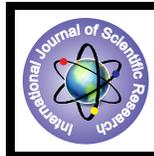


Transforming Rural India Through Financial Dissemination



Commerce

KEYWORDS : Financial inclusion, financial literacy

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ABSTRACT

Financial inclusion is about broadening and deepening of financial services to the deprived and enhancing financial literacy and education among them so that they can make appropriate choices to mobilize their funds in the main stream financial market. Levine (2004) identified that "countries with better functioning banks and financial markets grow faster" A world Bank working paper published in 2012 indicated that 65% of adults in India had no access to bank account. For a country with 127 crores of population this figure is scary. This clearly reveals the lop-sided development of financial sector in India.

The big story of the last decade to be proud of is that India has come out from low growth trap and moving successfully through financial market becoming global, introduction of financial reforms, attracting FII's, but at the same time more than half of the population with no concept of "bank "leads to growth with exclusion, inequality and deprivation. Hence this paper tries to study the growth of financial services developed in rural India in last decades well as the qualitative approach they have adopted to attract rural masses for the use of these services, that is the adaptability of financial services in rural India.

Objectives: To study the growth of Institutional finance in Rural India through primary agriculture credit society (PACS).

To analyze the role of Regional Rural Banks (RRB's) and study the reasons for weakness of RRB's as pointed out by Khusro committee.

To evaluate the role of commercial banks in enhancing rural banking.

To evaluate the role RBI in rural credit and policy initiative in introducing various scheme.

In all the above criteria focused will be on the qualitative approach adopted by banks and Government to reach to customers.

Methodology: To above all objectives will be evaluated through qualitative approach in order to analyze financial inclusion in rural areas.

The change in each will be analyzed through trend $\frac{x_0/x_1 \times 100}{}$ for the years (2001- 2011). The trend for the financial literacy and its impact on increasing banking habits of rural in habitat will be analyzed from the year 2007 as the scheme of the financial literacy was introduced in 2007 by RBI.

1. OUTREACH OF BANKING SERVICES IN RURAL AREA

Nation still has 6,40,867 villages not connected with bank branches leading to financial exclusion ,though financial inclusion is not a new dispensation as in 1969 banks were nationalised with the intention of increasing reach of credit in rural areas ,but it is a failure of system that after 45 years of nationalisation we still are facing the question of financial inclusion and the gravity of problem is high.RBI has been proactive in trying to inject the spirit of financial inclusion in the veins of financial institution . In the year 2005 after the recommendation of Khan committee RBI has prepared the guidelines to ensure faster and greater outreach of banking services to rural areas through Business Facilitators and Business correspondents .Further in September 2013 RBI made efforts to set up a committee named "Comprehensive Financial Services for small business and low income households" under the head of s Mor. this committee came out with ambitious targets of providing financial access to every Indian by the year 2016, a desire to be initiated with Aadhaar linked bank account. Here it will be interesting to evaluate various quantitative and qualitative efforts made by the financial institutions and realised by the people so far.

1.1 ROLE OF PACS IN FINANCIAL INCLUSION

Primary Agriculture co-operative societies are the institution which are facilitating the basic financial needs of rural people . PACS are the grass root level arms of the short term co-operative credit structure which is imperative to reach to small and needy borrowers in rural areas. PACS deals directly with farmers borrowers ,grant short term and medium term loan and also undertake distribution of marketing functions . the PACS have stepped up their advances to the weaker section particularly small and marginal farmers and the deprived sections of society. The table below is exhibiting the membership as well the percentage SC/ST and rural small and Marginal borrowers .

table-1 Region-wise membership of primary agriculture credit societies (PACS) (as at end march,2010)

Region	members per PACS	Per-centage of sc/st members	Percent-age of rural artisans, small and marginal farmers	Bor-rowers per PACS	Per-centage of sc/st bor-rowers	Percent-age of rural and marginal bor-rowers
NORTHERN	862	27.7	72.3	464	16.9	83.1
EASTERN	2130	40.8	59.2	720	27.8	72.2
CENTRAL	665	47.3	52.7	297	38.5	61.5
WESTERN	571	13.3	86.7	147	16.2	83.8
SOUTHERN	3064	18.3	81.7	2215	8.7	91.3
NORTH-EASTERN	1031	35.2	64.8	73	32.2	67.8
ALL-INDIA	1336	26.9	71.1	632	17.1	82.9

Source: RBI, Report on trends and progress on banking of India ,2010-11

the table reveals that members per PACS is 3064 in southern region followed by 2130 in eastern region but it is as low as 571 in western region and unfortunately Gujarat falls in the same .the percentage of SC/ST is highest in central region and the reason for that is the region fall in central India are Chhatisgarh,Madhya Pradesh,uttarakhand are densely populated with tribal and schedule cast population and this is the reason that percentage of SC/ST borrowers are highest in central India followed by north eastern region . as high as 91.3 percent of rural artisans and small and marginal farmers in southern India and 83.8 percentage in western region are the borrowers in PACS. Overall the farmers southern region avail maximum benefit from PACS and central region farmers need to approach more .Now looking to state wise performance of PACS we find that

Table-2 Selected indicators of primary agriculture co-operative societies (PACS) at the end of 31,march,2010

S. NO	STATE	NO OF PACS	DE-POSITES RS CRO RES	BORROW-ING RS CRORES	WORKING CAPITAL RS CRORE
	NORTHERN REGION	12623	2781	11413	20336
1	Chandigarh	16	0.03	0.09	0.23
2	Haryana	628	371	4485	6992
3	Himachal Pradesh	2097	1191	64	1577
4	Jammu and Kashmir	765	1	37	79
5	Punjab	3990	908	4020	5901
6	Rajasthan	5127	310	2806	5787
	NORTH-EAST REGION	3583(L)	72(L)	65(L)	378(L)
7	Arunachal Pradesh	33	-	13	18
8	Assam	766	-	-	111
9	Manipur	204	1	1	4
10	Meghalaya	179	3	13	22
11	Mizoram	245	-	-	6
12	Nagaland	1719	64	9	112
13	Sikkim	169	-	2	4
14	Tripura	268	4	27	100
	EASTERN REGION	20308	3763	4405	10574
15	Andaman Nicobar	46	0.44	3	4
16	Bihar	8463	67	501	493
17	Jharkhand	208	13	3	15
18	Orissa	3565	2382	2332	6153
19	West Bengal	8026	1301	1566	3909
	CENTRAL REGION	15454	1098	4732	7510
20	Chhattisgarh	1213	250	538	995
21	MP	4633	504	2914	4561
22	Uttrakhand	679	276	310	695
23	Uttar Pradesh	8929	68	971	1259
	WESTRRN REGION	29082 (H)	375	13263	18735
24	Goa	79	33	5	58
25	Gujarat	7763	241	3870	5741
26	Maharashtra	21240	100	9388	12937
	SOUTHERN REGION	13597	27198(H)	17885(H)	77658(H)
27	Andhra Pradesh	2721	1153	4790	34278
28	Karnataka	4694	1618	3708	6058
29	Kerala	1608	20907	2781	25952
30	Pondicherry	52	70	33	129
31	Tamil nadu	4522	3450	6574	11241
	ALL-INDIA	94647	35286	51764	135191

Source: RBI, Report on trends and progress on banking of India ,2010-11

The table above shows that western region has highest number of PACS (29082) followed by eastern region 20,308 and north east region has lowest number of PACS which are 3583 in number. In case of deposits mobilisation southern region takes the lead with 27,198 crores followed by eastern region 3763 crores , but

it is to be noticed that there is a wide gap between first and second rank regions in deposit mobilisation . moreover within southern India Kerala showcase the tremendous deposit mobilisation . from this it can be said that literacy rate, human development rate is correlated with availing opportunities from any market. Southern region is again fetching highest loan from PACS followed by western region ,this time Andhra is a top borrower.

1.2 RRB,S AND RURAL CREDIT

The main objective of RRB,S is to provide credit and other facilities to rural farmers , artisans agricultural labourers ,and small entrepreneurs so as to develop agriculture ,trade, commerce ,industry and other productive activities in rural area.Dr A.M Khusro strongly criticized RRB'S and considered them endemic and non viable because RRB's accumulated huge losses and in some cases the losses had eroded the part of their deposits. They had recommended winding up of such insolvent institutes and there is no place of RRB's in the country's rural credit and they should be merged with sponsor banks. Later RBI appointed the M.C.Bhandari committee and share capital of RRB,S were enhanced from 75 lakhs to 1 crores and NABARD was given the task of monitoring productivity, cash management, advance portfolio and recovery performance. Short term measures like freed from service area obligation, allowed to increases on target group financing from 40 to 60 petrcent,permitted to reallocate their loss making branches at market yard ,mandies , allowed to give loan to non priority sector . these policy measures brought significant improvement in the performance of RRB's and the recent performance can be analyzed from the table below

TABLE-3 Purpose-wise outstanding advances by RRB

	purpose	2008	2009	2010	2011
1	agriculture	33216	36466	46282	55067
	percent to total loan	56.3	52.8	55.9	54.9
A	short term loan	22748	24986	33663	40663
B	term loan for agri and allied activities				
C	indirect advances	-	-	-	-
2	non agriculture	25768	32564	36537	45231
	percent to total loan	43.9	41.2	44.1	45.1
A	rural artisans	671	820	810	881
B	other industries	1227	1400	1598	2625
C	retail trade	4531	5015	5234	5082
D	other purpose	19339	25329	28895	36643
	Total	58984	69030	82819	100298
3	memo item				
A	priority sector	48894	57528	68823	82643
B	non priority sector	10090	11502	13956	17655
	share of priority sector	82.9	83.3	83.1	82.4

source: rbi, report on trends and progress on banking of India ,2010-11

RRB,S have registered continuous improvement in the area of providing advances to various sectors agricultural loan in absolute term has shown increase of 33216 crores in 2008 to 55067

crores in 2011. short term crop loan ,loan to allied sector, on agricultural loan has increased . moreover loan to priority as well as non priority sector has augmented.

1.3 COMMERCIAL BANKS AND RURAL CREDIT

Commercial banks were criticized for showing an indifferent attitude towards credit needs of farmers for agricultural operation and land improvement. since October 1980 government has extended IRDP to all development blocks in the country and asked commercial bank to finance IRDP.With the commencement of new RBI guidelines on farm credit like freeing them from interest rate fixation, preparing of individual credit plan , modifying service area approach, offering credit package to farmers etc increased the viability of commercial banks in rural area and made them profitable.

Table-4 Penetration of commercial banks in rural area

number of branches of scheduled commercial bank in last five years	rural area branches semi urban
march 31 ,2009	31,476 19126
march 2010	32493 20855
march 2011	33905 23114
march 2012	36356 25797
march 2013	37953 27219

SOURCE : RBI , handbook of statistics on Indian economy

Commercial banks have increased their branches from 31476 in 2009 to 37953 in 2013. The rate of increase is 20.5 % in rural areas. Similarly there are more branches in semi urban area

2 QUANTITATIVE MEASURES TAKEN FOR FINANCIAL INCLUSION

Government and RBI together has taken several measures to combat the problem of financial exclusion. Various schemes and initiatives have started by RBI to reach to rural population.

PROGRESS OF FIP’S

SR. NO	PARTICULARS	YEAR END MARCH 10	YEAR END MARCH 11	YEAR END MARCH 12	UP TO DEC 12	PROGRESS APRIL 10-DEC12
1	NO OF BRANCHES	85457	91145	99242	103359	17902
2	NO OF RURAL BRANCHES	33433	34811	37471	39127	5694
3	BANKING OUTLETS IN VILLAGES	67694	116208	181753	211234	143540
4	BASIC SAVING ACCOUNT-BSBDA	73.45	104.76	138.50	171.43	97.97
5	OVER-DRAFT FACILITY AVAILED IN BSBDA	0.18	0.61	2.71	3.28	3.10
6	BSBDA THROUGH ICT-BCs	13.26	31.63	57.30	72.41	59.14
7	ICT-BC-TOTAL TRANSACTION NO IN LAKHS	26.52	84.16	141.09	60.48	435.43

SR. NO	PARTICULARS	YEAR END MARCH 10	YEAR END MARCH 11	YEAR END MARCH 12	UP TO DEC 12	PROGRESS APRIL 10-DEC12
8	SMALL LOAN FARM SECTOR	24.31	27.11	30.23	31.73	7.43
9	SMALL LOAN NON FARM SECTOR	1.39	1.70	2.11	3.11	1.73

SOURCE : RBI , handbook of statistics on Indian economy

3 QUALITATIVE MEASURES TAKEN FOR FINANCIAL INCLUSION

Augmenting the numbers of commercial bank branches , RRB’s ,PACS will not give desired result of increasing financial penetration in rural area unless their is reception of the same from the other side . Receptiveness among rural customers can be increased through proper knowledge, understanding of banking services and by providing customize package to them according to their need. One of the foremost step is introduction of service area approach But there were several institutional and operational reasons this could not work .

3.1 SERVICE AREA APPROACH

This approach is focussed to selected district and under this each semi urban and rural branch of commercial bank was assigned a specific area comprises of cluster of villages within which it would operate adopt a planned approach for economic growth . it is also helpful in close monitoring of end use of funds ,and different credit plan for different activities and beneficiaries..Unfortunately this approach could work because banks were never happy with the area allotted, underutilisation of bank staff, banks readiness to confine their lending to high potential area rather than backward and rural area.

3.2 KISAN CREDIT CARD

In 1998-99 a notable development was introduction of Kisan credit card .the purpose of KCC is to facilitate short term credit to farmers. This scheme has gained popularity and its implementation is done by co-operative banks,RRB,s commercial banks .in the year 2010-11,2.81 million credit card were issued by co-op banks similarly 1.78 million and 2.67 million were issued by RRB’s and commercial banks respectively.

3.3 SPECIAL AGRICULTURAL CREDIT PLAN

In the year 1994-95 public sector banks were asked to follow special agricultural credit plan to fix target for agricultural lending for each year. After SACP there has been considerable increase in flow of credit to agriculture from Rs 8255 crores to 57000 crores in 2004-05.

3.4 ICT-BASED –THROUGH BUSINESS CORRESPONDENT

a massive exercise in extension of banking penetration and branch building has been taken up by banks through lead bank scheme channel. In November 2009 banks were advised to draw a roadmap to provide banking services through a banking outlet in every village with a population of more than 2000 population and the target date was march 2012.these banks services not necessarily be provided through brick and mortar branch but through any of the various form of ICT- based models including BC,s . under this 74199 unbanked villages comprising of 2493 branches and 69374 BC,s and 2332 through other modes like mobile van , ATM etc were benefitted. Total number of 11564 ATM are opened up in rural area .

ATM PENETRATION

NO OF ATM IN THE COUNTRY AS ON 31 st MARCH	RURAL AREA	SEMI URBAN AREA
PUBLIC SECTOR BANK	8552	18445
OLD PRIVATE SECTOR BANK	768	2760
NEW PRIVATE SECTOR BANK	2214	6484
FOREIGN BANK	80	21
TOTAL	11564	27710

SOURCE : RBI , handbook of statistics on Indian economy

3.5 SERVICES THROUGH BANKS

As per the announcement in the annual policy statement of 2012-13 State Level Bankers committee were advised by RBI to provide EBT services to villages having population less than 2000. To start with banks were advised to provide door step services to EBT beneficiaries by transferring MGNREGA wages and various cash subsidies to beneficiaries by direct credit to bank accounts, through regular visit to BC, PROVIDE ALL KIND OF banking services like remittances, recurring deposits, entrepreneurial credit in the form of KCC and GCC. Insurance and other banking services to all the residents of villages.

3.5 FINANCIAL LITERACY

Financial inclusion and financial literacy are two sides of equation. On supply side we have all measures taken for financial inclusion and on demand side is financial awareness and receptiveness among the rural masses. The Reserve Bank of India had launched Project financial literacy in March 2007 with a view to create awareness specially among common persons on matter relating to finance and banking. This programme include publication of comic book on banking and RBI, games on financial education arranging school and colleges visit, participation in exhibition, fairs, conducting essay competition and quizzes in school and colleges. RBI has prepared comprehensive Financial literacy material consisting of Financial literacy Guide, Financial Diary a set of 16 Financial literacy posters. The table below shows us the progress of financial literacy centres in recent time.

FLCs PROGRESS

PARTICULARS	JUNE-12	SEP-12	EDC-12	PROGRESS APR-12—DEC12
NO OF FLCs	483	575	656	173
NO OF CAMPS CONDUCTED	5682	7290	15289	28,261
PERSONS EDUCATED IN CAMPS	230808	419143	503272	11,53,223
PERSONS EDUCATED -INDOOR SERVICES	74,525	126367	140119	3,41,011
TOTAL PERSONS EDUCATED BY FLCs	3,05,333	545510	643391	14,94,234

SOURCE : RBI , handbook of statistics on Indian economy

It is shown that more and more persons are educated in camps and large number of camps are conducted.

CONCLUSION For a developing country like India it is imperative to create awareness regarding organised financial services available to them. A package Of REACH, ACCESS, PRODUCT, AWARENESS can generate adequate result of financial inclusion in nation. It is important to enhance both breadth and depth of financial stability in the country. Economic Growth can enhance only when reach to organisational finance is not a far fetched reality for rural population and “BHARAT” stands together with “SHINING INDIA” and ensures “GROWTH WITH EQUITY”.

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