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FINANCIAL INCLUSION AND ECONOMIC STATUS IN ANDHRA PRADESH

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Abstract:

Financial inclusion has been often viewed as a strategy for socio-economic development which is to be supported by the majority of the governments of developing nations. The Indian government requires, however, that all banks commit a specific amount of their loans to their socio-economic growth in "priority" areas including agricultural, social and marginal industries. Based on secondary data, this study attempts to offer a profile of financial inclusion in Andhra Pradesh. The primary focus of the study is on the many aspects of financial inclusion in the state. Financial inclusion has been characterised as a process that improves the availability, eases access, and assures the use of fundamental financial goods and services for all segments of society. Initiatives have been taken by the Government of India and the Reserve Bank sometimes to promote financial inclusion, therefore significantly enhancing access to the formal financial institutions.

Keywords: Financial Inclusion, Financial access, society, Banking, Households, Rural, Urban, Credit

Introduction

Financial inclusion is defined as the provision of banking and other financial services at little or no cost to large segments of the disadvantaged and low-income populations. The phrase "financial inclusion" has gained broad support in every conversation, both on the level of access to financial services and on a deeper study of processes. As a result, much of the research and discussion is focused on the expanding availability of banking and financial services to previously unbanked segments of society. Financial inclusion is defined as the provision of banking and other financial services at little or no cost to large segments of the disadvantaged and low-income populations. The term "financial inclusion" has achieved widespread acceptance in every discussion, both on the level of access to financial services and in a deeper examination of processes. As a result, much of the research and discussion is focused on the expanding availability of banking and financial services to previously unbanked segments of society. A group of stakeholders who highlight the requirements of the working poor and the extent of 'real' financial inclusion are spread throughout the mainstream actors and agenda.

In addition, this data primarily covers supply factors and not the demand side of financial inclusion. The financial needs of individuals have also played an essential part over the years in the delivery of SCBs, RRBs, cooperative banks and enterprises, post offices and insurance organizations. Therefore, certain restrictions which need to be considered when evaluating the situation and scope of financial inclusion/exclusion based on what partial information can be made from multiple sources such as the RBI, the Indian census, the NSSO, AIDIS, the SHGs and the MFIs, the posts, the insurance companies and other organizations publisher, etc. This section aims to explore the three different aspects of financial inclusion: village level access to financial services, household access to bank accounts and the use of financial resources and services from the formal system by households and to draw conclusions about the state of financial inclusion/exclusion.

Review of Literature:

Kalra, Mathur and Rajeev (2015) observed that financial education is low among the poor and vulnerable section of society which emphasizes low levels of money management knowledge. It is damaging to microfinance consumers since they are unable to grasp and utilise the variety of products and services provided.

Devi (2016), the availability of banking services is one of the key markers of financial inclusion. The Government of India and the Reserve Bank of India are launching numerous efforts to promote financial inclusion under the SWABHIMAN campaign. Despite these efforts, only around 40% of the population has been covered by financial inclusion since its start. It may be assumed that the basic aim of financial inclusion has yet to be achieved.

Sharma and Goyal (2017),examined income level, financial information sources and knowledge of financial inclusion programmes all play a role in the development of financial inclusion. The study discovered a link between demographic factors and rural household knowledge of PMJDY. Rural families are more likely to be financially involved when they are located closer to a bank.

Basanta Kalita (2018) found that the metrics used to evaluate women's social empowerment had improved after their SHGs were linked to commercial banks for credit extension under the SHG Bank Linkage programme. It was also discovered that the SHG Bank Linkage has a good influence on members' self-confidence and has increased the probability of SHG members finding meaningful employment.

Agustin Carstens (2019) emphasised the importance of financial services access in a contemporary economy and the critical role that central banks may play in fostering financial inclusion. Financial inclusion can aid in poverty reduction through encouraging the use of formal credit, savings, and insurance products.

Al-Mudimigh and Anshari (2020) the region has a big number of internet users and Fintech businesses, which have contributed to increase financial inclusion, particularly for the unbanked people.These studies mainly focus on the definition and the importance of FinTech to the financial ecosystem especially in the Southeast Asia region.

Availability of Financial Services

The NSS 58th Round (2002), which includes financial services as a village facility for the first time, includes information on the availability of financial services at the village level. The study considers the availability of financial services in terms of I the existence of a bank in the area, i.e., inside the village, or 2-5, 5-10, or >10 kilometers distant from the village, and (ii) the presence of co-operatives or SHG in the village. Bhavani and Bhanu Murthy (2012) classified the ease of acquiring financial services into three broad categories based on the distance of the location of a financial service provider: villages with a bank within or up to five kilometers are considered to have easy access; villages with a bank within 5-10 kilometers are considered to have moderate access; and villages with a bank branch more than 10 kilometers away are considered to be inaccessible. Table 1 displays data on physical access to financial services in a number of states.

Table 1. Physical Access to Financial Services of Andhra Pradesh (per cent villages)

Access to Financial Services	Andhra Pradesh	Bihar	Gujarat	Kerala	Orissa	Punjab	Rajasthan	TamilNadu	WestBengal	India
EasyAccess1	38.5	50.1	29.4	92.8	30.6	87.3	46.9	72.1	64.0	51.9
ModerateAccess2	24.5	29.8	20.6	6	24.2	12.7	30.9	12.5	21.6	23.6
NotAccessible3	36.8	20.2	45.8	0.7	45.2	-	22.2	15.5	14.4	23.2
WithCo.soc4	42.4	12.8	48.1	85.9	7.9	50.7	30.1	53.8	38.5	30.2
WithSHG5	74.0	5.4	13.4	80	10.6	7.8	12.4	69.7	23.2	24.0
Co.soc and SHG	40.7	2.2	10.4	69.3	1.9	6.7	7	45.2	13.7	13.7

Source: NSS 58th Round Unit-level data, adopted from Bhavani and Bhanumurthy (2012), p.78 Notes: 1. Easy access refers to the presence of a bank within the village or within 5 km; 2. Moderate access refers to the presence of a bank within 5—10 km from the village; 3. Not accessiblereferstovillagesnothavingabankwithin10 km;4.Co.soc=cooperativesociety;5. SHG=self-help group.

Only 38.5 percent of the sample villages in rural Andhra Pradesh possess easy financial access in the sense of having a bank branch within the village or within five kilometres, based on the classification of financial access (in the sense of proximity). A bank branch is located within 5-10 kilometres of the village, thus 24.5 percent of communities have modest access to financial services. Around two-fifth (37 per cent) of the sample communities lack financial access since there are no bank branches within a 10-kilometer radius.

About 40.7 percent of the sample villages in Andhra Pradesh have a co-operative society and 74.0 percent have SHGs. At the national level, the comparable values for sample villages with easy financial access, moderate access, and no access are around 52 per cent, 24 per cent, and 23 per cent, respectively. Approximately 54 per cent of the sample villages in India possessed a co-operative society, a SHG, or both. Physical access to financial services in Andhra Pradesh is higher than the national average, according to data. This chart also shows that states such as Kerala, Punjab, and Tamil Nadu are among the top 10 in terms of physical access, but Andhra Pradesh and states such as Bihar, Gujarat, and Orissa have restricted financial access.

Availing Banking Services

Since 2001, the Census of India has been collecting data on household use of financial services. According to the Census, a household is regarded to be using banking services if the head and/or any other member of the household have any kind of bank or post office account. The current section focuses on household banking services in Andhra Pradesh.

Table 2: Households Availing Banking Services in Andhra Pradesh

Census Particulars		Andhra Pradesh			All India		
		Rural	Urban	Total	Rural	Urban	Total
2001	Total HHs	12676218	4173639	16849857	138271559	53692376	191963955
	Availing	3850064	1379563	5229627	41639949	26590693	68230642
	Percentage	30.4	33.1	31	30.1	49.5	35.5
2011	Total HHs	14246309	6778225	21024534	167826730	78865937	246692667
	Availing	7183503	3979780	11163283	91369805	53444983	144814788
	Percentage	50.4	58.7	53.1	54.5	67.8	58.7
	(%)Increase	20	25.6	22.1	24.3	18.3	23.2

Source: Census of India 2001 and 2011

Data shows that, despite Andhra Pradesh had a considerable increase in the percentage of households using financial services between 2001–2011, the improvement was more pronounced in rural Andhra Pradesh. In 2011, the percentage of Andhra Pradesh households using financial services increased to 58.7 percent, up from just over 22.1 percent a decade earlier. Similarly, the percentage of rural and urban households using banking services in 2011 was 50.4 percent and 58.7 percent, respectively, substantially higher than the comparable percentages in 2001 of 30.4 percent and 33.1 percent. Despite substantial progress, Andhra Pradesh's status is far from adequate (41.3 percent of households did not have bank account in the year2011). The number of households using financial services varies greatly among districts. Ananthapur, Chittoor, Krishna, Kurnool, Nellore, and Y.S.R. are at the top of the list, with more than half of their households having a bank account, both in rural and urban areas, and these districts have a greater percentage of households with a bank account than the Andhra Pradesh average. East Godavari, West Godavari, Srikakulam, Guntur, and Visakhapatnam rank last in terms of total households and rural households using banking services.

Table 3 District wise distribution of households availing banking services in Andhra Pradesh As per census 2011 (Percentage & Ranking)

District	No. of Households Availing Banking Services			Per Cent of Households Having Banking Services					
	Rural	**Urban**	**Total**	**Rural**	**Rank**	**Urban**	**Rank**	**Total**	**Rank**
Ananthapur	465135	144950	610085	66.59	1	55.17	10	63.47	2
Chittoor	473238	186528	659766	65.03	2	63.34	1	64.54	1
EastGodavari	372308	179397	551705	35.02	12	52.09	11	39.20	13
Guntur	407514	212787	620301	46.46	8	51.80	12	48.16	10
Krishna	380777	268010	648787	50.47	7	56.80	8	52.86	8
Kurnool	365329	146041	511370	57.91	4	59.67	5	58.29	4
Nellore	398953	98605	497558	57.60	5	59.85	4	58.03	5
Prakasam	300093	117405	417498	52.84	6	57.35	7	54.03	7
Srikakulam	266005	65477	331482	45.85	9	59.91	3	48.08	11
Visakhapatnam	243039	341743	584782	41.65	11	62.97	2	51.92	9
Vizianagaram	255915	67030	322947	53.86	6	55.18	9	54.13	6
West Godavari	365928	102800	468728	42.03	10	50.10	13	43.57	12
Y.S.R.	290378	132835	423213	61.01	3	58.46	6	60.18	3
AP	**7183503**	**3979780**	**11163283**	**50.42**	**-**	**57.71**	**-**	**53.09**	**-**

Source: Census of India 2001 and 2011

Table 3 also shows widespread rural-urban disparities in access to banking services, both at the state and district levels. While more than three-fourths of urban households in Andhra Pradesh have a bank account, less than two-fifths of rural households do. Ananthapur, Guntur, Srikakulam, and Visakhapatnam have large rural-urban inequalities in banking services, with urban households having double the number of bank accounts as rural households. Only in Vizianagaram, Nellore, Krishna, and YSR is there a less than 3 per cent variation between rural and urban areas in terms of the percentage of households with a bank account.

Usage of the Financial System

Based on unit level data from the All India Debt and Investment Survey, this part investigates household usage of the financial system (AIDIS). The study, which is carried out on a decadal basis, offers data on the pattern of household indebtedness (credit side) Incidence of Indebtedness (IOI). For the purposes of its sample survey, the NSSO considers a household to be indebted if it has any cash loan outstanding as of the reference date, regardless of the amount. Since the survey for urban areas was not conducted during the NSSO 26thround, only figures for IOI were gathered for the last three surveys (1971). Table 4 shows the estimates of IOI collected from the past three All India Debt and Investment Surveys for both rural and urban regions in the main states. According to the Data, the IOI in Andhra Pradesh increased slightly from 1981 to 2012, with the IOI for rural and concrete areas of Andhra Pradesh in 2002 being at 54 per cent and 40 per cent, respectively, considerably ahead of the all India values of 31 per cent and 27 per cent.

Table 4. : Incidence of Indebtedness (IOI) of Households across Major States(%)

State	Rural				Urban			
	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)
Andhra Pradesh	26	35	42	54	23	31	30	40
Assam	05	06	08	10	04	06	06	17
Bihar	13	16	22	29	09	08	10	13
Delhi	-	-	-	03	13	18	02	05
Gujarat	19	17	28	26	15	22	21	19
Haryana	11	28	27	24	08	10	16	12
Himachal Pradesh	12	22	15	26	07	16	10	22
Jammu & Kashmir	09	14	04	12	17	09	05	21
Karnataka	24	28	31	46	18	20	19	26
Kerala	28	31	39	49	30	32	37	47
Madhya Pradesh	21	21	26	95	15	14	18	15
Maharashtra	22	22	28	31	21	21	16	19
Orissa	20	23	26	25	12	15	19	18
Punjab	20	25	26	33	13	14	13	18
Rajasthan	25	30	34	37	15	14	17	22
Tamil Nadu	29	30	31	39	26	25	26	35
Uttar Pradesh	18	19	23	29	13	14	13	19
West Bengal	18	26	22	23	17	17	17	14
All-India	20	23	27	31	17	19	18	27

Source: All India Debt and Investment Survey, NSS70th Round

Institutional Credit in Total Cash Debt

The percentage of institutional debt contracted by rural and urban families in major states, as shown in Table 5, demonstrates that there is no consistent pattern in the share of institutional agencies in overall debt from 1981 to 2012. In several of the main states, the scenario had changed since 1991. Only Himachal Pradesh and Maharashtra have seen a rise in the percentage of institutional agencies among the main states in the rural sphere. On the other hand, 13 major states out of 21 have seen an increase in the percentage of people living in urban areas.

Table 5 : Share of Institutional Agencies in Outstanding Cash Debt of Major States in Rural and Urban Areas (per cent)

States	Rural				Urban			
	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)
Andhra Pradesh	41	34	27	42	26	53	60	69
Assam	31	66	58	72	77	97	83	89
Bihar	47	73	37	22	61	67	65	71
Gujarat	70	75	67	64	86	59	74	92
Haryana	76	73	50	52	66	81	56	94
Himachal Pradesh	75	62	74	75	62	85	97	92
Jammu& Kashmir	44	76	73	63	75	62	97	95

Karnataka	78	78	67	50	54	85	83	73
Kerala	79	92	81	78	77	75	83	89
Madhya Pradesh	66	73	59	52	72	70	84	86
Maharashtra	86	82	85	73	65	78	91	96
Orissa	81	80	74	57	83	83	93	96
Punjab	74	79	56	64	61	59	76	81
Rajasthan	41	40	34	31	47	78	52	59
Tamil Nadu	44	58	47	62	56	71	59	78
Uttar Pradesh	55	69	56	57	59	65	58	90
West Bengal	66	82	68	51	55	74	75	87
All-India	61	64	57	56	60	72	75	85

Source:AllIndiaDebtandInvestmentSurvey,NSS70thRound

Table 6 indicates that from 1981 to 2012, the percentage of institutional credit agencies in the outstanding cash dues of rural households in Andhra Pradesh varied in rural areas while improving in urban areas. The institutional proportion of urban household debt in Andhra Pradesh rose from 26 per cent in 1981 to 53 per cent in 1991 and then to 69 percent in 2002. Except for 1981, when it was limited to rural households, the percentage of institutional agencies in outstanding cash debt in Andhra Pradesh has continuously been lower than the all lndia share. To compare the progress of institutional and non-institutional agencies in Andhra Pradesh against the backdrop of initiatives undertaken by the Reserve Bank and the Government of India since Independence, particularly after bank nationalization, it is necessary to examine the flow of credit to rural areas by credit agency. Data compares the credit-agency-by-credit-agency flow of credit to rural regions in Andhra Pradesh and India. The participation of institutional agencies in rural loans in Andhra Pradesh grew dramatically from 9.5 to 27 percent from 1961 to 2002 to 42 percent in 2012. However, the Table does not indicate any consistent pattern among the various institutional agencies in terms of rural credit in Andhra Pradesh. The percentage of institutional agencies in rural credit in India grew steadily from 7.2 percent in 1951 to 64 percent in 1991 before declining to 56.0 percent in 2012. Co-operative societies/banks and commercial banks, including RRBs, are the major institutional players in rural credit across India, and have made tremendous progress since their beginning.

Table 4.6: Comparison of Break-up of Institutional and Non-Institutional Rural credit in A.P. and **India**

	Year	**1961**	**1971**	**1981**	**1991**	**2002**	**2012**
Andhra Pradesh	Institutional agencies	9.5	14	41	34	27	42
	Government	1.6	2.2	2.2	2.6	0.7	1.4
	Co-operative society	7.3	9.4	28.6	12.4	11.7	20.1
	Commercial banks & RRB's	0.6	1.9	28.0	15.4	13.3	18.4
	Other institutions	-	-	0.1	-	1.6	2.1
	Non-institutional agencies	90.5	86	59	66	73	58
	Landlord	0.3	23.3	10.9	15.4	3.3	1.5
	Moneylender	9.9	46.8	9.7	36.0	29.7	20.4
	Agricultural money lender	64.0	-	14.6	-	27.7	19.4
	Trade & commission	10.7	22.3	4.8	8.6	5.0	3.9
	Relatives	2.0	12.6	7.6	1.3	1.5	2.1
	Others	3.6	3.9	10.5	8.3	5.6	4.7
All India	Institutional agencies	14.8	29.2	61.2	64.0	57.1	56.0
	Government	5.3	6.7	4.0	5.7	2.3	1.2
	Co-operative society	9.1	20.1	28.6	18.6	27.3	24.8
	Commercial banks & RRB's	0.4	2.2	28.0	29.0	24.5	25.1
	Other institutions	-	-	0.6	-	3.0	4.9

	Non-institutional agencies	85.2	71	39	36	43	44.0
	Landlord	0.9	17.3	4.0	4.0	1.0	0.7
	Moneylender	14.9	36.9	8.6	15.7	10	28.2
	Agricultural money lender	45.9	-	8.3	-	10.6	5.0
	Trade & commission	7.7	-	3.4	7.1	2.6	8.7
	Relatives	6.8	13.8	9.0	6.7	7.1	8.0
	Others	8.9	3.0	4.9	2.5	2.6	1.4

Source: All India debt and investment survey various rounds report 2013.

The trend in the growth of commercial banks/RRBs in rural credit in India, and to a lesser extent in Andhra Pradesh, suggests that the large number of branches established by various commercial banks, as well as the subsequent introduction of rural banking schemes, may have tried to push commercial banks to assume the role of principal credit agency in rural areas. Along with co-operative societies/banks and provident funds, the government plays a significant role in providing institutional credit in Andhra Pradesh. For a long period of time, traditional credit agencies such as agricultural moneylenders, professional moneylenders, landlords, merchants, and so on exploited the household sector, particularly in rural India (NSSO, 2005). However, the situation in India, and to a lesser extent in Andhra Pradesh, began to change in the 1960s, as the share of informal/non-institutional agencies began to decline gradually during the 1960s and sharply during the 1980s, and institutional agencies began to make steady inroads into the rural scene. Non-institutional agencies had 90.5 percent and 85.2 percent of the market in Andhra Pradesh and India, respectively, in 1961, but declined to 44.0 percent and 58.0 percent, respectively, in 2012. Moneylenders, both agricultural and professional, have seen a considerable decrease in their market share over the years. The share of agricultural moneylenders in rural credit in Andhra Pradesh declined from 64 per cent in 1961 to 19.4 per cent in 2012. Data shows that, in addition to moneylenders, family and friends had a large proportion of rural credit in both Andhra Pradesh and India throughout the period under review.

Conclusion

The Government of India has introduced various programmes and taken several measures to bring the rural households in the folds of financial access, but still significant population are depending on informal sources and many of them are unable to access and use the formal banking services. Lack of accessible, affordable and appropriate financial services has always been a global problem. Therefore, the significance of an inclusive financial system is widely accepted not only in India

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