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Dr. Raman Kumar Jha
Lecture in Gov. Teachers' Training College, Ranchi, Jharkhand, India

Corresponding Author:
Dr. Raman Kumar Jha
Lecture in Gov. Teachers' Training College, Ranchi, Jharkhand, India

Rural development through changing finance pattern of financial institutions

Dr. Raman Kumar Jha

Abstract
Business is run with money, and mostly with borrowed money. Rural sectors are no exception. Rather the necessity for loan is greater on the part of the Indian cultivator because of their peculiar conditions under which his business of farming is conducted. In this context role of Financial institutions plays an indispensable job, particularly in such place where there is uncertainty of crops the smallness of his holdings, rain fed forming, indebtedness of small farmers. The entry of commercial Banks into the field of agricultural and rural finance is of recent origin. The assignment of a bigger and challenging role to Commercial banks in agricultural and rural development the institutional structure of rural credit importance of agriculture in Indian economy form this point of commercial banks finance to economy from this point of commercial banks finance to agriculture was in adequate. In India, the history of rural credit, poverty alleviation and Micro Finance are inextricably interwoven. The forces and compulsions that shaped the initiatives in these areas are best understood in context of state and banking policy over time.

Keywords: Institutional credit, Non-institutional credit, rural development, agriculture finance

1. Introduction

Since the country's national plans of the 1950s. Successive govt. of independent India have emphasised the link between improving access to finance and reducing poverty. This stance by the Indian state has had influence globally. The need to improve financial access for India's poor, the overwhelming majority of whom are concentrated in rural areas, motivated the nationalisation of commercial banks in the late 1960s and an aggressive drive though 1970-80 to expand rural banking. These actions were coupled with policies making it mandatory for banks to provide subsidized credit to rural households. The 1990s saw the partial deregulation of interest rates a gradual reduction in the banking sector.

But political compulsions have all along dictated the persistence of govt. intervention in rural finance. Govt. still dominates rural finance in rural finance. Govt still dominates rural finance institution in rural finance.

In India, Rural Financial markets have been dominated by informal lenders over many centuries. The all India debt and invt. Survey (AIDIS) present distributions of informal credit by six main lenders type of landlords, agricultural moneylenders, trades, friends and relatives and others according to the survey, the low volume credit segment has been virtually controlled by the informal market. The overall debt of rural households is 39% in the years 1981 from informal sources share of informal credit in urban areas is 30% informal moneylenders covered 70% of formers credit needs.

However various debt and investment surveys conducted over the periods had been showing that only in the last four decades there is some significant drop in the share of informal credit sources in the non-corporate, rural segment has been increased to 66.7%. It may be due to the advent of SHGs and Government directed poverty alleviation programmes.

In recent years, the excessive reliance of borrowers on in some or other forms moneylender and informal/semi-formal sources and exorbitant interest rate changed by those entities have captured the attention of policy makers to downsize the informal sector finance. The technical group report to review legislations on money lending (RBI 2006) by the Reserve Bank had examined, inter-alia the functioning of formal credit channels. International practices in regulation money lending activities and enforcement machinery for money lending and similar activities in the interest of rural households. The report of the "Task Force on credit related issues & Farmers" (GOI, 2010) submitted to the ministry of Agriculture.

In June 2010 had looked into the issue of a large number of farmers, who had taken loan has mentioned. In recent years, policy interventions have led to doubling of agricultural credit, but the limited access of small and maginal farmers to institutional credit continues to be a matter of concern what is worrying is that the proportion of such farmers is increasing and they form more than four-fifths of the operational holdings.

The inadequate and untimely credit along with procedural Hassels from formal institutions has been added to the problem of credit, micro finance institutions (MFIs) have been criticised for seeking higher interest rate and mostly confined to the states with fairly well- development baking system and also competing for same target group. The performance of some of the public sector banks in rural and agricultural lending is also inadequate which that of the private and foreign banks is even lower deposit considerable expansion of the scope of priority despite considerable expansion of the scope of priority sector lending (Reddy, 2006). To this end, we have covered the perion from 1951 to 2002 on the basis of three related report (RBI 2006, GOI, 2010, RBI, 2011). My article on informal credit after 2002 reined on these reports to draw certain linkages as well as policy implications. The Micro Finance institutions (Development and regulation) Bill, 2012 aims at providing a framework for the development and regulation of Micro-finance institutions to all MFIs.

According to AIDIS, the agency from which a loan was taken treated as the credit agency. The various agencies which were treated as intuitional agencies were government co-operative agencies, commercial banks including, RRB, insurance, provident fund, Financial corporation/ institutional financial company and other Institutional agencies. The agencies which were treated as non-institutional agencies were landlord, agriculturist money lender, professionals and others:

2. Research Methodology

‘We have adopted the doctrinal form of research in making this Article. Secondary sources of information have been used from my thesis and library. The above category of material and its topic was largely available online and latest books on its were not up to date hence I have resorted to majority base this article from RBI official website.

3. Research Plan

The aim of this article is to analyse the changing pattern of rural credit and role of Micro Finance Since independence. The relevant concepts of law and their evolution have also been dealt with in an organized manner the researcher aims at providing on insightful study of the same through interpretation statistics and schemes that RBI, NABARD and other agencies have initiated in order to gauge its success as policy on institutional and non-institutional agencies.

4. Pathetic Approach of institutional loan towards Rural Farmer

Despite the best effort of the state, the banking system was not able to internalise lending to the poor as a viable activity but only as a social obligation something that had to be done because the authorities wanted it so. So, loans to the poor were treated as a part of social sector lending and not commercial lending, the poor were not borrowers, they were beneficiaries, poor beneficiaries did not avail of loans they availed of assistance. Y.S.P. Thorat 2003 adds “it resulted in an attitude of carefully disguised cynicism towards the poor. The attitude was that poor was not bankable that they can never be bankable that commercial principles can’t be applied in lending to the poor, that what the poor require are not loans but charity. Once this mindset hindered it become more and more difficult for commercial bankers to accept that lending to the poor could be viable activity. It is significant to note that the system had to wait for almost a decade for the concept of Micro Finance to become credible. Despite this attitude that banks are lending to the poor for social obligation but prof V.s. vyas committee (Nov. 2003) on rural credit found that “Practice of advancing to poor against productive purpose neglecting credit needs and physical settlement pattern of rural households were the major impediments to meet the rural credit requirements. Moneylenders with their proximity and timely supply of credits with easy accessibility gained prominent place in rural credit requirements. This paves for an exploitative credit by changing usurious rate eventually leads poor into dept trap. ”

5. Expansion of Formal institution of Credit

Formal institution are now slowly coming to appropriate the business potential in financial inclusion and also the need for better involvement. RRB that are expected to functions with the social heart of co-operatives and financial acumen of commercial banks have a significant role to play in financial induction, especially in the post-amalgamation scenario – data table

Table 1: Break-up of institutional and Non-Institutional Rural Credit

	1951	1961	1971	1981	1991	2002	2018
Institutional agencies	7.2	14.8	29.2	61.2	64.0	57.1	48.70
Government	3.3	5.3	6.7	40.	5.7	2.3	0.52
Co-op-Society/Bank	3.1	9.1	20.1	28.6	18.6	27.3	
Commercial Bank Incl., RRBs	0.8	0.4	2.2	28.0	29.0	24.5	
Insurance			0.1	0.3	0.5	0.3	
Provident Fund			0.1	0.3	0.9	0.3	
Others institutional agencies					9.3	2.4	
Non-institutional agencies	92.8	85.2	70.8	38.8	36.0	42.9	51.30
Land Lord	1.5	09	8.6	4.0	4.0	1.0	
Agricultural Money Lenders	24.9	45.9	23.1	8.6	6.3	10.0	
Professional Money Lenders	44.8	14.9	13.8	9.0	6.7	19.6	
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6	0.32
Relatives & Friends	14.2	6.8	1.8	9.0	6.7	7.1	

Others	1.9	8.9	2.8	4.9	2.5	2.6	
Total	100	100.0	100	100	100	100	

Source: www. RBI.org.in, farmer gov.in/short loan.html

It can be assessed that the informal/non-institutional finance was gradually declining during the 1960s, was very nearly broken during the 1970s, with the institutional agencies making steady inroads into the rural scene.

The share of institutional credit agencies making steady inroads into the rural households of the all-India level increased from 29% in 1971 to 64% in 1991. During the following decade, the share was declined by about 7% and reached 57% in 2002. It seams that credit co-operatives, commercial banks, and other formal financial sector programs in rural areas have hot displaced informal sources of credit altogether. The 2002 AIDIS survey revealed that 43% of rural households continue to rely on infermal finance, which included professional money lenders, agricultural money lenders, traders, relatives and friends and other.

It may be of interest to note that the share of Govt. departments in the outstanding cash dues cultivator household after showing a decline from 7% in 1971 to 4% in 1981, again rose to 6% in 1991 and dropped to 2% in 2002. As a whole, at the all India level among the institutional credit agencies, the co-operative societies and the commercial Banks were the two most important agencies in the rural secter. These two agencies together, shaved 91% of the entire amount of debt. Advanced by the institutional agencies, accounted for 50% of the outstanding cash debt, with co-operative societies (27.3%) accounting for a greater share than bank (24.5%) in 2002.

Table 2: Agency wise institutional credit flow (in Crores)

Agency	2011-12	2012-13	2013-14	2014-15	2015-16
CB	368,616	482,491	5,27,506	6,04,376	6,04,668
RRB Co-	54,450	63,681	82,653	1,02,483	1,19,261
operative Banks	87,963	1,11,203	1,19,964	1,38,469	1,53,295
Total	5,11,029	6,07,375	7,30,123	845,328	8,77,224

Source: Nabard Based on Reporting and co-operative bank IBA

The above data shows that over the years loan given by various institutional agencies is increasing continuously it seems that borrowers as taking move and more loan from institutional sources and their depengency or no-institutional sources is Incresiy.

Advanced by the institutional agencies, accounted for 52% of the outstanding cash debt, with co-operative societies (27.3%) accounting for a greater share than the Bank (24.5%) in 2002.

6. Non –Institutional agencies (All – India Level)

The combined share of all the non-institutional credit agencies in the outstanding cash dues 1970 but declined in the 1980 the fall being just of about 3% points but increased to 43% subsequently. Agencies, Among the non-institutional credit agencies money lenders was the main soure of redit. Among the non-institutional credit agencies money lenders both professional and agricultural in that order were found to be important source of finance in rural areas, their respective share being 19.6% and 10.0%. The share of relatives and friends was 7% of the cash dues rural households.

7. Share of institutional and non-institutional agencies in out standing cash debt of All India levels

Table 3: Non-institutional

Years	Institutional	Non-institutional
1971	29	71
1981	61	39
1991	64	36
2002	57	43

Source: All India debt and investment survey, NSS 59th Round Report No. 501

8. Conclusion

The key findings from the above analysis is that informal credit has certainly declined as a parentage of total debt and both professional and agriculture money lenders have reduced their share over time informal/non-institutional finance was gradually declining during the 1960s and broken during 1970 with the institutional agencies venturing into the rural areas with nationalisation of major commercial banks and setting up of regional rural banks with initiatives of the Reserve Bank. The decline in the share of moneylenders reflects in part the Govt.'s efforts the register and regulate professional money lenders. At the all India level among the institutional credit agencies the co-operative societies and the commercial banks were the two most important agencies in the rural sector. These agencies together share 91% of the entire amount of debt advance by the institutional agencies accounted for 52% of the outstanding cash debt with co-operative societies (27.3%). The study indicates that of the 20 major states in 2002, as many as is have shown a fall in the share of institutional agencies, notable among them as punjan Haryana Bihat and west Bengal which shows that the co-operative, CB, and other agencies of formal sector in rural areas have not displaced informal sources of credit altogether as 43% of rural household to rela on informal finance in 2002.

The most important reason for continuational of informal rural credit market is that the existing financial institutions tend to restrict their lending activities to more risking field of londing to the agricultural sector. Those in the rural credit market prefer to use informal sources of credit despite the fact that interest rate are much higher.

Informal sources do not insist on punctual repayment as banks or co-operative societies do usually it is possible to obtain loans for such purpose as marriage and litigation only from infernal sources.

There are generally no intricate and complicated rules governing the granting of loans by the village moneylenders. And informal sources are willing to lend money more freely without collateral and on the borrower's mere promise to repay.

In Malegam Committee report the impact of microfinance on the lives of the poor is inconclusive. The micro survey Credit that in some cases Micro Finance has Created Credit dependency fears and cyclical debt. The analysts expressed doubt as to whether lending agencies have in all cases remained committed to the good of fighting poverty of whether they are solely motivated by financial gain.

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