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## **RURAL CREDIT AND RURAL DEVELOPMENT**

**Dr Mahesh. U. Daru**

Head of Accountancy Department

Smt C.D.J Rofel Arts & Smt I.S.R.A Rofel Commerce College, Vapi (Gujarat)

### **Abstract**

Rural development is a comprehensive term. It essentially means a plan of action for the development of areas which are lagging behind in socio-economic development. There are certain issues in rural development like human capital formation. Investment should be made in education health and technical skill development to make people more efficient and able to do work. The rural people are mainly dependent on agriculture to earn their livelihood that usually suffers from low productivity, lack of infrastructure and disguised unemployment. Therefore, efforts must be made towards development of alternative occupation through available resources. There is need for technical reforms allow the farmers to use modern techniques and methods which increase the productivity and aggregate volume of farm output. Special measures should be taken for basic facilities like infrastructure development such as electricity, irrigation, bank, credit, transportation, development of markets etc.

For Rural development huge amount of rural credit will needed to tackle poverty and to bring significant improvement in the living conditions of the weaker sections of the people emphasizing access to productive employment opportunities. This paper is related with rural credit and how rural credit can be channelizing for rural development.

### **Key words:**

Rural Credit, Rural Development, Rural Credit Institutions, Rural Credit Policy

## **Introduction**

Rural areas are facing major challenges today which arise mainly from globalization, demographic change and the rural migration of young, well-trained people. Improvement in the quality of life of rural people is the important agenda of rural development programme. In India – a country where the number of people living in rural areas, rural development programme is necessary aspect. Rural development implies both the economic betterment of people as well as greater social transformation. The basic objective of all rural development endeavors / programmes has been the welfare of the millions. The Ministry of Rural Development places importance now on health, education, drinking water, housing and road so that the quality of life in rural areas improves and the fruit of economic reform are shared by all sections of the society. Rural development policies should exploit the contribution of farming, both in terms of improving on-farm activities and supporting ancillary services, to secure sustainable development for rural areas. Credit Plays an important role in rural development Growth of rural economy depends primarily on infusion of capital from time to time to realize higher productivity in agriculture and non-agriculture sectors. The long gestation period between sowing and harvesting of the crops, credit is extended to the farmers for meeting their initial requirements of farm inputs like seeds, fertilizers, etc. The farmers require funds for meeting their general and specific needs. They also require credit for buying cattle, purchasing land or irrigation facilities.

## **Importance of rural development**

Rural Development (RD) is a process, which aims at improving the well being and self realization of people living outside the urbanized areas through collective process. According to Agarwal (1989), rural development is a strategy designed to improve the economic and social life of rural poor. The United Nations defines Rural Development as: Rural Development is a process of change, by which the efforts of the people themselves are united, those of government authorities to improve their economic, social and cultural conditions of communities in to the life of the nation and to enable them to contribute fully to national programme. Rural Development is a process of bringing change among rural community from the traditional way of living to progressive way of living. It is also expressed as a movement for progress. Rural development is a dynamic process, which is mainly concerned with the rural areas. These include agricultural growth, putting up of economic and social infrastructure, fair wages as also housing and house sites for the landless, village planning, public health, education and functional Literacy, communication etc.

Adequate availability of credit on time is an important requirement for the rural people, particularly under conditions of scarcity of resources and uncertainty. Convenient and safe-saving facilities are perhaps even more important to smooth out the peaks and troughs in incomes and expenditures in the rural arena. Lack of savings facilities also force families to rely on inefficient, inconvenient and costly alternatives. Agricultural credit can be a solution for

this perspective. Most of the agricultural credits are the small-scale loans for the poor entrepreneurs. It allows them to access in the lending institutions to borrow fund and start their own business for rural development. Several financial institutions developed several strategies, including provision of small loans to the rural poor without collateral. These loans are repayable in predetermined installments.

### **Major sources of rural credit**

Main sources of rural credit in India are as follows:

**1. Co-Operative Credit Societies:** The co-operative societies are supposed to be the cheap-est and most important source of rural credit. Due to the encouragement and assistance provided by the Government as also by the NABARD, notable progress has been made by co-operatives in some States such as Tamil Nadu, Andhra Pradesh, Karnataka, Punjab and Himachal Pradesh. However, since co-operatives have not been able to meet, the entire credit needs of the farmers the moneylenders continue to dominate the rural financial markets. Moreover, the large farmers have derived the maximum benefits from the co-operate-tive societies. The small farmers, for whom the co-operative movement was originally initiated, found it increasingly difficult to meet all their credit needs through these institutions.

**2. Land Development Banks:** Land devel-opment bank (formerly known as land mortgage banks) mainly provide long-term loans to farmers against the mortgage of their lands at low rates of interest over a period of 15 to 20 years. Farmers find borrowing from such banks attractive if costly land improvement programmes (such as digging or deepening of wells) are to be undertaken, or if additional land is to be acquired through outright purchase, or if previous debts have to be repaid.

**3. Commercial Banks:** Before nationalization of top 14 commercial banks in June 1969, they had an urban bias. They were mainly accept-ing deposits from the urban people and making loans to trade and industry. Agriculture and rural industries were neglected by them. Since agricul-ture by its very nature was a risky venture, private commercial banks turned away from rural areas.

Other factors obstructing flow of bank credit to agriculture were :

- i. Inability of farmers to pro-vide security,
  - ii. Difficulties in recovering loans,
  - iii. Lack of clear-cut and up-to-date accounting of agricul-tural transactions,
  - iv. The small amount of loan and.
  - v. The consequent high transaction cost.
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Commercial banks now provide both direct and indirect finance to agriculture. Direct finance is provided for short and medium terms to enable farmers carry out agricultural operations smoothly. Indirect finance is provided in the form of advances for the purchase of inputs like seeds and fertilizers. Commercial banks not only provide assistance for agricultural operations but also for extending credit to service units which provide infrastructural facilities such as storing and warehousing of agri-cultural produce, marketing, transporting and re-pairing of agricultural implements.

**4. Regional Rural Banks:** In 1975, the Government set up a network of regional rural banks to look into the special needs of small and mar-ginal farmers, landless workers, rural artisans and the rural poor in general. The unique feature of the 196 RRBs operating since September 1990 is that they cater exclusively to the weaker sections of the rural community through nearly 14,800 branches spread over India.

**5. The Government:** The Government has also provided short-term and long-term loans to farmers in times of emergency such as floods or famine. Such loans are known as Taccavi loans. Such loans are offered at a concessional rate of interest (6%) and the mode of repayment is also very convenient. It can be repaid in several installments at the time of payment of land tax. How-ever, such loans have not assumed significance over the years.

## **Problems of Rural Credit in India**

**1. Insufficiency:** In spite of expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of increase in prices of agricultural inputs.

**2. Inadequate Amount of Sanction:** The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.

**3. Lesser Attention of Poor Farmers:** Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better credit worthiness.

**4. Growing Over-dues:** The problem of over-dues in agricultural credit continues to be an area of concern. The recovery of agricultural advances to various institutions is also not at all satisfactory. Such growing over-dues have also been resulted from poor repaying capacity of farmers. As a result of that, the credit agencies are becoming wary of granting loan to farmers.

**5. Inadequate Institutional Coverage:** In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

**6. Red Tapism:** Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

### **Measures Taken to Improve Credit Flow to Agriculture**

In order to improve the flow of credit to agriculture, the Government has introduced the following measures:

- Procedural simplification for credit delivery has been made (as per R.V. Gupta Committee Report) through rationalization of internal returns of banks.
- More powers have been delegated to branch managers to raise the credit flow to agriculture.
- Introduction of composite cash credit limit to farmers, introduction of new loan products with saving components, cash disbursement of loans, dispensation of no due certificate and discretion to banks on matters relating to margin security requirements for agricultural loans above Rs. 10,000.
- Introduction of at least one specialized agricultural bank in each state to cater to the needs of high tech.
- Introduction of cash credit facility.
- Insuring Kisan Credit cards to farmers to draw cash for their production needs on the basis of the model scheme prepared by NABARD.
- The Government has made arrangement for hassle free settlement of disputed cases of over dues.

To augment Rural Infrastructural Development Fund (RIDF) with a corpus of Rs. 10,000 crore with NABARD to finance rural infrastructure development projects by states.

### **Conclusion**

Agricultural credit has played a vital role in supporting agricultural production in India. Agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. We need to expand formal sources of credit in India to reduce dependence on informal sources of credit because the latter charge high interest rates and do not benefit the borrower much.

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Cheap and affordable credit is essential for country's development. Banks and co-operatives should increase their lending particularly in rural areas. The problem of rural credit can only be solved by a regeneration of the co-operative movement for which the movement must receive considerable assistance from outside.

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