

Rural Finance Literature Review and Future Research Agenda

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Abstract

Purpose: The purpose of this paper is to provide a mixed analysis of the extant literature on rural finance, its effect and limitations. **Design/Methodology/Approach:** A total of fifty papers were studied and assessed in terms of nature of research, the impact and its limitations. The papers were collected from various journals available at different online databases. **Findings:** The major finding was how much is the rural economy developed in terms of financial planning. Most of the studies are India based and focused on the recent trend of rural finance, its effect on the overall economy, the way forward and the limitations. **Research Limitations:** The limitation of this paper is that maximum of the papers read are India based and so a generalised concept about the entire world cannot be made. **Originality/Value:** The study is an attempt to provide an in-depth analysis for both future prospects and academic prospects.

Keyword: Digital Growth, Rural Credit, Rural Finance, Rural Income Dynamics, Rural Supply and Demand

1. Introduction

Rural finance refers to the full range of financial services—loans, savings, insurance, payment and money transfer services which are used in rural areas by households and enterprises. In India, over 65% of the rural population is in rural and approximately 70% of them do not have bank accounts as per the recent data. It is the absence of proper and formal sources of finance due to which still the penetration of financial knowledge is low. The informal sources like the moneylenders in the rural areas are the main reasons for the improper growth of rural finance in India. Moneylenders are said to control approximately one-third of all rural loans and this creates a major impact because of the unclear picture which gets created.

But over the past few years, seeing the harsh impact of the improper sources, the government has taken steps in improving the condition of rural financing through proper reach of banks and Non-Banking Financial Companies (NBFCs). This has led to the increase in granting of loans

to farmers and other rural householders. This has also led to an increase in the employment, whether be it in banks or be it in terms of small businesses. The major chunk of rural finance is the agriculture and farming sector where the amount of credit required to run the business is high (Jones, Williams and Thorat, 2007). Since agriculture plays an important contribution in terms of GDP (approximately 17%), so farming finance is an important criteria (Mishra, A. K., & Mohapatra, U. (2017).

This paper also tries to analyse the dynamics of the rural income, primarily caused by the availability of funds spent by the Government (Chakrabarty, 2003). Currently there are financial aids for the rural economy in the following forms:

- Nationalised banks:
- Private banks
- Credit societies
- Cooperative banks
- Money lenders

A major advantage of microfinance entities and other form of collective actions has been the ability to pool risk (Skees, 2005)³. This is because of the effect of weather mostly the rainfall which affects the crops and thus affects the overall capability of paying back the debts. There are numerous challenges to the insurance markets because of the unpredicted conditions which affects the overall rural economy.

Income in India is closely linked to social and economic status i.e. poorest and low income statuses are largely informally employed while the upper and middle classes constitute the formal ventures and employment (Shashtri, 2009). To develop their enterprise the poor people have tried to manage their resources over a period of time. Financial services will help the poor to leverage their initiative, accelerating their processes to generate incomes, good number of assets and economic security. The impact that microfinance creates on reducing poverty has been measured with respect to certain areas like improved income, change in employment rate, effect on household expenditure and reduced vulnerability to economic and social crises.

The structure of allocating loans effectively was a matter of concern in late 90s (Adams and Vogel, 1984). Policymakers used to program cheap loans for crops such as rice and then tried to force financial intermediaries to extend credit for that purpose. Countries including Malaysia and India have experimented using market intermediaries such as retail outlets for loans provided by government credit agencies. While in the current scenario, the main focus is on the problems which are faced in the rural economy and how microfinance is still ineffective in addressing challenges facing farmers in Northern India (Yusuf, 2014).

2. Methodology

In any research paper, it is mandatory for any researcher to have the complete set of understanding about the topic and the research done on it. While a few of the research papers are purely qualitative (Ruben and Clerex, 2002), (Karmakar, 2008); a few of the research papers dealt in terms of quantitative analysis, e.g. regression analysis (Chakrabarty, 2003), (Basu, 2006); and a few had a missed analysis on the topic (Skees, 2005).

Google Scholar was our main source of database and the papers have been cited and read from here for better understanding of the topic.

Initially the papers were downloaded and then based on the keywords and the abstract or the summary, fifty

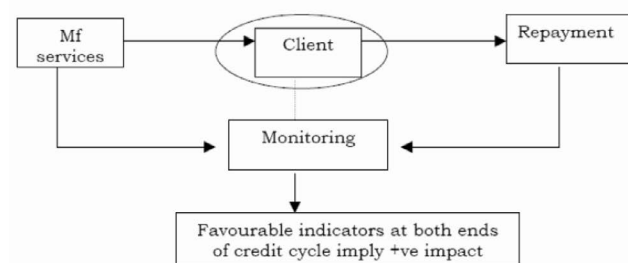
papers were selected and the remaining duplicates were eliminated.

3. Current Progress on Activity Mapping

State	Number of subjects transferred through legislation	Number of subjects undertaken for activity mapping	Comments
Andhra Pradesh	17	9	Activity mapping not completed
Assam	29	29	Activity mapping not completed
Bihar	25	0	Consultation process under way
Chhattisgarh	29	7	Activity mapping completed for 7 subjects
Goa	6	18	Activity mapping not completed
Gujarat	15	14	Activity mapping completed for 5 subjects
Haryana	—	—	Draft prepared
Himachal Pradesh	26	—	Consultation process under way
Karnataka	29	29	Activity mapping completed and funds devolved for 26 subjects
Kerala	26	26	Activity mapping completed and funds devolved for 26 subjects
Madhya Pradesh	23	7	Activity mapping not completed
Maharashtra	18	—	Activity mapping not completed
Manipur	22	22	Activity mapping completed for 22 subjects
Orissa	25	7	Activity mapping not completed
Punjab	7	—	Activity mapping not completed
Rajasthan	29	18	Activity mapping not completed
Uttar Pradesh	12	—	Activity mapping not completed
Uttaranchal	14	14	Activity mapping not completed for 9 subjects, executive orders issued for 3
West Bengal	29	—	Activity mapping completed

Source: Government of India 2006.
Note: — = not available in the given source.

4. How the Cycle of Microfinance Works



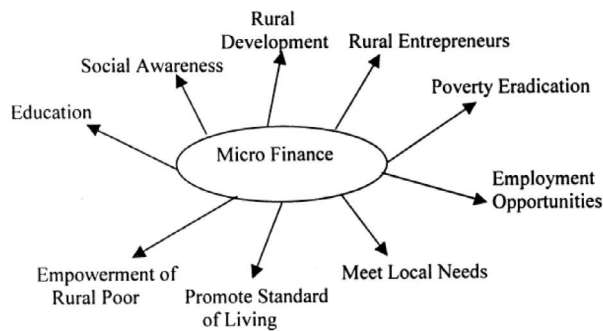
5. Growth of SHGs and Loan Disbursed

YEAR	No. of SHGs	Loan Disbursed (Rs. In Crore)
1992-93	255	0.29

1993-94	365	0.36
1994-95	1502	1.79
1995-96	2635	3.62
1996-97	3841	5.78
1997-98	5719	11.92
1998-99	18678	33.31
1999-2000	81780	135.91
2000-01	149050	287.89
2001-02	197653	545.47
2002-03	255882	1022.33
2003-04	361731	1855.53
2004-05	539365	2994.26
2005-06	620109	4499.09

Source: NABARD Annual

The microfinance sector has made positive impact on various sectors.



Schemes of Union Ministries that deal with different functions.

Name of ministry or department	Number of schemes	Annual allocation (Rs million)
Rural development	6	113,224
Elementary education	9	57,375
Family welfare	49	49,297
Drinking water and rural sanitation	2	33,000
Women and child development	6	21,531
Agriculture	8	12,584
Land resources	4	10,330
Health	14	9,825
Welfare of scheduled castes, other backward castes, and minorities	9	5,816
Animal husbandry	18	3,870
Secondary and higher education	11	3,060
Adult education	4	2,375
Nonconventional energy sources	4	1,260
Tribal affairs	4	1,110
Indian systems of medicine and homeopathy	3	533
Total	151	325,190

Source: Government of India 2004c, p. 19.

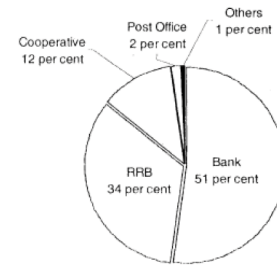
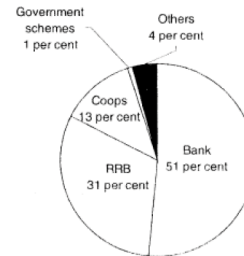
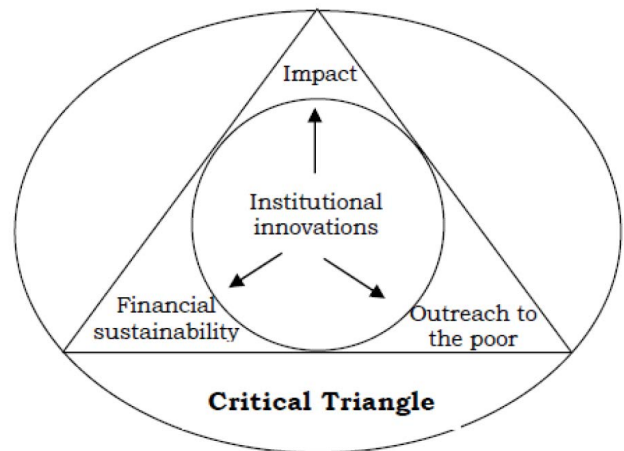


Figure 1. Distribution of Accounts.



Source: RFAS, 2003.

Figure 2. Credit Outstanding by Source.



Direct institutional credit for agriculture and allied activities short term.

6. Results Over the Years

For the past many years, majority of rural people had no access to banking services which could have been beneficial for them in their development and economic situation. Cooperative banks and other regional banks including credit cooperatives and self-help groups help in providing financial services see in figure 1. But these have low innovative and operative capacities and this is why

(Rs. Crore)

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	18556	10704	3095	32355	18168	15422	3692	37302
2001-02	21670	12661	3810	38141	21540	18882	4812	45234
2002-03	23629	16825	4834	45288	24518	23211	6495	54224
2003-04	29326	24143	6133	59593	30808	31982	7664	70454
2004-05	31887	29978	9883	71748	32481	71748	10980	86259
2005-06	35624	45644	12816	94084	34140	59971	13877	107988
2006-07	40796	65245	17031	123072	37764	76006	18707	132477
2007-08	47390	68243	20377	136010	43696	96152	22748	162596
2008-09	48022	107766	22851	178639	45686	126285	26652	198623
2009-10	61951	124646	30529	217126	54970	167623	33663	256256
2010-11	NA	146063	38560	NA	NA	193262	40663	NA
2011-12	NA	217897	47011	NA	NA	269030	46580	NA
CGR	13.57	32.04	28.94	24.3	12.05	30.33	26.54	23.86

Direct institutional credit for agriculture and allied activities long term.

(Rs. Crore)

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	8739	5736	871	15346	27967	22828	3557	54352
2001-02	8899	5977	736	15612	30570	26224	3474	60268
2002-03	10411	8431	1045	19887	34546	30593	3766	68905
2003-04	10723	12069	1042	22834	40595	36121	4058	80774
2004-05	13122	18389	2043	33555	46341	52721	5730	104791
2005-06	12499	34955	2484	49938	48187	75632	7632	131451
2006-07	13223	50021	3198	66442	51679	93012	8745	153436
2007-08	10253	45229	3461	58943	21970	106644	10468	139082
2008-09	10765	52924	3648	67337	18359	129834	10715	158908
2009-10	12987	63607	4111	80705	21510	147813	12619	181942
2010-11	7235	76729	5405	89369	30558	164322	14404	209284
2011-12	7500	94980	6048	108528	31446	174268	17244	225958
CGR	-0.93	31.56	22.03	20.95	-2.82	22.75	17.21	14.23

Source: Reserve Bank of India

NABARD was charged by the government of India with implementation of programmes related to rural finance among many other things see figure 2.

The rural cooperative credit system which has 92000 institutions containing 120 million members has been since 2008 able to improve its performance. It has standardised the systems for purposes of accounting,

counselling, training and auditing. The creation of a national institute has been a big success as it controls the quality of training sector wise and certifies competent employees. A rating of atleast "Sufficiently sound" has increased to 97% recently and the value of loans disbursed has doubled with borrowing increasing to 45%.

The number of Self Help group members holding deposits increased to 90 million from 50 million. The fact is 82% of those are women and 56% have outstanding bank loans. The quality and range of services has improved many folds via the development of demand oriented products. They have also provided employment as bank agents at village level. As many as 70 women are providing services on behalf of two banks to 18600 clients in as many as 286 villages.

7. Results on the Basis of Countries

These research papers were based mainly on India and a few parts of Africa which are facing problems related to rural finance or where some major developments are taking place which are helping in growth and development. These models help in forming a base for other regions, countries etc to get an idea of how to go about with implementing rural finance. A major factor which needs to be kept in mind is the inclusiveness of the governments and also the infrastructure already available and what is desired. These factors will give a better idea as to how the planning is to be done so that the steps taken can be beneficial for all the stakeholders Nagarjan, G., & Meyer, R. L. (2005), Khan, H. R. (2014).

8. Conclusion

This research paper focuses on the fifty research papers related to the rural and microfinance. To a major extent the paper covered various areas like risk involved in implementing rural financial planning, capital required to invest in rural areas for better rural finance growth, the effort made by the government to reach out to various small areas to impart rural finance, the hurdles and benefits faced by the economy and many more. From our perspective this paper can be used for academic purpose for comprehending and understanding this topic to a better extent.

9. Future Scope

Though the major areas covered was rural finance but the limitation of the paper can be termed as the growth perspective seen with respective to urban financing. Also

there has been no mention about what is the future of rural finance in terms of policies and implementation.

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