

INVESTMENT OPPORTUNITIES FOR GROWTH IN RURAL INDIA

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Abstract:

The mutual funds have been restricted to the big cities. The sustainable growth requires availability of investment options to the investors from small cities and villages so that they can earn decent returns on their investments. The paper evaluates mutual funds as an investment opportunity for investors from rural areas. The secondary data is used for the study. Mutual funds offer the benefits of small investments size, regular investments along with professional management and better regulation. The mutual fund industry and regulatory agencies should join hand to create awareness about mutual funds in rural areas. Channelizing savings into productive sectors will not only lead to economic progress at macro level but also ensure that growth is inclusive and sustainable.

Keywords: Mutual Funds, Villages, Investment Opportunity, Inclusive Growth

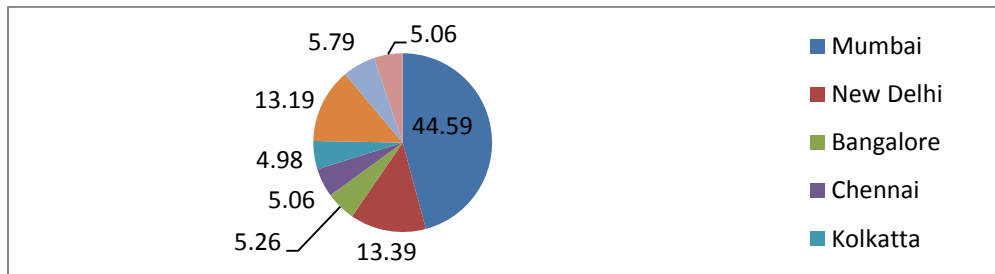
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Introduction:

Mutual Fund is a commonly used name for pooling small savings of a large number of investors and investing the pooled funds into a diversified portfolio. According to SEBI (Mutual Funds) Regulations 1993, mutual fund is “fund established in the form of a trust by a sponsor to raise monies by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations” (ICICIPRUAMC, 2015).

A mutual fund is made up of sponsor, mutual fund trust, Asset Management Company (AMC) and custodian. Mutual fund provides an opportunity for a small investor to invest in a diversified portfolio, access to professional management, better regulation as compared to chit funds and other such schemes, better growth potential with regard to savings accounts, liquidity. Figure 1 shows the contribution of cities in assets under management of mutual fund industry. Majority of investment come from big cities.

Figure1: Contribution of Cities in India in Mutual Fund AUM



Source: Kant C., Business Standard

Investment Pattern in Rural Areas:

This section shows the trend of savings and investment of rural people. The data from National Council of Applied Economic Research is used for evaluating the trend. Table 1 shows the trend of small savings. The total corpus of savings is a sizable amount.

Table 1: Small Savings Trend (Rs. Lakh Crore)

2009-10	7.28
2010-11	7.87
2011-12	7.9
2012-13(RE)	8.06

Source: Sikarwar, 2014

It is found that just 5.99% households in rural areas are investors against 20.75% in urban areas, as shown in table 2 (NCAER, 2011). So there is a large scope of increasing the participation of rural households in investments.

Table 2: Percentage of Investor Households (%)

	Investor Households (%)	Non Investor Households (%)
All India	10.74	89.26
Urban	20.75	79.25
Rural	5.99	94.01

Source: National Council of Applied Economic Research

The absolute number of investors show that 9.25 million households from rural areas are investors, as compared to 15.23 million households in urban areas, as shown in table 3 (NCAER, 2011). 70% of people live in rural areas but 37.77 % household investors belong to rural areas, with regard to absolute numbers of rural and urban investor households.

Table 3: Number of Rural and Urban Investor Households (Millions)

	Investor Households	Non Investor Households
All India	24.48	203.36
Urban	15.23	58.15
Rural	9.25	145.21

Source: National Council of Applied Economic Research

The type of instruments shows the popularity of banks, and life insurance as investment options among people involved in agriculture and allied activities. Largest share of investments (42.04%) go the commercial banks, followed by 39.26% in life insurance, as shown in table 4. The wide branch network of public sector banks is strength of the banking sector and safety of funds. The same network can be used to create awareness about mutual funds and motivate people to invest in mutual funds.

Table 4: Choice of Saving Instruments (%)

	Post Office Savings (%)	Pension (%)	Life Insurance (%)	Commercial Banks (%)	Regional Banks v(%)
Agricultural & Allied	10.54	5.2	39.26	42.04	2.96
White collar	21.08	4.31	33.66	38.13	2.82
Blue collar	19.25	4.88	39.53	33.17	3.17
Business, Transfer and Others	18.73	3.31	27.96	47.01	2.99

Source: National Council of Applied Economic Research

As shown in table 5, the most significant reason for people from agriculture and allied activities for not investing is inadequate information (26.75%), followed by no skill (22.17%), inadequate financial resources (22.01%). It highlights the importance of creating awareness about investments in mutual funds among people involved in agriculture and allied activities.

Table 5: Reasons for not investing (%)

	Inadequate returns	Not sure about safety of investments	Investment not very liquid	Inadequate Information	No Skills	Dissatisfied with the role of regulator	Inadequate Financial Resources
Agricultural & Allied	2.04	10.33	7.5	26.75	22.17	9.21	22.01
White collar	5.12	14.92	8.13	26.29	14	6.57	24.99

Blue collar	4.61	10.4	6.71	23.65	16.53	6.08	32.04
Business, Transfer and Others	4.81	10.81	10.44	31.86	12.98	4.73	24.39

Source: National Council of Applied Economic Research

Table 6 shows the positive aspect of investing pattern of rural people. 46.44% of the rural investments go into mutual funds among financial market instruments (NCAER, 2011). Thus industry and other regulatory agencies should try to enhance the participation of rural people in financial markets through mutual funds. As shown in table 7, small city investors also show a positive trend towards mutual fund among financial market instruments. 0.22 million investors prefer mutual funds in the financial market instrument. The cities have been classified in four categories according to population; class 1 (1 crore and above), class 2 (between 50 lakh and 1 crore), Class 3 (between 10 lakh and 50 lakh), Class 4 (less than 10 lakh).

Table 6: Distribution of Investors across Investment Portfolio (%)

	Bond	Debenture	IPO	Secondary Market	Mutual Fund	Derivative
All India	14.89	6.94	10.05	21.59	42.89	3.64
Urban	15.07	8.57	8.47	21.25	40.8	5.85
Rural	14.6	4.26	12.66	22.04	46.44	0

Source: National Council of Applied Economic Research

Table 7: Households by type of income and town (million)

	Mutual Fund Total	Bond	Debenture	IPO	Secondary Market	Derivative
Town Class 1	1.7	0.45	0.33	0.24	0.83	0.21
Town Class 2	0.31	0.22	0.13	0.13	0.2	0.06
Town Class 3	0.81	0.3	0.13	0.25	0.34	0.02
Town Class 4	0.22	0.05	0.02	0.02	0.05	0.01
Total	3.03	1.02	0.61	0.64	1.42	0.3

Source: National Council of Applied Economic Research

Conclusion:

The lack of information has emerged as an important reason for people to avoid investments. The rural masses and also people from small cities would prefer investment options which are safe, require small amounts, provides flexibility of making regular contributions, provides good returns within a acceptable level of risk, professional management and strong regulation. All these advantages are available with mutual funds investments. The mutual fund companies should aggressively promote mutual fund schemes through wide branch network of public sector banks and post offices. The schemes should be refined to suit the needs of rural masses. The growth can be inclusive and sustainable only when the common man also gets an opportunity to participate in the success story of corporate world and also develop a habit of small and regular investing, instead of wasting money in chit fund companies. The regulatory agencies need to ensure that the schemes meant for rural investors are managed with due consideration to protection of capital so as to develop and sustain the confidence of rural investors. The spread of mobiles and information and communication technology should be used along with aadhar cards and to make banking transactions easy for the rural investors. A right mix of product features, delivery network through banks, use of technology for convenience in fund transfers and awareness drive can make mutual fund a vehicle for safe investing and channelizing rural saving for economic success at macro level and sharing the success with better returns at micro level with rural investors leading to inclusive and sustainable growth.

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