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Title of Thesis: Rural Credit Delivery System of Nationalized Banks: A Case Study of Farmers of Rajasthan (1991-2011)

Abstract

Around two third of Rajasthan's population is dependent on agriculture activities for their livelihood. Agriculture contributed around 26 percent in GSDP during 2010-11 (PHD Research Bureau, 2011). Rural economy of Rajasthan is dominated by marginal, small, semi-medium and medium farmers. These jointly operate 92.04 percent of the total operational holdings. (Agricultural Census, 2010-11). Rural credit is an essential requirement for enhancing agriculture productivity (Murugan, 2011). The share of rural banks advances to agriculture increased from Rs. 1009 lacs in 1991 to Rs. 3163 lacs in 2001 to Rs. 24516 lacs in the period 2011 recording a compound growth rate of 16.41 percent. Despite significant expansion of rural credit banks and institutions the quantity and access of rural credit to farming sector remains insufficient (Ramesh, 2007). On the basis of existing review of literature it appears that Indian rural credit market systems is unsatisfactory. Farming community faces constraints in accessing rural credit from banks and other credit agencies. Many studies have been conducted across the Indian states to identify and explain these constraints. But with respect to the study area such studies are not available. Against the above backdrop the present study was contemplated to: (i) Identify the financial credit agencies / banks which are providing rural credit and are associated with the farming community in Rajasthan; (ii) Examine the rural credit delivery system of Nationalized Commercial Banks in general and agricultural credit in particular; (iii) Review credit policies of the Government in relation to rural credit disbursement among farmers; (iv) Identify the problems / constraints faced by farmers in accessing rural credit from banks and credit agencies in the study area; (v) Propose recommendations in order to improve accessibility of the rural credit. Both primary and secondary data have been employed in the present study. Primary data were collected by conducted face-to-face interviews of the farm households from November 2014 to January 2015. Multiple-stage stratified random sampling technique was employed to select different sampling units. Two districts of Rajasthan were selected on the basis of *District Potential Linked Credit Plans (PLPs) of NABARD*, representing highest and lowest agricultural credit flow disbursement. Jaipur was having the highest (Rs.147457 Lacs) and Rajsamand recorded the lowest (Rs.1758 Lacs) agricultural credit flow

disbursement from nationalized commercial banks during the reference period. Four blocks [(Jhotwara (329), Viratnagar (3) from Jaipur district and Rajsamand (19), Deogarh (2) from Rajsamand districts)] were selected on the basis of the highest and the lowest number of public sector bank branches as on 21st November 2014. Twenty-eight villages were selected as per the guidance of the Zonal office documental record of State Bank of Bikaner and Jaipur (SBBJ), Rajasthan. Equal proportion of borrowers and non- borrowers was selected as per the available information on the number of borrowers collected from the Zonal office of State Bank of Bikaner and Jaipur, Rajasthan. Since treatment and control group belonged to the same locality following Heckman and Todd (1997) we asked the same set of questions to both borrowers and non-borrowers. Sample size was selected by using formula given by Krejcie and Morgan (1970). Description of sample size at village level was done on the basis of number of households who had borrowed loan from nationalized commercial banks. Two eighty respondents (140 from each sampled district) were finally selected. The following Probit Model was used to identify the factors that determine accessibility to institutional credit:

$$\mathbf{Y_i = \alpha_0 + \sum \beta_j x_j + U_i}$$

Where Yi is credit access which takes the value of 1 for those that had accessed and 0 otherwise, xj is a vector of exogenous variables assumed to influence accessibility of credit; β_j represents estimated probability of the determinants of accessibility; U = stochastic error term.

Results: It was proposed that accessibility of credit is determined by: individual / household characteristics and financial institutions like: Age, age square, gender, education, household size, farm size, membership of cooperatives, household assets, livestock, complicated procedures, interest rate and distance from the bank. Estimated results from the Probit Model, however, showed that the access to credit was significantly affected by variables like: Age of the household head, education, interest rate, farm size and household assets in Jaipur district. Whereas in case of Rajsamand district variables like: Age of the household head, farm size, household assets, complicated procedures, interest rate and distance from the bank affected access to credit. Fifty two percent of the respondents mentioned that complicated procedures were major hurdles in accessing credit in Jaipur district. Whereas, sixty seven percent of the sampled cultivators in Rajsamand district reported that complicated procedures were serious constraints. An important of the present study is that complicated procedure as a major constraint in accessing credit though some studies suggest that complicated procedure was not the major constraint to access credit [(see Veerashekharappa (1996)]. Despite high demand these factors adversely affect access to credit. It is, therefore, proposed that appropriate and effective policy measures should be put in place to remove these constraints.