A STUDY ON RURAL BANKING FINANCE

UNDER THE GUIDANCE OF
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INTRODUCTION

Financial market liberalization, innovations in the area of risk management, and reductions in transaction and supervisory costs have had significant positive impacts on agricultural finance institutions. Building on these positive developments, this study will attempt to contribute ideas based on recent experiences with innovation from developing countries in order to spur more innovations in rural finance. This study focuses on four key areas where innovation could lead to greater access to agricultural finance: warehouse receipts and collateral securitization mechanisms; risk management products; supply chain finance; and technology. The paper describes the issues surrounding the themes and how innovative techniques can be used to overcome traditional barriers to providing financial services to agriculture by reducing either the risks associated with lending, the costs, or both. The diverse group of case studies and thematic discussions also underscore some key lessons regarding the role of government in its quest to lower costs and risk in the rural finance space.

Rural finance refers to financial services such as lending, savings, insurance and remittance service that can be provided by a variety of actors. These actors can be friends, relatives, shopkeepers, traders, money lenders, traditional savings and lending groups, micro finance programmed or banks. Rural finance is a term used to cover those financial services provided in rural areas for agriculture as well as non agriculture purposes. Within the rural sector different groups and categorized of individuals require services designed to meet their particular needs. While proper groups might need savings facilities and saving designed to meet their needs. While proper groups might need savings facilities and involved in cash crop production will probably require larger amounts of credit to finance production, input, processing and marketing. Rural finance comprises credit, savings and insurance (or insurance tends to associated with enterprises development, whereas rural finance also includes savings and insurance mechanism used by the poor to protect and stabilize their families and livelihood (not just their business). An understanding of rural finance helps explain the livelihood strategies and priorities of the rural poor. Rural finance is important to the poor. The poorest groups spend the highest proportions of their income on food typically more than 60% and sometimes as much as 90% under these circumstances any drop in earnings, or any additional expenditure on health has immediate consequences for family welfare unless savings or loans can be accessed. Financial transaction is therefore an integral part of the livelihood system of the poor. Rural finance consists of informal and formal sectors. Examples of formal sources of credit include: Banks, projects and contract farmer schemes. Reference is often made to micro-credit. Micro credit schemes use specially developed pro-poor lending methodologies. Rural population are much more dependent on informal sources of finance including loans from family and friends, the local moneylenders and rotating or accumulating savings and credit associations. Rural finance remains very challenging and in developing countries it is generally weak, despite the efforts of donors, governments and private investors to improve it. However, important lessons are emerging from these experiences that provide useful guidelines on how to expand and make more effective the provision of rural financial services.

1.2 OBJECTIVES

- To study the loan amount.
- To study advances in products, services, technology& setting up micro finance activity.
- Rural Finance is to provide banking services to the rural population of India.
- To study more preffered bank account in rural areas.
- To study the SACCOs.

1.3 SCOPE

This study concentrates on rural banking finance.

A total Sample of 75 is concentrated for the study. The sample has been collected for rural banking Finance.

Both primary and secondary data used for a study.

1.4 DATA COLLECTION

- This project report is based on primary data.
- The data collected by 75 samples, which were fill by farmers, Service, Unemployed and transportation that belongs from different class of society.

.5 Hypothesis

- Service is the impact of Farmers and micro finance institution.

1.6 LIMITATIONS OF THE STUDY

- Time is limiting factor.
- Opinion given by respondents (If biased) may reflect on the study.
- Respondents were reluctant to share information.

REVIEW OF LITERATURE

These goals are achieved through advances made in different types of institutions, products, services, and processes in response to the information, incentives, and contract enforcement barriers that hinder financial transactions in rural areas. These advances are nurtured by a good enabling environment, consisting of sound policies and supportive institutions. The rural finance literature is voluminous and too broad to study thoroughly in a short period of time. Our conceptual framework, literature review, and discussions with knowledgeable persons guided us to examine 12 key themes that, in turn, helped identify important rural finance issues and important gaps that require further examination. The 12 themes are clustered below according to our framework:

The Old Rural Finance Paradigm

The 1960s and 1970s ushered in a plethora of rural credit projects around the world, especially in Asia and Latin America. These projects were premised on the recognition of the special costs and risks — assumed to be involved in RF —that made formal financial institutions reluctant to expand into rural areas. A rationale was developed, therefore, that urged governments and donors to intervene in rural financial markets. Five main types of interventions were advocated under the paradigm: lending requirements and quotas on banks and other financial institutions refinance schemes, loans at preferential interest rates, credit guarantees, and targeted lending by development finance institutions (DFIs). These RF programs were expected to promote agricultural development. The interventions were intended to increase rural lending by reducing the costs and risks to lenders that made loans to preferred rural clients and sectors. Subsidized interest rates, loan waivers and forgiveness programs were also used to reduce the debt burden of priority-sector borrowers, especially following floods, droughts, and periods of low farm prices. Credit was considered an important means to speed agricultural development, expand exports, promote small farmers, reduce poverty, and ensure cheap food supplies to urban areas. Multilateral and bilateral donors invariably supported the approach taken by many governments and funded many of the targeted supplied projects. This approach helped some developing countries, especially in Asia, to improve agricultural yields in the short-term. But it was costly and unsustainable over the long term, and it failed to reach the majority of rural households. The few positive benefits were unable to achieve the intended objectives of increasing rural incomes, stimulating asset formation, and reducing rural poverty. The focus on lending only for agricultural purposes ignored the potential benefits of supporting growth-intensive investments more appropriate for the rural poor or small, off-farm rural enterprises. In many cases, costly bailouts of state-owned agricultural credit institutions undermined the development of private, for-profit, rural financial institutions. Most governments invariably used RF for political objectives and underestimated the difficulties, costs, and risks of supplying sustainable rural financial services. The majority of the RF programs that followed the old paradigm failed. Subsidized interest rates did not cover costs, so rural financial institutions (RFIs) were unviable and they lost the confidence of depositors. There was a huge build up of nonperforming loans since cheap credit encouraged unprofitable investments and led to a concentration of loan portfolios in the hands of the rich and powerful. Subsidized agricultural credit often resulted in production inefficiencies by targeting the wrong products and creating artificial preference for capital-intensive investments that "crowded out" abundant labor in rural areas. In some cases borrowers intentionally defaulted because they believed that governments would waive or forgive their loans or not take action against defaulters in priority sectors. Financial discipline was damaged and intermediaries weakened.

Strategies for Rural Finance

Several donors have always included rural finance in their funding for rural and economic development. However, donor support for analysis and experimentation in rural finance declined between the mid-1980s and late 1990s due to the colossal failures of most of the early RF programs. As a result, donors seldom supported large, stand-alone RF projects during this period. Nonetheless, donors continued to support rural finance during this period by encouraging microfinance, which has had a profound influence on the new rural finance paradigm. In the mid-1980s, a few donors assisted in the successful restructuring of specialized agricultural development banks, leading to the provision of finance to large numbers of rural clients on a profitable basis (e.g., Indonesia and Thailand). Donors also helped by applying microfinance methodologies that were emerging from a variety of practitioners around the world (Committee of Donor Agencies, 1995; Rhyme and Otero, 1994). Donors also continued to help improve the macroeconomic and policy environments in developing countries. These efforts included structural adjustment programs and support to a growing number of nongovernmental organizations (NGOs), networks of savings and credit associations, and other MFIs. These efforts sought to achieve substantial improvements in MFI outreach and self-sustainability. Also, components related to rural finance were embedded into rural infrastructure development projects and these indirectly contributed to rural finance. The persistence of rural poverty and income inequality between urban and rural areas has renewed the donor community's interest in rural finance. Many multilateral and bilateral donors are currently working to strengthen rural finance with a variety of instruments, including loans, grants, guarantees, and technical assistance. It appears to have been learned in donor organizations (at least at the advisor level) from the results of the old-paradigm programs. These lessons focus on such major areas as the importance of pro rural policies that improve the climate for developing rural financial markets, strong institutions, pricing of financial products and services to cover costs, capacity building for retail services, and donor coordination. Currently, a consensus appears to exist among all major donors in supporting the new RF paradigm that emphasizes increasing the impact of financial services by building diverse types of sustainable financial institutions with a large outreach. Several donors also appear to be concerned about improving the efficiency of rural financial markets by reducing transaction costs and risks. Institutional development and innovations are generally being encouraged and funded, and new institutional arrangements and product types are being supported to help expand sustainable outreach to the un-banked in rural areas. Our review of the strategies of major donors supporting rural finance shows that they focus on: creating and fostering a proper enabling environment improving the financial infrastructure building financial institutional capacity, and strengthening the capacity of rural clientele to access financial services Institutional design, product design, and implementation issues are emphasized in several RF projects. Depending on their mandate and comparative advantages, Donors tend to support selected areas that can help improve rural finance. In order to guide their rural finance interventions, almost all types of donors now have developed a comprehensive strategy following the new RF paradigm. Several of the donors' strategy documents are available on their Web sites, which promotes transparency. The Ford Foundation drafted its approach to RF in a normative statement on development finance and economic security in March 2003. Rural finance is considered to be part of development finance. The foundation considers development finance to be an important component of its efforts to reduce poverty and build the financial, natural, social, and human assets of low income individuals and communities. The foundation seeks to enhance the ability of low-income people to create, control, and maintain financial assets, such as savings, investments, and the equity in their homes and enterprises. The World Bank's approach was first detailed in a 1997 strategy paper on rural finance, "Rural Development: From Vision to Action," and was operationally reinforced by its July 1998 issuance of Operational Policy (O.P.) 8.30 and Bank Procedure 8.30 on Financial Intermediary Lending (Steel and Charitonenko, 2003). In 2002, as part of a new Rural Development Strategy to reach the rural poor, the Bank further refined its strategy regarding rural finance activities. Strategic priorities for the expansion of rural finance now include: (a) fostering a more suitable enabling environment for the provision of financial services; (b) supporting the development of efficient, viable financial institutions and products; and (c) promoting investment in social and economic infrastructure to improve financial management skills and business. Rural finance lending at the Bank in recent years, following the new rural finance paradigm, has supported the creation of an enabling environment and promoted institutions providing small loans and saving services instead of financing lending operations for large rural and agricultural enterprises. The Bank is now examining rural finance interventions appropriate for diverse contexts. The Consultative Group to Assist the Poorest (CGAP), formed in 1995 as a consortium of 26 major donors, now leads the microfinance industry in following the financial systems approach. It facilitates capacity-building and encourages innovations that can lead to the development of sustainable, efficient and transparent MFIs that can reach large numbers of un-banked poor in rural and urban areas to make a lasting impact on their lives. CGAP has extended its focus to rural finance with an emphasis on microfinance for rural clients. Several field notes are being prepared based on case studies of rural-finance practices. A recent CGAP publication explores the intersection of lessons from microfinance and traditional agricultural finance to help develop as set of best techniques and strategies to expand agricultural microfinance. The authors state that valuable lessons can be gained since microfinance organizations have traditionally managed risk very well, while traditional agriculture lenders have developed specific products that respond well to cash-flow cycles and marketing relationships of farming communities. In 1996, the Food and Agriculture Organization (FAO) launched a joint initiative, “Agricultural Finance Revisited,” to analyze the specific challenges of agricultural finance and weigh the impact of the current rural financial market approach and microfinance technologies on the provision of financial services for farm and off-farm production. A subsequent series of publications reflects the status of rural finance around the world. The International Fund for Agricultural Development (IFAD) has also developed a policy paper on rural finance, placing special emphasis on women and rural poor (IFAD, 2000). It also collaborates with CGAP to support innovations and gather best practices in rural finance (through the Rural Pro-Poor Innovation awards) and funds many finance projects in the field. The Inter-American Development Bank (IADB) seeks to promote efficient and sustainable rural financial intermediation through systematic efforts to (a) create a favorable policy and legal environment; (b) develop financial retail capacity; and (c) promote other financial services (such as warehouse receipts, credit cards, leasing, and insurance) in markets where the first two elements are well advanced (IADB, 2001). The Asian Development Bank (ADB) has no established strategy for rural finance, but it promotes microfinance as a means to develop rural financial markets. Its microfinance approach is detailed in “Finance for the Poor: Microfinance Development Strategies” (ADB, 2000). The African Development Bank’s (AfDB) “Policy Guidelines for the Rural Financial Sub-Sector” provides operational guidelines to facilitate rural financial intermediation by supporting bottom-up, demand driven microfinance and rural finance schemes aimed at assisting the poor and vulnerable groups of society.

FINDINGS:

1) It is clear that out of 75 respondents 73 respondents (8%) said farmer for occupation.

2) It is clear that out of 75 respondents 44 respondents (58.66%) said 30-45 years age group to take finance.

3) It is clear that out of 75 respondents, 44 respondents (58.66%) as said Kissan credit card more prefferes in bank.

4) It is clear that out of 75 respondents, 31 respondents (41.33%) said 5001-10000 for monthly income.

5) It is clear that out of 75 respondents, 42 respondents (56%) as said depend on type of funding for rates levied by the banks for agri funding.

6) It is clear that out of 75 respondents 40 respondents (53.33%) said depend on bank criteria for providing funding to multiple families.

7) It is clear that out of 75 respondents 26 respondents (34.66%) said equipment insurance for insurance taking from institution.

8) It is clear that out of 75 respondents, 31 respondents (41.33%) as said depend on crop loan for repayment period of crop loan.

9) It is clear that out of 75 respondents, 31 respondents (41.33%) as said 15 days for how many days to grant loan.

10) It is clear that out of 75 respondents, 42 respondents (56%) as said 1 time for availed micro finance loans.

11) It is clear that out of 75 respondents37 respondents (49.33%) said 3-5 lakh for Agriculture finance does you consider.

12) It is clear that out of 75 respondents38 respondents (50.66%) said 5001-8000, for maximum amount loan availed from micro finance institution.

13) It is clear that out of 75 respondents 49 respondents (65.33%) said crop for purpose of loan amount used.

14) It is clear that out of 75 respondents, 48 respondents (63.66%) said very well for type of relationship with you with bank.

15) It is clear that out of 75 respondents 32 respondents (42.66%) as loan service for service provided by bank to you.

16) It is clear that out of 75 respondents, 32 respondents (42.66%) as less than one month for time lag after application.

17) It is clear that out of 75 respondents, 30 respondents (40%) as said nationalized for agriculture credit to rurals.

18) It is clear that out of 75 respondents, 52 respondents (69.33%) as said nil for resolution of any complaint.

19) It is clear that out of 75 respondents 56 respondents (74.66%) as said all of the above for agriculture loan from bank farmer.

20) It is clear that out of 75 respondents, 36 respondents (48%) as said sugar cane for maximum funding in the crop.

21) It is clear that out of 75 respondents31 respondents (41.33%) said crop for training is provided by the SACCO.

22) It is clear that out of 75 respondents 58 respondents (77.33%) said notice given to farmers for loan on time is done by bank officer/collection.

23) It is clear that out of 75 respondents 52 respondents (69.33%) said 10-20 acres for mainimum land area required by bank for credits.

24) It is clear that out of 75 respondents, 36 respondents (48%) as said agree and 36 respondents (48%) said completely agree for farmers in improving the standard of living.

25) It is clear that out of 75 respondents, 41 respondents (54.66%) as said save security for setting up micro finance activity.

26) It is clear that out of 75 respondents, 55 respondents (73.33%) as said SHG for model for micro finance.

27) It is clear that out of 75 respondents, 55 respondents (77.33%) as said with friends, for saving before joined the SACCO.

28) It is clear that out of 75 respondents 39 respondents (52%) said all of the above for SACCOs motivated you to save.

29) It is clear that out of 75 respondents, 24 respondents (32%) as said Infrastructure, for lending micro finance viability.

30) It is clear that out of 75 respondents 30 respondents (40%) said satisfied for interest rate.

31) It is clear that out of 75 respondents, 25 respondents (33.33%) as said money lenders

32) It is clear that out of 75 respondents, 25 respondents (33.33%) as said documentation for micro finance institution.

4.2 SUGGESTION

Interest rates must be different for different categories. It should be concessional rate for small and marginal farmers.

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.3 WEB SITES

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