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Rural Credit in India : An Overview

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To increase the access of bank credit to all strata of society, the government of India has initiated various schemes and policies. The present paper has reviewed the state of rural finance in India. It analyses the source-wise trend of rural credit, credit to agriculture & priority sector, branch banking penetration in rural areas, etc. Study finds that, up to 1991, the share of institutional credit to total rural credit increased; after that, it declined, and share of non-institutional credit was augmenting. Banks were unable to reach the target of agricultural credit under priority sector lending. Moreover, expansion of branch banking towards the semi-urban and metropolitan area rather than a rural area.

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1. Introduction

Rural credit has national importance in the Indian economy, considering the role of agriculture in the Indian economy. In India,

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the bulk of short-term and long-term credit are provided by moneylenders in the earlier days. As it is costly due to the exorbitant interest rate, the burden of indebtedness on the rural masses increased. Therefore, the situation of Indian farmers is the "Birth in debt, live in debt and died in debt" in earlier days. To change this condition meticulous type of credit is essential. After independence, to increase the penetration of bank credit to all strata of society, the government of India has initiated various schemes and policies. As a result, credit to marginalized sections of the society, loans to the agriculture sector, and the number of bank branches in unbanked areas have increased. In the entire Indian financial system, commercial banks, co-operatives banks, regional rural banks, SHGs play an essential role in providing formal credit to the rural sector. "The banking system of an economy is the fuel injection system which stimulates economic proficiency by mobilising saving to investment channels" (Arora & Kaur, 2016).

Different studies on rural finance were emphasized many aspects of rural finance. Agricultural credit was started to grow after bank nationalization and growing over the period, and the overall flow of institutional credit has increased over the years (Mohan, 2006). In the post-reform period, institutional agencies, scheduled commercial banks specifically, have neglected rural credit, especially agriculture credit (Weekly, 2004). It is also emphasized by the K. P. Agrawal (1997) and noted that, despite conscious efforts for the expansion of credit to agriculture, but there is a substantial gap between the demand for and supply of agricultural credit. The study of Ray (2019) assesses the changes and changes in the Indian rural credit market in the post-independence period. Study concluded that, availability of credit, in terms of volume and number of households indebted increased substantially. The share of credit from institutional agencies has seen a continuous decline post- liberalization

Srivastava (1992) analyzed whether any relation between formal and informal credit markets in India. It finds that most of the small enterprises rely on the informal sector. Bell, 1990, examined interaction between Institutional and informal Credit agencies in rural India.

Chaudhuri (2001) developed a model of interaction of formal and informal credit markets where the bank officials face a lending constraint. Aiyar (1984), studied on Informal Credit Markets in India and finds that South India has a wider variety of recently started informal institutions such as nidhis, finance companies, and chit funds with higher informal rates. Heidhues (2000) identified the determinants of farm households' access to informal credit in Lume District, Central Ethiopia. Dependency rate, health condition of farm household members and rented out land factors positively affect the borrowing decision from informal sources. Bhende (1986) examined the aspects of rural financial markets in three villages in south India. The study finds that large farm and family size, more educated families concerned towards the institutional credit and farmed more, irrigated land and less educated relied on informal sources of credit.

The present paper has reviewed the state of rural finance in India. It analyses the source-wise trend of rural credit, credit to agriculture & priority sector, branch banking penetration in rural areas, etc.

2. Data Presentation and Analysis

In the post-independence period, the government's focus is to cater to the rural population's needs. The government has initiated various programs towards rural finance. Therefore, the present paper overviewed the development and changing scenario in rural credit. For that, wise source trend of institutional and non-institutional rural credit, the state-wise trend of rural credit, agency wise flow of agriculture credit, priority sector bank lending to agriculture and priority sectors and branch banking penetration of scheduled commercial banks were considered to know the realities about rural finance.

Table-1 : Institutional and Non-Institutional Rural Credit

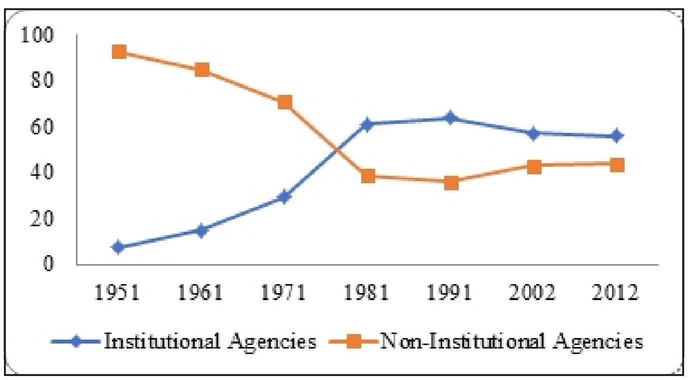
(Figures in Percentage)

Agencies	1951	1961	1971	1981	1991	2002	2012
Institutional Agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64**	**57.1**	**56**
Government	3.3	5.3	6.7	4	5.7	2.3	1.2
Co-op. Society/ bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial bank including RRBs	0.8	0.4	2.2	28	29	24.5	25.1
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	4.9
Non-Institutional Agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36**	**42.9**	**44**
Landlord	1.5	0.9	8.6	4	4	1	0.7
Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10	5
Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6	28.2
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6	0.7
Relatives and Friends	14.2	6.8	13.8	9	6.7	7.1	8
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.4
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source : RBI working paper series, All India Debt and Investment Survey

Figure-1 : Trend of Institutional and Non-Institutional Rural Credit



To enhance the access of formal credit to rural population, numerous structural changes have been implemented by the government of India after independence. Major initiatives are; nationalization of 14 banks in 1969 and 6 more banks were nationalized in 1980, 1974 introduction of priority sector lending, establishment of RRBs in 1975, 1982 NABARD, 1995 Rural Infrastructure Development Fund (RIDF), 1998 Kisan Credit Card (KCC) etc. Consequently, the shares of institutional credit in total rural credit were increased. It is clear from Table 1. Table 1 shows the trend of institutional and non-institutional rural credit. Credit by commercial banks and co-operatives were significant in the institutional source of credit. Institutional sources were reached at peak level in 1991, i.e. 64

per cent and after that has started declining. Inadequacy of staff in commercial banks resulted in poor quality of service and high per account cost; therefore, banks shifted their focus to large borrowers to reduce cost, which may lead to falling in the share of institutional credit. The agricultural loan waiver in 1990 reduced the outstanding loan amount and slowed down the flow of agricultural credit, as revealed in a study conducted by NABARD. The fear of credit indiscipline from the waiver benefitted farmers was one of the restricting factors for the bankers while financing. (Sangwan, 2018) Looking at the share of co-operative credit, it has realized up to 1991 it is in increasing trend afterwards it was slightly decreasing.

The share of the non-institutional credit was 92.8 per cent in 1951, and it reached the bottom level in the year 1991, i.e. 36 per cent. After 1991 the trend was changed, and the share of non-institutional credit was augmented. Both agricultural and professional moneylenders constitute the most important place in the non-institutional credit. Professional moneylenders shares were increasing in rural credit.

Table-2 : State wise trend of Rural Credit

(Figures in Percentage)

Major States	**Sources of Credit : Institutional**			
	1971	**1981**	**1991**	**2002**
Andhra Pradesh	14	41	34	27
Assam	35	31	66	58
Bihar	11	47	73	37
Gujarat	47	70	75	67
Harayana	26	76	73	50
Himachal Pradesh	24	75	62	74
Jammu and Kashmir	20	44	73	73
Karnataka	30	78	78	67
Kerala	44	79	92	81
Madhya Pradesh	32	66	73	59
Maharashtra	67	86	82	85
Odisha	30	81	80	74
Punjab	36	74	79	56
Rajasthan	9	41	40	34

Major States	Sources of Credit : Institutional (continued)			
Tamil Nadu	22	44	40	34
Uttar Pradesh	23	55	69	56
West Bengal	31	66	82	68
All India	**29**	**61**	**64**	**57**

Major States	**Sources of Credit : Non-institutional**			
	1971	**1981**	**1991**	**2002**
Andhra Pradesh	86	59	66	73
Assam	65	69	34	42
Bihar	89	53	27	63
Gujarat	53	30	25	33
Harayana	74	24	27	50
Himachal Pradesh	76	25	38	26
Jammu and Kashmir	80	56	24	27
Karnataka	70	22	22	33
Kerala	56	21	8	19
Madhya Pradesh	68	34	27	41
Maharashtra	33	14	18	15
Odisha	70	19	20	26
Punjab	64	26	21	44
Rajasthan	91	59	60	66
Tamil Nadu	78	56	60	66
Uttar Pradesh	77	45	31	44
West Bengal	69	34	18	32
All India	**71**	**39**	**36**	**43**

Source : Indiastat.com

The distribution of credit by the institutional and non-institutional agencies for the states from 1971 to 2002 is given in Table-2. Out of the total 17 states, the share of institutional credit continuously increased up to 1991 compared with 1971 in almost ten states after that declining trend were observed. In 2002, the share of institutional agency share was less as compared with 1991. On the other hand, non-institutional agency share was increased in 2002. Non- institutional agency share was very high in Andhra Pradesh, i.e., 73 per cent and the lowest share was found in Maharashtra, i.e., 15 per cent.

Agriculture is the main occupation of the majority of the population in India. The livelihood of many people is dependent on the agriculture sector. Landholding size is small because of the division and fragmentation of the land. Indian agriculture is subsistence farming. Therefore, access to credit by farmers remains a significant challenge. Many small farmers credit was rationed like loan application is rejected; the loan amount is reduced etc. Credit rationing curtails the farmers' ability to purchase farm inputs and adversely affects investment in agriculture. Hence, the productivity and profitability of agriculture are affected, but the farmers' livelihood is also suffered. Therefore, agricultural credit is one of the major credits in rural areas.

Table-3 : Agency wise Flow of Agriculture Credit in India

(Figures in Percentage)

Year	Co-operative Banks	RRBs	Commercial Banks	Other Agencies	Total
1999	43.29	6.67	50.04	0.00	100.00
2000	39.47	6.86	53.46	0.22	100.00
2001	39.22	7.99	52.64	0.16	100.00
2002	37.91	7.82	54.13	0.13	100.00
2003	33.98	8.73	57.18	0.12	100.00
2004	30.90	8.72	60.29	0.10	100.00
2005	24.92	9.90	65.02	0.15	100.00
2006	21.83	8.43	69.52	0.21	100.00
2007	18.52	8.91	72.57	0.00	100.00
2008	18.95	9.94	71.11	0.00	100.00
2009	15.23	8.87	75.83	0.07	100.00
2010	16.51	9.16	74.33	0.00	100.00
2011	16.68	9.46	73.86	0.00	100.00
2012	17.21	10.65	72.13	0.00	100.00
2013	18.31	10.48	71.21	0.00	100.00
2014	16.86	11.61	71.53	0.00	100.00
2015	16.47	12.19	71.34	0.00	100.00
2016	16.74	13.03	70.23	0.00	100.01
2017	13.40	11.56	75.04	0.00	100.00
Mean	**24.02**	**9.53**	**66.39**	**0.06**	**100.00**
C.V.	**40.32**	**17.76**	**12.80**	**128.25**	**0.00**
CGR	**-6.08**	**3.06**	**2.13**	**-**	**-**

Source : Indiastat.com

Table-3 shows the agency wise flow of agricultural credit in India from 1999 to 2017. In the total agricultural credit, the share of commercial banks was more followed by co-operative banks and RRBs. Commercial banks' mean value of agricultural credit is 66.39 per cent, followed by co-operative banks and RRBs, i.e., 24.02 and 9.53 per cent, respectively. Co-operatives were the main financing agency for agricultural credit to farmers in rural areas, but the share of co-operative credit in recent years was declining. This is reflected in the negative compound growth rate and high value of the coefficient of variation. The massive expansion of bank branches and tremendous growth in banks' branch networks have led to commercial banks' positive growth in agricultural finance in recent years.

To cater for the need of the national priorities, the government of India took significant initiatives in banking sector reforms and the nationalization of the banks. It covered 80 per cent of the banking sector in India under government ownership. The main objectives of bank nationalization are to remove control of few, adequate credit for agriculture and small industry and exports, encouragement of new classes of entrepreneurs etc. The banks' nationalization led to extending and expanding credit to sectors that have a more significant contribution in national income and employment. But at the same time also focused on those sectors are severally neglected in terms of access to institutional credit. In 1974, introduced the priority sector lending. Priority Sector lending includes sectors that impact large sections of the population, the weaker sections, and the employment-intensive sectors. Under the priority sector lending, targets and sub-targets were set for different sectors.

3. Targets and Sub-targets for Priority Sectors

The targets and sub-targets set under priority sector lending for all domestic scheduled commercial banks operating in India in 2016 is given below. The target set for each sector is the percentage to Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Sectors	Targets
Total Priority Sector	40 percent
Agriculture	18 percent
Micro Enterprises	7.5 percent
Advances to Weaker Sections	10 percent

Table-4 : Priority Sector Bank Lending to Agriculture

(Figures in Percentage)

Year	Sectors			
	Public Sector Banks		Private Sector Banks	
	Priority Sector	Agriculture	Priority Sector	Agriculture
2001	43.00	15.75	38.02	9.52
2002	43.10	15.88	40.90	12.76
2003	42.50	15.38	44.40	14.36
2004	43.60	15.06	47.30	14.24
2005	43.20	15.67	43.30	13.40
2006	40.30	15.27	42.80	14.74
2007	39.70	15.43	42.90	15.44
2008	44.70	18.26	42.50	15.17
2009	42.70	17.66	46.20	18.72
2010	41.60	17.94	45.80	19.36
2011	41.30	16.66	46.60	17.26
2012	37.20	15.75	39.40	14.33
2013	36.30	15.01	37.50	12.82
2014	39.99	16.98	43.92	13.91
2015	38.19	16.49	43.17	14.80
2016	40.37	18.40	46.13	18.59
2017	39.50	18.30	42.50	16.50
2018	39.9	18.00	40.80	16.20
2019	42.55	18.12	42.49	16.31
2020	41.05	17.23	40.32	15.696
Mean	**41.04**	**16.66**	**42.85**	**15.21**
C.V.	**5.40**	**7.40**	**6.49**	**15.18**

Source : Computed from Data Collected from Reports of the Trend and Progress of the Banking - 2001-2013, 2017-2020 and Statistical Tables Relating to Banks in India 2014-2016.

Table-1 shows the priority sector advances of public and private sector banks during the study period from 2001 to 2020. Based on aggregate mean values, the priority sector advances of private sector banks were slightly more than public sector banks, i.e., 42.85 per cent and 41.04 percent. Considering the average values for twenty years, priority sector lending target was achieved by both banks but failed to achieve the target every year. In the case of the overall target of priority sector lending, banks have crossed the target lending. For the exception of two-three years, 18 per cent agriculture target is not achieved by both banks. The performance of public and private sector banks towards priority sector lending and agricultural lending were somewhat the same. Moreover, in recent years the target to priority sector & agriculture sector percentage increased compared with 2001.

Table-5 : Gap Analysis of Priority Sector Advances

(Figures in Percentage)

Year	Sectors			
	Public Sector Banks		Private Sector Banks	
	Priority Sector	Agriculture	Priority Sector	Agriculture
2001	3.00	-2.25	-1.98	-8.48
2002	3.10	-2.12	0.90	-5.24
2003	2.50	-2.62	4.40	-3.64
2004	3.60	-2.94	7.30	-3.76
2005	3.20	-2.33	3.30	-4.60
2006	0.30	-2.73	2.80	-3.26
2007	-0.30	-2.57	2.90	-2.56
2008	4.70	0.26	2.50	-2.83
2009	2.70	-0.34	6.20	0.72
2010	1.60	-0.06	5.80	1.36
2011	1.30	-1.34	6.60	-0.74
2012	-2.80	-2.25	-0.60	-3.67
2013	-3.70	-2.99	-2.50	-5.18
2014	-0.01	-1.02	3.92	-4.09
2015	-1.81	-1.51	3.17	-3.20
2016	0.37	0.40	6.13	0.59
2017	-0.50	0.30	2.50	-1.50
2018	-0.10	0.00	0.80	-1.80
2019	2.55	0.12	2.49	-1.69
2020	1.05	-0.77	0.32	-2.30

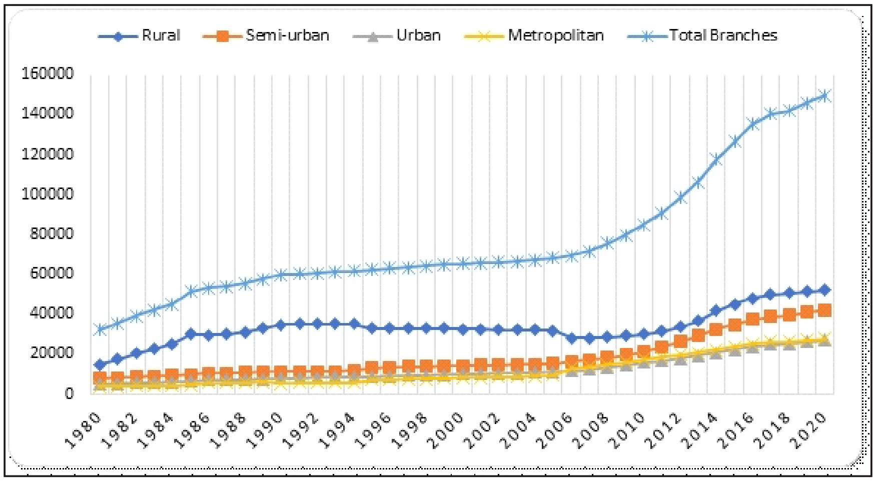
Source : Computed from Table-4.

Table-5 highlights the gap analysis of both banks concerning priority sector advances from 2001 to 2020. It has been observed that public sector banks have achieved thirteen times the target of priority sector lending during twenty years of study. At the same time, private sector banks also have reached the target in seventeen years. It can be said that both banks have attained the overall target of priority sector lending in the majority of years under the study period. Besides, RBI has also set targets for sub-categories of priority sector lending. Thus, banks are failed to achieve the target for sub-categories of the agriculture sector. Moreover, in recent four years, target to the agriculture sector was fulfilled by the banks. It is reflected the positive values in the gap analysis.

The widespread coverage of bank branches at different levels is essential to cater for the credit needs of the diverse group of people and community. The strong base of institutional finance will help remove regional disparities and raise the extensive production and income of the economy. For the growth and development of economic activities, the physical presence of banks is indispensable. It will help to mobilize the small saving from different parts of the economy through inculcating the habits of saving among the people in unbanked areas. On the one hand, good bank penetration helps to mobilize the small savings by inculcating the habit of saving among people and on the other hand, it also fulfils the credit need of the needy ones. "Branch expansion program can aid development in two ways i.e. (1) It helps for mobilization of idle resources and their channelization into economically productive purposes, and (2) branches identify genuine credit needs in the areas served by them and provide credit especially to the neglected sectors so that requirements of their areas may be adequately met" (Chawla, 1987) Therefore, we cannot ignore the importance of penetration of branch network in the country like India.

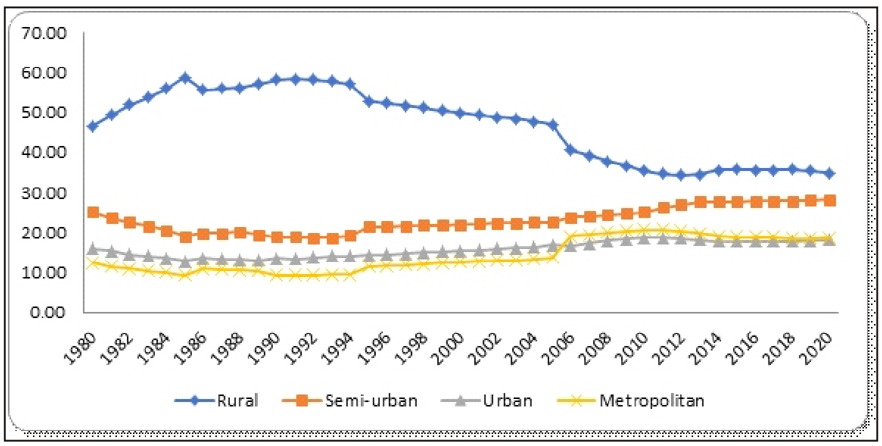
Figure-2 and 3 on the next page indicates the growth trend in bank branches of scheduled commercial banks and the percentage share of population group-wise bank branches of SCBs from 1980 to 2020. Before India's independence, few banks existed and catering to the credit needs of the industrialists and elitists and operating in urban and metropolitan areas. Therefore, the rural sector was totally neglected by the banks. After the nationalization of banks in 1969 and 1980, they opened their branches in rural and semi-urban areas as a part of inclusive and development policy of the nation.

Figure-2 : Trend of Bank Branches of SCBs



Source : Handbook of Statistics on Indian Economy 2019-20

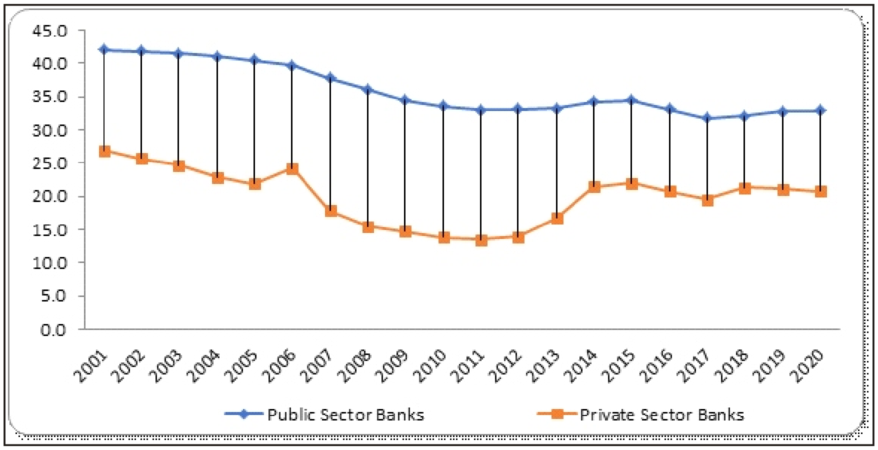
Figure-3 : Trend of Percentage share of Population Group-wise Bank Branches of SCBs



Source : Handbook of Statistics on Indian Economy 2019-20

Trend was consistently positive during the thirty years of study. All types of bank branches trend of were increasing, but after 2006 somewhat trend was changed. After that, rapid growth was observed in semi-urban and metropolitan branches than the rural and urban branches. In the population group-wise bank branches, the share of rural units was high, followed by semi-urban, urban and metropolitan branches. In the growth of bank branches, the percentage of rural branches was declining continuously. At the same time, the share of semi-urban branches and metropolitan branches increased. Earlier around 50 per cent of bank branches were located in a rural area, but in recent years it was just around 35 per cent only. On the other hand, the share of semi-urban branches and metropolitan branches were expanded. It means the growth of bank branches were concentrated in the urban areas.

Figure-4 : Percentage share of Population Group-wise Bank Branches of SCBs



Source : Compiled from Performance Highlights of Public and Private Sector Banks and Report on Trend and Progress of Banking.

Table-4 shows the trend and percentage share of rural branches by public and private sector banks during 2001 to 2020. The trend of rural bank branches were declining in public sector banks and it was fluctuating in private sector banks. Percentage share of rural branches of public sector banks ranging between 42 to 32 percent. On the other hand, it was 28 to 20 percent in private sector banks. It means public sector banks are playing major role in rural area for mobilizing the saving and disbursing the credit. Yet private sector banks were not far reached in the rural area.

4. Concluding Observations

The share of institutional credit to total rural credit increased up to 1991; after that, it was declining, and the percentage of non-institutional credit was augmenting. The share of institutional credit was continuously increased up to 1991, and after that, it was a declining trend in most states. Both public and private sector banks were unable to reach the agricultural credit target under priority sector lending. Credit to the agricultural sector by commercial banks was increasing, and the share of co-operatives was declining. There is tremendous growth in the expansion of branches of SCBs but an expansion of branch banking towards the semi-urban and metropolitan area rather than a rural area. Public sector banks have more rural branch networks than private sector banks, but the share of rural branches in the total bank branches declined in the last twenty years.

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