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GROWTH, PROBLEMS AND PROSPECTS**

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KEYNOTE ADDRESS

KERALA AGRICULTURAL HOUSEHOLDS: DIVERSIFIED AND

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## FINANCIAL INCLUSION OF BPL FAMILIES IN RURAL AREAS *IN ERNAKULAM DISTRICT*

*Vinil K. V\**

The significance of financial institution in the lives of the people around the world has been increasing over the years. Moreover, there has been a great advancement in the outreach activities of the banking sector in India. However, the gap between the rural and the urban areas regarding the outreach is prevalent in the country even after the decades of independent growth of the country. While significant improvement has taken place in credit or loan account in the urban household, the situation has turned for the worse for rural household.

The term financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. These financial services include payments and remittance facilities, savings, loan and insurance services. Financial Inclusion does not mean merely opening of savings account, but signifies creation of awareness about financial product, education and advice on money management, offering debt counseling etc. by banks. Every society should ensure easy access to public goods and services. Therefore, banking service being a public good should also be aimed at providing to the entire population.

The concept of Financial Inclusion can be traced back to the year of 1904, when co-operative movement took place in India. It gained the momentum in 1969 when 14 major commercial banks of the country were nationalized. Branches were opened in large numbers across the country, also in those areas which were neglected. Still a major portion of the population could not be brought under the fold of banking system. There was gap in financial access which needed special attention. The banking system resulted in loss of 1% of the GDP. RBI, in its review of monetary policy, urged the banks to make Financial Inclusion as one of

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their prime objectives. Various policies, prescriptions were suggested by RBI. A few of them are: opening of no frills account, issuing of General Purpose Credit Card (GCC) etc. This concept is not unique in the country. The message of its positive impact has spread across the globe. Most of the literature of the banking sector outreach focus on its effect through cross-country evidence.

Deliberate policies of central government and RBI for opening up one of the biggest branch network in rural areas have been a major step towards Financial Inclusion. India has invested considerable resources in expanding its banking networks. The share of offices in the rural and semi-urban areas has increased from 62.6% in 1969 to 72.65% in 1996, but went down to 68% in 2005. However, the share of deposits and credit in rural areas is on the decline, the credit is lower than that of metropolitan cities. This implies that the resources are getting transferred into metropolitan areas.

Financial Inclusion is meant to include all the sections of the society, especially those who are mainly out of the net of financial institution. Agriculture being a vast sector of the economy has a larger implication of Financial Inclusion. Improvement in rural infrastructure in terms of electricity, road, telecommunications etc. enhance the productivity of physical resources in the rural area. These developments will lead to much greater demand for banking services.

### **Statement of the problem**

In 1950's an extensive network of rural co-operative banks was established with the intention of leveraging country wide deposits and savings towards agriculture, small scale and cottage industries. But bank credit was funneled to big co-operations that already had majority stakes in the banks. As a result banks were nationalized by the RBI in 1969. In 1991 along with reforms for liberalizing and opening up of the economy, financial sector reform aimed at deregulation, increased competition and strengthening the banking sector through recapitalization and adoption of prudential measures. However, a sizable section of population, particularly the vulnerable groups such as weaker section and low income groups, continued to

remain excluded from even the basic opportunities and services provided by the financial sector. In 2007, the government of India set up a committee on financial inclusion, and has taken many policy initiatives. To achieve the goals of more inclusive growth, poverty reduction and empowerment of weaker sections, financial inclusion of these sections remained to be a major objective of our strategy of financial planning and economic growth.

### **Significance of the study**

The study has great significance as an inclusive financial system has several advantages: it helps in efficiency in allocation of productive resources which helps to reduce the cost of capital; the availability of proper financial services can greatly facilitate the routine financial tasks; this would also act as a check on the growth of informal sources of credit like that of local money lenders who tend to exploit the poorer section financially and in other forms. Moreover, both the central and state Governments have already started transferring all funds and subsidies as part of welfare expenditure through bank accounts connected with Aadhar cards. This enables the governments to transfer funds directly to the beneficiaries, eliminating intermediaries and process delays. Through this the government is hoping to curtail malpractices and corruption in fund transfers. In this scenario financial inclusion is of great importance.

### **Objectives**

1. To study about the Financial Inclusion of rural BPL families in Rural Kerala.
2. To find the problems faced by the rural BPL families and suggest steps to improve their condition.

### **Methodology**

Both primary and secondary sources of data have been used for the study. The primary data is based on sample surveys, personal interviews, informal discussions etc. conducted among BPL families. The sample selected for the survey is drawn from the Elanji grama panchayat in the district of Ernakulam. Simple statistical tools such as percentages, diagrams, tables etc. are used to analyze and explain data. Apart from data collected through primary

sources, secondary data sources like state economic review, the statistical data published by various governmental agencies and various publications are used.

### **BPL families in Kerala**

Poverty may be defined as the inability to attain the minimum standard of living in a society. The poor are those who unable to achieve basic facilities like food, shelter, clothing. The poverty ratio of Kerala, whether rural or urban, are the least, compared to southern states as well as all India level. The number of persons in below poverty line for Kerala is exhibiting a downward trend.

The measure to identify people who are Below Poverty Line (BPL) is based on recommended nutritional requirements of 2400 calories/person/day in rural areas and 2100 calories/person/day in urban areas. The state specific poverty line for Kerala, stands at ₹ 1054.03 per capita per month in 2011-12 and ₹ 1353.68 for urban areas.

**Table 1: Poverty Ratio in 2011-12 based on Expert Group (Rangarajan)**

#### **Methodology**

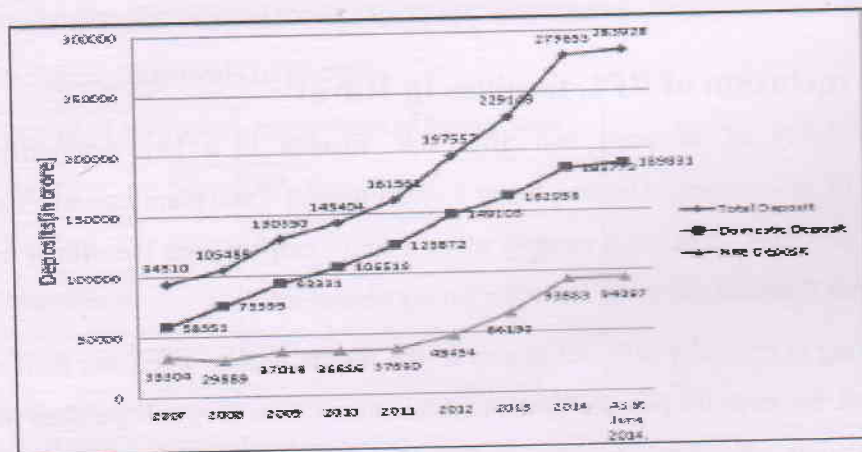
	Rural	Urban	Total %
Kerala	7.3	15.3	11.3
All India	30.9	26.4	29.5

*Source: Planning Commission, Government of India, June 2014*

### **Financial inclusion in the state**

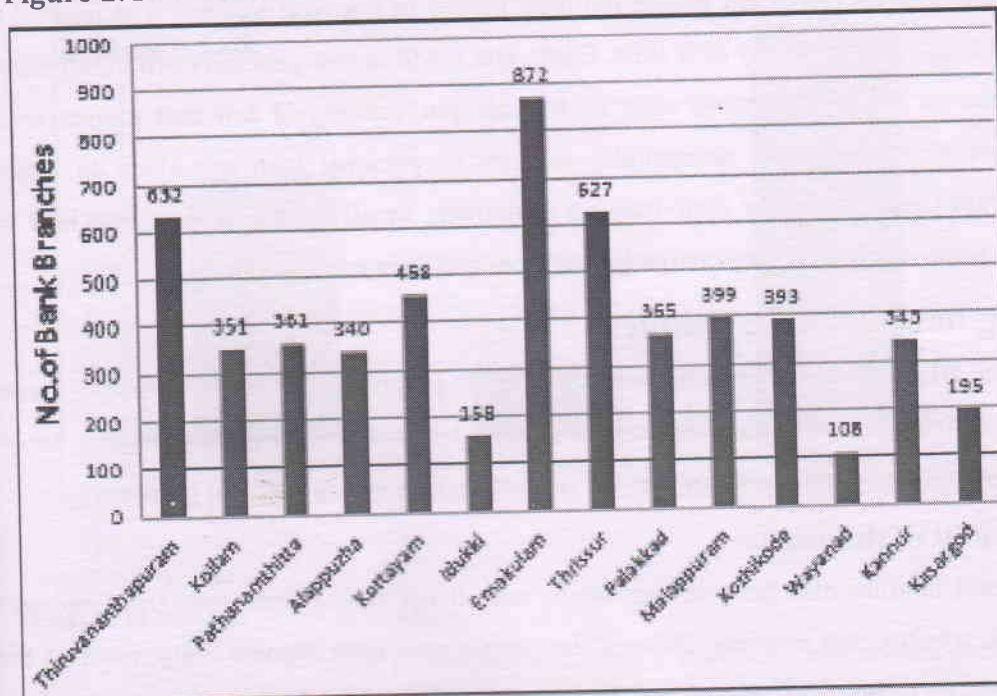
Availability of adequate and affordable finance is a key determinant for the performance of an economy. Despite, being a small state, Kerala has an extensive bank network and accounts for 4.2%. Increase in deposits depend in Kerala banks accounted for 3.3%. People borrow from banks mainly for asset creation or unit. High rate of interest are a deterrent or the expectation of financial return is low. In public sector banks Kerala has a relatively credit deposit ratio compared to neighbouring states.

Figure 1: Growth of Bank Deposit in Kerala (₹ in crores)



Source: Kerala Economic Review- 2014

Figure 2: District wise distribution of number of bank branches in Kerala



Source: Kerala Economic Review- 2014

The banking state in Kerala reveals that Ernakulam district with 872 branches holds the largest. Ernakulam district which was the very first district in the country to achieve financial



inclusion as early as 1990, achieved Meaningful financial inclusion in line with national scenario.

### **Financial inclusion of BPL families in Rural**

Availability of adequate and affordable finance is a key determinant for the performance of an economy. Despite, being a small district Ernakulam has an extensive bank network and accounts. The bank policies place a lot of emphasis on the efforts made by the bank to achieve financial inclusion and other policy objectives.

Banking is generally safe and money of the people will be safe from theft and fires, it will be insured. So, even the peoples bank or credit union closes they will get their money back. Checking accounts offer many benefits paying by cheque is much easier and cheaper than buying a money order and there will be a proof. It is an easy way to save money, may banks offer a small interest rate when people put their money in a saving account. The interest will help them to grow their money over time. Banks and credit unions generally offer their account holders free or low cost services such as free cheque, cashing or low-cost money wiring. Chances of obtaining home, automobile, students or personal loan are likely to improve because banks tend to favour their existing customers. Small money lenders that lend cash quickly expensive, because they charge lending fees and high interest rate.

### **Banking habits of BPL families**

The BPL families approach banks for various purposes. The major sources of money for them are from the scheduled banks, unscheduled banks and local money lenders. Most of these households approach these sources for various savings and investment purposes.

### **Saving habits of the people**

Rural families also have saving habits, not all but few. People save their income on daily basis, weekly, and monthly. 30% of the people save their income daily, most of those people might be receiving wages as their remuneration. Only 8% of people save it weekly, and 46% of the family save their income monthly. These families have a mentality to save money

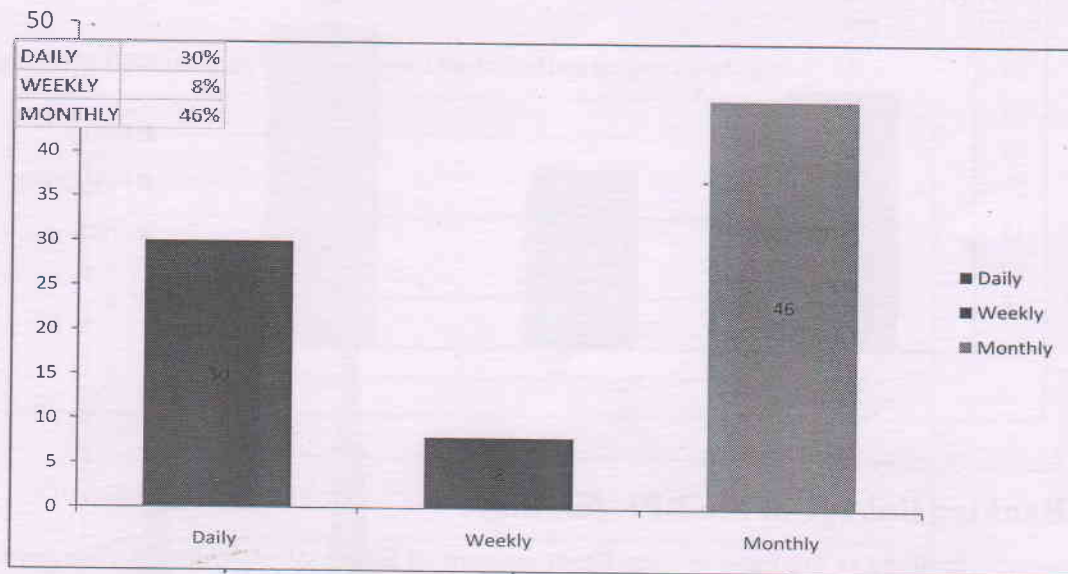
for their coming generation, to make them apart from debt and in short, they do it with an aim that their children should not face or experience the problems they went through.

**Table 2: Saving intervals of people**

Period of savings	Percentage of households
Daily	30
Weekly	8
Monthly	46
No saving habits	16

Source: survey data

**Figure 3: Saving intervals of people**



Source: survey data

### Sources of savings of BPL families

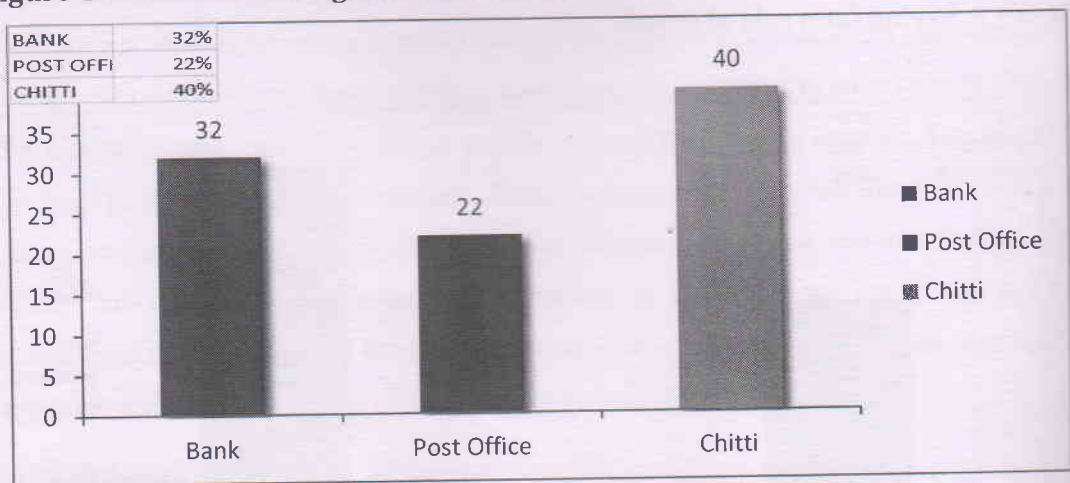
The saving sources or pattern are different. It is divided into several sectors like bank, post office, and chitti. 32% families save their income in banks, 22% of people save their income in post office, and 40% of the rural families save in chitt funds. It is because of the lack of banking facilities in those areas and lack knowledge about better banking facility.

**Table 3: Sources of savings of BPL families**

Deposits of the people	Percentage
Banks	32
Post office	22
Chitti	40

*Source: Survey data*

**Figure 4: Sources of savings of BPL families**



*Source: Survey data*

### **Banking linkage of the BPL families**

Banking is the main or significant element of Financial Inclusion. As our survey was conducted in a remote place of Ernakulam district, the banks and banking process might be unfamiliar to the people of that locality or they are slowly getting acquainted with banking practices.

### Distance of banks from the families

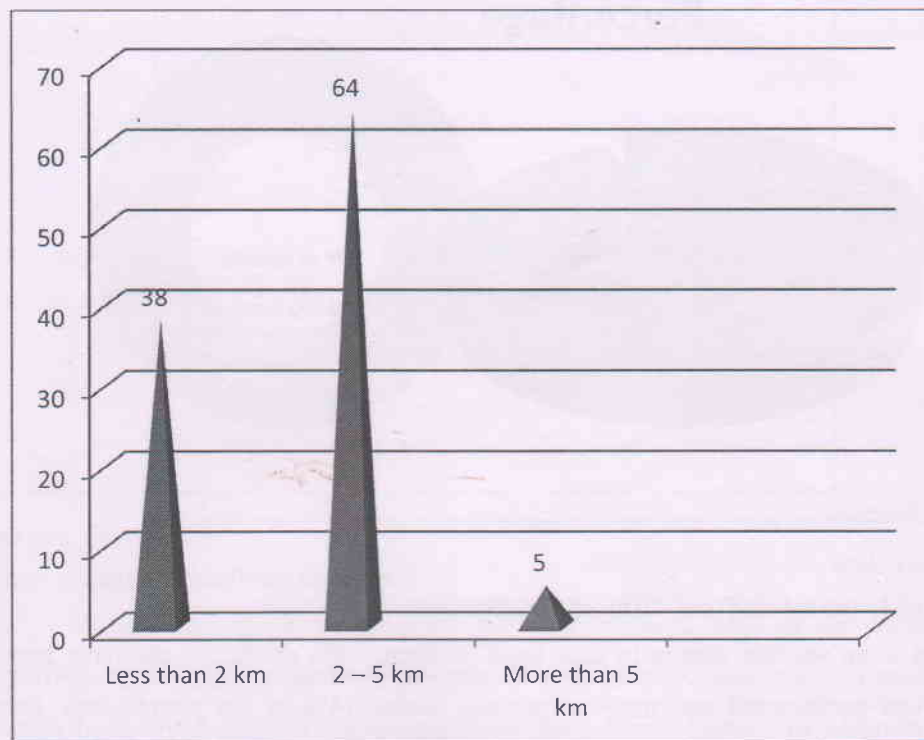
There is only very few banks there and those few banks are far away from their residence. But some banks somewhat near to them. 38% of the family's residence is 0-2 Kms away from bank. 64% of residence is 2-5 Kms away from bank, and above 5 Kms is 10%.

**Table 4 Distance of banks from the families**

Distance	Percentage of families
Less than 2 km	38
2 – 5 km	64
More than 5 km	5

Source: survey data

**Figure 5: Distance of banks from the families in percentage**

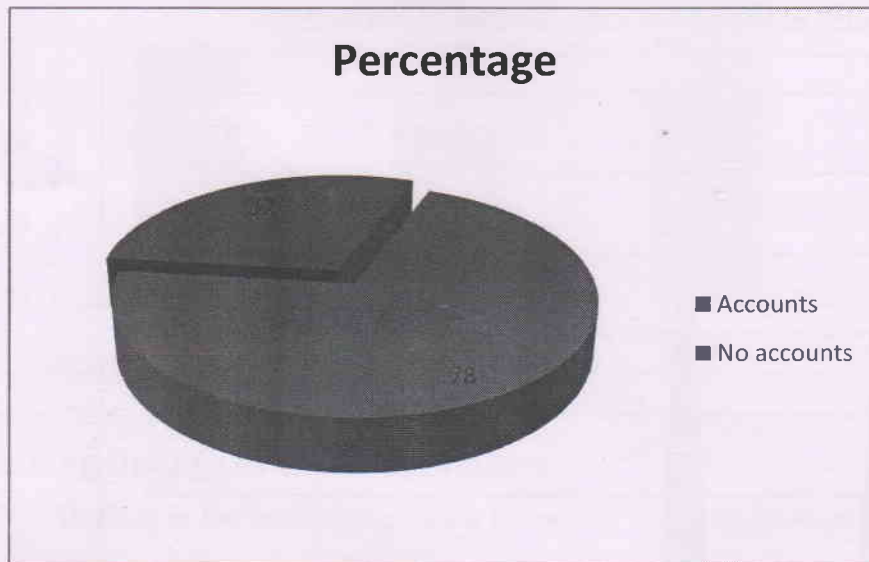


Source: survey data

### Number of bank account holders in the families

Even though the banks are in distant places all most all the families have bank account. At least one member of one family may have bank account. Only few people do not have account. 78% of the people have bank account, and most of them have not faced any problems while opening those accounts. 32% of the people do not have account, and there are some reasons for that also, 30% of them faced some problems to open account. 2% of the people tried to open account but did not succeed. 6% people had low level of literacy, and they don't have a clear knowledge about the importance of a bank account. 12% people had lack of awareness about this. 20% of the people have not opened accounts; the reason is that, they have post office and chitt funds.

Figure 6: The number of people having accounts



Source: survey data

### Percentage of loans taken from different institutions

Loan is an another reason to take bank account. 68% of the people have loan. They took loan from institutional and non-institutional banks. 14% of the people took loan from National bank, another 14% people from private bank and majority of the rural population take loan from local money lenders i.e. 42% for high rate of interest. It is because of the lack of

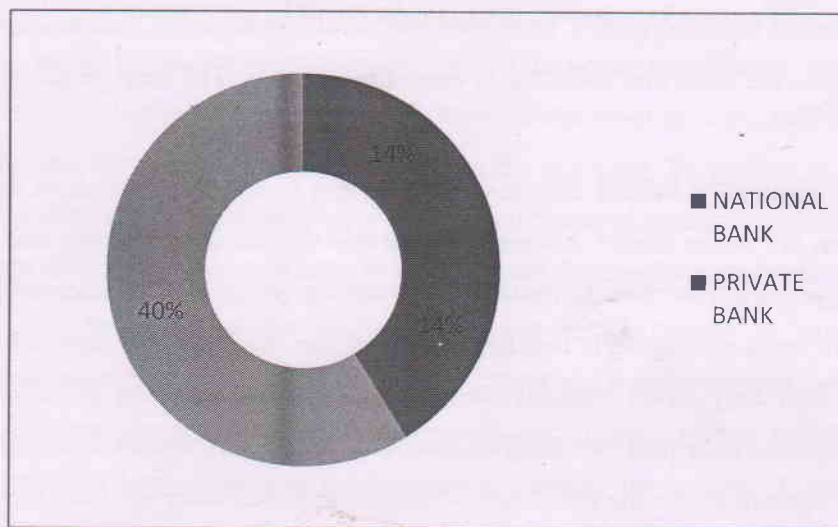
awareness about the banking system. 32% of the people doesn't have loan. This is better explained through the table and diagram given below.

**Table 5: Sources of loans**

Institution	Percentage
National banks	14
Private banks	14
Money lenders	40
Total	68

*Source: survey data*

**Figure 7: Source of loans**



*Sources: Survey data*

#### **Other sources of banking options**

NREGP scheme is a bonus for the rural workers. 64% of the people participate in NREGP scheme, and the mode of payment is through panchayat and 4% mode of payment is through bank. And 38% of the people don't have this scheme. In addition the educational assistance is provided to the children of the backward communities through bank accounts. In

addition the central and state governments are contemplating on providing all the subsidies and welfare expenditures directly to the beneficiaries through bank accounts. These initiatives will be a boost to financial inclusion and this will help the BPL families to be familiar with the process of financial inclusion.

### **Findings and recommendations**

This paper has been discussing so far about the socio-economic conditions and financial inclusion of the BPL families in the district of Ernakulam. In this chapter we are proceeding to list out the findings and recommendations of the paper.

The study notes that the financial institutions in world has been increasing over the years. And there has been a great advancement in the outreach activities of the banking sector in rural areas, especially among BPL families. At present rural peoples are more familiar with banks, banking system, its benefits, merits, bank accounts etc. Govt began to start branches of banks in rural areas, provide loans and subsidies to encourage savings. The rural people started to make use of it.

An important motivation behind this was to put an end to the illegal deeds of money lenders. Some sections are yet to realize the merit behind this system, its usefulness and the benefit they may acquire from this. In rural sections among BPL families education is as important as in urban areas among APL families. However the levels of education of these people are less. Though they have financial constraints they give attention to education. majority of them completed their plus two level education. Majority of the families depend on self employment and agriculture for the generation of income and their earnings from these are very small or meager. Also the living conditions of these people are quite poor and they face difficulties to access basic amenities. The survey finds that some people have saving habit even though their income is very less; they save for their coming generation.

The Reserve Bank of India has adopted several measures to ensure the financial inclusion of the lower strata of the society in the forms of No frills account, General Credit Cards, One Time Settlement etc. It was found from the survey that majority of the people have

easy access to banks as most of them have banks in less than 5 km from their houses. It was also found that most of the earning members of the BPL families have bank accounts. In the rural area majority of the BPL families are aware about the govt. poverty alleviation programmes, especially NREGP scheme. NREGP have a good presence in rural area and this helped in the growth of financial inclusion.

Governments should show the political and moral will power to go beyond the petty lobbyists to ensure more efficient distribution of funds and subsidies to the poor through the bank accounts connect by UIDs or the Unique Identification numbers. Banks should be forced to establish customer care facilities, so that relevance and important information is provided and new customers should be guided. In order to take care uneducated illiterate individuals in each districts there should be financial literacy cell or credit counseling centers.

In the process of financial inclusion private sector should be involved and they should be made to realize that it is not only a business opportunity but also co-operate social responsibility too. When households have greater level of disposable income and poverty level decline, they will be financial saver is for the first time. To get into the banking habit they will, therefore need to have easy access to formal financial system. In order to bring such customers into their fold, banks will have to innovate and devise newer methods

In order for the banks to increase their outreach to ensure financial inclusions innovation in the form of business facilitators and correspondence will be needed. The micro credit and the self help group movements are in their infancy and they need together force. There has been a burst of entrepreneurship across the country. Competition will be fostered only through the growth of entrepreneurs across all sizes

## CONCLUSION

Financial inclusion is a great step to alleviate poverty in India. But to achieve this, govt should provide an environment in which banks are free to pursue the innovation necessary to reach out to the low income consumers and still make profit. Financial service providers should focus more about the consumers and new business models to reach them. In Indian financial



inclusion will be good business ground in which the majority of our people will be decide the winners and losers. In the present scenario where the governments are forced to reduce fiscal expenditure for welfare measures they should focus more on financial inclusion for the same. Financial inclusion enables the governmental and non- governmental agencies to transfer resources to the needy in a more efficient manner.

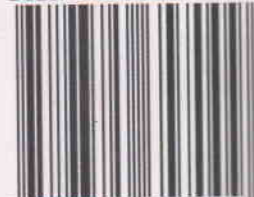
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