	138	29	197	49
Orissa	139	46	141	39	148	55	137	102
Punjab	-	-	79	97	136	137	74	181
Rajasthan	102	240	202	171	208	257	126	284
Tamil Nadu	40	147	153	147	173	182	85	220
Utter Pradesh	161	18	181	135	172	97	137	163
West Bengal	233	40	56	93	224	57	141	84
All India	120	66	109	81	171	112	119	170

Note: 'Insti' denotes Institutional sources and 'Non' denotes non-institutional sources.
Source: NSSO (1998, 2006)

In the case of ST households the number of indebted households per thousand households from institutional sources declined from 120 households in n1992 to 109 households in 2002. In half of the states, the number of rural ST households who had taken loans from the institutional sources was below the all India average in 1992 (See table 3.6).

Table: 3.6 Comparative Performance of States in terms of Indebtedness of SC and ST households in Rural Areas.

Category	**Above Average**	**Below Average**
Institutional Rural		
SC(1992)	**Kerala**, Haryana, WB, HP, Rajasthan, Karnataka, AP, TN, UP, Gujarat.	Assam, J&K, Bihar, Punjab, Maharashtra, Orissa, MP
SC(2002)	**Kerala**, Maharastra, Haryana, WB, Orissa, UP, Rajasthan.	Assam, J&K, Bihar, Punjab, TN, Karnataka, HP, AP, Gujarat, MP
ST(1992)	**Kerala**, Karnataka, WB, UP, Orissa, J&K, AP, MP.	Assam, Haryana, HP, TN, Gujarat, Bihar, Rajasthan, Maharashtra.
ST(2002)	Rajasthan, UP, J&K, **Kerala**, TN, Orissa, Maharashtra, Karnataka, MP, AP.	Assam, HP, WB, Punjab,Gujarat, Bihar.
Non-Institutional Rural		
SC(1992)	Rajasthan, AP, TN, Punjab.	Gujarat, Maharashtra, Assam, Orissa, WB, J&K, Karnataka, HP, MP, Bihar, Haryana, UP, **Kerala**
SC(2002)	AP, Rajasthan, TN, Harayana, Bihar,Punjab, Karnataka.	J&K, Maharastra,HP, WB, Assam, Orissa, Gujarat, MP, **Kerala**, UP.
ST(1992)	Rajasthan, AP, TN, **Kerala**,Gujarat.	Assam, Bihar, UP, Maharastra, HP, WB, MP, Orissa Karnataka.
ST(2002)	AP, Karnataka, Rajasthan, TN, UP, Gujarat, Punjab, WB	HP, Bihar, Maharashtra, Orissa, Assam, **Kerala**, MP.

Among the rural ST households, eight states (Kerala, Karnataka, West Bengal, Utter Pradesh, Orissa, Jammu & Kashmir, Andhra Pradesh, and Madhya Pradesh) were showing comparatively better position in terms of institutional sources Rajasthan, Andhra Pradesh, Tamil Nadu, Kerala and Gujarat were depending more on non-institutional sources compared to other states in 1992. It is interesting to note the presence of Kerala and Andhra Pradesh in both the categories which may be indicating that the provision of institutional sources is quite inadequate to meet the demand for credit requirements of ST households in Kerala and Andhra Pradesh. However in the year 2002 the access to credit from institutional sources expanded to more states (Tamil Nadu, Rajasthan, and Maharashtra). Tamil Nadu was part of below average category in 1992, which shifted to above average category. During the later period Kerala's dependence on non-institutional sources reduced for rural ST households compared to other states. Whereas Karnataka, Utter Pradesh, Punjab and West Bengal became part of above average category in the non-institutional sources.

In the case of rural SC households, ten states (Kerala, Haryana, West Bengal, Himachal Pradesh, Rajasthan, Karnataka, Andhra Pradesh, Tamil Nadu, Utter Pradesh, Gujarat) were greater than or equal to the national average (171) in terms of their indebtedness from institutional sources whereas only four states (Rajasthan, Andhra Pradesh, Tamil Nadu, Punjab) were above average from non-institutional sources (i.e.112) in 1992. There has been an immense change in the position of states after liberalization. The number of states above average declined to seven (Kerala, Maharashtra, Haryana, West Bengal, Orissa, Utter Pradesh, Rajasthan) from institutional sources and that of non-institutional sources increased to seven states during the post-liberalization era. It is to be noted that Haryana and Karnataka were part of above average category from institutional sources in 1992 that shifted to above average category in non-institutional sources in 2002, which is surely an indication of financial exclusion among the SC households in these states.

Next we will examine the situation of ST households in urban areas. In 1992 only four states were comparatively better in terms of accessing credit from the institutional sources(see table 3.7 and 3.8). They are Kerala, Maharashtra, Karnataka, Orissa and Tamil Nadu. These states except Tamil Nadu could maintain their status after liberalization along with this some other states such as Bihar, Punjab, Gujarat, Himachal Pradesh and Rajasthan could expand their institutional sources during this period. Non-institutional sources were predominant in the case of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala in 1992, however with government efforts to improve the institutional sources the dependence of urban ST households in Kerala and Karnataka on non-institutional sources came down sharply.

Table: 3.7 State wise indebtedness of SC and ST households in urban areas
(Per'000 households)

States	ST				SC			
	1991		2002		1991		2002	
	Inst	Non	In	Non	Inst	Non	In	Non
Andrapradesh		107	36	238	113	376	123	229
Assam	53	-	11	69	20	7	17	30
Bihar	40	9	313	268	43	46	64	63
Gujarat	13	20	90	80	128	179	146	138
Haryana	-	-	0	130	143	72	101	171
Himachal Pradesh	47	-	75	38	158	9	109	13
Jammu & Kashmir	-	-	0	0	18	80	93	11
Karnataka	144	66	126	50	104	93	72	88
Kerala	947	53	319	0	357	118	288	94
Madhya Pradesh	57	26	66	4	160	53	131	102
Maharashtra	202	23	108	33	157	94	114	26
Orissa	111	41	101	35	93	30	45	107
Punjab	-	-	248	42	55	144	40	113
Rajasthan	9	3	69	43	67	109	73	212
Tamil Nadu	108	170	28	318	156	300	126	221
Utter Pradesh	-	38	4	0	76	147	62	117
West Bengal	82	-	57	136	171	86	69	138
All India	91	49	67	58	126	146	88	113

Note: 'Insti' denotes Institutional sources and 'Non' denotes non-institutional sources.
Source: NSSO, (1998, 2006).

In urban areas, state wise indebtedness of SC households from institutional sources remained more or less same after the liberalization period (see table 3.7 and 3.8). Kerala, West Bengal, Madhya Pradesh, Himachal Pradesh, Maharashtra, Tamil Nadu, Haryana, Gujarat are the states which remained above national average. The two major changes occurred after liberalization was the shift of Jammu & Kashmir and Andhra Pradesh from below the national average to above and West Bengal became part of below average category. Andhra Pradesh, Tamil Nadu, Gujarat, and Utter Pradesh had acute dependence on non-institutional sources in 1992 that remained the same even after reforms and interestingly Rajasthan, Haryana, Punjab and West Bengal added to this category during the liberalization period.

Table: 3.8 Comparative Performance of States in terms of Indebtedness of SC and ST households in Urban Areas

Category	Above Average	Below Average
Institutional Urban		
SC(1992)	**Kerala**, WB, MP, HP, Maharashtra, TN, Haryana, Gujarat.	J&K, Assam, Bihar, Punjab, Rajasthan, UP, Orissa, Karnataka, AP.
SC(2002)	**Kerala**, Gujarat, MP, TN, AP, Maharashtra, HP, Haryana, J&K.	Assam, Punjab, Orissa, UP, Bihar, WB, Karnataka, Rajasthan.
ST(1992)	**Kerala**, Maharashtra, Karnataka, Orissa, TN.	Rajasthan, Gujarat, Bihar, HP, Assam, MP, WB.
ST(2002)	**Kerala**, Bihar, Punjab, Karnataka, Maharashtra, Orissa, Gujarat, HP, Rajasthan	UP, Assam,TN,AP,WB, MP
Non-Institutional Urban		
SC(1992)	AP, TN, Gujarath, UP.	Assam, HP, Orissa, Bihar, MP, Haryana, J&K., WB, Karnataka, Maharashtra, Rajasthan, **Kerala**, Punjab.
SC(2002)	AP, TN, Rajasthan, Haryana, Gujarat, WB, UP, Punjab.	J&K, HP, Maharastra, Assam, Bihar, Karnataka, **Kerala**, MP, Orissa.
ST(1992)	TN,AP, Karnataka, **Kerala**	Rajasthan, Bihar, Gujarat, Maharashtra, MP, UP, Orissa.
ST(2002)	TN,Bihar,AP,WB,Haryana, Gujarat, Assam,	MP, Maharashtra, Orissa, HP, Punjab, Rajasthan, Karnataka.

From the state wise analysis on indebtedness of SC and ST households we found that, some of the states could considerably enhance their institutional sources whereas some other states were showing poor performance throughout. Assam is a best example for the failure of institutional agencies whereas Kerala shows comparatively better position. Kerala is the highest performing states in terms of institutional agencies irrespective of social groups and rural urban classification. It is interesting to note that Kerala was part of above average category in indebtedness of ST households from non- intuitional sources for both SC and ST households in 1992. This is in addition to the fact that comparing other states Kerala was the highest state in terms of access from institutional sources. This may be due to the demand supply imbalances prevailed during that time. However during the post liberalization period, Kerala could reduce the dependence of both SC and ST households from non-institutional sources.

In this context, Kerala presents a unique case. Even though Kerala shows a better picture in financial inclusion of weaker groups, some of the recent studies show that inclusive growth is not happening in Kerala during the post liberalization period (Subrahmanian, Prasad 2008, and Suryanarayana 2009). Most of the finance led growth literature pointed out that the most important obstacle for the reduction of poverty among the rural poor is the lack of access to adequate credit (Mohan 2006). The literature shows that the bank credit leads to increase in income and reduction of rural poverty of the rural households if bank credits are used for the income generating productive activities. This suggests that in Kerala too credit is not used for income generating activities. We examine the evidence on this using AIDIS to find out if this holds true for Kerala.

3.5 Purpose of Loan of the financially included households in Kerala Economy

Most of the people took loans for a variety of purposes viz: income-generating activities like agriculture, small business and for non-income generating activities like marriage and household consumption etc. The following table 3.9 shows the distribution of number of indebted SC and ST households in accordance with their purpose of spending of loans on different heads of household expenditure based on AIDIS by NSSO 2002.

From table 3.9 we can see that, per thousand ST households only 38 households took loan for the purpose of income generating productive activities such as expenditure in farm business and non-farm business. And 176 ST households took loan for the purpose of non-income generating activities viz. households' consumption expenditure, repayment of debt, financial investment expenditure, and others. While at the same time, 92 SC households per thousand SC households took loan for income generating activities and 418 households took loan for the purpose of non-income generating activities.

Among the ST households, per thousand rupees, amount of cash loans outstanding was Rs 133 for the purpose of income generating activities and Rs 868 for non-income generating activities. In contrast, for the SC households per thousand rupees, amounts of cash loans outstanding was Rs 171 for the purpose of income generating activities and Rs 830 for non-income generating activities. So we can see that in the case of both the SC and ST households in rural areas, more of the households took loan for the purpose of non-income generating activities. Again it is seen that both in terms of number of households per thousand households and in terms of the amount outstanding for income generating activities the figures were higher for the SC than the ST households. For both the social groups the amount outstanding for non-income generating purposes was much higher than that for income generating activities.

Table: 3.9 Purpose of Loan taken by SC and ST households **in rural areas.**

(per '000 households and per'000 Rs.)

Purpose	**ST**		**SC**		**Others**	
	Number of households	Amount in Rs	Number of households	Amount in Rs	Number of households	Amount
Expenditure in Farm business	38	133	34	51	85	110
Expenditure in non-farm business	0	0	58	120	36	208
All income generating activities	**38**	**133**	**92**	**171**	**121**	**318**
Household consumption expenditure	74	97	302	530	225	400
Repayment of debt	4	5	59	121	32	45
Financial investment expenditure	0	0	4	7	4	6
Others	98	766	53	172	91	230
All non-income generating activities.	**176**	**868**	**418**	**830**	**352**	**681**

Sources: NSSO 2006

In urban areas also, most of the SC and ST households took loan for the purpose of non-income generating purposes. 140 ST households per thousand ST households took loan for the purpose of income generating activities and 179 households took for the purpose of non-income generating activities. Out of every thousand amounts of cash loans outstanding for the ST households, Rs 87 was outstanding for the purpose of income generating activities and Rs 913 was for the purpose of non-income generating activities. 41 SC households per thousand SC households took loan for the purpose of income generating purpose and 340 SC households took loan for the purpose of non-income generating purposes. And per thousand amounts of cash loans outstanding, Rs 60 was for the purpose of income generating activities and Rs 929 for the purpose of non-income generating activities.

Table: 3.10 Purpose of Loan taken by SC and ST households **in urban areas.**

(Per '000 households and per'000 Rs.)

Purpose	**ST**		**SC**		**Others**	
	Number of households	Amount in Rs	Number of households	Amount in Rs	Number of households	Amount
Expenditure in Farm business	0	0	3	2	9	6
Expenditure in non-farm business	140	87	38	58	47	155
All income generating activities	**140**	**87**	**41**	**60**	**56**	**161**
Household consumption expenditure	161	912	224	695	244	625
Repayment of debt	18	1	20	69	13	41
Financial investment expenditure	0	0	4	0	2	11
Others	0	0	92	165	50	161
All non-income generating activities.	**179**	**913**	**340**	**929**	**309**	**838**

Sources: NSSO 2006

In short, based on the All India Debt and Investment Survey (AIDIS) 2002 by the NSSO it is found that, in Kerala, most of the households from both the SC and ST households took loan for the purpose of non-income generating activities both in the rural and urban areas. In terms of number of households and amounts outstanding in the rural area, the SC households stood higher than ST in the rural areas except in the case of non-income generating activities where ST category showed larger numbers.

This could probably be one of the reasons underlying the simultaneous existence of financial inclusion and non-inclusive growth in Kerala economy during the reform period. This is a paradox. This however needs further enquiry for the following reasons. 1. The basis on which Kerala is considered financially inclusive needs to be critically examined given various definitions of financial inclusion .2.The actual reasons underlying the non-utilization of credit for income generating purpose also needs to be unraveled. Only a primary survey can throw light on these issues. Chapter 4 tries to answer these issues using the findings from a primary survey.

CHAPTER IV

FINANCIAL INCLUSION IN KERALA: A CRITICAL ASSESSMENT

This chapter deals with a critical assessment of financial inclusion/exclusion among the SC and ST households in Kerala based on primary survey. In doing so, the role of the self-help groups in bringing about financial inclusion is also looked into. The utilization of credit of the financially inclusive households is also evaluated. Kerala is taken as a case study since it has the unique feature of both the SC and ST households being considered relatively more financially included than in other states and simultaneously where secondary literature finds there is no inclusive growth.

4.1 Financial Inclusion in Kerala

Accessibility of formal sector credit for the low income and economically weaker sections of the people is one of the most debated and widely discussed issues in banking industry today. Despite widespread expansion of the banking sector during the last three decades, a substantial proportion of the households especially in rural areas fall outside the coverage of the formal banking system. The role and performance of formal financial institutions particularly in their lending to the poor in India has been unsatisfactory. They face a number of constraints in broadening their services to the rural poor. Most of the rural households have very limited land and other resources.[4] But their demand for credit has been rising due to growing family size, increased consumption requirements, social obligations and so on. But the institutional agencies are reluctant to lend to them on the ground that their credit needs are for non-productive purposes and therefore their repaying capacity is poor. As a result of the new economic policy the objectives of the banking sector shifted from social banking to more market based banking. This led to exclusion of some sections of the people. Mostly the excluded people are low-income

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[4] The literature suggests that there are many reasons for the lack of accessibility to formal credit for these excluded people. Lack of land, holding of other valuable assets, lack of permanent job and low-income hinders these people from getting loans and adequate credit from the formal sector (Pramod 2004).

people, unorganized sector employees, and socially and economically disadvantaged sections of the people.

There are field studies from rural Kerala in the post-land reform period that shows substantial changes with respect to access to formal sector credit. Two studies of 1960s and 1970s showed that although the formal sector credit was growing, the informal sector continued to be dominating the rural credit markets in Kerala (Saradamoni 1981, Kurup 1976). Kurup (1976) in a study of Nemom panchayat in Thiruvananthapuram district noted that 86 percentages of the total loan amounts were advanced by non-institutional sources. During this time most of the rural people depended on non-professional moneylenders for credit. But, by the 1980s major changes had taken place. Jose George (1992), who studied peasants and agricultural workers in Kannur, Palakkad and Alappuzha Districts in the 1980s, noted that there exists a relatively low dependence of rural workers on local moneylenders and marginal dependence on landlords for credit.

Given the concern with financial exclusion, the Reserve Bank of India (RBI) and government of India (GOI) have undertaken a number of measures in recent years for inclusion of the financially excluded people into the formal financial systems. When the specific focus on financial inclusion commenced in November 2005, the Reserve Bank of India advised banks to make available a basic banking "no-frills" accounts with "low or nil" minimum balance as well as charges with a view to expanding the outreach of such accounts. In order to ensure that persons belonging to low income groups, both in the urban and rural areas do not encounter difficulties in opening bank accounts, the Know Your Customer (KYC) procedure for opening accounts has been simplified. Besides the Kisan Credit Cards (KCCs), banks have been asked to consider introduction of a General Purpose Credit Cards (GCCs) facility up to Rs.25000 at their rural and semi urban branches. As a result of the recommendation of Rangarajan Committee, in the Union Budget 2007-08, the Government announced the creation of two funds-Financial Inclusion Fund and Financial Inclusion Technology Development Fund- for meeting the cost of development, promotional and technology interventions. To expedite the process of financial inclusion, the Rangarajan Committee recommended the public sector banks to open at least 250 new accounts in each branch every year.

From our earlier state wise analysis we found that Kerala shows a relatively better position in financial inclusion (in terms of credit/indebtedness from institutional sources) compared to the other states in the country. Now we move to its absolute position. In Kerala under the aegis of State Level Bankers Committee (SLBC), a massive campaign to achieve 'Total Financial Inclusion' was undertaken. The campaign envisaged opening of "no frills accounts" by every household and also extending need based finance in terms of General Purpose Credit Cards (GCCs). Thus banks in Kerala were advised to make available basic banking facilities such as savings, deposits etc through 'no-frills' accounts with zero balance, which would enable vast sections of the population to access basic banking facilities with a view to achieving greater financial inclusion. As a result, all the banks were urged to give wide publicity to the facility of such no-frills accounts in the state. So the convener of SLBC had advised all Lead Banks to completely accomplish the objective of the 'Total Financial Inclusion' programme in all the districts by June 2007, with the active involvement of all agencies working for the development of the state.

All the 14 districts in the state have declared Total Financial Inclusion independently on various dates. Palakkad was the first district in India to achieve total financial inclusion followed by Ernakulam, Kasargod and Alappuzha. This means that, each of the household in all the 14 districts have got at least one basic "no-frills" bank account with them. This coveted goal has been achieved as on 30^{th} June 2007 through a massive campaign by all banks, with the total and dedicated involvement of people's representatives and the co-operation and hard work of Govt: Departments, Kudumbasree, NGOs, and other agencies involved in the development process of the State. The table 4.1 shows the number of no frills accounts and General Purpose Credit Cards (GCCs) opened in all 14 districts.

Table: 4.1 District-wise numbers of No-frills account and GCCs.

Districts	No. of no-frills accounts	No. of GCCs
Trivandrum	90888	9729
Kollam	94665	2165
Pathanamthitta	14085	6710
Alappuzha	105024	812
Kottayam	31265	6150
Idukki	10000	200
Ernakulam	108356	1577
Trichur	40983	4210
Palakkad	116898	14372
Malappuram	39607	1680
Calicut	20278	4023
Wayanad	74836	724
Kannur	102500	2839
Kasargod	21078	199
Total-State	870463	55390

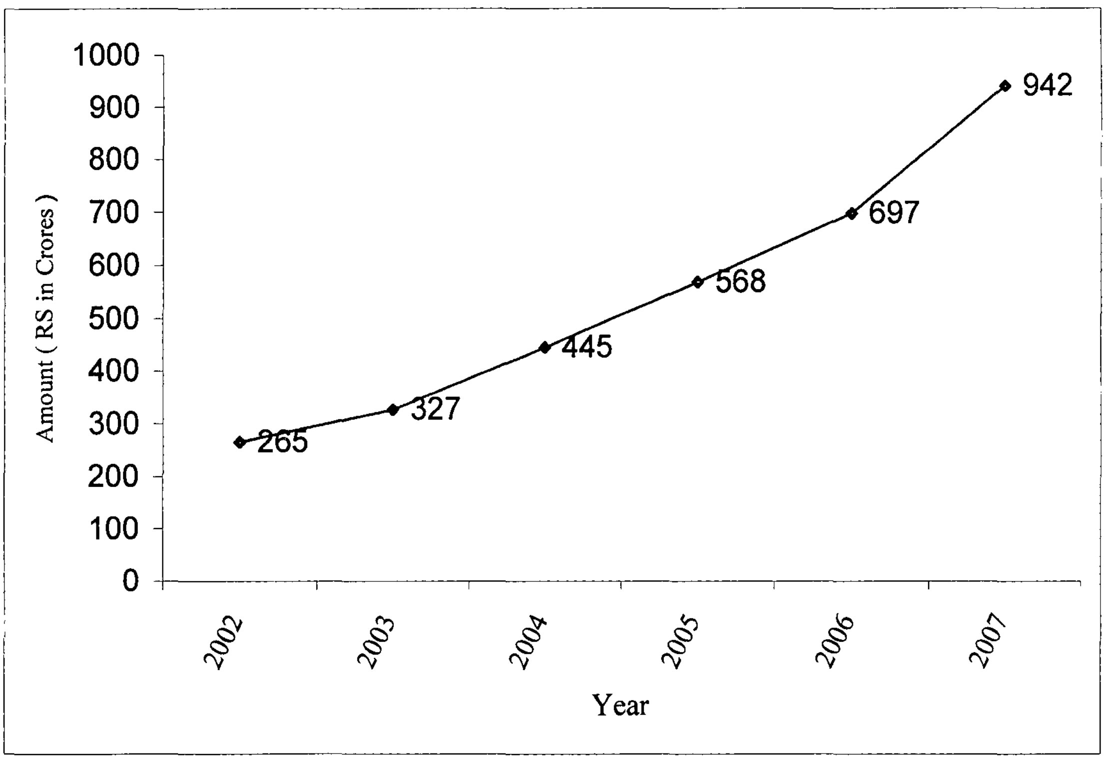
Sources: SLBC Report, 2008

As a result of the steps taken by the banks in the state, based on the measure of no-frills (zero balance) accounts, Kerala achieved 100 per cent financial inclusion. However it is observed that although most of the unbanked households have opened their "no-frills" accounts, they are not saving and depositing money into those accounts. Most of these "no-frills" accounts are inactive and useless for the people. So the measure of financial inclusion, based on number of no-frills accounts, most of which are inactive, is not an accurate indicator of financial inclusion. It only masks financial exclusion of the economically backward groups.

Having a no-frill account also does not imply that they are eligible for getting formal credit. Financial inclusion is defined as the process of ensuring access to financial services and timely and adequate credit to vulnerable groups such as weaker sections and low-income groups. So much so, even though we have achieved total financial inclusion based on the inactive "no-frills" account, some section of people in the society are excluded from the formal sector credit. These excluded people largely belong to SC and ST households. Out of 35 lakh SC people in the state, only 3.5 lakh were provided with bank loans. Inaccessibility to formal credit of SC and ST households is one of the reasons for their economic and social exclusion (Pramod, 2004). So total inclusion in banking can be translated into reality only after getting credit to these socially and economically excluded sections of the people (SLBC Report, 2008).

In this context, all the commercial banks in Kerala were very keen in advancing to these sections of society. Therefore, over the years, the total advance of all the commercial banks to SC and ST people in the state has been increasing (Figure 4.1). The total advance of commercial banks was Rs 265 crores in 2002 and it increased to Rs 942 crores in 2007.

Figure: 4.1 Advances of Commercial Banks to SC and ST households in Kerala.



Sources: SLBC Report, 2008

The central vision of the Eleventh Plan is not just faster growth but also inclusive growth, that is, a growth process that yields broad based benefits and reduction of poverty and inequality. However some literature shows that even though Kerala has achieved high growth particularly since reforms, inclusive growth is not happening in the state (Subramanian and Syam Prasad 2008; Suryanarayana 2009)

This raises two questions 1. Whether the definition of financial inclusion (based on the number of no-frills accounts) is a correct measure of financial inclusion and 2. Whether the financially included people are using the credit for income generating productive purposes or for unproductive purposes. Accessibility to formal sector credit and the utilization of it by the SC and ST households is still a most debatable issue among researchers. In this context, the study examines these issues through conducting a primary survey of the factors leading to the financial inclusion/exclusion among the SC and ST households and the utilization of the credit by these financially included households in a supposedly financially inclusive state like Kerala. In this context, the role of SHGs in promoting financial inclusion is also specially brought into the discussion.

4.2 The Study Area

The focus of our study is a critical evaluation of financial inclusion of the two social groups SC and ST. Given this even though all the districts in Kerala have achieved total financial inclusion, for our analysis, we need to select one district where there is a preponderance of proportion of SC and ST population in the total population and where banking infrastructure is relatively good compared to other districts.

Based on the above two criteria and using the Borda rank method, we have selected Pathanamthitta district (Table 4.2) from the 14 districts in Kerala, for conducting our primary survey. The Borda rank rule provides a method of rank order scoring (Dasgupta 2001), the procedure being to award each district a score equal to its rank for each criteria taken into consideration (i.e. number of bank branches/per lakh population, proportion of SC to total population and proportion of ST to total population). By adding each district's scores over different criteria we obtain the aggregate score. All the districts are then re-ranked on the basis of their aggregate scores to arrive at the Borda ranks. The least aggregate score gives Borda rank 1.

Table: 4.2 Selection of District based on the Borda rank method

Districts	Percentage to total population				Branches per lakh population		Borda Rank	
	SC	Rank	ST	Rank	Branches	Rank		
1	2	3	4	5	6	7	8	9
Alappuzha	9.45	7	0.15	14	11	7	28	10
Ernakulam	8.48	8	0.32	10	17	2	20	7
Idduki	14.11	2	4.51	2	9	12	16	3
Kannur	4.11	14	0.83	6	9	10	30	12
Kasaragod	7.49	11	2.52	3	11	6	20	6
Kollam	12.49	4	0.2	12	8	13	29	11
Kottayam	7.69	10	0.94	5	14	3	18	4
Kozhicode	6.98	12	0.21	11	9	11	34	14
Malapuram	7.87	9	0.34	9	7	14	32	13
Palakad	16.53	1	1.52	4	10	8	13	2
Pathanamthitta	**13.13**	**3**	**0.53**	**8**	**21**	**1**	**12**	**1**
Thrissur	11.91	5	0.16	13	13	4	22	8
Thrivandrum	11.47	6	0.65	7	11	5	18	5
Wayanad	4.27	13	17.43	1	10	9	23	9

Note: Rank 1 in columns 3, 5 and 7 and 9 implies highest value.
Sources: Calculated using Economic Review 2007.

From the table 4.2 we can find that among the 14 districts in Kerala, Pathanamthitta occupies 3rd rank in the percentage of SC population to total population and 8th rank in the percentage of ST population to total population. Also Pathanamthitta district got first rank for branches per lakh population with 21 branches per lakh population.[5] The last two columns (column8 and 9) present aggregate ranks and Borda rank respectively. Based on this method, Pathanamthitta district got the first rank, so we selected Pathanamthitta district for our field study.

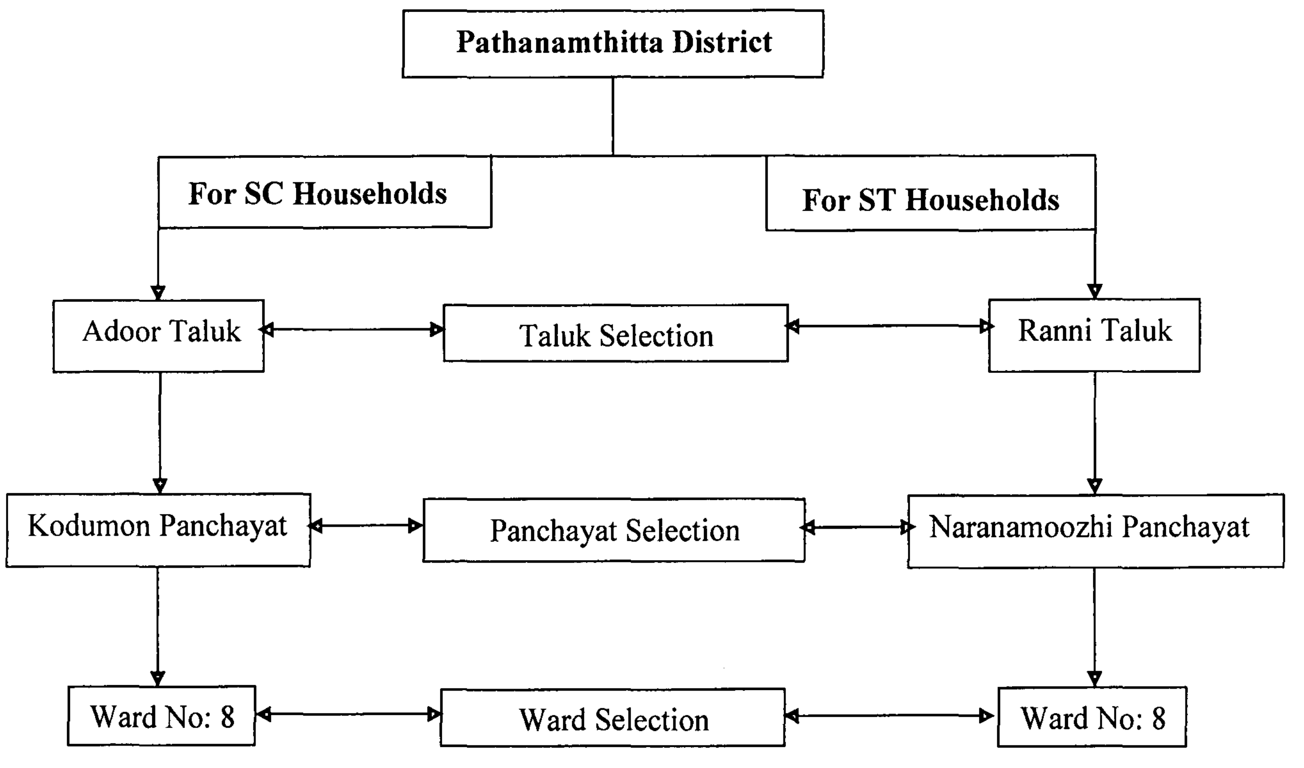
4.3 Methodology

For selecting the sample to be covered for our primary survey, we have to move down from district level, to taluk level, then to panchayat level and further to ward level. Due to differences in the socio and economic characteristics of both the SC and ST, we need to examine both SC and ST households separately. So we need to take sample of both SC

[5] Pathanamthitta district is historically very famous for banking development in the State For Instance; the first joint stock bank in Travancore- Cochin area was the Thiruvalla Bank, which was opened in 1900 (Oommen 1976).

and ST households separately from the area where proportions of these populations are comparatively higher. The total sample size taken into consideration is 150 households, of which 50 percent are SCs and the remaining 50 percent are STs (i.e.75 households each). A sample of 75 households from each social group was decided to be covered through the primary survey at the ward level. This represents 49 % of SC households and 24 % of ST households in these wards. In order to have a better analysis and understanding of financial inclusion and exclusion for different categories, it is better to take sample from both the categories i.e. from loan takers and non-loan takers. We used systematic sampling techniques for identifying sample households for the detailed survey from both the above categories. A list of the households belonging to SC and ST in each ward was obtained from the panchayat with the help of the ward members. From this population, households taking loans and those not taking loans were identified. From each of these groups samples were drawn in proportion to the ratio of the loan households to non-loan households. The sample households were surveyed using a structured questionnaire. The survey was carried out on December 2008. Data on both the socio-economic features and banking habits/transaction details of households were collected for the purpose. For analyzing the data, we used simple descriptive statistical methods like percentages and cross tabulation analysis. The flow chart presented below gives the step-by-step procedure followed in selecting the sample ward (see figure 4.2).

Figure: 4.2 Flow Chart of Sample selection Process.



4.4 Sample Selection

Pathanamthitta district comprises of five taluks and in all the taluks both SC and ST people are living. For analyzing both SC and ST households separately we need separate samples from each group. Based on the proportion of ST population to total population we select Ranni Taluck (Table 4.3) for collecting information on ST sample households, and for obtaining SC sample households we have selected Adoor taluck, again where the proportion of SC population to total population is the highest.

Table: 4.3 Taluk selection in Pathanamthitta District

Name of Taluck	TP	SC	ST	Pro SC to TP	Pro ST to TP
Thiruvalla	177666	22362	321	0.13	0.002
Mallapally	137064	15506	225	0.11	0.002
Ranni	207782	17353	4828	0.08	0.023
Kozhencherry	312407	45023	654	0.14	0.002
Adoor	275299	50406	207	0.18	0.001

Note: TP-Total population
Pro SC to TP- proportion of SC to Total Population.
Pro ST to TP- proportion of ST to Total Population
Sources: District Census Handbook, 2001

4.5 Sample Selection of the ST Households

There are 11 panchayats in Ranni taluk comprising of both SC and ST households. Among the 11 Panchayats in Ranni taluk, we have selected one, the Naranamoozhi Panchayat where the proportion of ST to total population is highest (Table 4.4) for drawing the sample of ST households to be surveyed.

Table: 4.4 Panchayats selection in Ranni Taluck

Name of Panchayath	TP	SC	ST	Pro of SC to TP	Pro ST to TP
Ranni-Pazhavangadi	25038	1704	68	0.07	0.00
Vechoochira	22086	1622	411	0.07	0.02
Naranamoozhi	**16272**	**1830**	**1775**	**0.10**	**0.11**
Ranni-Perunad	22435	2250	1436	0.10	0.06
Ranni-Angadi	15873	762	7	0.05	0.00
Ayiroor	22596	1007	15	0.04	0.00
Cherukole	13048	689	23	0.05	0.00
Vadasserikkara	22469	2283	82	0.10	0.00
Seethathode	17192	1436	182	0.08	0.01
Ranni	13857	1240	71	0.09	0.01
Chittar	16785	2516	758	0.15	0.05

Sources: District Census Handbook, 2001

4.5.1 Naranamoozhi Panchayat

Naranamoozhi panchayat belonging to Ranni taluk is located in the North Eastern part of Pathanamthitta district (see map in Appendix). Naranamoozhi panchayat includes the revenue villages of Attikayam, Ranni, Pazhavangadi, Kollamula, and Chettackal. (Vechuchira panchayat in the north, Perunnad panchayat in southeast and Ranni and Pazhavangadi panchayat in West borders the Naranamoozhi panchayat). There are 10 wards in the panchayat comprising an area of 33.61.sq km. The panchayat consists of 4136 households with a total population of 16272 comprising of 7950 males and 8322 females. In the panchayat, there were 11 SC colonies and 9 ST colonies. Total SC population in the panchayat is about 1830 and total ST population is around 1775.

In the panchayat, 80 percent of the people depend on agriculture for their livelihoods. Out of the total land area, 22.703 s q km is used for agriculture. Out of the total land area used for agriculture, 16.372 sq k.m is used for rubber cultivation and remaining 4.148 sq k.m for other crops. Rubber, coconut, coriander, coffee, are the main crops grown in the panchayat.

4.5.2 Banking facility in Naranamoozhi Panchayat

The banking facility available in the Naranamoozhi Panchayat is shown in table 4.5, there are only three organized sector bank branches in the Panchayat.

Table: 4.5 Banking Facility available in Naranamoozhi Panchayat

Name of Banks	Number of Branches
SBI and its associates	1
Scheduled commercial banks	1
Co: operative Banks	1
Total For the Panchayat	**3**

Sources: Panchayat Level Statistics, 2006 Department of Economics and Statistics

There are 10 wards in Naranamoozhi Panchayath. For the detailed survey we selected only one ward. Among the 10 wards in the panchayat we selected the Ward No 8 where the proportion of ST population to total population is highest (Table 4.6)

Table: 4.6 Ward selection in Naranamoozhi Panchayath

Ward No	TP	SC	ST	Pro of SC to TP	Pro ST to TP
1	1553	261	0	0.17	0
2	1594	378	159	0.24	0.10
3	1630	110	3	0.07	0.00
4	1745	150	10	0.09	0.01
5	1737	104	487	0.06	0.28
6	1610	135	42	0.08	0.03
7	1744	117	0	0.07	0
8	**1350**	**2**	**723**	**0.00**	**0.54**
9	1905	418	294	0.22	0.15
10	1404	155	57	0.11	0.04

Sources: District Census Handbook, 2001

4.5.3 Ward No.8 Naranamoozhi Panchayath

There are three ST colonies in this ward. They are Adichipuzha, Karikulam, and Chollanavayal Colony. The economic life of the colony dwellers revolves mostly around agriculture. Since majority of the male population was not participating in the income generating activities, the main source of livelihood of these households was the employment of women. The non-participation of male members in income generating activities may be attributed to the specific cultural and socio-economic characteristics prevailing in this region. The infrastructure facility in the colony was very poor. There are no well-connected roads and the region is not easily accessible it being a hilly area. The accessibility of safe drinking water is another major problem in the ward. There is only one panchayat health centre located in ward no 8, but it is not working properly. The colony dwellers have only a low level of education. Those who are educated have mostly stopped after primary level education. There is only one tribal school in the Panchayat, which is very near to this ward (study area).

There are total of 319 ST households residing in Ward No: 8 of the Naranamoozhi Panchayat. Out of these total ST households, 238 households (73%) took loan and 81 households (27%) did not take loans. In order to have a better analysis and understanding of financial inclusion and exclusion, we have taken samples from both the categories i.e. from loan taken category and non-loan taken category households. Out of the total 75 sample ST households we selected 55 households (73%) from loan taken category and 20

(27%) households selected from no loan taken category. Based on our primary survey of these households we obtain the following results

4.5.4 General Observations from the Ward

It is found that almost all of ST households in the word 8 are indebted to only cooperative bank and the amount of indebtedness was very low. As a policy of the co-operative banking sector, after an interval of many years of intervention, since 2001 the cooperative bank in the panchayat gave a large number of credits to these people. But most of the people have taken loan and they have not repaid. Mostly people have thought that the bank can't do anything to them if they do not return the money to the bank. They know that the banks can't appropriate their land and other assets because the government indirectly owns these properties. Because of this fact, people have never repaid the loan and they never went back to the bank also, for any transactions. In the colony, the ST households also have no governmental order for their possession of land and other asset holdings. They have only the possession order issued from the tribal department, which has no value/meaning on their right to ownership of land. Based on this order, they don't get credit from the formal sectors. There were 5 Self Help Groups (SHGs) in the colony, but now they are not working properly. Some of them are working but most of the members have no savings and borrowings from the SHGs. One of the important striking features is that the colony dwellers are not depending on village moneylenders for their emergency needs of credit. Except one among the surveyed households remaining all of the households do not depend on village moneylenders. Most of the colony dwellers have no savings with the banks. They find it very difficult to meet their day-to-day expenses with their few days of employment and low income that keeps these households under distress and leaves little room for savings. In short, most of the colony dwellers are socially, economically and culturally excluded from other groups of society or rural life.

4.6 Sample Selection of the Scheduled Caste Households

For the selection of the SC sample households, we selected Adoor taluck, where the SC population is highest in the district. For a detailed analysis of the financial inclusion among the SC households, we further selected one panchayat within Adoor taluck, where the SC population in proportion to total population is highest. There are 10 panchayats in Adoor taluck and except Pandalam, Thumpamon, and Pandalam Thekkekara panchayat, remaining all 6 panchayats comprised of both SC and ST households. For the sample of SC households, we further selected Kodumon panchayath in Adoor taluck where the proportion of SC population to total population is highest (Table 4.7).

Table: 4.7 Panchayath selection in Adoor Taluck

Name of Panchayath	**TP**	**SC**	**ST**	**Pro SC to TP**	**Pro ST to TP**
Pandalam	40810	7216	0	0.18	0
Thumpamon	8160	1721	0	0.21	0
Pandalam Thekkekara	18101	3743	0	0.21	0
Kodumon	**27714**	**6680**	**72**	**0.24**	0.003
Enadimangalam	20955	4337	2	0.21	0.000
Ezhamkulam	32860	4777	42	0.15	0.001
Erathu	25005	4600	4	0.18	0.000
Pallickal	41376	7488	51	0.18	0.001
Kadampanad	26839	4814	13	0.18	0.000
Kalanjoor	33479	5030	23	0.15	0.001

Sources: District Census Handbook, 2001

4.6.1 Kodumon Panchayat

Kodumon Panchayat belonging to the Block Panchayat of Parakode is situated in the southwestern part of Pathanamthitta District in the Adoor Taluck (see Map in Appendix). The Kalanjoor panchayat in the east, Ezhamkulam panchayat in south, Pandalam Thekkekara panchayat in west, and Pramadom panchayat in north border the Kodumon Panchayat. There are 14 wards in the panchayat comprising an area of 36.36sq k.m. The panchayat comprises of 6915 households reside with a total population of 27714 (13070 males and 14644 females). SC formed about 6680 and ST population was about 72. In kodumon panchayat, the proportion of SC and ST in total population is 0.24 and 0.003 percentages respectively.

4.6.2 The banking facility in Kodumon Panchayat

The banking facility in Kodumon Panchayat (Table: 4.8) is much more developed than the Naranamoozhi Panchayat in Ranni Tauck.

Table: 4.8 Banking Facility available in Kodumon Panchayat

Name of Banks	**Number of Branches**
SBI and its associates	1
Nationalized Commercial banks	2
Scheduled commercial banks	1
Gramin Bank	1
Dis: Co: operative bank	1
Service Co: operative Banks and credit societies	3
Total For the Panchayat	**9**

Sources: Panchayat Level Statistics, 2006 Department of Economics and Statistics

There are in total 9 bank branches working in the panchayat. Cooperative banks and credit societies have 3 branches. There are 14 wards in Kodumon panchayat. Majority of the wards in the panchayat have only SC population. The ST population is living only in three wards, wards No: 4, 12, and 13. For the detailed survey among the SC population we selected ward No 8 where the proportion of SC population to total population is highest compared to other wards in the panchayat (Table: 4.9)

Table: 4.9 Distribution of SC and ST in Kodumon Panchayat

Ward No	**TP**	**SC**	**ST**	**Pro SC to TP**	**Pro ST to TP**
1	1703	333	0	0.20	0
2	1820	247	0	0.14	0
3	1705	385	0	0.23	0
4	1908	264	4	0.14	0.002
5	1736	463	0	0.27	0
6	2088	180	0	0.09	0
7	2121	363	0	0.17	0
8	**2199**	**849**	**0**	**0.39**	**0**
9	2446	750	0	0.31	0
10	1881	598	0	0.32	0
11	2054	600	0	0.29	0
12	1568	295	3	0.19	0.002
13	2371	729	65	0.31	0.027
14	2114	624	0	0.30	0

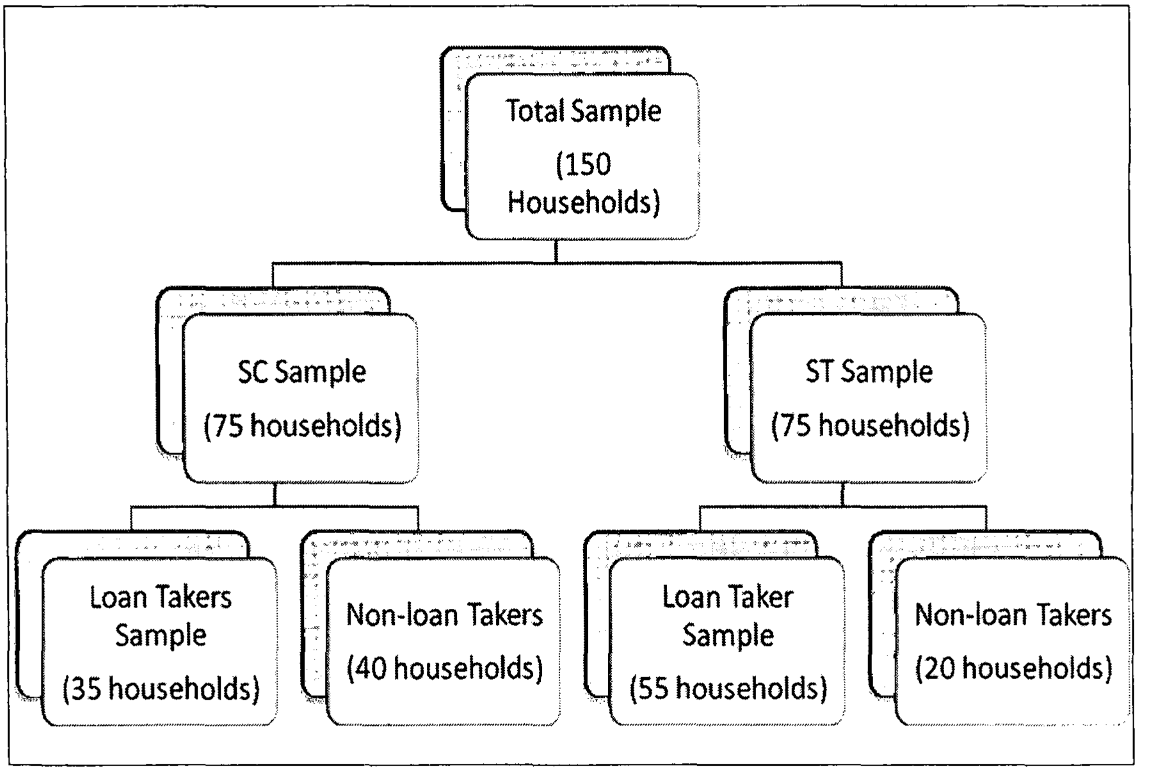
Sources: District Census Handbook, 2001

4.6.3 Ward no. 8 of Kodumon Panchayat

Based on the proportion of SC population to total population, we selected ward no: 8 for the field survey. The three sides of Ward No 8 (study area) are surrounded by paddy fields. Most of the inhabitants in the ward are engaged in wage labour mainly in paddy fields and construction sites. There is only one SC colony in the ward. The infrastructure facility is not too bad. The colony is well connected with roads. The land and other asset holdings of the inhabitants range from 10 to 25 cents. Compared to ST households in Naranamoozhi Panchayat, the education level of the SC households are good. There are 9 SHGs working in the ward. Most of the women are working in the SHGs and the people belonging to the ward have micro savings and borrowings from these SHGs. Most of the people in the ward have savings and deposits with commercial and cooperative banks.

There are 152 SC households residing in ward no 8 of the Kodumon panchayat. Based on the information from the SC promoters in this ward, only 70 (46%) households received loan from various formal sources of credit. It implies that, major proportion of the SC households is still away from the institutional sources. For a better understanding of financial inclusion and exclusion samples from both the categories i.e. from loan takers and non-loan takers were taken. So out of the total 75 samples SC households we took 35 SC households (47%) from loan taken category and 40 SC households (53%) from the no loan taken category. The sample selection is illustrated in Fig.4.3.

Figure: 4.3 Sample Selections.



This is only a broad overview of the survey area next we go to the details for making a critical assessment of financial inclusion of the SC and ST households.

4.7 Financial inclusion and exclusion among SC and ST households

Defining financial inclusion and identifying the financially inclusive households is very important for policy purposes. Different studies measure financial inclusion differently. As stated earlier it has dimensions of breadth, focus and degree. Using different parameters we try to interpret financial inclusion of the SC and ST as observed from the survey results.

1. It can be seen from the literature that there are many factors responsible for the SC and ST people lagging behind in accession of adequate credit and savings from the formal financial institutions (Pramod 2004). These are low income, inadequate job, and low level of education etc. The accessibility to credit and savings from the formal institutions is one important indicator of financial inclusion among these people. For the analysis we measure financial inclusion based on the credit and savings accounts. The study excludes

the inactive "no-frills" accounts. If at least one member in the family is having either savings or credit accounts, then that family is referred to as financially included or otherwise it is considered to be financially excluded. Based on this measure, table 4.10 shows the number and percent of SC and ST households who are financially included / excluded.

Table: 4.10 Financial Inclusion and exclusion among SC and ST households

Category	SC Households		ST Households	
	Number of Households	Percent	Number of Households	Percent
Financially Included	52	69	57	76
Financially Excluded	23	31	18	24
Total	75	100	75	100

Source: Field Survey

The table 4.10 shows among the 75 sample SC households 52 (69%) are financially included (based on credit and savings account) and remaining 23(31%) households are financially excluded. In contrast, among the 75 sample ST households surveyed 57 (76%) are financially included and remaining 18 (24%) households are financially excluded. This is in keeping with our macro analysis, which showed that ST households are more financially included than SC households.

Another parameter is to measure the financial inclusion based on the degree dimension. It measures financial exclusion as exclusion from particular sources of credit and other financial services such as different types of accounts and financial products. It looks at the different types of financial products and accounts of the households. Table: 4.11 show the number and percentage of both SC and ST households having different types of bank accounts. From this perspective the survey gives the following results.

Table: 4.11 Households with different Type of bank accounts from all formal sources.

Type of Account	SC households		ST households	
	Number of Households	Percentage	Number of Households	Percentage
Fixed Deposits	2	4	0	0
Savings Accounts	10	19	4	7
Current Account	7	13	1	2
Credit Accounts	26	50	50	89
More than one Account (Both savings and Credit)	7	14	1	2
Total	52	100	56	100

Sources: Field Survey

It is evident from the table 4.11 that, 52 SC households have different types of bank accounts as against 56 ST households. Among the SC households, 26 households (50%) have the credit accounts and only two households (4%) have fixed deposit. But for the ST households, we can see that 50 households (89%) are having credit accounts. Only one ST household has current account and more than one account (both savings and credit). By these parameters although more ST households have accounts, an analysis of the type of accounts suggests that SC are more financially inclusive in terms of variety of accounts and in terms of saving criterion (e.g. fixed deposit). From the credit angle ST seems more inclusive, the common criteria used to measure financial inclusion. The anomalies in taking this as an indicator for financial inclusion can be clearly seen if we look at the specificities of the basis and behaviour of credit account holders in ward 8 of Naranamozhi Panchayat. This clearly indicates accessing credit from a formal institution is a necessary but not sufficient condition for being financially inclusive.

4.8 Sources of credit for Financially Included Households

4.8.1 Scheduled Caste Households

Sources of credit and the amount of indebtedness of financially included households are important insights for the analysis. Financially included SC households had taken loans from different sources. From the cross tabulation analysis (Table 4.12) one can see the magnitude of their indebtedness and the sources from where they get loans. It can be seen that 71% of the financially included households were indebted from cooperative banks. 20% of the households were indebted to commercial banks, 6% households to private banks and only one household to land mortgage bank. 21 households with credit amount up to Rs.10000 were indebted from cooperative banks. The table also shows that when the credit amount increases then the indebtedness from the commercial banks increases.

Table: 4.12 Amount and Sources of Credit of SC households

Amount	Sources				Total
	Commercial Banks	**Co: operative Banks**	**Private Banks**	**Land Mortgage bank**	
Upto 10000		21(100)	0		21(100)
10000 to 20000	2(40)	2(40)	0	1(20)	5(100)
20000 to 30000	2(50)	2(50)	0	0	4(100)
30000 to 40000	1(50)	0	1(50)	0	2(100)
40000 to 50000	1(50)	0	1(50)	0	2(100)
50000 and Above	1(100)	0	0	0	1(100)
Total	7(20)	25(71)	2(6)	1(3)	35(100)

Sources: Field Survey

4.8.2 Scheduled Tribe Households

Financially included SC households had taken loans from different sources. But this is not the case for the ST households. All the financially included ST households were indebted only from the cooperative banks. In this context it is interesting to examine the amount of indebtedness of ST households. Table 4.13 shows the amount indebted of ST households from cooperative banks. It shows that, the credit amount was only Rs.5000 for 51(93%) households of indebted families. Only 1 household took Rs.10, 000 and only 3 households were indebted to an amount of Rs. 1000. So it is clear that even though ST households are more financially included than the SC households the credit amount was very low and confined to a single institution

Table: 4.13 Credit amount indebted of ST households

Total Credit Amount	Number of Households	Percent
1000	3	5
5000	51	93
10000	1	2
Total	55	100

Sources: Field Survey

4.9 Utilization of credit by financially inclusive households

As many scholars have noted, one of the major weaknesses of the India rural banking system has been its inability to provide credit for different consumption and production needs of rural households. Apart from requirements of credit for purpose of cultivation and purchase of income-generating assets, rural households need credit for expenses related to education of their children, healthcare of the family members, for housing, to purchase households assets, and to meet a variety of social obligations. The major sources of formal sector loans, being the commercial banks, they do not lend money other than for productive uses.

Since people took loans for a variety of purposes, we classify the utilization of credit on the basis of income generating activities (productive purposes) and non-income generating activities (unproductive purposes). The income generating activities are for agricultural utilization such as buying cattle, for small business and enterprises and the non-income generating activities are loan repayment, spending for marriage, buying consumer durables, medical expenses, buying/ building houses, education and other consumption expenditures. The following table 4.14 shows the utilization of credit of both SC and ST households, who are financially included.

Table: 4.14 Utilization of Credit of Financially Included Households

Purpose	SC Households		ST Households	
	Number of Households	**Percentage**	**Number of Households**	**Percentage**
Agriculture Purpose	12	34.3	19	34.5
Buying Cattle	5	14.3	0	
Small business and enterprises	1	2.9	1	1.8
Income Generating	18	51	20	36
Loan Repayment	1	2.9	0	
Marriage	3	8.6	3	5.5
For consumer durables	2	5.7	1	1.8
Medical expense	1	2.9	9	**16.4**
Buying/building house	6	**17.1**	10	**18.2**
Education	4	**11.4**	2	3.6
Others			10	18.2
Non-income generating	17	49	35	64
Total	**35**	**100.0**	**55**	**100**

Sources: Field Survey

Among 35 financially included SC households, only 18 (51%) households have used their credit for income generating activities. 12 (34.3%) households used for agricultural purposes and 5 (14.3%) households for buying cattle and only 1 (2.9) household used for small business and enterprises. And 17 (49%) of financially included SC households used their credit for non-income generating activities. From the non-income generating category, 6 households (17%) have used their credit for buying/building of houses and 4 households (11 %) used their credit for education. Out of the 55 financially included ST households only 20 (36%) of households have used their credit for productive purposes and 35 households (64%) used for non-income generating purposes. Here within the non-income generating category households, highest numbers of households (10 households) have used their credit for buying, building of houses. And 9 ST households (16%) used their credit for medical expenses which corresponds our macro analysis.

4.10 Details relating to financially excluded population.

The literature suggests that there are many reasons for financial exclusion in both developing and developed countries. The literature on financial inclusion shows that there are both demand and supply side reasons for financial exclusion. These are income of the people, lack of permanent job, distance from the bank branch, illiteracy etc. The table 4.15 shows the various reasons of financial exclusion as pointed out by the financially excluded people in the field survey.

Table: 4.15 Factors determining/explaining financial exclusion.

Reasons	SC Households		ST Households	
	Number	**Percentage**	**Number**	**Percentage**
Low Income	23	100	18	100
Illiteracy	8	35	18	100
Lack of Job	21	91	18	100
Distance from bank	10	44	18	100
Procedural Delay	19	83	18	100
Unsuitable product	0	0	0	0
Attitude of Bank Staff	13	57	9	50
Initial Deposit	22	96	18	100
Bank Working Time	3	13	16	89

Sources: Field Survey

There are 23 SC households and 18 ST households are financially excluded. From the field survey, we find that all the (100 percent) financially excluded households both from scheduled caste and scheduled tribe say that low income is one of significant factors for their financial exclusion. All the (100 percent) the financially excluded scheduled tribe households said that illiteracy, lack of permanent job, distance from the bank, procedural delays, and initial deposits are reasons for their financial exclusion. 9 (50 %) financially excluded ST households answered that the attitude of the bank staff is the reason for their financial exclusion and 16(89%) financially excluded ST households answered that bank working time as reason for their financial exclusion. May be during banking hours they engage in work as a result they find it inconvenient to transact with the banks. The financially excluded SC households answered that illiteracy (35%), lack of job (21%), distance from bank (44%), procedural delays (83%), attitude of bank staffs (57%), and initial deposits (96%) and bank working times (13 %) are the reasons for their financial exclusion. We next examine the role of Self Help Groups in financial inclusion.

4.11 Role of SHGs in Financial Inclusion

One of the interesting observations is the presence of SHGs in the surveyed areas. Out of the surveyed SC households, 53 households (71%) were members of SHGs and among ST households only 18 households (24%) were members of SHGs. It can be noted that the presence of SHGs in the SC sample was very high compared to that of ST. There are 9 SHGs working in our SC sample area and 5 groups in ST sample. Each Self Help Group comprising of 10 to 25 members. Most of the SHGs in Naranamoozhi panchayat (ST sample) are not working properly. We have noticed that women were mainly undertaking family responsibilities compared to men in this area, which remained a major hindrance for them to effectively involve in SHG matters. The lack of adequate education and finance added to this. Consequently many of the SHGs became non-functional in this area. Compared to the ST sample, the SHGs in the SC sample were well organized and functioning properly. The SHGs in Kodumon panchayat have accounts with District Cooperative Bank, State Bank of Travancore, Grameen Bank Channanapally and that of ST sample was having account in the Naranamoozhi Cooperative bank. However it is not functioning currently.

Here we tried to understand the role of SHGs in promoting financial inclusion in the surveyed areas. Being the major objective of SHGs is to encourage small savings and help in micro credit, we begin the analysis with the savings of SHG members. Table 4.16 shows the savings pattern of SHG members.

Table: 4.16 SHG Members with and without savings

Category	SC Households		ST Households	
	Number of Households	Percentage	Number of Households	Percentage
With Savings	52	98	11	61
Without Savings	1	2	7	39
Total	53	100.0	18	100.0

Sources: Field Survey

The table 4.16 shows that out of 75 SC sample households surveyed 53 (71%) SC households and out of the 75 ST households surveyed, only 18 (24 %) ST households are SHG members. Among the 53 SHG SC members, all the members (98%) except one (2%) have savings with the SHGs. But for the ST households, 11 households (61%) are having savings with SHGs and 7 households (39%) have no savings with SHGs. One of the main objectives of the SHGs is to give adequate micro credit to rural poor. Rural poor belonging to the SHGs save in the group and whenever they need they borrow on the basis of the collateral of their deposits. These borrowings mainly based on the collective decision taken in their weekly meetings. The following table shows the SHG member households with and without borrowings from SHGs.

Table: 4.17 SHG Members with and without Borrowings

Category	**SC Households**		**ST Households**	
	Number of Households	**Percentage**	**Number of Households**	**Percentage**
With Borrowings	22	42	Not Functioning	
Without Borrowings	31	58		
Total	53	100		

Sources: Field Survey

The above table 4.17 shows that among 53 SHGs SC households, 22 (42%) households are borrowing from SHG and 31 (58%) have no borrowings from the SHGs but for the ST households they have no borrowings from the SHGs. Some of the SHG households have both savings and borrowings from the SHGs and others have only either savings or borrowings. The following table shows both SC and ST households have savings and borrowings from SHGs.

Table: 4.18 SHG members with savings and borrowings

Category	SC Households		ST Households	
	Number of Households	**Percentage**	**Number of Households**	**Percentage**
Both savings and borrowings	22	41	0	0
Either savings or Borrowings	30	57	11	61
Without savings and borrowings	1	2	7	39
Total	53	100	18	100

Sources: Field Survey

It shows 22 (41%) SC households have both savings and borrowings and 30 (57%) households have either savings or borrowings. And only one household has no savings and no borrowings from the SHGs. For the ST households we can see that 11 (61%) households have either savings or borrowings from the SHGs. From the above analysis we can see that although most of the SC and ST households have either savings or borrowings from SHGs it is mostly the SC households which have more transactions with the SHGs compared to ST households. The following Table 4.19 shows the cross tabulation between both savings and borrowings from SHGs of SC households

Table 4.19 Borrowings of SC households from SHGs

Category	Borrowings	Without Borrowings	Total
Savings	22	30	52
Without Savings	0	1	1
Total	22	31	53

Sources: Field Survey

It is clear from the table that, out of 53 total SHGs SC members, 22 households have savings and borrowings from SHGs while 30 households have savings with SHGs but they do not borrow from the group and only one household has no savings and no borrowings from the SHGs. It is clear from the table that 58 percent of SHGs households with savings have no borrowings from the Group. This raises the question that for small amount of credit from which sources do these people borrows? Are these people borrowing from the village moneylenders or not?

Households normally save Rs 10 in each weekly meeting. Whenever they demand they can borrow from the SHGs based on the collective decision taken in the weekly meetings. The SHGs keep proper accounts of this savings and borrowings. Normally the group permits to provide micro credit for most urgent needs of the members in the group during emergencies like hospitalization, marriage etc and the members can borrow only 80 % of their savings. The low-income people have only small savings with the SHGs (within the range of 500 and 1000). Although this is so, due to insufficient credit availability with SHGs, for meeting emergencies they again mostly go to the village moneylenders. This raises some interesting issues for the micro finance research.

4.12 Informalization in SHGs vis–a-vis Formal Banking

A formal sector loan is one where the terms and conditions of the loans are regulated by the public authority. In contrast an informal loan is subject to no such regulations. It is a personalized transaction, which depends on specific relationship between the borrower and the lender and their power (Ramachandran and Swaminathan 2005). Most of the studies show that the traditional dependence of credit of landless labour households on landlords substantially has got reduced and most of the low-income people now prefer village moneylenders for their credit. Next we will examine the use of non-institutional sources by the members of SHGs in both the sampled areas.

From our survey it is seen that the activities of the SHGs did not emancipate them completely from the clutches of the moneylenders in rural areas. Still most of the rural people are borrowing from the village moneylenders. One striking feature observed is that SC households are borrowing small credit from the village moneylenders while at the same time ST households are not borrowing from village moneylenders. The Table 4.20 shows the presence of village moneylenders (*Blades*)[6] among the SC households. The

[6] During the late seventies and early eighties Kerala witnessed a mushrooming growth of private financial unincorporated bodies. These companies were sarcastically called "*Blade*" Companies. These companies mainly targeted the small investors for raising their resources by offering very high rates of interest (Manoj 2005)

table shows the amount and the number of households indebted to the village moneylenders.

Table 4.20 Dependence of SC households on moneylenders

Amount	Number of households	Percent
500	7	15
1000	17	37
1500	1	2
2000	7	15
2500	1	2
3000	6	13
3500	1	2
5000	3	6
6000	1	2
7000	3	6
Total	47	100

Sources: Field Survey

The above table 4.20 shows total 47 SC households have taken credit from the village moneylenders at the time of the field survey. Among this, 17(37%) households had taken Rs.1000 and 7 households had taken Rs.500 and 7 households took Rs.2000. The interesting aspect is that these households are SHG members also. Based on the cross tabulation analysis in table 4.21 one can see the number of village moneylenders from whom both SHG and Non-SHGs member households took credit

Table: 4.21 Dependence on Moneylenders by SHG and non SHG households

Number of Money lenders	**SHG member**	**Non-SHG member**
No money lenders	20 (38)	8 (36)
1 Money Lender	17 (32)	7 (32)
2 Money Lender	6 (11)	5 (23)
3 Money Lender	6 (11)	0
4 Money Lender	2 (4)	0
5 and Above Money Lender	2 (4)	2 (9)
Total Money Lenders	53 (100)	22 (100)

Notes: Figures in brackets are percentages
Sources: Field Survey

Out of total 53 SHGs member SC households, 20 households (38 %) have not taken credit from village moneylenders and 33 households (62%) have taken loan from village moneylenders. While at the same time out of total 22 non-SHGs member SC households, 8 (36%) households had not taken loan from village moneylenders and 14 households (64%) had taken loan from village moneylenders. 17 SHG households took credit from 1 moneylenders and 6 households have taken loan from both 2 and 3 numbers of moneylenders. The main objective of the implementation of SHGs-bank linkage programme in India is to give small credit to rural low-income people whenever they need urgently. Even though the SHG-bank linkage programme was introduced many years back in India, still a sizeable proportion of SHG members borrow from moneylenders now. It is true from the above analysis that around 62 % of the SHGs members borrow from the moneylenders. They took credit only in small amounts, with in the range of 500 and 5000. Mostly they used these credits for daily expenditure. The table 4.22 shows the utilization pattern of credit taken from the village moneylenders by these households.

Table: 4.22 Utilization of credit from village moneylenders

Category	Number of Households	Percentage
Daily Expenditure	**31**	**66**
Agriculture Purpose	1	2
Festivals	3	6
Hospital	5	11
Loan Repay	2	4
More than one Purpose	5	11
Total	47	100.0

Sources: Field Survey

About 31 households (66%) used their credit from the village moneylenders for daily household consumption expenditures and 5 households (11%) used their credit for health in the hospital/medical and more than one purposes. Only one household used his/her credit for agricultural purposes. So it is clear from the above analysis that low-income people prefer to go to village moneylenders for small amount of credit for incurring their daily expenditures.

Summing up, from the analysis, we found that, 52 scheduled caste households and 56 scheduled tribe households have different types of bank accounts. Out of the total of 150 SC and ST households surveyed, 52 SC households (69%) are financially included and the remaining 23 households (31%) are financially excluded and 57 ST households (76%) are financially included and 18 households (24%) are financially excluded. We also got a similar result for our macro analysis based on the NSSO data. It indicates that the proportion of the financial inclusion among the ST households is above the SC population. The surveyed households pointed out that, there are many reasons for financial exclusion like low income, illiteracy, and lack of permanent job etc. The 100 percent financially included ST households had taken loan from the cooperative banks. But this is not the case for the financially included SC households. They are financially included from different sources. The SHGs is very helpful for financial inclusion among the SC households. 52 SC households have either savings or borrowing from the SHGs. The ST households are excluded from the SHGs. Even though the SHGs bank linkage programme was initiated for the reduction of the clutches of the moneylenders on the rural poor people, still SC households depend upon the moneylenders for obtaining small amount of credit. It is also found that most of the households used this money for their day-to-day consumption purposes.

CHAPTER V

SUMMARY AND CONCLUSION

The theoretical and empirical literature on economic growth argues that financial developments promote economic growth and reduce poverty and inequality. Therefore, the successive governments in India have emphasized the link between improving access to finance and reducing poverty from the very beginning of five-year plans. The major objective of the bank nationalization was to improve financial access for India's economically and socially backward sections of population. In the Eleventh Five Year Plan, the Planning Commission has emphasized the need for achieving faster and greater inclusive growth-that is growth with reduction of poverty and inequality. The banking sector as the most important financial intermediary facilitates growth, and thus plays the most crucial role in attaining the stipulated objective of the Eleventh Plan through expansion of coverage of banking services to the vast unbanked and under banked population of the country. But as a result of the financial liberalization, there has been a distinct shift in the banking policy. Many of the regulations that were applied on the banking system during the pre-reform period were relaxed in order to allow a market-based and more liberalized operation of the banking system undermining the social objective. This had led to exclusion of most of the rural households from the formal financial system. Such excluded groups include small and marginal farmers, unorganized sector workers including artisans, the self-employed and pensioners and individuals or households belonging to economically backward classes especially SC and ST. Given this background, the broad objective of the present study is to analyze the extent, reasons of financial exclusion and the credit utilization pattern of SC and ST households in Kerala. Kerala is taken as a case study because it is said to be financially inclusive but where no inclusive growth has taken place.

The study consists of five chapters. After introducing the broad background of the study in the first chapter, the second chapter provides an over view of credit policies. The third chapter deals with the extent of financial exclusion among SC and ST households in the aggregate level and across the states. The fourth chapter critically examines the financial inclusion and credit utilization pattern of SC and ST households in Kerala based on field survey. Finally, summary and conclusions of the study is given in the fifth chapter.

In order to overcome the severe negligence of banks in meeting the credit requirements of various sectors of the economy, RBI introduced priority sector advances. But the major drawback of the priority sector lending was the over appropriation of credit by the affluent sections, which led to the incorporation of the concept of "weaker sections" into the priority sector lending. The Krishnaswamy Committee mandated credit target of the domestic commercial banks to direct at least 10 percent of their net bank credit to the weaker sections. But after the reform period, the advances to weaker sections as a percent of net bank credit showed distinct decline and the commercial banks did not meet the target. Moreover, the gap between target and achievement continued to be widening over these years. It is against this background that the analysis of financial exclusion is undertaken.

The literature used different perspectives of financial inclusion our study follows the accession of bank credit perspective. In the macro analysis we have used three different sets of data such as Survey of Small Borrowal Accounts by RBI, Situation Assessment Survey, and All India Debt and Investment Survey by NSSO. We have used Survey of Small Borrowal Accounts (SBAs) by RBI and Situation Assessment Survey (SAS) by NSSO in order to understand the extent of credit exclusion or financial exclusion. We have used households' indebtedness as a proxy in the absence of data on credit denial in spite of households demand. Using the SBAs we found that the number and amount of credit of the SC and ST households declined drastically during the post-liberalization period. The Situation Assessment Survey (SAS) by NSSO, reveals that more than half (64%) of the farmer ST households and half (50%) of the SC farmer households are financially excluded. We have also found that there are wide variations across states in the provision of credit and Kerala is one of the best performing states.

However the above mentioned databases mainly concentrate on particular segments of SC and ST households such as small borrowers, farmers etc and dose not reveal the financial access of SC and ST households taken as a whole. We have used All India Debt and Investment Survey to get the overall picture. At the national level we have noticed that both in rural and urban areas a major proportion of SC and ST households are financially excluded from formal sectors of credit given the fact that their dependence on non-institutional sources is high. Moreover the ST households are better positioned comparing SC households, which is true for all the indicators. Strikingly, even after introducing various reforms to reduce the role of moneylenders, they still play a major role in meeting the finance requirements of both SC and ST households. Here it is to be noted that the dependence of SC households on moneylenders drastically increased during the post liberalization era.

There has been wide variation across the states in terms of financial exclusion after liberalization. In the case of rural SC households Kerala, Haryana, West Bengal, Maharashtra were showing better performance consistently. However the dependence of many states on non-institutional sources increased after liberalization. Andhra Pradesh, Tamil Nadu, and Punjab were showing this trend from the very beginning which remained the same even after introducing reforms in the financial sector. In the case of rural ST households, eight states (Kerala, Karnataka, West Bengal, Utter Pradesh, Orissa, Jammu & Kashmir, Andhra Pradesh, and Madhya Pradesh) were showing comparatively better position in terms of institutional sources whereas Rajasthan, Andhra Pradesh, Tamil Nadu, Kerala and Gujarat were depending more on non-institutional sources compared to other states in 1992. However in the year 2002 the access to credit from institutional sources expanded to more states (Tamil Nadu, Rajasthan, and Maharashtra). It is interesting to note the presence of Kerala and Andhra Pradesh in both the categories which may be indicating that the provision of the institutional sources was quite inadequate to meet the demand for credit requirements of ST households in Kerala and Andhra Pradesh.

In urban areas, state wise indebtedness of SC households from institutional sources remained more or less same after liberalization. Among the states Kerala, West Bengal, Madhya Pradesh, Himachal Pradesh, Maharashtra, Tamil Nadu, Haryana, Gujarat are the states which remained above national average. One of the interesting findings is that the SC households in Andhra Pradesh were depending more on non-institutional sources in the absence of adequate institutional sources in 1992. Later even though the state became part of above average category in terms of access to institutional sources, its dependence on non-institutional sources was very high during the liberalization period. Next we will examine the situation of ST households in urban areas. In 1992 only four states were comparatively better in terms of accessing credit from the institutional sources. They are Kerala, Maharashtra, Karnataka, Orissa and Tamil Nadu. These states except Tamil Nadu could maintain their status after liberalization. Some other states such as Bihar, Punjab, Gujarat, Himachal Pradesh and Rajasthan could expand their institutional sources during this period. Non-institutional sources were predominant in the case of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala in 1992, however with government efforts to improve the institutional sources the dependence of urban ST households in Kerala and Karnataka on non-institutional sources came down sharply.

One major point we have noticed from our state-wise analysis is the extreme dependence of SC and ST households in Andhra Pradesh on non-institutional sources. This is to be added to the fact that Andhra Pradesh recorded serious amount of farmers' suicide during this time. Assam is another example for the failure of institutional agencies where both the demand for institutional as well as non-institutional sources remained below average level throughout except for urban ST households demand for non-institutional sources in 2002. Kerala shows a comparatively better position. Kerala is the highest performing states in terms of institutional agencies with respect to both the social groups and. Moreover the state could reduce the dependence on non-institutional sources over the years.

From the state wise analysis we found that there is wide variation across states in terms of financial exclusion. As we mentioned earlier Kerala is one among the best performing states but it lacks inclusive growth. The literature points out that the most important obstacle for reduction of poverty among rural poor is the lack of access to adequate credit. However access to credit alone will not solve the issue of poverty and exclusion. It also depends on the productive use of credit. In this context we examined the credit utilization pattern of SC and ST households in Kerala based on the AIDIS. The major findings from the AIDIS are the following. In rural areas more than eighty percent of both the SC and ST households used their credit for non-income generating activities such as household consumption, debt repayment etc. In urban area also the same pattern can be seen for both social groups. In this context the basis on which Kerala is considered financially inclusive needs to be reexamined and the actual reasons for the non-utilization of credit for income generating purpose also needs to unraveled. For this purpose we have relied on a field survey of two panchayats in Pathanamthitta district of Kerala (Kodumon for SC and Naranamoozhi for ST) based on the availability of banking infrastructure and the proportion of SC and ST population to total population. Our total sample size is 150 households, of which 50 percent are SC and the remaining 50 percent is ST (i.e.75 households each) based on systematic sampling method.

From the survey we found that 69 percentage of SC and 76 percent of ST households are financially included and the remaining 31 percent of SC and 24 percentage of ST households are financially excluded. We examined the demand and supply side factors responsible for financial exclusion among those financially excluded. From the demand side we found that lack of job, low income and lack of awareness are the main reasons for their exclusion and from the supply side high amount of initial deposit, procedure delays, attitude of the bank staffs and bank working time are the major determinants.

We observed that the financially included households have different types of accounts of which credit accounts were the dominant type for both the SC and ST households. However our further exploration of financial inclusion on the sources of credit agencies for these financially included households pointed out that, the SC households took credit from various sources such as commercial banks, cooperative banks, etc whereas the ST households confined to only one sources i.e. Cooperative bank and the average amount was below Rs.5000 for all the cases. This is an indicator of the level of utilization of different financial services.

In analyzing whether the financially included households used their credit for income generating productive activities or not, we found that among 35 financially included SC households, only 18 households have used their credit for income generating activities and remaining 17 households have used their credit for non-income generating activities.

Out of 55 financially included ST households, 20 households have used their bank credit for productive purposes and 35 households used for non-income generating purposes. Within non-income generating purposes house construction, education of children, marriage and medical expenses were the highest for both sections of households.

One of the interesting observations is the presence of Self Help Groups (SHGs) in the surveyed areas. However the presence of SHGs in the SC sample was very high (71% of households) compared to ST sample (24% of households). Most of the SHGs in ST sample are not working properly. Here women were overburdened with their family responsibilities which were a major hindrance for them to effectively involve in SHG operations. The lack of adequate education and finance were also added to this. SHGs in the SC sample were well organized and functioning properly. Even though the SHGs-bank linkage programme was mainly aimed to reduce the role of moneylenders, it was not fulfilling. Most of the SHG members operating in SC sample are still depending on moneylenders due to inadequacy of getting small amount of credit from the SHGs and the SHG loans were conditional on the total amount of individual savings which reduced their borrowing capacity. The resource of the SHG's was also limited. Added to this the loan sanctioning was a group decision by the members, which was mostly influenced by personal bias. All this forced them to depend on moneylenders for their small amount of credit purpose.

5.1 Policy Suggestions

The aim of our study on the SC and ST households' financial inclusion was to understand the paradox of a high rate of financial inclusion with non-inclusive growth in Kerala. The study clarifies several issues.

On the conceptual side it becomes obvious that no single measure of inclusion that is either having a no-frill account or share of credit from institutional sources can be taken as indicator of financial inclusion. These are but steps to reach the goal of financial inclusion as defined by the Rangarajan committee. The committee defines financial inclusion as" the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost" and financial inclusion needs to be judged in terms of all the above-mentioned parameters. In other words, a holistic approach is necessary.

On the substantive side, it is observed that while financial inclusion is a necessary condition for inclusive growth it is not a sufficient condition. The utilization of credit throws light on this. It emphasis that steps to achieve financial inclusion have also to necessarily look into socio-economic conditions of these groups and the state specificities. Our analysis of the so called financially more included ST population throws light on this. Policy driven credit targets have not led to any desired outcomes. Conditions of ownership of land, levels of literacy, employment etc are important factors that need to be looked into and rectified if policy is to succeed. If this is the experience of a financially included state like Kerala, the conditions in the other states can be imagined.

On the basis of our results we can suggest that banks should give productive and consumption loans separately. Banks should give small amount of loans for the consumption needs of the rural households. The role of SHGs should improve to reduce the informal sector credits, for which the availability of finance of SHG to be increased. Due to the non-achievement of the mandated target of the commercial banks' advances to the weaker sections, the RBI should strictly monitor the achievement of the targets by the commercial banks. The still high financial exclusion among the SC and ST households (in terms of access to different credit institutions, instruments etc) underlines the need for a reassessment of the existing policies of bank credit to them. The government should make separate credit policies and implement it in a better manner for the SC and ST households, perhaps with the help of local bodies. Even though there are many reasons for the financial exclusion, the illiteracy among the households, lack of income, employment etc, emphasizes the need for a multi-pronged approach to tackle the problem of financial exclusion.

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APPENDIX

Questionnaire

A) Household Details

	01	02	03	04	05	06	07	08
ID	Members of the household	Relationship with HH head	Sex	Marital Status	Age	Education	Occupation	Income
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

(Codes: Q2, 01= Household head, 02= Wife or Husband; 03= Son or daughter; 04= Son –in-law or daughter-in-law; 05= Grandchild; 06= Parent; 07= Parent-in-law; 08= Brother or sister; 09= Brother-in-law or sister-in-law; 10= Niece or Nephew; 11= other relatives Q3: Male=1; Female=2; Q4: 01= Married; 02= Unmarried, 03= Divorced, 04= Widowed. Q6: 01= Illiterate; 02= UP School or less; 03= High School; 04= College/ University; 05= Student; 06= Others. Q7: 01= Unskilled worker; 02= Skilled worker; 03= Private employee; 04= Govt. employee; 05= unemployed)

B) Household Assets and Livestock

1) Income classification: APL ☐ BPL ☐

Land Size (Cents)		Livestock		Vehicles		Consumer Durables	
01		02		03		04	
Farm land	Non-farm land	Name	No:	Name	No:	Name	No:

Codes: **02** 1= Cow; 2= Goat; 3= Hen; 4= Others (Specify); **03**: 1= Bicycles, 2= Two Wheelers; 3= Four Wheelers; 4= Others (Specify); **04**: 1= Television; 2= VCD/DVD Set; 3= Tape Recorder/Radio; 4= Fan ; 5= Mobile Phone; 6= Others (Specify)

C) Details of Banking

1) Does anyone in your family having bank account Yes/ No

2) If the answer is **yes** please give details given below or if **no** go to question number **3**

Members ID	Type of Account and Financial product	Year	Amount	Name of the Bank	Usage pattern

Codes for Col 2 Fixed Deposits=1 Savings A/c=2 Current A/c=3 Post Office Savings=4 ATM=5 Credit Cards= 6 Insurance= 7 Remittance=8 Others=9(Specify) (Codes for column: 6, more than once in a month = 1, more than once in six months = 2, more than once in one year = 3, Never Visited = 4, Others specify

3) Is it deliberately or not? Yes/ No

4) If the answer is No please explain the reasons for financial exclusion

Sl.No:		Codes
Demand Side		
01	Low Income	
03	Illiteracy/ lack of financial education	
12	Lack of permanent job	
09	Don't want	
Supply Side		
04	Distance from Bank	
05	Procedures delay	
06	Unsuitable products	
08	Attitude of the Staff	
11	High Initial Deposit	
13	Bank working time	

Codes for Q. 1= yes 2= No

5) Does anyone in your family borrowed money from any other sources other than banks
Yes/ No

6) If yes Please give details below

Sources	Amount	Purpose	Rate of interest	Whether repaid or not

7) Why are you approaching the above source?... ......
....
....

8) Is anyone in your family a SHG member Yes/No

9) If yes name of the SHG:...........................

10) How long have you been a member of this group................

10) Did you borrow money from the SHG since you join the group Yes/No

11) If yes please give details of the following

Years	Amount	Repaid or not	Security	Rate of interest	Repayment		Purpose
					Amount	Type	

12) Is anyone in your family a member of NREGA Yes/ No

13) Does anyone in your family have "no-frills (zero balance) account Yes/No

14) If yes, do you have regular transaction from the no-frills account Yes/ No

15) How much amount you saved/withdrawn through no-frills account? ....

13) Did anyone in your family get any bank loan during the last four years Yes/ No
14) If yes please give details of the following

Name of the bank	Loan Amount	Repayment	Tenure of Loan	Interest		Security	Repayment		Purpose of loan? (Code)
				Rate	Duration		Amount	Type	
1	2	3	4	5	6	8	9	10	11

(Codes: Column 3 Yes = 1, No= 2; Column 6: Daily –1, Weekly –2, Monthly – 3, Three months –4, Half year –5, Yearly –6, Others –7; Column 8: House/other buildings- 2, Land- 1, Animal – 3, Personal security/ salary – 4, Group security- 5, Others –6: Column10: Daily = 1, Weekly = 2, Monthly = 3, Yearly= 4; Column10: Buying land –1, Buying Agricultural equipment –2, For Business –3, Buying /building house –4, For buying consumer durables - -5, Medical expense –6, Education –7, For marriage –8, Loan repay –9, Buying cattle –10, Others –11.)

16) The credit utilization pattern of the financially included households

Income Generating Activities	Sources	Amount	Outcome
Agricultural purposes			
Buying cattle			
For small enterprises and business			
Non-income Generating Activities			
Loan repayment			
Marriage			
Buying consumer durables			
Medical expenses			
Buying /building house			
For education			

Remarks: ....

Name and Signature of the Investigator

Map of Study Area