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## INCLUSIVE GROWTH IN RURAL AREAS THROUGH FINANCIAL INSTITUTIONS

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Inclusiveness is a concept that encompasses equity. It refers to a situation which ensures that economic opportunities are available to all people. According to Ifzo Ali and Hyun Habason (2007), inclusive growth is a growth that not only creates new economic opportunities but also one that ensures equal access to the opportunities created for all segments of the society particularly for poor. The Eleventh five year plan envisages inclusive growth as a key objective and defines inclusive growth as a growth process which yields broadbased benefits and ensures equality of opportunity for all. To achieve inclusive growth, we must broaden access to economic opportunities and built the resilience of most vulnerable against economic shocks.

Inclusiveness is benchmarked against achievement of monitorable targets related to income and poverty, education, health, women and children, infrastructure and environment. Of these components, poverty reduction is the main essential component. As a result of growth, new opportunities are created throughout the economy, but these are unevenly distributed. In a market driven economy, poor people could not avail all the opportunities available in an economy. A careful analysis of wealth distribution shows that opportunities are not shared equally among the poor and non poor. India claims 4<sup>th</sup> rank in the number of billionaires after the US, Russia and Germany and ahead of China, UK, Japan and France. The wealth of 35 billionaires exceeds that of 800 million poor people who are mainly peasants, rural population and slum workers.

Achieving inclusive growth is the biggest challenge in rural areas. According to Prime Minister, Sri Manmohan singh, the key component of the inclusive growth strategy included a sharp increase in investment in rural areas, and spurt in credit for farmers, increase in public spending on education and health care. In a democratic country like India, bringing 600 million people living in rural India into the mainstream is the biggest concern.

Financial institutions play a significant role in poverty reduction and thereby achieving inclusive growth. Financial inclusion emphasizes access of a host of financial services, which include savings, loans, insurance, credit, etc that are supposed to help the poor people out of poverty and financial exclusion acts as fundamental source of poverty.

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Poverty hit people who are highly concentrated in rural areas with limited access to financial services. According to recent World Bank estimates, India had 456 million people or about 42 percent of population living below the new international poverty line of 1.25 US dollar per day. The number of Indian poor contributes 33 percent of the global poor, which is pegged at 1.4 billion people. If the measurement of the international poverty line is slightly increased from the 1.25 US dollar a day to 2.00 US dollar a day then the scenario is even further disheartening. Based on that measurement, India had 828 million people, or 75.6 percent of the population living below the poverty line surpassing the Sub-Saharan Africa, which is considered as the world's poorest region with 72.2 percent people without 2 US dollars a day. This clearly demonstrates the mammoth inequality prevailing in India even after the inclusive growth policy commitment by the Government of India in various Five year plans.

In this context, a research study on **“Inclusive growth in rural areas through financial institutions”** was undertaken with the following objectives

- To analyse the extent of rural poverty in different states of India,
- To find out the number of bank accounts, number of rural offices of scheduled commercial banks and distribution of credit in rural areas,
- To find out the inequality in the extent of rural poverty, number of bank accounts, number of branches and distribution of credit, and
- To find out the impact of financial institutions on poverty reduction and thereby achieving inclusive growth in rural areas.

#### **METHODOLOGY**

The required data for the study – number of people below poverty line, number of bank accounts, number of rural offices of scheduled commercial banks and credit provided were compiled from Branch Banking Statistics, Statistical tables relating to banks, Hand book of Indian Economy published by Reserve Bank of India and Economic Survey published by Government of India. The study was related to the periods-1999-2000 and 2004-2005. The study formulated the following hypothesis

- (i) There is no inequality in poverty and the distribution of agricultural credit among various states of India, and
- (ii) There is no significant impact of financial institutions on poverty reduction and thereby achieving inclusive growth.

### Quantitative tools applied

#### i. Theil's inequality index:

The current study calculated Theil's inequality index to find out the extent of inequality in the number of people below poverty line, number of bank accounts, number of offices and amount of credit sanctioned in the selected states. The value of the index varies from 0 to 1. The formula used was

$$\text{Theil's inequality index} = \frac{\log N}{N} - \sum \left[ \frac{x_i}{N} \left( \frac{\log 1/x_i}{N} \right) \right]$$

Where  $x_i = \frac{X_i}{\sum X_i}$  and  $N =$  number of observations.

#### ii Logit regression analysis:

When the dependent variable is dummy, the ordinary regression analysis would give only a biased result. Hence the logit regression analysis was employed in the present study, to identify the determinants of decline in rural poverty and thereby achieving inclusive growth. The form of the logit regression analysis employed in the study was

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

$X_1 =$  State-wise number of offices (Rs in crores)

$X_2 =$  State-wise amount of agricultural credit distributed

$X_3 =$  State-wise food grains production (Rs in million tons)

$X_4 =$  State-wise number of bank accounts

$Y =$  Achievement of inclusive growth through poverty reduction

(0- if there is increase in poverty)

(1- if there is decline in poverty)

## FINDINGS OF THE STUDY

### A. State-Wise Analysis of Poverty:

Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes are being implemented at present. The ongoing reforms attach great importance to removal of poverty and addressing specifically the wide variations across states. Table I presents the number of people below poverty line in different states.

**TABLE I**  
**STATE - WISE NUMBER OF PEOPLE BELOW POVERTY LINE – 1999-2000 AND 2004-2005**

STATES	1999-2000 (No. of persons in Lakhs)	2004-05 (No. of persons in Lakhs) **	Change between 2004-05 and 1999-2000
Andhra Pradesh	58.13	64.70	+6.57
Assam	92.17	54.50	-37.67
Bihar	376.51	336.72	-39.79
Gujarat	39.08	63.49	+24.41
Haryana	11.94	21.49	+9.55
Himachal Pradesh	4.84	6.14	-1.3
Karnataka	59.91	75.05	+15.14
Kerala	20.97	32.43	+11.46
Madhya Pradesh	217.32	175.65	+41.67
Maharashtra	125.12	171.13	+46.01
Orissa	143.69	151.75	+8.06
Punjab	10.20	15.12	+4.92
Rajasthan	55.06	87.38	+32.32
Tamil Nadu	80.51	76.50	-4.01
Uttar Pradesh	412.01	473.00	+60.99
West Bengal	180.11	173.22	-6.89
All India	1932.43	2209.24	+276.81

Source: Report of the planning commission

\* Based on 30 days recall method

\*\* Based on URP consumption

Table I makes it evident that in the reference period the number of people below poverty line had declined in the states of Assam, Bihar, Himachal Pradesh, Tamil Nadu and West Bengal. Hence, the inclusive growth had been achieved in these states. However in other states, there had been increase in the number of people below poverty line. As such, these states were not able to achieve inclusive growth.

#### **B. State-Wise Analysis of Financial Institutions in Terms Of Number of Bank Accounts, Offices and the Amount of Rural Credit**

The current study concerns with the drive towards financial institutions and the changes in poverty level across different states in India. As such it tries to analyse the role of financial institutions in reducing poverty and thereby achieving inclusive growth. Table II represents the number of bank accounts, number of offices and amount of rural credit provided by the financial institutions in different states of India for 1999-2000 and 2004-05.

**TABLE 2**  
**THE NUMBER OF BANK ACCOUNTS, NUMBER OF OFFICES AND AMOUNT OF RURAL CREDIT PROVIDED BY THE FINANCIAL INSTITUTIONS IN DIFFERENT STATES OF INDIA FOR 1999-2000 AND 2004-05**

State	Number of offices			Number of accounts			Amount of rural credit provided (Rs. in crore)		
	1999-00	2004-05	Change between 2004-05 and 1999-2000	1999-00	2004-05	Change between 2004-05 and 1999-2000	1999-00	2004-05	change between 2004-05 and 1999-2000
Andhra Pradesh	2446	2404	-42	2831185	4210031	1378846	5671	15249	9578
Assam	819	789	-30	119137	127279	8142	314	456	142
Bihar	3507	2482	-1025	926333	681005	-245328	1279	2679	1400
Gujarat	1553	1517	-36	736425	794362	57937	2455	6027	3572
Haryana	697	704	7	311311	478639	167328	1585	4741	3156
Himachal Pradesh	657	666	9	92300	149057	56757	167	711	544
Karnataka	2220	2174	-46	1210157	1501801	291644	4367	12194	7827
Kerala	347	347	0	961348	1263976	302628	1936	4989	3053
Madhya Pradesh	2686	1873	-813	715497	814296	98799	2881	6771	3890
Maharashtra	2320	2213	-107	1202452	1271384	68932	8620	14410	5790
Orissa	2219	1600	-619	686647	542489	-144158	783	1654	871
Punjab	1120	1131	11	548883	726949	178066	3170	8599	5429
Rajasthan	1905	1836	-69	605426	956026	350600	2261	6556	4295
Tamil Nadu	1836	1720	-116	2905030	3712775	807745	4978	13189	8211
Uttar Pradesh	5417	4856	-561	1748559	2665207	916648	4048	11420	7372
West Bengal	2280	2272	-8	739518	801639	62121	2345	7019	4674
All India	32798	32115	-683	16588480	21642205	5053725	49434	130775	81431

Source: Statistical tables relating to banks in India, 2000 and 2005.

Between 1999-2000 and 2004-05 at the All India level the number of offices declined from 32798 to 32115. In the states of Haryana, Himachal Pradesh and Punjab the number of offices increased marginally. However, in all other states there had been a decline in the number of offices in the reference period.

The basic objective of financial inclusion is to reach poor and disadvantaged section of population. According to the latest NSSO data, almost half of the farmer households do not have access to credit, either from institutional or non-institutional sources. Organized bank branches specially the nationalized commercial banks covered only 27 percent of total farm households. From table II it is evident that there had been an increase in the number of accounts from 16588480 in 1999-2000 to 21642205 in 2004-2005. The number of accounts depicted the positive change in all the states except Bihar and Orissa.

The amount of rural credit had increased from Rs.49434 crores in 1999-2000 to Rs.130775 crores in 2004-2005 at the all India level. A careful perusal of table II

indicates that there had been increase in the amount of rural credit provided in all the selected states.

**C. Analysis of Inequality among the Selected States in the Prevalence of Poverty, Number of Offices, Number of Accounts and Rural Credit Provided**

The current study tries to analyse the extent of inequality in the prevalence of poverty, number of offices, number of accounts and rural credit provided by using Theils inequality index. Table-III represents the estimated Theils inequality index for the selected variables.

**TABLE 3**  
**THEILS INEQUALITY INDEX IN THE PREVALENCE OF POVERTY, NUMBER OF OFFICES, NUMBER OF ACCOUNTS AND THE RURAL CREDIT PROVIDED**

S.NO	ITEM	Inequality Index 1999-2000	Inequality Index 2004-2005
1.	Number of people below poverty line	0.5228	0.4722
2.	Number of offices	0.2364	0.2159
3.	Number of accounts	0.3425	0.4049
4.	Rural credit provided	0.3245	0.2928

In 1999-2000 to 2004-2005, the extent of inequality in number of offices and rural credit provided and the number of people below poverty line had depicted a decline. But the level of inequality in the number of accounts had increased from 0.3425 in 1999-2000 to 0.4049 in 2004-2005.

**D. Identification of the impact of financial institution on poverty reduction and there by achieving inclusive growth.**

An attempt was made to analyse the role of rural institutional credit on the inclusive growth and through poverty reduction. To analyse the same, the logit regression analysis was employed. The results of the estimated equation are shown in Table IV

**TABLE 4**  
**ESTIMATED LOGIT REGRESSION COEFFICIENTS OF INCLUSIVE GROWTH EQUATION**

Variables	Logit Regression coefficients	t value
Constant	-419.6542	-52.177 *
Number of offices	.71339	53.601 *
Agricultural credit distributed	0.2438	30.162*
Food grains production	0.2415	39.599*
Number of bank accounts	-0.1372	-34.048*

\* Significance at one percent level.

The results shows that the number of bank offices opened in the rural areas, agricultural credit provided, food grains production and the number of agricultural credit accounts in various states were statistically significant to determine the inclusive growth in the rural areas. Among the selected variables, the number of offices, agricultural credit availed and food grains production were positively related with the inclusive growth. The increase in the above variables would cause to achieve in the inclusive growth. But the increase in the agricultural credit accounts would reduce the inclusive growth due to the fact that the additional agricultural loan accounts had been concentrated in only some states. The overall estimated model was statistically significant and hence better fit of the model. It could be identified from the significant chi- square value.

#### **CONCLUSION**

- ❖ Financial institutions have a vital role in alleviating rural poverty;
- ❖ Inclusive growth in rural areas can be achieved by equal access to credit by all categories of people and
- ❖ There is need for proper monitoring of credit provided by financial institutions.

#### **ECOMMENDATIONS**

- ❖ There is need for propagating financial inclusion through advertisement and the related strategies;
- ❖ The rural people in all States need to be motivated to open the bank account and
- ❖ Branch expansion in the backward states will help poor people to get acquainted with financial institutions and avail credit facilities.

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