International Journal of Multidisciplinary Research and Development

Volume: 2, Issue: 10, 430-434
Oct 2015
www.allsubjectjournal.com
e-ISSN: 2349-4182
p-ISSN: 2349-5979
Impact Factor: 5.742

Udit Sharma
Regional Office, Oriental Bank of Commerce, Delhi, India.

Correspondence
Udit Sharma
Regional Office, Oriental Bank of Commerce, Delhi, India.

Rural Banking, its evolution and implications for marketers

Udit Sharma

Abstract
In order to achieve balanced and sustainable growth over the long term for emerging market economies, rural banking and microfinance are the key issues to be addressed. Rural banking in India started with mail focus on agriculture sector, as rural poor are overwhelmingly dependent on agriculture as their primary source of income. Today, marketers are trying to tap the rural in the form of 'emerging consumer base' or 'the next battle field' for survival as well as growth; government organizations are looking at rural for poverty eradication and up-liftmen of living standards. How it has evolved over the period of time, which tools have been developed for this sector specifically, which out of them have been fruitful and which ones not, and how marketers are looking at this potential market in future, has been discussed in this paper.

Keywords: Rural Banking, evolution and implications, marketers

Introduction
Rural is the buzz word these days in all business organizations, industries, government organizations or any organization which has something to do with public. Marketers are trying to tap the rural in the form of 'emerging consumer base' or 'the next battle field' for survival as well as growth; government organizations are looking at rural for poverty eradication and up-liftmen of living standards.
But at the very base of it all lays the fact that in order for marketers to tap or for government to uplift; rural India must be included in the larger financial ecosystem of the country. Until and unless rural people have access to basic financial facilities like savings, credit and insurance, they cannot look out to raising their standards or buying modern aspirational products.
The two factors which we are dealing here namely 'rural' and 'finance' are extremely complex in themselves and when it comes to studying them together and trying to build a business model out of them, the complexity gets magnified. In order to gain a deeper understanding of how multitude of factors which lay at the interaction of 'rural' and 'finance' and their impact on buying capacity, buying behavior, consumption patterns, affordability and overall scope for marketing products in rural India, this research is being carried out.

The Reality
(KOTNI, 2012) "Access to financial markets is important for poor people. Like all economic agents, low-income households and microenterprises can benefit from credit, savings, and insurance services. Such services help to manage risk and to smooth consumption . . . and allow people to take advantage of profitable business opportunities and increase their earnings potential. But financial markets, because of their special features, often serve poor people badly . . . Since poor people often have insufficient traditional forms of collateral (such as physical assets) to offer, they are often excluded from traditional financial markets . . . transaction costs are often high relative to the small loans typically demanded by poor people. And in areas where population density is low, physical access to banking services can be very difficult . . ."—World Bank, World Development Report 2000–2001

India's Rural Finance Landscape
(Ruddar Datt) India's rural poor are overwhelmingly dependent on agriculture as their primary source of income; the majority is marginal or small farmers, and the poorest households are landless. The financial needs of India's rural poor reflect the volatile, uncertain, and irregular income streams and expenditure patterns of these households. The recently completed World Bank-NCAER Rural Finance Access Survey of 2003 indicates that while rural families are predominantly multiple-income households, their two main sources of income include the sale of agricultural products and wage labor.

Irregular employment is the most important source of income from wage labor. For households with more than one source of income, agricultural income is the most important secondary source, with sales of farm produce and dairy products being the most prominent. Clearly, rural households depend on one or both of two types of income seasonal (post-harvest sale) or highly irregular, due to irregular or part time wage labor, with the dependence on the latter being inversely proportional to the size of land holdings. The typical expenditure profile of the households is also of small, daily, or irregular expenses incurred throughout the month. Moreover, the overwhelming majority of rural households report having to deal with at least one unusual expense each year, which they are forced to finance either from cash at home or through informal loans from family, friends, or moneylenders.

Research shows that poor people value financial services and want these to be reliable, convenient, continuous, and flexible. They understand that financial services help them spend at one time the income they have earned at other times. And because those incomes tend to be small, irregular, and unreliable, they need the full armory of intermediating modes—saving up for future spending, taking advances against future savings, and building cash reserves that can be called on at any time. The poor need a wide range of financial services—from small advances to tide over consumption needs to loans for investment purposes to long-term savings that help them manage life-cycle needs.

Setting the Agenda for rural banking

(N S Sisodia) Let us first look at the dynamics of the rural economy and how it has been changing so as to place rural Banking and microfinance in their proper context. We have to recognize that services sector in the rural economy is growing rapidly. The requirement of finance for agriculture which contributes around 22 per cent to the GDP would continue to grow. There are a variety of services that are growing and this is coupled with the trend of greater mobility of labor, capital, products, and even finance in the rural, semi-urban, and urban areas. The commercialization of agriculture is leading to growth in buyers' and suppliers' credit. There is much greater focus on sub-sectors of agriculture that are not dependent on food grain. In traditional rural India, there was a landlord-based tenancy relationship. This is now getting switched to commercial-based tenancy systems. The rural people are resorting to multiple vocations like setting up cable networks, running STD booths, installing repair workshops, etc., leading to the need for more finance and thus need for Banking.

An improvement in the fields of literacy and education has its own impact on credit markets, banking and the rural economy. The relationship of erstwhile creditors and borrowers is also undergoing some changes.

During the early plan periods, there was significant microcredit available through government and government-sponsored institutions. Although cooperatives have been functioning from the early 20th century, they have been unable to meet expectations and have suffered from a number of ailments. There was, therefore, a need to look at commercial banks as an additional source. When banks could not deliver, they were nationalized. In doing so, the primary objective was to ensure that the neglected sectors get credit. Then, there was some disillusionment in the mid-seventies with the functioning of the commercial banks in so far as rural poor were concerned. The state promoted new RRBs. We are now at a stage when there is an acute realization that RRBs have not quite succeeded in achieving the objectives for which they were set up. However, these measures led to a vast growth of infrastructure. Now, we have around 150,000 outlets of credit including cooperatives which the state supported in some form. We also have a policy framework where 40 per cent of all net bank credit has to be directed towards identified sectors with sub-targets of 18 per cent to agriculture and 10 per cent to weaker sections.

Overall, the contribution of the formal sector to making credit available has been less than satisfactory. According to the All India Debt and Investment Survey (AIDIS) of 1992, only 64 per cent of the borrowal accounts were serviced by the formal sector. Of course, some might differ with that figure and assess that it is much less, perhaps, only half of it.

Nevertheless, the point is that, only a part of the rural populace is actually getting covered by formal institutional sources such as banks. According to official estimates, 36 per cent of the rural population still depends on non-formal sources. The formal sector has problems in servicing this segment because of high transaction costs, small scattered accounts, and high transaction intensity. The formal institutions have inappropriate systems, procedures, products, rigidities, incapacity to innovate, and lack of initiative to service this segment. We have also seen a neglect of vital products like savings and insurance.

(Economic Survey, 1998-99.) In early nineties, when the state recognized this, the SHG movement was encouraged. It has been gaining strength and it is no exaggeration to say that the services purveyed through SHGs in India are now the world's largest. This, of course, does not say much because anything we do in India does not need much effort to be the world's largest. As of March 2004, nearly 1.1 million SHGs have been credit-linked. They cover 16 million poor households and the total credit disbursed by these SHGs was around Rs.4 billion. However, the average loan size per SHG (the numbers differ widely but all numbers emphasize a general point) is modest. According to one set of figures, the average loan per SHG was Rs.36,000 and the loan per family was only Rs.2,412, which is quite low. There are other figures which indicate a larger average size of loan per family. Nevertheless, the size of loans continues to be rather modest.

While the achievements of microfinance programme and rural banking as such in the country have been impressive, it is necessary to discuss some downsides. The performance of SHGs and MFIs in the south has been much better than the east, north-east, the central part of India or even some parts of western India. Some findings of a study by National Bank for Agriculture and Rural Development (NABARD) are worth a mention. Some major findings of the study were that the average value of assets per household increased from Rs.63,000 in pre-SHG period to Rs.71,000 in the post-SHG period. About 62 per cent of the households reported increase in assets by 24.5 per cent from pre-to post-SHG situation. Almost all members were saving in the post-SHG situation as against only 23 per cent savers in pre-SHG situation. The average borrowings per household per year increased fromRs.4,282 to Rs.8,341. The average net income per household increased by 33 per cent from Rs.20,177 to Rs.26,889.

These figures indicate that in terms of increase in assets or incomes, the impact of the program has not been significant and it raises questions about its efficacy in its present form as an instrument of poverty alleviation. Therefore, if the instrument of microfinance is to make a visible impact, the content, quality, and the range of its products would need to be upgraded.

There are certain issues about the sustainability of MFIs and SHGs. (Hansda, 2012) A study indicates that although there are thousands of MFIs in the world, only 60 might be sustainable on a long-term basis as self-reliant and viable. This brings us to the issue of high interest rates of microfinance which reflect transaction costs. It is necessary, however, to communicate MFI's perspectives on interest rates effectively to policy-and law-makers. It is equally important to ensure better transparency on costs of dispensing credit.

We also have to look for ways of moderating interest rates by cutting costs. When loans are for a short term, the problem does not seem unmanageable. The issue becomes problematic when microfinance graduates into investment financing, when the risks and tenors increase, and loans become unaffordable. There is an emerging consensus that microfinance holds great promise particularly in the Indian situation. As everybody is paying attention and SHGs can be used to advance a political agenda, there is reason to worry.

***Food for thought-I:** The literature reviewed thus far highlighted the characteristics of rural populace in context of the need for banking and the broader need for financial inclusion. We also saw how various attempts have been made in the form of government policies to push banks to emphasize rural areas, introduction of SHG and MFI models and the kind of impact they have made.

After reviewing the literature it comes to mind that these activities are not very sustainable in nature for the institutions providing finance to rural areas. In order for banks and for any other financial institution, in order to provide services to rural populace, there has to be at least some way of making reasonable profits out of it.

Let us explore some more literature and see if there is anything beyond agriculture and allied activities where or on the basis of which banks can build a sustainable model.

(Rural Marketing Perspective) Is there a 'real' market out there?

(Leeladhar) We are looking at beyond agriculture to find out if there is a big market out there. There is an anonymous quote which says: "Markets are made, not found. This is true of rural markets in India. It is a market for the creative marketer." The rural market is fascinating and challenging at the same time. It offers scope on account of the sheer size of the country and is growing steadily. Even a modest growth pushes sales substantially because of the huge base.

The experience of Coke in India is a typical example. Coke doubled the number of outlets in rural areas from 80,000 in 2001 to 160,000 in 2003. This increased their market penetration from 13 per cent to 25 per cent. It brought down the price from Rs. 10 to Rs. 5 per bottle bridging the gap between soft drinks and other local options like tea, butter milk, and lemon water available in the villages. It also doubled its advertising expense on electronic media, increased price compliance from 30 per cent to 50 per cent in rural markets, and reduced overall costs.

It tapped local forms of entertainment like annual *haats*, and made investments for distribution and marketing. Now, rural market accounts for nearly 80 per cent of the new Coke drinkers and 30 per cent of their volumes. Rural market of Coke grew at 37 per cent as against 24 per cent recorded in urban areas. The per capita consumption in rural areas has doubled in the last two years. The launch of Rs. 5 per bottle has yielded greater sales and is expected to account for nearly 50 per cent of Coke's sale in India.

The rural non-farm sector covers a wide spectrum of activities including handlooms, handicrafts, cottage and village industries, agro processing units, and service and transport activities. The products manufactured by women belonging to SHGs include embroidered sarees, paintings, wooden handicrafts, jute products, sculptures, metal idols, leather bags, sea shells, cushion covers, etc.

The question, therefore, is: Are the commercial banks missing this great opportunity and a big market? In terms of impact on rural employment and income, the handloom industry is second only to agriculture in India. There are about 3.9 million handloom weavers with only 25 per cent of the weavers engaged on a full-time basis under the fold of cooperatives. In states like Andhra Pradesh, Kerala, Orissa, Tamil Nadu, and West Bengal, the cooperatives are strong and they have availed the assistance through cooperatives with refinance from NABARD. However, over the years, the credit flow to meet the requirements of weavers has not improved. This is only one example of the potential market that is available. It may be worthwhile to look at issues in supporting the rural non-farm sector. Bankers are used to having a balance sheet and looking at capital to see whether the unit is bankable. The capital structure of most of the small units is fragile. There is a need to strengthen their capital base. Venture capital will have to come in a big way to take care of such units. We have had such initiatives in the past.

The National Equity Fund administered by the Small Industries Development Bank of India (SIDBI) is a wonderful scheme. The terms on which investments are made under this scheme are very attractive. But, in the rural bank branches or in the branches of SIDBI, there is hardly any worthwhile attempt to sell this scheme. There is a need to track the financial requirements on an ongoing basis. Ideally, the same agency should meet all the requirements of a unit. Unfortunately, we have multiplicity of institutions. The term loans are given by one agency, working capital is provided by another, and subsidy by a third agency. As a result, coordination is a problem and many schemes remain on paper. Banks have now introduced artisan credit cards and Kisan credit cards in large numbers. This has improved credit delivery significantly. The problem is not in credit delivery but for the borrowers to find marketing facilities. Institutions providing marketing support to these units need strengthening. The market beyond agriculture should be looked at in terms of two objectives: examining the trends and thinking of the way forward. From the supply side, we need a policy for rural finance at each bank level. While corporate policies are in place, we do not have a strategy for rural finance. We should look at these issues from the perspective of the branch manager. How can he understand the local economy and how can this understanding be leveraged?

Let us examine the trends first.

The rural market is opening in a big way, probably, more so in the south and not so much where the primary, agriculture-based sector has to pick up. This has implications for the opening up of the service sector. Our experience indicates that in many of our federations — covering about 0.2 million families — about 40 to 50 percent are in the service sector. The challenge is to understand and proactively respond to this trend.

The first noticeable trend is in the housing sector. People ask for loans not only for constructing new houses but also for house repairs. There are also many people who are landless and who do not have 'titles' wanting to take a loan. They are not even looking at subsidies. What are the issues involved in addressing this segment Efforts to understand such issues and develop the market will have to be made.

The second trend is reflected in the emergence of clusters. In Tamil Nadu and Andhra Pradesh, there are villages which are known for workers specializing in road laying and quarrying. They move to regions where there is work. How do we interact with them? There are large numbers of people migrating for this kind of work not only within India but also to places like Dubai, Singapore, and Malaysia. is a large market for them. But, they are still unskilled. We have found instances where village councils loaned Rs. 50,000 to workers for getting visa and migrating to markets that extend employment.

We need to spot such trends. Construction is a big sector that is opening up and is one of the escape routes for people in the drought-prone areas. If we are able to identify these trends, then we can work at the ground level — these people earn Rs. 30 to 40 a day and there is a scope to increase their skills for income augmentation. This trend spotting can be done by the local branch manager. These people also need support for organizing themselves and possibly for the sub-components of the projects on their own.

***Food for thought-II** The literature reviewed in the section above answers the doubts which were raised earlier in my mind. There is a lot of scope for banks to operated profitably in rural areas and also for marketers of FMCG, Consumer durables etc., to take advantage of the positive business potential created by banks by increasing the buying potential of rural customers.

As a aftermath of this, another questions which com.es to mind is that even after so much of potential is available, why are banks unwilling or hesitant to enter rural areas? Let us review some more literature to try to find out answer to this.

Why Banks Don't Want to Serve the Rural Poor

(Basu, 2006) Serving the rural poor is a high-risk, high-cost proposition for banks: First, there is the uncertainty—about the repayment capacity of poor rural borrowers, with their irregular/volatile income streams and expenditure patterns. In the absence of credit information, this drives up default risk. Such problems are exacerbated by the borrower's lack of collateral, and/or difficulties in contract design and enforcement.

Second, the transaction costs of rural lending in India are high, mainly due to small loan sizes, the high frequency of transactions, the large geographical spread, the heterogeneity of borrowers, and widespread illiteracy. For private sector banks, their lack of a rural branch network is an additional problem.

Third, the government's policies have made things worse from the banks' perspective, creating a "financial climate" not conducive to lending in general and rural banking in particular:

- High fiscal deficits and statutory pre-emptions imposed on banks crowd out credit to the private sector; another persisting distortion that has failed to generate the desired results is the "*priority sector*" lending target;
- Persisting interest rate restrictions—"floors" on short-term deposit rates and lending rates, "caps" on small loans—all these impose an "implicit tax" on banks;
- Government's domination of and interference in rural banks, particularly RRBs and cooperative banks, further distort bankers' incentives; inefficiencies arising from weak governance, poor management, weak regulatory standards, and lack of supervision have meant that many of these banks are in deep financial distress. They are thus no longer able to perform their task of financial intermediation;
- Bankers' risk aversion to lending is exacerbated by a pervasive culture of suspicion of bankers, whose lending decisions are often subject to stringent scrutiny by Parliament, the Central Bureau of Investigation, etc.

Why are companies finding it difficult to go rural despite increased purchasing power?

(KOTNI, 2012)

- The development of appropriate communication systems to rural market may cost up to six times as much as reaching an urban market through established media, need rural communication facilities.
- The problems of physical distribution and channel management adversely affect the service as well as the cost aspect. The existent market structure consists of primary rural market and retail sales outlet. The structure involves stock points in feeder towns to service these retail outlets at the village levels. But it becomes difficult maintaining the required service level in the delivery of the product at retail level.
- Rural consumers are cautious in buying and decisions are slow and delayed. They like to give a trial and only after being personally satisfied, do they buy the product.
- Culture is a system of shared values, beliefs and perceptions that influence the behavior of consumers. There are different groups based on religion, caste, occupation, income, age, education and politics and each group exerts influence on the behavior of people in villages.
- As a general rule, rural marketing involves more intensive personal selling efforts compared to urban marketing. Marketers need to understand the psyche of the rural consumers and then act accordingly. To effectively tap the rural market a brand must associate it with the same things the rural folks do. This can be done by utilizing the various rural folk media to reach them in their own language and in large numbers so that the brand can be associated with the myriad rituals, celebrations, festivals, melas and other activities where they assemble.
- Life in rural areas is still governed by customs and traditions and people do not easily adapt new practices. For example, even rich and educated class of farmers does not wear jeans or branded shoes.
- An effective distribution system requires village-level shopkeeper, Mandal/Taluka level wholesaler or preferred dealer, distributor or stockiest at district level and company-owned depot or consignment distribution at state level. The presence of too many tiers in the distribution system increases the cost of distribution.
- Television has made a great impact and large audience has been exposed to this medium. Radio reaches large population in rural areas at a relatively low cost. However, reach of formal media is low in rural households; therefore, the market has to undertake specific sales promotion activities in rural areas like participating in melas or fairs.
- Many rural areas are not connected by rail transport. Kacha (wet) roads become unserviceable during the monsoon and interior villages get isolated.

- There are not enough opportunities for education in rural areas. The literacy level is as low (36%) when compared to all- India average of 52%.

References:

1. Basu, P. (2006). *Improving Access to finance for India's Poor*. Washington: The International Bank for Reconstruction and Development / The World Bank.
2. (1998-99.). *Economic Survey*. Mumbai: Monthly Review of the Indian Economy, CMIE.
3. Hansda, S. K. (2012). *Report on trend and progress of banking in India*. Mumbai: RBI.
4. Kotni, V. V. (2012). Prospects and problems of Indian rural markets. *Zenith International Journal of Business Economics & Management Research*.
5. Leeladhar, V. (n.d.). Beyond agriculture: is there a big market out there? *Rural Finance in Contemporary Times: An interface with banking and Micro Finance*, 112.
6. N S Sisodia, S. (. (n.d.). SETTING THE AGENDA. *The colloquium*, 112.
7. Ruddar Datt, K. S. (n.d.). Indian Economy. *The perspective*.