



AGRICULTURE FINANCE: AN OVERVIEW

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Abstract

There are some institutions which are engaged in rural credit indirectly, namely the Reserve Bank of India. The AFC and the ARDC (Agricultural Refinance and Development Corporation) reconstituted as NABARD in 1982. Among these, the NABARD is the institution, which provides refinance facility to credit delivery systems engaged in rural financing. The establishment of National Bank for Agriculture and Rural Development (NABARD) is the landmark in the evaluation of agricultural finance. It has the objective of promoting the health and strength of credit institutions forming front of the delivery system, i.e. co-operatives, commercial banks and Regional rural banks.

Key Words: ARDC, RBI, NABARD.

Introduction

In agricultural, as in other industries, the demand for capital and therefore for credit, is composite and is made up of a number of demands which differ greatly, especially in the degree of permanence or fixity of the capital goods required. These differences occasion differences in the conditions under which the loans to provide the capital goods must be raised and in the nature of the security against which they are pledged. The demand for capital is translated into a demand for credit. Farmers, by and large, especially in developing economics like India, are not in a position to buy outright the whole of the capital represented by lands and improvements. Some part of the purchase, price and usually some part of the money required to pay for machinery, livestock and later improvements, must be obtained by borrowing. In other words investment credit is required in just the same way as in other branches of industry. A similar demand arises for what may be called production credit. Processes of production and marketing are long and the needs for funds to purchase requisites and to pay wages, and so on, are not constant. Income from the sale of crops is seldom regular. Majority of farmers' especially small farmers cannot, even if they wish, accumulate a sufficient volume of funds to provide all the working capital from one harvest to the next. Hence, the need for production loans. Further, small farmers and weaker sections of rural community may even require what can be describe as consumption loans to meet their day-to-day requirements of subsistence from one crop to another.

Institutional Sources

The institutional credit refers to the funds made available by Co-operatives, Government, Commercial Bank, RRB's and State Bank of India. The structure of institutional agriculture credit can be divided in two parts: one, dealing with short-term and medium term credit and other dealing with long-term credit. The short-term and medium-term credit structure consists of the Co-operatives, commercial banks, RRBs and Government sources. The long-term credit structure consists of the co-operative and commercial banks, including RRBs. The Co-operatives, namely State/Central Co-operative Land Development Banks finance the farmers directly through a network of their own branches or through Central Co-operatives, Banks. The State Co-operatives Banks provide long term credit through primary agricultural credit Societies. Commercial Banks also are involved in supply of long-term credit directly to farmers.

Co-operatives

The rural cooperative credit institutions in India have been organized into short-term and long-term structures. The short-term cooperative credit structure is based on a three-tier structure, except the States in the north-east region. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organized at the village level. At the second tier are the District Central Co-operative Banks (CCBs) organized at the district level. At the third and uppermost tier are the State Co-operative Banks (StCBs) organized at the State level. AS far as the village level PACSs are concerned, they can be formed by any ten or more than ten persons. These societies generally advance loans only for productive purposes. The repaying capacity of the individual is taken into account while advancing such loans. The CCBs are of two types— co-operative banking union and mixed central co-operative banks. Membership of the former is open only to co-operative societies while membership of the latter is open to both, individuals and co-operative societies. The chief task of the central co-operative banks is to advance loans to the PACSs in times of need so that they can fulfil the requirements of farmers. The StCB, in turn, advances loans to the CCBs in order to augment their capacity to provide loans to the village level PACSs. It also co-ordinates and regulates the working of CCBs. It also provides the link between the Reserve Bank of India and the money market on the one hand and lower levels of co-operative structure on the other.



Government

To prevent the farmers from coercive methods of money lenders, the British government came forward by passing many legislative measures. One of the measures was the direct financing by government to farmer which was called as “Taccavi Loans”. Thus, the government emerged another agency of agricultural credit.

With independence, the National Government organized a through investigation of the problems of rural credit before reorganizing and developing the agricultural in a planned way. Therefore, the all India rural credit survey, 1951-52 was conducted under the chairmanship of Sri A.D.Gorwela. The committee, in its report, emphasizes the need for constant reviews of the main features of the rural credit situation through annual investigation as also more elaborate enquiries from time to time. Accordingly, the Reserve Bank of India conducted four annual follow up rural credit surveys in selected districts. It is not worthy to State that the role of Government as direct lender is not favored due to several reasons. In this connection the observations of the all India rural credit survey are significant. According to the survey “in practice Taccavi (government credit for agriculture) is apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency. It would not be far from the truth to say that record of Taccavi is a record of inadequacies.”¹¹

Commercial Banks

For a long period of time, the share of commercial banks in rural credit was meagre. For instance, it was only 0.9 per cent in 1951 –52 and 0.7 per cent in 1961 –62. The insignificant participation of commercial banks in rural credit in India is partly explained by the subsistence nature of agriculture and its unorganised, individualistic functioning. Moreover, the heavy dependence of agriculture on monsoons makes it an uncertain and risky venture. As against this, the industrial sector is relatively more organised and less dependent on natural factors. Consequently the commercial banks tended to concentrate on the industrial sector and even diverted the funds mobilised from rural areas to meet the demand to credit of the industrial sector.

Regional Rural Banks

The working Group of Rural Banks (1975) recommended the establishment of Regional Rural Banks (RRBs) to supplement the efforts of the commercial banks and the co –operatives 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 few 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 co –operatives 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. The Working Group rightly sensed that what the rural poor needed was a low cost, low profile credit institution into which they could walk in without trepidation. The staff of RRBs was to be recruited from the neighbouring area and as such would have a better understanding of the local problems and the local people, their needs and their constraints.

Consequent upon the recommendations of the Working Group, 5 RRBs were initially set up in 1975. Their number later rose to 196. In 2004 –05, RRBs provided Rs. 12,597 crore as credit to the agriculture sector. This was 10.0 per cent of total institutional credit to agriculture in that year.

State Bank of India (SBI)

The State bank of India is the biggest commercial bank which was formed on 1st July, 1955. The SBI has been providing credit in this field since its inception. The SBI grants direct advance to farmers for all agriculture operations and not merely be used for substitution of any existing institutional credit channel. The SBI also provided its financial assistance for special forming activities such as animal husbandry, dairy farming, pisciculture, piggery poultry farming, and horticulture and fruit cultivation. The bank also finances agro-industries co-operations to enable them to purchased tractors, power- tillers, pump sets, etc. and extend hire purchase facilities to farmers for the purchase of agricultural machinery and equipment, customer service units and the storage and distribution of agricultural inputs like fertilizers, pesticides and seeds.

The SBI has created agricultural credit cells at its local had offices and at the head offices of the subsidiaries as also in strategic locations. These cells have been interested to the appropriate officers who coordinate the work of agricultural finance in their respective circles and subsidiaries.

The small farmer’s schemes are designed to help small farmers whose businesses are viable or can be rendered so with the help of necessary credit support. Under the scheme, the loans are sanctioned on the basis of ‘group borrowing.’ In other word, the farmers, eager to avail the finance under the scheme, are encouraged to form themselves into groups and while the, loans are sanctioned to individuals’ they are secured by guarantee of all the farmers in the group. For the implementations of



the scheme the banks has adopted the village centers for the purpose in order to maximize its impact. In the adopted centers the farmers were assisted for all their credit needs for agricultural development. The farm graduates scheme is introduced to extend credit to technically qualified personnel, particularly graduates in agricultural dairy science and agricultural engineering, who have worth for preparing development project but are unable to undertake them due to scarcity of financial resources. Under this scheme, the loans are generally granted to landholders either as owners or as tenants or as leaseholders and in exceptional cases, for the purchase of land.

Non-Institutional Sources

Money Lenders

Money lenders have been the most important source of agricultural credit in India. Earlier, it was the single most important agency in providing credit to farmer in rural areas money lender generally provide short-term credit on the personal security or on the security of movable property like, gold, jewelery, etc. The loans are provided for both productive and consumption purpose. Farmers get it very easily without any complex and time taking formalities. Money lenders have sufficient knowledge about borrowers repaying capacity, assets and character. Moneylenders provide credit at any time when farmer require it. They adopt very flexible attitude regarding their lending business. They are in a position to use several coercive methods against borrowers. They can also pressures the borrowers through Panchayats.

Traders and Commission Agents

This source of agricultural credit provides finance for production purpose much before the maturity of the crops. In case of crops like: cotton, tobacco, tea, sugarcane, groundnut, etc. This source plays an important role. They force the farmers to sell their produces at lowers prices and charges heavy commission for themselves.

Land Lords

Landlords also provide finance to farmers and rural people. Generally in rural areas small and needy farmers depend upon landlords to meet their financial requirements. All the defects of the money lenders are associated with landlords. They cheat the farmers and charge high rates of interest. The landless labourers were force to become bonded slaves. Although, landlords were the important source of agricultural credit their importance declined with the introduction of land reform measures.

Relatives and Friends

Farmer also borrows from their relatives and friends. They get it on low or no interest. Farmers repay this type of loan soon after the crop. This source of lending is not sufficient due to its uncertain characteristics and increasing needs of modern agriculture.

Indigenous Bankers

The indigenous bankers can be differentiated from money lenders on the ground of larger scale of operation, bigger resources, accepting of deposits from public, modern accounting system and closer links with organized banking sector. Jain, Chettiars, Marwaris, Khatriest, Rohilas and Boharas are the principal castes carrying on the business of indigenous banking.

Indigenous bankers receive deposits from public and pay interest on it. They borrow capital during busy season, finance traders and small industrialists and thus indirectly help farmers. They do not established direct relation with farmers. Farmers receive credit indirectly through traders. Indigenous bankers provide credit on the basis of promissory notes and Hundies.

Other Institutions

Agricultural Finance Corporation (AFC)

The Agricultural Finance Corporation (AFC) was promoted by the Indian Bank's Association (IBA) during the wake of social control over commercial banks in 1967, to help the commercial banks in financing agricultural project and participate actively and extensively in the development of agriculture. The corporation was incorporated on April 10, 1968 under the Indian Companies Act, 1956.

The objects of the corporation are wide enough to enable it to finance or assist in the financing of activities connected with the production /supply/transport and distribution of inputs for agricultural production /marketing/ transport and storage of agricultural produce, farm mechanization, animal husbandry, forestry and all other activities and operations incidental to or the connected with agriculture, agricultural produce or agricultural operations.

The corporation operates its activities with its headquarter at Bombay and three regional offices at Calcutta, Lucknow and Madras. Besides the State Bank of India and nationalized commercial banks, some scheduled commercial banks in private



sector and foreign banks having branches in India also hold shares. The public sector banks hold about 86 per cent of the shares of the AFC.

The AFC, which started as a financing corporation in 1967 refrained from making direct finance in 1970 and has since then concentrated on consultancy work⁸. Of the late, the A.F.C. has been doing, in a limited way, consultancy work abroad also.

The National commission of Agricultural (Interim Report 1971) and the Banking Commission 1972 disfavored the A.F.C. as a separate entity and suggested its merger with the agricultural development bank of India/ARDC⁹.

Agricultural Refinance and Development Corporation (ARDC)

The Agricultural Refinance and Development Corporation (ARDC), originally named as Agricultural Refinance Corporation (ARC) was set-up on 1 July, 1963 under the agricultural refinance corporation act of 1963. It functioned effectively as development bank for agricultural rather than merely as a refinancing agency.

By agricultural Refinance Amendment act, 1975, (effective from November 1975) it was renamed as Agricultural Refinance and Development Corporation. Generally, the ARDC acted as apex refinancing institution in the field of long-term agricultural financing, the corporation provided refinance facility of medium- term and long –term nature for development promotional schemes and helped the agricultural sector in increasing its productivity and growth.

The main objectives of the corporation were to play an effective role of a development banks, to increasing its participation in productive lending for the achieving the targets to be fixed in the five year plan, to provide assistance into backward and under developed areas for correcting regional imbalances, to provided assistance to small farmers to a large extent, strengthening of member banks to enable them to handle increased business, emphasize the observance of technical considerations in the formulations of the objects, orienting the commercial banking sector to greater participation in investment for agricultural development, providing assistance to Government Agencies in the formulations of viable scheme etc, And other objectives of National Agricultural Development into the bankable propositions and under take the project evaluation, research and study in order to improve decision making process in corporation as well as in member banks.

The corporation disbursed its refinance facility for minor irrigation work including, investments in dugwells, tubewells, lift irrigation, installation of pump sets, energisation of wells and other irrigation sources, reclamation and preparation of land for irrigation under the command of irrigation project, soil conservation, water management and adoptions of dry farming methods, farm mechanization, agro-service centers and installation of Gobar Gas plants, development of the horticulture and plantation crops such as, tea, coffee, rubber, cashew nut, coconut, cardamom and areca nut, development of animal husbandry, dairy farming and construction of godowns by organizations of agriculturists or by private entrepreneurs and development of market yards.

Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) was established on the 1st April, 1935 under the RBI act, 1934 and it was nationalized on 1st January 1949 under the RBI act 1949. Under the provisions of the RBI act, it was charged with special responsibility of providing its resources for agricultural within the certain limits. The RBI's assistance was available indirectly to farmers.

The Agricultural Credit Department (ACD) and the Rural Planning and Credit Cell (RPCC) of the RBI were established to take over the responsibility of rural credit. With the establishment of NABARD, the ACD and the rural planning and credit cell of the RBI were taken over by the National Bank. The RBI has assisted actively to co-operatives for ensuring a timely and adequate flow of credit for agriculture. The bank also took several steps to ensure the credits needs of small and economically weak farmer.

National Bank for Agriculture and Rural Development (NABARD)

Though, the RBI has played a significant role for the improvement and availability of institutional credit for the promotion of agricultural and rural activities but being a Central bank of the country. It has to perform a more crucial role regulation and control of credit and monetary system of the country. So, due to the burden of Central banking functions the RBI cannot pay its full attention towards the flow of credit for agricultural and rural sector. So, a separate institution National Bank for Agricultural and Rural Development was established 1982.

The national bank of agricultural and rural development (NABARD) has emerged as an apex financing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the RBI in respect of the State co-operative banks and regional rural banks. It has also taken over the ARDC and now it provides all



types of production and investment credit to agriculture. Small-scale industries, artisans, cottage and village industries, handicrafts, and other allied economic activities. It has organic links with RBI by virtue of the latter holding 50 per cent of its share capital and the three members of the RBI's central board being appointed as directed of NABARD.

Conclusion

The present agricultural credit structure engaged in providing direct finance in India broadly includes two sources; namely, institutional and non-institutional. Non-institutional sources consist of money-lenders indigenous bankers, landlords, traders and commission agents and relatives and friends. The institutional sources include, co-operatives, commercial banks, regional rural banks, State bank of India and the Government. Borrowings by cultivators from institutional and non-institutional sources have changed significantly during the last three decades as the percentage between institutional and non-institutional sources has changed.

There are some institutions which are engaged in rural credit indirectly, namely the Reserve Bank of India. The AFC and the ARDC (Agricultural Refinance and Development Corporation) reconstituted as NABARD in 1982. Among these, the NABARD is the institution, which provides refinance facility to credit delivery systems engaged in rural financing. The establishment of National Bank for Agriculture and Rural Development (NABARD) is the landmark in the evaluation of agricultural finance. It has the objective of promoting the health and strength of credit institutions forming front of the delivery system, i.e. co-operatives, commercial banks and Regional rural banks.

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