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Role of Financial Institute Institutions in Financing and Developing Rural Areas in India

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ABSTRACT: To fulfill the goal of the 11th Plan for Inclusive Growth, the government should push banks to implement financial institute inclusion through financial institute aid, advertising, and awareness programmes, among other methods. Although an effort is made to open a savings bank account or obtain a loan, rural families with low income frequently lack access to bank accounts and do not have time for multiple visits to take advantage of banking services. The goal of economic planning cannot be accomplished without the growth of the rural sector. Hens, banks, and other financial institutions are thought to play a crucial role in the growth of India's rural economy. The establishment of Regional Rural Banks (RRBs) on October 2, 1975 has been crucial to the economic growth of rural India.

The current study work uses secondary data and has an exploratory nature. The National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India (RBI) data sets were primarily used to acquire the pertinent secondary data. Additionally, publications like The Banker and The Journal of the Indian Institute of Bankers have been mentioned. In this study, an effort is made to explore how the RRBs play a part in the rural credit structures of Gujarat and India. The study is limited to the loan and advance areas, particularly priority and non-priority sectors, during the six-year period starting in the years 2002–2003 to 2008–2009. Mathematical methods like percentage and growth rate were used in this study to analyse the data and draw conclusions.

KEYWORDS: Financial institutions, Rural areas, Social impact, Poverty alleviation, Employment generation

I. INTRODUCTION

Having access to reasonably priced financing enables the underprivileged and vulnerable groups to engage in economic activity and seize expansion chances for economic empowerment. Therefore, creating an inclusive financial institute system that gives everyone an equal opportunity to access financial institute services at reasonable prices is a requirement for achieving both accelerated economic growth and a decrease in income inequality and poverty. Without an inclusive financial institute system, small and petty businesses as well as the impoverished and vulnerable segments of the community would not be able to benefit from growth prospects. And the largest untapped market for financial institute services continues to be in rural areas.

Historically, official financial institute institutions (such banks for rural or agricultural development) have avoided or failed to provide sustainable services in rural regions. As a result, alternative suppliers like merchants or input suppliers have overtaken established financial institute institutions as the main providers of financial institute services. These informal suppliers, however, frequently lack management and institutional strength, and some of them have been able to charge high interest rates since they operate outside of the banking system.

In order to buy agricultural inputs, get veterinary care, maintain infrastructure, hire workers for planting and harvesting, transport goods to markets, receive payments, manage peak season incomes to cover low season expenses, invest in housing, health, and education, or deal with emergencies, people who live in rural areas may need access to financial institute services. The Reserve Bank of India wants to create approximately 600 million new customer accounts by 2020.

The political and business worlds have been abuzz with discussion of the development of rural areas. Being that most Indians live in rural areas, this uplift is essential for the Indian economy. The World Bank's development indicators indicate that 64.61% of working-age Indians are from rural areas, according to a previous assessment. According to Bain & Company, rural India accounts for about 50% of the nation's GDP, making it an important market for financial



institute institutions. Financial institute services must be easily accessible and reasonably priced in order to hasten the development process. Financial institute inclusion makes ensuring that financial institute services including bank accounts, low-cost loans, financial institute advisors, and insurance services are delivered in order to address this problem.

According to its contribution to livelihood, employment, and the GDP of the nation, agriculture is a crucial sector of the Indian economy. Agriculture's contribution to the GDP in 2018–19 was 15.96%. The country's GDP is estimated to be over 200 trillion INR, making the Agri GDP 32 trillion INR in 32 lakh crores (Ref: RBI Report of Agri Internal Group-Sept 2019).

Agricultural finance is essential to the growth of the agricultural industry. For example, to level the land, provide irrigation infrastructure, buy seeds, buy fertilizer, and pay for workers, farmers need money to maintain their agricultural operation. Local moneylenders, cooperative societies, regional rural banks, and other commercial banks are only a few of the outlets in the villages where farmers can obtain loans for agricultural purposes. The government, RBI, and NABARD have established norms and standards for banks to follow when making agricultural loans, making them the most dependable source of capital for villagers' farmers.

II. RESEARCH METHODOLOGY

One of the important considerations is that banks compete with one another to lend to agriculture, and the farmer can choose any bank that offers him the best benefits. Banks develop numerous plans and methods to expand their Agri-lending industry. In all my professional roles, I was constantly curious about the effectiveness of these strategies when they were adopted by banks, which one was more important than the others, whether it varied depending on the customer strata, etc. This curiosity led me to conduct a study on these aspects. For instance, a banker must decide whether it is worthwhile to spend money on a TV advertisement, whether a hoarding will be effective in a village and persuade the customer to approach the bank to apply for a loan, or whether the bank can lower its processing fees in lieu of running an advertisement. Through this study, an effort is made to pinpoint the bank tactics that are most likely to persuade a farmer to apply for an agriculture loan.

III. RESEARCH GAP

Numerous studies have been conducted on how consumers choose a product or service.

- ✓ Studies on customer behaviour and his decisions to choose a certain bank to receive banking services are undertaken, particularly in the banking and finance industries.
- ✓ Research and studies have been conducted specifically on customer behaviour and the elements that affect a customer's decision to use banking services in general or specifically for any kind of loan or specific financial institute product.
- ✓ This study primarily considers the farmer when he needs to choose a bank to get an agriculture loan. Below is the identified research gap, along with the study topic, "In-depth "Study on the Choice of a 'Farmer' Taking a Decision to Select a Bank to avail an 'Agricultural Loan' and the Factors Influencing the Decision."

The Research Method adopted is the 'Survey Method' based on questionnaire distributed and cross-sectional study at a given point of time and

The Research Type Is ' Descriptive research' as it builds upon existing literature and derives the answers to the research questions through the study output

The Pilot study: The main study questionnaire was validated after a pilot study using 40 respondents. The study results had a Cronbach alpha of 0.772 which was satisfactory.

Data collection: Primary data collection was done between January 2019 to November 2019 at the two districts of Chitradurga, contacting farmers at villages on a face-to-face contact survey and collected the responses directly from them. Totally 453 farmers were contacted and obtained 430 valid responses which are used across for data analysis. Secondary data was obtained from various books on banking, RBI circulars, reports of government and publications and the websites of various commercial banks.

IV. OBJECTIVES OF THE STUDY

- ✓ To research the issues that rural communities face and the role that banking institutions can play in resolving these issues.
- ✓ To research the roles played by commercial banks, cooperative banks, regional rural banks, and the national bank for agriculture and rural development in rural development.
- ✓ To compare the organisations involved in rural development and evaluate how important banking institutions are to this process.
- ✓ To locate the weaknesses in the current rural banking system and make suggestions for solutions.
- ✓ To restore balance.
- ✓ Rural areas should be granted institutional credit.
- ✓ Generating rural savings.
- ✓ To incorporate the financial institute market.
- ✓ In order to promote Rapid Economic Development.
- ✓ The role of promotion.

V. A REVIEW OF LITERATURE

The three categories for the literature studies are as follows.

- ✓ Literature on bank competition and agricultural lending. Numerous studies, RBI and NABARD circulars, numerous articles, and pertinent literature.
- ✓ literature on the theories and models of consumer decision-making. Research studies and articles on consumer decision-making with a focus on clients who choose a bank for their needs.
- ✓ Literature on farmer-specific factors influencing customers numerous works on the influencing factors.
- ✓ The following summarizes some of the most important literature reviews on the idea of consumer choice making, with a focus on the preference of customers to choose a bank:
 1. (2017) A Stankevich "Explaining the customer decision making process- a study" Few customer decision-making models are interpreted by the study. begins with the funnel model, which represents how a customer chooses a product, and includes further models of the pre-purchase and post-purchase aspects that affect a customer.
 2. Customer Selection of Banks: A Biographic Segmentation, H. V. Kumari, 2011. The results of this study, which looked at the characteristics clients in Chennai thought were significant when choosing a bank, show that branch location, reputation, and competitive rates are the most crucial elements.
 3. LA Bank Selection Criteria of a Businessman, Alamode & J Faleel (2011). This study looked at the banking selection criteria for businessmen in Saudi Arabia and concluded that the bank's product offers, ATM network, and accessibility to internet banking are the most crucial factors.
 4. The 2013 publication "Bank Selection Criteria in Customer's Perspective" by M. Sayuti and others. This study investigates the elements that customers in Kelantan, Malaysia considers when selecting a bank and discovers that accessibility is the most important factor, followed by dependability, responsiveness, value-added services, and convenience.
 5. "Determinants of Bank Selection," R E Hinson et al. The three main variables driving students to choose a bank in this study were convenience, relationships with bank workers, and financial institute benefits of the bank.
 6. Z Iqbal and colleagues published "An Empirical Analysis of Customers' Preferences for Bank Selection" in 2018. This study compares the characteristics that influence an individual and a Small and Medium-Sized Enterprise (SME) to choose a bank. The criteria that both categories consider when choosing a bank for their needs are covered in detail in this article.
 7. The study "Factors Influencing Customers in Bank Selection: A Study on Northern Region of Bangladesh" by J. Ara and H. Begum was published in 2018. This study looks at the bank selection criteria for clients in Bangladesh's northern region and finds that security, technology utilisation, and personnel reliability are the most crucial elements.
 8. "Bank Selection Criteria When Borrowing a Personal Loan" by J. C. Toth et al. This study looked at the bank selection factors for personal loans in Hungary and concluded that the main deciding element is interest rate.
 9. Factors impacting bank choice from a millennial customer perspective, Dr. C. Abraham (2020). In this study, consumers in Kerala who are between the ages of 21 and 30 (referred to as "millennials") are examined in



relation to the factors influencing bank selection, and the primary elements impacting the millennial (such as ATMs) have been identified.

10. Factors influencing banks' decisions to lend to agriculture in rural areas, according to Dr. N. Barwal (2019). According to research done in HP state with consumers of two cooperative banks, rapid loans and low interest rates were important considerations when choosing a bank.

VI. FINDINGS

In particular, the following findings from this research add to the body of knowledge while also being useful to bankers and farmers:

- ✓ Advertising now has a significant impact even in far-off regions. Other aspects of advertising had no meditative impact. Advertising via SMS message and bank websites has also grown in importance in rural areas, along with more traditional forms like pamphlets and hoardings in villages. The increasing use of mobile devices and the availability of the internet in rural regions make this possible.
- ✓ The capacity to obtain larger loans per acre of land under Loan Benefits is a significant contributing factor to the population. Any additional factors have no effect on even this. In terms of conducting business, new generation banks perform better than traditional banks in this area.
Under Influence: Family influence still has a big impact on one's capacity to secure a loan from the same bank. This follows the effect of agents.
- ✓ The cost of the loan and the interest rate are crucial considerations for farmers. On the other hand, we learn from mediation analysis that it is mediated by Loan benefits. improved service, a bigger loan amount, and positive interactions with the branch manager. Farmers are more willing to accept a higher interest rate if they receive larger loans or have a better relationship with the branch manager.

VII. LIMITATIONS OF THE RESEARCH

- ✓ The current study has several important discoveries, but it also has several shortcomings.
- ✓ This study focused solely on the variables that affect a farmer while applying for agricultural loans.
- ✓ The factors impacting the farmer when he accepts any other forms of loans, such as personal loans, home loans, auto loans, etc., are not considered in this study.
- ✓ This study only considers the variables affecting a farmer when applying for bank-backed agricultural loans. The circumstances influencing the farmer when he obtains loans from any other NBFC, financial institute institution, or money lender, even for agricultural purposes, are not taken into account.
- ✓ Personal questionnaires delivered to the farmers were used to collect the data.
- ✓ Although every effort is made to update accurate data, there may still be slight variations in how respondents understand the questionnaire due to their level of education and age.

VIII. SCOPE FOR FUTURE RESEARCH

The following are recommendations for future research:

- ✓ Only the farmers in two specific districts in Karnataka were included in this study. Therefore, research in other regions where there may be additional influencing factors or demographic variables and comparison of the findings with those of the current study may provide insightful information.
- ✓ Due to the differences in management and practices between private and public sector banks, an in-depth analysis of the influencing elements can only be done for one specific type of bank.
- ✓ This study focuses on the variables that affect farmers both directly and indirectly from banks and the Agri-loan sector. In semi-urban and rural locations, similar research might be conducted for other loans as well.
- ✓ This survey was conducted prior to the implementation of the new agriculture policy, the digitization of land records and online mortgages, the widespread use of mobile banking and UPI, among other economic developments, which have an impact on the influencing factors. Analysis of the same topic is possible considering recent advances and shifting environmental conditions.

IX. CONCLUSION

The liberation of rural populations from poverty, unemployment, and other socioeconomic backwardness is essential to the actual progress of the Indian economy. In order to advance the rural economy, Regional Rural Banks were founded



by the Indian government. After thirty years, the RRBs are now viewed as having the potential to revitalise rural India. The role of RRBs in the rural credit structure has been thoroughly examined in the current study. Priority and non-priority sectors make up the rural finance framework. Outstanding progress has been made in providing loans to both industries. Throughout the study, a higher percentage of loans went to the priority sectors. RRBs have provided short- and long-term loans to the agricultural sector in order to support the growth of this sector of the economy. The study period saw encouraging short-term loan disbursements for crops, which represented a greater rate than term loans. Additionally, there is an upward trend in the loans that RRBs give to various groups in the priority sector. 2007–2008 and 2008–2009 saw higher growth rates. Agriculture has the biggest share of loans when compared to non-agricultural activities. However, it is the management's and the banks' duty to investigate the issue of lending enough money to non-priority sectors as well. Reduce the difference between short-term loans for crops and long-term loans for agriculture and related businesses. Banks must support the agricultural industry by offering larger term loan amounts. In general, the non-agricultural sector benefits the rural economy in numerous ways indirectly. The RRBs may increase the percentage of loans to this industry considering this. As RRBs are a crucial component of the rural credit structure in India, this finding may be of great assistance to rural banking institutions and policy makers in creating and defining the ideal credit structure.

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