

SOURCES OF RURAL CREDIT IN INDIA AND HARYANA: A COMPARATIVE ANALYSIS

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ABSTRACT

Credit is a prerequisite for the growth of rural and agricultural sector. This paper highlights the sources of credit in rural areas both institutional and non-institutional at national and state level in Haryana using the secondary and primary data. The study elaborates that at national level during 1951 to 1991, the percentage share of institutional sources increased continuously and started declining from 2002 and also in 2013. Whereas in case of non-institutional sources, the reverse trends are observed upto 1991, its share declined and after that it is continuously increasing. In case of Haryana, percentage share of institutional sources declined and the share of non-institutional sources increased upto 1991. After this, share of institutional sources has increased and further non institutional sources have declined. The study also discusses the results of a primary survey conducted in three districts of south Haryana to assess the share and sources of rural credit of selected indebted farmer households which shows that the share of institutional sources is significantly more than non-institutional sources. The study also provides some policy suggestions in the current scenario of rural credit in India and Haryana as well.

Keywords: *Farmers, Institutional, Non-institutional Indebtedness.*

Introduction

Credit is a prerequisite for the growth of rural and agricultural sector. To recognize the relevance of credit in stimulating the growth of rural economy, the establishment of All India Rural Credit Survey Committee has laid foundation for creating a strong credit delivery system for capitalizing agriculture and allied sector. To make robust credit delivery system, Cooperative banks, Regional Rural Banks and NABARD were established. The progression of agricultural credit system predominantly classify into three remarkable phases. Where phase I covered time period from 1951 to 1969 in which the National Credit Council stressed to provide credit facilities to priority sectors. The nationalization of banks took place in 1969 and RBI authorized 1:3 ratio for inception of branches which bifurcate in rural and urban centers. The second phase covered from 1970 to 1990. In this phase, two milestones policies namely Lead Bank Scheme and Priority Sector Lending helped in regulating agriculture credit and development of rural sector. Establishment of Regional Rural Bank in 1976, NABARD in 1982, Service Area Approach in 1989 brought a significant change in the credit delivery system to the economy. To ensure stability in financial sector, Narasimham committee report was implemented in 1991. In 1992, Self-help group linkage programme was initiated by NABARD which involve SHGs, NGO's and banks. Many more initiatives were taken by government of India such as increased the volume of credit, interest subvention scheme took place in 2006. Joint liability group was initiated by NABARD, and guidelines regarding priority sector lending were revised in 2012 and 2015 on recommendation of internal working group to review agriculture credit. Cooperative credit structure was also streamlined in the country. In spite of all these developments there exist financial exclusion and presence of informal institutions of credit in rural areas.

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Review of Literature

The structure of rural credit that prevailed today has transformed over different periods. Many reforms were initiated for smooth functioning of credit delivery system. The main focus of agricultural credit policy was to provide adequate and timely loans to farmers at low rate of interest. But as credit flow increases, it resulted into higher indebtedness among farmers (Acharya, 2006). According to Vani and Bhattacharjee (2011) formal sources contribute 58 percent of credit supplied to indebted households whereas, informal sources contribute 42 percent at pan India level. According to NSS 70th round report, published in 2013, 52 percent of agricultural households in India were in debt. Indebtedness was found more in farmers who opted for non-institutional sources of credit which was dominated by commission agents (Gill and Singh, 2006). The largest sources were commissioned agents in providing loans to farmers of all categories (Kaur, 2013 and Verma, 2015). The large farmers mainly procured from institutional sources whereas small and marginal farmers depend on moneylenders. Duggal (2017) found that 44.80 percent of outstanding loan was borrowed by marginal farmers through informal sources. Formal sources played a significant role in providing loans to small farmers whereas informal source played important role in case of marginal farmers (Sharma, 2018). The institutional credit agencies played a positive role in private investment as well as in adoption of modern technique inputs such as mechanization, irrigation through tube wells etc. which ultimately leads to growth in agricultural sector (Sidhu et.al. 2008).

Data and Objectives of the Study

The main objectives of the study are to analyze the disbursement of loans by various credit agencies in India and Haryana. To substantiate the analysis, secondary data released by Reserve Bank of India and NSSO has also been used. Data of 360 small and marginal farmers from Gurugram, Rewari and Mahendergarh districts was also analysis. Simple statistical tools have been used to analyze the primary and secondary data.

Results and Discussion

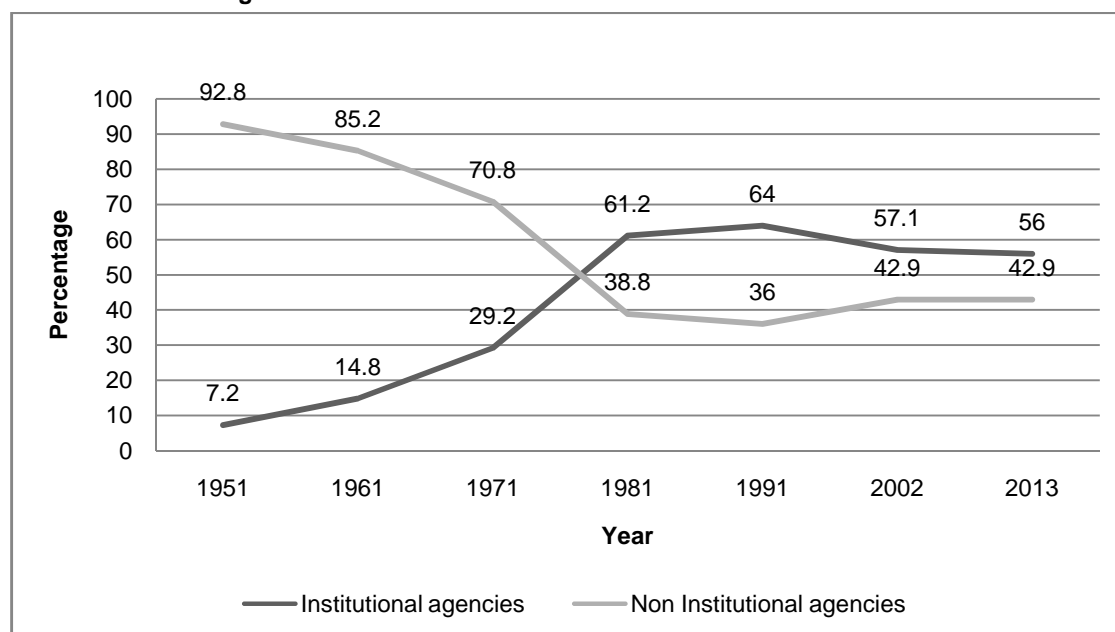
• Disbursement of Loan by Different Credit Agencies at National Level

The following table presents the share of various credit agencies of loan disbursed. In 1951, the share of institutional credit was 7.2 percent which increased to 64.0 percent by 1991. However, it declined thereafter from 64 percent to 56 percent during 1991-2013. As far as non-institutional agencies were concerned, the credit disbursement percentage share was very high in 1951 (92.8 percent), which continuously declined to 36 percent upto 1991. After 1991, the scenario has changed as the share of these sources started to increase from 42.9 percent to 44 percent during 2002- 2013. Agricultural and professional moneylenders were the dominant contributors in non-institutional sources. Institution wise analysis shows that the share of commercial banks including RRBs jumped from 2.2 percent in 1971 to 28 percent in 1981 and since that period, the share is almost constant and same is the case for cooperative banks or societies. Further, their share declined during 2002 and 2013, from 27.3 to 24.8 percent.

Table 1: Trends in Institutional and Non-Institutional Sources of Rural Credit in India

	1951	1961	1971	1981	1991	2002	2013
Institutional agencies	7.2	14.8	29.2	61.2	64.0	57.1	56.0
Government	3.3	5.3	6.7	4.0	5.7	2.3	1.2
Cooperative societies/Bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial Bank Including RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance	NA	NA	0.1	0.3	0.5	0.3	0.2
Provident Fund	NA	NA	0.1	0.3	0.9	0.3	0.1
Other institutional Agencies	NA	NA	NA	NA	9.3	2.4	4.6
Non Institutional agencies	92.8	85.2	70.8	38.8	36.0	42.9	44.0
Landlord	1.5	0.9	8.6	4.0	4.0	1.0	0.7
Agricultural Moneylenders	24.9	45.9	23.1	8.6	6.3	10.0	5
Professional Moneylenders	44.8	14.9	13.8	8.3	9.4	19.6	28.2
Traders and commission agents	5.5	7.7	8.7	3.4	7.1	2.6	0.1
Relatives and friends	14.2	6.8	13.8	9.0	6.7	7.1	8
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.9
Total	100	100	100	100	100	100	100

Source: Computed from NSSO and RBI Bulletin (Various years), NA –Not Available

Figure 1: Trends in institutional and non institutional sources

Source: Based on RBI Data

Figure 1 depicts that the institutional credit shows an increasing trend upto 1991 and then declines which is a matter of concern. In case of non-institutional credit, the trends are increasing after 1991.

Sources of Rural Credit in Haryana

After analyzing the disbursement of rural credit by various agencies at national level, a regional level analysis is required to find out whether the scenario at national and state level was similar or different.

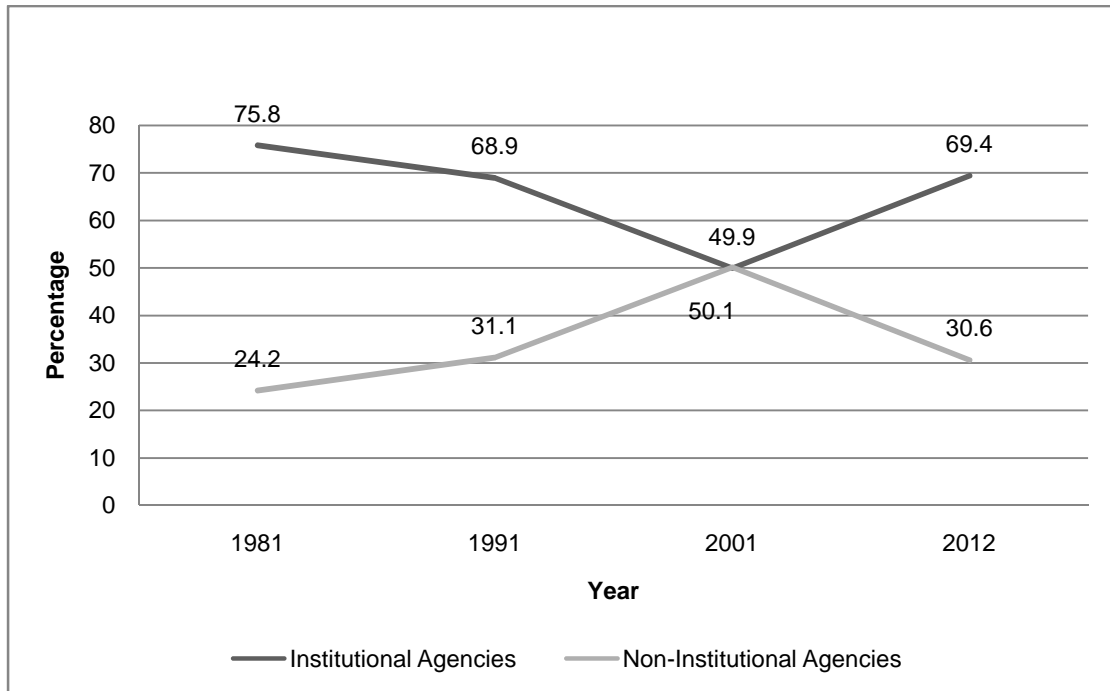
Table 4: Institutional and non-institutional Sources in Haryana

Institutional agencies				
Agencies	1981	1991	2002	2013
Government	6.2	2.4	0.4	1.3
Cooperatives	22.7	23.0	22.7	14.7
Commercial Banks	46.6	43.5	25.7	53.4
Insurance	0.3	-	0.0	-
Provident Fund	0.0	-	0.0	-
Financial Institutions	-	-	1.1	-
Total	75.8	68.9	49.9	69.4
Non Institutional agencies				
Landlord	2.2	7.8	1.3	5.1
Agricultural Moneylenders	5.2	12.6(including professional moneylenders also)	15.0	21.3(including professional moneylenders also)
Professional Moneylenders	8.9	-	26.5	-
Traders	0.6	4.1 (includes commission agents)	1.4	0.7
Relatives	6.3	2.1	3.0	3.5
Others Sources	1.0	4.5	2.9	0
Total	24.2	31.1	50.1	30.6

Source: Computed from NSSO and RBI Bulletin (Various years)

Table 4 shows that in case of Institutional credit agencies, the percentage share was 75.8 percent in 1981 and then declined to 68.9 percent in 1991 and further reduced 49.9 percent 2002. Significant improvement in this trend was experienced in 2013 as the share increased to 69.4 percent. While analyzing the share of credit among institutional sources, it was found that the share of cooperatives remains constant upto 2002 and then declined to 14.7 percent in 2013. During 1981 to 2001, the share of commercial banks declined continuously and then significantly increased to 53.4 percent in 2013. In case of non-institutional credit agencies, the overall share has doubled from 24.2 percent in 1981 to 50.1 percent in 2002 and then declined to 30.6 percent in 2013. If we have a close look at the trends of different non-institutional sources, surprisingly, the contribution of agricultural money lenders, role of professional money lenders has increased significantly. While the share of landlords firstly declined and then increased. In case of relatives, the share first decreased and then started to increase. Increasing rate of money-lenders (both agricultural and professional) is a matter of concern for the policy makers and banking sector. Analysis of the data reveals the fact that share of commercial banks has significantly declined upto 2002. In 1969 and 1980, government took a bold step of nationalization of banks and all the nationalized banks were directed to provide loans to the farmers for the purchase of capital assets like tractor threshers, tube-wells, harvesters etc, which proved beneficial and agricultural productivity increased exponentially. Under the British regime, various Acts were passed at the behest of Sir Chhotu Ram to get free the farmers from the clutches of money lenders such as Punjab Relief Indebtedness Act, 1934; Punjab Debtor's Protection Act 1936 and many more. A significant share of agricultural and professional moneylenders is not good and government should take a serious note of it and all efforts should be made to encourage farmers to avail credit from the institutional sources. To find out the factors behind this trend is a matter of further investigation.

Figure 3: Trends in Sources of Rural Credit in Haryana



Source: Based on RBI Data

Figure 3 shows the converging trends in percentage share of institutional and non-institutional rural credit in Haryana. It implies that share of institutional credit continuously declined up to 2001 and then showed a positive progress in 2012 and the contribution of non-institutional credit decreased after this period.

Sources of Rural Credit in Study Area

Following table shows the disbursement of loans through various formal and informal agencies to indebted farmers in three district of Haryana.

Table 5: Sources of Loan in the Study Area

Agencies	No of respondents (Multiple responses)	Percentage
Small Farmers		
Commercial bank	132	73.33
Regional rural bank	48	26.67
Agricultural moneylenders	23	12.78
Professional moneylenders	14	07.78
Relative and Friends	27	15.00
Marginal Farmers		
Commercial bank	116	64.44
Regional rural bank	33	18.33
Agricultural moneylenders	67	37.22
Professional moneylenders	65	36.11
Relative and Friends	32	17.78

Source: Field Survey

Table 5 shows that indebted households belong to small farmer category borrowed more from formal sources as compared to marginal farmers. The dominant agencies were commercial banks in disbursing rural credit to indebted households. In case of non-institutional sources, more numbers of indebted household of marginal farmers' category availed loan as compare to small farmers. Majority of indebted household respondents have taken loans from both the sources, i.e. institutional as well as non-institutional agencies. If we compare the primary data collected from the field survey of south Haryana with the state level, the trends are almost similar in current situation.

Conclusion

The study concludes that at national level during the period 1951 to 1991, the percentage share of institutional sources increased continuously and started declining in 2002 and also in 2013. Whereas in case of non-institutional sources, the reverse trends are observed as upto 1991, its share declined and after it is continuously increasing. In case of Haryana, the trends are different as the percentage share of institutional sources declined and the contribution of non-institutional sources increased upto 1991 and recently, share of institutional sources has increased and further non institutional sources is declining now. It is noticed that the share of cooperative banks in Haryana was almost stagnant till 2002 but the same is declined in 2013 which is a matter of concern as cooperative banks are one of the important stakeholders of financial inclusion in rural areas. Although declining upto 2002, the contribution of commercial banks is increased significantly in 2013. Still agricultural moneylenders have occupied an important position in rural areas. From the field survey, it was found that indebted respondents availed more loans from formal agencies than informal sources.

The study recommends that as the share of institutional sources is declining at national level, there is a need to review the credit policies so as to ensure financial inclusion in rural areas. In Haryana, the role of institutional agencies increased particularly commercial banks, which is a positive side but other institutional credit sources such as government and cooperatives banks/societies there share were declined over period which is not a good indicator. So government should emphasize on the actively participating role of cooperatives banks/societies so that financial inclusion among rural households takes place properly. Marginal farmers in the study areas are more dependent on non-institutional sources than small farmers. Concrete and focused efforts for each category of farmers should be made to strengthen the institutional structure of rural credit.

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