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Emerging Consumer Trends of Rural India & Their Financing Needs

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***Abstract**: India is one of the fastest growing economies in the world and has about 65-70% of its economy living in villages. Government of India has come up with a novel plan to double farmer's income by 2022. The strategy to achieve this goal involves use of better technology, incentive structure, public investments and facilitating institutions. This feat cannot be achieved through government initiatives alone. It requires equal contribution from the private sector as well. This research paper focuses on how private financial institutions like NBFCsshould help to achieve this goal. Firstly, it involves financing construction of warehouses as per Warehousing Development Act, 2007. According to Food Processing Industry, harvest and post-harvest losses of agricultural produce is estimated at Rs.92,651 crore. Secondly, financial institutions should also emphasize its focus on financing and creation of food processing industry near the farms (like sugar factories are near sugarcane fields). Lastlly, they should start quick disbursement of loans to farmers on warehouse receipts. The farmer can use the fund for his consumption needs and inputs for the next season. Meanwhile, the farmer can keep an eye on the price, and sell the produce, for a price that he thinks is right.*

***Keywords:** double farmer's income, gold loans, post-harvest loss, NBFC, warehouse receipt*

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I. Introduction

The Government of India has set a target of doubling of farmers' income by the year 2022. The Government has constituted an Inter-Ministerial Committee under the Chairmanship of Chief Executive Officer, National Rainfed Area Authority, Department of Agriculture, Cooperation and Farmers Welfare to examine issues relating to doubling of farmers' income and recommend a strategy to achieve doubling of farmers' income in real terms by the year 2022.

There are four aspects for improving the income of farmers, viz;

- Reducing input cost;
- Ensuring a fair price for the produce;
- Reducing wastage;
- Creating alternate sources of income.

This task cannot be completed with the sole contribution of government initiatives. It requires the support of private financial institutions. India is a nation that lives in villages and it has many avenues of business that is still untouched and has the potential to generate healthy revenues for every participant in the chain.

Our research paper focuses on these avenues which require the help of private investment so that the target of 2022 of doubling the income of a minimum of 65% of India's population is achieved.

We propose private financial institutions should focus on increasing the farmer's income by financing institutions that uses technology, good practices and less processing time. This will increase the spending power of rural India which means increase in spending in automobiles, farm equipment and homes. This is a cyclical chain wherein NBFCs can then target the customer's new-found financing needs with the products currently available with them.

II. Target Segments

The following paragraphs describes in detail the areas which need attention from private institutions that can help bridge the gap as these sectors also has the opportunity to generate revenue.

II.1. Reduction in Post-Harvest Losses

India is one of the largest producers of over 80% of agricultural products, including cash crops like coffee and cotton. But largely due to storage, logistic and financing infrastructure inadequacies, harvest and post-harvest losses of major agricultural produce is estimated at Rs 92,651 crore ($13 billion), according food processing ministry data of August 2016. If these were prevented, over 5 crore people could be fed, for a year, at the rate of Rs 50 per day (Bandyopadhyay, 2017).

Transferring goods from cultivation centres to processing centres or markets is an impediment. Due to inadequate transportation infrastructure, commodities get damaged through bruising and bad roads, spillage due to repeated loading, unloading and contamination, and heat and humidity in the absence of cold chain transportation.

Tech intervention through improved storage structures and logistics can reduce post-harvest losses and increase farmers' revenues. Use of hermetic structures and cold chain transport facilities can reduce post-harvest losses, maintain freshness of fruits and vegetables and seed viability, and retain the quality.

II.2. Investment in Food Processing Sector

The level of food processing in India has remained very low and the sector has the potential to become an engine of rural economic growth. As of January 2018, the level of food processing in the country is low at 6 per cent, as against 60 to 80 per cent in developed countries. Developing nations in Asia and Latin America also scored over India in this respect, with food processing levels of more than 30 per cent(Narayanan, 2018).

Under the Make in India initiative, the Government has planned to stimulate growth in the Food Processing sector through the creation of a strong infrastructure, reduction of food wastage and promotion of Ease of Doing Business (EODB) measures. The upcoming 'Scheme for Agro-Marine produce Processing and Development of Agro-clusters' (SAMPADA) provides a renewed thrust to the sector with the budget allocation of USD 923 Million. The FDI in trading and e-commerce of food products is allowed up to 100% through Government approval route. Additionally, the 100% FDI policy through automatic route in the sector for manufacturing in India has resulted in inflows of USD 1.7 Billion during April 2014 to December 2016 and USD 263.71 million from April - June 2017. With such an increased government support, food business giants such as Kelloggs, Ferrero and BSA International are interested to expand their footprint in India(Make In India, 2017).

Private financial institutions should focus on the food processing industry and provide finance to SMEs. They should focus on a single belt at once and then transform the area through use of technology, financing and bringing private investment at a single location.

For instance, Nashik was once part of a sugarcane belt and the local farmers only cultivated sugarcane. There was a shift from sugarcane to grapes due to water shortage. Due to investment of few private players that included names like Sula Vineyards, York Winery, Soma Wines and Vallone Vineyards to name a few, Nashik has transformed from a sugarcane growing economy to Wine-hub of India.

II.3. Providing Warehouse Receipt Finance

Warehousing Development and Regulatory Authority (WDRA) has been passed by Government of India with an objective to develop scientific warehousing techniques in India.

WDRA introduced a negotiable warehouse receipt system. This Actconferred confidence in banks about the warehousing system in India, removing worries about the underlying collateral. Indian banks have started funding against pledge of warehouse receipts in a big way.

A decade ago loans worth only around Rs 5,000 crore were made to farmers against warehouse receipts. Currently banking institutions have advances of around Rs 40,000 crore against such receipts(Agarwal, 2016).

Private Financial institutions should focus on tapping these customers as loans against warehouse receipts have a low risk. This is an important parameter as banking sector is fuelled with NPA in their balance sheets.

II.4. Financing Automobile & Farm Equipment Products

Agriculture GDP growth is directly linked to the sales of two wheelers and farm equipment sales. So, double the income of farmers will create additional financing avenues for two wheelers and tractors that will generate additional revenue for financial institutions. India'stop automobile manufacturers are expecting robust rural sales in the current fiscal year as a favorable monsoon and faster economic growth are likely to boost farm income.

Car market leader Maruti Suzuki India Ltd, two-wheeler maker Hero MotoCorp Ltd and tractor manufacturer Mahindra and Mahindra Ltd generate about 35-50% of their sales from rural areas.The Indian auto industry for the third consecutive month this financial year has posted a massive growth of 25%.

Table1 : Automobile Sales in 2017 & 2018(Mishra, 2018)

October Sales	2018	2017	% Change
Passenger Vehicle	284224	279877	1.55
Commercial Vehicle	87147	69816	24.82
Two-Wheeler	2053497	1751608	17.23
Three-Wheeler	69483	61568	12.86
Total Vehicles	2494426	2162869	15.33

In the first quarter of the ongoing financial in the period between April - June 2018, the Indian auto industry saw a total sale of 69,62,612 units at a growth of 18.01% in the domestic market. The industry had sold 58,82,912 units in the first quarter of last financial year. Mahindra Tractors reported a 17 per cent growth in its domestic sale at 46,312 units for the month of October 2018. The company sold 39,516 units during October 2017, as per the regulatory filing.Exports for the month stood at 1,064 units. Till October 30 2018, the cumulative sales of the company stood at 22,6205 units for this fiscal, up 9 per cent, compared to 20,6941 units in the year-ago period(Economic Times, 2018).

III. Rural Market in India

Traditionally, agriculture is the prime sector of rural economy and rural employment. The transition in composition of output and occupation from agriculture to more productive nonfarm sectors is considered as an important source of economic growth and transformation in rural and total economy.During the four decades from 1970-71 to 2011-12, India's rural economy expanded from Rs. 229 billion to Rs. 34167 billion at current prices and from Rs. 3199 billion to Rs. 21107 billion at 2004-05 prices. In the same period, employment expanded from 191 million to 336 million(NITI Aayog, 2017).

Table 2 : Percent growth rates in rural NDP at 2004-2005 prices(NITI Aayog, 2017).

Period	Agriculture	Manufacturing	Construction	Services	Non-agriculture	Total
1971-94	2.57	5.18	3.94	6.10	5.70	3.72
1994-05	1.87	8.38	7.92	8.55	7.93	5.06
2005-12	4.27	15.87	11.49	3.48	9.21	7.45

Agriculture, with its allied sectors, is the largest source of livelihoods in India. 70 percent of its rural households still depend primarily on agriculture for their livelihood, with 82 percent of farmers being small and marginal. In 2017-18, total food grain production was estimated at 275 million tonnes (MT). India is the largest producer (25% of global production), consumer (27% of world consumption) and importer (14%) of pulses in the world. India's annual milk production was 165 MT (2017-18), making India the largest producer of milk, jute and pulses, and with world's second-largest cattle population 190 million in 2012. It is the second-largest producer of rice, wheat, sugarcane, cotton and groundnuts, as well as the second-largest fruit and vegetable producer, accounting for 10.9% and 8.6% of the world fruit and vegetable production, respectively(NITI Aayog, 2017).

Table 3 : Sectoral Share in NDP(NITI Aayog, 2017).

Year	Agriculture	Manufacturing	Construction	Services
1970-71	72.4	5.9	3.5	17.1
1980-81	64.4	9.2	4.1	20.6
1993-94	57.0	8.2	4.6	26.8
1999-00	51.4	11.1	5.6	28.6
2004-05	38.9	11.5	7.8	37.3
2011-12	39.2	18.4	10.5	27.0

Agriculture generates not even a quarter of rural household incomes in India. Even for agricultural households, just over 43 per cent of their average income comes from cultivation of crops and rearing of animals, according to the National Bank for Agriculture & Rural Development's (NABARD) All India Rural Financial Inclusion Survey 2016-17.

The survey reinforces a trend that has gathered momentum since the start of this century — of an increasingly less 'Krishi' in 'Bharat'. While agriculture may, by definition, be largely rural, the converse, though, isn't true. The NABARD survey estimates the total number of rural households in India for 2016-17 at 21.17 crore. Out of the 21.17 crore rural households, 10.07 crore, or under 48 per cent, are "agricultural" — those with at least one member self-employed in farming and reporting annual value of produce at more than Rs 5,000. The remaining 11.10 crore households or 52 per cent are "non-agricultural".

According to the survey, whose reference period is 2015-16, the average net monthly income of Indian rural households — after deducting expenses incurred in the course of economic activity — was Rs 8,059. The highest share of this (Rs 3,504) was accounted for by wage labour (both farm and non-farm), which was followed by government or private service jobs (Rs 1,906). On the other hand, agriculture — i.e. income from crop cultivation and livestock rearing — contributed only Rs 1,832(Damodaran, 2018).

Table 4 : Estimated number of persons engaged in occupation other than cultivation

Sr.No.	Type of Employment	Estd No persons engaged (in millions)	Average monthly income per household (in Rs)
1	Agricultural Labour Works	98.15	3526
2	Non-agricultural Unskilled Labour Works	80	4921
3	MGNREGA Works	52.83	1235
4	Govt/ Private Jobs	48.59	10347
5	Non-agricultural skilled labour works	46.03	5082
6	Trading, shop keeping etc.	24.94	4988
7	Self Employed Profession	4.31	5372
8	Running a Manufacturing Microenterprise (above Rs. 25 lakh)	3.25	2927
9	Running a Service Microenterprise (above Rs. 10 lakh)	2.26	6270
10	Selling NTFP/ forest produce	1.04	2933
11	Running a Service Microenterprise (up to Rs. 10 lakh)	0.4	11715
12	Running a Manufacturing Microenterprise (above Rs.25 lakh)	0.17	11752

But what's interesting is that even within "agricultural households", the share of average income from cultivation and livestock rearing was just over 43 per cent. The balance 57 per cent income in their case, too, was from non-agricultural sources.

In the NSSO survey, 67.2 per cent of the average income of agricultural households came from cultivation and livestock rearing. That share is even lower, at 43.1 per cent, in the recent NABARD survey. The methodological differences notwithstanding, both surveys highlight the same fact — of rural India becoming less agricultural, both in terms of the share of families engaged in farming and a diversification of income sources even in their case(Damodaran, 2018).

IV. Trends in rural consumption and emerging income streams

Consumption pattern of the rural households depends on many factors like assets, level of education, occupation and demographic characteristics. Saving in any community depends on these factors. According to NABARD All India Rural Financial Inclusion Survey 2016-17, the overall average MPCE (Monthly per capita expenditure) for all households combined was calculated to be 6,646. The agricultural households reported a higher MPCE as compared to the non-agricultural households, the values being 7,152 and 6,187 respectively(NABARD, 2017).

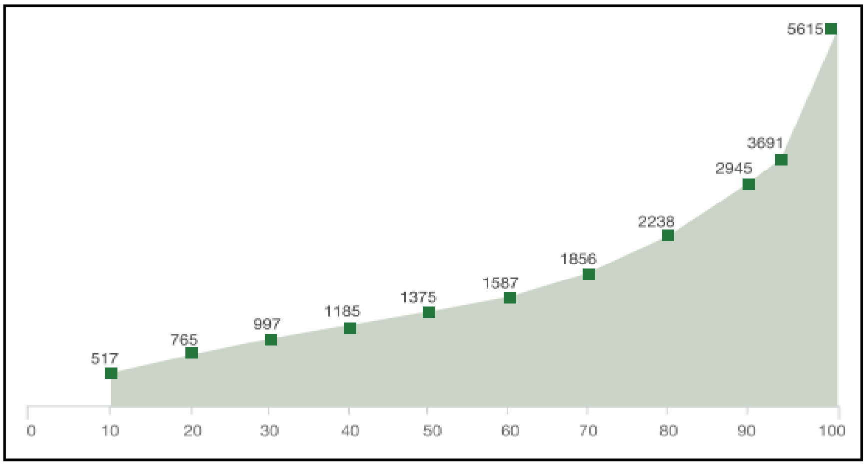

Figure 1 : Percentiles (in Rupees) of the Distribution of Monthly per Capita Consumption Expenditure(NABARD, 2017)

The above figure shows that there exists a wide disparity in the consumption expenditure with the lowest 20% households reporting to have spent lesser than 765 per person per month. Whereas, the ones in the 80th percentile reported an expenses of more than 3 times that in 37 the 20th percentile. The disparity is sharper in the last tenth percentile, with the MPCE showing a steep rise of more than double from 2,945 in the 90th percentile to 5,615 in the 99th percentile.

Table 5 : Average Monthly Income and Consumption Expenditure in Rupees per household(NABARD, 2017)

Sr. No.	Category	Income	Consumption Expenditure
1	Agricultural Households	8931	7152
2	Non-Agricultural Households	7269	6187
3	All Households	8059	6646

IV.1.Surge in Non-Farm Employment

It is a common notion that India's rural fortunes are inextricably linked to a bountiful monsoon and booming agricultural output. FMCG companies and automobile companies are witnessing record sales in the rural areas despite hard evidence that points to an agrarian crisis.

Over the last four decades, even as the contribution of agriculture to India's GDP has shrunk from nearly 50 percent to about 15 percent, rural folk have been actively diversifying out of agriculture, to supplement their income.

A November 2017 paper from the NITI Aayog (Chand, Srivastava and Singh) noted that agriculture's contribution to rural India's GDP steadily nosedived from over 72 percent in FY71 to 39 percent in FY12. In effect, non-farm activities such as manufacturing, construction and services already accounted for 61 percent of rural incomes six years ago. The proportion is likely to have grown since.

The workforce in rural areas has shifted less dramatically, but it has moved nevertheless. Between FY05 and FY12, the number of rural folks employed in agriculture fell from 249 million to 216 million, while those employed in factories, construction or services rose from 94 to 121 million. Also, those employed in these non-farm activities managed to earn twice or even thrice as much as cultivators or farm labourers earned. In the last five years, even as two drought years have levelled India's agricultural GDP growth to 3 percent a year, manufacturing and services GDP continued to grow at 7.7 percent.

So, it is evident that agriculture is no longer the primary employer in rural areas, it becomes easier to understand why rural consumption is no longer joined at the hip with monsoon rains or crop prices.

IV.2.Income Streams

Engagement of labour force in gainful employment is a critical determinant of development as it helps generate desirable resources and capitalize on available opportunities. Access to financial resources has been defined as an instrumental freedom in the broad discourse on human development. Hence, it is pertinent to understand the status of households with regard to major sources of income, and the disparities across various segments of the community.

The survey involved detailed enquiry into the amount of household income from various sources in the last one year preceding the survey. The net income for households was derived by adding income from all sources for a particular household, and deducting the expense incurred towards pursuing income generating activities like cultivation, livestock rearing and other enterprises. Cultivation included agricultural activities related to crop production/ plantation/ Orchard. Livestock rearing involved use of animals for gaining economic returns. Other Enterprise included sources like trader/ shopkeeper/ petty businesses; selling NTFP/ Forestry products; fee from professional self-employment; and various micro or other enterprises involved in offering services or manufacturing. Wage Labour was taken to include sources like MNREGA activity, agricultural labour, and skilled or unskilled non-agricultural labour. Government or Private Job formed a separate category all together. In addition, income from other sources including income from rent on building of land, income from interest earned on bank deposits, dividend or interest earned from investments were also included while calculating the total income of the household. It will be apt to highlight here that income from transfers and remittances have been excluded while calculating the income of the household.

For all households combined, the average monthly income stood at ₹ 8059, with that being higher for agricultural households (₹ 8931) as compared to non-agricultural ones (₹ 7269). Table shown below presents the contribution of various sources in the household income by type of households.

Table 6 : Average Monthly Household Income by Source of Income (NABARD, 2017)

Source of Income	Agricultural Households	Non-agricultural Households	All Households
Cultivation	3140 (35%)	NA	1494 (19%)
Livestock Rearing	711 (8%)	NA	338 (4%)
Other Enterprises	489 (6%)	851 (12%)	679 (8%)
Wage Labour	3025 (34%)	3940 (54%)	3504 (43%)
Govt/ Pvt Service	1444 (16%)	2326 (32%)	1906 (24%)
Other Sources	122 (1%)	152 (2%)	138 (2%)
All sources combined	**8931 (100%)**	**7269 (100%)**	**8059 (100%)**

The figures presented above highlight that wage labour was the most remunerative source of income for all households contributing a major proportion of roughly half of the total household income, the contribution being higher among non-agricultural households as compared to the agricultural ones. For the agricultural households, cultivation remained as the most prominent source contributing roughly 35% of the overall monthly income, followed by wage labour (34%) and Govt./ private services (16%). Among the non-agricultural ones, it was the Government/ private service which contributed maximum (32%) to the total household income after wage labour which made up for roughly 54% of the total income.

IV.3.Share of Farm Income

In-depth analysis of income of agricultural households was done from various perspectives. Besides studying the quantum of monthly income for agricultural households, the survey also attempted to delve in the livelihood pattern of these households. At this juncture, when the Government is committed to doubling the farmers' income, these findings may be of special interest for devising state level policies and tracking the performance of these states in subsequent surveys taking the findings of this survey as a base.
The table presented below presents the findings pertaining to the contribution of various sources to the average monthly income of agricultural households.

Table 7 : Average Monthly Income of Agricultural Household from Different Sources by Size Class of Land Possessed (in rupees per month per household) (NABARD, 2017)

Size Classes	**<0.01 ha**		**0.01–0.40 ha**		**0.41–1.00 ha**		**1.01-2.00 ha**		**>2.00 ha**	
Source of income	**Amt**	**Share (%)**	**Amt**	**Share (%)**	**Amt**	**Share (%)**	**Amt**	**Share (%)**	**Amt**	**Share (%)**
Cultivation	566	7.0	1488	22.4	2501	30.6	4485	44.9	7572	51.6
Livestock Rearing	1345	16.5	517	7.8	624	7.6	763	7.6	978	6.7
Other Enterprises	251	3.1	384	5.8	455	5.6	416	4.2	1030	7.0
Wage Labour	3508	43.1	2932	44.1	3044	37.3	2777	27.8	3340	22.7
Govt/ Pvt Service	2192	26.9	1281	19.3	1398	17.1	1419	14.2	1612	11.0
Other Sources	274	3.4	48	0.7	148	1.8	130	1.3	150	1.0
Total Income	**8135**	**100**	**6650**	**100**	**8171**	**100**	**9990**	**100**	**14682**	**100**

The figures presented are indicative of a positive correlation between the average monthly income and size class of land possessed. The agricultural households with more than 2 ha of land earned close to 2 times the amount earned by the ones having marginal landholdings. Agricultural households with less than 0.01 ha of land showed a minor deviation from the trend with the average income of ₹ 8,136 per month, which is higher than households in the subsequent size class (₹ 6,650). This may be attributed to the fact that these households reflected heavy dependence on other sources of income like livestock rearing, wage labour, and Govt./ private service, as the income from cultivation alone may not suffice their needs. As shown in the table above, for households in the size class of less than 0.1 ha of land, wage labour was the most prominent source with the average contribution of ₹ 3,508 to the total income of ₹ 8,136. Government/ private service emerged as next most preferred source with the average contribution of ₹ 2,192, followed by livestock rearing (₹ 1,345).

Among other size classes also, wage labour remained as the most prominent source making maximum contribution to the total income for the households in every land size class up to 1.0 ha. In households having more than 1 ha land cultivation emerged as the major source of income. If we analyze the contribution of cultivation to the income of agricultural households, it shows a steady increase by size class of land possessed. Among agricultural households with size class of less than0.01 ha, cultivation accounted for merely 7% of the total household income, while for the size class of more than 2.0 ha its contribution increased to more than 50% of the total income. In absolute terms, the income from cultivation exhibited a marked increase by size class of land possessed with households having the land size of more than 2 ha reporting to have earned over 13 times the income from the same source for households withless than 0.1 ha of land. This may directly be attributed to greater production potential and thereby higher profitability because of the scale of cultivation undertaken on the land available.

V. Saving Habits and Financial Assets

Savings are very imperative for supporting and developing rural industries. They provide several benefits for households directly. Savings could be used for investments. Indirectly saving indicates repayment ability, also increases credit rating and as a collateral in a credit market. The source of own capital clearly is household savings. However, this financial source is limited. Not surprisingly that in many cases, rural entrepreneurs meet their financial needs through informal credit market, although their rates is sufficiently high(Jeyachandran, 2016).

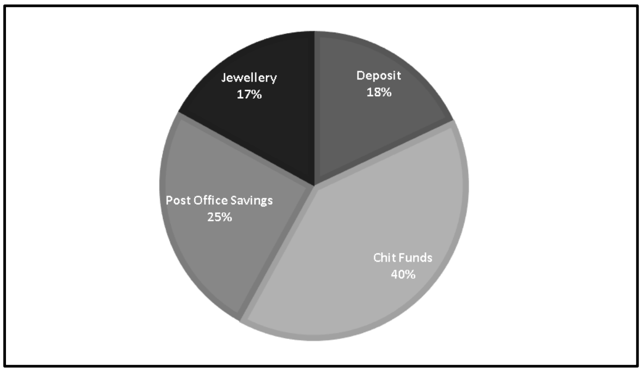

Figure 2 : Saving Habits in Rural India(Jeyachandran, 2016)

Household savings is usually the largest components of domestic savings in developing countries especially the lower income. Majority of the rural households are small scale farmers and as such a significant part of their non-farm income comes from small and medium enterprises.

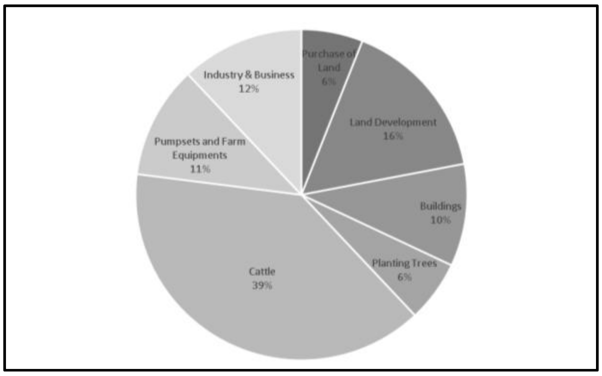

Figure 3 : Investment Pattern of Rural Population in Physical Assets(Jeyachandran, 2016)

The level of education of the head of the household plays an important role in determining the choice 'between the financial assets and physical assets. The specific instruments selected fromamong the different financial assets and from among the physical assets, to some extent, depend on the level of' education.

Thus, it would appear that efforts to popularize financial forms of saving are needed, particularly, among the less educated members of the upper income groups. Conversely, the preference for business investment declines somewhat with education, but rises with income.

VI. Impact of Sharing Economy in Rural Space

The phenomenon of “sharing” assets is however, not confined to urban India. Mahindra and Mahindra Ltd (M&M), the well-known maker of transportation equipment, sensed a large untapped opportunity in India’s vast countryside. Only around 15% of India’s 120 million farmers used mechanical equipment because they either could not afford to buy it or because renting options are too difficult.

For the longest time, mechanization has been inaccessible to Indian farmers due to economic infeasibility. Owing to small land ownership and frequent land fragmentation, the small and marginal farmers, constituting a large majority of our farmer population, find it hard and almost impossible to own a tractor. This automatically leads to a large rental market. Many small farmers are dependent on other tractor owners for their mechanization needs. A large informal hiring practice exists, but comes with its own set of problems. Lack of quality standards, no adherence to time, poor quality of implements, discrimination on the basis of caste and land size are just some of the problems plaguing this practice. All these, in turn, are pushing the 2nd generation farmers to move into cities for search of jobs leaving behind farming. Census 2011 data shows that land under cultivation has gone down 141 to 137 million hectares.

With the Government’s focus on doubling the farmer’s income, Farm mechanization is being seen as a key lever. Focus on setting up of custom hiring centers for farm equipment rental, along with incentives such as subsidies on capital investments has been a boon for the sector and with the increased participation of private players, this business is on the verge of witnessing a massive digital revolution.

M&M created **Trringo,** a sharing platform that allows farmers to rent agricultural equipment. Farmers can book equipment through smartphones or Trringo call centres, which have agents fluent in several local languages. Trringo has enabled M&M to increase its customer base, build brand awareness, and play a pivotal role in driving rural prosperity by empowering famers.

Dedicated farm equipment rental centers, offering high end equipment on a per hour rental basis to farmer along with trained, professional drivers and mechanics is the panacea to the mechanization needs of India's small farmers. Gone are the days of dependence on others. With such centers available at village levels, farmers can now just walk in and book their orders for high end equipment which were earlier out of reach for them. Not just the equipment, they can now take home a professional service, hence converting farm equipment from being just a product to a service. This has far reaching implications for India's farmers.

In 2018 M&M has clocked more than 1 lac hours of farm mechanization. Leading to increasing farm productivity and driving rural prosperity. Since its inception, TRRINGO has played a three-fold role by making farm mechanization accessible for all farmers, generating employment for tractor operators and creating business opportunities for the rural businessman.

VII. Emerging Financial Services in Rural Space

Financial inclusion is how many deposits accounts a bank is opening. Other than bank deposits, financial inclusion includes make available loans, insurance and other financial products as well. Traditionally, the banking system has been reaching out to the masses in the hinterland due to push by the government and the regulator. We need to see business at the bottom of the pyramid.

According to the 2011 Census, more than 70 per cent of India's population lives in villages. As per September 2015 RBI data, more than one-third branches - 37.73 per cent or 48,732 - are in rural areas (September 2015 RBI data). So, there is a wide mismatch. There is a geographical disparity too. RBI data shows that the eastern region has 16.25 per cent of all reporting offices. The comparative figures for the southern region are 27.95 per cent, respectively.

VII.1. Problems in Financial Inclusion

There are reasons for the reluctance of the banking sector to reach out to the masses, particularly in rural India.

- The low transaction size and volume make cost an inhibiting factor.
- Technology can bring down costs but one needs to spend on the right kind of technology, it may not always be smooth sailing for banks as connectivity is a major issue in remote rural pockets.
- Typically, young, bright officers do not want rural postings. Therefore, the quality of staff who ultimately land in rural areas is in many cases inferior to those serving the urban clientele.
- It will take continuous push by the government and the banking regulator to create the right ecosystem for true financial inclusion.
- The Prime Minister Jan Dhan Yojana is a great initiative.

VII.2. Microfinancing

In the absence of formal banking services and credit facilities, micro-finance institutions have enabled crores of people to become part of the formal economy. The significance of Microfinance Institutions (MFIs) in the country can be understood from the fact that there were more than 2.65 crore borrowers associated with these institutions with the outstanding Gross Lending Portfolio (GLP) of Rs. 1,48,097 crores as on 30 June, 2018. This represents 39% Year-on-Year growth.

Microloans are used by individual businesses and Micro, Small & Medium Enterprises (MSMEs); finance the purchase of solar lamps, as well as the development of water connections and sanitation facilities.

Microfinance industry has already proved its viability as a business model. It will continue to remain a relevant and important conduit for providing financial services to a vast segment of the population, acting as a complement to banks. Increasing use of technology and digital transaction to reach rural India will be the game changer for the industry. As rural India gets connected to the outside world, consumer awareness on formal channels of financing will increase. We believe that this will create a platform for rural focused companies like us to chart new growth regions.

VII.3. Role of technology in Financial Inclusion(Bhunia, 2018)

Fin-techs leverage advances in ICT to pilot and scale innovative process of credit scoring, risk assessment and disbursement of credit. This essentially means easier application processes, use of Big Data for alternative credit scoring, and lower processing time for clients.

Recent policy moves such as demonetisation, implementation of GST, and initiatives like UPI have engendered a process of formalisation and digitisation in the economy and, thereby, deepening the digital ecosystem that enables fin-tech to scale. Fin-techs are also in a position to offer customised financial services and products aligned with specific needs, such as working capital and cash flow needs of micro-enterprises, credit aligned with cropping cycles, etc.

A 2018 NABARD survey finds that a mere 11.3% of respondents had 'good financial literacy'. As many as 43% of those who sought loans and were not sanctioned one, said this was due to incomplete paperwork. This reflects continued difficulties of cumbersome paperwork (including furnishing supporting documents). Similarly, 38% of those who felt the need for a loan did not apply for one, due to anticipated challenges in formalities and procedures. While this reinforces the need for digital procedures, which reduce the burden of complex paperwork, it also shows a sticking problem with financial literacy.

Requisite infrastructure needs to be in place for digitally driven financial inclusion. While rural tele-density, as reported by TRAI, is still a low 59.05, the monthly growth rates of wireless subscription is 2.84%—significantly higher than the 1.87% in urban India. Half of India's internet users will be from rural areas by year 2020. But, currently, mobile internet penetration stands at a measly 18%, compared to 59% in urban India. It is, therefore, important that basic infrastructural hurdles are overcome at the earliest.

India is the largest consumer of mobile data. While fin-techs are well-poised to leverage the improving digital infrastructure, scaling fin-tech innovations in a rural micro-enterprise context nonetheless requires a steady increase in infrastructure

VIII. Conclusion

Our research paper focusses on looking at issues of Rural consumer in India from at Macro point of view. We have proposed to first create the infrastructure that the farmers are lacking currently. We propose to first have proper warehousing infrastructure to the farmers to give them enough time to sell their produce at the tight price and right time. Also, India is currently lacking in inclusion of food processing industry whereas developed countries have a very high inclusion of food processing industry. High inclusion of food processing industry will give access to the right price to the farmers.

These two solutions are untapped industries in Rural India and have huge potential for growth. We have also proposed to provide loans to farmers with minimum processing time with warehouse receipt as collateral as well as provide loans with gold as collateral. These actions will help in increasing the spending power of rural consumer.

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