

## STRENGTHENING THE RURAL INDIA BY FORMAL CREDIT

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### ABSTRACT

India is a place of farming communities. Nearly 75 per cent of the people are engaged in agriculture and allied activities. For which, farmers are in need of finance. In early days for finance, farmers depend on local moneylenders, commission agents due to the lack of financial institutions, thereafter, the nationalization of banks. The government come forward to provide loans to the farmers under various schemes. Through it is not up to the expected level and farmers' require lot of the finance to carry out the farming.

With this background, the present paper made an attempt to suggest the ways and means for strengthening the rural India by formal credit.

**KEYWORDS:** Farming Communities, Agriculture and Allied Activities, Credit Facilities.

### INTRODUCTION

India is a land of villages. They depend purely on the agricultural and allied activities. They require money to carry out the farming activities. They spend money during cultivation period and earn money during harvest seasons. In earlier days, for finance, the farmers purely relied on the local money lenders, indigenous bankers, creditors, commission agents etc. and thereafter cooperative banks were introduced and farmers enjoyed out of them. In 1969 the banks were nationalised and the banks were extended their services to the rural population, in order to uplift the farming communities. The banks also introduce lot of financial assistance programmes like PMRY loan, IRDP loan, Crop loan and the like. But there is no improvement at all in the farming communities and they are also in debt. There is a traditional concept called India lives in her villages. If we want to strengthen our India, first we should strengthen our rural community, and then only the India will be developed.

With this background, this paper has prepared to provide the ways to promote credit facilities to rural community and add strength to the rural India.

### PROBLEMS FACED BY INDIAN AGRICULTURALIST

Lack of access to credit is one of the most pressing issues that hinder India's rural population from progress. Farmers suicide within the agricultural sector does not occur as a shocking matter as these poor citizens are deprived of monetary assistance when they are most in need. Survival is at stake here.

The farmers cry for help and have been ignored as the damaging effects from the absence of credit loans tickles down the population.

Apart from the healthcare of a farmer, the lack of access to credit also highly important as almost 80 per cent of the farmers own less than a hectare of land.

The availability of credit allows farmers to be protected from the inflated costs faced in agriculture. Due to the critical shortage of agricultural output, India has to resort to banning grain exports and instead, drive up its import bills from wheat coming into the country. There has been so much attention focused on the industrial and services sector than the agricultural side and has it been largely neglected. The lack of credit loans coupled with improper government intervention had resulted in the livelihood of the farmers to go downhill.

As commercial banks are not present in remote locations of India, where agriculture is supposed to boom, it becomes an important limitation as the rural population has a strong dependence on it. Co-operative banks which have been set up previously were also doomed to fail as a result of bad loans and a lack of funds. These commercial banks have their own set of worries, as defaults and crop failures are common in the sector. As such, they prefer lending out to areas where each farmer owns a much larger proportion of land and also, have better irrigation systems. However, that does not solve the problem as the smaller farmers' (which forms a majority) issues remains unaddressed.

There should be better banking systems established that is accessible and affordable to every person. It is obvious that the benefits of economic growth have not been equally shared among all as the access to credit is not granted to all. Economic opportunities ought to be created for the marginalized groups to help in poverty reduction and inequality problems. Further attempts made by the government to expand credit loans have ironically resulted in more cases of poverty than ever. The lack of access to formal credit thus places many constraints on agricultural output and also, the standards of living for the rural population thereby hindering their path to further economic and social development.

## **NEED OF FORMAL CREDIT**

Credit is an important one for cultivation and it is needed from cultivation to harvest. In between, the farmers require finance for various purposes such as purchasing the fertilizers, pesticides, manures and other allied things. For such kind of activities, in those days, the farmers were depending on the local money lenders, through which they were in trouble and some of them committed suicide due to the higher interest rate and unable to repay the amount. Followed by our Indian government has taken steps to increase the agricultural credit. Its objectives have been to replace moneylenders, to relieve the farmers from indebtedness, and to achieve higher levels of agricultural credit, investment, and output. India's success in replacing moneylenders has been outstanding. Between 1951 and 1971 their share of rural credit appears to have dropped from more than 80 per cent to 36 per cent. Still, institutional credit is far from reaching all farmers. Only about a quarter of cultivators borrow, and not more than 2 per cent take out long-term loans.

## REPLACEMENT SEED RATE

Farmers need credit for buying all agriculture inputs such as seeds, fertilizers, pesticides etc. the price of these agricultural inputs are normally moving upward trend. This is the big problem to the farmers.

**Table: 1.Replacement Seed Rate (In Percentage)**

| Verities | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Paddy    | 19.22 | 19.31 | 19.16 | 16.27 | 21.33 | 22.41 | 25.87 | 30.05 | 36.5  | 40.25 | 49.5  |
| Wheat    | 13.04 | 13    | 13    | 16.48 | 17.64 | 21.76 | 25.23 | 26.84 | 30.65 | 35.25 | 40.5  |
| Cotton   | 21.21 | 21.86 | 19.84 | 20.73 | 21.78 | 19.84 | 15.3  | 12.07 | 20.35 | 25.02 | 35.9  |
| Maize    | 20.98 | 21.35 | 24.41 | 31.5  | 35.39 | 43.78 | 44.24 | 48.48 | 53.6  | 58.65 | 64.09 |
| Jowar    | 18.36 | 18.78 | 26.71 | 19.28 | 19.03 | 19.37 | 19.87 | 26.16 | 30.03 | 34.07 | 40.65 |

Source: Ministry of Agriculture, Business Line, November 21, 2011

Table 1 explains the price of seeds during the 11 years of the five seeds wheat and maize seeds are increasing in the years of the study whereas the seeds price of paddy, cotton, and jowar are varying in all the years except one year, there years and two years respectively.

## FERTILISER SET TO TURN ON RUPEE SLIDE

Regarding fertilizer, the price are in in downwards trends for DAP and MOP and upward trend for Urea and NPK.

**Table: 2Fertilizer Sales (In Lakh Tonnes)**

| Fertilizer | April- Oct 2010 | April- Oct 2011 | Change % |
|------------|-----------------|-----------------|----------|
| Urea       | 150.36          | 161.99          | 7.73     |
| DAP        | 76.58           | 59.49           | -22.36   |
| MOP        | 23.22           | 9.75            | -58      |
| NPK        | 56.84           | 61.72           | 8.58     |

Source: Business Line, November 23, 2011

1. DAP : di-ammonium phosphate
2. MOP: muriate of potash
3. NPK: nitrogen, phosphorous, potash

## **CREDIT SCENARIO IN INDIA**

Most of the small farmers have little access to credit, and long-term credit goes mostly to large farmers. Overall, farm debt has probably not increased sharply in real terms, as formal credit has primarily substituted for credit from other sources. Moreover, with the rapid growth of commercial banks in the 1970s, the system mobilized more deposits than it lent in rural areas in 1981. Of course, enhanced deposit services are a useful service of the rural population.

After the emergence of Liberalization Privatization Globalization (LPG) there was a rapid expansion of commercial banks in rural areas and it had a considerable positive effect on rural farming, employment and output. The availability of better banking facilities appears to have overcome one of the obstacles for locating farm activities in rural areas. Expanded rural finance has less effect on output and employment in agriculture. The effect on crop output has not been great, despite the fact that credit to agriculture has greatly increased the use of fertilizer and private investment in machines and livestock. There has been more impact on inputs than on output, so the additional capital investment has been more important in substituting for agricultural labour than in increasing crop output. But overall, rural credit and expansion of the rural financial system have had a positive effect on rural areas.

## **FORMAL CREDITS**

Bankers are normally providing formal credits two sectors namely,

- Priority sectors
- Non – priority sectors

## **PRIORITY SECTORS**

The Reserve Bank of India classified in the following categories as priority sector namely, advances agricultural and allied activities and to an individual.

The following activities undertaken by the members of the primary co-operative banks will comprise activities allied to agriculture:

- Development of Dairy and Animal Husbandry.
- Development of Fisheries.
- Development of Poultry, Piggery etc.
- Purchase of Bullock Carts, Camel Carts, Pack Animals etc.
- Distribution of inputs for allied activities such as poultry feed, cattle feed, etc.
- Small Scale Industrial Units, Equipment/System for development of new and renewable source of energy, etc.
- Small Scale and Ancillary Industries
  1. Flaying and tanning
  2. Leather goods
  3. Pottery

4. Hand pounding of paddy and cereals
  5. Rice Mills, including flour mills and bakeries
- New and renewable sources of energy
    1. Flat plate solar collectors
    2. Concentrating and pipe type solar collectors
    3. Solar cookers
  - Cottage industries, Khadi & Village Industries, Artisans are those units
  - Tiny industries are those units whose investment in plant & machinery is upto Rs. 25 lakh irrespective of location of the unit.
  - Small Scale Service & Business (Industry Related) Enterprises (SSSBs).
  - Food and agro based processing and forestry
  - Loans and advances by primary (urban) co-operative banks
  - Loans and advances by scheduled primary (urban) co-operative banks
  - Leasing & Hire Purchase Finance by Scheduled PCBs
  - Advances to Small Road and Water Transport Operators
  - Retail Traders
  - Small Business Enterprises

#### **Non – priority sectors**

Following categories are non- priority sectors Industry (Small, Medium and Large)

1. Mining and quarrying (including coal)
2. Food processing
3. Beverage and tobacco
4. Textiles
5. Leather and leather products
6. Wood and wood products
7. Paper and paper production
8. Petroleum and coal products and nuclear fuels
9. Chemicals and chemicals products
10. Rubber, plastic and their products

#### **IMPACT OF BANKS ON AGRICULTURE**

The agricultural credit that has been pursued for three decades and has clearly benefit current borrowers and farm households formerly indebted to moneylenders. It has also encouraged fertilizer use and investment in agriculture. It has been less successful in generating viable institutions and has failed to generate agricultural employment. The policy's costs to India's government have been high as portfolio losses associated with poor repayment ultimately have to be borne by the government or one of its institutions under optimistic assumptions. The benefits of the agricultural income are at the best not more

than 13 percent higher than the cost to the government of the extra agricultural credit. If assumptions about the cost of supplying the credit and about repayment rates are less optimistic, the social costs and the costs to the government of providing the credit would have exceeded the benefits in agricultural income. The expansion of commercial banks to rural areas paid off in farm growth, employment, and rural wages.

## **CONCLUSIONS**

Credit is an important tool for the successful proceedings of agricultural carrier. Our government /banks have been providing lot of loans for the upliftment of agriculture and its allied sectors. It could be understand that from the above said information that the farmers have to make use the available loans properly, and repay it in time. If the farmers do like this, the rural farmers will be successful. If rural farmers are successful then the rural India will be strengthened.

## **REFERENCES**

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