

INNOVATION IN RURAL BANKING

EXECUTIVE SUMMARY

Rural Sector occupies a critical space in the Indian economic system, as 3 out of every 4 Indian lives in rural areas & 5 out of every 6 people living in rural areas are dependent on agriculture as source of Income. The rural credit markets are still dominated by moneylenders & middlemen who charge a huge rate of interest & margins, thus indulging farmers into debt traps.

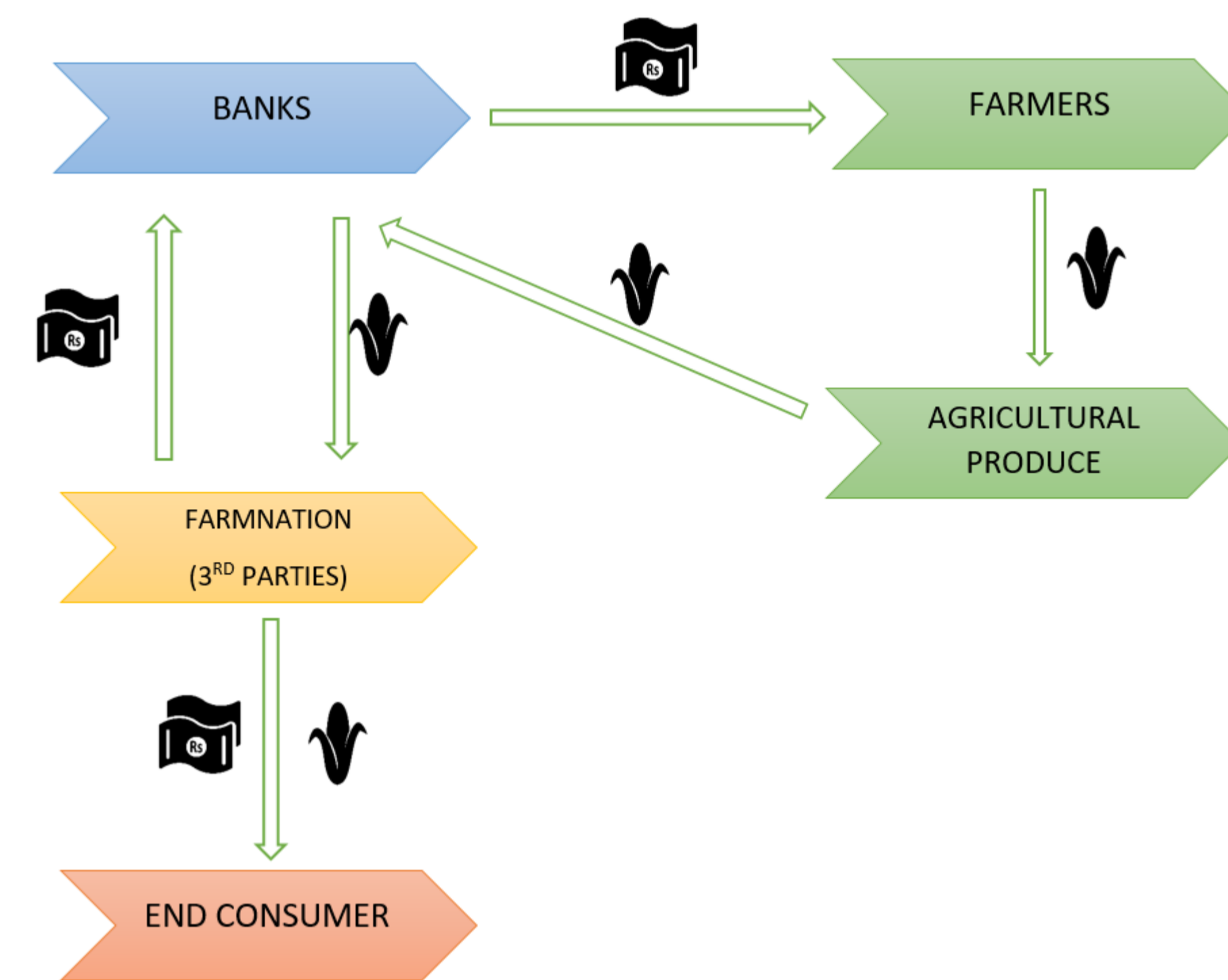
Adding onto this is the lack of availability of banking services in interior rural areas, thus leaving the farmers to turn towards moneylenders as their source of borrowing. Another reason farmers choose moneylenders over banks is the instant and hassle free loans provided by the moneylenders.

Thus we propose the following business model for the banks which will help the farmers to get a fair bargain for their produce as well at the same time would help them to come out of the debt traps laid by the moneylenders.

- 1) Banks will act as an intermediary between farmers and end consumers by tying up with 3rd parties such as Farmnation, who in turn have arrangements to sell the produce directly to customers, and also helps farmers to get a fair price for their produce.
- 2) Customized short term schemes for providing agricultural loans during the month of June & July which is the most capital intensive period in Indian agriculture. The loans would be directed towards small farmers having land less than 5 acres who need small amounts of money (Rs 25000-50000) during June & July.

The number of rural branches should be increased rather than reduced; they should be encouraged to develop more sophisticated methods of credit delivery to meet the changing needs of farming; and most of all, there should be greater co-ordination between district planning authorities, panchayati raj institutions and the banks operating in rural areas. Only then the regional rural banks will be able to fulfill the promise that is so essential for rural development.

OPERATIONAL VALUE CHAIN



BUSINESS CANVASS MODEL

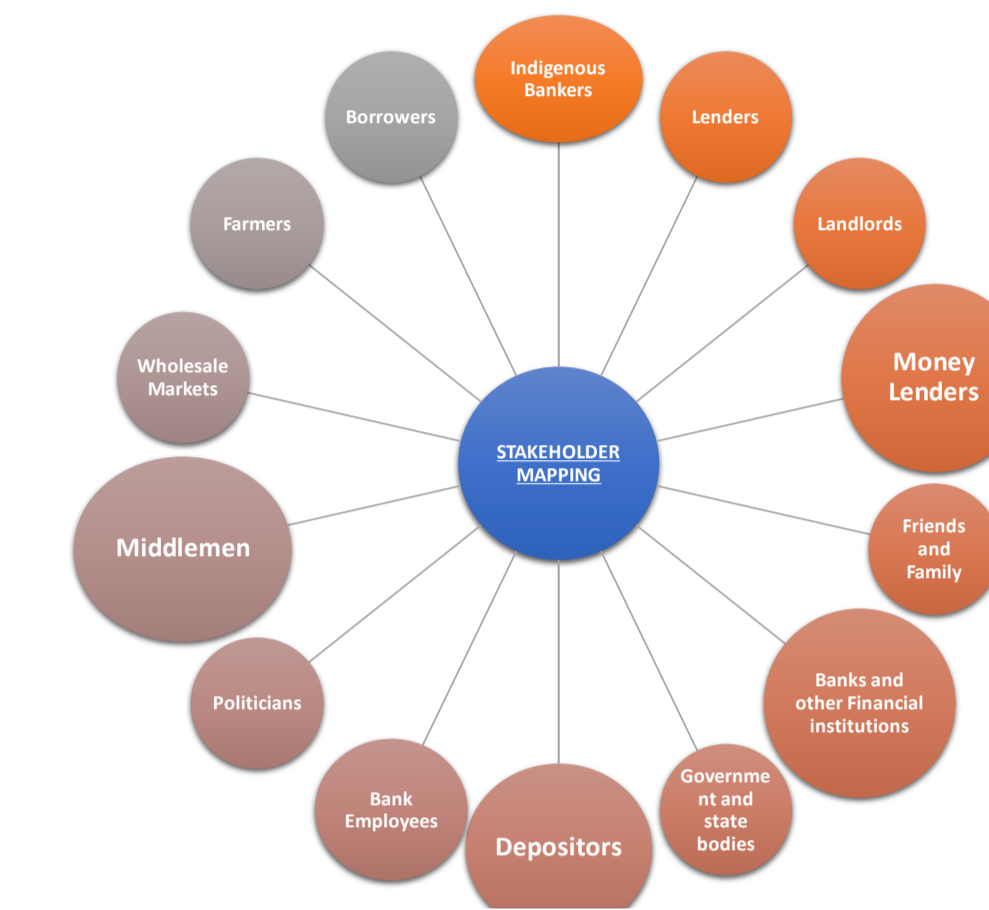
Key Partners <ul style="list-style-type: none"> APMC Farmnation (Third party consulting firm) NABARD Panchayati Raj Institutions/ District planning authorities RBI Gram Panchayats 	Key Activities <ul style="list-style-type: none"> Quick hassle-free loans Tie up with farmnation or other parties Fair price to farmers for their produce Customized schemes for farmers 	Value Proposition <ul style="list-style-type: none"> Easy credit with low interest rate Improved bargaining power for the farmers Elimination of middle men. Spreading awareness & educating farmers about trends in agriculture sector Giving a new direction to the agricultural model of rural India Customized Schemes as per changing agricultural needs 	Customer Relationships <ul style="list-style-type: none"> Personalized business environment for the farmers. Customer education & awareness programs 	Customer Segments <ul style="list-style-type: none"> Large agricultural producers Small farmers with land less than 5 acres.
Key Resources <ul style="list-style-type: none"> Partnership with consultancy firms Rural penetration Capital Skilled & educated manpower 		Channels <ul style="list-style-type: none"> Physical outlets. Gram Panchayat Sabha. Radio 		
Cost Structure <ul style="list-style-type: none"> Interest expense. Running costs for physical branches in rural areas. Maintenance of servers, software's & IT expense Salary of employees Audit fees Security cost 			Revenue Streams <ul style="list-style-type: none"> Margins between consulting firm & Farmers Loan processing fee Interest income Commission income Return on investment 	

The Business Canvas Model provides a holistic approach towards the key resource areas and the entire business flow of banks.

Through this business model we want to empower the farmers by creating customized solutions for their borrowing woes.

The business model provides for quick working capital loans for farmers with minimum documentation and low interest rates.

STAKEHOLDER



REGIONAL SEGMENT ANALYSIS

- Villages of Maharashtra
- Sonpeth
 - Ambejogai
 - Parli
 - Patri
 - Beed
 - Tuljapur

NEED ANALYSIS

- Basic Banking Services in interior parts of rural areas.
- **Quick working capital loans with minimum documentation.**
- Subsidized loans with interest rates lower than that of moneylenders.
- Customized loan schemes during sowing season.

FINDINGS OF PRIMARY RESEARCH

- Majority of the borrowers are small farmers having land less than 5 acres.
- Their average loan amount was between Rs 25000 - 50000.
- Main purpose of loan was agriculture.
- Maximum loan was taken during June & July.
- Farmers took around 1 - 3 loans during the year.
- Major sources of borrowing for the farmers are banks, moneylenders, family & friends.

PROPOSED SOLUTIONS

- Banks to give agricultural loans to farmers.
- Banks will act as an intermediary between farmers & third parties who will sell the produce directly to end consumers.
- Third party will charge a commission for the service provided & banks will reimburse this commission from farmers along with their margin.
- In case of borrowers, instead of giving the entire proceeds of the sale, the bank will deduct their loan installment & pay the rest to the farmers.
- This will help in reduction of NPA & also increase farmers income.



WHY SHOULD BANKS ADOPT THIS IDEAS????

Total NPA of the bank (Vaidyanath Co-operative Bank) is 19% of the loans given. Of this 64% are agricultural loans given to small farmers. This Business model will help to reduce the NPA percentage from 19% to around 12%. Further this will generate an additional revenue for the banks in terms of the commission earned & increase in customer base.

GROUP MEMEBRS

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