

Scenario of Rural Credit, Poverty and Indebtedness in India and Assam

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Abstract

Rural credit in the form of institutional as well as non-institutional sources has the power to mitigate the problem of rural poverty in India. It is estimated that 51% of rural population do not have access to either of the aforesaid sources of the credit. This has geared the problem of poverty. Moreover, it is poverty itself, which conceives indebtedness as one of the stumbling blocks in the way of rural prosperity, making true the famous saying that Indian peasants are born in debt, lives in debt and dies in debt. One of the prominent underlying causes for this indebtedness is that 70% of rural credit is taken from money lenders who charge high rates of interest rates. Thus, we see that there is a co-relation between rural credit, poverty and indebtedness.

The objective of this research paper is to study about rural credit, poverty and indebtedness; to find out the hurdles faced by the government and the poverty stricken rural people and to suggest policy measures for the same. This paper also attempts to draw a comparison of Assam with the rest of India with the help of authentic secondary data.

Keywords: Rural poverty, institutional and non-institutional sources of credit, rural credit, indebtedness, co-relation.

1. INTRODUCTION:

Rural development implies both the economic betterment of the people as well as greater social transformation. India being a welfare state since independence, the policies and programmes were designed with the aim of alleviating the rural poverty, which has been one of the primary objectives of planned development in India.

According to economic survey, for the financial year 2015-16, Rs. 79,526 crores has been allocated for rural development initiatives and schemes, which is 5% more than 2014-15. For rural development the allocation for the year 2015-16 for different programmes is: MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Program) Rs. 34,699 crores; Deen Dayal Upadhyaya Gram Jyoti Yojna Rs15,000 crores; Aajeevika Rs 2,505 crores; Rural Housing Rs 14,200 crores; Pradhan Mantri Gram Sadak Yojana Rs. 14,291 crores; Village Entrepreneurship Programme Rs.200 crores; National Social Assistance Programme Rs.9,082 crores; Rural Drinking Water and Sanitation Rs.6000 crores; Rural Infrastructure Development Fund Rs. 25,000 crores; Panchayati Raj Rs. 94 crores.

According to 2011 census there are 833 million people living in rural India. Their livelihood depends on agriculture and allied activities like animal husbandry, fisheries, agro forestry and agro processing. Rural credit to this sector is disbursed by the institutional as well as the non-institutional sources. The formal institutions include commercial banks, cooperative societies, regional rural banks (RRBs) etc. On the other hand, the informal institutions comprises of the money-lenders, traders, landlords etc. In 1951, the cooperative credit societies provided only 3.1% credit and the rest borrowed from the informal sector. After the nationalisation of 14 commercial banks in 1969, and the setting up of RRBs in 1975, the grip of the 'anti-social' money-lender was weakened. Further, in 1982, NABARD (National Bank for Agriculture and Rural Development) was set up. India now has a wide network of rural finance institutions (RFIs) consisting of 30,000 commercial bank branches, 14,000 RRBs and about 100,000 rural credit cooperatives.

The institutional rural credit expansion was aimed to reduce rural poverty and indebtedness. In Assam 33.8% of the rural population is below the poverty line in 2011-12. This extreme poverty generates indebtedness when borrowers borrow money without paying attention to their repaying capacity. Borrowing is positive when it is used for productive operations and negative when borrowed for unproductive purposes. Thus, when a borrower fails to repay he enters into the debt trap.

Thus, India's development has to be inclusive, embracing all sections of people, particularly of the rural areas, which constitutes 70% of India's population at present.

2. REVIEW OF THE LITERATURE.

Poverty, in India, has taken the form of epidemic. The rural community depends heavily on credit for its survival and well being. The informal sector has become almost the only source of credit for the people residing in the rural areas. In India the informal financial sector has emerged as a result of the intrinsic dualism of the economic and social structures and due to the financial repression which inhibits the certain deprived sections of the society.

According to the 59th round of National Sample Survey reports, only 27% have access to the institutional sources of credit, i.e., 73% cannot access to the formal sources of credit and hence borrow from non-institutional sources like money lenders, local traders, etc. which charge them with high interest rates. Most of the times, they cannot repay back their loans and as a result they become indebted towards the money lenders for the rest of their lives.

The World Bank in 2012 surveyed and found out that only 35% of adults in India had access to a formal bank account and only 8% borrowed from formal institutional sources.

Thus, we can say that although the formal financial sectors have developed in the last few decades but it could not include the poor income groups and disadvantaged section of the rural society. The financial should find out ways to reach the poorer classes of the society so that there is a balanced development of the rural areas.

3. OBJECTIVES OF THE STUDY :

To fulfil the above statement the main objective of the study is about rural credit in Assam and India in general and to find out the solving problems associated with these.

1. METHODOLOGY

This study is based on secondary data that has been collected from secondary sources with the help of different books, magazines, newspaper, articles of different writers that have been previously published and from journals etc. Facts from internet have also been used.

2. ANALYSIS AND INTERPRETATION:

i. The scenario of India:

Rural credit aims at providing assistance to the target groups. Non-institutional sources, say, money-lenders, landlords, traders etc accounted for 93% of the total credit requirement in 1951-52 and institutional sources including the government accounted for only 7% of the total credit needs in that year. We see a changing scenario when the All India Debt and Investment Survey (1981), estimated that the share of non-institutional sources had slumped to about 37% in 1981, money-lenders accounted for barely 16%. However, the share of institutional credit had jumped to 63%, contributed 30% by cooperatives and 29% by commercial banks.

Thus, the data above reveals that the predominance of non-institutional sources has declined in India. The rural development of India lies in its agricultural development. So emphasis has been given to agricultural credit. The table below shows the amount of agricultural credit by cooperative banks, RRBs and the commercial banks.

Table: 1 Agricultural credit.

Year	Cooperative Banks Amount	%	RRBs Amount	%	Commercial Bank Amount	%	Total	%
1984-85	3440	55	-----	---	2790	45	6230	100
1997-98	14090	44	2040	6	15830	50	31960	100
2002-03	23720	34	6070	9	39770	57	69560	100
2006-07	42480	21	20440	10	140380	69	203300	100
2007-08	48258	19	25312	10	181088	71	254658	100
2008-09	36762	13	26724	9	228951	78	259337	100
2009-10	32925	20	20065	12	112449	68	165439	100

Source: Economic Survey, 2009-10.

The table reveals that institutional credit has steadily increased from Rs. 6,230 crores in 1984-85 to Rs.1, 65,439 crores in 2009-2010. The contribution of cooperatives to rural credit was 55% in 1984-85 which decreased to 20% in 2009-10. The share of RRBs continues to remain low (around 10%), while the share of commercial banks has steadily increased and reached 78% in 2008-09.

Further, it is estimated by the Economic Survey, 2012-13 that the percentage of rural credit given by cooperatives have further declined to 16.7% and 17.2% in the year 2010-11 and 2011-12 respectively, but of the scheduled commercial banks have increased to 73.8% and 72.1% while that of RRBs have remained almost same again at 9.5% to 10.7% respectively in the above mentioned years.

The Hindustan Times (HT) and Invest India Economic Times (IIEF) used Indian Revenue Estimation Survey (IRES) data, 2004 to reveal certain facts- 46 million rural people use money-lenders for credit and nearly half of them reside in some of the richest states including Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra and Gujarat. Majority of the borrowers are farmers (32%) or agricultural or wage labourers (39%) and nearly 3.7 million customers of money-lenders are regular salaried employees. The study also reveals that money-lenders charges an average interest of 24% per annum compared to 12% by nationalised public sector banks and cooperative banks. This is not at all a pleasant scenario.

Agricultural credit is the key determinant for rural development. This will empower the farmers and lower their stress. In the very recent union budget government has increased agricultural credit from Rs. 3,75,000 crores (2010-11) to Rs. 8,50,000 crores (2015-16).The allocation for Long Term Rural Credit Fund, Short Term Cooperative Rural Credit Refinance Fund and Short Term RRB Refinance Fund are Rs. 15,000 crores, Rs.45,000 crores, Rs.15,000 crores respectively. The interest rate for credits has also been reduced from 9% to 7%.

ii. **The scenario of Assam:**

In Assam there are 1434 scheduled commercial banks as on March 2010, out of which 791 banks branches (55% of the total) are located in the rural areas of Assam. These rural branches contribute to 17% of the total bank deposit in the state. The credit-deposit ratio of the rural branches in 2010 was 48% compared to 34% of the urban branches.

The following table shows the growth of scheduled commercial banks and their credits and deposits of Assam as well as for India-

Table: 2 Credit-Deposits in India & Assam

Year	No. of offices		Deposit(in crores)		Credit(in crores)	
	Assam	India	Assam	India	Assam	India
2004	1256	68645	14507	1511273	4612	880312
2005	1272	69969	17782	1746814	6271	1152468
2006	1234	68681	20872	2093042	8763	1517467
2007	1262	70711	25757	2598823	11154	1949567
2008	1317	74326	31666	3228817	13057	2394566
2009	1369	79058	39427	3937336	15115	168977
2010	1434	83997	49545	4601926	18311	3345619

Source: Economic Survey, Assam 2010-11.

Out of the 1434 scheduled commercial banks of Assam there are 399 RRBs in Assam who work specifically for rural development. The deposit to the RRBs in the year 2010 was Rs 3678 crores out of which Rs 1746 credit were credited. A striking fact is that the credit amount was always less than deposit in Assam. This signifies the lack of demand for credits by its people. This may also indicate the greater dependence on the informal source of credit. The credit-deposit ratio of all scheduled commercial banks in Assam has been worked at 37% as on march 2010, as against all India ratios of 72.6%.

According to the state level bankers committee report the disbursement of advances to agriculture and allied activities by the scheduled commercial banks in Assam has increased from Rs 616.15 crores in 2004-05 to Rs 2345.86 crores in 2008-09 to 3868.37 crores in 2009-10. This credit had been important as it revitalises agriculture and its allied activities.

3. RECOMMENDATIONS FOR THE ABOVE PROBLEMS:

We suggest certain recommendations against the above mentions problems. They are-

1. Spread of compulsory and free education to the interior places.
2. Arranging training and awareness generation workshops for the rural masses.
3. Expansion of bank branches in the rural areas.
4. Customer friendly credit facilities by the scheduled commercial banks.
5. Low interest rates for loans taken by rural people for productive purposes.
6. Proper monitoring of the various programmes launched for the welfare of the people.
7. Honesty, integrity and hardworking capacity of the common people will help in overcoming poverty and in achieving the objectives of each programme.

The above suggested recommendations will definitely lower the magnitude of poverty and indebtedness from Assam as well as from India.

4. CONCLUSION:

The government of Assam have taken up different poverty alleviation and social welfare programmes, yet, more than one crore people of Assam (one third of the states citizens) continue to live below the poverty line (BPL). As per the latest data on 'poverty estimates for 2011-12' based on Tendulkar Methodology, released by the planning commission of India reveals that despite the credit expansion programmes there are 33.89% of people in the rural Assam who live below the poverty line. In estimating the population in the BPL category, Assam ranks 3rd highest among the North-Eastern states and ranks 8th among the states and union territories of India. This symbolises the weak economic and social status of the people. Thus, we can conclude by saying that due to least exposure of rural people to institutionalised credits, there has been a decline in agricultural productivity coupled with inequality and thus, aggravating the dual problem of poverty and indebtedness of rural masses.

5. REFERENCES:

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