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ROLE OF RURAL CREDIT IN INDIAN AGRICULTURE

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Finance is an important factor of development for all sectors of the economy. It becomes more important because of unorganized nature of farming and inability of the farmers, especially small and marginal, to invest from own sources. Finance has been recognized as the life blood of all economic activities; like all other producers agriculturist also needs credit.The need of finance for agriculture are hardly be over emphasized where its productivity is still low due to financial constraints. Need may be for

[1] Productive and unproductive credit needs. The loans which are used for consumption purpose are called unproductive credit.

[2] Loans for purchase of cattle, implements, fertilizers, inputs, better seeds and machinery etc. are called productive loans.

[3] According to RBI, credit needs can be classified by its purpose like

[4] For meeting Family Expenditure purchase of domestic utensils and clothing paying for medical, educational and other family Expenses.

[5] Credit need for Non-Form Business Purposes; such credit is required for the repair of production and transport equipments, furniture, construction and repair of building or non-form houses.

[6] For agricultural purposes: i.e. for the purpose of seed, manure and fodder payment of rent, wage, irrigation of crops, hire charges of pumps, purchase of livestock, repair of agri-implements

[7] Other purpose such as expt. Include repayment of old debts, deposits with cooperative agencies share and unspecified purpose etc. According to the duration of the loan, they are divided into short-term, medium term and long-term loans.

- **SHORT TERM LOANS**

Loans are required for buying current agricultural inputs like seeds, fertilizers, pesticides, insecticides, etc., which can be paid back as and when crops are ready and sold out. The maturity period of these loans may be less than a year or so, and such loans are known as short term loans.

- **MEDIUM TERM LOANS**

Loans are also required for a little longer duration such as those for digging of wells , buying a new pair of bullocks , for fencing his fields , etc. , which cannot be paid within one year and hence require longer time period for their return. Such loans which have a maturity period of up to five years are called medium-term loans.

- **LONG-TERM LOANS**

When the farmer borrows money to buy a new piece of land or a tractor, or to pay back his ancestral debts, the loans have to be of a much longer duration. These are called the long-term loans whose maturity period may extend beyond five years, may be ten, fifteen or even twenty years. As such there are different agencies that supply loans to the farmers in different measures and for different time periods, though sometimes and in some cases, the same agency may give all these various types of loans to the farmers.

I. SOURCES OF AGRICULTRAL CREDIT

The structure of agricultural credit in India comprises two sectors, viz. (i) the non – institutional or private sources, and (ii) the institutional sources. The non-institutional encompasses the money lenders, landlords, trader's commission agents and the friends and relatives of the farmers. The institutional sources comprise the cooperative societies, the scheduled commercial banks and the Regional Rural Banks and the State Governments which provide loans to the farmers. Here, we discuss the role and place of each of these agencies in the sphere of rural credit.

II. NON-INSTITUTIONAL SOURCES OR PRIVATE SOURCES OR OF AGRICULTURAL CREDIT

2.1 The Money-lenders: The money-lenders constitute the traditional source of agricultural finance. Other agencies have also come into the field, but the supremacy of the moneylenders has continued practically unchallenged since very ancient times. The money-lenders are usually classified as agriculturist money-lenders and the professional money-lenders. An agriculturist money-lender is a farmer whether cultivating, wholly or partially, his lands who supplement his income from agriculture with earnings from money-lending. He is an agriculturist and a money-lender combined. A professional money-lender is usually one who combines his business with trading in the village produce. The professional money-lender is known as 'Bania', 'Mahajan' 'Sahukar', 'Kistwala', 'Nanavati' or 'Chetty' in different regions of India.In 1951-52, the money-lenders provided for 70 percent of the credit needs of the agriculturists. The share of the money lenders decreased to 61 percent in 1961 and 36 percent in 1971. With the expansion and strengthening of the institutional credit for the agriculturists, the share of money-lenders in rural credit came down to 26 percent in 2001. However, the money-lender still remains an important source of credit requirements of the rural people, particularly for loans required for non-productive social functions. The village money-lender is often accused of dishonest dealings, various rates of interest and indiscriminate lending. The main criticisms against him are:

[1] Interest is generally deducted in advance. Borrowers are made to sign a bond for the full amount. Sometimes, when opportunity presents itself, which is not very rare because the peasants ate generally illiterate, a higher amount is inserted in the bond than the amount actually lent.

[2] The village money-lenders very often make wrong entries in the account books. Receipts are seldom issued for recoveries.

[3] The debtors are made to pay certain highly objectionable charges like 'Girah Khulai' and 'Salami', etc.

[4] Not only is the rate of interest charged very high, but also what is further worse, a compound rate of interest is charged. In spite of all these faults, the fact remains that the village money-lender is of vital importance and will continue to be, for a long time to come, the main agency for the provision of agricultural credit. He is as such as 'dangerous necessity'. But for him, the cultivation would suffer and social events in the village would look drab and common place. In spite of enormous efforts to replace him by development of the co-operative credit societies during the last 50 years or so and in spite of different legislative measures to curb his activities, he continues to thrive. Surely there must be reasons.

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III. OTHER NON-INSTITUTIONAL SOURCES:

Other private or non-institutional sources of agricultural finance include friends and relatives, who provide loans to farmers mainly for social purposes; (ii) traders and commission agents who provide loans and buy output in advance at rates below the expected market price of the product, thus denying the farmers full revenue for his crop. Such loan arrangements are quite common among fruit growers; (iii) big farmers or landlords also provide loans to smaller farmers in return for working on their land on crop-sharing basis, thereby denying the cultivators full fruits for their labor. "In the village itself, no form of credit organisation will be suitable except the cooperative society cooperation has failed, but corporation must succeed."—All India Rural Credit Survey

VI. INSTITUTIONAL SOURCES OF AGRICULTURAL CREDIT

The institutional framework for deployment of rural credit in India comprises the cooperatives, scheduled commercial banks and the Regional Rural Banks and is known as Multi-Agency network of rural credit. The State Governments also provide 'Taccavi' loans to the farmers. The National Bank for Agriculture and Rural Development is the apex institution at the national level for agricultural credit and provides refinance assistance to institutional credit agencies. The Reserve Bank of India plays a crucial role in the sphere of agricultural credit by giving overall direction to rural credit and financial support to the National Bank for Agriculture and Rural Development.

V. THE COOPERATIVES:

[1] The governmental remedy to meet the challenge posed by the bad state of agricultural finance is chiefly that of organising the co-operative credit societies. In the field of co-operative credit, Primary Agricultural Cooperatives Societies (PACS) provide mainly the short-term and medium-term credit and the Land Development Banks, (LDB) provide long-term finance. The share of the co-operative credit was 3.3 percent in 1951-52, which rose to 15.5 percent in 1961-62, further to 22 percent in 1971 and 30 percent in 1981. Now the cooperative credit agencies meet over half of the credit needs of the farmers. In 2013-14, the cooperative banks provided credit amounting to Rs. 1, 18,457 crore. However, the money-lender still continues to be in operation of his business in the village. This is because of the following reasons:-

[2] The money-lender issues loans without delay. The peasant is illiterate and lacking in foresight. He thinks of borrowing only at the time of need. Institutional credit naturally implies delay.

[3] Corruption and red tape in co-operative department really makes these loans costly.

[4] The peasant fears the possibility of stringent process of recovery.

[5] The institutional borrowing leads to publicity and to pressure from the supervisory and inspecting agencies.

Table 1.1 Institutional Credit to Agriculture (Rs.Crore)

	Agency	2000-01	2010-11	2011-12	2012-13	2013-14
1.	Co operative Banks	20801(39.4)	78121(16.66)	87963(17.21)	11211(18.31)	118457(16.21)
2.	Regional Rural Banks	4219(8.01)	44293(9.46)	54450(10.66)	63653(10.48)	82650(11.31)
3.	Commercial Banks	27807(52.6)	345877(73.86)	368616(72.13)	432512(71.21)	529659(72.48)
	Grand Total	52827	468291	511029	607376	730766

Note: Figures in brackets show percentage of the total credit provided

Source: Economic Survey 2014-15 and earlier surveys.

VI. REGIONAL RURAL BANKS:

With a view to improving the flow of credit in the agricultural sector of economy, the Government of India set up a number of Regional Rural Banks under the Regional Rural Banks Act 1976. These banks have been mostly set up in the areas where co-operative of commercial banking facilities have been lacking and in the regions which have remained uneconomically backward. There are 88 RRB's (earlier their number was 196 that came down to 88 after restructuring and merging of many RRBs), and their branches numbered over 14500. The total direct advances of these banks amounted to Rs. 82,650 crore in 2013-14.

VII. COMMERCIAL BANKS:

Financing of agriculture, which had hitherto remained neglected by the commercial banking system in the country, has now become an accepted field of financing activity with the nationalization of major commercial banks in the country. With the adoption of new agricultural strategy and the growing momentum of 'Green Revolution', the financial requirements of the farmers have become all the more urgent. Now, therefore, the crucial role of nationalized commercial banks in providing adequate credits facilities to the farmers has been widely recognised. Direct finance of agriculture, which was almost a forbidden thing in the years prior to the nationalization, has picked up fast in the past few years. The outstanding advances to the agriculture sector by the banks, which were barely Rs. 40 crore in June 1969, have increased to over Rs 5,29,659 crore by the end of year 2013-14.

VIII. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

In the field of rural credit and agricultural development, establishment of NABARD is a major event. The National Bank for Agriculture and Rural Development was established in July 1982 as an apex body with the responsibility for overall development, policy, planning and financial support for agriculture and rural development. The NABARD provides credit to rural sector through cooperative banks, commercial banks, regional rural banks and other financial institutions set up to finance rural development. The Bank ensures co-ordination in operation of various institutions engaged in the field of rural credit.

IX. THE GOVERNMENT

The third agency providing finance to the agriculturist is the Government. The Government lends in the form of taccavi loans especially in the time of emergencies, such as floods and famines. The Land Improvement Loans Act and the Agriculturists' Loans Act passed, respectively in 1982 and 1984, authorize such loans. Full use of these Acts is not made for the reason, amongst others, that arrears of Government loans are recovered as arrears of land revenue. Generally the big landlords derive benefit from these Acts in normal years. Red tape and corruption among subordinate revenue officials also make these loans costly for the small cultivator.

X. NEED TO STRENGTHEN INSTITUTIONAL CREDIT

Credit is an important input for improvement in agricultural productivity. Access to institutional credit enables the farmers to enhance productivity by investing in machinery and purchase of fertilizers, seeds and other inputs and providing funds till the farmer receives payment for sale of produce, which at times are delayed and staggered.However, informal or non-institutional sources of credit still account for a substantial portion of finance availed by the farmers. According to the National Sample Survey Organizations (NSSO) latest data, as much as 40 percent of foods of formers still come from informal sources. Local moneylenders account for almost 26 percent share in total agricultural credit. There is, thus, an imperative need for enhancing farmer's access to institutional credit. The ratio of agricultural credit to agricultural GDP has increased from 10 percent in 1999-2000 to around 38 percent by 2012-13. However, the share of long term credit in agriculture (or investment credit) has declared from 55 percent in 2006-07 to 39 percent in 2011-12. This decline needs to be arrested and reversed for the sake of higher capital formation in agricultural sector that provides the base for continued productivity improvements. The Government of India has set up a Long Term Rural Credit Fund (LTRCF) under the National Bank for Agriculture and Rural Development (NABARD). With the help of this fund, the Cooperative Bank and the Regional Rural Banks (RRB) can provide such higher financial support for following medium and long-term loans farmers. The regional disparity in distribution of agricultural credit also needs to be addressed. The coverage of agricultural credit is very low in the eastern and north-eastern regions of the country. To improve agricultural credit flow, the credit target for 2015-16 has been fixed at Rs. 850,000 crore, as against estimated credit flow of Rs.845,328 crore achieved in 2014-15. Short-term finance to farmers is being made available under the Crop Loans wherein credit up to Rs.3 lakh is given at 7 percent interest rate. The rate has been lowered to 4 percent in 2015-16 for those who repay their loans promptly. Farmers with Kisan Credit Cards can also avail of loan benefits at the same rate as available to borrowers under the crop loan system, All these schemes aim at ensuring timely availability and access to both short-term and long-term credit to farmers at affordable rates of interest with a view to ensuring significant improvements in agricultural productivity, which is so essential for rapid agricultural progress.

"Credit is one of the important supply side factors which contribute to agricultural production. An efficient and effective rural credit delivery system is imperative for providing timely, adequate and equitable access to credit for raising agricultural productivity and income. Equitable access to institutional credit is important in this context of relative scarcity of credit and the high cost of informal credit." —V.M. Rao and P.D. Jeromi

XI. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

The need for strengthening the institutional arrangements for the supply of credit to the rural areas was being felt for quite a long time in the past. And with the implementation of the Integrated Rural Development Programmes for the all-round progress of the rural areas, the credit requirements of the rural sector became still larger. The necessity of augmenting the flow of rural credit and giving it a proper direction became all the more imperative to achieve significant success in rural development. In view of such urgent need for an apex organisation in the field of rural credit, the National Bank for Agriculture and Rural Development (NABARD) was established in July 1982.

The main functions of NABARD are as follows:

[1] It is to provide short-term, medium-term and long-term credits to State Co-operative Banks, Regional Rural

Banks, Land Development Banks and other financial institutions approved by the RBI.

[2] It grants long-term loans to the State Governments for subscribing to the share capital of co-operative societies.

[3] It gives loans to the approved institutions to invest in securities or to contribute to share capital of institutions engaged in agricultural and rural development.

[4] It co-ordinates the activities of the Central and the State Governments, other all India and State level institutions entrusted with the development of small-scale industries, village industries and rural crafts.

[5] It has the responsibility of inspecting Co-operative Banks, Regional Rural Banks and primary co-operative societies.

[6] It promotes research in agriculture and rural development.

[7] It serves as a refinancing agency for the institutions providing finance to rural and agricultural development.

The National Bank for Agriculture and Rural Development (NABARD) sanctions credit limits and refinance to State Cooperative Banks, Land Development Banks, and the Regional Rural Banks for supplementing their resources for short-term and medium-term loans of various agricultural and non- agricultural purposes, including the investment credit provided by them under various schemes. In the case of commercial banks, NABARD provides only refinance against the term loans issued by them under schematic lending for agricultural and certain non-agricultural purposes as the commercial banks are expected to meet the short-term requirements out of their own resources. The more important aspect of NABARD's activities grant of refinance assistance to various agencies engaged in the field of rural credit. It is in this sphere that NABARD has made significant contribution to agricultural finance and rural development.