Rural Finance: Remedial Measure for Rural Development in India

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Abstract

This paper studies the concerns and issues regarding rural finance and credit flow in rural sector. The analysis states that the credit delivery in agricultural sector is still insufficient and in adequate. It appears that the banking system is still in vague state on various grounds to provide credits to the needy farmers. Transformation in the banking policies has not satisfactorily addressed equitable and efficient delivery of agriculture and rural credits. Farmer today is just like the farmer yesterday as they are more enthusiastic about the micro-financing system. This paper has illustrated the problem of indebtedness, with is the core problem of every farmer today. The financial condition of the farmers is very poor, so he has to depend upon the loans. He has to open hands before moneylenders in order to fulfill his basic needs not only regarding his productive loans but also unproductive purposes as well. 62% of the people quit farming and migrate to the other areas for employment. Suicide is the most common output of indebtedness based on social causes of the society, the reason being that the farmer is unable to repay the amount. Not only social, farmer has to face climatic conditions such as inadequate rainfall, drought etc which gives mental stress to the farmer. In order to deal with these issues, measures have been taken both by state as well as central government so as to improve the financial condition of the farmer. This paper suggests an appropriate measure that has been taken against the problems faced by the farmers.

Keywords:-Micro-finance, Institutional and Non institutional sources, Moneylenders, Indebtedness.

Introduction

Rural finance is referred to as the rising and increasing of the funds and lending them to the rural people that includes; farmers, so as they can live their socio-economic life in a better way in rural areas. Rural finance includes various big and small formal as well as informal institutions which provide great financial support to the poor people in rural areas, agricultural sector and even small or medium rural enterprises. Rural finance extends over wide range of micro-financial institution which the native people's savings and credit connections or associations or financial or co-operatives to rural and agricultural development banks (Bhandari, A. K., 2009). Rural finance plays an important role in eradicating the poverty and enhancing the development of rural areas. It also suits best in up-heading the production for increased output and improvement of resources and living of the people in rural areas.

Looking back to recent past, there existed buyers and sellers of financial assets, but now-a-days supply of finance has become very limited. Rural market is made from makers like, rural individuals, households, farm and non-farm enterprises etc.

Agricultural finance and marketing needs can be examined from:-

1. On the basis of time:- This includes further classification;

   i) **Short term:-**These loans are taken for purchasing seeds, fertilizers, pesticides, feed or fodders, agriculture produce, payment to labours, insecticides, fungicides, herbicides etc.
   ii) **Medium term:-**Obtained for purchasing cattle, small agriculture implements, repair or construction of bells. This loan can be taken for 15 months to 5 years. These are mainly provided by moneylenders, relatives of farmers, commercial banks, etc.
   iii) **Long term:-**This is obtained for permanent improvement of land, digging tube wells, large agri-implements and machinery like tractors, hamsters etc. Repayment of old debts, taken for period beyond 5 years. Normally taken from primary co-operatives agricultural and rural development banks.

2. On the basis of purpose agricultural credit needs:-

   i) **Productive:-**These include all the credit requirements which affect the productivity of the agriculture. Farmer needs loans for seeds, fertilizers, manures etc. repayment of these loans can be easily withdrawal
   ii) **Consumption:-**Loans for consumption purposes are very important for a farmer. Credit agencies do not provide these loans so they have to lend money from the moneylenders.
   iii) **Unproductive:-**Loans taken for unproductive purposes like litigation, marriages and social ceremonies for birth and death etc. Institutional agencies do not provide these loans.

Sources of Rural Finance

The most important and common source of finance in rural areas is the non-institutional or informal rural finance.

Informal rural finance plays an important role in carrying out a perfect flow of funds and transferring rural financial assets through some local transaction in money, goods and resources which are provided to the friends, kin-members, family, neighbors, landlords, farmers, market makers, moneylenders, and local income groups (Satyasai, & Viswanathan, 2008). Informal financial markets though present in urban side of the cities but are more prominent in villages or rural areas. But institutional markets prevail in urban side and are either absent or insufficient in rural areas. Underwritten are the sources of informal rural finance in developing countries:-

1) Professional moneylenders
2) Agricultural moneylenders
3) Commission agents
4) Relatives and friends
5) Different associations of rural professionals, self-help groups.
6) Well-to-do rural people
7) Shop keepers, market makers and proprietors

Another important source is the institutional or formal rural finance. The sources under this category are:-

1) Co-operatives who provide services for short as well as long terms.
2) Commercial, co-operatives and specialized banks.
3) Micro-finance institutions (MRI's) and NGO's.
4) Agro-product marketing associations.
5) Land-mortgage banks and different government agencies developed for agriculture welfare.

Features of formal financial institutions in rural markets have wide effects. Even the interest rate in formal finance is heavily regulated. Usually this financial source is limited to certain selectable sectors of rural population.

Drawbacks of formal financial systems

a) This is highly exploitive because it concentrates on profit.
b) Rate of interest required are very high because the credits are provided for unproductive purpose.
c) It is not necessary to provide these credits to needy persons or desiring channels.
d) Credits provided are for short term but they charge a very high rate of interest, therefore it cannot be utilized for long terms improvements in agricultural sectors.

Need for finance

It is very essential to know the need for finance by the people. Farmers need finance not only for marketing of crops or production but require keeping a constant flow to economy. In case of disaster approach like illness to family, crop failure, bad monsoon etc., farmer needs to open hands in front of moneylenders for loans. India provides unproductive loans to meet such requirements of farmers. Agricultural finance not only deals with the agriculture business but it cop up with the distress prevailing among farmers.

Rural finance are not only provided to the farmers but are extended to other people like artisans, owners of small and medium industries, transport operators etc. Its main sources are private which includes moneylenders, traders, commission agencies, relatives and landlords, whereas institutional includes banks and other financial agencies.

Problems of rural finance

The main problem which is faced by the rural financial sector is the “indebtedness”. Indebtedness is the core problem of Indian farmer. Farmers need both productive as well as unproductive loans. But the unproductive loans do not contribute to any output. These loans are nearly 60% of the total loans. These loans are obtained from the moneylenders, and is said that the grip is in the hands of the moneylenders. As said by Darling, “Indian peasant is born in debt, lives in debt and dies in debt” (Chand, R. 2004).

Features of indebtedness

Reserved bank of India has arranged All India Rural Credit and Investment Survey that studies the indebtedness of rural people. The features include;

a) In India, 31.44% rural households are indebted.
b) Average debt per family is Rs. 1, 03, 457.
c) Debt is nearly 5.3% of total property.
d) Non-farming family takes debt amounts upto13.2% of their properties and 18% for landless workers.

Rural indebtedness was reduced from 46.1% to 25.9 % in year 1991-1992. But recently, this indebtedness has again taken rise to 45.94%.

Causes for indebtedness among the farmers

Every sort of problem has a certain cause by which it reaches to heights of issues in general. Underwritten are the main causes that have led indebtedness to the peaks:-

1. **Poverty:-**It is principle cause. Today farmers are facing poverty due to increase financial sources in the market besides that income of farmer is very low.
2. **Ancestral debt:-**It is the initials of indebtedness. Farmers have to repay the debts of their ancestors.

3. **Bad monsoon:-**In India, 55% agriculture are rain fed. Natural calamities is not in the hand of the farmers but still they have to be prepared for every climatic problem because agriculture sector is highly dependent on climatic conditions. Farmers have to take loans for this reason as well.

Other causes includes; uncertainty of agricultural income, illiteracy of farmers, increasing cost of modern agriculture inputs, bad health, vicious obligations, litigations, land revenue and taxes, defects of agriculture marketing.

Effects of indebtedness among the farmers

The effects of indebtedness among the rural people are; exploitation of farmers as they have to pay high rates of interests, adverse effects on agriculture, distress sale of agricultural produce, difficulties in livelihood of farmers, transfer of hand to non- agriculturalists, social effects and moral effects.

Other general problems faced by financial sector in rural areas

1. **Insufficiency:-**Rural credits in the country are still insufficient as it has to be for increasing the prices of agricultural inputs.
2. **Inadequate amounts of sanction:-**The amount of loan sanctioned is inadequate; farmers have to divert such loans for unproductive purpose.
3. **No involvement in insurance:-**The main reason for no involvement was that the households denied having any sort of insurance available. 20% of uninsured householders were completely unaware of their concept (Zander, R.B., 2015). Those who were aware but uninsured were two-thirds of respondents who reported lack of adequate funds. 35% said they don't need any insurance, 30% could not avail same as they did not have any regular income.

Measures taken to improve credit flow to Agriculture

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

1. Procedural simplifications have been made through rationalization of internal returns of banks as per R.V Gupta Committee Report.
2. More powers have been provided to the branch managers to raise the credit flow to agriculture
3. Introduction of at least one specialized bank in each state to cop up with the needs of high tech.
4. Introduction of cash credit facilities.
5. Insuring kisan credit cards to farmers to draw cash for their production needs on the basis of the model scheme prepared by NABARD.
6. The Government has made arrangements to hassle free settlements of disputed cases of over dues.
7. To augment Rural Development Infrastructure Fund (RIDF) with a corpus of Rs. 10,000 crore. With NABARD to finance rural infrastructure development projects by the states.

Thus, the flow of credit for agriculture and allied activities was Rs. 31,956 crore in year 1997-1998 is said to increase to Rs. 64,000 crore in 2001-2002. Total credit has now been reached the level of Rs. 82,073 crore in the year 2002-2003. Total credit in agriculture during the period 1997-2002 is likely to be of order of Rs. 2,33,700 crore which is close to Ninth plan. Since 2008, rural cooperatives credit system, which consists of 92,000 institutes with 120 million members, has been able to improve its performance, by standardizing its system for accounting, auditing, training and counseling (Satyasai, K, 2008).

Conclusion

From the given details it has been revealed that the agricultural credit in India is very inadequate and private or non-institutional sources plays vital role in supplying credits to the farmers. Further, the major problem is faced by the institutions like co-operatives.

This somehow has resulted into a bad health to institutional credits. This has showed that the lending institutions like the cooperatives will not be able to give more credit for meeting the uprising needs of the farmers. In-spite of that these sources are advancing more than 60%. Majority of these credits are being appropriated by 30% of middle and needy farmers. At the end co-operatives, commercial banks and RRB's provided credit facilities to extent of Rs.14000 crores currently as compared with only Rs. 24 crore in the year 1960-1961.

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