



Fortnightly column

Village Dynamics Insights

Lack of formal credit constraining rural transformation

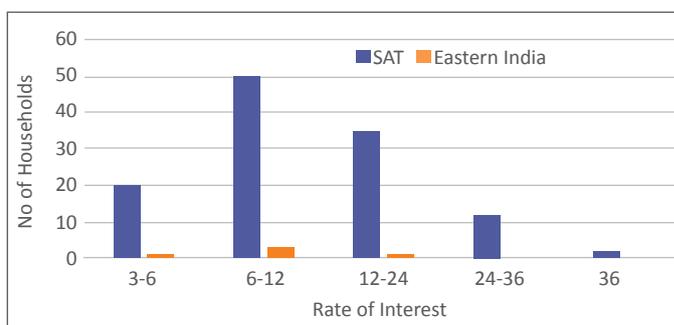
A recent study of credit opportunities for rural farmers in India has shown that financial institutions are failing to extend credit at subsidised interest rates to smallholder farmers, as emphasised by the government. Poor access to formal credit (due to inappropriate land records, cumbersome formalities and long delays) force households to take loans from informal sources such as private moneylenders who often charge interest rates ranging from 60-120% per annum. This is seriously hampering household income growth in these areas.

The situation is particularly acute in the eastern and semi-arid tropic (SAT) regions of India where non-institutional financial agencies accounted for as much as 44% of the outstanding credit in 2012-2013.

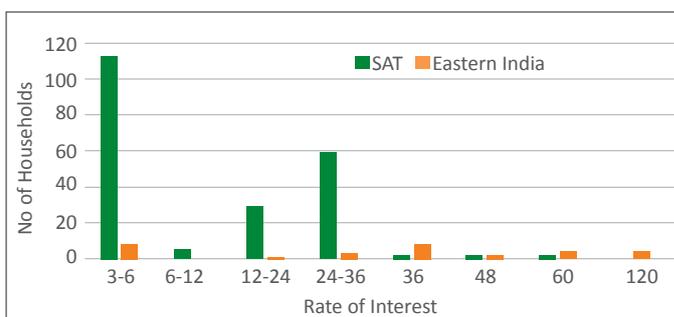
Access to financial services has been shown to be critical for smallholder farmers in these regions. "Farming is not remunerative for smallholder farmers as they are not getting sufficient income surplus from farming to meet their day-to-day expenses for the whole year. In such case, there is nothing left for purchasing inputs and making investments in farming the following year. In the absence of any assured credit from banks, they go to private moneylenders, who readily provide money, but at very high interest rates," according to Dr Ranjit Kumar, Principal Scientist, Economics and VDSA Eastern India Coordinator.

VDSA data profile

Data for the study was collected from 1,194 households under the VDSA program. In eastern India, the states of Bihar, Jharkhand and Odisha were selected and in the SAT region, the states of Karnataka, Maharashtra and the then undivided Andhra Pradesh were selected across the years



Households availing credit from formal sources.



Households availing credit from informal sources.

2010 to 2014. In each state, 160-180 households across two districts were surveyed regularly.

The study also highlights the precarious situation of formal agricultural credit in the eastern states when compared to the SAT states. The proportion of households in eastern states availing any agri-credit was half that of the SAT states. Many of the households in the eastern states avail no credit from any source and therefore, use low inputs in production relying on their own resources. Access to credit would have dramatically impacted the ability of these households to achieve a significant improvement in their household income during this period.

Conclusion

"Governments have been emphasising that rural credit should grow - and a lot of money has been pushed in this direction. However, this institutional credit is not reaching smallholder farmers," says Dr Kumar. Aside from the low number of bank branches in the region, financial institutions still require lenders to have some collateral - which often smallholders cannot provide. There is an urgent need for government to develop a strategy whereby these farmers who can only lease land are also able to avail institutional credit.

Reference: Truncated Access to Institutional Agricultural Credit as a Major Constraint for Rural Transformation: Insights from Longitudinal Village Studies by Ranjit Kumar, V Surjit, Cynthia Bantilan, MA Lagesh and Umesh S Yadav, Research Program-Markets, Institutions and Policies, ICRISAT. This paper is to be presented at the 23rd Annual Conference of Agricultural Economics Research Association in Mumbai, 2-4 Dec 2015. ■

Distribution and access of rural households to agricultural credit in the regions.

Region	Survey year	Households availing any agri-credit* (% of total)	Share of households (% of agri-credit)		Not availing any agri-credit
			Formal sources	Informal sources	
Eastern region	2010	35.2	62.7	46.7	64.8
	2011	38.3	57.3	53.0	61.7
	2012	32.7	67.3	45.9	67.3
	2013	28.5	70.0	35.7	71.5
SAT region	2010	72.2	73.9	67.0	27.8
	2011	73.7	70.6	68.0	26.3
	2012	73.7	75.2	71.5	26.3
	2013	73.9	69.9	68.2	26.1

Source: VDSA Survey data

*Agri-credit includes loans taken for crop cultivation, purchase of tractor & farm implements, purchase of livestock, drilling borewells or digging wells.