



INNOVATIONS IN RURAL FINANCIAL PRODUCTS AND SERVICES

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ABSTRACT

Indian economy which is presently growing at the rate of eight percent is expected to grow at a higher rate in the years to come. For India, it is the beginning of the best to come. Reforms in banking, insurance, financial markets, international trade, taxation etc. have been a major catalyst in strengthening the fundamentals of Indian economy. There have been a plethora of products and service enhancements for the business class and people residing in urban areas. The ATMs, phone banking, e-banking, plastic money etc. exhibit innovation in urban banking. There have also been changes and innovations on the rural front. Two of the most important innovations in recent times have been the advent of micro financing under the Self Help Group Approach and Kisan Credit card. The present paper examines the role of these innovations, their effect on rural and agricultural prosperity and ways to improve the same.

Key words: Rural banking, Kisan Credit Card, Micro Finance

INTRODUCTION

The last two decades have been a watershed era for Banking sector in India. With the globalization of economy and the ever changing markets, more people are showing an interest towards the Banking sector. The banking sector remains the most dominant in the financial sector. Indian banks continue to be well regulated and have merged stronger under the regulator's watchful eyes. The economic reforms of 1991 envisaged banks to work on sound economic principles as well as meeting the social objectives. The reform process progressively opened up banking, mutual funds and insurance to the private sector after decades of almost total government control. The changes brought about by reforms have significantly effected the players in capital market. Several new instruments and products have been introduced leading to broadening and deepening of financial markets. This has given strong impetus to the development and modernization of the financial sector. Not to be left behind have been rural banking. Institutions like NABARD and other government and private agencies have carried out extensive research and recommendations for the rural development. Micro Finance under the SHG approach and Kisan Credit Card have changed the face of rural banking in our country.

Micro Finance

A series of research conducted in eighties by various agencies including NABARD has shown that despite a number of rural bank branches meant for alleviation of poverty, the poorest of the poor continue to remain outside the ambit of formal banking system. The poor wanted better accessibility to the banking system rather than cheap subsidized credit. Also the existing banking systems and procedures were perhaps not well suited to meet the most immediate needs for the poor.

Reserve Bank of India has done considerable work in this sector since 1991 before making the formal policy announcements in 1999. In 1991-92, a pilot project for

linking about 500 SHGs with banks was launched by NABARD in consultation with the RBI which advised the

banks to actively participate in it. In 1994, the RBI constituted a Working Group on NGOs and SHGs.

On the recommendations of the Group, the Reserve Bank advised that the banks' financing of SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks and also at the State Level Bankers' Committee (SLBC) level, at regular intervals. As a follow up of the recommendations of the NABARD Working Group, the RBI took a series of measures in April 1996 to give a thrust to micro-finance based lending.

Banks were advised to consider lending to the SHGs as part of their mainstream credit operations, to identify branches having potential for linkage with SHGs and provide necessary support services to such branches while including the SHG-lending within their Service Area Plan. The

Service Area branches, in turn, were to fix their own programme for lending to the SHGs with a view to enabling them to get the benefit of catalytic services of NGOs. The Service Area branch managers were asked to have an ongoing dialogue and rapport with the NGOs and the SHGs of the area for effecting linkage. Banks were also advised that SHGs, registered or unregistered, which engaged in promoting the saving habits among their members, would be eligible to open savings bank accounts with banks irrespective of their availment of credit facilities from banks. It was also decided that flexibility allowed to banks in respect of margins, security norms, etc., as part of the pilot project for savings-linked loans to SHGs would continue. Further it was decided that NABARD would continue to provide refinance to banks under the linkage project at the rates stipulated by NABARD. It was also decided that banks may charge interest on the finance provided to the Groups / NGOs for on-lending to SHGs at the rates indicated by the

NABARD from time to time. Further, the SHGs were to be free to decide on the interest rate to be charged to their members, provided the rate of interest was not Credit.

From	% Share
Relatives and friends	5.5%
Agricultural & Professional moneylenders	17.5%
Landlords	4%
Others	8%
All non Institutional agencies	35%
All Institutional agencies	65%

The conceptual thinking behind the SHG philosophy and the bank linkage could be summarized as under:

- Self help supplemented with mutual help can be powerful vehicle for the poor people's effort to socio-economic upward transition.
- Participative financial services management is more efficient and responsive.
- Poor not only need credit but also savings and ancillary services. Micro Finance rather than just Micro Credit is important for the poor.
- Collective wisdom of the group and peer pressure are valuable collateral securities.
- SHGs as client facilitate wider outreach, lower transaction cost and much lower risk costs.
- Empowerment and confidence building of poor, especially of poor women, is a major outcome.

- Small affinity groups of the poor with initial outside support can effectively manage and supervise micro credit among their members.

Kisan Credit Card

Agriculture occupies a major portion of Indian Economy. Government of India's aim is to double the credit flow to agricultural sector in three years. The government of India has taken several policy initiatives for strengthening of rural credit delivery system to support the growing credit needs of the agricultural sector. Some of the important initiatives taken in the recent years for improving agricultural credit flow are Kisan Credit card scheme, Agricultural credit at lower rate of interest, simplification in lending policies and revamping of cooperative credit structure. The emphasis of these policies has been on progressive institutionalization for providing timely and adequate credit support to farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity.

Kisan Credit Card aims at ensuring educate and timely supply of Credit to farmers. KCC Scheme is under implementation by Banks through out the country since 1998-99. KCC is simple card cum passbook. Farmers may approach the nearest branch of any Banks or PACS for it.

Objectives of Kisan Credit Card

- Adequate and timely credit support to farmers.
- Credit to take care of cultivation, expenses including ancillary activities of the entire.
- Credit to farmers in a hassle free manner.

Table-1: Agency-wise and Period-wise progress of KCC (Rs. in crore)

Year	Coop. Bank		RRBs		Commercial Banks		Overall	
	No. of KCC issued	Amount sanctioned	No. of cards issued	Amount sanctioned	No. of cards issued	Amount sanctioned	No. of cards issued	Amount Sanctioned Per KCC
1998-1999	1.55	826	0.06	11	6.22	1473	7.84	2310
1999-2000	35.95	3606	1.73	405	13.66	3537	51.34	7548
2000-2001	56.14	9412	6.48	1400	23.90	5615	86.52	16427
2001-2002	54.36	15952	8.34	2382	30.71	7524	93.41	25858
2002-2003	45.79	15841	9.64	2955	27.00	7481	82.43	26277
2003-2004	48.78	9855	12.73	2599	30.94	9331	92.47	21785
2004-2005	35.56	15597	17.29	3833	43.96	14756	96.80	34186
2005-2006	25.98	20339	12.49	8483	41.65	18779	80.12	47601
2006-2007	22.98	13141	14.06	7373	48.08	26215	85.11	46729
2007-2008	20.91	20492	17.73	9074	46.06	20421	84.70	49987
2008-2009	13.44	13172	14.14	7632	58.34	25865	85.92	46669
Cumulative	361.44	138233	114.69	46147	370.52	140997	846.66	325377

The KCC Scheme provides for assessment of credit requirements on the basis of the area to be cultivated and crops to be raised and scale of finance thereof. The consumption needs of farmers are also taken into account. The maximum credit requirement during a year is thus sanctioned as a credit limit operative for a period of three years with provisions for annual renewal and need based increase depending on the increase in scale of finance. The one time documentation needs saves the farmers from

avoidable issues. In case of KCC, the farmer has freedom to make any withdrawal and repayment as is convenient to him within the credit limit sanctioned to him, which was not the case in traditional crop loan system.

KCC as a financial product has been immensely popular and successful. All types of banks, viz, commercial banks, Cooperative banks and Regional Rural banks have participated in the scheme and the cumulative number of KCC issued by these banks since inception of the scheme

stands at 925.17 Lakhs upto the end of March 2010. By nature, KCC is a cash credit accommodation but innovations in the scheme are still being made. The investment credit requirements of farmers like creation of irrigation facility, purchase of farming equipment which require longer periods are also being brought within KCC ambit.

Certain products are variants of Laghu Udyami Credit Card, General credit Card, Swarojgar Credit card which are in their infancy stages and would take some time to judge their success.

Some other innovative products for the rural and poor masses include Joint liability groups and business facilitator/correspondent model. Joint liability group include tenant farmers/share croppers/oral lessees. Thus this form of micro finance offers lending to those farmers who cultivate the land owned by others and do not have access to institutional credit. Generally they form an informal group of 5-10 persons who stand surety for one another.

Business Facilitators and Correspondent models are also being used by banking sector for financial inclusion of the poor and the needy. In this scenario, the banks use NGOs, Farmers clubs, Village knowledge centres etc. as intermediaries to penetrate the poorest of the poor.

CONCLUSION

It's true that India lives in her villages. Rural India holds great potential for development as it is the source of livelihood for more than two-third of the country's population. Exploitation by the private traders and middlemen accompanied with the farmers' lack of information on issues pertaining to their livelihood are

serious obstacles on the path of rural development. Credit plays a crucial role in modernization of agriculture. Its role in the fight against rural poverty has been clearly recognized in our country over the years. Innovations in rural financial products and services are a continuous process and have been steadily picking, particularly in the last two decades or so. The important aspect is understanding the needs of the poor folk and then satisfying them through innovative products. Kisan Credit card and Micro finance under SHG approach have been a step forward. It is a possibility that we may find more new ground breaking products in years to come which shall be a succor to the rural masses and also act as a catalyst in the social and economic development of our country.

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