

Trends in rural credit: Scenario of India and Assam

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Abstract

Rural credit has been one of the crucial factors that can contribute to poverty alleviation and foster agricultural and rural development in India. There is co-existence of both institutional and non-institutional sources of credit in rural credit markets in India. Although the share of institutional sources in total rural credit is increasing rapidly but still non-institutional sources continue to occupy a significant share. But most of the rural population do not have access to either of the aforementioned sources of the credit which is contributing to the problem of poverty. However, indebtedness resulting from rural poverty works as a barrier in rural development. Except rural poverty, indebtedness may also results from high rate of interest rates charged by the money lenders and other non-institutional sources of credit. Use of rural credit in productive way may solve the problem of indebtedness, raise agricultural productivity and lead to rural development in India. This paper attempts to study the trends in rural credit in India with special reference to Assam and gives recommendation on the problems associated with rural credit.

Keywords: Rural credit, co-existence, institutional and non-institutional sources of credit, poverty, indebtedness.

1. INTRODUCTION

Rural development refers to an action plan for the economic as well as social upliftment of rural areas. Improving the quality of life of people living in rural areas is one of its basic objectives. Rural development traditionally depends on the exploitation of land intensive natural resources such as agriculture and forestry. Therefore, introducing policies and programmes with a target to improve agricultural sector and alleviate rural poverty has been one of the basic objectives of planned development in India and rural credit plays a crucial role in this case.

According to census 2011, in India the proportion of rural population is 68.84 per cent while it is 86 per cent in Assam. Therefore, rural progress is must for the comprehensive development of Indian economy. Since the rural economy is mainly dependent on agriculture and allied activities and credit is a principal mediating input for agriculture to improve productivity; therefore, meeting the credit requirements of the farmers as well as other non-farm activities of rural areas of the country is of utmost importance. From the very beginning, the principal source of rural credit in India was the moneylenders. After independence, institutional credit approaches are adopted by the government and the share of institutional agencies in rural credit starts increasing. Institutional agencies include co-operatives, commercial banks, regional rural banks etc. which provide credit at a cheaper rate of interest.

The All India Rural Credit Survey (1954) laid the foundation for building broader credit infrastructure for rural India according to which 98.2 per cent of credit was provided by non-institutional sources. Consequently setting up of Agricultural Refinance Corporation (1963), nationalisation of major commercial banks in 1969 (and in 1980), establishment of regional rural banks (1975) took place. The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for promotion of sustainable and equitable agricultural and rural prosperity. Other initiatives to meet rural credit needs include the Kisan Credit Card scheme, Self Help Group-Bank Linkage Programme, Special Agricultural Credit Plans, Doubling Agricultural Credit, Jan Dhan Yojana etc.

2. REVIEW OF LITERATURE

As per census 2011, only 58.7 per cent of households are availing banking services in the country. However, as compared to census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas.

According to NSSO 59th round survey, 51.4% of farmer households are financially excluded from both institutional and non-institutional sources. Of the total farmer households, only 27% access institutional sources of credit.

According to World Bank's Global Findex Report 2017, 80 per cent of Indian adults (age15+) have a bank account, which is almost double the percentage of adult with a bank account in 2011 which was 35 per cent.

Though the formal financial sectors have developed in the last few decades but it could not include the poor income groups and disadvantaged section of the rural society.

3. OBJECTIVES OF THE STUDY:

The specific objectives of this study are-

- a. To study the trends in rural credit in Assam and India.
- b. To study the contribution of institutional and non-institutional agencies in rural credit
- c. To study the incidences of indebtedness.
- d. To give recommendations on the problem associated with rural credit.

4. METHODOLOGY

This study is completely based on secondary data that has been collected from secondary sources including different books, magazines, newspaper, articles of different writers that have been previously published, various journals etc. The data of Debt and Investment survey carried out by National Sample Survey Organisation during various rounds are used.

5. ANALYSIS OF RURAL CREDIT MARKET

5.1 RURAL CREDIT IN INDIA

India is witnessing a radical increase in the share of institutional agencies in the total rural credit. Institutionalisation of rural credit has been one of the main objectives of rural credit policy in India. Since agricultural development is the key to rural progress, therefore emphasis has been given to agricultural credit. From Rs. 37.71 billion in 1981, the SCBSs' outstanding advances to agriculture and allied activities have grown significantly to Rs. 13694.56 billion in 2017-18 which formed approximately 16 per cent of total bank credit.

Credit agency	1951	1961	1971	1981	1991	2002	2013	2018
Government	3.3	5.3	6.7	4.0	6.1	2.3	1.2	-
Co-operative societies/bank	3.1	9.1	20.1	28.6	21.6	27.3	24.8	9.9
Commercial bank incl. RRB	0.8	0.4	2.2	28.0	33.7	24.5	25.1	47.6
Insurance	-	-	0.1	0.3	0.3	0.3	0.2	0.1
Provident fund	-	-	0.1	0.3	0.7	0.3	0.1	0.0
Others institutional agencies	-	-	-	-	1.6	2.4	4.6	8.4
All institutional agencies	7.2	14.8	29.2	61.2	64.0	57.1	56.0	66
Landlord	1.5	0.9	8.6	4.0	4.0	1.0	0.7	1.1

Agricultural money lender	24.9	45.9	23.1	8.6	7.0	10.0	5.0	6.3
Professional money lender	44.8	14.9	13.8	8.3	10.5	19.6	28.2	16.5
Traders	5.5	7.7	8.7	3.4	-	2.6	0.1	0.3
Relatives and friends	14.2	6.8	13.8	9.0	5.5	7.1	8.0	6.8
others	1.9	8.9	2.8	4.9	5.7	2.6	1.0	2.8
All non-institutional agencies	92.8	85.2	70.8	3.8	32.7	42.9	44	33.8
Unspecified	-	-	-	-	3.3	-	-	0.2
All agencies	100	100	100	100	100	100	100	100

Table1: Break up of institutional and non-institutional sources of credit of rural household

Source: All India Debt and Investment survey, NSSO, various issues

From the above table, it is evident that the predominance of non-institutional sources of rural credit has been declining. Among the non-institutional sources professional money lenders are the most powerful and they provide more than half of the total non-institutional credit. In 1951, the share of professional money lenders in total non-institutional credit was 48.27 per cent and the same was 64.1 per cent in 2013 and 48.8 per cent in 2018.

Among the institutional sources, cooperative societies/bank shows a sharp decline in the recent AIDIS, 2018. Commercial banks including RRBs are playing a dominant role over all institutional agencies in providing credit. Contribution of commercial banks in total institutional credit was 11.1 per cent in 1951. After the nationalisation of banks and establishment of RRBs the contribution of commercial banks including RRBs has been increased to 44.8 per cent in 2013 and to 71.21 per cent in 2018 which is reasonably high.

Though the share of non institutional sources is declining but still they hold a remarkable position in providing rural credit in India. Though policies are being introduced for increasing the flow of rural credit but the problem of indebtedness is often overlooked.

Table2: incidence of indebtedness of rural households to different agencies

Sources	1991	2003	2013	2018
Institutional	15.6	13.4	17.2	24.8
Non-institutional	9.8	15.5	19.0	17.1
All	23.4	26.5	31.4	35.0

Source: All India Debt and Investment survey, NSSO, various issues

It is revealed from the above table that rural indebtedness has been rising sharply in India. There is almost a 12 per cent increase in the incidence of indebtedness from 1991 to 2018. Among various factors contributing to the problem of indebtedness, persistence of money lenders and other non-institutional sources, who charge high rate of interest, is one of the key factors. The incidence of indebtedness (IoI) is higher for rural households as compared to its urban counterpart. Indebtedness is both a result and a cause of rural poverty.

A chief determinant of rural progress is agricultural development which is dependent on agricultural credit. Government has been making efforts to link all the farmers to ensure timely, hassle free and affordable credit to farmers since institutional credit is more affordable in comparison to non-institutional credit. Ground level credit (GLC) to agriculture has shown an impressive growth which is nearly doubled from Rs.7.30 lakh crore in 2013-14 to Rs.13.92 lakh crore in 2019-20.

5.2 RURAL CREDIT IN ASSAM

Rural credit in Assam has a significant importance since 98.4 per cent of total area of Assam is rural and 86 per cent of the total population live in rural areas. Therefore, rural development is the key to development of

Assam economy and rural credit plays a vital role in rural development. Over the past few years, the share of institutional sources of rural credit has been increasing in Assam reducing the predominance of non-institutional sources.

Table3: Break up of institutional and non-institutional rural credit in Assam

Agencies	1971	1981	1991	2003
Institutional	35	31	66	58
Non-institutional	65	69	34	42
All	100	100	100	100

Source: All India Debt and Investment Survey 59th Round

From the above table it is revealed that even after the efforts to increase the flow of formal credit, the contribution of non-institutional sources remain as high as 42 per cent in 2003. However there is an impressive rise in the contribution of institutional sources in rural credit. Again there is prevalence of indebtedness in rural household in Assam. But as compared to most of states, the incidence of indebtedness in Assam is low. Incidence of indebtedness in rural Assam in 2013 was 10.1 per cent while it was 31.4 per cent in rural India.

The increase in the inflow of formal credit can be seen from expansion of bank branches in the State. Scheduled commercial banks have increased its footprints from 1434 branches in 2010 to 2326 branches in 2018 of which 1062 branches i.e. 45.66 per cent of total are located in rural areas. The branches of regional rural banks who basically aim at rural development have also been increased to 480 in 2018 from 399 in 2010. A total of 63,30,558 accounts have been opened in the state as on March31, 2016. Though rural areas have higher share of bank branches but the share of deposit and credit is lower for rural branches.

6. RECOMMENDATIONS

Based on the above study some recommendations can be given against the problem associated with rural credit. These are given below:

- i. There should be expansion of bank branches in rural areas.
- ii. Incentives should be given to use credit for productive purposes so that the problem of indebtedness can be lowered.
- iii. The middlemen existing between borrowers and credit agencies should be eliminated.
- iv. Upper ceiling should be imposed on maximum rate of interest that can be charged by money lenders.
- v. Initiatives should be taken to make the rural people aware of the benefits of institutional agencies of rural credit over the non-institutional agencies.
- vi. Policies should be introduced to make possible the reach of institutional agencies to weaker sections.
- vii. Rural people should be encouraged to adopt saving habit.
- viii. Poverty alleviation programme should be properly implemented to get rid of the problem of indebtedness.

7. CONCLUSION

From the above analysis, it can be concluded that the problem of indebtedness is still a curse to the people living in rural areas. The dependence on non institutional sources and usage of credit for non-productivity purposes is a dominating trend in India. Of course, the union government as well as the state government of Assam has been introducing various programmes from time to time to alleviate poverty which is associated with the problem of rural indebtedness. A large number of people are living below the poverty line in spite of the government efforts. It can be expected that the execution of proper government policies will be able to reduce the problem associated with rural credit in India and Assam as well.

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