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# AN ECONOMICS ANALYSIS OF INSTITUTIONAL LOANS TO SMALL BORROWERS IN RURAL AREAS OF HASSAN DISTRICT

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***Abstract :*** *The institutional credit has been conceived to play a crucial role in the agricultural development of India. An enormous number of institutional agencies are engaged in the spending of credit to agriculture activities. Though, the fortitude of money lenders in the rural credit marketplace is unmoving a leading uneasiness. The credit is one of the serious inputs for agricultural development. It capitalizes farmers to embark on fresh investments and accept new technologies. The significance of agricultural credit is supplementary non-breakable by the restricted situation of Indian agriculture in the macroeconomic outline along with its noteworthy role in poverty mitigation. To realise the magnitude of agricultural credit in nurturing agricultural growth and development, the importance on the institutional structure for agricultural credit is being emphasized since the commencement of proposed development period in Indian economy. This paper is emphasising on rural credit facility available to the small borrowers in rural areas.*

## INTRODUCTION

The institutional credit has been conceived to play a crucial role in the agricultural development of India. An enormous number of institutional agencies are engaged in the spending of credit to agriculture activities. Though, the fortitude of money lenders in the rural credit marketplace is unmoving a leading uneasiness. The credit is one of the serious inputs for agricultural development. It capitalizes farmers to embark on fresh investments and accept new technologies. The significance of agricultural credit is supplementary non-breakable by the restricted situation of Indian agriculture in the macroeconomic outline along with its noteworthy role in poverty mitigation. To realise the magnitude of agricultural credit in nurturing agricultural growth and development, the importance on the institutional structure for agricultural credit is being emphasized since the commencement of proposed development period in Indian economy.

The agriculture credit refers to credit provided to the rural inhabitants. It includes loans to agriculture as well as loans to non-agriculturists, artisans and landless laborers who are residing in rural areas. The purpose of agricultural credit is to make available adequate finance for agriculture, animal husbandry, rural industry, rural trade, rural transport and all other economic behavior of the surroundings. The prerequisite of credit in India arise because commonness of farmers and non-agricultural populace endure from financial anemia at present and that the inoculation of enough quantity of finance into them could go earlier their quickness and increases the value and amount of their building. The superlative agricultural credit scheme should aim at provided that and ensure adequate finance to each person in the landscape, who is occupied in or excited to take on in any financial action. The degree of agricultural credit in a country like India, which is basically rural in character hardly, desires illumination.

The economic development of the view hinge upon convenience of credit to rural financial system. The rural sector needs institutional credit to take up economically viable projects. But it needs to be noted that credit alone cannot deliver the goods. There is what is called the credit absorption capacity of the region. This depeds on the implementation of economically viable schmes. Hence, the formulation of economic plans should precede the preparation of credit plans. There are certain agencies like the co-operatives, regional rural banks and farmers service societies which are most appropriate to serve the rural population, but their performance needs to be toned up. Of course, cheap credit needs to be discouraged.

The preponderance of the rural fold up is not brilliant to pull together their day-to-day supplies from their have sources of proceeds not to converse of examine in other productive enterprises for humanizing their economic situation. As a result, they have to depend on a variety of financial agencies for receiving finances for making investment. To bring about the overall development in the rural areas, financial help to the rural poor, predominantly institutional support for the development of agriculture needs no prominence. Finance is an essential precondition for roughly each activity. If mandatory finance is not available out of one's own income then one requirements credit. In rural areas of India, credit provisions are supplementary imperative. The rural credit in India is a part and package of its economic expansion. Rural inhabitants are unperturbed of agricultural producers, occupant cultivators, village artisans and landless labour. All these categories are in necessitate of credit. To give the credit necessities to these categories commercial banks and credit cooperative banks and regional rural banks take part in very extraordinary accountability.

A huge numeral of formal institutional agencies like Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non–Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc., are concerned in meeting the short- and long-term necessities of the farmers. A number of initiatives have been taken to strengthen the institutional mechanism of rural credit system. The main purpose of these initiatives was to improve farmers‟ access to institutional credit. The major milestones in improving the rural credit are acceptance of Rural Credit Survey Committee Report (1954), nationalization of major commercial banks (1969 & 1980), establishment of RRBs (1975), establishment of National Bank for Agriculture and Rural Development (NABARD) (1982) and the financial sector reforms (1991 onwards), Special Agricultural Credit Plan (1994-95), launching of Kisan Credit Cards (KCCs) (1998-99), Doubling Agricultural Credit Plan within three years (2004), and Agricultural Debt Waiver and Debt Relief Scheme (2008). These initiatives had a hopeful impact on the flow of agricultural credit. However, the inadequacy of credit to agriculture is often a passionately debated topic in India. The persistence of money lenders in the rural credit market is still a major concern. But, most of the discussions on the issue of agricultural credit are, by and large, swayed by emotions and the empirical explanation of the issues is often missing.

Indian banking structure grew in potency and stability in the post-nationalisation period. The flow of bank credit to the priority sector significantly rose where the advances to agriculture, small scale sector, small borrowers and other weaker sections of the society indicated a rapid and notable expand.

Even though the post-nationalisation period in the Indian banking yielded momentous changes in the equipped policies and practices of the formal financial agencies in the rural areas, yet, it failed to make a momentous dent in the age-old attitude of the rural bankers towards financing the so-called less creditworthy but productive small and marginal farmers. The enlarged outreach and access to agricultural credit in the post-bank nationalization period coupled with augmented demand due to the Green Revolution of 1960s and enhanced focus on directed priority sector lending could not correct the weaknesses in the rural financial delivery system. This unfavorably pretentious the viability and sustainability of these institutions. Further, the security-orientation of loans and the economic and social status of the rural borrowers were the major constraints in mandatory credit mobilisation irrespective of branch expansion in rural areas.

**Rural Credit and Co-Operatives:**

The Primary Agricultural Cooperative Societies (PACs), the grass-root level arms of the three-tier cooperative credit release system in India, have been occupied in delivering credit to the poor and weaker sections of the society. As on March 31, 2012, as many as 7.27 lakh villages in India are covered with 93,413 co-operative credit societies. There was 1 PAC in every 7.8 villages. Out of 93,413 PACs, as many as 40.74% were loss making as in March 2016.

The Government‟s interventions and NABARD‟s manage and monitoring mechanism have had a extremely inadequate impact on the financial performance reported by various categories of cooperative banks. The growing Non-Performing Asset (NPA) as a percentage of loans indicates towards a weak financial health of the short term and long term cooperative credit institutions. The growing NPA is due to the gradual corrosion in the revisit to the assets. Therefore, these cooperative institutions are now depending heavily on refinancing, budgeting support/state finances and market borrowings. Accumulated losses and NPAs have eaten away their own funds (capital and reserves). As a result, there is a weak occasion of sufficient interior creation of resources for sustainable operation of these cooperative banking institutions. This has impacted the financial and equipped sustainability of the cooperative institutions.

**Objectives of the Study**

The study is mainly based on the following objectives;

1. To analyze the performance of institutional credit agencies in Karnataka
2. To assess the institutional credit facilities in Hassan District
3. To examine the dependency of small borrowers in the study area.

**Research Methodology**

The study is based on both primary and secondary source of data. The primary data and information has been collected from the 300 sample respondents in Hassan District. The sample respondents are chosen on simple random sampling basis. The secondary data and information is collected from the following sources:

Economic Survey of India and Karnataka, Department of Agriculture Reports, GOK,Department of Economics and Statistics, GOK State Level Bankers Committee Reports,Other learned journals regarding horticulture, District Statistical Office Reports, Office document, news paper etc.

**Evolution of the Rural Credit System in India**

Rural financial market development is a complex process. The All India Rural Credit Survey Committee (AIRCS) 1954, forms the edifice for the policy towards the development of the Institutional credit structures. The committee highlighted the awful inadequacy in the supply of institutional credit to the rural sector and proposed an integrated scheme of reorganization many more committees and recommendations. Priority sector lending, lead bank scheme, services area approach, setting up of NABARD, are some of the outcomes of the repeated scrutiny of the system.

Coming to the recent committees, the Agriculture Credit Review Committee (ACRC) 1989, examined the existing rural credit system in detail. It highlighted the yawning gap between income generated and costs incurred by rural credit institutions, necessitating external assistance. The committee recommended greater autonomy for commercial banks; the weakness of RRBs were seen as endemic to the system with non-viability built into them. Co-operatives were sought to be strengthened through thrust on deposit mobilization and reduction of political interference. The Narsimham Committee on Financial Sector Reforms 1991, among other things, recommended a redefinition of priority sector, gradual phasing out of directed credit programmes to 10% of aggregate bank credit and deregulation of interest rates.

**State Wise Distribution of Bank Offices, Aggregate Deposits & Total Credit of Public Sector Banks**

The Public Sector Banks which Includes State Bank of India & its 7 Associates, 19 Nationalized Banks & IDBI Ltd. There were 8,262 branches in 1969, which increased to 47,950 Branches by 2016, whereas the deposits which were Rs.3,896 crores in 1969 increased to Rs. 15,50,402 Crores in 2016. The bank credit which was Rs.3,036 crores increased to Rs.10,93,038 Crores and the share of priority sector credit which was 14.9% in 1969 increased to 37.5% in 2016. In Karnataka there were 756 branches in 1969, which increased to 3,271 Branches, whereas the deposits which were Rs.188 crores in 1969 increased to Rs. 95,426 Crores in 2016. The bank credit which was Rs.143 crores increased to Rs.78,011 Crores and the share of priority sector credit which was 24.8% in 1969 increased to 45.6% in 2016.

**Financial performance of Public Sector Banks in India**

When we analyze the performance of public sector banks, the income of the PS banks has been increasing in absolute terms it was Rs.1,17,252.36 Crores by 2011-12 and it increased to Rs.1,28,464.37 Crores by 2012-13 and increased further to Rs.1,37,601.81 by 2013-14. but whereas in growth terms from 2012-13 to 2013-14, it decreased from 8.73% to 6.64%, where as in 2014-15 the income of Public Sector Banks decreased both in absolute term(Rs.87,752.53 Crores) and in growth, where it had negative growth to the tune of -56.81%. During 2015-16 the income of the PS Banks marginally increased to Rs.95,375.25 Crores, but in growth terms it increased by 7.99% over the previous year as the previous year had negative growth. In Income majority of the income is derived from the interest income which was 85.89% in 2011-12, 83.44% in 2012-13, 79.57% in 2013-14, 83.94% in 2014-15 and 87.15% in 2015-16. In the interest income interest on advances and income on investments are almost of same proportion.

**Profit of Public Sector Banks**

In the top ten PS Banks, in absolute terms SBI and Punjab National Bank leads the profit table. But the bank of India showed a tremendous increase in profits from during 2015 by growing 106% over the previous year.

**Trends in access to banking services**

Indian agriculture contributes 27.5% to the country‟s GDP. More than 65% derive their livelihood from agriculture. Agricultural growth has been stable and helped significantly in achieving food security with our buffer stocks at an all time high. There is no doubt that the sector is one of the most critical sectors in the economy and deserves adequate attention not only from policy makers, but also from other players in the economy.

**Experience of the Formal Institutions after 1990**

We see a gradual change happening in the formal credit sector in the rural areas after the 90s. In 1989 the Government of India announced the first nationwide loan pardon scheme. This was the last nail in the coffin of an already beleaguered credit system. We see the aggressive growth of micro-finance coincide with this event. During the decade of 90s we not only saw the SHG movement grow, but several other models of micro-credit taking root. There were lessons learnt from the Grameen model of Bangladesh, which gave birth to organisations like SHARE. The Co-operative Development Foundation, which till 90s was working with the old co-operatives also, moved into to promoting informal groups on the principles of cooperation.

**Current Status of the Cooperative Credit System**

The share of cooperatives in the national economy during 2012-13 to 2015-16 provides a rosy picture about cooperatives in this country in several regards. First, cooperatives have a cent percent rural network, besides providing direct employment to nearly one Million population and self-employment to 14.39 people. Second, cooperatives have very high shares in agricultural credit (46%), sugar production (59%), animal feed production (50%), ice cream manufacture (45%), branded oil market (50%), handlooms production (55%), village level storage facilities (65%), rubber processing and marketing (95%) and areca nut processing and marketing (50%), and significant shares in fertilizer disbursement and production (36% and 28%, respectively), wheat procurement (32%), retail fair price shops(22%), cotton/fabric production (23%), and coverage of active fishermen (21%). Third, in some segments like milk procurement, cooperatives have made a tremendous impact in spite of the fact that cooperatives have a relatively small share as percentage of total production or marketable surplus. Only in some

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segments like agricultural credit, sugar production, spindle age production, cooperative display some sign of a minor decline in recent years. However, as we shall see shortly, this spectacular picture about non-credit cooperatives provided by NCUI with hardly any variation over the years is often not translated into a strong derived demand for credit.

**Fundamental Changes in Rural Credit Scenario**

The study analysis clearly indicated that 32.8% of households had borrowed from institutional sources and 67.2 % had borrowed from non institutional sources. The survey also found that 70 per cent of earners in the annual income bracket of more than Rs.400, 000 borrowed from institutional sources as compared with only 27.5 per cent in the case of earners in the income bracket of less than Rs.50,000 the major reason for increase in the overall household debt and the increase in the share of households indebted to non-institutional sources between 1991 and 2002 was a significant increase in current farm expenditure and household expenditure, especially in rural areas. As reveals the sudden shift in favour of the village money lenders as the source of credit for rural cultivators during the 1990s. Table – 3.15 clealry indicates the share of borrowing of cultivator households in rural areas from 1961 to 2011 in rural India.

As study considered, out of 300 sample respondents during pre-loan period the majority were in up to Rs.14,000 annual income (50%), but after post –loan peiod it has been reduced to only 6% . This clealy show that the annual income has been gradullay increased during post-loan period. And the majority 60% 0f the respondents has annual income between Rs. 15,000 to 25,000, about 13.33% respondents annual income is between Rs. 26,000 to 35,000, about 8% 0f the respondents earn annual income between Rs.36,000 to 45,000, about 4% 0f the respondents seems to earn annual income between rupees 45,000 to 55,000. It had been noted that the respondents earning above Rs.76,000 to above Rs.1.5 lakh are the respondents doing service as clerk and school teachers. Thus, it can be interpreted that, the income of the respondents engaged in dairy, agriculture, artisans and small shops is very low. They are earning below rupees 56,000 per annum and this is a factor which is encouraging them to borrow the loans and forcing them to live in indebtedness. The income in the rural areas is found to be low and such a situation is rarely found in the urban centres because of education, employment, industrialization etc which is lacking in rural areas.

The expenditure on agriculture is one of the mainly significant social factors which do also determines the degree of indebtedness. That out of 300 respondents about 60% of the respondents annual expenditure on agriculture is between 21,000 to 30,000, 5% respondents spends rupees 10,000 to 20,000 on agriculture, 3% respondents spent rupees 31,000 to 40,000 on agriculture. 2% respondents spent between 41000 to 50000 on agriculture and only 1% respondents said that they spend between rupees 51,000 to 60,000 on agriculture. And about 27.66% of the respondents are landless and they have no expenditure on agriculture and 0.66% of the respondents are having land but they give it on lease as such does not spend on agriculture.

**Rate of interest on loan by bank and moneylenders**

That the respondents have

availed the loan facility from the banks and also from the moneylenders and the friends and relatives. It can be observed from the study that out of 300 respondents about 80% of the respondents availed bank loan at an interest rate of 9% per annum. And 20% of the respondents have not availed the loan facility. And 80% of the respondents have also availed the loan from the private moneylenders at the interest rate of 25% per month and in some cases per annum. Only 20% respondents took interest free loans from the friends and relatives. Therefore the rural people are anguish from the problem of high interest rate from both institutional and non-institutional agencies.

**Summary**

The credit is measured as one of the vital inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes a long way in contributing to the well-being of the people, especially in the lower rungs of society. Besides physical and human challenges, it is important to input administration in agriculture (Hans, 2006). Therefore, access to finance, particularly to the poor and vulnerable groups is a pre-requisite for employment, economic growth, poverty decrease and social consistency.

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