International Journal of Recent Technology and Engineering (IJRTE)
ISSN: 2277-3878 (Online), Volume-8 Issue-6, March 2020

Literary Role of Rural Finance with Special Reference to Developing Nations

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Abstract: ***A significant number of studies have been made on corporate finance and financial services with reference to developing as well as developed nations. However, there is a paucity of work pertaining to the rural finance. In this study, we review the research work already conducted to see perspective of rural finance. The author has reviewed papers that were published between 1970 and 2018, and further categorized them based on their publication year, countries, publishing source and focus area of the study. This paper underlines research gaps that may help researchers to find a future direction. This paper adds to the existing pool of literature by presenting the work in form of systematic literature review, which states that not much study has been conducted that thoroughly reviews and compiles research findings available in this field. So through this article, we have tried to fill this gap.***

KEYWORDS: Rural Development, Rural Finance, Rural Financial System, Rural Growth, SLR (Systematic Literature Review).

I. INTRODUCTION

The economic growth and welfare of a country depend upon the accessibility and reachability of financial products and services to all residents of the country [1-4]. Access to finance / financial institution is particularly a solution to all kind of credit requirement which also helps in the sustainable growth & development of a country [5-7]. However, in developing countries like Brazil, Mexico and India, rural population still has very limited access to finance [8]. Majority of rural residents still do not have access to formal source of finance and they also face serious difficulties accessing savings and credit products from the formal sector. A report of World Bank which draws on Rural Finance Access Survey (RFAS), 2003 for India, states that 87 percent of the rural households (marginal farmers) do not have access to credit and 71 percent of rural households do not have access to saving from a formal source [9, 10].

Manuscript received on February 10, 2020.
Revised Manuscript received on February 20, 2020.
Manuscript published on March 30, 2020.
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However, credit may favor one entity at the expense of others [11]. For the past sixty years, governments throughout the developing world have tried with the support of contributor agencies, to encourage rural growth by channeling various schemes for credit lending at below-market interest rates to farmers. Although most of the time such favorable schemes reach only a minority of the rural population, while benefits were frequently concentrated among wealthier part of that population [11].

Since 1980s, some developing nations have experimented with a new approach which mainly focused on reform of policies to improve design of rural financial structure [12-15]. With this new approach, Rural financial intermediaries (RFIs) have come forward with capability to reach majority of rural population without any government subsidies [5,12]. Thus, informal or semi-formal financial institutions have come up as a major player among the financial service provider to the rural population. However, these Rural financial intermediaries (RFIs) often have weak institutional and managerial capacity and therefore offer only a limited range of services to the rural people often without regulation [16]. If we see the organization of rural economic activity in general, we find agricultural production as a main source of income [17-20]. But agriculture takes considerable time for the transformation of inputs into the output and also the production & sales are highly uncertain due to a unpredictability of nature or volatility in commodity markets [21]. In such conditions, the agro-enterprises and rural households have to make strategies to use the available financial instruments for long term investment and to deal with uncertainty and risk. So if rural population have limited access to available set of financial services then rural farmers may have to forego the investment opportunities and suffer the consequences of adverse circumstances [22-23]. Through this study, we have tried to find out the various dimensions related to rural finance which also adds to the existing pool of literature by offering a thorough review of 121 research papers pertinent to rural finance with the perspective of developing world. This study is an effort to underscore the key results of the important articles which were mainly published in the Web of Science (WoS), Scopus and Ebsco indexed journals. We compiled all the studies at one place so that potential researchers interested in this domain can easily access all the related information. No such study has been found till date which may further be categorized as interdisciplinary work. The following section is about the rationale of the study describing the motivation for it. Afterward, the paper presents the theoretical concepts relevant to the subject under discussion. Next, the paper describes data and methodology used in Systematic Literature Review (SLR).

Then, the paper describes the findings in detail with a view to understand various dimensions of rural finance. Finally, discussion and conclusion with future research directions been given.

II. THE RATIONALE OF THE STUDY

Agriculture and rural development have always drawn attention of academicians and researchers [24-28].

Among which rural finance can be seen as a key domain that is vital to understand the need of the rural sector, their investment plan, future financial schemes, and various kind of uncertainties. The World Bank has also published several reports on a regular basis on rural finance with special reference to the developing nations. In these reports world bank always raise the concerns which are required to be dealt with rural finance [8-9, 29-30]. Many other researchers have also made their contribution to the same field by developing a relationship between a sound financial system and rural growth. Goldsmith was the first to conduct a research & explore relation between financial system and real growth of the economy [31]. But that study reported a theoretical view instead of having background of empirical findings. Later research used an empirical approach and observed that a good financial system helps to achieve sustainable growth rate and development among various kind of economies [22, 32-38]. Several attempts have been made to know the better way to deal with the rural financial system and its management so that every rural households' need can be fulfilled. The increase in importance of the rural economy has prompted many scholars to study the best possible way to establish a formal financial system for households of various income levels [25,35,39-44]. This study provides a better insight of the research work focusing rural financial system having special reference to the developing world. This paper focuses on the strategies and various other dimensions of rural finance based on the large number of studies available in this field. This paper also assesses the present trend of study by organizing reviewed papers systematically. The main objective is to provide a detailed bibliography on rural finance especially for developing world. Furthermore, the studies providing a solution to all problems related to the rural financial system has also been explored.

III. HISTORICAL PERSPECTIVE

The concept of rural finance was recognized at the beginning of the 19thcentury in the form of rural credit, which considered the provision of savings and loan services for farming and agro-enterprises [5,45,46]. By the mid-1980, the world's developing economies seen to purveyed up to 50 billion USD annually in rural credit. Apart from the formal sector financing, the informal sector was also prominently present there which provide family loans, rotating savings and credit schemes. Informal sector of finance contributed more than five times of the formal sector in a year [5,20,47-49]. Such snap shot throw some light on the importance of rural credit programme in the developing economies.

During 1960s green revolution happened to provide an increase in farm production. This in turn raised the need for improved seeds, fertilizer, improved technological resources. But for satisfying these need a greater involvement was warranted from development organizations such as World Bank and Agency for International Development (AID) to finance research to promote the role of rural financial institutions [50,45]. The early success of the Green revolution resulted in establishing many rural development banks and cooperatives which were the sole providers of financial assistance to the rural households [35,45,51]. Although these lending institutions worked as a supplier of low-cost finance to improve farm productions. At that time the low cost credit financing tools were seen as a critical persuasive tool to use improved agro-relatedactivities that included improved seeds, fertilizer, agro marketing services [52-55]. In the early 1970s, it was found that a major portion of the credit assistance provided by leading financial institutions reaching only to a particular section of the economy mainly to rich and farmers having the large agricultural operation [46]. The rural poor were not having access to such credit and financial support schemes. In many instances, political activities were the major concern due to which the credit has been rationed to select households. Some studies mentioned that political interventions resulted in loan defaults in many rural areas along with a mismatch between technology and rural credit programs [16,56]. MSince 1980s, NGOs have started to play an important role to fill the gap left by institutions and to deal with political influence, high-cost credit delivery mechanism with the objective to serve every rural poor in the society [37]. NGOs are also becoming successful as they have stronger linkages with local communities. Although their programs used to be generally small in scale but desined and focused on full participation of rural households in order to cater to financial needs of rural house holds [52,54,57-58]. Programs run by NGOs are vital to be considered as a significant contribution in the field of rural finance. But this is not the complete solution to all the rural finance related problems as there are many other aspects which need to be addressed like technology, efficiency in production, risk diversification programs and market expansion their markets [49,55,59-60].

IV. DATA AND METHODOLOGY

The objective of the instant paper is primarily to arrange and assess available studies on the subject using a Systematic Literature Review (SLR). Earlier many studies have used SLR approach [e.g. 61-62]. By making Systematic Literature Review the quality of review process can be improved and the outcomes can be achieved by using a transparent and reproducible process. In this paper, an analysis of 121 research papers on rural finance is presented. Earlier studies that followed SLR also presented the empirical findings explaining the included bibliography pertaining to the source of publications, year, focus area of study. In this study, we include the research work published in refereed journals from 1970 to 2018. Studies made prior to this period were not considered as they were either in report form or print news which were the main source of public information. Research papers considered for this study have been sourced from Google Scholar, Web of Science, Ebsco, Oxford, Elsevier, Springer. The literature has been searched using keywords like "rural finance", rural financial system", "rural credit", "rural credit scheme", "rural finance development", "rural finance institutions", "rural finance issues", "rural finance challenges", "improving rural finance".

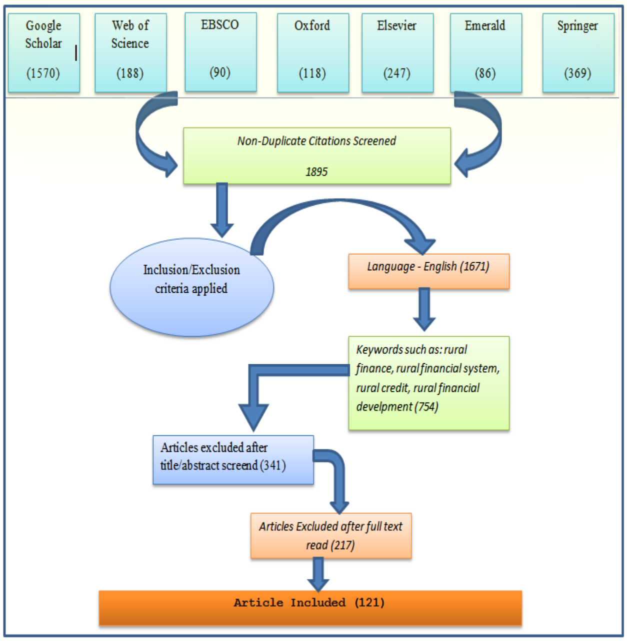

Fig. 1: Classification of Research Papers: based on Source

Keywords were searched in the title, abstract and in the list of keywords. This search criteria has given us a large number of papers, however only papers relevant to subject under study have been considered. The outcome of search thus obtained was carefully examined in order to have appropriate identification & classification to select suitable papers for achieving the objective of this study.

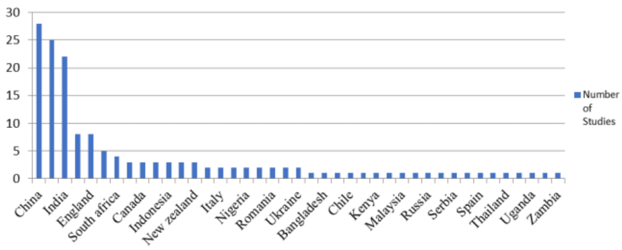

Fig. 2. Number of Studies (Country wise)

V. CLASSIFICATION OF THE REVIEWED LITERATURE

121 published research papers were analyzed which were organized on the basis of publication year, country of origin, methodology, and source of data. The result of Systematic Literature Review has been is presented in this section. On grouping the selected research papers based on their year of publication (fig 3), it is evident that studies on rural finance have been growing continuously since 2009. In additon to this a distribution of studies based on the country of origin is presented in Fig. 2. From Fig. 2 it is observed that a substantial number of studies have been made on rural finance in developing nations like China and India. One reason for this may be that developing country's' rural population size is very large in comparison to other countries and also the research information is easily accessible to the researchers [63]. In this study, research papers published in refereed journals only has been considered. All other papers belonging to the conferences, workshops and working papers have been removed. (However, some reports & conference papers have been considered while writing this paper so the list of References has reached to 80 but analysis is done for 71 publications only)

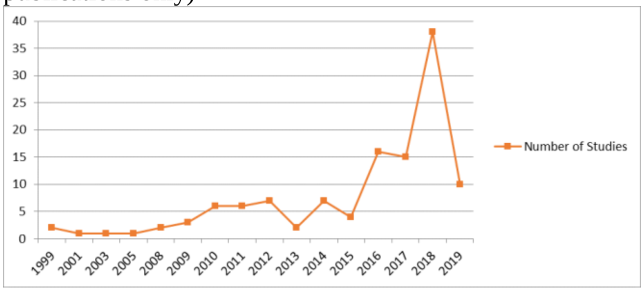

Fig. 3. Number of Studies (Year wise)

VI. KEY DIMENSIONS, CONCEPTS, AND TRENDS IN THE LITERATURE

On the basis of systematic literature review (SLR) we have produced a model which consider all the key dimensions related to rural finance

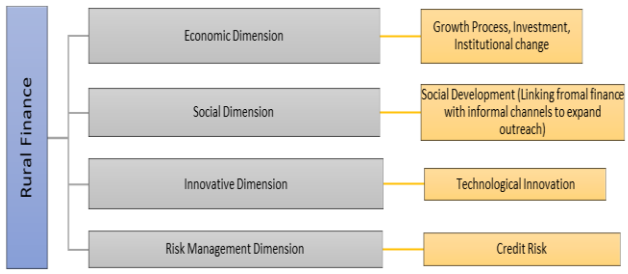

Fig. 4. Key Dimensions of Rural Finance

Economic Dimension

There are two distinct questions which are centrally related to the role of rural finance: does it reach to each and every person who is needed to be assisted and does it significantly impact the economic conditions of a country [22,24,64]. However, due to lack of adequate information, empirical analysis of both these questions has been relatively few. Whatever evidences are available, we have considered in this section. In many developing countries agriculture is the principal occupation of rural sector and the same is declining in the course of development. But agriculture is still a dominant economic sector with regards to export and job opportunity especially related to the rural poor of the society [20,22]. It means that agriculture sector still plays a key role in economic development of any nation. In case of developing countries, its role is of vital importance. To accelerate the agriculture sector, to empower poor farmers, to increase rural wealth and food production financial assistance is a must [65].

All rural finance does not pertain to agriculture only, it can also be attributed to financial services availed by rural population of different income level and occupation. Financial services assist households in maintaining savings, investment, smoothing consumption. Nie Hongshun (2009) [66] made an empirical analysis to see the relationship of rural finance and economic development and stated that robust economic growth is impossible without extending financial services in the rural community. Furthermore, [67] the relation between financial and economic development was investigated in transitional economy for study period 1994-2007 by employing a dynamic panel model. They found in their study that financial sector's contribution to economic development was minimal due to lack of financial penetration. In addition, Sani Ibrahim, (2013) [68] conducted a research on Nigeria in the context of unveiling impact of financial development in rural sector on economic growth. The research used time series data over a span of time period of 1980 - 2011 period and was based on Dynamic Ordinary Least Square (DOLS) method. The test result shows the long-term relation between financial developments and economic growth in rural sector of Nigeria.

Recent studies on development stated that the economic growth of developing nations could be best achieved through bottom-up approach as a majority population of these nations lives in rural areas. Literature shows that earlier developing nations adopted urbanization programs (top-bottom approach). Having a very small fraction of population living in urban sector, the effect of development steadily trickled down as the entire country moved on the path of economic growth [16,69].

Social Dimension

In rural finance, the term "Rural" is mainly characterized by a social structure, non-urban style of life, farming and related occupations and inequalities in income & wealth [64]. Studies conducted by various experts show that rural finance helped in social development by delivering crucial financial services. Furthermore, it is also accepted as an instrument for alleviating poverty and to improve social life of the unprivileged rural areas [18]. Generally, rural finance is meant to provide various kind of financial services to the rural sectors, where commercial banking and financial institutions are not easily available. Over period of last decade, Governments, Non-Governmental Organizations (NGOs), financial institutions, Partnership firms, and Cooperative Banks have worked together to develop different new financial delivery approaches with convenience and flexibility for assisting each and every rural citizen in the society [8,57]. For promoting various financial schemes, these organizations further adopt "Agency Model", "Civil Society Organisations", Farmers' Club, Panchayat (Village Council), Village Knowledge Centres, User Group Associations, etc.. But again there exists some constraints due to which some poor and weaker sections of rural society depend on the unorganized financial system [49]. Constraints can be related to the distance of the service provider, cumbersome documentation and procedures, staff attitudes, small size loan demand, lack of infrastructure, high transaction costs, and vast geographical spread etc. The unorganized financial system is able to run because it utilizes local knowledge, offers credit for a variety of purposes and operates with flexibility [59]. Also, they have strength of communities to build their own institutions without any help of outside donors. In many countries, such informal financial system operates in the same mode such as Brazil (SICREDI), Kenya (SACCOs), Poland, Sri Lanka and India. Earlier studies also expressed their concern on the development of financial education programmes for borrowers as well as lenders so that individuals can access and use appropriate, formal financial products [30,50]. Atkinson and F. Messy (2013) [70], mentioned in their study that it is necessary for rural financial inclusion to implement innovative approaches like financial awareness and education specially with an objective of promoting financial, economic and social welfare. With this view, financial institution can contribute in poverty reduction and improvement of social economic structure. If all these prerequisites are met, the rural financial system can play a significant role in economic and social development.

Innovative Dimension

Inadequacies in rural access to formal and informal finance especially for the poor provide is a major concern for innovative approaches in fulfilling financial needs of each and every rural household [71].Generally, rural finance makes money available to rural households at the time and place they are required. Such assistance facilitates the rural families and family businesses to improve their liquidity management, to finance the projects which help them to enhance their income and income sources [15]. In rural areas, this financial system also plays a welfare role as it allows easy flow of funds required for daily consumption specially in the concern of seasonal business activities. In order to make rural finance easy the innovation approach creates additional value by reducing the transaction cost of accessing the financial services. An important innovation in rural finance is "Agent Banking" which provide remote and inaccessible services in rural areas which is pioneer in this field [18,33]. Other Innovative dimensions can be seen in terms of "Policy Dialogue", "Technical Assistance", "Insurance Programs", "Risk Management", "Supply Chain Financing, "Mobile Marketing" and "Farm Bond" etc.. Such innovations are also valuable for the financial institutions as it increases their profitability by reducing their cost and help to transfer the clients' benefits directly . Innovation also helps in to improve the competitiveness by serving new segments, facilitate larger investment and generating extra income with existing clients. In rural finance the innovation can be considered in two types: a) By launching new products satisfying the present demand of users; b) By improving or refining the existing cumbersome processes used in providing services. In both of these types technology can be seen as an enabler for the innovation. From a rural sector perspective, the literature review suggest following six key areas where technology can provide a greater institutional efficiency:

1. Customer access to credit, saving, or insurance products.
2. Customer access to market related information.
3. Debt and Risk management
4. Management information system (MIS)
5. Credit Scoring
6. Financial learning tool

Technological innovation provides greater access to all the above areas either directly or indirectly. But for that, a proper business strategy and the supporting technology solution is needed. As noted previously, the financial institutions also make their focus on leadership, culture of change, partnership collaboration, team development, acquiring expertise, and user-centric infrastructure to have cost-effective access of innovative dimensions [19].

Risk Management Dimension

In many developing countries, risk management is a key phenomenon to financial service providers [21]. Particularly in rural areas where there is a risk of borrower default due to inability of farmers and/or their reluctance to repay their loans make accurate risk assessment difficult. One reason for this could be information asymmetry due to rare availability of borrowers' credit history in rural areas. In addition, it is difficult to use the assets as collateral in case of default as major assets are related to the agricultural production which makes difficult to foreclose on land [8,49]. Some institutions have developed strategies to deal with such risky situations by knowing the break-even level, market risk, weather risk, and clients' transaction history etc. Given the importance of financial mechanisms in dealing with risk, it should be concern that the providers of rural financial services should make specific arrangements that can respond to any unforeseen circumstance. Brown and Nagarajan (2000) suggested a framework for the phases of preparation which further provide valuable guidance in designing the products and arrangements to deal with risk. This framework basically has three different phases, before, during and after the event occurs.

Phase 1: **Preparedness arrangements and products**: Uncertainties can be predicted earlier which enables financial institutions to design their services so that payments during the uncertain period are avoided.

Phase 2: **Relief arrangements and products**: Financial institutions can provide grace periods for loans affected by an uncertain event. Some lenders also provide loans at reduced interest rates which help clients cover basic needs.

Phase 3: **Loan products for reconstruction**: After an uncertain event some clients may face challenges to reconstruct their business activities. For that some financial institutions allow clients to have more than one loan by offering their regular products. Others may introduce specific products to assist the client at that time.

Financial institutions which have dealt successfully with the uncertain events able to determine the impact of the events and also able to establish the policies for different types of clients [52]. In terms of risk management following this way, rural financial institutions would be able to manage their work to a large extent.

VII. RESULT

This paper presented a overview of the different dimensions of rural finance with special reference to developing nations by reviewing some refereed research papers on the topic. As per the systematic literature review it is seen that research in rural finance has been growing rapidly and has shown a spike in academic interest over the years 2010-2018.

Classification of papers according to the key dimensions of the rural finance is as below:

Table-I: Distribution of Papers as per Key Dimensions

Key Dimensions related to Rural Finance	No of Research Papers
Economic Dimension	20
Social Dimension	28
Innovative Dimension	16
Risk Management Dimension	7

Note: Some of the papers are classified in two or more groups

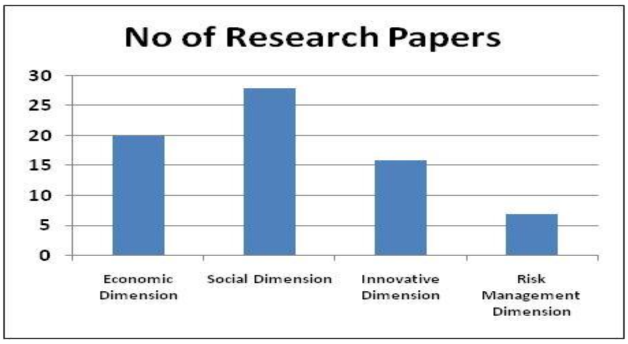

Fig. 5. Number of Studies (as per Key Dimensions)

It can be seen from Table-I and Fig. 5 that the focus of the researchers is primarily towards study of "Social Dimension" followed by "Economic Dimension". It is pertinent to mention that the "Innovative Dimension" and "Risk Management Dimension" are vital dimensions. In the present economic scenario innovation has its unique importance to provide financial service to masses at affordable cost. Similarly, risk management gains importance in the present dynamic environment to address any unforeseen circumstances.

VIII. CONCLUSION

It is evident from the analysis that problems faced by rural areas in terms of receiving financial assistance are always challenging which needs effective transformations. Through some innovative approaches such as provision of financial inclusion and financial intermediation, rural finance system can expand to match the present demand of the rural society and to support rural transformation. These approaches further helps to make a focus on client-oriented services which can increase the inclusiveness. On the other hand opportunities are substantial in rural sector in terms of investment, agri-production, farm marketing and credit and saving financing. There has been increasing interest found in developing nations regarding rural finance but somewhat less in the area of informal finance and uncertainties. There are a variety of research themes relating economic, social, innovative and risk management dimension of rural finance that pronounced its importance for developing world. Also, we found that there are significant gaps in studies related to rural finance, often leading to disparities among researchers. In this study we have highlighted some of the leading dimensions of rural finance which has been described in different studies considered for this paper.

IX. FUTURE SCOPE

This paper will inspire prospective researchers to hold the baton to transform research in rural finance by taking care of different dimensions for the benefit of other scholars, policymakers and practitioners. This study may further inspire researchers to work in the field of interdisciplinary studies to establish relationship between need of rural house holds, occupation and how access to finance may create better rural society in developing countries. It is evident from the above study that there is need for more innovation in the financial sector to provide Rural Finance at affordable cost to masses and similarly there is scope to study different risk management dimensions in order to address risk of borrower default. Further research in rural finance may lead to development of new innovative products & processes which in turn will have the potential to make the rural finance accessible to masses.

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