CHAPTER-I

AN OVERVIEW OF RURAL CREDIT STRUCTURE WITH REFERENCE TO HIMACHAL PRADESH
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Mahatma Gandhi once said, "India is a country of Villages." This statement, even today after 60 years of independence, stands self-evident. In India, 72.2 percent of the total population belongs to rural areas with agriculture as the spine of rural economy. Indian economy is backward and agriculture-based. Agriculture plays a very dominant role in the economy in many ways. It is the source of livelihood for the bulk of masses and main employer of the massive labour force. Even after successful implementation of five year plans, agriculture is the single most important contributor to the national income. It is the largest sector of economic activity and has a crucial role to play in the Country's economic development by providing goods and raw materials, employment to a very large proportion of the population, capital for its own development and national economic development.

However, for the overall development, agriculture alone cannot be taken as the basis for the fulfillment of all kinds of requirements of people for better quality of life. Indian physiographical structure is such that there is huge disparity in rural and urban regions. The pace of development in urban regions is quite fast in comparison to the rural regions. This has become possible due to the development of infrastructure, facilities, services and moreover, development of avenues through industrial development and concentration of economic as well as political system to develop the urban region in priority. On the other side, the rural areas are lagging behind as these are not blessed with all such infrastructure, facilities or concentration of the political system.
It is pertinent that for the development of human resource, rural sector is still far back as the educational structure is not adequately and perfectly extending services. Health system is handicapped as it is not having either health facilitating equipments or medicines and even in some cases, the availability of skilled or professional human resource is absent. In such situations, in a great majority of the villages in all states and union territories of India, the dependence of people only on agriculture is not even catering to their subsistence needs. Surprisingly, the dominant communities or people in the villages have a major chunk of land holdings in their grip and the rest majority is fighting for survival. The focus of our country in the democratic setup is overall prosperity and good quality of life of people. The Constitution of India provides Fundamental Rights of liberty and equality in Articles 14 to 22 which are violated due to dominance of the rich communities in the rural areas.

Hence, the majority of rural population is not having adequate land holdings and is living a challenging life where infrastructure, facilities and services are inadequate due to which, the quality of life cannot be expected to develop in a fast pace so long as there is intervention of governance, institutions or other agencies to act a proactive role. In this direction, to facilitate services of income is the major consideration so that the independence of these people is deviated from the feudalism to earn for fulfillment of their family demands.

India is known world-wide for disparities as the country of integrity in disparity. The region wise disparity in terms of area, rural and urban population, density of population, literacy, area sown to total cropped area, per capita electricity consumption and road length per 100 sq. kms. has been depicted in the following table 1.1.
### Table 1.1: Indicators of Region-Wise Disparities in India

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<td>159</td>
<td>71.6</td>
<td></td>
<td>342.1</td>
<td>62.7</td>
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**Union Territory**

| 1.      | Andaman & Niobar Islands | 8249 | 2.40 | 1.16 | 3.56 | 43 | 81.3 | 82.6 | 301.9 | 14.3 |
| 2.      | Chandigarh      | 114  | 0.92 | 8.09 | 9.01 | 7800 | 81.9 | 50.0 | 853.3 | 1793.9 |
| 3.      | Daman & Diu Haveli | 491  | 1.70 | 0.50 | 2.20 | 449 | 57.6 | 76.7 | 6631.5 | 118.1 |
| 4.      | Jharkhand        | 112  | 1.01 | 0.57 | 1.58 | 1413 | 78.2 | 80.0 | 5428.1 | 369.6 |
| 5.      | Lakshadweep      | 32   | 0.34 | 0.27 | 0.61 | 1895 | 86.7 | 100.0 | 296.3 | 468.8 |
| 6.      | Pondicherry      | 492  | 3.26 | 6.48 | 9.74 | 1580 | 81.2 | 55.8 | 522.6 |

**Source:** Civil Services Times, Indian Economy.
The above table 1.1 shows that the States and Union Territories differ variedly in terms of the geographical area. The Union Territory of Lakshadweep has the geographical area of only 32 kilometers as against the area of Madhya Pradesh being 308245 kilometers. The population in the rural and urban areas of the States and Union Territories indicates that the rural population is much higher than the urban population in all the States and Union Territories except Delhi and Chandigarh. Mizoram and Goa have been found the States where rural and urban population is almost similar. The population has however, a wide disparity as the per capita production varies from 13 in Andhra Pradesh to 9340 in Delhi. Further, the percentage literacy rate as per 2001 census, varies between 55.5 in Jammu Kashmir to 90.9 percent in Kerala. The percentage net area sown to total cropped area in 2000-01 varies between 50 percent in Chandigarh against 100 percent in Lakshadweep and Mizoram. The per capita electricity consumption is very high in Dadar & Nagar Haveli (6631.5 KWH) against Bihar (44.9 KWH) being lowest. Moreover, Chandigarh is the first in terms of lengthiest road in comparison to the other States and Union Territories. It is obvious that the topography of the region has influenced the density of population, road length, literacy, cropping pattern and electricity consumed being all correlated factors of socio-economic relevance. The disparity of economic and other indicators clearly reflects that the rural sector of India is although having large geographical area and is largely contributing in agricultural industries, the literacy rate and other economic indicators are far back in these regions. In order to boost up the rural areas, the commercial banks have however taken daring steps by extending credits.
Financial institutions and banks are the sources of providing funds for development of employment generating sources. These institutions have played an important role in the development of industries, small business houses, agriculture, horticulture, farmland, sericulture development and many other employment generating schemes. Attempt has been made here to study the role of financial institutions and banks.

1.1 ROLE OF FINANCIAL INSTITUTIONS AND BANKS

The network of financial institutions and banks, provides all short-term, mid-term and long-term financial assistance including credits to all sections of economy for the development of communities and individuals for better employment avenues and development of trade as well as business. These institutions attract small savings and extend services for the welfare of masses. The categoric classification of the functions of banks and financial institutions in all region and sectors is explained here under:

In post-independence India, in order to facilitate improvements in agricultural production and attain food self-sufficiency, the stance of policy was to ensure sufficient and timely credit at "reasonable" rates of interest to a large segment of the rural population as is possible. The strategy to achieve this was threefold; expansion of the institutional base, direct lending to disadvantaged borrowers, and credit provision at concessional rates of interest. The later was justified in terms of the perceived mismatch between the longer term returns of farm investment in relation to cultivator households' short term consumption needs and requirements to service the loans.

The present rural financial infrastructure comprises a wide variety of formal, semi-formal and informal financial service providers, with distinctive cultures and characteristics. The number of organizations and agents is very
substantial, including 82511 rural and semi-urban branches of commercial banks⁴, 13,932 rural and semi-urban branches of Regional Rural Banks, 1.09 lakh primary cooperatives, 1,000 NGO-MFIs and around 20 MFIs registered as companies and nearly three million SHGs. Even more numerous are the myriad of informal agents constituting a great range of financial service providers across the Country.⁵

1.1.1 Commercial Banks

Commercial banks constitute the major banking institutions in India. These institutions perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation and agency functions. They are also called joint stock banks as they are organized in the same manner as joint stock companies. They generally advance short-term loans to their customers, though in some cases they may advance medium-term loans also. The commercial banks in India are state owned as well companies. It was on the night of 19 July 1969 that the momentous decision to nationalize fourteen major Indian scheduled banks was taken by the Government of India through the promulgation of an ordinance.⁶ A bill, called the Banking Companies Acquisition and Transfer of Undertaking Bills was introduced in the Parliament on 25 July 1969 to replace the ordinance. The Bill was subsequently passed and it received the assent of the President on 9 August 1969. The validity of the Act of 1969 was challenged in the Supreme Court which struck down the Act as infringing Articles 14, 19 and 31(2) of the Constitution on 10 February 1970. The Government promulgated an ordinance on 12 February 1970 to meet the points raised in the adverse judgement of the Court. A Bill was subsequently introduced in the Parliament to replace the ordinance and was quickly passed into law. It was to have the retrospective effect so as not to
invalidate the original nationalization of 19 July 1969 with the nationalization of banks, these institutions have done a tremendous role in encouraging small savings and deploying credits particularly to meet out varied credit needs of people in rural areas.

1.1.2 Co-operative Banks

The Co-operative banks in India started functioning almost 100 years ago. The real beginning of the cooperative movement was from the year 1912 when the defects of the Act of 1904 were removed. The movement was considerably stimulated during and after the war of 1914-18. But during the Great Depression of 1929-33, the movement received a serious setback. Again with the starting of the War of 1939-45, there was quickening of the movement and there was a rapid progress in all directions particularly due to the cooperative movement. The cooperatives mainly include; Primary cooperative Credit Societies, Central cooperative Banks, State cooperative Banks and others. Amongst them all, the state cooperative. Banks play a most predominant role. These banks, now 28 in number, form the apex of the cooperative credit structure in each state. They finance, coordinate and control the working of the central banks in each state. They serve as the link between the Reserve Bank of India and the general money market on the one side and the central cooperative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and their own share capital and reserves. The state cooperative banks are not only interested in helping the cooperative credit movement but also in promoting other cooperative ventures. The Cooperative banks are an important constituent of the Indian Financial
System, judged by the role assigned to it, the expectations the co-operative is supposed to fulfill, and the number of offices the cooperative banks operate. Though the co-operative movement originated in the West, but the importance of such banks assumed in India is rarely paralleled anywhere else in the World. The cooperative banks in India play an important role even today in rural financing. The businesses of cooperative banks in the urban areas also have increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks.

Co-operative Banks in India are registered under the Co-operative Societies Act. These institutions are also regulated by the Reserve Bank of India. The co-operative banks are further categorized under the two main heads; agricultural and non-agricultural. The co-operative credit structure is in pyramidal shape in the three tier structure consisting of State Co-operative Banks, Central Co-operative Banks and Primary Co-operative Banks. Though, the Co-operative Credit movement was made a special responsibility of the RBI right from the latter's birth in 1935, much was not accomplished in this sphere till about the mid 1950s. The real turning point in the Bank's role in the movement came only after the Bank's All India Rural Credit Survey Committee submitted its monumental report in 1954. The Survey Committee had found that while the Co-operative Societies and Government provided only 3 percent each of the loans raised by the cultivator, the private credit agencies (the moneylender and the trader) lent more than 70 percent of what the cultivator borrowed. The money lenders charged very high rate of interest and did not concern himself with the purpose of the loan. The survey committee summed up the position of agricultural credit thus: It felt short of the
right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people. It also pointed that 'Co-operation had failed but Co-operation must succeed'. For this success, the Survey Committee recommended on 'integrated scheme of rural credit'.

1.1.3 EXIM Bank

The Export-Import Bank of India, also known as EXIM Bank of India, is the leading export finance institution in the Country. The bank was set-up in the year 1982 under the Export-Import Bank of India Act 1981. The Government of India launched the Export-Import Bank of India with an aim to augment exports from India and also to combine the Country's foreign trade and investment with the overall economic growth. The bank began its operations as a supplier of export credit, but has over the period, evolved into an institution that plays a major role in partnering Indian Industries including small and medium enterprises.

The Bank has been one of the prime institutions who encourage project exports from India. The bank offers wide-range of services for enhancing the prospect of Indian project exports. EXIM Bank's Overseas Investment Finance program gives a variety of facilities for Indian reserves and acquirements overseas. The facilities consist of direct equity participation and non-funded activities by the bank in the overseas venture and loan to the Indian companies for equity participation in the venture abroad. As part of EXIM Bank's marketing Finance Program, the bank offers support to small and medium enterprises in their export marketing efforts consisting of financing the soft expenditure linking to completion of tactical and systematic export market development plans.
1.1.4 NABARD

National Bank for Agriculture and Rural Development (NABARD) was established as an apex rural development bank in the year 1982, through an Act of Parliament, to provide refinance for agriculture, allied activities, small scale industries, cottage and village industries, rural artisans and crafts in an integrated manner.\textsuperscript{13}

NABARD supports the rural credit system by way of refinance for short-term, production/marketing activities, medium-term and long-term loans for technically feasible and financially viable projects in both Farm and Non-Farm sectors, through State Co-operative Banks (SCBs), and Regional Rural Banks (RRBs). The State Co-operative Agriculture and Rural Development Banks (SCARDBs) are supported for only term loans for investment credit.\textsuperscript{14} The Commercial banks are supported for short-term financing of primary weavers' societies and for term loans for investment credit.

NABARD provides finance to State Governments for completion of rural infrastructure development projects such as major and minor irrigation projects, soil conservation, rural roads and bridges, SHGs (Self Help Groups) through PRIs (Panchayati Raj Institutions) etc., from the "Rural Infrastructure Development Fund" (RIDF) created for the purpose.

1.1.5 Development Financing Institutions

Financial institutions are those organizations that are involved in providing various types of financial services to their customers. The financial institutions are controlled and supervised by the rules and regulations delineated by government authorities.
CHART 1.1

STRUCTURE OF DEVELOPMENT FINANCIAL INSTITUTION IN INDIAN

ALL India Development Institution/Banks

1. IDBI
2. IFCI
3. ICICI
4. IIBI
5. IDFC
6. SIDBI

Investment Institutional

1. UTI
2. LIC
3. GIC
4. NIC
5. NIA
6. OIC
7. UII

Specialized Financial Institutions

1. RCTC
2. TDICI
3. TFCI
4. EXIM
5. NABARD

State Level Banks

1. SFCs
2. SIDs

Source: Civil Services Times "Indian Economy Update" December-2005, p. 9
These institutions are assisting financially and are promoting the industrial sector enterprises in the Country. In the rural area, for the development and sustenance of the cottage, artisan and micro level businesses are being boosted-up by them. However, these institutions are switching over to universal banking since 2002. Some of the financial institutions also function as mediators in share markets and debt security markets. The principal function of financial institutions is to collect funds from the investors and direct the funds to various financial services providers in search for those funds. Financial institutions deal with various financial activities associated with bonds, debentures, stocks, loans, risk diversification, insurance, hedging, retirement planning, investment, portfolio management, and many other types of related functions. With the help of their functions, the financial institutions transfer money or funds to various tiers of economy and thus play a significant role in acting upon the domestic and the international economic scenario.

For carrying out their business operations, financial institutions implement different types of economic models. They assist their clients and investors to maximize their profits by rendering appropriate guidance. Financial institutions also impart a wide range of educational programs to educate the investors on the fundamentals of investment and also regarding the valuation of stock, bonds, assets, foreign exchanges, and commodities.

Financial institutions can be both private and public in nature. The most common forms of financial institutions can be categorized into the following types:
Thus, it can be concluded that a financial institution is that which performs the function of collection of funds from private and public investors and utilizes those funds in financial assets. The functions of financial institutions are not limited to a particular country, instead they have also become popular in abroad due to the growing impact of globalization. The development financial institutions comprise of development banks to assist businesses, assisting agencies etc. The network of development financial institutions is as above.

1.1.6 Regional Rural Banks

To promote rural development on sound lines, a new form of institutions called Regional Rural Banks was established on 2 October 1975, the birth anniversary of Mahatma Gandhi, by Government of India through passing an Act in Parliament. The new institution, sponsored by concerned lead bank of the district(s) has progressed well by creating one Regional Rural Bank for one district. The Regional Rural Banks provide credit to weaker sections of
society, small and marginal farmers, agricultural labourers, artisans etc. as they have been exclusively established for this purpose. The basic aim of RRBs has been in terms of developing the rural economy by providing credit to agriculture, trade, commerce, industry and other productive activities in rural areas and in particular to small and marginal farmers, agricultural labourers, artisans and small enterprises. These banks have the potential to stand on their own in the regional or area plan exercise for rural development in the Country.

The financial institutions or banks are performing well though the accessibility of these institutions is quite meager in the rural sector except the Co-operative banks, some commercial banks and the NABARD. This is the reason that to fulfill the monetary demands in the rural areas, people have still to rely upon the indigenous bankers who charge high rate of interest and do not fulfill legal conditions at the time of expending credits completely due to which the masses are exploited and are under the vicious circle. However, the role of rural credit varies in all regions and states of the Country. For an understanding of the mechanism and impact of rural credit in the rural areas, it is essential to understand the structure of agencies providing credits in rural sector and demographic features of India. The structure of financial agencies is depicted in chart 2.
In rural India, unorganized money market is described by combining money lending with other kinds of economic activities, great amount of informality in dealing with customers, direct contacts with customers, fairly great amount of flexibility in matters of loans operations, fairly simple system of maintaining accounts and by secrecy that conceals financial transactions. The structure of Unorganized money market is shown below:

**Source:** Maheshwari, S.R. Rural Development in India.
1.2 GOVERNMENT SPONSORED CREDIT SCHEMES

It is clear that there is a complete network of banks and financial institutions who are extending credit in the rural areas of all the states including the state of Himachal Pradesh which is the area of present research. In addition, the Central Government sponsored as well as the schemes of the state governments are equally important to support rural people by providing...
them credits under specified schemes for different purposes. The main schemes of credits include:

- Prime Minister's Employment Generation Programme administered by the Ministry of Micro, Small and Medium Enterprises to generate employment in all areas by providing credits.

- Handloom Weavers Comprehensive Welfare Scheme by providing credits to rural people under Mahatma Gandhi Bunkar Bima Yojana.

- Financial assistance to States for Development of Export Infrastructure for Export and Allied Activities.

- Financial assistance provided to rural people under Swaran Jayanti Gram Swarojgar for poverty alleviation, and rehabilitation financial assistance of Scavengers.

- Funds provided to rural people in the form of Commission Margin Money Scheme through Khadi and Village Industries Boards.

- Credits provided to rural people under Swarojgar Credit Card Yojana.

- Credits provided as micro finance.

- Schemes under Kissan Credit Cards.

- Special credit schemes to women entrepreneurs.

- Credit schemes for varied priority sector activities and other purposes including agriculture and priority services.

- Credits provided under schemes of NABARD.

In Himachal Pradesh, the schemes for providing credits to people in the rural areas are implemented to boost up the rural sector of the State. The rural sector of Himachal is contributing a key role in the state economy. The rural credit structure of India demographic structure of the state are explained briefly as below:
1.3 RURAL CREDIT STRUCTURE OF INDIA

The term credit may be defined broadly or narrowly. Broadly speaking, credit is finance made available by one party (lender, seller, shareholder, owner) to another (borrower, buyer, corporate or non-corporate firm). The former may be a pure lender (a financial institution or a private money lender), a seller supplying goods against the buyer's promise of future payment or a shareholder or owner of a corporate or non-corporate firm making funds available to the firm viewed as a separated entity. More generally, the term credit is used narrowly for only debt finance. Credit is simply the opposite of debt. It is the claim to receive the payments while debt is the obligation to make future payments. It is a stock-flow variable and at any point of time, there is certain amount of credit outstanding. In order to eradicate poverty and maximize the opportunities of employment, rural credit plays a significant part. The Indian economy is based on agriculture. Agriculture accounts for one half of the national income and provides employment to about three fourth of the working population of the Country. In India, agriculture is a "way of life" than a mode of business. But, to uneconomic farming, the households are forced to borrow money either for meeting out the consumption needs or for purchasing seeds and other agricultural implements. In this way, the Indian farmers borrow year after year and are not in a position to repay the loan. Hence, the farmers are caught in the vicious circle of low earning, poverty and indebtedness. According to Hennery Wolf, "it is the burden of debt which restricts the agriculture and deplore to a life of poverty and slavery which deprives him of the incentive to increase his production. Since majority of the farmers have long lasting deficit budgets and have not saving to fall back on,
as a result they require loans not only for carrying out their agricultural operations but also for meeting their consumption needs, purchase of seeds, manure, a bullock or simple agricultural implements. In order to meet their consumption needs, often most of such small and marginal farmers, poor rural artisans and landless agriculture laborers are compelled to go to the village money lenders who in their case, happen to be the only source of credit. Once the poor agriculturists are compelled to have access to the money lenders, they go entirely under their control. The money lenders charge very high rate of interest, manipulate the accounts and the poor and illiterate borrowers find it difficult to get out of the clutches of the village money lenders. Hence, the well known saying reflects the condition of an average Indian cultivator that, "The Indian farmer is born in debt, lives in debt and dies in debt".

1.3.1 Causes of Rural Credit

The causes of rural credit or indebtedness are complicated. These are due to economic instability prevailing in the Country because of slow progress of small scale and cottage industries and scarcity of large scale industries in the rural areas, rapid growth of population and more dependent pattern of agriculture in terms of the area available for cultivation, increase in the uneconomic size of holding due to sub-division and fragmentation, less expenditure on agriculture and obsolete methods of production and consequently, low production from land per head of production and per acre the dependence of agriculture on the vagaries of monsoon and famines, lack of business range due to illiteracy, the burden of land revenue, the excessive rate of interest and certain other objectionable practices. However, the main causes of rural credit can be pin down as under:
1. The main cause of rural credit is deficit nature of agriculture in case of small and marginal farmers and unsatisfactory nature of rural artisan occupation. The small and unsatisfactory nature of rural artisans and landless agricultural labourers has hardly any saving to fall back in case of a crop failure due to floods, draught or theft or any other things.

2. The farming community being more conservative in nature, believes in celebrating several social and religious ceremonies like births and deaths, marriages and so on in the traditional way with distribution of food to the entire village community and feasting. However, the cultivators cannot afford such expenses. Yet they perform all these ceremonies through borrowing from village money lenders.

3. A major part of the chronic debt has been taken over by the present generation from the past generation. Social customs and the tradition of ease successive generation, acknowledging and paying the debt of its ancestors have been exalted into a legal maxim; viz. 'the religious obligation to pay forefathers debts enforceable in Courts of Law. Very often, the cultivators have to insure additional debt to repay the old debts. Hence, the ferocious circle continues from generation to generation.

4. Money lenders are themselves generally responsible for increasing credit of rural households. The professional money-lenders encourage the poor illiterate and needy households to borrow on the security of land or the house just to capture it. They charger very high rate of interest, obtain signature or thumb print of borrowers on the blank stamped papers. They do not give receipt of paid installments and
interest. They manipulate the accounts in such a manner that the borrowers do not get out of their clutches and finally the ownership of the security namely, land and houses passes on the money-lender.

5. The inter family and intra-family land disputes over boundary, theft of crops, sharing of well water or division of forefathers lands and other property among brothers, lead to perpetuated litigation which is very costly affair in our country lasting over several years. Often such types of litigation led many rural households into the grip of the village money lenders.

6. The payment of wages of agriculture labourers is very low, generally in kind, as a result their efficiency and productivity is also low. In this way they are caught in the ferocious circle of poverty.

7. The increase in the landless agriculture labourers, transfer land from agriculturists for cultivation by them. The sale of harvest at lesser price to creditors causes loss and principle/interest in not paid and also they fail to pay the amount required by agriculturists who have given land for cultivation and they have to take credit.

8. Socio-economic change is also responsible for rural credit as people take credits to equate themselves with others living in the village by constructing house, purchasing properties, furniture and other assets for which, they have to borrow money.

9. Large-sized families with more number of dependents and to meet out varied kinds of demands of the families particularly to impart education to the children, which is quite inaccessible to the villagers, sometimes is the cause of rural credit.
Thus, the fundamental causes of increasing rural credit, in the past have been the deficit nature of majority of farmers' agricultural operations and the unscrupulous methods and actions of the village money-lenders who are more or less in monopolistic position and to whom, therefore, needy rural households are compelled to go for lands and submit themselves to conditions laid down by them also as there may be no alternative institution, or they do not possess any security which is acceptable by the banks and against which, loans may be acquired and this forces the rural households to go to the village money lenders due to the reasons which have been described above.

1.3.2 Consequences of Increasing Rural Credit

The growing poverty among the rural households is both the cause and consequence of increased rural credit with all round damaging consequences of rural households though, some of the main consequences of rural credit can be summed up as under:

i) General Consequences

The general consequences are as mentioned below:

1. Adverse effect on agriculture.
2. Exploitation of farmers.
3. Impediment in the marketing of agriculture produce compelled to sell their produce to money lenders.
5. Transfer of land to Non-Agriculturists.

ii) Moral Effects

The credit causes morally the indebtedors weak. They spend their life like a slave doing all sorts of 'beggars' for money lenders.
iii) Social Effects

The rural society is divided into haves and have nots. As a result of credit and usually there are class conflicts as well.

1.3.3 Credit Requirement Purposes

The major credit requirement purposes apart from the causes of credits are; crop loans, irrigation schemes, fertilizers, dairy, gobar gas, piggery, sheep husbandry, poultry, sericulture, fisheries, goat rearing, equipments etc.¹⁶

1.3.4 Extent of Rural Credit

There are a number of practical difficulties in the way of correctly assessing the amount of rural credit. Vast number of agriculturists and rural artisans spread over 5.6 lakh villages many of whom are totally isolated and are in hilly regions, having unwillingness to reveal the extent of debt due to one reason or another with pure ignorance about the matters as the accounts and documents are maintained by the village level money-lenders who do not disclose the documents to the borrowers and so on, result to determine the amount of credit as per the discretion of money lenders.

To know exactly the extent of rural credit, it is essential to have one or two clarifications. A rural household may borrow because he is pressed to meet his consumption needs (because crops have failed due to failure of monsoon) or he may be required to borrow for a short period to meet his current expenses of agricultural operations (such as purchasing of seeds, fertilizers or some simply agricultural implements) or he may borrow because he wants to bring about some permanent improvements on the land (digging of well) or wants to purchase additional land or wants to purchase heavy
agricultural implements like a tractor of diesel engine for drawing water from the well for the fields. Thus, a cultivator may borrow either for consumption purposes (and this is supposed to be unproductive loan) or for productive purposes and therefore, one must not take into consideration only the amount of debt but also take into consideration the purpose for which the debt is taken (i.e. whether the debts are productive or unproductive). It is this debt which goes on accumulating and enlarging year after year and leaves the cultivator in perpetual debt. The causes of debt i.e. the reasons for which credits availed by rural people, influence the rural credit disparities whether it relates for productive or unproductive agricultural purposes, priority sector enterprises, priority services, development purposes, education of children, repayment of previous debts, weaker section credit packages, special credit schemes or government sponsored credit programmes. The rural credit disparities are also reflected in relation to the geographical conditions of a region. Here, the geographical structure, economy, agricultural pattern and rural credit of Himachal Pradesh has been tried to be understood to ascertain and understand the rural credit disparities in the State.

1.4 DEMOGRAPHIC FEATURES OF HIMACHAL PRADESH

India is one of the oldest civilizations with a kaleidoscopic variety and rich cultural heritage. It has achieved multi faceted socio-economic progress since getting independence. It covers an area of 32,872,366 Sq Km extending from the snow covered Himalayan heights to tropical rain forests of the south. The Country is seventh largest country in the World and is well marked off from the rest of Asia by mountain and the sea, which gives the
Country a distinct geographical entity. The country has border with Pakistan and Afghanistan to North West, China, Bhutan and Nepal to North, Myanmar to East, Bangladesh to East of West Bengal and Sri Lanka is separated from India by a narrow channel of sea. The Country is mainly divided into three zones; The Himalayas comprising of Greater Himalaya, Middle Himalaya and the Outer Zone, The Northern Plains and the Southern Peninsula. The geographical diversity of the Nation has an impact on the habitation and quality of life of people living in different zones. Such diversity has resulted to the difference in density of population, literacy and in some other economic indicators. Himachal Pradesh is one of the hilly states of India in the lap of Himalayas.

Himachal takes its name from the Himalayas. Himachal literally means "Land of snowy mountains". Himachal Pradesh is a small world in itself, which is entered from the plains of Punjab, or Shivalik hills or through hills of Shimla, through beautiful "meandering valleys," covered with pine and typical temperate mountain flora. Himachal Pradesh is bound between 30°47' to 79°12' North latitude and 75°47' to 79°4' East longitude. To the East, it forms India's border with Tibet, to the North lies the state of Jammu & Kashmir, Uttarakhand in the South-East, Haryana in the South and Punjab in the West. The entire territory of Himachal Pradesh is mountainous with altitude varying from 350 to 7000 meters above the mean sea level. Geographically, it forms part of Punjab Himalayas and thus, presents an intricate pattern of mountain ranges, hills and valleys. There is general increase in elevation from west to east and from south to north.
According to Surveyor General of India, the total area of Himachal Pradesh is 55,673 Square Kilometers which is divided into twelve administrative districts. Out of total area of 32,271 square kms, 58.0 percent is measured area according to the revenue records of the Pradesh. There are 12 districts, 53 sub-division, 77 blocks, 82 tehsils and 34 sub tehsils in Himachal Pradesh. The total population of the State according to 2001 census is 60.8 lakh, which includes 54.82 lakh population of the rural area and only 6 lakh of urban population. The literacy rate of the State is 76.5 percent. The density of population is 109 and population growth rate of the State is 17.54 percent from 1991-2001. It has 17,495 inhabited villages with the average population of 313 per village and 57 towns and cities. Area wise, ‘Hamirpur’ is the smallest district of the Pradesh which covers an area of 1,119 square Kms. (2.01%) and ‘Lahaul-Spiti’ covers the largest area of 13.835 squares Kms. (24.85%).

1.4.1 Economy of Himachal

The economy of Himachal Pradesh is in the phase of big changes. It has already shed off some elements of backwardness. It has also acquired quite a few characteristics of developed economies. The natural and human resources of the Pradesh are the foundations of its economic development.

The political history of modern Himachal Pradesh goes back to the period of 1948, when with the merger of 30 Shimla hill states, Himachal Pradesh was reorganized as a Chief Commissioner’s province. The whole territory of the Pradesh before this was divided among ‘Rajas, Ranas and Thakurs. These small princely states had neither the resources nor the will to develop their areas. Land was scarce due to hilly terrain and moreover, the
best of it was with the rulers. The common peasants tilled table-cloth size terraced fields carved out of stony hill sides to eke out a precarious living. There was no industry to name, local needs were somehow met partially by local artisans. The people were extremely poor, steeped superstitious and lacking in mobility due to absence of good means of transport and communication, mostly sticking to their ancestral occupations. The scrapping of old feudal order in 1948 and its replacement by a bureaucratic system did not automatically help in the economic growth of the area. The progress rate in the initial years of First Five Year Plan was generally slow and incoherent. In 1951, democratic government was installed by making Himachal Pradesh a part ‘C’ state. The First Plan was reshaped by popular Ministry to put more emphasis on the most desired sector and involved more and more people in the process of economic and social development. A political change can be purposeful only if it is able to create an economic framework and social climate conducive to all round development of the people. The Punjab hill areas of Kangra, Kullu, Lahaul-Spiti and Shimla, which were under the direct control of the British till Independence and from 1947 to 1966 with Punjab State, were also not given the requisite attention. The systematic evaluation of resources and their scientific exploitation was started only after the formation of Himachal Pradesh as a full-fledged state. It is only there that the people and the government of the Pradesh started making concerted efforts to improve economic condition of the people and so of state. The economy of Himachal Pradesh today is based on agriculture, animal husbandry industrial development, forests wild life, hydel power generation, mineral wealth, road and transport, horticulture and tourism. Moreover, the rural sector of the State is availing credits through central government sponsored schemes and the
schemes of the state government to provide special packages for their upliftment by assisting finance for different purposes to different categories.

1.4.2 Agriculture

Agriculture is the occupation of the people of Himachal Pradesh. It has an important place in the economy of the State. It provides direct employment to 69 percent of the total number of workers of the State. Agriculture happens to be the premier source of state income (GSDP) as about 20 percent of the total GSDP comes from agriculture and its allied sectors. Out of the total geographical area of 55.67 lakh hectares, the area of operational holding is about 9.79 lakh hectares and is operated by 9.14 lakh farmers as per distribution of land holdings. According to 2000-01 agriculture census, 86.4 percent of the total holdings are small marginal farmers. About 13.2 percent of holdings are owned by semi medium and medium farmers and only 0.4 percent by large farmers.

1.5 AGRICULTURE CREDIT

Traditionally, non-institutional sources of finance have been the major sources of finance for the rural households due to various socio-economic conditions. Some of them have been lending at exorbitant rates of interest and since the poor own few assets, it is unviable for the financial institutions to secure their lending with collateral. In view of the propensity of the farmers to borrow money, most of whom are marginal and small farmers, credit flow for purchase of inputs is being made by the banks. Institutional credit is being extensively disbursed but there is scope to increase the same particularly in respect of the crops for which insurance cover is available. Providing better
access to institutional credit for small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been one of the major objectives of the Govt. For this purpose, various schemes of credits have been launched in the rural areas.

1.6 BANKING INSTITUTIONS PROVIDING CREDITS IN HIMACHAL PRADESH

In Himachal Pradesh, banks are playing a predominate role to accelerate economic growth in the State economy and to share the responsibility to enhance the flow of institutional credit in all sectors in accordance with the national priorities. The total number of bank branches in the State were 1373 as on September, 2009. There are 20 commercial banks operating in the State through a network of 776 branches of which 558 are located in rural areas, UCO bank has been entrusted the responsibility of convenor bank in the State by RBI having the network of 135 branches in the state. Other major banks are; PNB with 234 branches, SBI with 177 branches State Bank of Patiala with 81 branches and Central Bank of India with 40 branches. In addition, the State is having a strong network of 4 Cooperative Banks with 407 branches and 2 Regional Rural Banks having 152 branches. There are 8 Private Sector Banks having 38 branches as on September, 2009. Further, some other banks have also their branches in the State.

The Himachal Pradesh State Cooperative Bank Ltd is an apex bank under short-term credit structure having network of 175 branches in six districts of Himachal Pradesh viz. Shimla, Kinnaur, Bilaspur, Mandi, Sirmaur and Chamba districts including one branch at Delhi. There are two central cooperative Banks in the state namely Kangra Central Cooperative Bank Ltd.
And Jogindra Central Cooperative Bank Ltd. The Kangra Central Cooperative Bank has 163 branches in five districts viz. Kangra, Hamirpur, Kullu, Una and Lahaul & Spiti while Jogindra Central Cooperative Bank has 20 branches in Solan district. Moreover, the banking institutions are providing credits to all the districts for meeting out the credit demands of different purposes in the rural areas and are supporting the government sponsored credit programmes in these areas.

SUMMARY

Indian economy is agriculture based as 72 percent of the total population of the country belongs to agriculture in rural areas who provide raw material and get earnings out of it. However, agriculture alone is not providing adequate earnings to rural people and hence, they engage in other occupations and employment. For meeting out their agricultural, occupational and developmental demands, people seek credits. Traditionally, the indigenous bankers used to provide them credits and exploited rural people. To meet out the credit demands of rural people by keeping them out of the clutches of indigenous bankers, the intervention of banks and financial institutions by reaching the packages of credits sponsored by the government and by these institutions, banking institutions have played a key role. In India, a complete network of banking and financial institutions is accessible to facilitate people belonging to all regions of the Country. These include commercial banks, cooperative banks, regional rural banks, National Bank for Agriculture and Rural Development, other Development Banks and other institutions.
Amongst all services of the banking and financial institutions, credits are most pertinent for people as money is the main requirement for any occupation and these institutions are the sources of providing credits. Further, the modern credit structure through these institutions has emerged only due to the limitations and exploitation by indigenous bankers. There are a number of causes of rural credit which have varied general, moral and social effects. The extent of rural credit depends upon the credit demand in terms of purpose, category, scheme, credit terms & conditions, accessibility of credit providing institution, attitude and behavior of credit institution with the borrowers and the regional credit requirements in addition to the socio-economic and developmental considerations.

Himachal Pradesh is geographically a mountainous region of India where more than two third of the population is in the rural areas having agriculture, small scale industries, etc are the occupations. People of the State have inadequacy of monetary sources and to meet out the credit demand of rural people, commercial banks, Himachal Pradesh State Cooperative Bank, Kangra Central Cooperative Bank and other banking institutions are providing credits. Moreover, there is credit disparity in terms of region-wise disparities.
References:


4. Ibid. 3 pp. 196-197.

5. Internet


7. ibid. 6.


11. Ibid 10 p. 126.


15. Id. 10. p. 19.


