Scientific Journal of Impact Factor (SJIF): 5.71
e-ISSN (O): 2348-4470
p-ISSN (P): 2348-6406

International Journal of Advance Engineering and Research Development

Volume 5, Issue 04, April -2018

ACCESS TO RURAL CREDIT IN INDIA:

An analysis of Institutional financing with special reference to Andhra Pradesh

Rama Kanta Sahu

Research Scholar, Department of Business Administration; Utkal University,Vanivihar, Bhubaneswar, Odisha -751004, India

Abstract — *In view of the emerging perspective of rural credit, the importance of rural credit to agriculture and rural development, the public policy on rural credit in India has been focused on institutionalisation as a means of providing cheaper credit to farmers. This study examines the various structural constraints that obstruct the credit disbursement in rural India as well in Andhra Pradesh. The study is based on the data of NSSO's Debt and Investment Survey report 1992 (48th round), 2003 (59th round) and 2013 (70th round). The structure of credit system has been measures in terms of access of rural households to different credit sources along with its share and interest rate. The various initiatives taken by the government have paid off and the flow of institutional credit to rural areas has increased significantly. The study has found that the structure of credit market has changed over time and the share of institutional credit has increased. Rural households 'access to institutional credit is influenced by a number of socio-economic and institutional factors. A concerted effort and appropriate policy reform are required to make rural households' access to institutional credit neutral to caste, class and regions.*

Keywords- *Rural Credit, Access, Institutional, Equity, Determinants*

I. BACKDROP OF THE STUDY:

The economy of Andhra Pradesh is one of the fastest growing economies in India, with growth outstripping that of the wider Indian economy in the past few years. The economy is primarily dependent on agriculture. Agriculture has been the chief source of income and main occupation for the state with 62% of population engaged in agriculture and related activities.

Unseasonal weather changes, droughts, floods, pest attacks, failure of irrigation, shortages of electricity and unpredictable prices of the output are only some of the risks that are involved in cultivation. For all the risks involved in agriculture the returns are quite modest. Hence, availability of timely, adequate and affordable credit to agriculture assumes importance.

But it is clear that agriculture in AP has not received adequate credit support from formal financial sector, which has the capacity to provide timely, adequate and affordable credit. Suicides of hundreds of farmers in AP, as a result of massive debt burden in the period post liberalisation, are evidence to the neglect of agriculture by the institutional sources of credit, particularly the banking sector.

II. RATIONALITY OF THE STUDY:

The access to credit affects household's welfare, can significantly improve the ability of households to procure need agriculture input and will also credit access increase the risk bearing capacity of households to pursue promising but risky technologies and will be better able to avoid risk reducing but insufficient livelihood strategies. Moreover, it capitalises farmers to undertake new investments as an adaptation of new technologies in practice of farming. Further, the provision of timely, affordable and adequate quantity of credit to the farming community is also important for the purpose of food security of the country. Because, the food security of the country depends to a large extent on the output generated by the farmers of the country.

The existence of an informal credit market alongside a formal institutional credit market has been recognized as a key feature of rural credit market in developing countries and attracted continuous attention in the literature of development economics (Guirkinger, 2008; Conning and Udry, 2007; Hoff and Stieglitz, 1990). In India, considerable efforts were made to enhance the flow of institutional credit in rural areas since Independence. These efforts have enhanced the share of institutional sources of credit from 9 per cent in 1951 to 56 per cent in 1992 (Kumar et al., 2007). During 1990s, several measures were taken to liberalize the Indian economy and reforms were also initiated in the financial sector.

The main focus of financial sector reforms was on restoring profitability of banks and ensuring implementation of prudential norms. The financial sector reforms, however, decelerated the growth of agricultural credit and the share of institutional credit increased only marginally to 57 per cent in 2003 at the national level. This alarmed the policy makers and in 2004, the Government of India embarked on an ambitious plan of doubling the agricultural credit in 3 years. Since then, the flow of credit to rural areas has been increasing and in 2013, the share of institutional credit rose to 61 per cent. However, the informal credit, which is often exploitative, still persists and its persistence in spite of vigorous efforts to promote financial inclusion is puzzling. The persistence of informal credit has serious implications and raises many questions on the functioning of institutional credit mechanism.

III. OBJECTIVE OF THE STUDY

In this background, an empirical analysis of rural credit delivery at the micro level and determinants for access to institutional credit would be useful in understanding the behaviour of borrowers. This will also help in reorienting the credit policies and programmes for a better credit flow. In this backdrop, the present study was undertaken to analyse

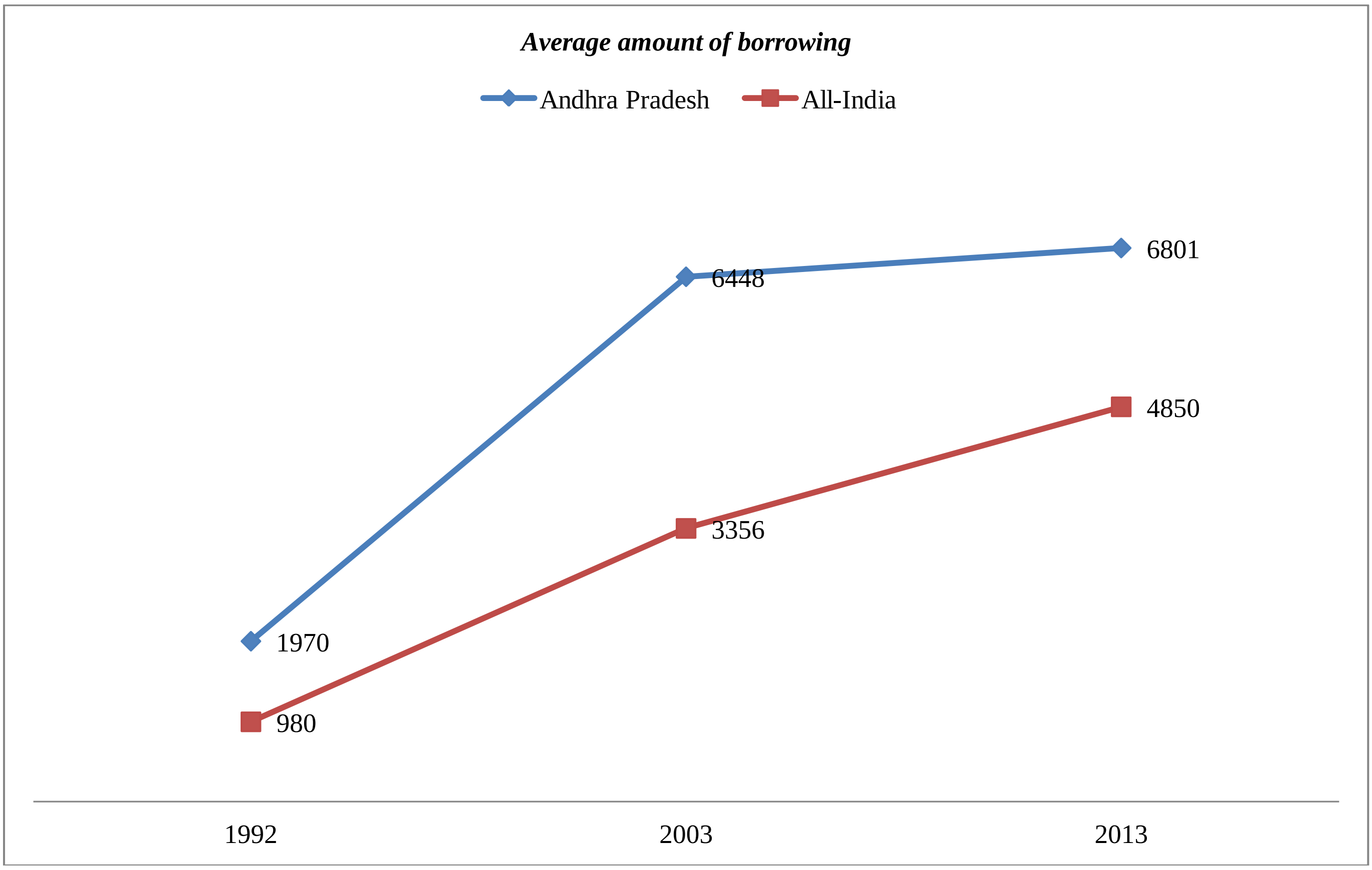
1. To Track the past two decades changes in the rural credit delivery system
2. To access the flows of rural credit among the social groups in Andhra Pradesh.

IV. METHODOLOGY OF THE STUDY:

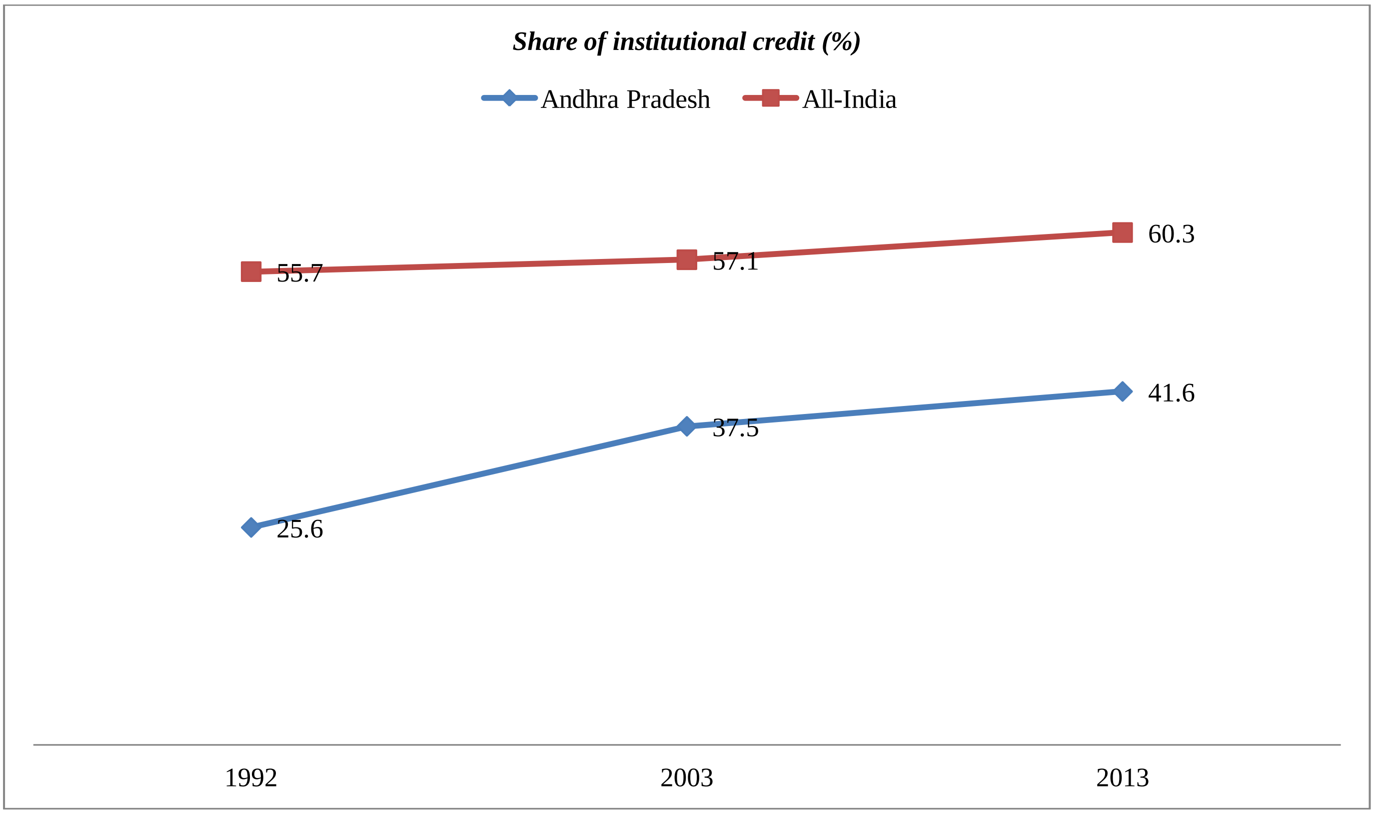
The nature of research is exploratory. The study was based on secondary data, which were collected from the unit level data of Debt and Investment Survey carried out by National Sample Survey Organization (NSSO) during 1992 (48th round), 2003 (59th round) and 2013 (70th round). The Debt and Investment survey, generally carried out once in 10 years, provides information on different dimensions of rural finance. The survey also provides information on several household characteristics such as ownership of assets, social and demographic variables, households' association with networks such as self-help groups, cooperatives, etc. Further, this dataset enables analysis from the borrowers' side and therefore this information is more reliable. The structure of credit system has been assessed in terms of access of rural households to different credit outlets, share of formal credit institutions, availability of credit, and interest rate.

V. MAJOR FINDINGS OF THE STUDY:

5.1) Quantum of Institutional Credit:

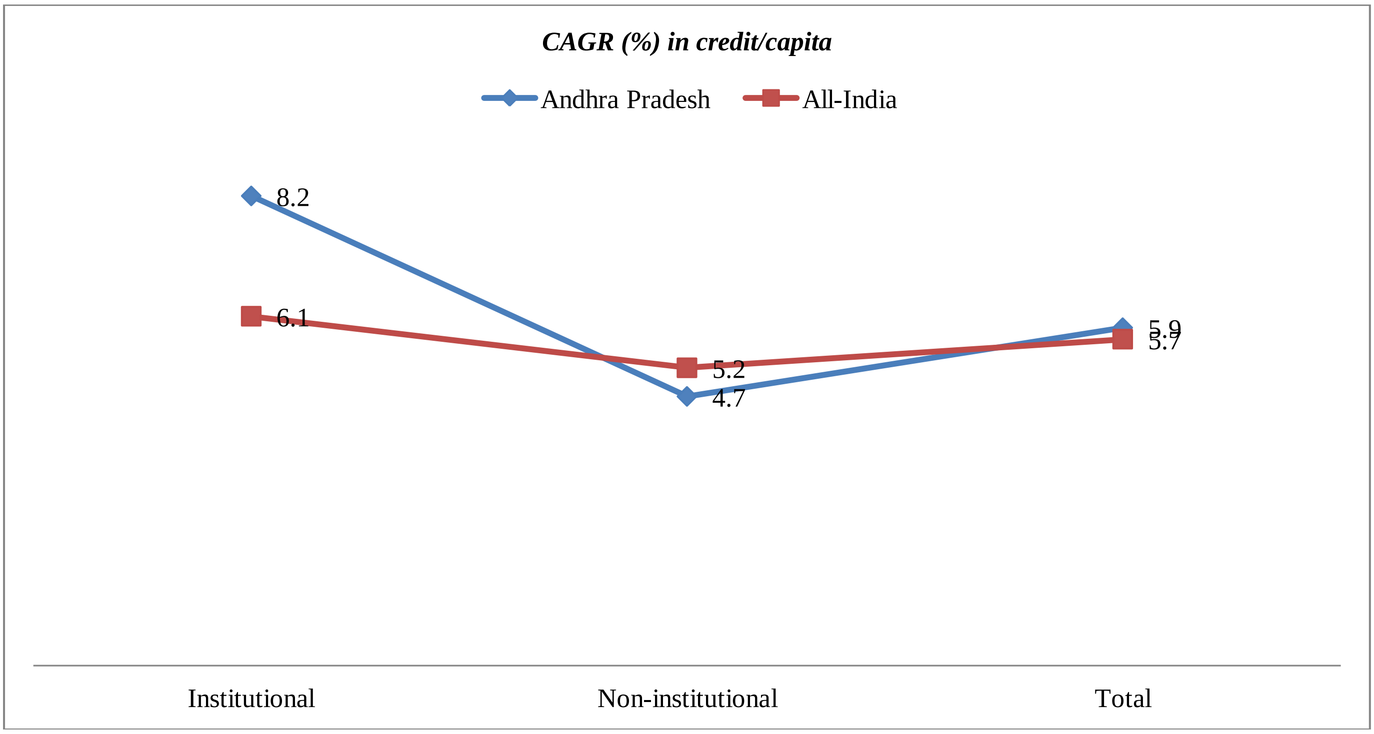


5.2) Share of Institutional Credit:

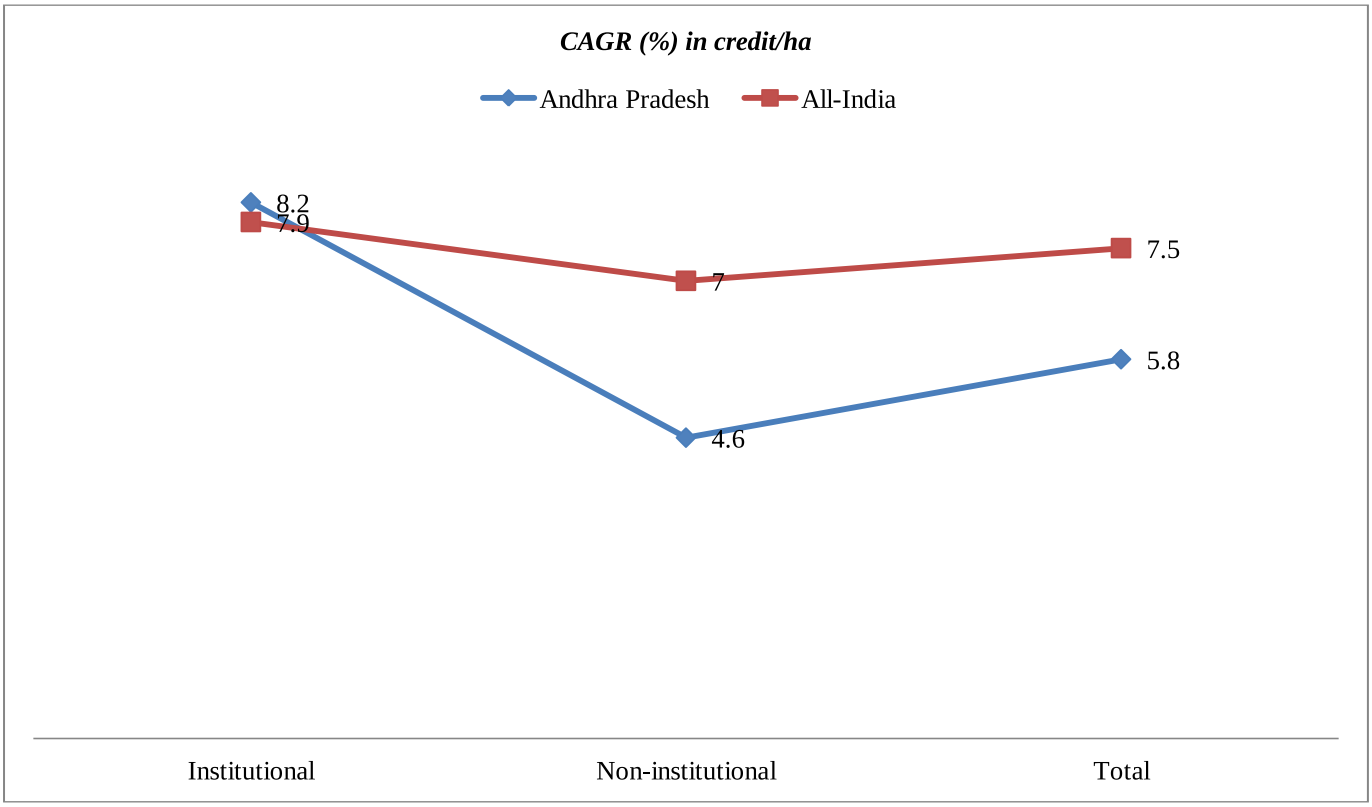


The borrowing in absolute terms by rural households has increased from ` 980 in 1992 to ` 4850 in 2013, more than five-times, registering an annual growth rate of 7.5 per cent, which is quite significant. However, the trends and patterns of growth in credit are not uniform across the country; variations in disbursement and growth of credit are evident. The share of institutional credit in the rural areas has increased enormously in All India level, but in some states like Andhra Pradesh, it continue to be low and was less than 50 per cent in 2013

5.3) Per Capita Growth of Institutional Credit

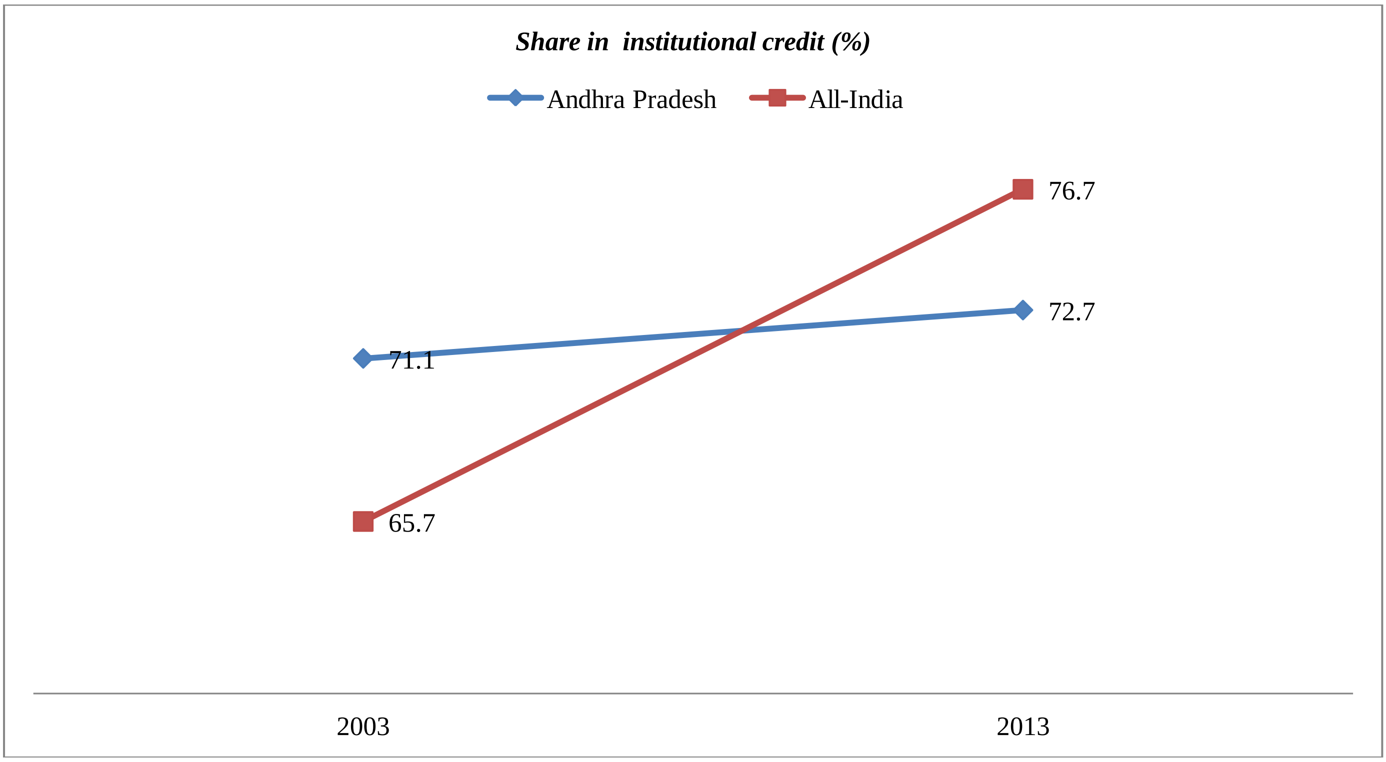


5.4) Per Hectare Growth of Institutional Credit

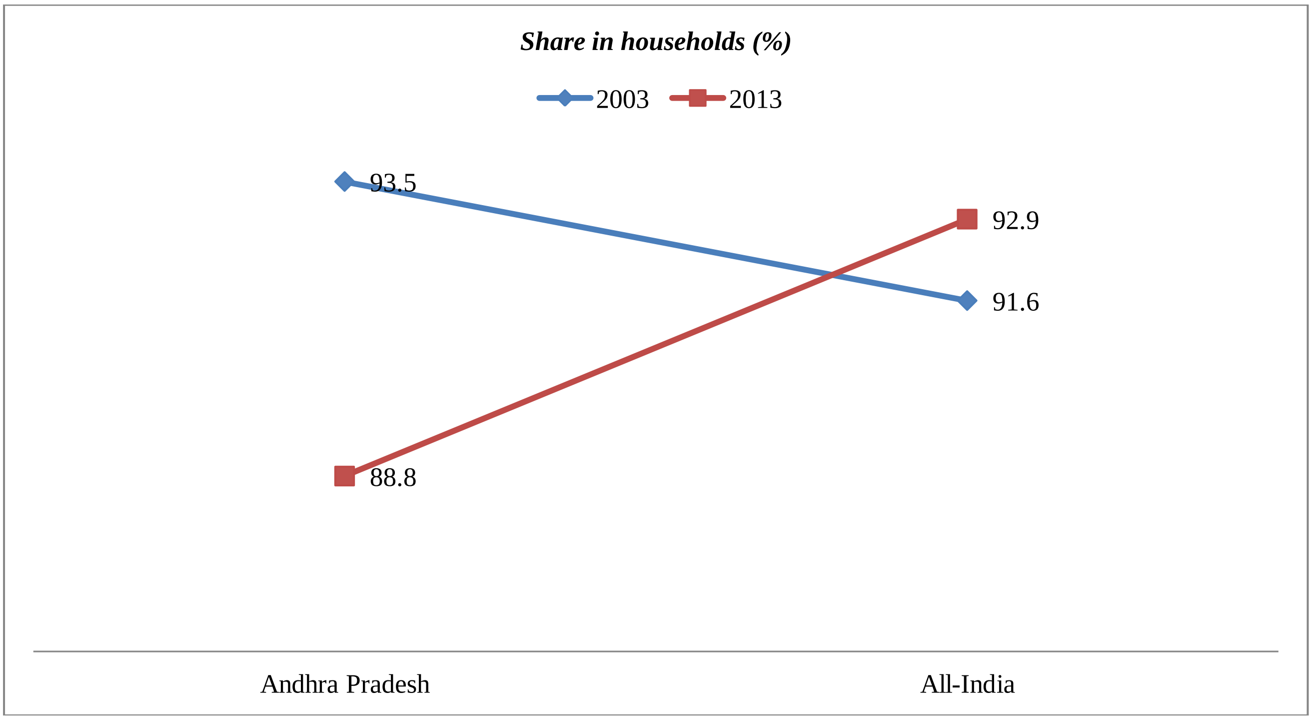


Between 1992 and 2013, the compound annual growth rates of institutional rural credit varied from 8.2 per cent in Andhra Pradesh to 7.9 per cent in all India.
The growth in non-institutional rural credit varied from 4.6 per cent in Andhra Pradesh to 7.0 per cent in all India.

5.5) Share of Institutional Credit Share

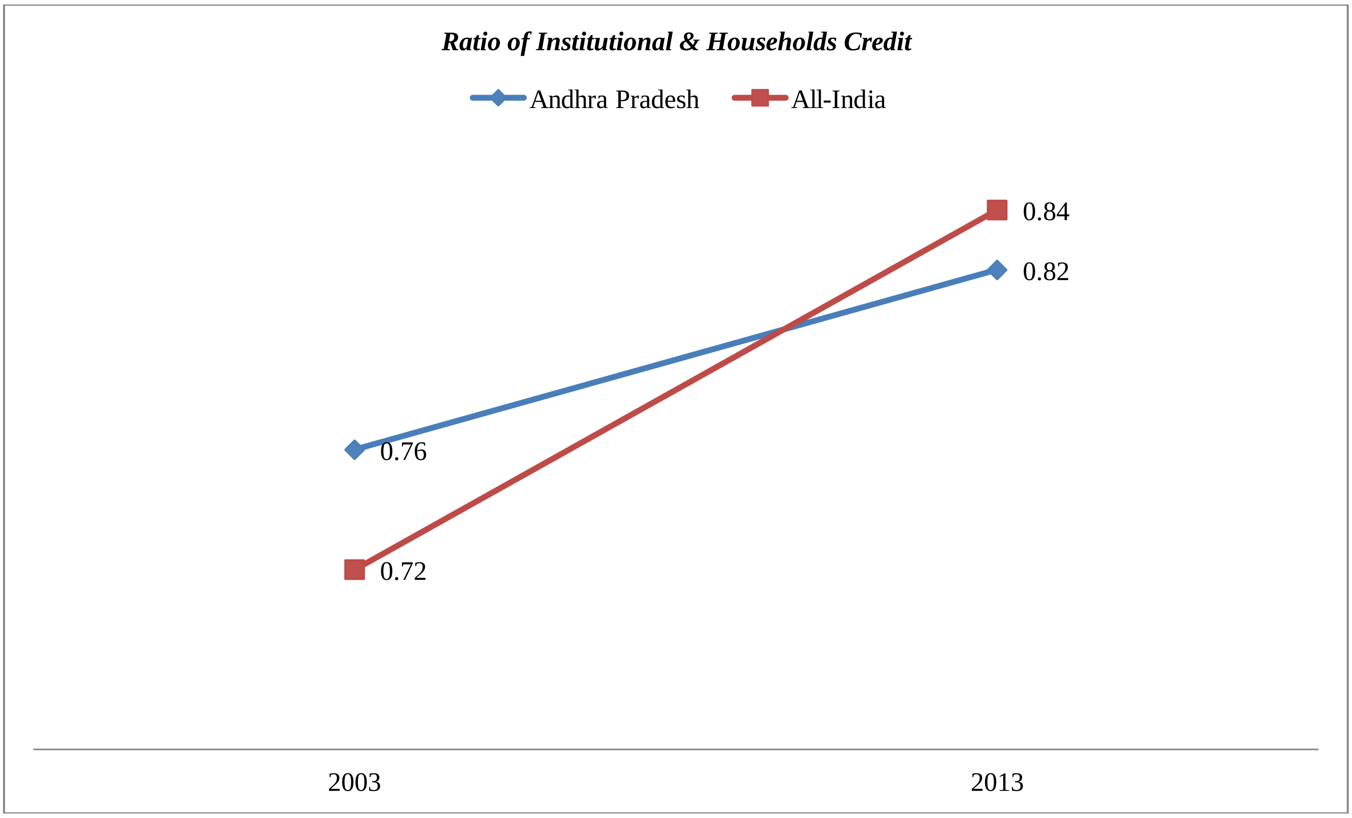


5.6) Household Share Institutional Credit



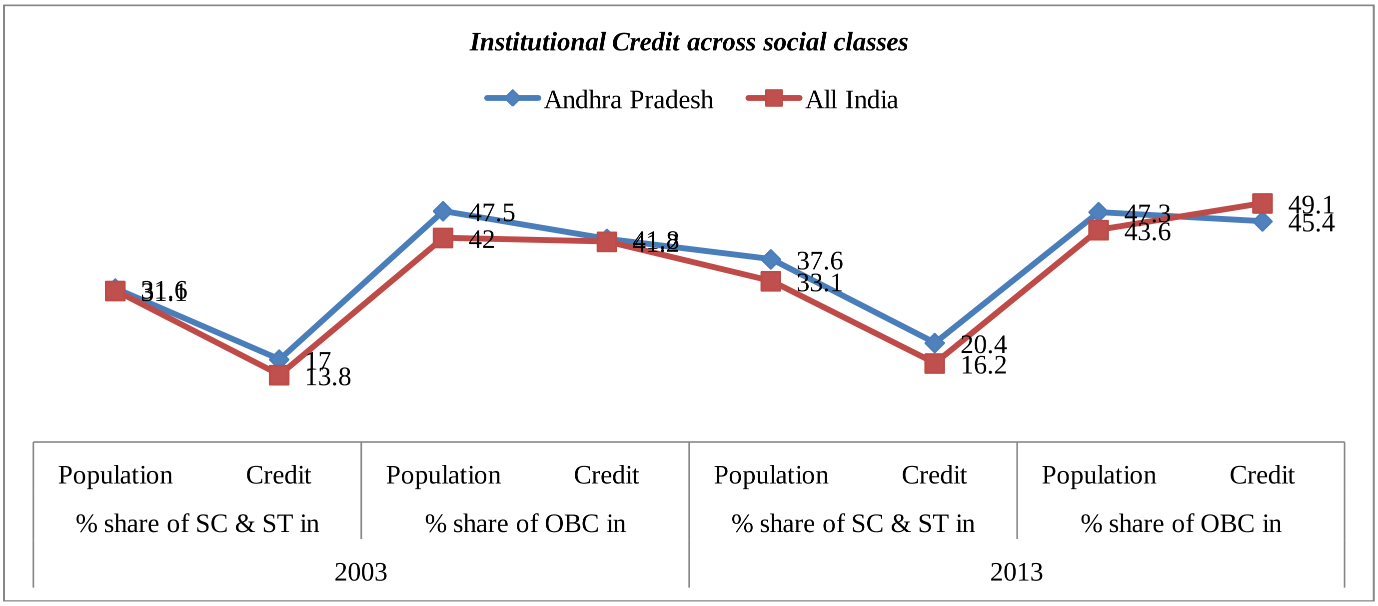
At all India level the share in institutional credit has increased from 65.7 in 2003 to 76.7 in 2013, which indicating a trend towards equity in the disbursement of institutional credit. While at the state level in Andhra Pradesh the growth of institutional credit is quite low as compare to the national level in both in House hold share as well institution share of credit. .

5.7) Ratio of Institutional & Households Credit



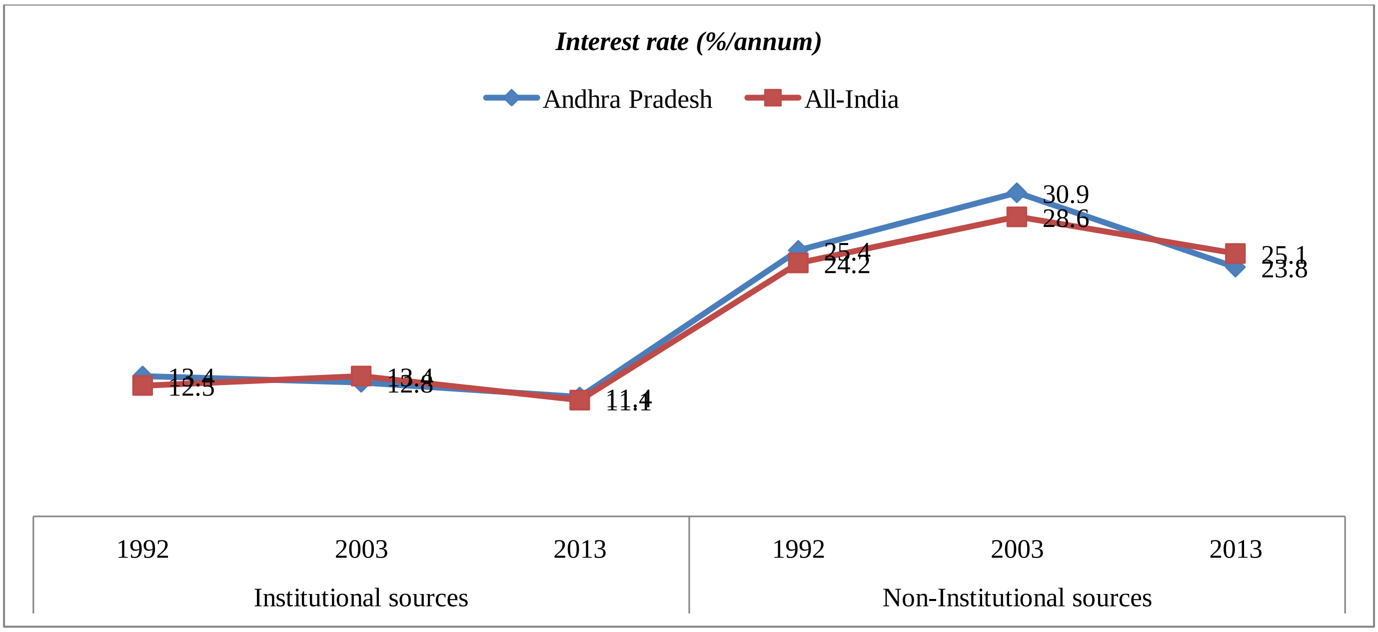
The ratio of their share in institutional credit and households has increased from 0.72 in 2003 to 0.84 in 2013, indicating a trend towards equity in the disbursement of institutional credit. The institutional credit mechanism in rural areas seems to have been promoting equity and encouraging smallholders' access to formal credit. The ratio of their share in credit and population shows that the disbursement of rural credit has become more equitable in most of the states.

5.8) Social Equity in Institutional Credit



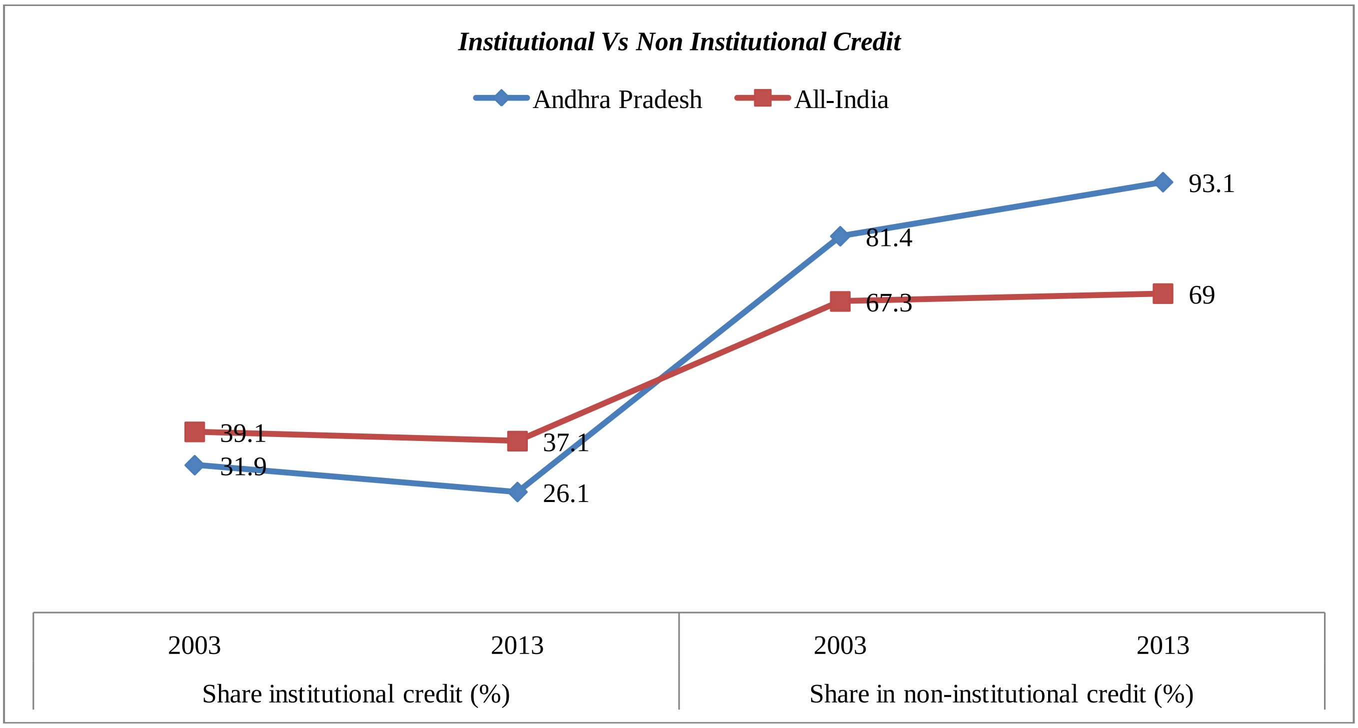
Our results reveal that the participation of scheduled caste (SC) and scheduled tribe (ST) households is significantly lower than their population in most of the states. At all-India level, their participation is less than 50 per cent of their share in population. The situation is relatively better in Madhya Pradesh and Punjab.Though there has been some improvement in their access to formal credit, the speed of improvement seems to be slow. The ratio of their share in credit and population has improved only from 0.44 in 2003 to 0.49 in 2013. Our finding is consistent with earlier studies. For instance, Kumar (2013) has observed that banks discriminate between borrowers on the basis of their caste in the provision of agricultural credit. Our results reveal that concerted efforts are still required to increase the access of SC and ST households to formal rural credit market. The participation of other backward castes (OBCs) in formal credit market is consistent with their share in population and they do not seem to be discriminated.

5.9) Structure of Interest Rates



The interest rates on institutional and non-institutional borrowings are reported for the years 1992, 2003 and. On average, the annual interest rate on institutional credit in rural India was 12.5 per cent in 1992 which increased to 13.4 per cent in 2003, but declined to 11.1 per cent in 2013, with some variations across states. Contrary to this, the average interest rates charged by the non-institutional agencies varied from 24 per cent to 28 per cent during this period. Thus, the interest rates charged by non-institutional sources have been found to be more than two-times between 1992 and 2013. Further, a wide variation is seen in the interest rates charged by non-institutional agencies across states. For instance in 2013, the interest rate charged by non-institutional sources was the highest in Andhra Pradesh (23.8%),

***5.10)* Institutional Vs Non Institutional Credit**



1. The expansion of formal rural credit market has not been able to contain the high interest rates of money lenders. The effective monthly interest rates charged by the moneylenders have been reported to vary from 5 per cent to more than 100 per cent by the earlier studies also (Robinson, 2001).
2. The high variance in the interest rates charged by the moneylenders may be attributed to the difference in the types of loan, risks in money lending and bargaining power of the borrowers. High transaction fact inhibits the growth of borrowers' entrepreneurial ability and in some cases forces them to become defaulters.
3. The findings clearly exhibited that the interest charged by informal moneylenders was exploitative and therefore a stable, reliable and reasonable credit delivery system is a necessity to prevent the exploitation of rural households by the informal moneylenders.

6. CONCLUDING REMARKS OF THE STUDY:

The study has revealed that the structure of credit market in rural AP & India has changed over time and the share of institutional credit in borrowing by rural households has increased. The initiatives taken by the government seem to have paid off and the flow of institutional credit in rural areas has increased significantly in real terms. The indicators of financial initiatives have shown a sign of improvement though the disparity in disbursement of rural credit continues to persist across the country and social groups. The presence of informal agencies in the disbursement of rural credit is still intact though they charge higher interest rates. The access of rural households to institutional credit is influenced by a number of socio-economic, institutional and policy factors.

The formal financial institutions should develop more flexible products and services to meet the income and expenditure pattern of different strata of rural households. These institutions should be more proactive in spreading financial literacy to overcome the hurdles posed by the level of education of the prospective borrowers. Further simplification of the procedures of lending is required. Land still remains the predominant form of collateral which constrains the poor rural household's access to credit from formal financial institutions.

REFERENCES

1. Conning, Jonathan and Udry, Christopher (2007) Rural Financial Markets in Developing Countries. Handbook of Agricultural Economics. Elsevier.
2. Guirkinger, C. (2008) Understanding the co-existence of formal and informal credit markets in Piura, Peru. World Development, 36(8): 1436–1452.
3. Hoff, K. and Stieglitz, J.E. (1990) Imperfect information and rural credit markets—Puzzles and policy perspectives. World Bank Economic Review, 4(3): 235– 250.
4. Kumar, Anjani, Singh, Dhiraj K. and Kumar, Prabhat (2007) Performance of rural credit and factors affecting the choice of credit sources. Indian Journal of Agricultural Economics, 62(3): 297-313.
5. Kumar, Sunil Mitra (2013) Does access to formal agricultural credit depend on caste? World Development, 43 (3): 315-28.
6. Robinson, M.R. (2001) The Microfinance Revolution, Sustainable Finance for the Poor.

