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Rural Credit: A Study Of Performance Of Selected Financial Institutions

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Abstract

Growth of the rural economy often rely on resources available from one period to the next to comprehend the high levels of production in both agricultural and non-agricultural sectors. The time span between planting seeds and realizing the post-production profit is rather long.To match the initial investment in fertilizer, seeds, tools, and other personal costs, farmers lend money on several fronts.Following independence, businessmen and moneylenders preyed on landless laborers and poor peasants by lending them money at exorbitant interest rates while also manipulating their accounts and trapping them.India established social banking in 1969 and a number of organizations that might provide money to meet the needs of rural credit. National Bank for Agriculture and Rural Development (NABARD) was established as an independent body to regulate and organize all the financial activities concerning the rural financial system.Today, rural banking includes a collection of different financial institutions, especially regional rural banks (RRBs), cooperatives, commercial banks, self-help groups and development banks. land development. They extend abundant credit at cheaper interest rates.Many of the problems with rural financial services stem from misconceptions about the nature of the income effects of these services6060. The first misconception is that farmers and other rural residents need finance mainly for agricultural production. In fact, the need for proper credit may exist, aided by the desire and ability to pay, to balance a variety of situations where income and expense streams are misused. Non-farm credit is as necessary as agricultural lending. Indeed, for many rural residents, the most important reason to apply for credit is a user loan to cover living expenses in the months leading up to the next harvest, not to buy inputs to increase agricultural production. The second misconception is that most poor farmers cannot afford to pay their debts, implying that there must bereliable claim but no effect. Current research indicates that poor families are both able and willing to repay loans if they use those loans for their stated needs and are appropriately monitored and monitored.This study's goal is to look at rural credit in India overall and discover a striking consistency in the issues that the poor have had to deal with over time. This research seeks to illustrate the function of microfinance in rural loans in India with contentious data that both support and refute the idea that microfinance may boost income-generating activities. Given its potential for investigation and for alerting the government to the issue of rural loans in India, the report suggests this structure. These include a reliance on predatory lenders and the functioning of an intricate web of exploitative, unreliable marketplaces. We lay forth the theoretical and historical justification for nationalizing banks and show how it will benefit rural finance and development.

Key Words: Rural credit, NABARD, RRB, Development.

Introduction

People who live in rural areas of India rely mostly on agriculture for their livelihood. To secure a good crop, farmers and peasants must invest a sizable sum of money each year. Because they may make money by selling their crops, they frequently turn to borrowing money from moneylenders and financial organizations to cover their basic expenses before harvest season.As a result, any loan obtained in India's rural areas for use in agriculture or small home enterprises is referred to as a rural credit.Rural development often refers to a strategy for improving peoples' quality of life and financial security, particularly those who reside in inhabited and distant locations. Traditionally, the overuse of land-intensive natural resources like forestry and agriculture was at the heart of rural development. Today, however, the character of rural regions has changed due to urbanization and changes in global industrial networks. The foundation of the nation's overall growth continues to be rural development. A third of rural India's population still lives below the poverty line, while more than two thirds of the population depend on agriculture for their living. Therefore, it is crucial for the government to provide and offer sufficient facilities to raise people's living standards. Rural development is not only important for the majority of the population living in rural areas, but also for the overall economic development of the country. Rural development is considered to be of more significant importance today than in the past in the development of the nation. It is a strategy that strives for improved productivity and output, greater socioeconomic equality and ambition, and stability in economic and social development. The main task is to reduce the hunger that afflicts about 70% of the rural population and to provide enough food and healthy food.Secondary duties are to ensure the availability of clothing and footwear, a clean and home environment, medical care, recreation, education, transportation and communications.

Research methodology

Different rural credit instruments are analysed in detail. The Regional Rural Fund (RRB), which plays an essential role in increasing rural credit, has been studied. NABARD's banking linkage model of the self-help group (SHG), which creates an interface between the informal arrangements of the poor and the banking system, is also analysed in detail.

Types of Rural Credit

Short-term loan/credit: A short-term loan is a type of rural credit contracted for a short-term need for private or commercial capital. This is a type of credit that requires repayment of the principal amount borrowed and a percentage of interest on a certain date, the term can be up to one year. A short-term loan is a valid but expensive option, especially for small businesses or start-ups that are still essentially unqualified for a line of credit with a bank.

Medium-term loan/credit: A medium-term loan is a loan with a repayment period from 2 years to 5 years or less than 10 years. Mid-term loans are a great option for small businesses looking for a traditional form of credit with fixed repayment terms and pre-arranged amounts. The amount of loan an individual receives can vary depending on cash flow, credit rating, and many other factors.

Long-term loan/credit: The repayment period of a long-term loan is usually 5 to 20 years or even longer in some exceptions. In any business, long-term financing is essential to create permanent assets that will return over a period of time. Especially in the agricultural sector, long-term investments include leveling, fencing, digging wells, long-term repair of the land, purchasing heavy machinery such as tractors, and more. All recommended long-term investments require substantial capital. Although they have the potential to make substantial profits in the future, private farmers do not have the funds to make such costly investments because they have no savings or very little savings.

Sources of Finance

Co-operative Credit Societies

One of the most economical sources of funding for farmers, co-operative credit facilitates credit to small- and medium-scale farmers. These short-term credits are extended by Primary Agricultural Credit societies or PACs. Nonetheless, these societies have not been able to minimize the influence of moneylenders on the Rural Credit market. They started supporting the farmers in a significant way with short-term loans issued by Primary Agricultural Credit Societies (PACs), which progressed from ₹305 crores in 1965-66 to ₹5,200 crores in 1999-00. At the same time, the loans granted raised from ₹37 crores to ₹2,100 crores.The government also increasingly believes in cooperatives as the most important set of institutions to meet the credit needs of farmers. With the encouragement and support of the government and NABARD, cooperatives in several states such as Tamil Nadu, Andhra Pradesh, Karnataka, Punjab and Himachal Pradesh have made significant progress. While cooperatives met only 3% of farmers' credit needs during the 1950-51 period, they met about 39% of farmers' total credit needs during the period 1950-51. 1999-00. However, because cooperatives cannot meet the general credit needs of farmers, loan sharks continue to dominate the rural financial market. In addition, large farmers benefited most from cooperative societies. The small farmers, who initiated the early cooperative movement, found it increasingly difficult to meet all their credit needs through these organizations.Furthermore, the movement has yet to take root in most of the eastern states such as Bihar, Orissa and West Bengal, as well as in Rajasthan. In most areas, unscrupulous moneylenders, wealthy farmers and landowners worked against the movement. As a result, farmers are really needy and deserving of being deprived of the rights of cooperatives.

Land Development Bank

This source of credit is also known as a land mortgage. Essentially, it offers farmers a long-term loan option by mortgaging their land at low interest rates for periods of 15 to 20 years. These types of loans are usually made if farmers have land development works or dig wells, etc., if additional land needs to be purchased through instalment sales, or if previous fees need to be repaid. Although the land development bank has made significant progress, the contribution is still insignificant as most farmers are unaware of the existence of such land use rights and their importance and use. these banks. However, such a bank established by the main banks and the government has developed a lot over the years.Admittedly, land development banks have made a lot of progress in recent years, but their contribution is still negligible. Therefore, they cannot solve the problem of rural credit at the root. In fact, most farmers are not even aware of the existence or usefulness of such banks. But the total number of such banks set up by state governments and major banks has steadily increased over the life of the plan. The amount of term credit distributed by BLDs is much higher than the amount of credit disbursed by commercial banks in the early years, but in later years the picture becomes mixed. The total loan amount sanctioned by these banks was only Rs 3 in 1950-51. This figure surpasses Rs 1,500. In the year 1999-00. Moreover, wealthy farmers can get maximum loan amount from these banks because they have a lot of land. Therefore, small and marginal farmers do not benefit much from these banks.

Commercial Banks

In the past, these banks only accepted deposits from urban residents and made loans only to the commercial and industrial sectors. In general, they have ignored agriculture and rural industries because, by nature, agriculture is a high-risk business. Commercial banks now provide direct and indirect financing for agriculture. Direct financing is provided in the short and medium term to help farmers carry out their agricultural activities. Indirect financing is provided in the form of advances to purchase inputs such as seeds and fertilizers. This loan is also offered through the PAC. Commercial banks not only provide support to farms, but also provide credit to service providers that provide infrastructure such as storage and storage of agricultural products, marketing, transportation and repair. utensils. Since the nationalization of commercial banks, there has been a rapid expansion of branches in rural areas. The number of rural branches increased from 1,832 in June 1969 to 37,500 in March 1999, accounting for 56.8% of the total number of commercial bank branches. During this period, the amount of unpaid agricultural advances increased from Rs 162 . Up to 31,167 Rs. However, despite the increase in short-term lending by commercial banks, PACs continue to dominate. Commercial banks also fund FCI and state government agencies for food procurement activities. Banks also provide credit for the storage and distribution of agricultural inputs. They run the "Village Adoption Program", originally initiated by SBI, to check the credit and other needs of the farmers.Commercial banks also provide financing to the Food Corporation of India and state food agencies for activities such as food procurement. These banks also offer credit options for storing and distributing agricultural inputs. They also run the "Village Adoption Scheme", originally initiated by the State Bank of India, to review credit and additional requests from farmers.

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 instalments at the time of payment of land tax. However, such loans have not assumed significance over the years. In fact, the government's contribution to total agricultural loans fell from 3.3% in 1951-52 to 2.6% in 1961-62. The total number of short-term loans granted by the state government to agriculture has exceeded Rs. And already disbursed, time wasted in frequent trips to government offices, the itch of officials sanctioning loans and coming. These and other reasons explain why these loans have not become popular over the years.

Role of Regional Rural Banks

In 1975, the Government set up a network of regional rural banks to look into the special needs of small and marginal 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.Almost all the tribal districts are covered. The RRBs have been lending around Rs. 400 per annum on an average. As much as 90% of the branches of RRBs have been opened in hitherto unbanked areas and most of the advances (about 92%) are granted to weaker sections, the average size of the advance per account being just Rs. 2,000. However, the amount of credit disbursed by RRBs was very small compared to the loans issued by other institutional agencies.RRBs combine the characteristics of a cooperative in terms of familiarity with rural issues and of a commercial bank in terms of professionalism and ability to mobilize financial resources. Following the reforms of the 1990s, the government initiated a consolidation program during 2005-2006 which resulted in a reduction in the number of RRBs from 196 in 2005 to 43 in fiscal year 21 and 30 of the 43 reported RRBs. net profit statement.In 2020, refinancing will be made to the RRBs. Therefore, RRBs were created to bridge the gap between urban and rural populations. RRBs represent the characteristics of cooperative societies and commercial banks in India.

Role of NABARD

Short-term refinance for production credit activities contributing to food security. Medium–term and long-term refinance for investment credit activities for giving a boost to private capital formation in agriculture. NABARD also acts as a subsidy channelizing agency for various Government of India schemes.

Short-term Refinance (ST)

NABARD grants to cooperative banks and rural banks in the region loans and advances, repayable immediately or expiring for a fixed period not exceeding 12 months, as a refinancing of production, marketing and supply activities. The basic objective of short-term refinancing is to supplement banks' resources and improve credit flows at a fundamental level. These activities include:

Short-term Refinancing of Seasonal Agricultural Operations - ST (SAO): Under this product, concessional refinancing is available to public cooperative banks and RRBs through through STCRCF short-term cooperative rural credit) and STRRBF (short-term rural banking sector). (Refinance) the corresponding funds, received from the RBI, from the shortfall of loans to the priority sector of scheduled commercial banks.

Additional ST (SAO): Additional short-term refinancing of seasonal agricultural operations, beyond the usual ST (SAO) limit, is provided to StCB, SCARDB, RRB and SFB, through market borrowing for remediation. liquidity constraints due to increased ground level credit demand, low deposit growth and compensation for delay in receiving STCRC/STRRB funds allocated by RBI/GoI etc.

ST (Other): Under this scheme, short-term refinancing is provided to state-owned cooperative banks, regional rural banks and small business banks, for purposes other than seasonal agricultural activities such as rural marketing, fisheries, working capital for MSMEs, social infrastructure projects, etc. . Refinancing is also extended to StCBsfor advances made to state and top-level agencies engaged in the bulk supply, storage and distribution of fertilizers/agricultural inputs. business, financing Commercial or Commercial Bonafide transactions. From 2020-21, SFBs are also eligible for ST (Other) refinancing.

ST (Weavers): Short-term refinancing of conventional commercial banks, cooperative banks and regional rural banks to let weavers

Long-term Refinance

NABARD's long-term refinancing emphasizes investment credit that leads to capital formation through asset creation and promotes alternative employment opportunities in rural and semi-urban areas by supporting agribusiness industrial and non-agricultural. NABARD provides long-term refinancing to the following organizations to supplement their resources in order to provide adequate credit to support investment activities of rural farmers and artisans etc.The activities cover both farm sector as well as off-farm sector activities. The tenure of refinance is in the range of 18 months to 5 years.
Scheduled Commercial Banks
Regional Rural Banks
State Cooperative Banks
State Cooperative Agriculture and Rural Development Banks
NABARD Subsidiaries
North Eastern Development Finance Corporation Ltd. (NEDFI)
Non-Banking Financial Companies (NBFCs)
Small Finance Banks (SFBs)

In order to give the investment credit in agriculture a boost, the Government of India set up 'Long Term Rural Credit Fund' created out of the shortfall of priority sector lending of scheduled commercial banks with NABARD for providing long term refinance support to Rural Cooperative Banks and RRBs at concessional rate against their term loans for agriculture activities.

Medium-term Conversion

NABARD provides a medium-term credit line to convert short-term agricultural loans in advance to finance seasonal agricultural operations (SAOs) to regional cooperative and rural banks to support farmers affected by natural disasters.

Long-term loans to State Government

NABARD provides long-term loans (LT) to the state government to contribute to the equity of cooperative credit unions. This repayment-based support is intended to encourage these cooperatives to have larger loan programs to meet agricultural credit needs.

Special Liquidity Facility (SLF)

NABARD pay Special liquidity support of 25,500 crore for Co-operative Banks (?16,800 crore), RRB (6,700 crore) and RBI sanctioned microfinance institutions (?2,000 crore) to facilitate unscrambled credit flow obstacles for banks and therefore farmers due to the COVID-19 epidemic Additional SLF's? 1,567 croreshas been disbursed to 23 NBFC-MFI and 7 NBFC with below asset size? 500 crores, from an allocation made by the RBI, to help smaller players withstand the pressure of a cash shortage

Kisan Credit Card

Government of India introduced Kisan credit card program in 1998-99 to meet farmers' production credit needs in a timely and uncomplicated manner. The program has been extended to the investment credit needs of farmers, viz. related and non-agricultural activities in 2004. The Kisan credit card system, revised in 2013, aims to provide full and timely credit support from the banking system under a one-stop shop with flexible and simplified procedures for farmers. with their plants and other needs.

Achievementsof NABARD

Purpose	Coop. Banks	RRBs	Total
ST-SAO	44,643.31	9729.50	54372.81
Additional ST-SAO	30781.15	10577.00	41358.15
ST-Others	8921.00	2812.20	11733.2
SLF	16800.24	6699.76	23500
Total	101145.70	29818.46	130964.16

Source: Dept. of Financial Services, Ministry of Finance, GoI

Importance of Rural Credit in India

The gestation period in agriculture is significant, which means that the period from sowing the crop to selling the produce is vast. Therefore, Rural Credit helps farmers with their livelihood until the crops are ready for sale in the market.The credit can help farmers acquire seeds, tools, fertilizers, and more, which are essential parts of their trade. Another valid reason for availing of Rural Credit is to mitigate personal expenses, such as marriage, religious functions, death, and more. Additionally, such financial assistance can also aid in repaying outstanding debts.

Conclusion

The real growth of the Indian economy depends on the liberation of the rural masses from poverty, unemployment and other socioeconomic delays. With this goal in mind, the Region Rural banks are established by the government of India for rural economic development. With After three decades, RRBs are now seen in the hope of rejuvenating the rural world, India. In this study, the role of RRBs in rural credit structure has been determinedRural credit structure includes priority and non-priority sectors. The has been remarkably successful in disbursing loans for both sectors. Priority areas loans accounted for a higher percentage throughout the study.NABARD lend money agricultural sector through short-term and term loans for agricultural development sectors of the economy.NABARD is the mainstay of the current and projected growth of the rural economy. NABARD's financial activities in rural areas are expected to have a significant impact on the development of the Indian economy. As each of these categories will continue to be critical to overall GDP growth and job creation, NABARD is expanding into all sectors of agriculture, manufacturing and services.

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