Vol 5 Issue 9 Oct 2015

ISSN No : 2230-7850

International Multidisciplinary Research Journal

Indian Streams Research Journal

Welcome to ISRJ

RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

Indian Streams Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.org

Indian Streams Research Journal
ISSN 2230-7850
Impact Factor : 3.1560(UIF)
Volume - 5 | Issue - 9 | Oct - 2015

A STUDY OF RURAL CREDIT IN INDIA: PERSPECTIVES AND PROSPECTS

Dr. Manjunath B. Tallur
Assistant Professor, Priyadarshini First Grade College , Rattihalli, Haveri(Dist).

ABSTRACT

Credit is an important input in the process of development. It has been a major policy initiative in the country to ensure the provision of timely and sufficient. Credit is a large segment of rural population as possible. This has guided the formulation of public policy in the country. The rural credit system in India is evolved through different phases as a result of there initiatives. There has been a substantial broadening of the infrastructure for credit delivery resulting in increased outreach and reduction in the influence of informs agencies as evidenced by the increase in the share of institutional sources of the cash debts of rural households.

KEYWORDS :*Rural Credit in India, Financial Exclusion, Rural Credit-Policy Dimensions.*

INTRODUCTION:
RURAL CREDIT-INCIDENCE OF FINANCIAL EXCLUSION

A certain amount of increase is pervading the rural credit structure and the carrying need for better credit distribution amongst the vast informal sector and under developed regions and states. It has become apparent farmer indebtedness and the associated agrarian as well as agricultural development crisis have become a dominant aspect of rural economic scheme. The crisis is not confined to the farm community. A very large number of unorganized non farm enterprises which absorb the shocks of poor employment growth in agriculture and organized industry and which can their only on the basis of external credit support are faced with severe financial exclusion.

MAGNITUDE OF FINANCIAL EXCLUSION

The NSS and other field surveys have well documented the incidence of financial exclusion of the rural population. Of the 148 million rural households more than 60 percent receive no loans from institutional or non-institutional agencies. Of the 89 million farmer households more than 50 percent do not enjoy any such facility. Among the indebted rural or farm household, about 43 percent are serviced by money lenders and other non-institutional agencies. The share of institutional agencies in total rural indebtedness has slipped from 64 percent in 1991 to 57 percent in 2002; the share of money lenders alone has shot up from 17.5 percent to 29.6 percent. Thus, about 48 percent of all rural households, 51 percent of farm households and 78 percent of non farm households do not have access to banking services.

The low level of access to bank credit is much more severe amongst unorganized non farm enterprises. Date from one NSS round shows that only 4.13 percent of these enterprises had access to institutional credit and another 4.10 percent had access to non-institutional credit including those from relatives and money lenders. Thus of the estimated 58 million enterprises as of March 2007 a preponderant number is without institutional credit support. Further, their remarks are swelling with an absolute reduction in organized sector employment and with over 70 percent of cultivator households being marginal farmers and not being able to eke out a decent living in farming are possibly carrying for opportunities in allied activities and outside farming as micro enterprises.

The serious vacuum created in the rural credit architecture has not been addressed adequately. Without the expansion of the rural/branch network by the financially strong and dominant public sector banks with appropriately qualified staff for diversified agriculture and micro-enterprises, the objectives of rapid credit expansion are sure to be stifled.

The banking system requires a more broad based and strong institutional structure reasonably widespread regionally and functionally. In such a rural credit structure catering to the needs of farm and non farm enterprises alike the public sector banks have to take a lead, expand their branch network even as they corp. cooperative and other local agencies to supplement and support their banking business appoint qualified staff for farm and non farm lending and undertake to expand their credit base amongst the informal sectors.

RURAL CREDIT-POLICY DIMENSIONS AND INSTITUTIONAL MEASURES

Rural credit in India is surveyed through a multi agency system comprising of (I) Co operatives (II) commercial banks and (III) Regional Rural Banks. Progressive institutionalization of rural credit has been a major policy in the country. This is aimed of ensuring timely and increased flow of credit to the farm sector, reduce imbalances and to provide increased credit support to the special programmes. This a rural network for formal financial institutions for channel sing funds efficiently to sectors and target groups in the rural economy in accordance with the national development plans has been put in place.

EVOLUTION AND GROWTH STATE INTERVENTIONS FOR RURAL CREDIT IN INDIA

The evolution of the rural credit is traced to the late 18th century period during the British administration in the country. In 1793 British Government issued regulations providing taccavi loans to proprietors, farmers, sub-ordinate tenants, and royals for embankments, tanks water sources etc. After a century the Government intervened in rural credit through the enactment of Land Improvement Loans Act 1871. The Act empowered the local governments to advance long term loans from state funds for the improvement of land and to frame rules suitable to conditions in the issue of such loans. The Government enacts the Deccan Agriculturists Relief Act 1879 which helped in preventing the transfer of land to non-agriculturists and in checking up of further rise in rural indebtedness.

Famine Commission (1881) examined all issues pertaining to rural finance and suggested the provision of public funds for land improvement works and the extension of Deccan Act to other provinces. The land improvement Act 1883 and the Agriculturists Loan Act 1884 was passed. Public Funds became open to farmers for obtaining loans. This marked the beginning of government performing the role of a banker and it continued to operate till 1947 and even after that. Frederick Nicholson in his report (1895) highlighted the weaknesses of non-institutional sources and advocated the setting up of co-operative societies on Reifesian lines in different party of the country to develop thrift prudence and self reliance in the peasantry.

In 1894 an agricultural bank was setup in Mysore strictly on Co-operative principle. The main purpose of establishing such a bank was to meet the ordinary requirements of cultivation, agricultural improvement and debt redemption. By 1898 by such banks were started in India. In 1901 the Finance Committee under Sir Edward Law recommended setting up of societies which formed the basis of co-operative societies Act 1904.

RURAL CREDIT AND THE ROLE OF COMMERCIAL BANKS

Co-operatives were the only institutions providing institutional credit to the rural sector till the commercial banks emerged on the same in a big way particularly after nationalization of major commercial banks in the year 1969. The formal financial system now enjoys a tremendous outreach. A taskforce constituted to review the performance of co-operatives has made a number of recommendations for strengthening the co-operative banks and improving their operational efficiency through provision of recapitalization support removal of dual control so as to ensure that they emerge as member driven professional societies.

The entry of commercial banks in the field of rural credit was accompanied by major policy initiatives aimed at;

1.Expanding their branch network and
2.Earmarking a portion of bank credit for priority sector.

This led to opening of branches in rural areas which had no banking facilities. With this the average population per branch office declines from around 65000 in 1969 to 17000 in 1980 and further to 15000 in or arch 2000. Public sector banks also opened specialized branches to extend credit to agriculture and other forms of credit to rural area. They adopted villages, took over PACs from weak DCCBs and organized Farmers service societies to reach their rural clientele.

Schemes for Promoting Rural Credit

With a view to improving the flow of credit to agriculture and rural sector public sector banks were advised in the year 1994 to formulate special Agricultural Credit Plan (SACP) with self set targets for disbursement.

As an innovative measure of credit delivery all the banks are implementing Kisan Credit Card Scheme for the farmers to enable them to readily purchase agricultural inputs such as seeds, fertilizers, pesticides etc and draw cash for their production needs.

Rural Infrastructural Development Fund is operationalised through NABARD with the purpose of assisting the state governments in quick completion of projects relating to rural infrastructure.

National Bank for Agriculture and Rural Development was established in 1982 to consolidable the various arrangements made by RBI to promote/supervise institutions and channel credit to rural areas. RBI introduced a scheme of service Area Approach for Commercial Banks in 1989 with a view to assign specific areas to each bank branch in which it can concentrate on focused lending and contribute to the accelerated development of the area.

The Regional Rural Banks first started in 1975 are expected to combine the expertise of the commercial banks with the local feel and familiarity of the co-operatives. The primary objective for setting up these banks was to remove the disabilities in the co-operatives such as low resource mobilization, poor appraisal, inadequate credit supervision, low absorptive capacity managerial weaknesses etc and the weakness of commercial banking system such as high cost structure and attitudinal shortcomings of their staff which was largely urban oriented. Setting up of Local Area Banks (LABs) has been allowed in order to provide an institutional mechanism in the private sector for promoting sector savings as well as channelising adequate credit for promoting rural viable economic activities.

The main concern of the Government of India is to provide credit to the rural poor. So that, they are able to come out of the stranglehold of poverty through available employment opportunities leading to increased and sustained incomes. However, it is important to take into account the cost effectiveness of the credit delivery system, the ability to provide non-credit inputs to help self employment activities ability to generate enduring relationship with the client.

CONCLUSION-

Provision of credit is increasingly being looked upon as an important instrument in assisting the rural poor to improve their economic conditions - in fact as a central element in poverty alleviation strategies. However, there are many examples of credit schemes which have failed to live up to their expectations and in fact run into difficulties having failed to achieve a measure of viability and self-sustained operations in the long-term. There are not many examples which may be described as `success stories' in the sense of continued ability to service the financial needs of an increasing number of poor households and which have developed a viable partnership with poor, so that the poor themselves attach a high value to that relationship.

REFERENCE

1.R.K. Ojha : Self Help Group : and Rural Employment – Yojana-May 2001. Vol-45, PP.20-23.
2.Mahendra Varman .P : Impact of Self Help Groups on Formal Banking Habits-Economic and Political Weekly Vol-XL No.17, April-23, 2005, PP.1705-13.
3.Ritu Jain RK Kushawaha and AK Srivastave : Socio-Economic Impact through SHGs-Yojana-Vol-47, No.47 July-2003, PP.11-12.
4.V.M. Rao : Women Self Help Groups-Profiles from Andhra Pradesh and Karnatak-Kurukshetra-April-

2002, PP.26-32.
5.Dr. H.D. Dwarakanth : Rural Credit and Women Self Help Groups- A Profile of Ranga Reddy District in Andhra Pradesh-Kurukshetra Nov-2002, PP.1-14.
6.Dr. Gopal Singh and ASmita Singh : Economic Participation of Rural Women in Informal Sector Through Self Help Group A Case for Empowerment of Women, In "Economic Empowerment Rural Women in India" by Dr. Gopal Singh and Other-RBSA Publishers New Delhi-2003, PP32-38.