Easy, Timely Access to Formal Institutional Credit Enables Households To Invest in Income Generating Activities. However, Inadequate Access to Affordable Credit Lies at the Heart of Rural Distress". In this light, Examine the Key Aspects of Debilitating Rural Credit. (250 words / 15 M) (GS-3 Economy)

Approach :

1. Briefly introduce the low rural credit penetration.
2. Mention point-wise dismal state of rural credit scenario in India.
3. Conclusion

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The ***All India Debt and Investment Surveys 2019*** done by **the NSO** are among the most important **nationally-representative data sources on Indian rural credit market**. It is acknowledged in this survey, that **lower outreach of formal credit** has **encouraged non-institutional borrowings** to meet **short-term consumption needs** in rural areas.

Non-institutional sources have a strong presence in rural credit market, despite the **high costs** involved in borrowing from them.

- Average debt per household in rural areas is Rs. 59,748, which is nearly half the average debt / household in urban India.
- A key indicator of credit access is Incidence of Indebtness (IoI) – proportion of households having outstanding loans as on June 30 of the year. The IoI is 35% in rural India : 17.8% of rural households are indebted to institutional credit agencies, while 10.2% are indebted to non-institutional agencies, and 7% to both.
- Share of debt from institutional credit agencies in total outstanding debt in rural India is 66% compared to 87% in urban India. Dependence on institutional sources is seen as positive signifying broadening financial inclusion, while reliance on non-institutional credit denotes vulnerability & backwardness.
- In non-institutionalised debt, professional and agricultural moneylenders remain the primary credit sources. Continuing dependence on informal credit points to interlinkages between labour/input markets & rural credit market, which is troubling because interest rate charged on 45% of institutional debt is 10-15%, whereas on 44% non-institutional debt, it falls between 20-25%.
- The purpose of borrowing must be examined to see how socio-economic inequality shapes household Indebtness. Institutional credit is taken mainly for farm business and housing, while a significant portion of non-institutional debt is used for other household expenditures.
- Better-off households have greater access to formal credit for use in more income-generating purposes. The top 10% rural households in terms of asset ownership expend almost 2/3rd of their institutional debt and 40% of non-institutional debt on farm/non-farm businesses. Bottom 10% of rural households spend half of their total debt on non-

productive household expenditures.

- Access to institutional credit is determined by households' ability to furnish assets as collateral. The top 10% asset owning households have borrowed 80% of their total debt from institutional sources, whereas, bottom 50% have borrowed 53% of their total debt from non-institutional sources. The debt-to-asset ratio (DAR) of bottom 10% is 39, much higher than DAR of 2.6 for the top 10% households. This, along with higher borrowings from non-institutional sources act as debt-trap for households with fewer assets.
- Access to credit is complicated by social identities. The average asset ownership of SCs and STs in rural areas is 1/3rd compared to upper caste households. The low-asset ownership of marginalised social groups curtails access to institutional credit.

Lack of marketable collateral, credit demand for consumption purposes and informal constraints are the primary reasons for exclusion of a large proportion of rural population from institutional finance. The credit policy needs revamping to accommodate the consumption needs of the rural poor and find alternatives for collateral to bring the rural households within the network of institutional finance.

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