

## **Determinants of Financial Services to the Households in India: Empirical Evidence from IHDS (2005)**

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*Access to credit is widely accepted as a means to improve the welfare of individuals and households, both in the short, and long-runs. Credit facilitates investment in human and physical capital, thereby helps in achieving growth, globalization and development in the long-run. In short-run, it allows consumption smoothing in the event of an adverse income shock to the households. Keeping the importance of credit, this study evaluates various factors influencing demand for credit, its formal sources and access to insurance to the households in India. The study shows that the demand for credit is strongly influenced by location, sources of income, size of the family, membership of SHGs and other factors. Regional variances identified in the study show the urgent need for policy intervention to emancipate the urban dwellers in regions where demand for and access to credit are lowest.*

### **I Introduction**

Finance is the root of economic growth and credit is its branch. The latter grows vertically, which helps the former to inflate horizontally. In other words, rapid growth of the financial system depends on strong and sound system of credit policy in an economy. Credit is a basic lubricant that helps to provide a push to the development process (Singh 2000). It is the fourth basic pre-requisite after food, clothing and shelter for the development of people. Providing credit to the needy people on right time and at right place leads to speed rural development and poverty alleviation (Pitt and Khandker 1998). In developing countries like India, growth of rural area is imperative as a majority of the population lives in villages. Though the Government of India initiated various poverty alleviation programmes for rural households, not much progress has been witnessed so far. The root cause of the problem of poverty has been the economic dependence and lack of access to credit (Arora 2009). The poor people are deprived of basic financial services because of their inability to save and lack of availability of collaterals (i.e., land or house) required by finance providers, specifically the banking sector.

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