Agricultural Finance in India

Agricultural finance and marketing needs of the farmers can be examined from two different angles:

(i) On the basis of time and

(ii) On the basis of purpose

On the Basis of Time:

The needs of the farmers can be classified into three categories:

(i) Short term

(ii) Medium term

(iii) Long term

Short-term loans are required for the purchase of seeds, fertilizers, pesticides, fodder of livestock, marketing of agricultural produce, payment of wages of hired labour. Period of such loans are up to 15 months. Agencies for granting such loans are moneylenders and cooperative societies.

Medium-term loans are obtained for the purchase of cattle, small agricultural implements, repair and construction of wells etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money-lenders, relatives of farmers, cooperative societies and commercial banks.

Long-term loans are required for effecting permanent improvement of land, digging tube wells, purchase of larger agriculture machinery like tractors, harvesters etc. and repayment of old debts. The period of such loans extends for more than 5 years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDBS).

On the Basis of Purpose:

Agricultural credit needs of the farmers can be classified on the basis of purpose into the following categories:

(i) Productive

(ii) Consumption needs

(iii) Unproductive

(i) Under productive needs we can include all credit requirements which directly affect agricultural productivity. Farmers need loans for the purchase of seeds, fertilizers, manures, agricultural machinery, livestock, digging and repairing of wells and tube wells, payment of wages, effecting permanent improvements on land, marketing of agricultural produce, etc. Repayment of these loans is generally not difficult because the very process of production generally creates the withdrawal for repayments.

(ii) Farmers often require loans for consumption as well. Institutional credit agencies do not provide loan for consumption purpose. Therefore farmers depend on moneylenders.

(iii) Loans are taken for unproductive purposes such as litigation, marriages, social ceremonies on birth and death of a family member, religious functions, festivals etc. Farmers take loans from Mahajans since institutional credit agencies do not give such loans.

Sources of Agricultural Finance:

This can be divided into two categories:

(i) Non-institutional sources.

(ii) Institutional sources

(i) Non-Institutional sources are the following:

(a) Moneylenders

(b) Relatives

(c) Traders

(d) Commission agents

(e) Landlords

(ii) Institutional sources:

(a) Cooperatives

(b) Scheduled Commercial Banks

(c) Regional Rural Banks (RRBs)

(a) Cooperatives:

(i) Primary Agricultural Cooperative Societies (PACSs) provide short and medium term loans.

(ii) Primary Cooperative Agricultural and Rural Development Banks (PCARDBS) provide long term loan for agriculture.

(b) Commercial banks, including RRBs, provide both short and medium term loans for agriculture and allied activities.
The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agriculture credit and provides assistance to the agencies mentioned above. The Reserve Bank of India plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

At the time of Independence the most important source of agricultural credit were the moneylenders. In 1951 (the year when planning was initiated in the country) moneylenders accounted for as much as 71.6 per cent of rural credit. This was because there was no other source from which the farmers could borrow money.

Hence the moneylenders exploited the poor farmers. Thus, they used to charge exorbitant interest for their loans. The moneylenders used to manipulate their accounts and force the farmers to sell their produce to them at low price. The government has therefore undertaken various steps to regulate the activities of the moneylenders.

The most important move was to free the agriculturists from the clutches of the money lenders and the expansion of institutional credit to agriculture.

The Government has helped the cooperatives in a number of ways to expand their operations:
I. 14 major commercial banks were nationalised in 1969.

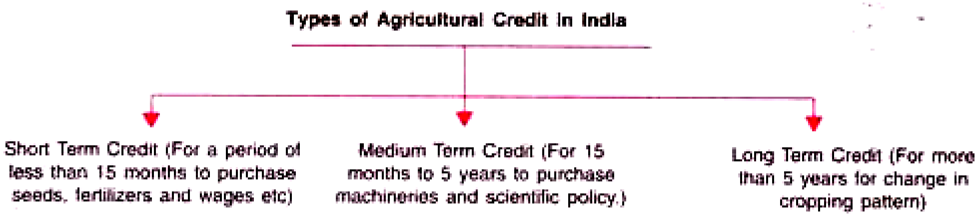
II. 6 more banks were nationalised in 1980.

III. In 1975 an institution was established by the government to meet the requirements of rural credit – Regional Rural Bank (RRBs).

IV. In July 1982 National Bank for Agriculture and Rural Development (NABARD) was set up.

V. India now has a wide network of rural finance institution (RFI).

As a result of this massive expansion of RFIs their participation in rural credit has increased significantly while that of moneylenders has declined. Non-institutional sources of agriculture credit still remain and they offer credit at high rates of interest especially in case of unproductive purposes.



Cooperative Credit Societies:

The rural co-operative credit institutions in India have been organised into short-term and long-term structures. The short-term co-operative structure is based on three-tier structures, except the states in the northeast region. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organised at the village level. At the second tier and District Central Cooperative Banks (DCCBs) organised at the district level. At the third and uppermost tier are the State Co-operative Banks (STCBs) organised at the state level state Co-operative Banks (state level).

To cater to long-term loans long-term credit cooperatives have been set up.

These are organised at two levels and categorized into four types:

(i) The unitary structure in which Stat Cooperative Agricultural and Rural Development Banks (SCARDBs) operate at the state level.

(ii) The federal structure in which Primary Cooperative Agricultural and Rural Developments Banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDBS at the state level.

(iii) The mixed structure wherein both the unitary and federal types operate in one form or another.

(iv) The integrated structure where no separate Agricultural and rural development banks exist and the long-term credit business is undertaken by the long-term section of the StCBs concerned.

Commercial Banks:

In fact up to 1970 the government policy was to depend entirely on the cooperative banks as a major source of institutional credit in rural areas. Government felt that Cooperative Bank alone cannot meet the growing demand. Therefore Govt. policy changed and a number of institutions were developed to give rural credit. In 1969, 14 major banks were nationalised.

In 1980, six more banks were nationalised. In 2004, the number of total branches had shot up to 67062, of this 32,200 in rural areas. Despite the achievement of the commercial banks in the field of rural credit mentioned above, their performance and operations have invited a lot of criticism.

Regional Rural Banks:

The Working Group on Rural Banks (1975) recommended the establishment of Regional Rural Bank (RRBs) to supplement the efforts of the commercial banks and the cooperatives in extending credit to weaker sections of the rural community, small and marginal farmers, landless labourers, artisans and other rural residents of small means.

The intention in having these new banks was that there should, in the Indian context, be an institutional device which combined the local feel and familiarity with the rural problems which the cooperatives possessed and the degree of business organisation and modernised outlook which the commercial banks had, with a view to reaching the rural poor more extensively.

Consequent upon the recommendations of the Working Group, 5 RRBs were initially set up in 1975. Their number later rose to 196. In 2003-04, RRBs provided Rs. 7,581 crores as credit to the agricultural sector. This was 8.7% of total institutional credit to agriculture in that year.

National Bank for Agriculture and Rural Development (NABARD):

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural credit.