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THE ROLE OF CREDIT RURAL IN DEVELOPMENT

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Abstract

The purpose of this article is to assess how much the rural institutional and non-institutional credit sectors of India have been modified throughout the previous few decades. The study employed just the simple descriptive statistical methods for the analysis while it was fully relied on the secondary data gathered from the institutional sources. The literature on development theory was important in highlighting the necessity for and the function of credit in rural development. The study demonstrates that a rural family, which is not substantially different in size from that of the urban, allocates a greater percentage of their expenditure on food and drinks due to the comparatively low income. However, the income disparity of the rural sector is smaller than that of the urban. Although the network of the institutional lending institutions has been regularly enlarged, the rise of its relative share has not been that great. Furthermore, although the gradual decline, the informal sector still plays a substantial role in the provision of rural finance. However, certain informal credit sources, which are based on traditional or social connections, are even better than the official sources as they are of unconditional kind. However, the relevance of such friendly sources seems to have been reducing. Easy access, freeing from collateral restrictions and flexibility are the most attractive aspects of the informal credit sources whereas the higher cost of loans to the borrower caused by increased transaction cost is a significant drawback of the formal sector. Although there are borrowers, who desire credit from both sectors, the supply-side of credit demonstrates no clear link between the official and informal lenders.

Keywords: Credit in rural areas, official sources, and unofficial sources

Introduction:

Credit is an essential tool for establishing command over the use of working capital, fixed capital, and consumer items. Credit can be provided by financial institutions or individuals. As a direct result of the Green Revolution, land and labor have taken a more secondary role as determining determinants of economic expansion. Access to credit markets is necessary for funding the use of capital and the implementation of contemporary methods of agricultural production, both of which have become significant contributors to the expansion of agricultural output. Over the course of the past few years, the role played by institutional sources of credit has grown to play a significant role. Several different indices point to the dramatic increase in the amount of loans extended by institutional lenders. The total amount of money that was distributed through agricultural loans increased from 306.75 million rupees in 1972–1973 to 5,102.14 million rupees in 1981–1982. The cost of the loans rose from Rs. 7.33 in 1972–1973 to Rs. 106.83 in 1981–1982, measured on an acre-by-acre basis. According to this point of view, the gaps in income and wealth that exist in rural regions would be vitally dependent on the allocation of capital among farms of different sizes and occupational groupings. Policymakers who are interested in the enhancement of rural equity may be making a big mistake if they fail to recognize the importance of fair distribution of credit as a policy instrument for the redistribution of rural income. It is not difficult to hypothesize a connection between credit and distribution, but it is challenging to demonstrate the precise nature of the connection between the two variables. The beneficiaries of credit, i.e. the size and kind of farm on which credit is used, (ii) the price paid for the borrowed money, and (iii) the productivity of the activities sponsored by credit can all have an influence on the income-distribution implications of credit delivery. In order to obtain a notion of the effect that credit has on the redistribution of income in rural regions, we are going to give information on each of these characteristics in the next section.

Objective:

1. To ascertain the degree to which the presence of formal sector financial services has spread into the rural sector.

2. To determine whether or not there has been a shift in the prominence of informal moneylenders in the rural sector over the course of the past few decades.

3. To differentiate between formal and informal forms of credit in terms of interest rates, transaction costs, and the degree to which lenders are receptive to borrowers.

What is Rural Credit?

People who live in rural areas of India typically rely on revenue from agriculture as their major source of financial support. Farmers and peasants are required to make significant financial investments on a yearly basis in order to guarantee a successful crop. Because of this, people frequently turn to borrowing money from moneylenders and financial organisations in order to satisfy their fundamental need prior to the arrival of harvest season, during which they may make money by selling their harvest. As a result, the term "rural credit" refers to any loan that is taken out in India's rural areas for the aim of funding agricultural endeavours or small home-based companies.

Sources of Rural Credit

It is not sufficient to only comprehend what the meaning of Rural Credit is. Students of commerce also need to get an understanding of the many different avenues through which such financial aid may be obtained by rural households. The five most important sources of rural credit in India are detailed here for your convenience.

1. Land Development Banks

By utilising the farmers' land as collateral, these banks are able to extend a sizeable line of credit to the agricultural community. This loan has a low interest rate and a payback term that might range anywhere from 15 to 20 years. Farmers are welcome to apply for this loan in order to cover the expenses associated with the development of their property, which may involve the construction of wells or other irrigation-related facilities. However, land development credits are seldom exploited to their full potential since the majority of farmers are not aware of this financial source.

2. Co-operative Credit Societies

In addition to being one of the most cost-effective forms of finance for farmers, co-operative lending makes it easier for small and medium-scale farmers to get credit. Primary Agricultural Credit societies, often known as PACs, are the organisations that provide these short-term loans. However, these societies have not been successful in reducing the impact that moneylenders have on the Rural Credit market.

3. Regional Rural Banks

Regional rural banks, also known as RRBs, were established by the government in order to provide financial support to low-income farmers, landless labourers, and craftsmen.

4. Commercial Banks

In the beginning, commercial banks were hesitant to extend loans to the agricultural sector due to the inherent risks associated with making such a move. On the other hand, these institutions now provide financial assistance to farmers in both a direct and indirect fashion. Loans for short and medium terms made available to farmers in order to streamline their operations are examples of direct investment in agriculture. On the other hand, the phrase "indirect investment" refers to financial assistance provided to farmers by means of organisations or agencies that act as middlemen.

5. Government

These are short-term credits granted by the Indian government to assist farmers who are having difficulty making ends meet, particularly in the aftermath of natural disasters such as floods and droughts. They are also known as Taccavi loans.

Types of Rural Credits

- **Short Term Credit –** These loans have a limited repayment tenure that can range up to one year at the most. Therefore, such credits can act as a brief business or private capital requirement for farmers and others in a rural setting.
- **Medium Term Loan –** Any loan that has a tenure ranging from two years to less than 10 years is classified as a medium-term loan. The credit amount available varies from one firm or individual to the next, depending on the credit rating and a host of other factors.
- **Long Term Loan–** These are considerable sums that farmers can avail for a tenure ranging between 5 years and 20 years. In agriculture, such a line of credit is useful in creating permanent assets. For example, with the help of such a loan, farmers can purchase tractors and other farming properties.

The importance of credit in rural development:

Both savings and access to credit, which function as opposite sides of the same coin, are essential to the growth of rural areas. Both are necessary for one another's existence. The money that is saved can be used as capital to purchase things like machines and irrigation systems. Borrowers might benefit from credit for the short-term production inputs or for the provision of day-to-day costs during the interim period. Facilities for credit, access to and influence over various marketplaces, etc.

Women's organizations in Wilpotha, a tiny hamlet in the Puttalam area on the west coast of India, have established a mini bank known as the women's Savings Initiative. This bank gives a return of 12% on deposits and charges an interest rate of 18% on loans. The successful marketing of the idea of group loans, which are not recognized in state banks, was a significant step forward.

The cashew processing and handicrafts produced out of Poll Mattoon, a coconut waste material, were the two primary economic activity that benefited from the mini bank's provision of credit. Both of these endeavors were led by IRED's development agency, People's Rural Development Association (PRDA). The recovery percentage was 100%, which is much higher than the average of 80% for individual loans.

The group loan system encouraged more face-to-face connection and a sense of reciprocal duty among its participants, as well as increased collective engagement in economic activities and the distribution of the associated advantages. A approach to reach the poor who were unable to satisfy the standards set by official lending organizations was to employ the group lending scheme as a tactic.

In addition, members who are working to better their families' financial situations can apply for loan facilities from the Mani Bank to pursue animal husbandry, brick manufacturing, or agriculture. Men and younger people are are urged to participate in subgroups that focus on expanding their business and professional abilities.

Today, the capital fund of the Mini Bank is comprised of almost 12,000 dollars in total donations from various donor agencies, as well as the shares and savings of the Mini Bank's members. It does this by distributing the funds received from donors to its members, which are then placed in a Revolving Fund to support various development initiatives.

"Rural Credit and Rural Development:

Some Concerns I would like to begin by congratulating the authors for the presentation of a work that is on a topic that is of critical importance to rural development. The writers were successful in their goal to provide readers with insights on the pattern of usage of credit in rural societies. The Pass Book Scheme and the Bank Reforms of 1972 are examined in this study on a more cursory level. These adjustments were made in order to facilitate the accomplishment of national objectives and aims. Their account of policies does not sufficiently convey the shifts in policy that have taken place since 1973 for reasons that are best known to the authors.

In addition to the Pass Book Scheme, a straightforward and user-friendly method for advancing credit has only lately been implemented. A loan may now be obtained by a farmer by having them merely produce a certificate and a single application form as opposed to having them produce a lengthy list of documentation. It is now possible for any trustworthy and responsible person in the village, in addition to the chairman of the Union Council, the Lombardi, or the Zelda, to give a certificate attesting to the genuineness of the petitioner and the land that is under his cultivation.

Second, in order to apply for production and development loans, you will now just need to submit a single form rather than the nine separate papers that were necessary in the past. In spite of the fact that the National Bank of Pakistan has been running the Supervised Credit Scheme (SCS) on a small basis since the early 1970s, the scope of the programme has been significantly expanded in recent years. The Agricultural Development Bank of Pakistan is alone responsible for 37 percent of the total institutional credit in Pakistan, while the Supervised Credit Scheme accounts for as much as 64 percent of the Agricultural Development Bank of Pakistan's loans.

Additionally, the State Bank of Pakistan has been giving instructions to the financial institutions to participate in the monitored credit programmed. In point of fact, financial institutions are strongly encouraged to integrate their whole agricultural loaning system under the purview of this plan. Small farmers in the Punjab and the NWFP who own up to 12% of an acre of land, 16 acres in Sind, and 32 acres in Baluchistan are eligible for loans that do not accrue interest and are being made available. Credits are also arranged for the growers by the ghee mills in Sugarland. The provision of assistance to smaller farmers is the primary purpose of the loan programmed.

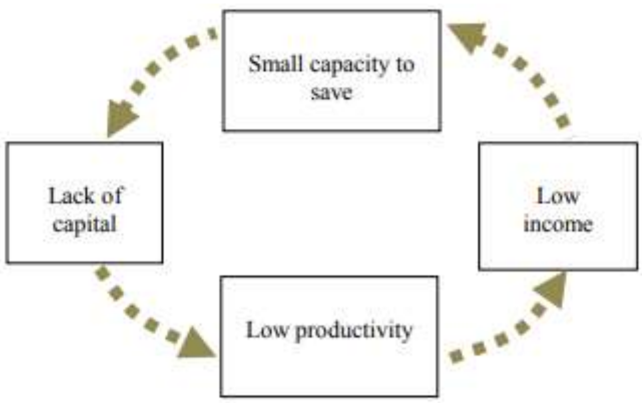
The Need for and Role of Credit in Development:

Regardless of the amount of advancement that a country has reached, the provision of development credit is extremely important at the national, regional, and entrepreneurial levels. To put this into perspective, the difference between the necessary quantity of financial resources and the amount that is really accessible may be seen as being analogous to the requirement for either cash or credit. However, beyond this accounting form of clarification, there are very substantial theoretical arguments for credit in the theoretical literature of development. This is important to note.

The broad theories of development that can be found in the body of written material pertaining to development substantially support the position that the accumulation of capital within the context of the production process is necessary for the growth of a nation. In order to maintain both the accumulation and the development processes, the collected capital has to be continually reinvestment in the production process itself. The system will be able to produce the required revenue for further growth through the use of such a mechanism. However, because of the restrictions placed on the accumulation of wealth, it does not produce enough money to support the growth of the country.

When nations or business owners are confronted with such a deficit in their acquired capital, the Developmental 7 credit plays a very important function. In addition to broad conceptions of development, more specialized and incomplete theories of development demonstrate the necessity of development credit, particularly for nations that are either underdeveloped or developing. In his influential work titled "Problems of Capital Formation in Underdeveloped Countries" published in 1960, Nukes makes the argument that there is a vicious cycle of poverty that keeps the impoverished in the same situation in which they were born. On both the supply side and the demand side, a circular constellation of forces has a tendency to operate and react upon one another. This is true for both the supply side and the demand side.

On the supply side (Figure-1), a low level of income of the poor provider becomes the reason of a limited capacity to save. This results in a low level of economic growth. A lack of capital is the result of having a low real income, which is a sign of having a poor level of productivity. On the other hand, due to the circular nature of this cause and effect relationship, there is no starting point that can be identified within the circle itself.



Firegure-1: Supply-side Circle

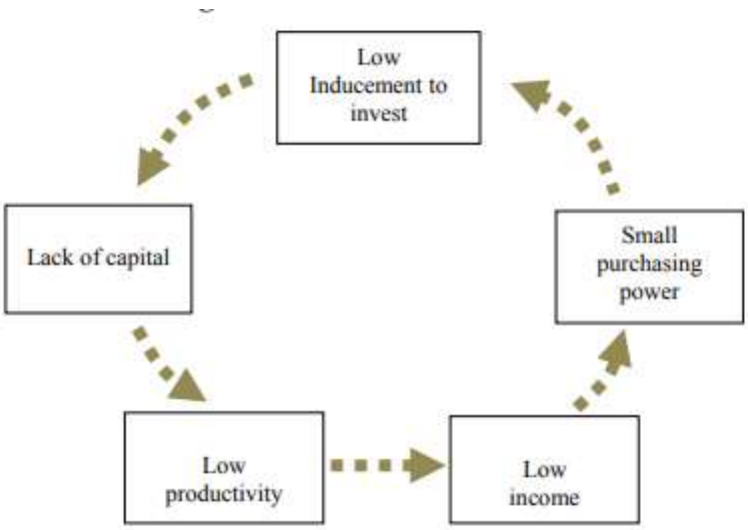


Figure-2: Demand-side Circle

On the demand side, low levels of productivity lead to low real incomes, which in turn tend to weaken people's purchasing power and limit the incentive to invest. This is similar to what happens on the supply side. Again, the insufficient amount of capital that was invested in the manufacturing is to blame for the poor level of productivity. This demonstrates that there are two different sets of circles at work in undeveloped economies, each one keeping the poor trapped in their condition of poverty. Nevertheless, Nukes brings to light the fact that there is one important characteristic that is shared by both circles and that may be influenced in order to lift the poor out of poverty utilizing the same circular cause-effect link. This essential component is referred to as the "(lack of) capital" that is employed in the manufacturing process.

An increase in the total quantity of capital will lead to a rise in productivity, which, in turn, will boost real income, which will, in turn, boost the ability to save money, enhance buying power, and encourage investment. It demonstrates that solving the issue of "lack of capital" is the most effective way to fix all other problems, including "poor productivity," "low income," "little buying power," and "low enticement to invest," all of which can be found in the demand-side circle. Regarding the requirement for credit in the process of development, this is one of the more compelling arguments that can be found in the body of historical and theoretical writings.

In addition, the balanced growth strategy proposed by Nukes and a few other individuals elucidates the fact that simultaneous investment in all sectors is a necessary requirement for a growth that is interdependent on the growth of all sectors. This requirement is a prerequisite for the balanced growth strategy. Because the implementation of such a development plan is not possible in capital-strapped nations without credit, this underscores the relevance of credit in economic growth. Credit is necessary for the application of such a development strategy. Reduced incentives to make investments A little income a low level of productivity Due of a lack of capital a limited capacity for making purchases 9 Rosentine-Rodan (1943) brought up another important issue, which was that developing nations were in need of a significant push in order to overcome all sorts of restrictions and have a growth potential.

To put it another way, these nations need significant sums of money to be invested in order to free their economies from the shackles of economic backwardness, which prevails in their countries. Investing on a small scale would be a waste of resources since the resulting force would not be sufficient to break such linkages and propel the economies ahead. This idea is applicable for the growth of a country as a whole as well as the development of an individual entrepreneur who is not yet self-sufficient. Therefore, it is beneficial to realise, through the application of this theory that credit is essential for undeveloped nations since the significant push that these countries require cannot be produced without the backing of credit.

Conclusion:

Although there are some differences in the methodologies among the surveys and studies that were used in this study, it is still possible to safely draw conclusions on the rural credit market in India. All informal credit sources are not equal in terms of the effects on the rural poor. Among the informal sources, the loans with no interest payment – loans obtained from friends and relatives – are even better than the loans that are granted from the formal sources. However, the loans obtained from such safe or harmless sources show a decreasing trend indicating a dying out of the transactions based on traditional or social relationships which were so far important in the rural economy.There is no requirement for a comprehensive description because the prior discussion has already covered the nature of the rural loan market and the institutional credit reforms. It is only necessary to highlight the most general results and the policy implications of those conclusions. To begin, it has been demonstrated without a reasonable doubt that the non-institutional sources of credit play the preeminent role in assisting the financially disadvantaged in rural areas. It was not possible to obtain information on the concealed interest rates.

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