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PERFORMANCE OF RURAL CREDIT SCHEMES: INITIATIVES OF FINANCIAL INCLUSION FOR THE DEVELOPMENT OF RURAL ECONOMY

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Abstract:-In Indian economy agriculture sector plays a vital role and majority of the people depends on agriculture. Developing countries like India 70% of the people are living in rural areas. Rural credit is very important for the development of rural economyand alleviation of poverty by providing credit facility to the poor and weaker section of the society. It is also helpful to meet their needs improving their standard of life and greater access to financial activities. There are many agencies providing rural credit. In India the delivery structure such as Commercial Banks, Regional Rural Banks (RRBs), Co-operative Banks and District Rural Credit Development Agency (DRDA) etc. These Institutions are having more than 1, 53,000 outlets have been serving rural people. One for every outlet is serving 4,100 populations to deliver credit for poverty alleviation. The main objective of this study is to identify the reasons for financial exclusion in rural areas and to estimate the factors influencing informal borrowings of rural households. At present, the main challenges before rural credit institutions are poverty alleviation, flow of rural credit and build-up the strength of co-operatives and regional rural banks.

Keywords: Rural Credit, Agricultural Credit, Financial Inclusion, Financial Exclusion, Economic Development, Regional Rural Banks, Commercial Banks, Self-Help Groups.

INTRODUCTION

For expansion of financial services, access to timely and adequate credit facility required for weaker section of the society at an affordable cost for the overall economic development. In this connection Self Help Groups and Self Help Group Bank Linkage Programme initiated by commercial banks, RRBs and Co-operative banks have emerged as the major micro-finance programme in the country. BarnaMaulick (2012), the micro finance sector report 2010 provides Andhra Pradesh is the first place in Micro-Finance Penetration Index (MPI) and Micro Finance Poverty Penetration Index (MPPI) with the index of 6.35 and 3.64 respectively.

REVIEW OF LITERATURE:

Dr. K. Srinivasa Rao, (2011) focused on institutionalization as a means of providing cheaper credit to farmers, as a result reduced the share of money lenders substantially. The rural agencies are including co-operatives, RRBs and commercial banks have contributed effectiveness of the multi-agency system. Particularly commercial banks are successfully involved in farm credit packages and Self Help Group Bank Linkage Programme has already been promoted on large scale for poverty alleviation and to accomplish inclusive growth. To-day multi-agency institutions are commercial banks, regional rural banks, co-operatives and land development banksare emerged in rural areas for the purpose of formal rural credit delivery mechanism and also fully integrated into the overall rural social and community development expressed by T.V. Ramana, (2011).

Kisan Credit Cards (KCCs) emerged as innovative credit delivery mechanism this mechanism to meet the production requirements in time. It is one of the tool for the rural development. KCCs conceptual framework and its progress analysed by Mr. Vijay Singh Hooda, (2011) in his article said that the success of this scheme required awareness to farmers and also the bank officials to pay the attention and they want to explain the mechanism to the farmers.Dr.Subra Gupta, (2011) also described RRBs have to concentrate on speedy qualitative and secure banking services to retain existing customers and attract potential customers.

Dr. Anurag B. Singh and Priyanka Tendon (2012) discusses the disparity between people by way of financial inclusion with the help of micro finance models for improving economic development of a country. The paper further represents the goal of financial inclusion through policymakers, banks, Micro Financial Institutions, Non-Government Organizations and regularly has to work together. In addition to co-operating with other stakeholders, policy-makers believe that micro finance can help in speeding up financial education programs. This paper is not contributing awareness about financial inclusion in the minds of the rural people.

FINANCIAL INCLUSION:

Kerala, Maharashtra and Karnataka are found in first three places in Index of Financial Inclusion (IFI). United Nations, (2006) says that most of the developing countries have very little access to financial services both formal and Semi-formal. This was nearly 90% of the population is excluded from access to the formal financial system.

HISTORY OF FINANCIAL INCLUSION: The history of financial inclusion was started from 19th century onwards. In 1904 co-operative momentum took place in India. The great momentum gained in financial sector was 1969, 14 major commercial banks were nationalized and lead bank scheme was introduced thereafter. Particularly, the financial inclusion improved a lot during 1960s to 1990s.

According to the 59th round of the all India Debt and Investment survey of the NSSOs highlights extension of credit facility from non-institutional sources increased sharply in 2002 in comparison with 1991. Later, the Reserve Bank of India (RBI) in its Mid-term Review of Monetary policy 2005-06 urged the banks to financial inclusion as one of the prime goal.

STRATEGIES OF FINANCIAL INCLUSION:

1.With diversified products to take up alternative delivery channels for providing financial services to SHGs, MFIs, Co-operative structures.
2.Both the Government and Bankers are to take dedicated approach to achieve 100% financial inclusion through constant monitoring of Financial Inclusion Progress (FIP) and to take initiative for establishment of financial infrastructure and access financial services to one and all.
3.The state government has to take initiatives to stimulate the efficiency of banker and functions of micro finance programme towards SHGs particularly in under developed geographical region.
4.Innovative financial services products will be introduced for the benefit of rural people. It helps to meet their needs like insurance, old age pension and payment requirements of weaker section of the rural people.
5.Development of institutional structures likes to train bank staff as well as MFIs for smooth functioning of credit investment in micro finance sector. And to create friendly environment between banker and customers. Particularly, front office bank staffs are not responding positively towards rural people.

CAUSES FOR FINANCIAL EXCLUSION:

The following important factors have to be influenced for financial exclusion.

(i)Terms and Conditions: Different types of terms and conditions imposed by the banker's causes for financial exclusion. USA, France, Belgium and India strict regulations is imposed on maintaining minimum balance required for an account. Hence, this is one of the cause for finance exclusion.
(ii)Identity Requirements: When opening the bank account the primary requirement is identity proof and witness. People mostly from rural areas do not having driving license or passport they are having ration card and voter identity card, but they are not interest to show it, because the information may be wrong. This problem is rife with the refuse to open the bank account in rural and slum dwellers.
(iii)Psychological and cultural barriers: Rural backward and low income people think transacting through banks is a cumbersome affair and banks may charge high cost. Some time they think banks are charging for their services and penalty for not maintaining minimum balances. Such type of "self-exclusion" is far more important than direct exclusion by banks refusing to opening accounts.
(iv)Bankers' approach: Bankers' attitude towards the rural mass is also not conducive. Any loans has to be offered by the banker to rural people may be converted that loan as Non-Performing Assets. Due to this reason banks are neglecting rural areas in one of the cause for exclusion.

Some other points describe disadvantageous to the financially excluded mass:

(i)Pay higher charges due to money transfer and collection charges for cheque.
(ii)Non-Banking Financial Companies to offer loan and advances at higher interest rates.
(iii)Lack of security in holding and storing money
(iv)and Some other causes

The Reserve Bank of India has permitted and recommended the use of some other channels for promoting financial inclusion to the commercial banks. These are Self Help Groups (SHGs), Micro-Finance Institutions (MFIs), and Regional Rural Banks (RRBs), Non-Commercial Banks such as National Bank for Agricultural and Rural Development (NABARD), Non-Governmental Organizations (NGOs), Joint Liability Groups (JLGs), Co-operative Banks and some other players such as Non-Banking Finance Companies (NBFCs), Insurance Companies, and Mutual Fund Companies are expected to play a positive role for promoting rural credit in India.

AGRICULTURAL CREDIT:

The main objective of commercial banks is to provide credit facility to rural people to meet their agricultural requirements. Banks have been consistently meeting agricultural credit in the past few years. It was increased from Rs.3.75 lakh to Rs.4.75 lakhs between 2011-12 and 2012-13 respectively. For short term crop loans to farmers7% interest collected up to 2011-12. In view of enhanced credit to agriculture, the NABARD was established and raising its paid-up capital from Rs. 3,000 crore to Rs. 5,000 crore. For the development of agricultural sector NABARD has been providing refinance facility to Co-operative credit institution and RRBs at concessional rates.

INSTITUTIONAL CREDIT AND SUSTAINABLE GROWTH:

Across the India expansion of RRBs, co-operative banks and commercial banks have been providing credit for poverty alleviation. In India 32,885 rural and semi-urban branches of commercial banks, 14,303 branches of RRBs and more than one lakh of co-operative banks are engaged for rural credit. For the development of rural and poverty alleviation the Integrated Rural Development Programme was started in 1980, this programme popularly known as IRDP. This programme envisaged to poor people providing loans under self-employment. They are obtaining loans from the banker for the purchase of productive assets and supported with subsidies. Another programme i.e., credit cum subsidy scheme was launched for the benefit of rural households those who are having annual income less than Rs.32,000 per annum. Under this scheme, providing loan facility up to Rs.40, 000 and subsidy up to 10,000/- will be obtaining from commercial banks and co-operative banks. The main objective is providing loan to eligible households for construction houses, the total contribution of loan amount by State and Central Government with the ratio of 25:75.

PERFORMANCE OF RURAL CREDIT SCHEMES:

The rural credit facilities have been providing since independence to the farmers by co-operative banks, commercial banks and RRBsas a result a rapid growth in agricultural credit. Rural credit helps investments in the agricultural sector adding to gross capita in agricultural and allied sector as a proportion to the GDP improved from 2.6% to 3.4% between 2004-05 and 2009-10.

The total credit flow was increased from 2006-10. It was increased at 25% annually during the above said period. Within the banking system disbursed credit to agricultural sector Rs.2,74,963 crore, Rs.57,500 crore and Rs.34,456 crore respectively and it share of 75%, 15% and 10% of the total credit flow during 2009-10commercial banks, co-operative banks and RRBsrespectively.

EVALUATION OF SCHEMES:

Kisan Credit Card Scheme (KCCS):-Kisan Credit Cards Scheme was started by the Government of India after consultation with RBI and NABARD in 1998-99. The main objective is to help farmers' access timely and adequate credit.Kisan credit card is facilitating the access to short term credit for the farmers from the financial institutions to meet their crop production requirements like seeds, fertilizers, and pesticides. A credit card cum pass book include all the details of farmer viz., name and address, particulars of land holdings, borrowing validity period etc. This scheme facilitates to farmers for proving inputs during the cropping season. By the end of 2008 total credit cards issued by cooperative banks 3,48,00,663, RRBs issued 1,00,56,787, and 3,12,16,781 delivered by Commercial Banks. The total numbers of KCCs are 7, 60, 74,231 with the amount of Rs.3, 16,985 crores.

This is innovative policy for the development of rural economy in the recent years. By the end of 2010 around 10 crore KCCs an amount of Rs.4, 27,748 crores were issued. It has to cover all the eligible farmers and creating awareness and giving wider publicity to the farmers about the scheme. For the spread of this scheme there is a need to give proper training to bank staff, preparing special agricultural credit plans with higher component of direct finance with a special thrust on small and marginal farmers should also receive high priority.The success of this scheme depends on less stipulated norms, high agricultural needs, need of working capital etc. Apart from that link-up with input dealers, NGOs, contract farming all are influencing to increase the credit flow to agriculture significantly.

MICRO CREDIT SCHEME:

The concept of micro credit builds on micro savings and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension. This evolutionary growth has been influencing to attain economic, social and cultural empowerment, leading to better living standard of households. A massive expansion of micro credit in India leads to 16 lakh of SHGs with aggregate balance of Rs.62 billion by the end of 2010. Comparatively other schemes non-performing assets of SHGs are very low in 2010 stood at 2.94%. Now, all commercial banks are treating SHGs as their instant source of business and expanding credit at micro level. The Integrated Rural Development Programme (IRDP) was restricted and combined with Training of Rural Youth for Self-Employment (TRYSEM), Supply of Improved Tools for Rural Artisans (SITRA), Ganga KalyanYojana, Million Well Scheme (MWS), and Development of Women and Children in Rural Areas (DWCRA) combined known as Swarnajayanthi Gram SwarojgarYojana (SGSY) was put in place.

Shri Narendra Modi, (2014) launched a programme Jan DhanYojana, a national mission on Financial Inclusion. Under this programme to cover all households in the country will get banking facilities. Accordingly, Chief Minister of Andhra Pradesh, Shri N. Chandra BabuNaidu launched the programme at Rajahmundry, East Godavari District on Thursday i.e., 28th August, 2014 even banks are gearing up to achieve the targets set for opening up of bank accounts.

Under this programme, the State Bank of Hyderabad (SBH), Vijayawada Zone having 139 branches opened 10,000 more accounts that set targets. On 28th August SBH branches are organized special programme distributing 31,400 pass books and rupay ATM cards to the account holders.

NEED FOR THE STUDY:

Banking network has been increasing since 1969 with multiplied ten-fold. In 1969 numbers of branches were 8,000 and it was increased to 80,000 branches till-date. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of population. A number of rural households are still not covered by banks. Particularly, rural marginalized people was dependent on informal sources (such as money lenders and indigenous bankers) met more than 90 per cent of their rural credit needs due to this (Financial Exclusion) the level of poverty existing in the state.

OBJECTIVES:

The following objectives of the study are given below:

- To identify the reasons for financial exclusion
- To estimate the factors influencing informal borrowings of households

HYPOTHESIS:

H0: To obtain rural credit factors are not influencing for informal borrowing
H1: To get formal rural credit need of improving banking habits and awareness on financial services by the banker.

METHODOLOGY:

The present research is an attempt to study initiative of financial inclusion in Krishna District. The study is confined to Krishna District of Andhra Pradesh in selected mandals. The study is based on primary data collected from 117 household was selected as sample for the purpose of the study.

The study attempts to realize the objectives by employing a well-structured and more appropriate methodology. The approach and data collection methods are following criteria for understanding the event of financial inclusion and influencing factors for financial exclusion in Krishna District, Andhra Pradesh in India.

A structured questionnaire was prepared for analysing factors on financial inclusion in rural households. This study helps examines the financial literature of an individuals by asking basic questions like monthly income and expecting services from the banker. In order to examine the relationship between financial exclusion and influencing factors related questions have made a great impact in the minds of the individuals and to know the factors influencing for financial exclusion.

Target populations for the study in Krishna District are households of agricultural daily wage earners. Total population of Krishna District, Andhra Pradesh was 45, 17, 398 as per the census 2011, density (people per square km) 518. Total Mandalas and Total villages are 50 and 985 respectively.

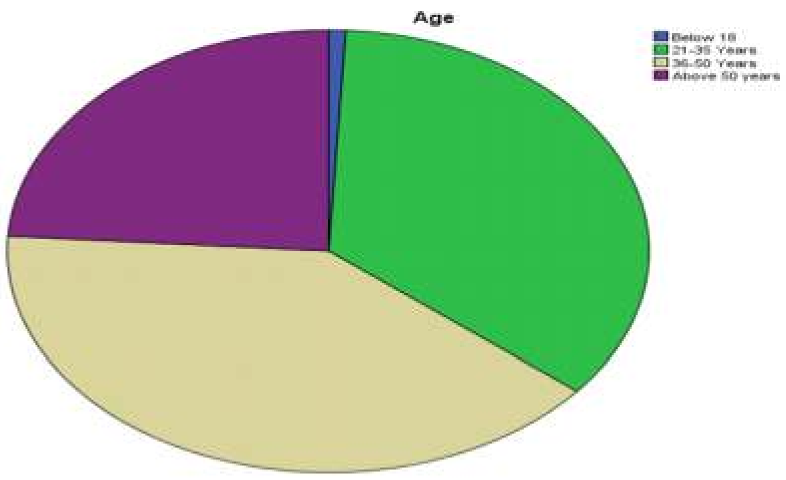
The study will also use secondary data collected from the records and reports from the officers of the banks and personal interviews of Business Correspondents. Some information is also collected from the books and periodicals. The data published by dailies and addressing notes by top level banking authorities have also been used for this study. Further, information has been collected by visiting the websites and RBI bulletins have also been used.

The data so collected from different sources will be analysed using statistical techniques, so that meaningful and accurate conclusion to know the status, reasons and awareness of financial inclusion in Krishna District Andhra Pradesh can be arrived at. The implication is that banker to focus on expansion of banking service and reduce exclusion.

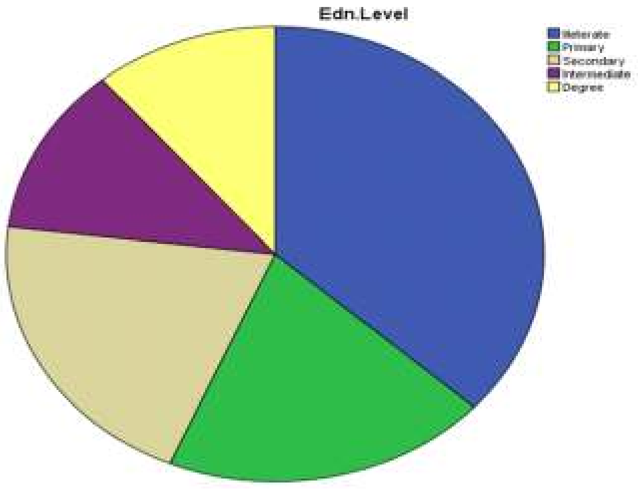
SAMPLING AND DATA COLLECTION:

The population from which a sample was selected it consisted four village mandals and lower class people those who are working wage earners in the area of G. Konduru, Ibrahimpatnam, Agirapalli and Kaikaluru in Krishna District, Andhra Pradesh. The total number of distributed questionnaire was 117 households in the month of July and Agust, 2014. It includes lower class people and their monthly income less than Rs.10, 000/- per month and the age group between 18 years to 60 years of both literate and illiterate.

The following table highlights the information about age, education and income of the respondents, demographic data has also been collected which is shown in the table I. About 0.9% of people below the age of 20 years, 35% were in the age group of 21 to 35 years, 40.2% of the respondents were in the age group of 36-50 years and around 29.9% of the respondents were in the age group of above 50 years.



In terms of education 36.8% of the respondents were illiterate, 19.7% of the respondents primary level, 20.5% of the respondents are secondary level, 12.0% of the respondents were having qualification till 12th standard and 11.1% of the respondents are degree and above.



The income levels of respondents 90.6% were getting less than Rs.10, 000/-, 7.7% of the respondents were between Rs. 10000-Rs. 20000, 1.7% of the respondents are between Rs. 20000-Rs. 50000. These analyses are shown below.

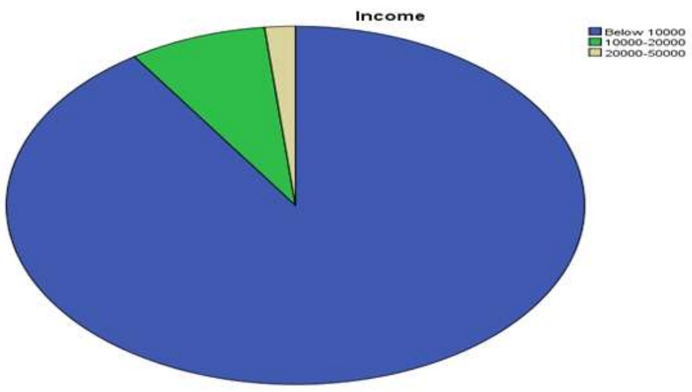


Table I: Profile of the study respondents:

Characteristics	Number	Percentage
Age	**No. of Respondents**	
Below 20 years	**01**	0.9
21-35 Years	41	35.0
36-50 Years	47	40.2
Above 50 years	28	29.9
Education		
Illiterate	43	36.8
Primary	23	19.7
Secondary	24	20.5
Intermediate	14	12.0
Degree	13	11.1
Income		
Below 10000	106	90.6
10000-20000	9	7.7
20000-50000	2	1.7

Bank1 -Strongly Agree	63	54
Agree	42	35
Neutral	12	11
Bank2 -Strongly Agree	56	48
Agree	49	42
Neutral	12	10

Source: Author Research based on Primary data collected

The following table represents the information on multiple correlation coefficients. In this analysis Bank1 considered as dependent variable (Informal borrowing factors)and Bank2 indicates independent variable (to improve the banking habits and awareness). A value of 0.596indicates a good level of prediction. The "R Square" column represents the R2 value (also called the coefficient of determination), which is the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the median model). From the table value of 0.355 highlights independent variables explain 35.5% of the variability of our dependent variable, Bank1.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.596[a]	.355	.350	.55617

a. Dependent Variable: Bank1

b. Predictors: (Constant), Bank2

SPSS output of Model Summary of the Regression Analysis for initiatives of financial inclusion

$p< .05$, $R^2 = 35.5\%$. All variables added statistically significantly to the prediction, $p< .05$.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.528	.143		3.688	.000	.245	.812
	Bank2	.730	.091	.596	8.059	.000	.551	.909

a. Dependent Variable: Bank1

b. SPSS output of coefficients of the Regression Analysis for the relationship between bank1 and bank2 i.e., informal borrowing and banking habits.

From the above analysis Table: 01 majority of the respondents i.e., 89% of households expressed (Agreed) various factors are influencing for informal borrowings whereas 90% of respondents agreed to improve the banking habits and awareness on financial services for reducing informal borrowings in rural areas.

H0: To obtain rural credit factors are influencing for informal borrowing. The above analysis proved that statistically fitted. Hence, the null hypothesis is rejected.

H1: To get formal rural credit need of improving banking habits and awareness on financial services by the banker. It is proved because improving banking services reducing the role of informal borrowing of money in rural households.

FINDINGS OF THE STUDY:

1)The income levels of respondents 90.6% were getting less than Rs.10, 000/-.Middle class category are using

banking services are very high than other category. Hence, bankers help to concentrate middle class people for expansion of their services.
2)It is found from the above analysis there is significant relationship between informal borrowings and to improve the banking habits and awareness on financial services. It is indicated that several factors are influencing for informal borrowing. These are including lack of awareness, proper guidance, poor usage of service in a bank, no trained staff, lack of uniformity in providing services by the banker etc. Further observed that to improve the banking habits and awareness on financial services offered by the banks and related factors are also influencing for reducing informal borrowings in rural areas.
3)As per the guidelines of the RBI, majority of the bank's branches opening in the areas with population above 2000 but still more effort is required for opening branches in rural areas to ensure 100% of financial inclusion.
4)Effective implementation of financial inclusion programme in many braches in between 2010 &2015.
5)No-frills account, business correspondents, Kissan credit cards, Grameen card, farmers account etc., are offered by more than 50% of the branches and the same is getting positive response of the customers.
6)Banks are using different approaches like financial awareness through advertising, conducting surveys of financial literacy programmes to provide knowledge of banking services to the people. These approaches are getting positive response of the rural customers.
7)Most of the banks are asking identity proof (adhar card) with the bank lot of people who have not got their cards till time.
8)Majority of the bankers feel that the financial inclusion programme has reduced the role of money lenders to some extent.
9)Banks are enjoying the benefits under financial inclusion programme such as creating more awareness among rural customers, coverage of more rural population, coverage of untapped markets, increased growth potential for banking business to expansion of banking business.
10)Through mobile banking, ATM facilities and DD facilities for making payments as it makes it easy for them to bank virtually at any convenient time.
11)Through financial inclusionprogramme, dual benefits .i.e., customers and bankers as customers get affordable and easy access to the banking services and bank get larger customers and more deposit mobilization.

SUGGESTIONS:

1)Different rural credit structure has to be developed by the government
2)The training facilities is required for rural people for usage of micro-finance for productive purpose
3)To create a link between agricultural credit and marketing of agricultural production.
4)It is also suggested that the RBI to give rating for commercial banks not only on the basis of financial performance but also on the basis of their achievements in process of promoting financial inclusion in the state.
5)It is a statutory requirement of all commercial banks, public and private sector banks should submit their reports frequently to the Reserve Bank about its achievement on financial inclusion.

CONCLUSION:

It is therefore conclude that KCCs are innovative credit delivery mechanism to meet the production credit requirements in time. It is one of the major tools for the rural development. At the time of fixation of credit not only size of land but also taken into account of production cost. While fixing the credit limit and there should be a link between KCC and crop insurance and minimum literacy required to understand this scheme. However, this scheme is a boon to farmers.

Commercial Banks have been successfully involved in farm credit packages and other initiatives of Government of India. On a large scale Self Help Group Bank Linkage programme was started apart from that implementing various poverty alleviation programs to accomplish inclusive growth.

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