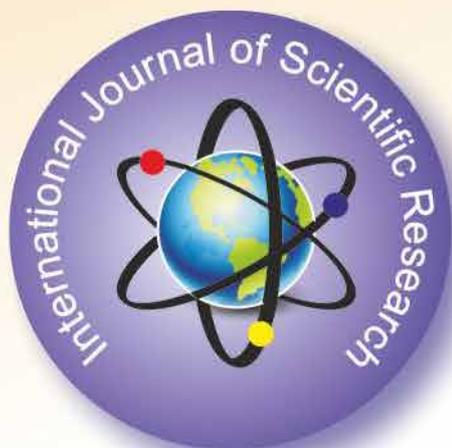


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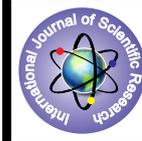
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## Rural Financial Services in J&K (A study in the field of financial services sector development)



### Commerce

**KEYWORDS :** rural financial services, financial institutions, agricultural lending, savings deposit services

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### ABSTRACT

*In the present era the finance industry encompasses a broad range of organizations that deal with the management of money. Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises. Rural financial services in India are in these days provides a variety of services including not only agricultural lending but lending to farm households for non-agricultural production and consumption purposes, loans made to non-farm rural firms, rural savings deposit services and other financial services such as insurance. For poor rural families in developing countries, access to credit and savings facilities has the potential to make the difference between grinding poverty and an economically secure life. In the present study an attempt has been made to analyse the evolving structure of the rural financial services in J&K and the extent to which the current financial institutions have improved access to rural financial services for producers and traders in the rural areas. The study identifies successful cases of functioning financial services in the rural areas. It also identifies constraints that hinder increased access to rural financial services and proposed policy intervention that could make the rural financial services more accessible.*

### INTRODUCTION

Financial services plays an important role in rural development. Rural finance is about providing financial services – secure savings, credit, money transfer and insurance in rural areas. The main objective of rural financial services is to make provision for agricultural credit. Broadly speaking, the provision of credit in the form of loans allows uneven income and expenditure streams to be smoothed out.

The lending activity includes:-

- Exchange of consumption today for consumption in a latter period
- Protection against default risk
- Information acquisition regarding characteristics of loan applicants.
- Measures to ensure that borrowers take those actions that make repayment more likely (the incentives problem)
- Actions to increase the likelihood of repayment by borrowers who are able to do so (the enforcement problem).

### Factors affecting the supply of rural finance include

The various factor affecting the supply of rural credit are--

- The high financial transaction costs .
- The seasonality.
- The relative low profitability of on-farm investments.
- Weather and other production risks.
- The limited availability of conventional bank collateral security
- Lack of adequate training of both bank staff and farmer clients.
- Illiteracy

### Formal and informal financial services

The formal and informal financial services includes

- Savings and insurance schemes .
- Loans for investments and working capital.
- Services of money transfers .

### An Overview of rural financial services

- ∅ Lending among friends and relatives.
- ∅ Moneylenders
- ∅ Self-help schemes
- ∅ Money transfer

Approaches to Decentralisation of Rural Financial Services

Basically there are two approaches to decentralise rural finan-

cial services. One approach involves a drastic reform or restructuring of government-owned financial institutions operating in rural areas, by shifting power away from the centre and changing responsibility and accountability systems through a combination of deconcentration and devolution measures.

### Diversifying ownership

The second approach aims at diversifying the ownership of the financial institutions operating in rural areas. This objective can be achieved in three major ways:

- ∅ Changing the capital structure of government-owned agricultural development banks by selling a controlling interest to the private sector
- ∅ Encouraging the development of private banks and by eliminating subsidies and liquidating, restructuring or reducing the scope of operations of banks retained in the public sector
- ∅ Promoting and regulating the emergence of new types of grassroots-based rural financial intermediaries.

### The changing role of government

Government intervention in the financial services sector has generally had poor results. Government ownership of banks retards financial sector development and increases the risk of financial crises. Promoting the adoption of new agricultural technologies is the task of extension, not of credit. There is a strong case for governments to decentralize their rural financial services, let rural financial services develop in the private and non-profit mutualistic sectors and, where and when appropriate, reduce the overwhelming presence of public financial institutions. The new role of government is thus support of institutional development, rather than promotion of targeted incremental crop production through financial intermediation.

### Appropriate legislation

Despite, the measures outlined above related to reforming state banks and diversifying ownership, support to institutional development means that an enabling environment is created by enacting appropriate legislation to:

- Protect private savings
- Ensure transparency of banking institutions
- Prevent unlawful or imprudent practices
- Encourage the introduction of new financial products
- Protect financial intermediaries from undue interference with their autonomous decision making processes and management of their affairs.

### The regulatory role

Financial institutions must operate within the framework of precise regulations that:

- Safeguard depositors' savings

- Ensure stability of the financial system
- Encourage competition in financial markets.

### Challenges of rural finance

Promoting rural financial services remains a priority of many governments, donors and NGOs, since several challenges still need to be addressed. Moreover, experience has shown that financial institutions only increase their outreach – to rural areas, but also to poorer clients – if they can cover their costs. Several financial institutions in India have demonstrated that it is possible to operate in rural areas and be financially sustainable. Key lessons learnt in recent years include the following:

- Need specific
- Innovation to reduce cost

### Major Policies for financial sector development

1. Minimizing risks.
2. Building on existing institutions

### RESEARCH METHODOLOGY

A multistage sampling method was used to select respondents for the study. Primary data were collected through the use of set of structured questionnaires. Non – parametric and parametric statistical tools including means, percentages and probit analysis were deployed to estimate the structure and effects of farmers' access to rural financial services.

### OBJECTIVES OF THE STUDY

To analyse the evolving structure of the rural financial services in J&K and the extent to which the current financial institutions have improved access to rural financial services for farmers traders in the rural areas. The study identifies successful cases of functioning financial services in the rural areas. It also identifies constraints that hinder increased access to rural financial services and proposed policy intervention that could make the rural financial services more accessible.

### LIMITATIONS OF THE STUDY

In undertaking this study, a number of problems were faced. Thus the study has several limitations. The limitations are:

#### 1. Lack of time

For the time limitation the researcher could not gather more information to justify exact condition. The time constraints are limiting factors.

#### 2 Small sample size:

The study is limited by the size of the sample. As the sample size is very small, geographical and regional differences could not be included.

### 3. Customers willingness

Most of the respondents were enthusiastic in reporting and could not give enough time to fill up questionnaire. Also they are not willing to provide appropriate data. So the accuracy of the data cannot be taken to core.

### Major Findings

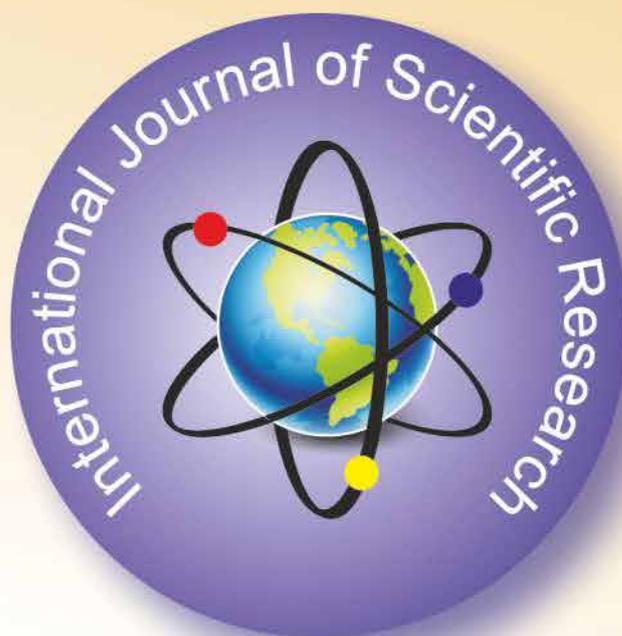
Results showed varying effects of access to rural financial services between male and female farmers in the rural areas of J&K State. The educational attainment and income from farming had positive effect on probability of access to financial services for the farmers. Comparatively, the co-efficient of educational attainment and membership of farmer's society had some positive and significant effect on probability of access to informal rural financial services for female farmers. However, result of the regression analysis showed that there are significant differences in the effects of access to rural financial services between male and female farmers with males having more access to formal financial services than females.

### Suggestions

- Development of agricultural production should be a public priority
- Technology innovations and more input use are essential to increase production
- Farmers should be given more financial resources to adopt technology innovations
- Most farmers are poor, hence there should be a gap in cash resources which blocks the adoption of new technologies and credit is needed to fill the gap
- Agricultural production is a risky business; returns in agriculture are less than in the other sectors of the economy. Market interest rates reflect opportunities in other sectors: the market cost of money is too high for farmers to borrow for productive purposes. Government should intervene with subsidized lending (seeking no profit, amortizing high transaction costs, spreading the risk on a national basis)
- Agricultural loans should be targeted to selected crops and technologies of interest to government
- Loan repayment capacity should be shown by viable crop/farm budgets models
- To extend subsidized credit for specific purposes, specialized government financial institutions must be established and financed with public funds
- Since most borrowers in rural areas are small farmers (i.e. poor), low cost credit should be given to alleviate poverty .

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