Research Paper
Impact Factor: 6.462
Peer Reviewed & Indexed Journal
www.ijmsrr.com

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

ROLE OF BANKS IN RURAL CREDIT -IN INDIA

Dr. S.USHA
Head, Dept. of Commerce, S.V. Arts College, Tirupati, Andhra Pradesh.

ABSTRACT

In India, more than 70 percent of the people depend upon agriculture and allied activities for their livelihood and this sector generates about 40 percent of the total income of the country. Therefore, India being basically an agricultural country, its rural people require sufficient financial assistance to undertake sustained economic activities, which can assure them better life. The rural credit markets, however, are characterized by uneven supply of funds and are not able to cope with the demand existing. Rural credit system assumes importance because most of the Indian rural families, savings are inadequate to finance farming and other economic activities. This coupled with the lack of simultaneity between income realization and expenditure and lumpiness of Farm capital investments. The institutional credit system is critical for Farm development and its role has been further increased in the liberalized economic environment. In India, a multi-agency approach comprising Co-operative Banks, Scheduled Commercial Banks, Regional Rural Banks (RRBs) and Private Money Lenders have been followed to allow credit to Farm sector. The reserve bank of India was established in 1935 and its agricultural department was entrusted with the task of studying the problems relating to agricultural credit. After independence, the government adopted the institutional credit approach through various agencies like Co-operatives, Commercial Banks, Regional Rural Banks etc., to provide adequate credit to farmers, at a cheaper rate of interest. With growing modernization of Farm during post green revolution period, the requirement of Farm credit has been increased further in recent years. Just as industry, agriculture (farmers) requires three types of finance – (i) short term credit for periods less than 15 months to meet cultivation expenses (buying seed, fertilizers, pesticides, fodder for cattle and funds for meeting family expenditure, (ii) medium term finance between 15 months and 5 years for making improvements to land, buying cattle and agricultural implements etc, (iii) long-term finance to make permanent improvement to land, to repay past debts etc. The credit facilities are available to the rural agriculturists and artisans through financial institutions and non-financial institutions. The present paper aims at analysing the rural banking and credit.

Key words: Agriculture, Scheduled, Commercial, Banks, Regional, Financial, Institutions.

INTRODUCTION

In India, more than 70 percent of the people depend upon agriculture and allied activities for their livelihood and this sector generates about 40 percent of the total income of the country. Therefore, India being basically an agricultural country, its rural people require sufficient financial assistance to undertake sustained economic activities, which can assure them better life. The rural credit markets however, are characterized by uneven supply of funds not able to cope with the demand existing. Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities. This coupled with the lack of simultaneity between income realization and expenditure and lumpiness of Farm capital investments. The Reserve Bank of India was established in 1935 and its agricultural department was entrusted with the task of studying the problems relating to Agricultural credit. After independence the government adopted the institutional credit approach through various agencies like Co-operatives, commercial Banks, Regional Rural Banks etc., to provide adequate credit to farmers, at a cheaper rate of interest. With growing modernization of Farm during post green revolution period the requirement of Farm credit has increased further in recent years. The credit facilities are available to the rural agriculturists and artisans through financial institutions and non-financial institutions.

The problem of rural credit is an age old problem in India .This problem was also noticed by British colonial masters and to this date, providing institutional agricultural credit seems to be a challenge and Central government has been striving to expand institutional rural credit. One of the first steps taken by the Government of India towards addressing the problem was the establishment of co-operative credit societies. The co-operative credit societies Act (1904) was passed to provide cheap and cost-effective financial services to farmers and attempts were made thereafter to widen the co-operative movement. The Maclagan committee (1915) and the Royal Commission of Agriculture in India (1928) focused on the expansion of co-operatives in the country. The RBI Act, 1934, made provisions to establish an agriculture credit department in the bank and extend refinancing facilities to the co-operative credit system.

The RBI commissioned the All India Rural credit Survey in 1951 to understand the situation at the grass root level and address concerns regarding the financing of the rural sector. The committee recommended the creation of an efficient system of agricultural finance and the development of a sound co-operative credit structure. They suggested increasing the share of co-operatives and advised that at least one member of each household should be a member of a co-operative institution.

Until 1966, co-operatives were viewed as the main instrument for extending agriculture credit. The All-India Rural Credit Review Committee (1969) recommended the adoption of a “multi-agency approach” towards agriculture and rural credit and commercial banks were expected to complement the efforts of co-operatives to enhance the quantum of credit in the rural economy. The nationalisation of commercial banks in 1969 made it possible for government to become more proactive on expanding credit to agriculture. In the same year, the concept of a ‘lead bank’ was introduced by the Reserve Bank of India; each bank was expected to concentrate on a specific geographical area to increase the flow of credit to agriculture and to promote overall development in rural areas within its area of operation.

Under the concept of priority sector lending introduced in 1972, commercial banks were mandated to advance 40 percent funds to these priority sectors, which included agriculture and small-scale industries out of 40 percent agriculture forms 18 percent. The Narasimham Committee on rural credit (1975) recommended the establishment of Regional Rural Banks, as it was of the view that neither commercial banks nor co-operative institutions were able to meet agricultural credit needs. Another major step taken towards the development of rural credit was the establishment of **NABARD** in 1982 by a special act of parliament on the recommendation of the committee to review arrangement for institutional credit for agriculture and rural development. Its mission is to “promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives” (NABARD).Three other initiatives, viz., the Kisan Credit Card Scheme, Self Help Group-Bank Linkage Programme and Special Agricultural Credit Plans were put in place in the 1990s to increase the flow of credit to the agricultural sector.

The Agricultural Credit can be classified on the basis of tenure and on the basis of purpose. Just as industry, agriculture (farmers) require three types of finance – (i) short term credit for periods less than 15 months to meet cultivation expenses (buying seed, fertilizers, pesticides, fodder for cattle and funds for meeting family expenditure, (ii) medium term finance between 15 months and 5 years for making improvements to land, buying cattle and agricultural implements etc, (iii) long-term finance to made permanent improvement to land, to repay past debts etc. On the basis of purpose, productive credit is for purchase of seeds manures implements land and for paying wages etc., and unproductive credit is for personal house hold expenses.[1]

Rural Credit Structure
The credit facilities available to the rural agriculturists and artisans are through Financial institutions and Non-Financial institutions which are under:

Institutional Financial Agencies
1. Government
2. Co-operatives
3. Commercial Banks
4. Regional Rural Banks

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Institutional lending of credit refers to loans provided by Financial Institutions like co-operative societies, Commercial Banks, the RBI specially established Financial Institutions like Regional Rural Banks, Farmers Service Societies, Land Development Banks, Lead Bank Schemes and National Bank for Agricultural and Rural Development. Institutional agencies have organized funds at their disposal and intend to meet short, medium and long-term needs of rural sector. This is not the case in respect of private finance. Secondly, institutions follow a set of rules in granting loans.

Non Institutional Financial Agencies

1. Professional money lenders
2. Agricultural money lenders
3. Relatives and friends
4. Trades and commission agents
5. Land lords and
6. Others

Non Institutional structure is a century old system in India. Non Institutional Financial sources are regarded as one of the most important source of availing rural credit in India. As per the reports, this source covers up to 40 percent of total credit issued in the rural sector in India .The interest charged by the Non Institutional lenders is usually very high. The land or other assets are kept as collateral securities .The important sources of Non Institutional credit are Money-Lenders, Indigenous Bankers, Relatives, Landlords, Traders, Commission agents etc. The following table shows Institutional and Non Institutional agricultural credit in India from 1951 to 2013.

Table 1,Showing Institutional and Non Institutional Agricultural Credit in India
(In percentage)

Sources of credit	**1951**	**1961**	**1971**	**1981**	**1991**	**2002**	**2013**
Institutional	**10.2**	**20.9**	**32**	**56.2**	**63.3**	**61.1**	**64**
Government	-	6.2		4	5.7	1.7	1.3
Co-operative socities/banks etc.,	6.2	12.5	-	27.6	23.6	30.2	28.9
Commercial banks	4	22.2	-	23.8	35.2	26.3	30.7
Insurance, provident fund	-	-		0.8	0.7	0.5	0.1
Other agencies	-	-		-	1.1	2.4	3
Non-institutional	**89.8**	**79.1**	**68**	**43.8**	**33.7**	**38.9**	**36**
Moneylenders	39.8	25.3		17.2	17.5	26.8	29.6
Relatives, friends, etc.,	-	-		11.5	4.6	6.2	4.3
Traders&Commission Agents	-	-		5.8	2.2	2.6	
Landlords	21.4	15		3.6	3.7	0.9	0.4
Others	28.6	38.8		5.7	5.7	2.4	1.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: All India Debt and Investment Survey, Various Issues, NSSO

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

The above table reveals the contribution of non institutional source was highest and that was to the extent of 89.8 percent in 1951-52, but its contribution gradually come down to 79.1 percent in 1961-62 and then to 33.7 percent in 1991 and rose to 38.9 in 2002 and came down to 36 percent in 2013. Whereas the share of institutional sources to the total farm credit which was 10.2 percent in 1951-52 gradually increased to 20.9 percent in 1961-62 and then 63.3 percent in 1991. Later it came down to 61.1 percent in 2001 and increased to 64 percent in 2013. Overall it shows that Institutional Finance occupied major place in the farm credit over six decades

Banks and Rural Credit

The institutional credit system is critical for Farm development and its role has further increased in the liberalized economic environment. In India a multi-agency approach comprising Co-operative Banks, Scheduled Commercial Banks, Regional Rural Banks (RRBs) has been followed to allow credit to Form sector.

Co-Operative Banking

The co-operatives play an important role in the Indian financial system, especially at the rural level. In rural finance, as a means of reaching the last man in the last village, co-operative credit has no rival except the traditional moneylenders. It offers the only possible method of proved merit for reaching the people as a whole. It is the only practical alternative to usury. A credit co-operative is a voluntary association of members for self-help, catering to the financial needs on a mutual basis. In the words of **H.Calvert,** “cooperation then is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of their economic interest”. Co-operative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian co-operative banking started with the passing of co-operative societies Act in 1904. The objective of this Act was to establish co-operative credit societies “to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means.” Many co-operative credit societies were set up under this Act.

There are different types of co-operative credit institutions working in India. These institutions can be classified into two broad categories: agricultural and non-agricultural. Agricultural credit institutions dominate the entire co-operative credit structure. Agricultural credit institutions are further divided into short-term agricultural credit institutions and long term agricultural credit institutions. The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have tree-tier federal structure: (a) at the apex, there is the State co-operative bank in each state; (b) at the district level, there are Central co-operative banks (DCCBs); (c) at the village level, there are Primary Agricultural Credit Societies (PACS). Long-term agricultural credit is provided by the Land Development Banks. As a result of effective steps taken by the government and the Reserve Bank of India, the co-operative banking system in India made tremendous progress after independence.

Major weaknesses of co-operative banks are organisational and financial limitations of the Primary credit societies considerably reduce their ability to provide adequate credit to the rural populations ,inadequate coverage, inefficient societies ,problems of over dues, regional disparities, lack of other facilities, lack of spontaneity ,defective management, lack of viability etc., Considering the great importance of co-operative banks, particularly in the rural areas, it is not surprising that every committee or commission, that has examined the working of the co-operative banking system in India, has expressed the common view that “co-operation remains the best hope of rural India.”

The co-operative credit system makes credit available to the farmers at convenient times and has intimate knowledge of the local conditions and problems which arise, but it is organisationally and financially weak and hence in practice, its ability to support credit to the agricultural sector is considerably limited.

Commercial Banks

Commercial Banks (CBs) provide rural credit by establishing their branches in the rural areas. The share of commercial banks in rural credit was very meagre till 1969. Since the nationalization of commercial banks in 1969 the stress has been on expanding and strengthening the institutional structure of rural credit. However, even today the rural areas in India are yet not properly served by banking institutions. Most commercial banks feel shy to block their funds in risky agricultural operations. The All India Rural Credit Review Committee (1969) recommended multi agency approach to the rural and especially agricultural credit. It suggested the increasing roll of commercial banks of the agricultural credit. Further, under the Social Control Policy introduced in 1967 and subsequently the nationalization of 14 major Commercial Banks in 1969 (followed by another six banks in 1980), Commercial Banks have been given a special responsibility to set up their advances for agricultural increasing role of the Commercial Banks in providing agricultural and allied activities in the country. The major expansion of rural branches took place and Commercial Banks introduced Lead Bank scheme and district credit plans for rural areas. Banks were asked to lend 18 percent of their total advances to agriculture within the quota of 40 percent of priority sector lending. This expansion of rural credit remained till the late 1980s. However, during late 80's, Commercial Banks suffered huge losses due to waiving of agricultural loans by the government.

Since the nationalization of commercial banks, there has occurred a rapid expansion of their rural branches. The number of rural branches has increased from 1,832 in June 1969 to 37,500 in March 1999, constituting 56.8 per cent of the total branches of commercial banks. During this period the amount of outstanding advances to agriculture increased from Rs. 162 crores to Rs. 31,167 crores. However, despite the vast increase in short term loans by commercial banks, the PACs continued to dominate the scene. The financial liberalization process with the adoption of Narasimham Committee report in 1993 has necessitated the banks to focus on profitability and adopt prudential norms. The proportion of bank credit to rural areas especially small borrowers has come down steadily.

Farmers also get commercial bank assistance under various schemes as Small Farmers Development Agencies (SFDAs) and Marginal Farmers and Agricultural Labour (MFAL). Commercial banks have also sponsored Regional Rural Banks as per the 20point program with a view to extending credit to small and marginal farmers and protect them from the exploitation of moneylenders.[2]

Regional Rural Banks

In 1975, Smt. Indira Gandhi, the then prime minister, announced the new economic programme-20 point policy. One of the points of 20 point programme was the liquidation of rural indebtedness and provision of institutional credit to marginal farmers and rural artisans and weaker sections. To fulfil this objective, the government of India decided to start the Regional Rural Banks. Initially 5 RRBs were set up on October 2, 1975.

A working group constituted under the chairmanship of Mr M.Narasimham recommended on July 30, 1975 the establishment of RRBs. The first 5 RRBs were set up on October 2, 1975 by an Ordinance (which was replaced by the Regional Rural Banks act of 1976).

The new institutions were expected to combine the strength of co-operatives as well as of the commercial banks. They will have the local feel and familiarity with the rural problems which the co-operatives possess. They will at the same time have that degree of business organisation, ability to mobilise deposits, access to money markets and a modernised outlook which the commercial banks process.

In the rural areas, the banks have extended institutional credit. They thereby reduced the grip of money-lenders over farmers. They have been of great help and assistance to beneficiaries under 20-point Economic programme such small and marginal farmers, agricultural labourers, SC and ST population, and other weaker sections and rural artisans. Under differential interest rate scheme, they have been assisting physically handicapped persons. These banks have been able to mobilise more deposits than the co-operative banks.

The RRBs have fared well in achieving the objective of providing access to the weaker sections of the society of the institutional credit but the recovery position on the whole is not satisfactory. Loan recoveries were very poor because of most of the loans were under government sponsored programmes. Provisions for bad and doubtful debts were low. Prudential norms were introduced in RRBs in 1995-96.

The RRBs were established to provide a low cost alternative to the operation of commercial bank branches but the working of the RRBs could not achieve this objective. In order to improve the viability of RRBs and take advantage of economies of scale mergers and amalgamations were suggested: (i) merger between RRBs and sponsoring bank in the same state and (ii) merger of RRBs sponsored by different banks. The number of RRBs declined from 196 to 91 as on March 2008 operating in 25 states a cross 586 districts with a network of 14,790 branches. 151 RRBs were amalgamated. The remaining 45 along with 46 new amalgamated banks number 91.

After amalgamation, RRBs become bigger in size with larger area of operations. They will then function in a competitive environment more effectively. They reap the economies of scale. Transaction costs will come down. With the reduction in number, the sponsoring banks find it more convenient to manage the affairs of RRBs. (RBI-Report on Trend & Progress of Banking in India 2005-06, P. 104). The RRBs have become an integral part of the Indian rural banking system. To conclude, the RRBs should function as departmental store of rural finance, so as to meet almost all the requirements of the rural population. They should operate as a market leader at rural finance.The following table depicts the Institutional credit flow to farm sector in India from 1975 to 2008.

Table 2
Showing Institutional Credit Flow to Farm Sector
(Rs in Crore)

Agency	1975-76	1983-84	1993-94	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Co-operative	1186	2938	10117	23524	23636	26875	31231	39404	42480	33070
Regional Rural Banks	2	263	977	4854	6070	7581	12404	15223	20435	15925
Scheduled commercial banks	405	1885	5400	33587	39774	52441	81481	125477	140382	88766
Other agencies	82	185	0	80	80	84	193	382	NA	NA
Total credit	1675	52444	16494	62045	69560	86981	125309	180488	203297	137760

Source: All India Debt and Investment Survey, Various Issues, NSSO

The analysis of agency wise credit flow to farm credit indicates that the co-operative banks were the major source of farm credit in 1975-76 constituting Rs 1186 crores out of Rs 1675 crores credit supplied to farm sector the, share of RRBs is Rs 2 crores, commercial banks Rs 405 crores and Other agencies Rs 82 crores.

Gradually it rose to Rs 42480 by co-operatives, Rs 20435 crores and Rs 14038 crores by Regional Rural Banks and commercial banks respectively in 2006-07 out of Rs 203297 crores credit but in 2007-2008 the contribution of co-operatives falls to Rs 33070 crores, RRBs to Rs 15925 crores and commercial banks to Rs 88876 crores.[3]

Conclusion
The repayment capacity of Indian farmer is very poor due to the following reasons, small size of the farm holdings, low production and productivity of the crops, high family consumption expenditure, low prices and rapid fluctuations in prices of agricultural commodities, using credit for unproductive purpose, lack of adoption of improved technology etc. Besides this debt relief and loan waiving schemes by government discourages prompt repayment in future in the expectation that there may be more such waivers in the pipelines. The sense of inequality among the borrowers who might have paid back the loan with interest strengthens the attitude to avoid delay repayments in future. It may not just discourage prompt repayment but diminish lending as well, because of consequential expectations of default.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

The problem of over dues is quite alarming but is mainly subscribed by big farmers. All concerned are of the view that rising quantum of over dues should be arrested at the earliest to create faith of people in the working of the financial institutions

The problem of recovery is quite alarming in co-operative credit institutions. They have to draw lesson from their counterparts elsewhere who are able to show consistently high recovery performance. The cause of co-operative is not served by 'across the board loan waivers' and the interest rebates announced by the state government from time to time which only retard recoveries. Farmers tend to withhold repayments on the expectation of such relief.

Indian banks have been suffering from lower rate of returns through concessional interest rates and high defaults from farm credits. If interest income is at least equal to the cost of lending that would bring the break-even condition. If the break-even is not reached, then banks have to cross-subsidy. According to an estimate, cross-subsidy to Indian agriculture by the commercial banks has been increasing.

The Co-operatives RRBs and Commercial Banks put together are not able to eliminate moneylenders and indigenous bankers who are financing at usurious rates. But the Commercial banks lending to agriculture has helped the agriculturists to reduce their borrowing from non-institutional agencies.

Agriculture growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realising the full potential agriculture as a profitable activity. The financial institutions should shed their conservative outlook and identify the emerging areas to address the needs of rural farmers through perspective analysis. Initiatives need to be taken in newer areas such as Aquaculture, Horticulture, Pisciculture, Dairying, Poultry, Food processing and other Agro-processing activities in rural areas. The conventional approach and credit delivery practices will not augment the net credit flow to agriculture nor will it bring any qualitative differences in the credit delivery system. The financial institution should rise to the occasion and identify the areas and supplement the credit needs of the location specific and area specific manner and applicability.

Banks should understand that agriculture is a way of life for the farmers and is only subsequently transformed into a business. It can't simplistically be compared with exposures to industrial and other retail advances. There is therefore, a need to look beyond mandatory targets, designing new strategies and leveraging existing infrastructure, quantification of credit risk and activating a package of financial services is essential for improving the farm credit system and increasing agricultural output.

References

1. Ranganadhachary. A.V, Rudra Saibaba, Financial Services Banking and Insurance, Ludhiana, Kalyani Publishers, 2010.
2. Mithan, D.M., Financial Services Banking and Insurance,Mumbai, Himalaya publishing house, 2012.
3. Nagaraj,K.V., Jyothsna Palleti, Madhu Latha.D., Rural and Farm Credit,Mumbai, Himalaya publishing house,2017.