Rural Credit System in India: Analytical Study

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Introduction

In India with the changes made from the ancient time to the present era the rural credit system is regulated through the multi-agency approach which basically is providing logical response the individual with complex needs. In previous time there was situation that when several private credit agencies and sources had complete grip over this system but the private sources of that time like Multan bankers, private money lenders, zamindars and traders are now replaced with formal, government run rural credit agencies through the multi-agency approach to rural credit system after independence. The system consists of both institutional and non-institutional channels and till 1960s the bulk of the credit needs in agriculture was sourced by non-institutional private players. Later on certain changes were also made where cooperative credit system came into existence with bringing a change in the credit systems in the agriculture. In the later 1980s there were some national banks and they started setting up their branches slowly and slowly in the rural areas which made the credit system more and more flexible for the future and till the early 1970 there was actual gap between demand and supply of credits. The rural system has change over independence and the credit providing institutions are more active in the remote areas of the countries and day by day the old system is diminishing. In today's world in the country India is operating the multi-agency credit system in the rural areas which consists of both long term and short term institutional organizations and certain commercialized banks. The growth of such kind of institutions and banks have increased a lot over past times since 1980s in which thegap between the demand of such services is more widely expected. In 1975 RRB (Regional rural banks) started operating through special permissions given by RBI and the main purpose of the banks are to serve the backward and the rural areas and in such kind of areas the commercial banks do not want to operate. There is large gap in the credit supply to the agriculture field as well as the efforts are diversified which means the short term as well as long term credit cooperatives, commercial banks and rural banks have their own advantages and disadvantages. The major limitations are stated as below:

- Managerial incapacity
- Lack of manpower
- Dominance of vested interest
- Inability to mobilize deposits
- Inability to attract marginal and small farmers.

Credit

The word "credit" basically means "I believe" or "I trust" and has been derived from Latin word "credo" which basically means a trust reposed in another person. Credit basically refers to the having confidence on someone and in terms of economics it is basically agreement for the purchase of the goods and services with the expression of promise to pay it later on after sometime or lending of money and receiving of deposits etc. Credit can be explained as the contract agreement between the borrower in lender which means a borrower receives something of value and present time and agrees to repay the lender at some later date in which the borrowing capacity provided to an individual by the banking system in form of credit or loan. The total bank credit the individual has is basically the sum of borrowing capacity each lender banks provides to the individual.

Characteristics of Credit

The characterstics of the credit of the prime importance to the individuals or the prime importance are as follows:

1. **Confidence:** It is really important that the authority should have confidence on the debtor as well as confidence is one of the necessary element for granting any credit.
2. **Capacity:** Capacity basically refers the time the borrower takes to repay its debt and considered as one of the most crucial thinks. Before granting any kind of credit to the borrower the credit should evaluated the borrower's capacity.
3. **Period of Credit:** Before giving credit to someone period of credit should be kept in mind because long term credit cannot be easily obtained due to the risk elements involved in security and repayments.
4. **Size of Credit:** It has been stated that short term credit is easily available as compared to the long-term credit.

Features of Commercial Bank Credit:

The major features of the commercial bank credit are as follows:

1. To take all protective risks to minimize the risk while giving loans to the firms.
2. Indian banks sanction loans against sound security.
3. Short term loans are given for the seasonal needs and the working capital requirements.
4. Short term loans may be in form of the cash credit and overdraft, demand loans and the purchasing and discount of the bills in which the cash credit and overdraft are most popular.
5. Banks usually provide credit majority to trade and industries rather than agriculture just because of the reason that greater risks of inability of agriculturists to furnish good security.

Rural Credit System

Finance is one of the most important factors for the development of the economy as well as all sectors in the economy. Finance has been stated as life blood of all the economic activities like all other sector the agricultural sector also needs credit. Finance is considered as more important due to the unorganized nature of farming and inability of the farmers to invest from their own resources. The need of the finance are focused but the productivity is low due to financial constraints and the need is basically for the points mentioned below:

- For the purpose like repayment of the old debts, deposits with cooperative agencies and unspecified purpose. According to duration of the loan it is divided into short term, long term and medium term.
- For agricultural purpose like purpose of seed, irrigation of crops, purchase of livestock's, charges of pumps, manure and fodder payment of rent.
- Credit need for the non-form business purposes such as amount of credit required for the repair and production of the transport equipment, furniture, construction and repair of building houses.

Rural credit in India

With the increase in the globalization and changes in the banking sectors the growth of the rural economy basically depends on the funds from different intervals to understand the high productivity in the agricultural and non-agricultural areas. The gap between sowing of seeds to the understanding of the post production revenue is quite long which includes all other process like farmers lending money from different institutions to match the requirements of fertilizers, seeds and personal expenses.

Role of rural credit in Indian agriculture

Agriculture plays a vital role in the overall development of the rural economy in particular and in the national economy in general in developing countries like India. Rapid and sustained agricultural development facilitates the process of economic growth. Agriculture development implies increased production and productivity of crops, generation of employment opportunities and thereby improved standard of living of the peasants. Moreover, the agricultural sector accelerates the overall economic development. Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. In India, there is an immense need for proper agricultural credit as Indian farmers are very poor. From the very beginning, the prime source of agricultural credit in India was moneylenders. 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. Moreover, with growing modernization of agriculture during the post-green revolution period, the requirement of agricultural credit has increased further in recent years. No sector in the economy can develop without the availability of timely and adequate finance. Agriculture is no exception to this. Since our agriculture is exposed to low returns and uncertainties due to its more reliance on nature. As most of the farmers are poor, it has become more imperative for them to borrow. It is difficult for our farmers to manage agricultural operations without resorting to borrowing. The following factors are responsible for the need of credit in Indian agriculture.

Rural Credit Agencies

Agriculture being the largest sector of the Indian economy plays an important role in accelerating the pace of economic growth and development. But agriculture without adequate finance for meeting divergent needs of the farmers may not guarantee the tempo of economic development. The development of agriculture is related directly to the way we tackle the problems of rural credit. There are various sources from which the farmers can raise funds needed for farming. These sources are classified into two categories.

1. **Non-institutional sources**
2. **Institutional sources**

Non-institutional sources

These agencies grew along with the credit needs of the farmers in India. In the past, the rural credit scene was dominated by the non- institutional agencies. The main constituents of this unorganized sector are indigenous bankers, moneylenders, traders, commission agents, landlords, relatives and friends. They operate outside the purview of the Indian Banking Regulation Act 1949 and exploit the rural people. They have been catering to the credit needs of millions of rural people. The moneylenders often resort to take advantages of helplessness, ignorance and necessity of the rural borrowers (The Agricultural Sub-Committee, 1945). The non-institutional agencies being motivated by profit, charge exorbitant rate of interest, thus making the credit expensive, exploitative and unrelated to productivity of land. To combat usuiy and the resultant alienation of land, the development of institutional credit is a pressing need. In spite of the significant expansion of institutional sector, the non- institutional agencies continue to play a dominant role in the rural area. Their lending practices are relatively simple and credit assistance is timely.

The Money-lenders: The money-lenders constitute the traditional source of agricultural finance. Other agencies have also come into the field, but the supremacy of the moneylenders has continued practically unchallenged since very ancient times. The money-lenders are usually classified as agriculturist money-lenders and the professional money-lenders. An agriculturist money-lender is a farmer whether cultivating, wholly or partially, his lands who supplement his income from agriculture with earnings from money-lending.

Other Non-Institutional Sources: Other private or non-institutional sources of agricultural finance include friends and relatives, who provide loans to farmers mainly for social purposes; (ii) traders and commission agents who provide loans and buy output in advance at rates below the expected market price of the product, thus denying the farmers full revenue for his crop. Such loan arrangements are quite common among fruit growers; (iii) big farmers or landlords also provide loans to smaller farmers in return for working on their land on crop-sharing basis, thereby denying the cultivators full fruits for their labor.

Institutional Agencies

Promotion of credit co-operatives was the first effort in India while institutionalizing credit for rural areas. These sources consist of government, co-operatives, commercial banks, Regional Rural Banks. The percentage share of institutional agencies has been increasing in fulfilling the credit needs of the farmers. Among these agencies, the co-operatives are the cheap and the best source of agricultural credit to farmers. Other institutional agencies have to be necessarily considered to supplement the resources of the co-operatives.

Regional Rural Banks

With a view to improving the flow of credit in the agricultural sector of economy, the Government of India set up a number of Regional Rural Banks under the Regional Rural Banks Act 1976. These banks have been mostly set up in the areas where co-operative of commercial banking facilities have been lacking and in the regions which have remained uneconomically backward. There are 88 RRB's (earlier their number was 196 that came down to 88 after restructuring and merging of many RRBs), and their branches numbered over 14500. The total direct advances of these banks amounted to Rs. 82,650 crore in 2013-14.

Commercial Banks

Financing of agriculture, which had hitherto remained neglected by the commercial banking system in the country, has now become an accepted field of financing activity with the nationalization of major commercial banks in the country. With the adoption of new agricultural strategy and the growing momentum of‗Green Revolution', the financial requirements of the farmers have become all the more urgent. Now, therefore, the crucial role of nationalized commercial banks in providing adequate credits facilities to the farmers has been widely recognized. Direct finance of agriculture, which was almost a forbidden thing in the years prior to the nationalization, has picked up fast in the past few years. The outstanding advances to the agriculture sector by the banks, which were barely Rs. 40 crore in June 1969, have increased to over Rs 5,29,659 crore by the end of year 2013-14.

National Bank for Agriculture & Rural Development (NABARD)

In the field of rural credit and agricultural development, establishment of NABARD is a major event. The National Bank for Agriculture and Rural Development was established in July 1982 as an apex body with the responsibility for overall development, policy, planning and financial support for agriculture and rural development. The NABARD provides credit to rural sector through cooperative banks, commercial banks, regional rural banks and other financial institutions set up to finance rural development. The Bank ensures co- ordination in operation of various institutions engaged in the field of rural credit.

The Government

The third agency providing finance to the agriculturist is the Government. The Government lends in the form of loans especially in the time of emergencies, such as floods and famines. The Land Improvement Loans Act and the Agriculturists'Loans Act passed, respectively in 1982 and 1984, authorize such loans. Full use of these Acts is not made for the reason, amongst others, that arrears of Government loans are recovered as arrears of land revenue. Generally the big landlords derive benefit from these Acts in normal years. Red tape and corruption among subordinate revenue officials also make these loans costly for the small cultivator.

Research Problem

Policy blend of monetary and financial market for restricting the macroeconomic imbalance in our economy like price imbalance, unemployment, and interruptions in foreign exchange market, trade inadequacy and economic growth are the primary attention pullers in the research here. Previously, the researches were restricted to the developed economies and some of the evaluation of financial markets or monetary policy was done. Some researches of blend of financial markets and monetary policy in Indian framework were done. Along with that, it is necessary to talk about pre- and post-reforms course through analytical and time series econometrics evaluation which would be helpful in quantification of impacting various from various methods.

Aims and Objectives of the Study

Aim of the research is:

1. Emphasizing the part which Money and Finance play through conceptual and experimental viewpoint.
2. Discussion of source and progress of financial system in our country through the course.
3. Emphasizing the suggestions of different committees and commissions regarding financial sector.
4. Evaluation of relation between economic growth and financial development along with the evaluation causality between the both in our country.
5. Evaluation of relation between Financial Liberalization, Financial Development and Economic Growth in our country.
6. Emphasizing the significance of Monetary Policy in our country to promote Financial Development and Economic Growth.

Significance of the Study

It is necessary in our country to talk about the coordination between Indian financial market and monetary policy as it would be helpful for off-setting macroeconomic instability in our economy. From the time of independence, government studies the aims of monetary policy and then acquires parliamentary endorsement where RBI has freedom about the usage of monetary devices for completing these aims. Therefore, financial market of our country takes high road over monetary policy. There was an IMF survey conducted comprising 88 constitutions of various nations all across through which it was seen that there are securities for central bank in 30 constitutions and thus it is necessary to study the laws of financial market responsibility and independent monetary policy.

Scope of the Study

Research studies the connection between financial development and economic growth in India from 2012-13 to 2015-17. The period is picked so as to follow truly the critical changes - basic institutional and others. As Goldsmith (1958) has called attention to that, one of the significant parts of the growth of financial framework is the extent of national riches or resources regulated by these establishments. He further says, "Both are of significance in coordinating the progression of reserve funds into speculation and perhaps even in impacting its size, they in this manner eventually bear on the central connection between the nation's financial association and the rate and example of its economic growth". Along these lines, a nitty gritty investigation of the connection between financial development and economic growth is a pre-essential to break down the predominant economic conditions. The accessibility of yearly information for the main factors likewise persuaded the choice of the example time frame.

Conclusion

Indian public policy for rural finance from 1950s to till date mirrors the patterns observed world-wide. Increasing access to credit for the poor has always remained at the core of Indian planning in the fight against poverty. The institutionalization of the credit delivery system in India was initiated by the creation of Co-operative Societies Act, 1904. But the process of institutional credit delivery was intensified with the nationalization of commercial banks in 1969 and further, for greater penetration of credit to weaker sections, Regional Rural Banks (RRBs) were created in 1975. At the apex level, to serve the rural people, NABARD was created in 1982. With all these efforts, the government also launched various poverty-alleviation and rural-development programmes with credit as the main component. These measures resulted in impressive gains in rural outreach and volumes of credit. The problem at the start of the 1990s looked two-fold - the institutional structure was neither profitable in rural lending nor serving the needs of the poorest. In short, it had created a structure, 'quantitatively impressive but qualitatively weak'. The current state of financial inclusion in rural areas is less than the expectations. In the current policy-framework in rural finance, micro-finance has come as a new tool to ensure proper inclusiveness with sustainability.

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