RESEARCH ARTICLE

The Access of Dalit Borrowers in India's Rural Areas to Bank Credit

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Abstract: This article examines the access that Dalit borrowers have to bank credit in rural India in the period of financial liberalisation. Following bank nationalisation, an important component of bank policy was the direction of credit to deprived sections of the population. However, with the introduction of policies of financial liberalisation in the 1990s, the banking system was deregulated in order to improve its profitability. Although directed lending targets per se were kept unchanged, the definition of "priority sectors" to which credit was to be directed was changed, thus weakening, in certain ways, the link between priority sectors and socially and economically deprived sections of the population. After 2005, the declared objective of banking policy has been to extend banking services to deprived sections through "financial inclusion," but without compromising on profitability or the objectives of financial liberalisation. The analysis here shows that Dalits, particularly Dalits from rural areas, have been marginalised by the banking system in the period of financial liberalisation despite the emphasis on financial inclusion. From the supply side, this article shows the persistent failure of the banking system in the 1990s and 2000s to meet the targets set for deprived sections. It also shows a continued fall in the proportion of bank credit given to Dalits through Small Borrowal Accounts – accounts that broadly reflect the credit given to poor households, which have relatively small credit requirements. From the demand side, using data from the All-India Debt and Investment Survey, the article shows a fall in the proportion of formal credit, particularly bank credit, in the debt portfolios of rural Dalits in the 1990s. Disquietingly, the void created by banks was filled by informal sources, particularly moneylenders, who extend credit to the poor at very high rates of interest.

Keywords: Rural credit, Dalits, financial liberalisation, financial inclusion.

Introduction

Financial liberalisation has brought about a striking shift in banking policy in India and has led to changes in the regional and sectoral pattern of banking in the country. There has been (a) a large-scale closure of commercial bank branches in rural areas; (b) a widening of inter-State inequality in credit provision, accompanied by a fall in the

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proportion of bank credit directed towards rural areas as well as regions where banking has historically been underdeveloped; (c) a sharp fall in the growth of credit flow to agriculture followed by a revival in the 2000s, but with a changed pattern of distribution of agricultural credit in favour of urban-based borrowers and corporate and institutional groups; (d) the relative exclusion of the disadvantaged and dispossessed sections of the rural population from the formal financial system; and (e) the strengthening of moneylending in the countryside [see Ramachandran and Swaminathan (2005), Shetty (2004), Chavan (2005), Ramakumar and Chavan (2007), and Chavan (2010)].

These changes are associated with a reversal of the policy of social and development banking, a policy introduced after bank nationalisation in 1969. The policy of social and development banking aimed at expanding the geographical and sectoral reach of the banking system. Further, it also aimed at bringing the deprived sections of the population within the ambit of the banking system. After nationalisation, targets were fixed for opening bank branches in un-banked or under-banked regions. Further, targets were also fixed for lending at regulated rates of interest to priority sectors including agriculture and the "weaker sections," comprising socio-economically backward sections of the population.

By contrast, the approach in the period of financial liberalisation has been to allow for a market-determined and market-oriented mode of operation of the banking system. The focus of policy has been on increasing the efficiency, narrowly defined, and profitability of the domestic banking sector in order to enable it to compete with the rapidly expanding foreign banking network in the country. As a result, interest rates on almost all categories of loans have been deregulated.[1] While the norms applicable to lending to priority sectors have been left untouched, the definitions of various priority sectors, particularly agriculture, have been widened considerably, leading to a dilution of the very notion of the "priority" attached to these sectors.[2]

It is in the period of financial liberalisation that the new term "financial inclusion" has been coined. Financial inclusion may appear similar in name to the policy of social and development banking, but is inherently different with respect to policy essentials. "Financial inclusion" has been defined as the provision of affordable financial services to those who have been left unattended or under-attended by the formal agencies of the financial system *without compromising on commercial and profitability considerations* in order to ensure the "long-term sustainability" of such services (RBI 2008, p. 204).

The recent approach to financial inclusion is more individual-specific than previous policy. It incorporates two main instruments: first, a no-frills basic saving bank deposit

[1] With the application of the base rate system in July 2010, interest rates on all loans, including the Small Borrowal Accounts with a credit limit of Rs. 2 lakh, have been deregulated (RBI 2010a).

[2] See Ramakumar and Chavan (2007) for a series of changes in the definition of "agriculture" in this regard since the second half of the 1990s.

account facility (including a small overdraft facility); and secondly, a collateral-free small borrowal facility under microfinance at market-determined rates of interest (RBI 2006b). Both these instruments have been used rather rigorously by banks in the 2000s, either directly or through intermediaries. Banks' intermediaries mainly include Business Correspondents (BCs) and Micro-Finance Institutions (including non-banking financial companies, trusts, and cooperative societies). Further, there has been a growing emphasis on the introduction of advanced technological solutions by banks and their intermediaries. These solutions include hand-held devices and mobile phones, measures intended to bring down the costs of administering the large numbers of small-volume transactions required under financial inclusion.[3] The RBI also places emphasis on designing market-based regulatory incentives for banks for financial inclusion. The RBI has set targets of providing, by 2012, banking services through a banking outlet to every village with a population of over 2,000.[4]

Data Base

Dalits constitute an important segment of the rural poor in India. The policy of financial inclusion is expected to improve the access that rural Dalit households have to banking services in the period of financial liberalisation. In order to evaluate this claim, I analyse the trends in (a) the debt profile of rural Dalit households and (b) the flow of bank credit to Dalits since the early 1990s.

I use secondary data from the All-India Debt and Investment Surveys (AIDIS) in order to analyse the debt profile of rural Dalit households. The AIDIS provide data on the debt profile of rural households classified into various socio-economic groups, including Dalits. These data are available from the two most recent rounds of the survey, conducted in 1991-92 and 2002-03.[5] Further, I use data from six sample surveys of Small Borrowal Accounts (SBAs) conducted by the RBI from 1993 onwards to examine changes in the supply of commercial bank credit to Dalits. These are sample surveys, and were conducted in 1993, 1997, 2001, 2004, 2006, and 2008.[6]

[3] See RBI (2010b).
[4] See RBI (2009 and 2010a).
[5] Data from the AIDIS need to be treated with some degree of caution on account of the reduced sample size of villages and households across various rounds of this survey. The 1972 round was based on a Central sample (canvassed by the NSSO field staff), the State sample (canvassed by State field staff) and a matching RBI sample. The 1982 round was based on pooled data from the Central and State samples as RBI did not offer a matching sample. However, both the 1992 and 2002 rounds were based on only the Central sample. As a result, the number of villages and households surveyed was much smaller in these two rounds than the earlier rounds. The reduced sample size is expected to have some impact on the quality and reliability of the AIDIS estimates; see observations made by the Report of the Committee on Informal Financial Sector Statistics at http://www.iibf.org.in/uploads/Committee_Report_Informal_Sector.doc. The Committee submitted its Report to the RBI in 2001, which became a part of the Report of the National Statistical Commission.
[6] Data on Small Borrowal Accounts (SBAs) are also collected every year as part of the Basic Statistical Returns and published under the annual RBI publication of Basic Statistical Returns of Scheduled Commercial Banks in India (BSR). However, the BSR publication does not provide break up of SBAs across socio-economic groups of Dalits and Adivasis.

Debt Profile of Rural Dalit Households

According to the AIDIS, in 2002, more than half of the total debt outstanding of Dalit households in rural India was from informal sources (Table 1). The share of formal sources in the total debt of Dalit households was only 44.8 per cent, much lower than the corresponding share (59 per cent) for non-Dalit households. Among formal sources, the largest share of debt of Dalit households was owed to commercial banks, followed by cooperatives. Among informal sources, professional moneylenders were the single most important source of debt for these households.

An inter-round comparison of the AIDIS data from 1962 onwards shows that, with regard to the share of formal sources in the total debt of all rural households, there was a distinct break in the overall trend after 1992. The share of formal sources, commercial banks in particular, rose steadily between 1962 and 1992, and then fell between 1992 and 2002 (Table 2). The rise in the share of formal sources was particularly striking between 1972 and 1982, the period following the establishment of the policy of social and development banking.[7]

Separate data on Dalit households are not available from the AIDIS rounds before 1992. Nevertheless, the data do indicate that Dalit households in rural areas gained new and often unprecedented access to formal sector credit. The Integrated Rural Development Programme, which "channelled funds on a hitherto unprecedented scale for creating supplementary incomes amongst the relatively poor in rural areas all over India" (Guhan 1986) – was the most important means of such access.[8]

Between 1992 and 2002, as was the case with all rural households, the share of formal sources in the total debt of rural Dalit households declined. However, the decline for Dalit households was greater than for non-Dalit households (Table 1). Debt from formal sources as a percentage of the total debt came down by about 16 percentage points between 1992 and 2002 for Dalit households as compared to five percentage

[7] The results from the 1982 round of the AIDIS have been questioned by many studies on account of a sharp reduction in the village and household sample size by the NSSO during this round compared with the 1972 round (Narayana 1988, Prabhu *et al.*, 1988, Gothoskar 1988, and Bell 1990). Most of these studies have noted the possibility of an underestimation of indebtedness, particularly the incidence of indebtedness, in the 1982 round. However, there is no clear consensus about whether the 1982 round also underestimated the relative share of formal sources; see findings by Bell (1990) about an underestimation of the share of informal sources and an overestimation of the share of formal sources by the AIDIS. Also see findings by Gothoskar (1988) about an underestimation of the amount of debt owed to formal sources.

[8] For a discussion of the general expansion of bank credit in rural areas in the 1970s and 1980s after the adoption of the model of social and development banking, see Chavan (2005). An assessment of IRDP in the 1980s showed that of the total families assisted by this scheme across the country, 92 per cent belonged to Dalit and Adivasi groups (Basu, 2003). Further, evidence from village surveys conducted across the country in the 1980s made similar observations (see Swaminathan 1990 on West Bengal, Dreze 1990 on Gujarat and Mahajan 1991 on Punjab, cited in Mishra and Nayak 2004).

Table 1 *Distribution of outstanding debt of rural Dalit and non-Dalit/Adivasi households by source of credit, 1992 and 2002, India* in per cent

Type of source	Dalit households		Non-Dalit households		Non-Dalit and Non-Adivasi households		All households	
	1992	2002	1992	2002	1992	2002	1992	2002
All formal sources	**61.1**	**44.8**	**64.6**	**59.0**	**64.6**	**58.5**	**64.0**	**57.1**
Government	9.2	2.9	5.6	2.2	5.5	2.1	6.1	2.3
Cooperatives	15.0	18.3	22.9	28.8	23.3	28.7	21.6	27.3
Commercial banks	34.6	21.6	33.6	25.0	33.3	24.5	33.7	24.5
Insurance companies	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Provident funds	1.1	0.2	0.7	0.3	0.7	0.2	0.7	0.3
Other formal sources	1.0	1.7	1.7	2.4	1.6	2.5	1.6	2.4
All informal sources	**36.6**	**55.2**	**31.9**	**41.0**	**31.8**	**41.5**	**32.7**	**42.9**
Landlords	8.5	2.3	3.1	0.7	3.1	0.8	4.0	1.0
Agriculturist moneylenders	8.0	15.1	6.8	9.2	6.8	9.2	7.1	10.0
Professional moneylenders	10.4	27.6	10.5	18.4	10.5	18.8	10.5	19.6
Traders	2.4	1.4	2.5	2.8	2.5	2.8	2.5	2.6
Relatives and friends	3.7	6.4	5.8	7.2	6.0	7.3	5.5	7.1
Doctors, lawyers and other professionals	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.3
Other informal sources	3.3	2.1	2.9	2.4	2.6	2.4	3.0	2.3
Sources not specified	**2.3**	-	**3.5**	-	**3.6**	-	**3.3**	**0.0**
All sources	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: NSSO (1998 and 2006).

Table 2 *Distribution of outstanding debt of all rural households by source of credit, 1962-2002, India* in per cent

Type of source	1962	1972	1982	1992	2002
All formal sources	**16.9**	**29.1**	**55.6**	**64.0**	**57.1**
Government	2.3	6.7	4.1	6.1	2.3
Cooperatives	13.9	20.1	25.7	21.6	27.3
Commercial banks	0.7	2.2	25.2	33.7	24.5
Insurance companies	-	0.1	-	0.3	0.3
Provident funds	-	0.1	-	0.7	0.3
Other formal sources	-	-	0.6	1.6	2.4
All informal sources	**83.1**	**70.9**	**44.4**	**32.7**	**42.9**
Landlords	0.7	8.6	4.8	4.0	1.0
Agriculturist moneylenders	33.9	23.1	23.6*	7.1	10.0
Professional moneylenders	12.7	13.8	-	10.5	19.6
Traders	10.1	8.7	-	2.5	2.6
Relatives and friends	8.8	13.8	10.0	5.5	7.1
Doctors, lawyers and other professionals	-	-	-	0.2	0.3
Other informal sources	17.0	2.8	6.0	3.0	2.3
Sources not specified	-	-	-	**3.3**	-
All sources	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: *Figure pertains to debt from agriculturist and professional moneylenders and traders together.
Source: RBI (1965, 1975, and 1989) and NSSO (1998 and 2006).

points for non-Dalit households.[9] Thus, in the 1990s, Dalits suffered more than others from the cutbacks in formal credit to rural areas.

AIDIS data also show that, between 1992 and 2002, the number of Dalit households reporting at least one outstanding loan from formal sources fell by about five percentage points. The corresponding fall for non-Dalit households was only about one percentage point (Table 3).

As outstanding debt is a stock variable, it misses out on loans that are taken during the survey year and settled prior to the date of survey. Hence, it is also important to look at the incidence of fresh loans taken during the survey year. The percentage of Dalit households that reported at least one fresh loan from the formal sector during the survey year was 4.7 per cent in 2002-03 as compared to 7.6 per cent in 1991-92 (Table 4). At the same time, there was a rise between 1991-92 and 2002-03, by about four percentage points, in the number of Dalit households that reported at least one new borrowing from informal sources.

[9] Even if the share of debt taken from non-specified sources was entirely added to the debt from formal sources, the fall in the share of formal sources for non-Dalit households was still much smaller than the corresponding figure for Dalit households.

Table 3 *Percentage of rural Dalit and non-Dalit/Adivasi households reporting at least one loan outstanding from formal and/or informal sources, India, 1992 and 2002*

Type of source	Dalit		Non-Dalit and Non-Adivasi		All	
	1992	2002	1992	2002	1992	2002
Formal sources	17.1	11.9	15.8	14.3	15.6	13.4
Commercial banks	*9.1*	*5.9*	*7.3*	*5.8*	*7.5*	*5.7*
Informal sources	11.2	17.0	9.9	16.1	9.8	15.5
Professional moneylenders	*3.2*	*7.7*	*3.3*	*7.1*	*3.1*	*6.9*
Any source	25.9	27.1	23.6	27.6	23.4	26.5

Source: NSSO (1998 and 2006).

The fall in the share of debt from formal sources among Dalit households between 1992 and 2002 was attributable to a sharp fall in debt outstanding to commercial banks rather than from other formal sources. Of the total reduction of about 16 percentage points in the share of debt from formal sources between 1992 and 2002, about 13 percentage points were on account of commercial banks (Table 1). In 1992, commercial banks were the largest source of debt for Dalit households; in 2002, they were replaced by professional moneylenders. Between 1992 and 2002, the share of rural Dalit households that owed at least one loan to commercial banks fell by about three percentage points (Table 3). During the corresponding period, there was a rise of a little over four percentage points, from 3.2 per cent to 7.7 per cent, in the share of Dalit households that reported at least one loan outstanding from professional moneylenders.

When households were classified by the rates of interest at which they borrowed, it was clear again that informal sources predominated in Dalit debt portfolios (Table 5). Between 1992 and 2002, there was a decline in the share of debt taken at annual interest rates ranging between 6 and 15 per cent and a rise in the share of debt taken at interest rates above 20 per cent. Another disturbing feature was a rise between 1992 and 2002 in the share of total debt taken at compound rates of interest by Dalit households (Table 6). In the same period, the proportion of interest-free debt

Table 4 *Percentage of rural Dalit and non-Dalit and Non-Adivasi households reporting at least one cash borrowing from formal and/or informal sources, India, 1991-92 and 2002-03*

Type of source	Dalit households		Non-Dalit and Non-Adivasi households		All households	
	1991-92	2002-03	1991-92	2002-03	1991-92	2002-03
Formal sources	7.6	4.7	9.5	9.5	8.7	7.9
Informal sources	12.6	16.5	11.8	14.3	11.5	14.1
Any source	19.8	20.5	20.9	22.3	19.9	20.8

Source: NSSO (1998 and 2006).

Table 5 *Outstanding debt of rural Dalit and non-Dalit and non-Adivasi households, by size class of interest rate, 1992 and 2002, India* in per cent

Size class of interest rate (in per cent per annum)	Distribution of outstanding debt of							
	Dalit households		Non-Dalit households		Non-Dalit and Non-Adivasi households		All households	
	1992	2002	1992	2002	1992	2002	1992	2002
Nil	9.3	8.2	8.2	8.5	8.4	8.6	8.4	8.4
Less than 6	7.6	2.1	2.3	2.1	2.3	2.2	3.2	2.1
6 to 10	3.8	3.1	3.0	2.4	3.1	2.2	3.1	2.5
10 to 15	35.9	29.0	40.5	33.7	40.2	33.8	39.8	33.1
15 to 20	10.1	11.3	16.9	22.3	17.5	21.9	15.8	20.8
20 and above	27.8	45.5	23.7	30.6	23.4	31.0	24.4	32.6
Not specified	5.5	0.9	5.2	0.4	5.0	0.3	5.3	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSSO (1998 and 2006).

Table 6 *Outstanding debt of rural Dalit and non-Dalit and non-Adivasi households, by type of interest rate, 1992 and 2002, India* in per cent

Interest rate type	Dalit households		Non-Dalit households		Non-Dalit and Non-Adivasi households		All households	
	1992	2002	1992	2002	1992	2002	1992	2002
Interest-free	9.3	8.2	7.5	8.5	8.4	8.6	8.4	8.4
Simple	65.4	70.7	61.2	68.5	62.2	68.2	62.5	68.8
Compound	15.8	18.5	23.5	21.4	21.9	21.8	21.2	21.0
Concessional	5.9	2.6	4.6	1.7	3.7	1.5	4.2	1.8
Not reported	3.6	-	3.1	-	3.8	-	3.6	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSSO (1998 and 2006).

and debt taken at concessional rates of interest declined. These findings reflect the rise in the percentage of debt taken from informal sources, especially professional moneylenders.

The AIDIS data show that the fall in the share of formal sources in the total debt of rural Dalit households between 1992 and 2002 occurred in every State of India other than Maharashtra and Himachal Pradesh (Table 7). In Maharashtra, the rise in the share of formal sources of debt was mainly on account of cooperatives and not commercial banks.

The AIDIS data indicate that cooperatives were less important as a source of credit than commercial banks for rural Dalits. In 2002, credit cooperatives had a share of

Table 7 *Share of debt from formal sources in total debt of rural Dalit and non-Dalit and non-Adivasi households, State-wise, 1992 and 2002* in per cent

State	Dalit households		Non-Dalit households		Non-Dalit and Non-Adivasi households		All households	
	1992	2002	1992	2002	1992	2002	1992	2002
Andhra Pradesh	36	16	26	29	31	29	31	27
Assam	78	31	61	61	60	60	64	58
Bihar	65	25	74	54	73	53	72	37
Gujarat	96	80	72	66	71	67	74	67
Haryana	55	41	74	52	74	52	72	50
Himachal Pradesh	69	76	56	73	56	73	59	74
Jammu and Kashmir	81	79	75	72	74	72	76	73
Karnataka	73	53	73	68	73	69	73	67
Kerala	84	75	91	82	92	82	91	81
Madhya Pradesh	70	50	71	72	70	69	71	59
Maharashtra	72	90	81	84	81	84	80	85
Manipur	-	-	55	-	57	-	55	-
Meghalaya	-	-	91	-	100	-	91	-
Nagaland	-	-	55	-		-	55	-
Orissa	85	61	72	76	71	73	74	74
Punjab	73	28	81	61	81	61	79	56
Rajasthan	27	24	40	36	40	32	37	34
Tamil Nadu	62	31	56	78	56	78	57	47
Tripura	95	-	88	-	85	-	89	-
Uttar Pradesh	73	47	66	61	65	61	67	56
West Bengal	87	70	80	67	81	67	82	68
India	**61**	**45**	**65**	**59**	**65**	**59**	**64**	**57**

Note: - Not available.
Source: NSSO (1998 and 2006).

18.3 per cent in the total debt of rural households, and commercial banks a share of 21.6 per cent. Nevertheless, there was some increase in the share of cooperatives, from 15 per cent to 18.3 per cent, between 1991-92 and 2002-03, a period in which the share of commercial banks declined significantly, from 34.6 per cent to 21.6 per cent (Table 1).

Supply of Commercial Bank Credit to Dalits

Credit given by commercial banks to Dalits is included in banks' advances to "weaker sections." Domestic commercial banks (public and private sector banks, but not foreign banks) have been required to direct at least 10 per cent of their (adjusted net) bank credit to "weaker sections" as part of priority sector lending. This sub-target for "weaker sections" was introduced by the RBI in 1980 as part of its social

Table 8 *Commercial bank credit to "weaker sections," India, 1991-2010* in 10 million rupees

Year	Public-sector banks	% of net bank credit	Private-sector banks	% of net bank credit	Total	% of net bank credit
	1	2	3	4	5=1+3	6
1991	10260	9.7	246	5.2	10506	9.5
1992	10881	9.7	269	4.5	11150	9.4
1993	11865	8.9	283	4.0	12148	8.7
1994	12779	9.1	300	3.1	13079	8.7
1995	13918	8.2	339	2.5	14257	7.8
1996	15579	8.4	381	2.1	15960	7.8
2001	24899	7.2	959	1.7	25858	6.4
2002	28974	7.3	1142	1.8	30116	6.5
2003	32303	6.7	1223	1.5	33526	5.9
2004	41589	7.4	1495	1.3	43084	6.4
2005	63492	8.8	1913	1.2	65405	7.4
2006	78373	7.7	3909	1.6	82282	6.5
2007	94285	7.2	5229	1.5	99514	6.0
2008	126935	9.3	7228	2.1	134163	7.8
2009	166843	9.9	15844	3.9	182687	8.7
2010	212214	10.2	25691	5.5	237905	9.3

Note: Data are not available for the years between 1997 and 2000.
Sources: Reserve Bank of India *Report on Trend and Progress of Banking in India*, various issues (RBI 1997b).

and development banking policy.[10] Weaker sections were then defined as small and marginal farmers (having land holding of less than 5 acres), landless agricultural labourers, and tenant farmers, in addition to Dalits and Adivasis.

Over the years, new groups have been included as part of the definition of "weaker sections," including members of minority communities engaged in specified occupations. More recently, in the 2000s, loans to Self-Help Groups have also been included as part of credit to "weaker sections." All these new sub-categories have been clubbed together, thus effectively reducing the importance that each of these sub-categories individually deserves as a weaker section.

Despite the fact that the category of weaker sections has been broadened in the recent years, banks have consistently failed to meet the prescribed target of lending (Table 8). At the aggregate level, there has been an upward movement in the share of credit given to weaker sections (that is, of adjusted net bank credit) since 2007 onwards for both public and private sector banks. However, the picture at the aggregate level concealed

[10] The sub-target for agriculture and weaker sections was introduced based on the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr. K. S. Krishnaswamy) in 1980; see master circular "RBI/2010-11/80 RPCD. CO. Plan. BC. 10 /04.09.01/ 2010-11" dated July 1, 2010 for a history of the priority sector credit.

Table 9 *Distribution of number of accounts and amount outstanding under Small Borrowal Accounts held with bank offices, by population group, India, 2008* in per cent

Population group	No. of accounts	Amount outstanding
Rural	33.1	31.5
Semi-urban	22.9	26.5
Urban	11.8	17.1
Metropolitan	32.6	25.3

Source: RBI (2011).

the disturbing trends at the disaggregated level. First, at the bank group-level, the performance of private sector banks has been poor when compared with public sector banks. The credit allocation to weaker sections by private sector banks has been far lower than the prescribed target. Secondly, at the bank level, the performance has been even poorer. In every year between 2006 and 2009, about 40-70 per cent of public sector banks failed to meet the target. Further, over 80 per cent of the private sector banks failed to meet the target in each of these years. In fact, in 2006-07 and 2007-08, no private sector bank met the target. Even in 2010, when the percentage of credit given to weaker sections at the aggregate level was at its highest level since 1993, 15 out of 22 private sector banks (68 per cent) and 8 out of 27 public sector banks (30 per cent) failed individually to meet the target for lending to weaker sections (RBI 2010a).[11]

An analysis of the Small Borrowal Accounts (SBAs) shows even more disturbing trends as regards the access of Dalits to bank credit in recent years. SBAs are accounts with an individual credit limit of up to Rs 2 lakh (the limit was Rs 25,000 till 1998). In 2008, about 56 per cent of the total SBAs were held with rural and semi-urban branches of commercial banks and about 37 per cent of these accounts were for direct finance under agriculture and allied activities (Table 9). Thus, credit flow through SBAs forms an important part of credit flow to rural areas.

The survey of SBAs has shown a sharp fall in the percentage share held by Dalits in the total number of small borrowal accounts as well as in the total amount of bank credit outstanding between 1993 and 2008. In 2008, both these shares were only about one-sixth of their corresponding shares in 1993 (Table 10).

On an average, there were only 16 small borrowal accounts per 1,000 Dalits in the population in 2008 as compared to 77 in 1993 (Table 11).[12] Further, credit per capita

[11] For details about the years between 2006 and 2009, see *Report on Trend and Progress of Banking in India*, various issues.

[12] Between 1993 and 1997, there was a sharp decline in the *total* number of SBAs per 1000 persons. According to Shetty (2004), this speaks of the increasing "bias" of commercial banks against small size borrowers in general in the 1990s. However, the surveys following 2001 showed an increasing trend in the *total* number of SBAs per 1000 persons. It may be noted that as the cut off limit for SBAs was changed in 1999, the figures for 1993 and 1997 are not strictly comparable with those from 2001 onwards.

Table 10 *Percentage share in the number of small borrowal accounts, amount outstanding, and population of Dalits and non-Dalits, India 1993-2008*

Caste category	Population		Accounts						Amount					
	1991	2001	1993	1997	2001	2004	2006	2008	1993	1997	2001	2004	2006	2008
1 Dalit	16.5	16.2	18.0	17.8	12.2	6.7	5.4	3.3	12.4	12.7	7.1	4.6	3.9	2.4
2 Non-Dalit	83.5	83.8	80.9	81.6	86.8	91.1	94.0	96.7	86.7	86.7	91.6	92.6	96.2	97.6
3 Non-Dalit and Non-Adivasi	75.4	75.6	71.3	72.7	80.7	87.4	91.0	95.0	81.5	80.1	87.8	90.0	94.1	96.4
4 Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Small borrowal accounts are accounts with an individual credit limit of up to Rs 2 lakh after 1999, and Rs 25,000 before that.
Source: RBI (1993, 1997a, 2004, 2006a, and 2008), http://www.indiastat.com for the population data.

Table 11 *Amount of credit per capita and number of Small Borrowal Accounts per 1000 persons, for Dalit and non-Dalit and non-Adivasi populations, India, 1993 to 2008*

Caste category	Amount of credit per capita (Rupees)						Number of Small Borrowal Accounts per 1000 persons					
	1993	1997	2001	2004	2006	2008	1993	1997	2001	2004	2006	2008
Dalit	768	316	439	365	414	295	77	46	37	23	22	16
Non-Dalit	1055	419	1094	1407	1949	2284	68	41	51	60	75	89
Ratio of Non-Dalit to Dalit	*1.4*	*1.3*	*2.5*	*3.9*	*4.7*	*7.7*	-	-	-	-	-	-
Non-Dalit and Non-Adivasi	1098	429	1162	1517	2115	2503	67	41	52	64	80	97
Ratio of Non-Dalit and Non-Adivasi to Dalit	*1.4*	*1.4*	*2.6*	*4.2*	*5.1*	*8.5*	-	-	-	-	-	-
All	1017	402	1001	1240	1701	1967	70	42	49	54	66	78

Note: 1. Figures of credit per capita have been deflated using GDP deflator at the base of 1999-2000.
2. The population for each year is worked out applying an exponential rate of growth of population between 1991 and 2001 for each of the categories.
Source: RBI (1993, 1997a, 2004, 2006a, 2008, and 2011), Population Census of India (1991 and 2001), and RBI, *Handbook of Statistics on Indian Economy* (2006).

Table 12 *Average amount of credit received by a Dalit female borrower for every 100 Rupees received by a non-Dalit/Adivasi borrower, India, 1997-2008* in rupees

Variable	1997	2001	2004	2006	2008
Average amount of credit to a Dalit female borrower per 100 rupees of credit to a female non-Dalit and non-Adivasi borrower	23	12	8	6.40	4.00
Average amount of credit to a Dalit female borrower per 100 rupees of credit to a male non-Dalit and non-Adivasi borrower	5	1	1	0.98	0.46

Source: RBI (1993, 1997a, 2004, 2006a, 2008, and 2011).

(adjusted for price change) for Dalits fluctuated around a declining trend across the survey years, recording a particularly sharp fall between 2006 and 2008.[13] The amount of credit per capita for non-Dalits was nearly *seven times* the credit received by Dalits through SBAs in 2008. The gap between credit per capita for Dalits and non-Dalits widened substantially between 1993 and 2008.

Caste differences were aggravated by gender differences. In 2008, Dalit women, on an average, received only about Rs. 4 of bank credit per SBA for every Rs. 100 received by non-Dalit and non-Adivasi women (Table 12). In 2008, Dalit women obtained less than one rupee of credit per SBA for every Rs. 100 received by non-Dalit and non-Adivasi men. Further, the average amount of credit per account going to Dalit women vis-à-vis women and men from non-Dalit/Adivasi categories was on a rapid decline between 1997 and 2008.

Concluding Observations

According to the All-India Debt and Investment Survey, for Dalit households, commercial banks were the most important source of credit in 1992. There was, however, a sharp fall in the share of debt from commercial banks between 1992 and 2002. The vacuum thus created was filled in by professional moneylenders. While professional moneylenders did emerge in 2002 as an important source of credit for other rural households as well, their hold over Dalit households was much stronger. The expansion of informal debt meant an increased and onerous interest burden on rural Dalit households.

Data from the supply side indicated a continued failure by domestic banks to meet the targets set for credit to "weaker sections" since the early 1990s. In the 1990s and

[13] As the cut off limit for SBAs was changed in 1999, the figures for 1993 and 1997 are not strictly comparable with those from 2001 onwards. Nevertheless, a fall in the number of accounts and amount of credit through SBAs for Dalits is evident from a comparison of 1993 survey with 1997 survey, and of 2001 survey with the subsequent surveys.

2000s, the proportion of commercial bank credit to Dalits through Small Borrowal Accounts also recorded a sharp fall.

To conclude, available secondary data show an increasing *exclusion* of rural Dalits from the early 1990s with respect to access to affordable formal sector credit. This also explains the growing grip of informal sources on their debt portfolio in recent years. Hence, similar to the imbalance in credit flow emerging at the sectoral and regional levels, credit allocation across socio-economic groups too has become increasingly unequal in the period of financial liberalisation notwithstanding the emphasis on financial inclusion.

The exclusion of the disadvantaged and dispossessed sections is intrinsic to the functioning of markets.[14] There is, therefore, an inherent conflict between allowing the banking system to be driven by market forces and expecting greater inclusion from the system. The growing exclusion of rural Dalits from formal credit is a sign of this conflict. It underlines the need to revive the policy of social and development banking, with a stronger commitment than before to the objective of social redistribution.

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[14] The disadvantage and dispossession can be in terms of *assets*, *income*, *capabilities* and *values* necessary to participate in markets, see Nayyar (2003). Further, see Thorat (2006) who applies the discussion on social exclusion to financial markets.

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