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Restructuring Credit System for Rural Development - An Analysis

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INTRODUCTION

Rural development involves raising the socioeconomic status of the rural population on a sustainable through optimum utilization of local resources, both natural & human. While external help is necessary and appreciated, rural development can be achieved only when the rural people actively participate in the development process.

The essence of development is not in "providing" but in "promoting" the rural sector. The emphasis on Rural Development (RD) in most developing countries is understandable. The majority of the population lives in the rural areas. As such, their backwardness would be retarding growth in other sectors and in the economy as a whole. It is true that the process of economic development involves a shift from agricultural and allied to non-agricultural activities. The rural areas remain impoverished with remunerative economic activities initiated to be carried out only in towns and cities. Thus, even an essential commodity like soap is being produced in urban areas. The argument generally advanced for this is that rural areas lack the basic infrastructural facilities for setting up industrial units. But it is conveniently forgotten that such facilities would be available in rural areas only when these areas become centres of growing economic activity.

Over the years, rural development has emerged as a strategy designed to improve the economic and social life of a specific group of people the rural poor. It involves extending the benefits of development to the rural population who seek a livelihood in the rural areas. Rural development denotes overall development of rural areas with a view to improving the quality of the rural people. The concept is comprehensive and multi – dimensional in nature. It encompasses development of agricultural and allied activities, cottage and small scale industries, traditional crafts, socio-economic infrastructure, rural manpower and improvement in community services and facilities.

FINANCIAL RESOURCES RURAL DEVELOPMENT:

For effective utilization of different resources, adequate public investment becomes necessary. In the initial stages of development, investment by public authorities for the creation of economic and social overheads is necessary to stimulate private investments. A part from direct investment in exploiting several natural resources, public authorities must also assist individual entrepreneurs, both agricultural and non-agricultural, in utilizing the different resources.

Finance is an essential requirement for almost every activity. Both producers and consumers in rural areas need finance for their day- to – day requirements and for all productive activities. If required finance is not available out of one's own income, then one needs credit. In rural areas of India, credit requirements are more pressing. Rural population is composed of agricultural producers, tenant cultivators, village artisans, landless labour, etc. All these categories are in need of credit.

The industrial producers too need credit. But rural producers have certain peculiar problems and therefore, financing of rural sector is associated with certain special problems. The main financial resources for rural sector is mainly based on credit system.

OBJECTIVES OF THE STUDY:

- To analyse the desired results in terms of the direction quantum and quality of the flow of credit.
- To anlyse the causes for high over dues, bad debts, loan defaults, unavailability, low profitability, over burdening of staff, declining control and deteriorating services.
- To evaluate the inefficiencies like high transaction costs and low recycling of credit.
- To examining of the impact of directed credit programmes and subsidized lending and functioning of credit disbursing units.

RURAL CREDIT:

In our country the success and failure of crops depend up on climatic factors. The markets for agricultural products are generally unorganized and unregulated and the farmers are very often forced to sell their produce at low prices further majority of the cultivators are small farmers and they borrow money from different sources to meet household and cultivation expenses.

SOURCES OF RURAL CREDIT SYSTEM

There are mainly two sources for rural credit whish is presented in the figure 1

Figure-1

Sources of Rural Credit System

Non-Institutional sources

- Big cultivators/ landlords
- Friends & Relatives
- Mobile traders
- Small commission agents
- Professional money lenders
- Non-professional money lenders
- Indigenous bankers

Institutions Sources

- Credit Co-operatives
- Land development banks
- Farmer's service societies
- The lead bank scheme
- Regional Rural banks
- Commercial Banks
- Government
- NABARD

The All India rural debt and investment survey was conducted a survey in the year of 1961-62 to arrive at statistically valid and reliable estimates of debt, investment and other related features of rural households both at national and state levels.

The debt owed by rural households to different agencies at all India level is presented in the Table -1.

TABLE -1: Debt owed by rural households to different agencies

(Percentage)

Credit agency	Cultivators				Non-Cultivators			
	1991	2001	2010	2014	1991	2001	2010	2014
Government	3.90	0.91	2.01	1.30	4.50	5.50	0.68	5.00
Co-operatives	29.80	48.00	39.40	17.50	13.90	18.07	30.61	21.00
Commercial Banks	28.80	46.60	52.60	71.20	17.30	28.11	49.71	65.00
Landlords	3.70	2.30	1.50	2.19	8.40	2.98	13.00	4.50
Agricultural money – lenders	8.30	0.50	1.49	1.81	11.40	20.69	6.00	4.00
Professional money – lenders	7.80	0.49	1.24	1.90	13.40	18.87	-	0.50
Traders	3.10	0.80	0.76	2.10	5.80	4.40	-	-
Relatives /friends	8.70	1.40	0.99	1.76	14.40	1.00	-	-
Others	5.90	-	0.01	0.24	10.90	0.38	-	-
Total	**100.00**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Sources: i) Report of the All-India Rural credit review committee, RBI, Mumbai – 2014

ii) RBI Bulletin, June 2014.

FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE:

There has been massive expansion of institutional credit to agriculture over the years. This would be clear from the fact that institutional credit to agriculture rose from Rs. 744 crore in 1970-71 to Rs. 9,830 crore in 1990-91 and Rs. 62,045 crore in 2001-02 (the last year of the Ninth Plan) The Tenth plan (2002-07) projected the total credit flow to agriculture and allied activities at Rs. 7,36,570 crore. However, in the first two years of the plan. 2002-03 and 2003-04, the credit flow to agriculture from all formal sources was only Rs. 1,56,541 crore (Rs. 69,560 crore in 2002-03 and Rs. 86,981 crore in 2003-04). To fulfill the Tenth plan target major initiatives were, therefore, required to increase agricultural credit. To suggest measures to increase agricultural credit, the Reserve Bank constituted an "**Advisory Committee on Flow of Credit to Agricultural and Related Activities from the Banking System**" under the chairmanship of V.S. Vyas. This Committee submitted its final report in 2004. The Committee gave 99 recommendations of which 32 were accepted and implemented by the Reserve Bank. Some of the major recommendations were: (1) A review of mandatory lending to agriculture by commercial banks to enlarge direct lending programmes; (2) Public and private sector banks to increase their direct agricultural lending to 12 per cent of net bank credit in the next two years and to 13.5 per cent two years thereafter, within the overall limit of 18 per cent of total agricultural lending; (3) Banks to increase their disbursements to small and marginal farmers under Special Agricultural Credit Plan (SACP) by the end of the Tenth Plan Period *(i.e.,* by end-March 2007) to 40 per cent; (4) Reduction in cost of agricultural credit by enhanching the cost-effectiveness of agricultural loans; (5) Credit flow to small borrowers to be improved through reduction in cost of borrowing, revolving credit packages, procedural simplification, involvement of Panchayati Raj institutions and microfinance etc.

In June 2004, the government announced a credit package for the agricultural sector, which envisaged doubling of agricultural credit over a period of three years. The target for growth of agricultural credit for the year 2004-05 was kept at 30 per cent. This target was exceeded as the actual growth in overall credit by all agencies was as high as 44 per cent (from Rs. 86,981 crore in 2003-04 to Rs. 1,25,309 crore in 2004-05). Based on this encouraging performance, the target for flow of institutional credit for agriculture and allied activities for 2005-06 was raised to Rs. 1,41,000 crore which was again surpassed by the actual achievement of Rs. 1,80,486 crore. In the Budget for 2006-07, the Finance Minister laid down the target for agricultural credit for this year at Rs. 1,75,000 crore. In a bid to provide more and cheap credit to farmers, the government also reduced the interest rate on short-term credit to farmers from 9 per cent to 7 per cent on loans of less than 3 lakh. The banks were also asked to add 50 lakh more farmers to their portfolio. The target laid down for the year 2006-07 was also exceeded as the agricultural credit during this year was Rs.2,29,401 crore. This shows that ***the target of doubling agricultural credit in a period of three years was surpassed and the actual achievement has been much more.*** In the Union Budget for 2007-08, the Finance Minister proposed a target of Rs. 2,25,000 crore for agricultural credit during the year 2007-08. The actual achievement was Rs. 2,54,658 crore (again higher than the target). The banks were asked to add 50 lakh new farmers to their portfolio. Target for agricultural credit for the year 2008-09 was kept at Rs. 2,80,000 crore while achievement was Rs. 2,92,437 crore. Target for 2009-10 was kept at Rs. 3,25,000 crore while achievement was Rs. 3,66,919 crore(i.e., 113 per cent of the target). Target for agricultural credit was kept at Rs. 3,75,000 crore in 2010-11. This has been further raised to Rs. 4,75,000 crore for the year 2013-14.

From Kharif 2006-07 to 2008-09 farmers were receiving crop loans upto a principal amount of Rs. 3 Lakhs at 7 percent interest in the year 2009-10. Government provided an additional 1 percent interest subvention to those farmers who rapid their short-term crop loans as per schedule. The Government revised this subvention for timely repayment of crop loans from 1 percent to 2 percent for the year 2010-11, bringing down the effective rate of interest for such farmers to 5 percent per annum. In the Union Budget for the year 2013-14, the Finance Minister has further raised the subvention to farmers who repay their crop loans on time to 3 percent. Thus, the effective rate of interest for such farmers will be 4 percent per annum.

NEW AGRICULTURAL CREDIT POLICY:

The new agricultural credit policy include:

- Provision of a total and cost effective system for building up and expanding all activities facilitating the modernization of agriculture.
- It must have a comprehensive connotation of "Agriculture" to make it almost compatible with rural development.
- It must provide and facilitate for linkages between finance and services.

The flow of Institutional credit to agriculture is presented in the Table-2

TABLE -2:THE FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE

Year	Co-operative (Percent)	Scheduled Commercial Banks (Percent)	Regional Rural Banks (Present)	Total Credit to Agricultural (Rs. In crores)
1980-81	100.00	-	-	744
1990-91	61.60	38.40	-	3,292
2000-01	49.00	47.60	3.40	9,830
2010-2011	39.40	52.60	8.00	52,827
2013-2014	17.50	71.20	11.30	196,288*

Source : Govt. of India Agricultural at glance, 2014 (Delhi, 2014)

Note: Indicates that the agricultural credit granted over the entire year 2013-2014 was Rs. 3,66,919 crore as against the target Rs. 3,25,000 crore.

Causes for rural indebtedness:

Rural indebtedness is influenced by a number of factors the following factors stand responsible for the phenomenon of indebtedness

- The indebtedness is passed on from one generation to another
- The presence of uneconomic holdings is also responsible for rural indebtedness
- The illiteracy and ignorance of the farmers stand in the way of improving the economic conditions
- The farmers are hardly in a position to come out of the vicious system of money lending
- Even though the farmers lead a simple life, they are often tempted to carry on their expenditure to extravagant limits
- Even if the cultivator is hard working, he is not able to improve his economic status because of inadequate infrastructural facilities and institutions arrangements

Consequences of rural indebtedness:

- The consequences of mounting indebtedness on farmers are very serious indeed
- Indebtedness is responsible for low standards of living and worsening poverty amongst the cultivating classes
- Due to Levy debts the farmers are unable to properly market their produce due to the money lender is both creditor and the village trader
- If the small and marginal farmers are indebt they will not be in a position to adopt modern farming practices
- Indebtedness causes loss of property and transfer of land from cultivators to non-cultivators. This leads to grave economic and consequences in the rural areas

STRATEGIES FOR REDUCING OF INDEBTEDNESS

It should be recognized that indebtedness is a hindrance to rural development therefore debt relief measures should become an integral part of rural development programs

- Reducing the burden of existing debt
- The period of repayment should be in time with the repaying capacity of the farmer
- The kind of security should be such that the farmers should be able to offer it
- There should be an optimum measure of supervision and assistance in utilization of credit by the farmer.

- There must be flexibility to face unforeseen contingencies like floods or droughts
- Revitalization of rural co-operative sector including with
  i) Implementing of high credit deposit ratio of the upper-tier institution implies a larger availability of funds for primary agricultural credit society (PACS)
  ii) There is a need to increase the number of members in PACS as only members can borrow from PACS
  iii) Only 19.1 percent borrowers of PACS were belonging to SC, ST small farmers and rural artisans to be strengthened.
- The self help group bank linkage program and microfinance institutions to be strengthened because, MFIS have been playing an important role in substituting money lenders and reducing the burden of formal financial institutions
- There should be effective steps in the recovery of loans and overdue through tie-up arrangements with the marketing agencies, timely reminders to borrowers and stern action against willful defaulters
- The commercial banks should provide credit on the basis of revenue passbooks
- Disbursements of loans in kind should be preferred to that in cash to prevent misuse of credit.

CONCLUSION

Provision of adequate and timely institutional credit is an important condition for rural development. But credit should not become a “hangman’s noose” for the borrower. The credit giving institutions, while providing short-term credit to weaker sections, should take into consideration the normal credit requirements for consumption purposes Further, it should examine carefully the technical feasibility and productive capacity of the proposed farming operation with the help of credit. Even an element of effective supervision over credit will go for productive purpose and reap the benefits. A well thought out supervised credit system with organization efficiency aiming at the weaker sections is immediately called for a long way in using the credit.