

**Institutional Credit and
Transformation of Rural India:
Chequered Trajectories and Contested Connections**

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Abstract

This paper attempts to explore the major trends in the supply of institutional rural credit over the last few decades in an attempt to explain the critical association between the structuring of credit market institutions and overall rural wellbeing. We also make an attempt to have a closer and critical look at some of the alternative institutional arrangements introduced since the mid-1990s initially to help the formal banking system to reduce or externalize the costs of rural intermediation and, more recently, to enhance competition in the financial markets. Our analysis suggests that there has been progressive dilution in the small borrower focus in rural and agricultural lending priorities of banks over the past decades. This became particularly evident in the 2000s the decade when the absolute volume of rural and agricultural credit outstanding surged considerably, suggesting a growing disconnect between the overall direction of the economy's growth aspirations and the distinct needs of the rural sector. Such a crisis raises important questions about the suitability of the existing financial services architecture to meet rural demand. It is increasingly evident that the idea of cooperation has come under severe stress of late as the neo-liberal ethos has started reshaping development solutions to focus on individualism and enterprise. While the failure of co-operatives created a vacuum in many contexts and exacerbated the crisis in agriculture arising from market and climate uncertainties, the new models introduced since the 1990s like the microfinance institutions have not been to prove their ability to aid wholesale rural transformation. Though the framework of financial inclusion launched in the mid-2000s encourages special efforts to address the peculiar challenges of accessing financial services and social transfers by the poor, its underlying mission seems to be financialisation of households in ways that make it possible for financial institutions to extend their market to expand influence. The emerging institutions like small finance banks seem a likely alternative; but their capability to efficiently negotiate competition is to be proven in due course.

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