International Journal of Applied Research 2016; 2(3): 542-545

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(3): 542-545
www.allresearchjournal.com
Received: 23-01-2016
Accepted: 25-02-2016

V Mrunalini Sasanka
Lecturer, Department of Commerce and Management, Aditya Degree College, Affiliated to Adi Kavi Nannaya University, Rajahmundry, Andhra Pradesh

Correspondence
V Mrunalini Sasanka
Lecturer, Department of Commerce and Management, Aditya Degree College, Affiliated to Adi Kavi Nannaya University, Rajahmundry, Andhra Pradesh

Service area approach – A cash credit facility for augmenting rural credit for economic uplift of rural people

V Mrunalini Sasanka

Abstract
India lives in its villages and growth of Indian economy depends on the growth of the rural economy. The variation in rural income causes variations in the demand for products of the industrial as well as services sector. Economic development has become a major core competency. Along with social and environmental development, economic development of the rural communities has been pursued by most of us so as to seek, to create and support self-employment opportunities and encourage business activities by building capacity, lowering risks, identifying and enhancing opportunities, developing partnerships and facilitating market integration for farmers and villagers in our target areas. Thus, our interventions in the last years, ranged from raising awareness activities, technical and skill development training camps, identification of entrepreneurs and potential business areas, physical verification for credit granting, banking practices training to exposure visits and fair participation, technological guidance, marketing support and cluster development programs.
The study of rural societies has drawn interest not only in development economics but also in many other disciplines. The panoramic view of developing economies is dominated by rural societies. Rural areas are often characterized by a paucity of viable financial institutions and lack of variety of financial services available. Rural communities often do not have access to saving options, credit services, insurance, or transaction services. Besides, limited access to long-term financing needed for agriculture, land improvement and other rural activities is also a hindering factor in the improvement of agric/rural sector. With these odd features, the rural sector presents a real challenge to the design of sustainable financial intermediaries. Since the emergence of financial inclusion as an effective tool for sustained economic growth, social stability and poverty reduction, it has become imperative to devise a result oriented rural finance strategy in developing economies. The present paper attempts to analyze critically all issues pertaining to service area approach with a view to draw meaningful inferences substantiated by relevant facts and figures. This analysis is related to how credit plans under service area approach are formulated, implemented and monitored at different levels. It also focuses on various conceptual and practical problems pertaining to formulation, implementation and monitoring of credit plans under service area approach.

Keywords: Lead Bank Scheme, Service area approach, economic viability, financial inclusion, rural economy, economic development, poverty elevation

Introduction
Inequity, and deprivation are common issues confronting rural societies, prompting development assistance/interventions targeting this sector. In developing countries and transitional economies, only a very few rural masses have access to financial services. The Economic Development projects have been streamed in the four following areas of intervention: Micro Enterprise Development, Micro Finance, Poverty Alleviation and Rural Technology Development. Rural development interventions should pay special attention to the more vulnerable segment, the farmers especially, with the goal of gradually detaching them from complete dependence on agriculture without putting their food security at risk. Rural societies live in a simple environment, yet the structure and the dynamics of their day-to-day life is complex. Patterns of social processes vary across countries, and even across regions within a country; these patterns are highly sensitive to cultural differences. The major task of nationalization is to meet the credit gaps in the economy. For this purpose mobilization of deposits on massive scale has become necessary. This has necessitated changes in the policies and practices of banks.

After nationalization many banks came out with schemes for extending more credit in a liberal manner to people with small means. Banks have been competing with each other to take banking facilities to the doorsteps of people. The era of social banking started. The main thrust of branch expansion policy in the post nationalization period has been on increasing the banking facilities in the rural areas.
One of the main objectives of nationalization of banks was to extend credit facilities to the rural poor and to provide credit to the small borrowers in the priority sectors like agriculture, small scale industry, road and water transport, retail trade and small business. The necessity of meeting specific credit requirements of the weaker sections, consumption loans to rural people below the poverty line should be given priority. It should also include financing and distribution of iputs for agriculture and allied sectors so that uplift of the weaker sections in the economy can be improved.

Service area approach
The concept of service area approach relates to providing rural credit to accomplish the task of providing credit to millions of farmers, particularly small farmers, rural artisans, weaker sections, the multi-agency approach was felt necessary. The provision of affordable financial services to the rural population has been a prime component of development strategy for several decades. Governments, development agencies, and other donors have supported various agri/ rural financial institutions to accelerate the rate of growth and alleviate poverty, especially in the rural areas. Financing development in rural areas, where majority of the poor in developing countries lives, is one of the most pressing concerns of governments.
The rural sector in developing world not only generates employment, income, and foreign exchange from agriculture and off-farm rural activities, but also provides markets, labor & raw material inputs to manufacturing and other urban industries. With the inclusion of several sectors the concept Priority sector lost its flavor. Priority sector credit today lacks focus and rationality. Anti-poverty programmes provisions of finical services to the pool and underprivileged got top priority. Further efforts are required to address the credit needs of the poor like giving assistance by housing loans, educational loans, software including retail trade, export credit, food and agro processing etc. by enhancing support to trading community.

Role of Lead bank scheme
The lead bank scheme was introduced by the Reserve Bank of India toward the end of 1969 on the recommendation of the Nariman Committee with the objective of enabling the commercial banks to assume the role of leadership for the development of banking and credit facilities throughout the country on the basis of area approach. A lead bank is assigned the role of a catalytic agent of economic development through the expansion of bank branches and diversification of credit facilities in the district allotted to it.
The main objectives of Lead Bank Scheme are:
- Appreciable rise in the standard of living for the poorest of the poor.
- Provision of some of the basic needs of the people who belong to poor sections of the society.
- To open branches in all important localities in the lead district.
- To extend maximum credit facilities for development in the district.

The Lead bank Scheme was not fully able to achieve its targets due to shift in policies, complexities in operations and issues shifting to the Financial Inclusion. Lack of coordination between district planning authorities and banking institutions operating in a district on one side and between NABARD and the Lead Bank on the other is the prominent reason which required attention. Duplication of efforts in credit plan preparation should be avoided by empowering the plan team at the district level appropriately. It is a failure but the recommendation of Usha Thorat Committee had supported the lead bank scheme.
The review on LBS has been made with a focus on financial inclusion and in view of the recent developments in the banking sector. The scheme has been found useful to promote financial inclusion in the country. Hence it should be continued" – Usha Thorat May 22, 2009.

Procedure for Service Area Approach
- The District SGSY Committee set up under the Scheme has been authorized to reallocate the villages, which are either not covered by any bank branch or where the concerned branch is not able to perform for any reason whatsoever. The District SGSY Committee's decision on reallocation would be placed before DCC for its consideration and further necessary action.
- The Service Area branches may be grouped block wise without disturbing their Service Area identities or their obligation to prepare Village Credit Plans/ Service Area Plans so that borrowers will have the flexibility to approach other branches
- The primary responsibility for financing borrowers within the Service Area will be that of the concerned Service Area branch.
- Borrowers will first approach their Service Area branch for credit facilities and in the event of the concerned Service Area branch not being in a position to finance them, it will be incumbent on it to give a 'No Dues Certificate' to the concerned borrower, who will then be free to approach any other branch in the block for credit support.
- If the Service Area branches do not issue 'No Dues Certificate' within 15 days from the date of receipt of the application, the borrower will be free to approach any other branch in the block for his credit requirements without production of 'No Dues Certificate' from the concerned Service Area branch (vide circular RPCD. No. BC.117/08.01.00/95-96 dated April 2, 1996 read with circular RPCD. No. BC. 150/08.01.00-93/94 dated 24 May 1994).
- Banks should follow these Service Area Approach guidelines scrupulously.

Particularly for augmenting rural credit under this scheme each village in the country is allotted to a specific bank called service area bank introduced in April 1989, in order to bring about an orderly and planned development of rural and semi-urban areas of the country was extended to all Indian scheduled commercial banks including RRB. Service area approach is a modification of the Lead bank scheme.

Enterprising of the rural economy
"Agriculture plays a crucial role in India and as such, priority is given to agricultural credit". The genesis of institutional credit to agriculture could be traced back to the enactment of Co-operative Act in 1904. The Reserve Bank of India Act

1934 envisaged a special developmental role for Reserve Bank of India in the sphere of agriculture credit.
The Rural Banking Enquiry Committee (Thakurdas Committee, 1950)86 stressed the need for an efficient system of agricultural finance, preferably of a sound co-operative credit structure capable of developing close relations with the Banks. RBI organized an informal conference to follow up the Rural Banking Enquiry Committee‟s recommendations. Based on the recommendations, it has decided to organize a Rural Credit Survey and constituted a Standing Advisory Committee on Agricultural Credit. Various Schemes of State Bank of India for Agricultural Development: State Bank of India caters to the needs of agriculturists and landless agricultural labourers through a network of 6600 rural and semi-urban branches. Rural and urban poverty differ from each other in relation to different components that form the vector of poverty.

1. The rural poor have inadequate income and asset in comparison to urban poor.
2. Rural poor have also less occupational opportunities as compare to urban poor.
3. The rural poor tend to consume less nutritional element than those of the urban poor.
4. The problem of shelter is very inadequate and is likely to be more acute in poor rural society.
5. The rural poor tend to be less educated than those of the urban poors.
6. The nuclear family is likely to be prevalent norm of the urban while joint families of the rural.
7. Urban poor are more likely to be oriented towards modern values than the rural poor.

The Agricultural Credit Review Committee
(Report August 1989)54 has highlighted the major shortcomings of IRDP and has given useful suggestions to improve the efficiency of this programme. They can be briefly stated as under:

(i) Selection procedure for the poor has been faulty and banks have not been involved in the same banks must be given a greater say in the selection of the poor.
(ii) Targets are not linked with the resources, opportunities and capabilities of the poor.
(iii) Repayment schedules are not reasonable and there is lack of working capital.
(iv) There has been misuse of subsidy; this may be adjusted with the final repayment of installment in future.
(v) Project approach is more viable.
(vi) High targets for high incidence of poverty areas are not suitable.
(vii) Very poor people prefer wage employment to self-employment because normally they cannot manage the assets properly.

The urban poor are more benefited from poverty alleviation programmes that of the rural poor.

Agriculture need for an efficient system
There are 972 specialized branches which have been set up in different parts of the country exclusively for the development of agriculture through credit deployment. These branches include 427 Agricultural Development Branches (ADB's) and 547 branches with Development Banking Department (DBDs) which cater to agriculturists and 2 Agricultural Business Branches at Chennai and Hyderabad catering to the needs of hi-tech commercial agricultural projects. The branches cover a whole gamut of agricultural activities like crop production, horticulture, plantation crops, farm mechanization, land development and reclamation, digging of wells, tube wells and irrigation projects, forestry, construction of cold storages and go downs, processing of agri-products, finance to agri-input dealers, allied 132 activities like dairy, fisheries, poultry, sheep-goat, piggery and rearing of silk worms. (www.sbi.com Date: 29-05-2011).

Need for Economic Development
The causes of rural poverty are complex and they involve, among other things, culture, climate, gender, markets, and public policy. Likewise, the rural poor are quite diverse both in the problems they face and the possible solutions to these problems. It also focuses on the rural people and also examines how rural poverty develops, what accounts for its persistence, and what specific measures can be taken to eliminate or reduce it. Broad economic stability, competitive markets, and public investment in physical and social infrastructure are widely recognized as important requirements for achieving sustained economic growth and a reduction in rural poverty.
Rural poverty accounts for nearly 63 percent of poverty worldwide, reaching 90 percent in some countries like Bangladesh and between 65 and 90 percent in sub-Saharan Africa. The links between poverty, economic growth, and income distribution have been studied quite extensively in recent literature on economic development. Absolute poverty can be alleviated if at least two conditions are met:

- economic growth must occur—or mean income must rise—on a sustained basis; and
- Economic growth must be neutral with respect to income distribution or reduce income inequality.

Poverty cannot be reduced if economic growth does not occur. In addition, because the rural poor's links to the economy vary considerably, public policy should focus on issues such as their access to land and credit, education and health care, support services, and entitlements to food through well-designed public works programs and other transfer mechanisms. It is essential to examine the economic and social context, including institutions of the state, markets, communities, and households.

Women's role in economic equality
India has been developing fast, but not always equitably or inclusively. Our development model is very much a work in progress and deep-rooted challenges remain. Women in India make up 7.5% of the world's total population. While certain development indicators show their quality of life is improving – maternal mortality rates declining; literacy rates increasing; more women gaining access to healthcare and education – the pace of change is heartbreakingly slow.
India ranks 113 out of 135 on the World Economic Forum's Gender Gap Index. According to India's 2011 census, the sex ratio for children under six was 914 females to 1,000 males, a disturbing decline from 927 in 2001. The ranking of Indian women in economic empowerment is 0.3, where 1.0 means equality. When we educate and empower one woman, we set off a chain reaction that transforms the life of her family and the community she lives in. An exemplary model is the network of trained Accredited Social Health Activists (ASHA), created under the National Rural Health Mission, who have played a crucial role in improving the health of women and children across India. By investing in women

and their education, we are investing in our present and in our future.

The Evolution of 'Women in Development' to 'Gender and Development' In the 1970s, research on African farmers noted that, far from being gender neutral, development was gender blind and could harm women. Out of this realization emerged the Women in Development (WID) approach, which constructed the problem of development as being women's exclusion from a benign process. Women's subordination was seen as having its roots in their exclusion from the market sphere and their limited access to, and control, over resources. The key was then to place women 'in' development by legislatively trying to limit discrimination and by promoting their involvement in education and employment.

Development and reducing economic equality

Economic growth is driven by technological improvements, which reduce the costs of production and enable more to be produced. (Greater efficiency). This technological progress in many ways feels an inevitability. How could you stop this technological progress? Technological improvements have particularly improved the productivity of agriculture and manufacturing. This means we can support ourselves with a smaller % of the workforce on agriculture and manufacturing. Many of new jobs are in service sector. (e. g. people far more likely to eat out, go to a cafe – than 20 years ago.

Economic growth has essentially occurred because of technological improvements. The industrial revolution was driven by steam technology. The twentieth century saw the internal combustion engine, assembly lines and greater efficiency from exploiting economies of scale. Post war, we have seen improved transport, computers and recently the internet. This has enabled greater output per person and increased real incomes.

Regulating economic growth through

1. High-wage Job oriented and expand tax base and empowering people.
2. The country may grow well but not always in the way we desire only through effective economic development we can achieve success.
3. High quality job creates strength and develop high quality services.
4. We must stay on the leading edge of innovation to secure our economy.
5. Diversifying our economy is to continue and enhance growth.
6. Sustainable development can be achieved on the goals like basic water, education, healthcare and sanitation for the progress on human rights.
7. Eliminating economic inequality would force governments to find the root causes of the problems.
8. Reducing inequality could go a long way to eradicating poverty even in a low growth scenario.

Conclusion

Forecasts show that – even if the world economy slows down– a more equal world in 2030 would have half the number of people living in extreme poverty. Most of the world's poor now live in middle-income countries, not low-income countries. They are struggling not because there isn't enough in their economies to go around – but because wealth and resources are piling up in the hands of the rich. Improving banking technology has the potential to increase income by allowing households to smooth consumption and accumulate savings. State-led expansion of the banking sector in rural areas can reduce rural poverty, increase rural wages, and increase agricultural investment. Access to credit is associated with higher agricultural incomes and increased and/or smoother consumption for rural farming populations. Formal banking services can provide poor households with a mechanism to smooth income and consumption over time and make efficient investments in health, education, agriculture and businesses. This in turn will allow them to earn higher incomes.

Development should be available to local government to provide a full assessment of the economic status and needs of a community and to work with local government to construct a proper plan for early implementation. Policies may be regarded as decisional guides to action that make the strategies work. Establishment of formal policies is therefore inescapable to provide for consistency in decision-making and predictability of actions. Integrated rural development programs have a bearing on the growth objective and try to overcome the future risks. The Reserve Bank of India (RBI) has done away with the service area branch approach from January this year.

Accordingly, the RBI dispatched circulars all scheduled banks and Regional Rural banks. Now, the borrowers have a choice to receive credit from any bank of their choice. The Service Area Approach (SSA) was introduced in April 1989 to bring about a planned development of rural and semi-urban areas. The bank branches are allotted specific villages, usually geographical contiguous areas, for credit planning and lending. In order to ensure larger flow of credit to the needy farmers and weaker sections many innovative schemes has been adopted by banks and also extended cheap credit to small farmers, rural artisans etc. banks have done well in priority lending's, but problems like overdue and bad depts. Have become a serious problem faced by the banks in respect of advances made to the weaker sections of the society. Banks were also worried at the poor and unsatisfactory recovery performances from the agricultural and small sectors. The Narasimham committee was against the continuance of the priority sector lending. But the governments has not accepted this suggestion so far.

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