

Expansion Of Rural Credit Market In Assam

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Abstract:

Fluctuations In Agricultural Production And The Lag Associated With The Production Crops Create The Demand For Credit. In Assam Though The Formal Sources Of Credit Have Been Expanding Their Networks Over The Years The Amount Of Formal Credit Advanced By Them Is Not Adequate. Without Flexible Terms Of Formal Credit, People Tend To Take Loans From Informal Sources. The Informal Credit Sources Through The Informational Advantage Smoothly Operate Their Functions In The Rural Areas. Although The Informal Sector Fulfills The Need Of Credit But It Is Not Desirable From The Point Of View Of Agricultural Growth. In These Circumstances, The Micro Finance Plays An Important Role In Reducing The Gap Between Demand And Supply Of Formal Credit In Rural Credit Market Of Assam. The Objective Of This Study Is To Examine The Present Status Of Formal Rural Credit Market Of Assam. The Study Is Also Focused In Analyzing The Challenges Of Formal Credit Market Of Assam. This Study Is Mainly Done On The Qualitative Basis But Some Quantitative Data Is Added To Justify The Qualitative Arguments.

Keywords: Rural Credit, Adverse Selection, Moral Hazard, Micro-Finance

Introduction:

Agricultural Activities Are Spread Out Over Time As The Cultivation Of A Crop Requires Funds At The Present Time Even If The Pay-Offs Come Later. Moreover, As The Income Stream For Farmers Or Agricultural Workers Often Fluctuate, Such Fluctuations Will Be Transmitted To Consumption Unless The Gap Is Filled Up Through Some Credit. Thus, Rural Credit Plays A Very Vital Role In Uplifting Rural Economy.

India's Rural Credit System Is Divided Into Two Segments: An Unorganized Or Informal System Of Moneylenders, Traders, And Input Suppliers ; And A Formal Organized Segment Constituted By Co Operative Banks, Regional Rural Banks, Commercial Banks And Non- Banking Financial Companies.

Rural Credit Needs In India Are Met By An Elaborate Structure Of Rural Financial Institutions. The National Bank For Agriculture And Rural Development (Nabard) Acts As The Apex Institution And Also As The Principal Refinancing Agency For Those Institutions. The Reserve Bank Of India Has Retained Some Powers Of Regulating And Directing Agricultural Credit, Though Most Of The Environmental Functions In This Area Have Been Ceded To Nabard. Numerous State Sponsored Institutions And Ngos Established For The Development Of Specific Sections Of Population Or Particular Regions Of The Country Also Advance Credit To The Rural Population.

Rural Credit Raised By Self Help Groups In India Through Their Bank Linkage Program Grew More Than 40% In 2015-16 To About Rs. 30,000 Crore, Providing A Glimmer Of Hope For The Rural Economy.

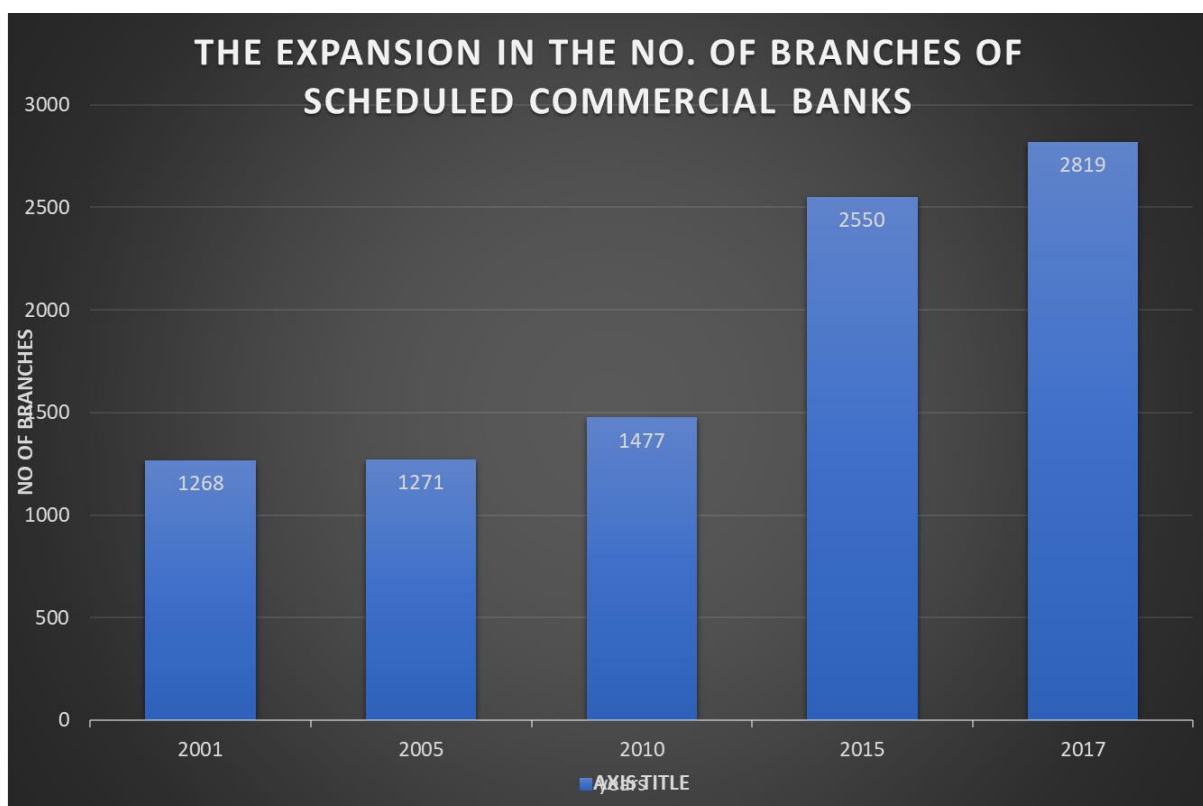
Rural Credit In Assam:

A Majority Of People In Assam Live In Rural Areas Whose Main Occupation Is Related To Agricultural And Allied Activities. In Assam The Soil And Other Natural Conditions Are Favourable For Cultivation Of Various Crops.

Commercial Banks,Regional Rural Banks And Cooperative Banks Are The Three Prominent Institutions That Provide Financial Assistance For Agriculture And Development In Ner.

The Growth Of Scheduled Commercial Banks Branches In Ne States During 1975-91 Was Satisfactory With Annual Compound Growth Rate Of More Than 11%. Mizoram Appeared To Have The Highest Growth Rate I.E 44.34% And Lower Being 10.97% In Assam During This Period.

Although Assam As Well As The Ner Was Comparatively Financially Excluded In Comparison To Other States Of India But After 1991 The Scenario Has Improved. There Has Been Continuous Expansion Of Rural Credit In Assam As Well As Ner. If We Consider The Case Of Branches Expansion Of Commercial Banks And Regional Rural Banks We Will Notice An Improving Picture.

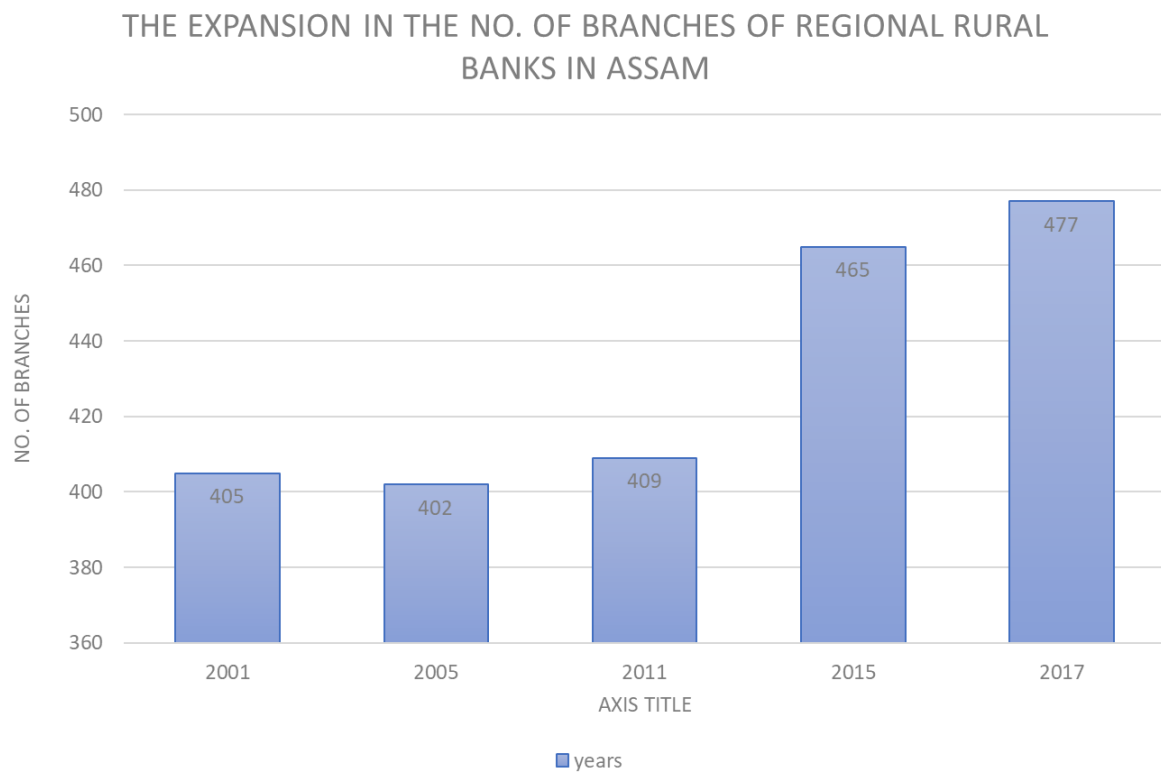


Source: Reserve Bank Of India

Thus The Above Chart Is Indicating An Upward Trend In The Establishment Of Branches Of Commercial Banks In Assam Over The Years. The Same Trend Can Be Traced In Case Of Regional Rural Banks

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Which Are Depicted In The Following Chart:



Source: Reserve Bank Of India

In Case Of Regional Rural Banks Assam Has The Largest Number Of Offices Of Regional Rural Banks Followed By Tripura And Mizoram In Ner. Nagaland Has The Smallest Number Of Regional Rural Banks In Ner.

The Informal Credit Market In Assam:

According To All India Debt And Investment Survey, In 2013, In India The Share Of Informal Credit Was About 44% Which Were 36% And 42.9% In 1991 And 2002 Respectively.

Although The Share Of Informal Credit Has Been Declining Over The Years But It Is Expected That It Still Consists A Considerable Part Of Total Credit In Assam. There Are Many Reasons For The Dominance Of Informal Credit. The Main Reasons Among Them Are Problem Of Collateral, Consumption Credit And Lag Associated With The Formal Credit.

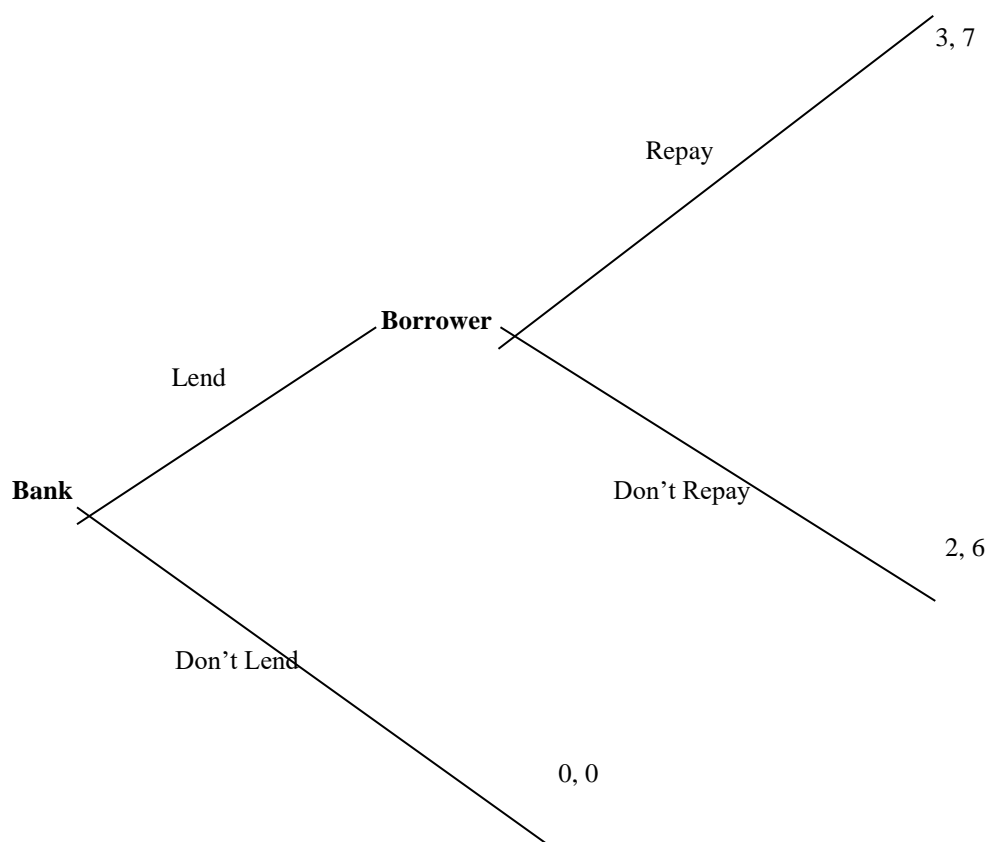
Generally It Is Seen That In Rural Areas The Farmers Have Collateral Of Specific Kind Say, A Farmer Who Owns A Small Piece Of Land May Need Some Large Funds To Improve Production Techniques; But No Bank Will Provide Large Credit For A Small Land As A Collateral. Similarly, Landless Labour May Seek Credit To Cover Sudden Illness Of Family By Offering His Labour Collateral. Moreover, In Case Of Formal Credit It Is Seen That The Process Of Applying For Credit And Final Disbursement Of Credit Takes A Considerable Time. But It Is Generally Seen That Except Demand Of Consumption Credit The Demand Of Rural Credit Rises In Immediate Grounds. T. Das (2013) In A Recent Study Has Found That Given Lack Of Financial Instruments To Meet Their Needs, People Often Seize The Opportunities Available To Them Mostly In Informal Sector Through Their Savings Or Credit. Whatever May Be The Product The Poor Would Use It Only If It Is Flexible, Reliable And Convenient.

The Credit Games:

In Advanced Economies The Problems Associated With Credit Market Transactions Are Solved In Two Important Ways. Firstly, In These Economies Credit Reporting Agencies Compile Data On Hundreds Of Millions Of Transactions. If A Borrower Is Negligent In Repaying A Loan, It Shows Up In Her Credit Score. Then The Market As A Whole Becomes Somewhat Reluctant In Lending To That Borrower Next Time.

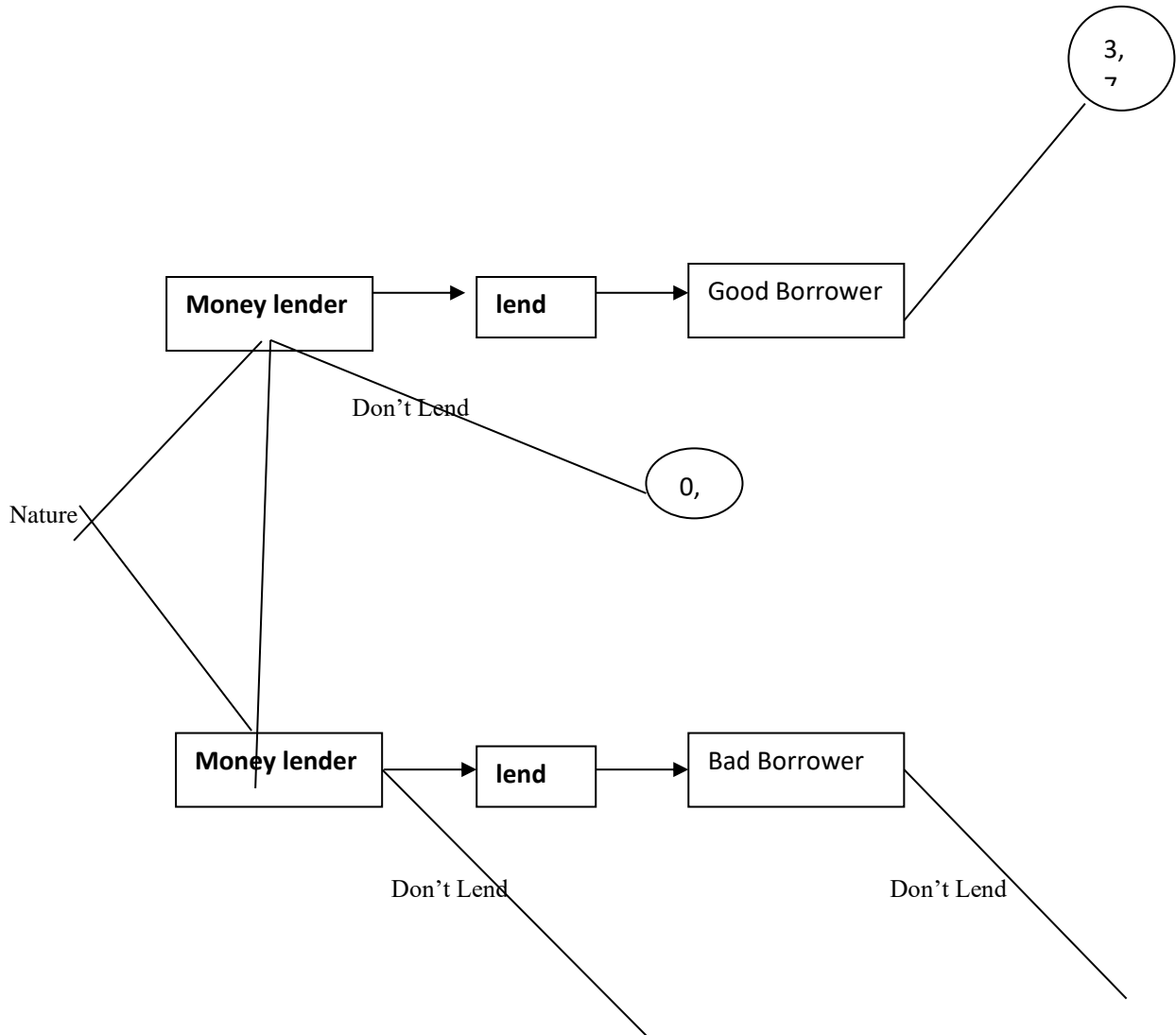
The Second Is The System Of Property Rights. The Notion Of Property Rights Is Also Used In Credit Transactions Of Developing Economies.

In Formal Credit Markets Of Developing Economies The Use Of The Collateral In Credit Transactions Solve The Enforcement Problem. The Use Of Collateral Makes Lend And Repay As The Nash Equilibrium. This Can Be Illustrated By The Following Hypothetical Situation. Let Us Suppose A Bank Provides 10 As Credit With 30% Rate Of Interest. Let Us Again Suppose That The Amount Of Credit Equal To 10 Yields 100% Return. Now, If The Borrower Offers A Piece Of Land As Collateral That Is Worth 14 The Payoffs Related To The Basic Lending Game Will Be :



The Bank Lends Because It Receives A Higher Pay Off Through Repossession Of Colletaral Even If Borrower Fails To Repay. Similarly, The Borrower Maximizes Its Pay Off Simply By Repaying Its Debt. Therefore Essential Lend, Repay Becomes A Nash Equilibrium In Formal Institutions In Rural Credit.

But In Case Of Informal Credit Market With The Lack Of Property Rights That Is Inadequate Colletaral The Problem Of Credit Transactions Are Solved In A Unique Way. The Lenders Tend To Strengthen Their Position In Rural Credit Market By Reducing The Problem Of Adverse Selection And Moral Hazard. They Do So By Using Informational Advantage.



The Same Hypothetical Situation As Mentioned Earlier Is Also Represented Here But This Time Without Any Collateral . Here The Money Lender Is In Advantage As He Knows Potential Lenders About The Local Clientele. This Inside Knowledge Gives Him A Relatively Higher Probability That He Is Dealing With A Good Borrower On An Initial Loan Meaning That He Is Working Under The Upper Part Of The Game. In The Lending Game The Borrowers Give More Emphasis On Future Availability Of Credit Than The Present Value Of Credit. So They Naturally Tend To Repay The Loan. The Bad Borrowers Give More Emphasis On The Present Value Of Credit Than Future Availability Of Credit. So They Tend To Default. But They May Face The Risk Of Non Availability Of Credit. Due To Absence Of Abundant Alternative Sources They Also Tend To Pay The Loan . Similarly, In Case Of Lenders Only Lending Gives Them A Profit. Moreover, If A Borrower Knows That The Money Lender Knows Him As A Good Borrower And Ask For Higher Amount Of Loan In Subsequent Periods Taking Advantage Of His Reputation. This Serves The Game In Two Ways : Large Lending Ensures Large Profit To Lenders And Also Ensures Large Returns To Borrowers Through Large And Efficient Investment.

Conclusion:

For Adequate Growth Of Agricultural Sector Provision Of Adequate Credit Is Essential. Although The Informal Sources Are Functioning Quite Smoothly In Rural Areas But They Do Not Provide Adequate Credit. Because Of Adverse Selection And Moral Hazard The Formal Sector Are Reluctant To Provide Credit. In These Situations The Micro Finance Institutions Can Play An Important Role In Rural Credit Market Of Assam.