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SOURCES OF RURAL AGRICUTURE CREDIT IN INDIA: AN OVERVIEW

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ABSTRACT:
Large number of people in rural India is still dependent on moneylenders to meet their short and long term credit needs. In recent years institutional sources of credit financing have been found increased to meet their rising demands. Institutional sources of credit include cooperatives, scheduled commercial banks both public and private and regional rural banks. So many initiatives have been taken for financial inclusion of the rural people. To meet this urgent need Prime Minister of India launched a flagship programme as the PradhanMantri Jan DhanYojana with the aim of bringing the rural masses into the economic mainstream. It is found that out of 99 crore households, only 6.82 crore households have access to banking services. In case of rural India out of 13.83 crore rural households only 4.16 crore rural households have access to basic banking services. For upliftment of rural economy scope of institutional sources have to expand to relieve them from the exploitation of moneylenders. This paper tries to highlight the sources of rural agriculture credit in the context of the country.

KEY WORDS: *Credit, Institutional, Non- institutional etc.*

I. INTRODUCTION:

Agriculture is the backbone of Indian economy. During the planning period though the contribution of agriculture sector decreases but about 60% population engaged in this sector. It contributes nearly 80% to GDP which is comparatively higher than developed countries of the world. It is observed that during the planning period, secondary and tertiary sector have been expanded rapidly. But the role of agriculture is predominant in rural India. It clearly shows that economic growth and development of India is closely linked to development of agriculture. It is to be noted that lack of access to finance is a key hardle to farmers in improving the efficiency of their production and stands a barrier for adopting better technologies. It is need of the hour to have a better understanding about the agriculture finance how it can help the farmers. Credit is a crucial input in the process of development. Due to some historical reasons, Indian farming community is unable to make huge investments. So it is true that Indian farmer is born in debt, lives in debt and dies in debt. Here we try to focus on sources of institutional credit for rural India.

II. OBJECTIVES:

The basic objectives of this paper are:

- To know the scope of institutional sources for agriculture credit.
- To know the government initiatives for providing credit to the rural masses.
- To know the performance of this financial institution.

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III. METHODOLOGY:

The study is based on secondary data where different financial reports published by the government have been intensively studied to collect required data. The paper tries to give an overview of the sources of credit in the context of rural India by studying different books and journals.

IV. DISCUSSION:

- **Committees for Agricultural Finance**

A number of committees such as the Rural Banking Inquiry Committee (1949), the All India Rural Credit Survey Committee (1954), the Committee on Co-operative Credit (1960), the All India Rural Debt and Investment Survey (1962), the All India Rural Credit Review Committee (1969), the Working Groupon Rural Banks (1975), the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (1981), the Agricultural Review Committee (1989) and the Narasimhan Committee (1991 and 1998) were constituted by the Government of India to look into their working and made several recommendations to improve their health and functioning. Of the total credit provided by these institutions, 44 per cent was met by the cooperative banks and 48 per cent by the commercial banks leaving a paltry amount by the regional rural banks.

- **Agricultural Credit Policy**

The Agricultural Credit Policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region specific strategies, rationalization of lending policies and procedures and bringing down the cost of borrowing. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium term/long-term credit for financing capital investment in agriculture and allied activities like land development including purchase of land, minor Irrigation, farm mechanization, dairy development, poultry, animal husbandry, fisheries, plantation and horticulture. Loans are also available for storage, processing and marketing of agricultural produce.

- **Policy Developments**

Government and RBI views in respect of agricultural credit policy, can be divided into two phases:

- Period before 1970

Before 1970 the government was committed tothe exclusive development of cooperatives as majorsource of institutional credit in rural areas. Thisperiod is called cooperative period.

- Period since 1970

Two major developments occurred; the first was the green revolution in the wake of adoption of the new agricultural technology. The second was the nationalization of 14 major commercial banks in July 1969 (six more commercial banks was nationalize in April 1980). Multi agency Approach (MAA) was started regarding agricultural and rural credit. Commercial banks began to participate with full heart in agriculture finance. Two new institutions known as regional rural banks and the

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farmers service societies were also established during this period.
The various sources of agricultural credit can be classified in two groups.
Non Institutional Agencies:Non institutional agencies include the local village money lenders and their agents and landlords.
Institutional Agencies: Institutional agencies include cooperative societies, commercial banks regional rural banks and NABARD.
Co-operative Credit Societies: In order to mitigate the problems of the farming community, the Co-operative Credit Societies Act was passed in 1904, which permitted the formation of credit societies. They provided institutional support to farmers for short, medium and long term purposes. Subsequently, tiers at state and district levels were too conceived to strength these credit co-operatives. Apart from these cooperative institutions, nationalization of commercial banks and introduction of regional rural banks also helped in increasing credit supply to farmers. Duringthis period these institutional financing agencies failed to a large extend, to meet the requirements(consumption and production) of the farmers. Some of the factors responsible for their failure are:

- Inadequate supply of credit,
- Poor recovery,
- Demand-supply gaps,
- Interference by politicians,
- Lack of monitoring,
- Mis-utilisation of credit
- Problems in identification of target groups,
- High transaction costs and lags in time,
- Natural calamities competition from informalcredit agencies.
- NABARD

National Bank for Agriculture and Rural Development (NABARD) provides refinance to the Apex Bank and CARD Bank. NABARD is an apex institution accredited with all the matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas. It is an apex refinancing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas. It co-ordinates the rural financing activities of all the institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India and other national level institutions concerned with policy formulation.

- **Primary Agricultural Co-operative Societies:**

Primary Agricultural Cooperative Societies (PACS) play a crucial role in improving the economic and social conditions of the common masses. They provide short-term and medium-term loans to the members/farmers at reasonable interest rates to meet their various needs. They provide credit to the farmers for agriculture purposes cheap and easy terms. PACS is the foundation of the Co-

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operative Credit System on which the super structure of the short-term cooperative credit system is built.

- **Role of Financial Intermediaries:**

The financial intermediaries serving agriculture provide an important service by channeling funds from savers to borrowers in the amounts necessary to finance production expenses and capital expenditures. The funds used by these financial intermediaries come from variety of sources. These funds are then made available to agriculture under a variety of terms.

Table: 1

SOURCES OF AGRICULTURAL CREDIT (%)

SOURCES	**1950-51**	**1960-61**	**1970-71**	**1980-81**	**1990-91**	**2000-01**	**2010-11**
GOVERNMENT	3.3	2.6	3.6	4	6.1	3	4
COOPERATIVE SOCIETIES	3.1	5.5	22.7	28.6	21.6	26	24.9
COMMERCIAL BANKS	0.9	0.6	4	28	33.7	27	43.1
MONEYLENDERS	90.9	67.4	68.4	38.8	32.7	41	21.9
OTHERS	1.8	13.9	1.3	0.6	5.9	3	6.1
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Economic Survey 2010-11

It is important financial intermediaries serving agriculture must operate in, where these lenders obtain their funds and the terms of the loans they make. These institutions are divided into four groups for discussion purposes: commercial banks, farm credit system, government lenders, and other financial intermediaries. The changing relative importance of these institutions over time is examined as is the joint participation between several of these institutions sometimes employed to meet the loan demands of larger farm operators. Finally, the performance of these financial intermediaries will be evaluated in terms of the efficiency and equity of their lending activities.

- **Microfinance in Agriculture**:

Since the early 2000s a number of organizations have developed innovative approaches to financing agriculture. They have sometimes adapted microfinance concepts to the provision of agricultural finance, used good banking practices, and above all drawn on knowledge of agriculture to enter and succeed in this market. Many of these new approaches show great promise, but no single approach works for all situations. This set of briefs explores how rural and agricultural finance can be profitable, without high levels of government subsidies, by examining a selection of successful interventions-out of the many being implemented in the developing world and highlighting the lessons learned. The briefs fall into four thematic areas:

- Addressing the business reality of small farmers in developing countries
- Using modern communication technology to overcome the tyranny of distance and information bottlenecks,

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- Managing risks at the farm and household level,
- Bundling financial services with non-financial services to address the multiple constraints faced by most small farmers.

Financial institutions have demonstrated a lack of interest in agriculture finance for four reasons.

- First, many agricultural households were located in remote parts of the country and were often so widely dispersed that financial institutions found it challenging to provide cost-effective and affordable services.
- Second, big swaths of the agricultural population were subject to the same weather and climate risks, making it hard for providers of financial services to hedge risks or operate profitable insurance pools.
- Third, service providers, mainly urban-based, simply did not know enough about the business of agriculture to devise profitable financial products.
- Fourth, most small agricultural producers in developing countries had little education and little knowledge of how modern banking institutions work.

V. CONCLUSION:

Though the central government and state governments of India have taken many initiatives to provide easy institutional credit to the small and marginal farmers of our country still most of our rural people lack access to reliable and affordable finance facilities for agriculture and other livelihood activities. Many remote villages as well as small farmers have no retail banking as well as institutional financial sources. They face financial crisis when their demand is high and it needs to expand innovative approaches to solve the problem.

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