



Scenario of Rural Credit Growth in India: A View

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ABSTRACT

The prosperity of the rural economy in India is also closely linked to Agriculture and allied activities. But Indian Agriculture is beset with problems like inadequate capital formation, low productivity, high cost of production and uneven growth due to severe monsoon failure. Credit facility is an integral part of the process of commercialization of the rural economy. The Kisan credit card scheme has become one of the vital financial services to expand the outreach of Cooperative banks and streamline the credit delivery system. Therefore, this paper attempts to views on scenario of rural credit growth in India

KEYWORDS

1.1 Introduction

Agriculture is no doubt an important industry and considered to be the backbone of the Indian Economy. Agriculture and Allied activities accounted for 17.8 % of Gross Domestic Product (GDP) in 2007-08 as compared to 21.7% in 2003-04. Its role also remains critical as it accounts for 52 % of the employment in the country . Apart from being the provider of food and fodder, its importance also stems from the raw material that it provides to the Industry. The prosperity of the rural economy in India is also closely linked to Agriculture and allied activities. But Indian Agriculture is beset with problems like inadequate capital formation, low productivity, high cost of production and uneven growth due to severe monsoon failure.

In India, the agricultural related works are seasonal and are uncertain. Due to this, rural people are affected very badly and their suffering is an imaginary one. For rural people the survival itself is a problem. Therefore they are forced to get loans at a higher rate of interest even from organized sectors of the economy. To overcome this, a well-organized credit system is the only key to uplift the life of the rural people. Not only can credit remove financial constraints, but it may also accelerate the adoption of new technologies in agriculture and allied agricultural activities. Credit facility is also an integral part of the process of commercialization of the rural economy. The Kisan credit card scheme has become one of the vital financial services to expand the outreach of Cooperative banks and streamline the credit delivery system.

1.2 Scenario of Rural Credit Growth

Actually, rural credit system in India has been evolved from the year 1904, when the first Primary Agricultural Credit Society was organized. Co-operative movement made its advent in India in the year 1904 and the main objective of introducing the co-operative movement was to relive the predominantly peasantry of India from the ever tightening grip of Private money lenders.

The All India Rural Credit Survey Committee 1954 (AIRSCS) stated that Co-operation has failed, but co-operation must succeed. It was also identified that co-operatives could meet barely 3.3% of the total requirements of the farmers, while moneylenders account for 93 % of the credit needs of the farmers. On the recommendation of this committee, the RBI took a series of measures to strengthen the co-operative institutions. Again All India Rural Survey Committee – 1969

(AIRSC) has recommended the adoption of multi-agency approach to finance the rural sector. The Government of India accepted that the rural credit could not be met by Co-operative societies alone and the commercial banks should also play an important role in the rural sector which resulted in the following re-organizational activities.

Nationalization of 14 Commercial banks in 1969.

Setting up of Credit Guarantee Corporation in 1971.

Setting up of Regional Rural banks in 1975.

Second time nationalization of 6 banks in 1980.

Setting up of NABARD in 1982.

Self Help Group – Bank Linkage Programme in 1992 by NABARD

Concept of Local area bank was introduced in 1996-97.

Launching of Kisan Credit card Scheme (KCCs) in 1998 by NABARD

The Concept of financial inclusion has been introduced in 11th Five Year Plan

1.3 Sources of Rural Credit

Indian rural Credit sources are very peculiar in nature. Chart -1 shows the sources of rural credit which are classified as institutional and Non-institutional. Both the sources are familiar in rural areas due to their relative advantages. Co-operative banks are the major role players in the institutional sources of rural credit. RBI, being the apex institution, carefully regulates the rural credit delivery system through the major institutions. Non institutional sources of credit are loan availed from money lenders, traders, commission agents and friends and relatives. Commercialization of agriculture with increasing emphasis on cash crops, has given way to a new style of money lenders in the rural economy. Now traders and commission agents have become major money lenders in rural economy with fertilizers and pesticides being supplied by traders on credit or on deferred payment basis. Even today in spite of the institutional developments in rural areas, people have access to non-institutional sources due to convenience in getting immediate loan.

Co-operative banking structure has a unique position in the rural credit, delivery system of India. Indian Co-operative credit structure with 29 State co-operative banks, 367 District Central co-operative banks, 90,000 Primary Agricultural cooperative Banks, 19 State co-operative Agriculture and Rural Development banks operating through 755 Primary Co-operative Agriculture and Rural Development Banks in the Federal system and 1937 branches in the Unitary system have 13 crore members, constituting one of the largest financial system in the world.

The cooperative agricultural credit structure is organized as a three-tier structure for short term credit and a two-tier structure for a long term credit. The three-tiers of the short term credit structure consist of the State Co-operative Banks (SCBs) at the state level, the Central Cooperative Banks (CCBs) at the district level and the Primary Agricultural Cooperative Banks (PACBs) at the base, serving a village or a group of villages. Among the cooperative Banks, PACBs have direct access to the villages.

1.4 Primary Agricultural Cooperative Banks and Agricultural Credit

Primary Agricultural Cooperative banks are the pillars of the cooperative credit system. The edifice of the cooperative credit structure has been built on the foundation of PACBs. They occupy predominant position in the cooperative structure of India and are the back bone not only of the cooperative credit structure, but also of the cooperative marketing set-up in their non credit activities. These societies, also known as Banks, constitute the base and vast network of credit institutions at the village level. The higher agencies viz. State Cooperative Banks and Central Cooperative Banks operate and channelize their credit flows downward through this base only. These societies have covered more than 5.8 lakh villages. The role of PACBs assumes a greater significance in the operation of the entire cooperative credit system and for the successful implementation of various rural development programmes.

The Primary objective of these societies is to provide short-term and medium-term loans to farmers to meet the expenses connected with seasonal agricultural operations and to meet their long-term credit needs such as purchase of plough bulls etc., the periodicity of short-term loan is generally one year (i.e.), the loan issued at the time of commencement of agricultural operations is recovered after the harvest is over. The loan is not only advanced by way of cash, but it includes kind portion also, which consists of the main agricultural requisites such as fertilizers, seeds, pesticides etc. The PACBs also meet the medium-term loan requirements of the farmers and the periodicity of the loan is spread over a period of 3 to 5 years. The other types of loan given by the PACBs are consumer loan, jewel loan, fixed deposit loan, non-farmers loan which is given to small businessmen, artisans, petty traders etc., and loans for the development of the weaker sections of the society such as small business loan given to women under the Self-Help Group programme and Kisan Credit Card loan given to farmers. Among the credit system crop loan constitutes the basic component.

1.5 Crop Loan system in India

Crop Loan system is the greatest contribution of Dr D.R.Gadgil who first recommended the system as Chairman of the Agricultural Finance Sub-Committee, appointed by the Government of Bombay in 1945. The Government of Bombay accepted the recommendations and introduced the crop loan system in 1950, through the Bombay State Cooperative Bank. The All India Rural Credit Survey committee (1951-1952) and Cooperative Credit Review Committee (1959-1960) considering the usefulness of this system, recommended to adopt throughout India. The full finance committee also recommended the crop loan system in the year 1961. The Reserve Bank of India recommended the crop loan system in August 1965 for adoption throughout India. While some of the states had already made a beginning in this direction from the year 1966-1967, it was accepted by almost all the States for imple-

mentation from the year 1967-1968.

1.6 Beneficiaries of Crop Loan

Under crop loan system, the issue of loans coincided with the commencement of the agricultural operations and the dates of the recoveries of the loans were fixed a month or two after the harvest. There were the cash and kind components to a loan. The cash portion was given for wages of labour, hire charges of plough bulls etc. The kind portion consisted of chemical fertilizers, seeds and pesticides etc., Landless tenants were also to be issued loan under this scheme. The linking of credit with marketing was an important plan of the crop loan system. During the year 2008-09, Rs 1590.99 crores as crop loan and Rs 114.20 crores as medium term loan have been disbursed to farmers, against the target of Rs 1500 crores and Rs 126 crores respectively, thus achieving the overall target percentage. Fresh Crop loans to the tune of Rs 2000 crores will be disbursed during the year 2009-2010. To incentivize the prompt repayment of crop loan, the State Government further reduced the interest on crop loan from 7% to 5% in 2007-08 and from 5% to 4% in 2008-09 for the cases of prompt repayment.

The Scale of Finance should not only satisfy the requirements of the farmers from the production point of view but it should also be within their repaying capacity. The cash portion of the loan is fixed at 35% or 1/3 of the gross production made under traditional method of cultivation. It is assumed that 50% of the gross production should be set apart for payment of dues. One of the important features of the crop loan system is that it should be utilized for the purpose for which it is meant.

Considering the dominant role of the agriculture in the Indian Economy with 70% population of the country depends on it for livelihood and the vast untapped potential of the sector, the scope for dispensation of institutional credit to the millions of the farmers for their Seasonal Agricultural Operations is enormous. The multi-agency approach introduced by the Reserve bank of India had helped to augment the institutional credit flow for agriculture manifold during the past decade from Rs 11202 crore in 1991-1992 to Rs 53504 crore during 2000-01. Notwithstanding such an excellent growth in institutional credit flow for the agricultural sector, traditional systems and procedures, documentation etc., adopted by the banking system have rendered availment of credit by the farmers rather cumbersome⁷.

Given the enormity of the Credit requirements on the one hand and the vagaries of nature on the other, financing for agriculture has been a gigantic task for banks in India. The access to institutional credit for a large number of farmers, particularly small and marginal farmers continues to be a challenge to the Indian banking Industry.

1.7 Lacunae in Crop Loan System

Lending to the agriculture sector is inherently risky in view of the monsoon condition and future prices, which are beyond the control of the farmer. There has been an appreciable increase and decrease in the flow of rural credit from institutional agencies and non-institutional agencies respectively for the last 5 decades. However many problems are being faced by lending institutions, particularly the co-operatives in the form of increasing number of overdue and defaulters. The Planning commission regretfully admitted, 'Wilful default' and over-dues are mounting in number of states, including some co-operative progressive states like Maharashtra and Gujarat. By writing off agricultural loans and providing subsidies out of the state exchequer, some of the states have set a bad example to the entire country. If this trend is not reversed and if the banks are reduced to institutions providing grants rather than recycling scarce resources to get the maximum benefits for the country as a whole, the banking system will not be able to provide more credit to meet the growing needs of the farmers. With rising rural income and agricultural exports, the next few years would witness a substantial increase in the demand for rural credit⁸. At this juncture, there arose an urgent need

to provide timely and adequate credit support to farmers that resulted in introduction of new credit delivery product as Kisan credit card.

1.8 Kisan Credit card – A Credit Delivery Innovation

Realizing its potential in terms of simplification of loan procedures and reducing the drudgery of cumbersome documentation, Hon'ble Union Finance Minister in his Union Budget Speech for the year 1998-99 announced that NABARD would formulate a model scheme for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that the farmers may use it to readily purchase agricultural inputs such as seeds, fertilizers and pesticides, and also to draw cash for their production needs. As a sequel to this, NABARD in consultation with RBI and major Banks formulated a model scheme for the issue of Kisan Credit Cards (KCCs). Andhra Bank was the first to introduce the Kisan Credit card Scheme in India.

Ever since the Kisan credit card scheme was implemented in August 1998, over 14 million cards have been issued across India. The Scheme has been implemented in all the States and Union Territories by 26 Public Sector Banks (PSBs), 373 District Central Cooperative Banks (DCCBs) and 196 Regional Rural Banks (RRBs)⁹.

The Government of India, RBI and NABARD have been playing a proactive and catalytic role in assisting the banks to meet emerging challenges. Towards this end, several innovative strategies have been evolved by NABARD. The mechanism of Kisan Credit Cards has been one of the key products developed by it to expand the outreach of banks and streamline the credit delivery system.

1.9 Conclusion

It could be concluded from above discussion that the institutional source of credit is continuously increasing since a long time. But, there are some problems such as: inadequate finance and out dated as well as inappropriate institutional framework are the twin problems and, of the two, institutional reforms are needed requiring changes in mind set and redefining the role of the government. Politicians, Intellectuals and farmers are in the position to accept that small loans are more expensive and must be priced accordingly¹⁰. The Government of India, Regional Rural Banks and NABARD have, therefore been focusing on the need to streamline the credit delivery mechanism and to simplify the existing systems, procedures, documentation relating to sanction and disbursement of credit to the farmers at large.

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