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Sreelakshmi CC
College of Co-operation,
Banking & Management,
Kerala Agricultural
University, Vellanikkara,
Thrissur, Kerala India

Financial inclusion among farmers through electronic banking

Sreelakshmi CC

Abstract

Financial inclusion is the provision of affordable financial services to those who tend to be excluded. There is no single accepted definition for farmer's financial inclusion. But one can agree that farmer's financial inclusion occurs when farmers have effective access to a range of financial products and services that cater to their multiple agricultural and production needs. In the modern era, electronic banking can enhance the financial inclusion rapidly. The present paper attempts to examine the extent of financial inclusion among farmers through electronic banking services in Thanniam Panchayat of Thrissur district. The study is entirely based on primary data collected through semi-structured interview schedule. Percentages and descriptive analysis used for data analysis. The study found that the extent of financial inclusion among farmers with respect to electronic banking services is very low. Lack of knowledge about technology, lack of interest and fear of using electronic banking services hinders the respondent farmers from using electronic banking services. The awareness and usage of electronic banking services among farmers can be considerably increased through Financial Literacy Programmes from the part of banks.

Keywords: Financial inclusion, electronic banking, KCC, ATM, debit card

1. Introduction

Commerce with the poor is more viable and profitable, provided there is ability to do business with them. The provision of uncomplicated, small, affordable products can help to bring low-income families into the formal financial sector. Taking into account their seasonal inflow of income from agricultural operations, and seasonal and irregular work availability and income, the existing financial system needs to be designed to suit their requirements. Mainstream financial institutions such as banks have an important role to play in this effort, not as a social obligation, but as a pure business proposition. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. Financial inclusion benefits individuals and households, and well-functioning financial systems benefit the whole country. However, access to financial services is highly unequal, with poor people – and particularly small and marginal farmers – frequently the least served by existing institutions and systems (Thorat, 2007) [5]. A sound financial inclusion policy primarily focuses on increasing productivity, viability and bringing lasting improvements in the economic condition of the small, marginal and tenant farmers, share croppers and wagers which may be a step forward to achieve true and lasting financial inclusion and may contribute to the creation of sustainability in food and thereby ensure nutritional security for the country.

Financial inclusion among farmers is important as agriculture is the main source of livelihood for them, for which seasonal variations determine the returns from it. Financial inclusion enables the farmers to face difficult situations which may arise due to seasonal changes, drastic weather conditions and natural calamities by saving, and availing various financial services from banks, thus becoming capable of protecting themselves from debt trap. In order to promote poverty reduction, there is a clear rationale for using development resources to enhance financial inclusion among farmers. Financial inclusion, managed properly, can increase the financial empowerment of farmers.

Correspondence
Sreelakshmi CC
College of Co-operation,
Banking & Management,
Kerala Agricultural
University, Vellanikkara,
Thrissur, Kerala India

2. Literature review

The main objective of the study by Clamara *et al.* (2014) [2] was to identify the micro economic factors affecting the likelihood of financial inclusion for households and enterprises in Peru, for which data were collected from the National Household Survey, 2011. The population of the study included all the households and their occupants living in urban and rural areas of the country. The study identified socio economic characteristics that might affect financial inclusion of households. The results showed that traditionally more vulnerable groups like farmers, women and people living in rural areas, and young people are those with the greatest difficulties in accessing the formal financial system.

Siddik *et al.* (2014) [4] identified the factors influencing behavioural intention to adopt (or continue to use) mobile banking in Bangladesh. With an aim to expand financial inclusion through mobile banking, using innovation diffusion theory and decomposed theory of planned behaviour together, this study added a variable, namely perceived financial cost to the combined model. The results of Structural Equation Modelling (SEM) revealed that perceived financial cost, perceived risk and Subjective norm are the most influencing factors that affect people's behavioural intention to adopt (or continue to use) mobile banking.

Asfaw (2015) [1] in his study on 'financial inclusion through mobile Banking: challenges and prospects' identified the major challenges and opportunities for mobile banking development in Ethiopia. An exploratory research design was utilized and the study revealed that there are no operational challenges that hinder the flourish of mobile banking development in Ethiopia. However, lack of timely approval of new products by regulatory body, lack of interoperability system and lack of aggregators between service provider and retail agents were the major problems observed in the study. High PCI and mobile phone penetration rate were found out to be the most important potential for the development of mobile banking in Ethiopia.

3. Research problem

Financial inclusion is the provision of affordable financial services to those who tend to be excluded. There is no single accepted definition for farmer's financial inclusion. But one can agree that farmer's financial inclusion occurs when farmers have effective access to a range of financial products and services that cater to their multiple agricultural and production needs. In the modern era, electronic banking can enhance the financial inclusion rapidly. Electronic banking was introduced to save time of people. It helps the consumers for quick access to banking services. Electronic banking means 24-hour access to cash through an Automated Teller Machine (ATM) or Direct Deposit of pay cheques into current or savings accounts. It also includes credit card, mobile banking and internet banking. Hence a study on the financial inclusion among farmers through electronic banking is highly significant in the present context, when GOI and Reserve Bank of India are trying to bring more and more farmers within the ambit of the formal financial sector. So, the study aims to survey the level of financial inclusion among farmers in Thanniam Panchayat of Thrissur District, considering the various electronic banking services available for farmers and the extent to which these services are utilised by them.

4. Objective of the study

- To examine the extent of financial inclusion among farmers through electronic banking services in Thanniam Panchayat of Thrissur district.

5. Research methodology

Out of the 92 panchayats in Thrissur District, Thanniam panchayat was selected for detailed study based on the criteria that the Panchayat has included under the "Sansad Adarsh Scheme" introduced by Prime Minister. Sansad Adarsh Scheme is a rural development programme broadly focussing upon development in the villages which include social development, cultural development and spread motivation among the people on social mobilisation of the village community. Under the Scheme, Members of Parliament (MPs) have to adopt three Grama panchayats in five years where special attention will be given for undertaking development works and providing basic amenities. The study was conducted mainly using primary data collected from the 60 respondent farmers through a structured interview schedule. While selecting the sample, care was taken to ensure that at least 30 of them have formal bank accounts, either single or joint.

6. Results and discussions

A brief description of the socio- economic profile of the farmer respondents will give a better picture about the extent of financial inclusion. Hence, socio-economic characteristics of the farmers, with respect to age, gender, standard of living, education, occupation, area under cultivation and annual family income are exhibited in Table 1.

Table 1: Socio-economic profile of farmer respondents

Sl. No.	Characteristics	No. of respondents	Percentage
1	Age (in years)		
	25 – 45	10	16.7
	45 – 65	30	50
	65 – 85	20	33.3
2	Gender		
	Male	49	81.7
3	Female	11	18.3
	Standard of living		
	APL	58	96.7
4	BPL	2	3.3
	Education		
	Illiterate	8	13.3
	Primary education	6	10
	SSLC	23	38.3
5	Plus Two	8	13.3
	Degree	15	25.1
	Occupation		
	Farming	43	71.6
6	Self employed	10	16.7
	Government job	7	11.7
	Area under cultivation		
7	< 1 acre	33	55
	1 acre – 2 acre	9	15
	2 acre - 4 acre	13	21.7
	4 acre – 5 acre	5	8.3
7	Annual family income (in Rs)		
	Below 10000	10	16.7
	10000 – 50000	24	40
	50000 – 1 lakh	21	35
7	Above 1 lakh	5	8.3

Source: Compiled from primary data

Table 1 reveals that majority of the respondents are above the age of 45 and 33 per cent of them are above 65 years of age. This implies that youth is showing less interest towards agriculture as a profession. The gender proportion of the respondents reveals that agriculture is still a male dominated profession. Only less than one – fourth of the farmers have educational qualification above plus two, i.e., having graduation. Agriculture is the sole occupation of only 72 per cent of the respondents and for rest of them it is only a subsidiary occupation. Ownership of landholding shows that there are no tenant farmers among the respondents and more than 70 percent of the respondents are marginal farmers, the

rest being small farmers. More than half of the farmer respondents fall in the category of less than Rs 50000 per year.

The distance to the nearest bank branch is one of the factors that influence the decision of the farmer respondents whether to access and use formal banking services or not. Shorter the distance, the more the chance for accessing and using the banking services by farmers. Besides, nearest bank branches may prevent the customer from using electronic banking services due to the fear of technological inconveniences.

Table 2: Distance to the nearest bank branch of the farmer respondents

Sl. No.	Distance	Number of respondents	Percentage
1	< 1 km	42	70
2	1 – 2 km	13	21.7
3	2 – 3 km	4	6.6
4	3 -4 km	1	1.7
Total		60	100

Source: Compiled from survey data

Table 2 reveals the distribution of respondents in relation to distance to the nearest bank branch. Seventy per cent of the respondents are staying within one km from a bank branch. Only eight per cent of the respondents are staying beyond a distance of two km from a bank branch. It implies that proximity of bank branch is high. For many of the farmers, there is a bank branch within walking distance, which is a favourable indicator for financial inclusion. Whether the farmers have taken advantage of this positive factor or not can be understood from the extent of financial inclusion among them which is done in the ensuing paragraphs.

Awareness level of farmers in electronic banking services

For examining the awareness level of farmer respondents in electronic banking services, the level of awareness is classified into three, viz., ‘fully aware’, ‘partially aware’ and ‘not aware’. The respondents who are aware about the mode of usage of these services are grouped under ‘fully aware’ category; farmers who know about the service, but not aware about mode of usage are classified under ‘partially aware category’ and farmers who are not at all aware about the services come under ‘not aware’ group. The electronic banking services considered are ATM cum debit card, credit card, mobile banking and internet banking. Table 3 deals with the awareness level of farmer respondents in electronic banking services.

Table 3: Awareness level of electronic banking services among farmers

Sl. No.	Electronic banking services	Farmers			
		Fully aware	Partially aware	Not aware	Total
1	ATM cum debit card	46 (77)	4(6)	10 (17)	60 (100)
2	Credit card	14 (23)	6 (10)	40 (67)	60 (100)
3	Mobile banking	13 (22)	8 (13)	39 (65)	60 (100)
4	Internet banking	11 (18)	8 (13)	41 (68)	60 (100)

Source: Compiled from survey data

Note: Figures in parenthesis denote percentage share of each to total number of respondents

ATM cum debit card has the highest level of awareness among farmers compared to other electronic banking services. Eighty three per cent of the respondents are either fully or partially aware about it. With respect to other electronic banking services like credit card, mobile banking and internet banking, only one – third of the farmers are aware, either fully or partially. The presence of ATM centres of various bank branches plays an important role in creating awareness about ATM. Some of the farmers find it difficult to cope up with the technology of electronic banking. It is already seen that the education level of farmer respondents is low with nearly 62 per cent of them having educational qualification of less than plus two. Thirteen per cent of the farmers are illiterate, and another ten per cent with primary education (Table 1). Hence use of internet banking and mobile banking are limited leading to low level of awareness regarding electronic banking services.

Usage of electronic banking services

Only 34 out of 46 farmers who are fully aware of ATM services are utilizing the service. As seen from Table 2, majority of the respondent farmers are residing near to the bank branches. So they are interested to go to the bank branch directly instead of going to ATM. Now it is very difficult to find a person without a mobile phone. But only three farmers are using mobile banking services out of 13 farmers who are fully aware of it. Growing usage of mobile phones is one of the reasons for introduction of mobile banking services. But banks have not been successful in converting this to their advantage. The usage of internet banking is also too poor. Even though Kisan Credit Card (KCC) is one of the popular methods of availing crop loans from banks, only three of the respondent farmers are using credit cards. The fact that banks are not interested in providing crop loans to farmers as seen already is

substantiated here. If more number of crop loans has been disbursed, the usage of credit cards would also have increased. Lack of knowledge about technology, lack of interest and fear of operation of electronic banking services hinders the respondent farmers from using electronic banking services. Thus it can be inferred that extent of use of electronic banking services is too low among farmers in Thanniam Panchayat. The usage of KCC among farmers can be considerably increased through Financial Literacy

Programmes from the part of banks. The farmers may be educated about the convenience of KCC on the one side, and the risk on the part of banks since crop loans upto Rupees on lakh are given without any collateral security. Hence they should be motivated to repay without any willful default. Moreover, banks should initiate steps for popularising the use of KCC by providing crop loans for increasing the extent of financial inclusion among farmers.

Table 4: Usage of electronic banking services by farmers

Sl. No	Electronic Banking Services	Respondents		
		Users	Non - users	Total aware
1	ATM	34 (68)	16(32)	50(100)
2	Credit card	3 (15)	17(85)	20(100)
3	Mobile banking	3 (14.3)	18(85.7)	21(100)
4	Internet banking	1(5.3)	18(94.7)	19(100)

Source: Compiled from survey data

Note: Figures in parenthesis represent proportion of users to total of aware respondents

Purpose of using electronic banking services by farmers

Electronic banking services are mainly used for fund transfer, payment of bills, online purchases and for withdrawal of cash. The ATM cum debit card can be used for withdrawal of cash as well as for online purchases and online transactions. But the respondent farmers are using it only for withdrawing cash. None of them use it for online purchases and other online transactions. The other services

provided by ATM, like checking balance in accounts, changing password etc. are not being used at all by them. Similarly, mobile banking can also be used for fund transfer, but the respondents are using it for payment of bills only. Financial Literacy Programmes in small groups, illustrating the use of these services alone can get rid of the fear of the farmers in using electronic banking services and attract them towards using them.

Table 5: Purposes of electronic banking services by farmers

Sl. No.	Purpose	Electronic Banking Services			
		ATM cum debit card	Credit card	Mobile banking	Internet banking
1	Withdrawal of cash	34	0	0	0
2	Payment of bill	0	3	3	0
3	Online transactions	0	0	0	1
	Total	34	3	3	1

Source: Compiled from survey data

Note: Figures in parenthesis represent percentage share of each to total of users in the category

Frequency of usage of electronic banking services by farmers

The frequency of use of electronic banking services also determines the level or extent of financial inclusion. Since only very few farmers are using credit card, mobile banking and internet banking, these are avoided from the analysis of frequency of usage and only that of ATM cum debit card is considered for analysis. Table 6 reveals that among the 34 users of ATM cum debit card, the frequency of usage is the highest for the 'once in three months category', followed by 'once in six months category'. Even though 77 per cent of the farmers are fully aware of ATM cum debit card, six per cent partially aware (Table 3.) and 68 per cent of them are using it for withdrawal of cash (Table 5), when it comes to frequency of usage only nearly 21 per cent of them are frequently using them, i.e., once in a week or 35 per cent if the monthly usage is also considered. The rest 65 per cent are using ATM cum debit cards, only occasionally. Hence even with respect to ATM cum debit card, the extent of usage is too limited, and hence the farmers are excluded from the usage of electronic banking services in Thanniam Panchayat.

Table 6: Frequency of usage of ATM cum debit card by farmers

Sl. No.	Frequency of usage	Users of ATM	
		Number	Percentage
1	Weekly	7	20.6
2	Monthly	5	14.7
3	Once in three months	14	41.2
4	Once in six months	8	23.5
5	Total	34	100

Source: Compiled from survey data

Note: Figures in parenthesis denote percentage to total

7. Suggestions and conclusions

It can be concluded that extent of use of electronic banking services is too low among farmers in Thanniam Panchayat. It is found that the extent of financial inclusion among farmers with respect to electronic banking services is low. The awareness level about electronic banking services is very low among farmers except in the case of ATM. Even though the farmers are having electronic banking mechanisms like smart phones, ATM cards, or internet access, they are not aware of the benefits or uses of these services. The reluctance to accept technology and the fear to operate it are the reasons for this merge use of electronic banking services, which results from lack of education and

youth being not attracted to agriculture as a profession. Lack of knowledge about technology, lack of interest and fear of operation of electronic banking services hinders the respondent farmers from using electronic banking services. The farmers may be educated about the convenience of using electronic banking services through financial literacy programmes and awareness campaigns, so that the banks can penetrate electronic banking in the panchayat. By disbursing more number of crop loans, the usage of credit cards can also be increased. The farmers may be educated about the convenience of KCC on the one side, and the risk on the part of banks since crop loans upto Rupees on lakh are given without any collateral security. Hence they should be motivated to repay without any willful default.

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