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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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STRUCTURE OF AGRICULTURAL CREDIT SYSTEM IN INDIA

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ABSTRACT

The purpose of this study is to investigate the significance of agricultural finance on agricultural and rural development in India. The study was based on Secondary data only. It reflects the various sources of agricultural finance & its advantages to the farmer for the development in agricultural growth. As we know that, the major sources of income in India are coming from primary sector. Therefore, it is necessary to aware about the norms & policies for the development in rural sector. It also reviews & compares the institutional and non-institutional source of agriculture finance. It is because of the fact that the availability of capital, the farmers who borrowing agricultural finance and providing inputs on time and in proper were getting better production. Most of the farmers agreed that agricultural finance was helpful for improving living standard useful for household and rural development; it facilitates farmers in use of agricultural inputs on time and getting best agricultural production.

KEYWORDS

agricultural finance, rural development, borrowers and non borrowers, total revenue, total cost, variable costs, capital.

JEL CODES

A10, A20, C15, C83, D21, D22, E66, G28, Q10, Q28, Q58.

1. INTRODUCTION

Agriculture credit system plays an important role for the development in agricultural sector. In India, agricultural credit is being advanced by various sources. The short term and medium term loan requirements of Indian farmers are usually met by Government, co-operative credit societies and moneylenders. For the long-term loan requirements, farmers can seek help from moneylenders, the Government and land development banks.

Agricultural policies have been reviewed from time to time to provide adequate and timely availability of finance to this sector. Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities. In India, a multi-agency approach comprising co-operative banks, scheduled commercial banks and regional rural banks (RRBs) has been followed to allow credit to agricultural sector. In present scenario, the long term and short term credit needs of Indian farmers are also being sufficed by National Bank for Agricultural and Rural Development (NABARD).

2. REVIEW OF LITERATURE

Nimbkar (1968) has lucidly analyzed different types of difficulties which institutional credit agencies have to face, while delivering agricultural finance to the farmers, especially in terms of sanctioning and recovery of loan. To him, commercial banks can run successfully if they provide extension services and train their staff accordingly. He suggests that before sanctioning loan to the farmers the trained staff will assess the credit worthiness of the farmers. But he has not mentioned any mechanism by which the credit worthiness of a farmer seeking loan can be tested.

Ghosal (1972) has mentioned that he finds very few works on the long term loan to the farmers. His study is confined to the discussion on long term loan to the farmer only. He says that if short-term credit is given to the farmers, they have to repay the same within a very short period and renew the same. As a result, the total amount of interest for the short term loan becomes much higher than what is to be paid in case of long-term loan and on the other hand, the transaction cost of the financial institutions in issuing short term loan increases.

Menon (1961) in his book deals with the problems of Indian rural credit as multidimensional and dynamic. According to him, the question of providing loans for agriculture and its allied activities is not merely a financial one, but has a longer economic aspect and also political, sociological and humanitarian aspects. He explores that in India agriculture and other rural activities suffer from financial anemia at present. The injection of sufficient quantities of finance into them could accelerate their pace and increase the volume and value of their production. But his work lacks the mention of the types of sources of rural credit. It is true that if the sufficient amount of loan to the rural people come from informal credit market. It may or may not increase the volume and values of their production as because, in most cases informal credit market is more interested in delivering loan for their purpose other than production. So, the sufficient flow of finance to the rural poor cannot be treated as the only way of improving their fate and also of the country.

Hazari (1976) in his article he has tried to identify the area in which the Regional Rural Banks can participate in rural development. He introduced the concept of "Command Area Development". He argued that instead of solely depending on individual farmer to increase output, it is necessary to channelises the amenities to the groups of farmers for the integrated development or the region.

Kurulkar and Deogirikar (1980) have shown that major proportion of the beneficiaries belonged to landless category, followed by small and marginal farmers in the Marathawada Regional Rural Bank. The percentages of flow of credit to these weaker sections has shown a declining trend and the study recommended for reconsideration of the loaning policies of the bank.

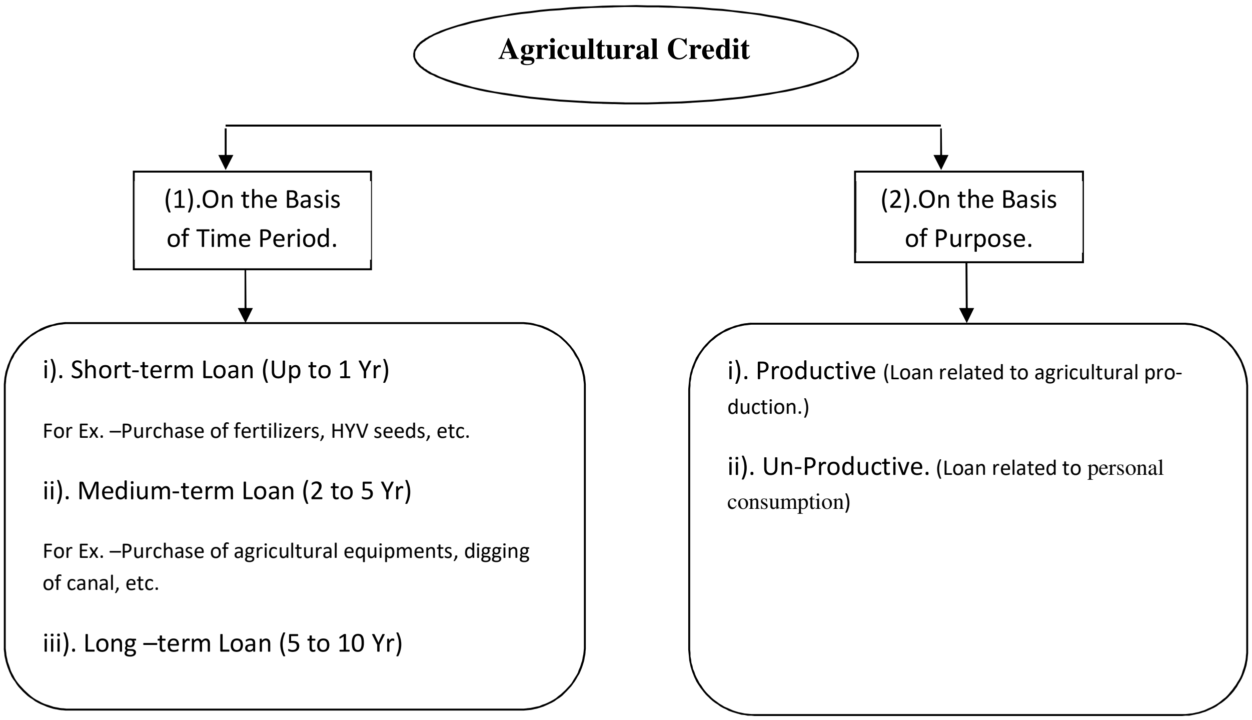
3. OBJECTIVES OF THE STUDY

1. To analyze the reasons that necessitates agriculture credit.
2. To find out whether there have been any misutilisation and/or diversion of funds.
3. To examine the various kinds of agriculture credit in India..
4. To review & compare the institutional and non-institutional source of agriculture finance.
5. To find out the causes of overdue with the institutional credit agencies.
6. To examine the major sources of institutional agriculture credit in India.

4. KINDS OF AGRICULTURE CREDIT

The agriculture credit can be classified on the basis of the following chart:

CHART 1



5. RESEARCH METHODOLOGY OF THE STUDY

The present research article is based on the basis of Secondary data only. The secondary sources used for internet, websites, are various research journals, and various books etc. The secondary data collected from **(NSSO) National Sampling Survey Organization** in last ten years just like 2002 to 2012 concerned. The method of research provide in the library research is undertaken for the purpose of taking a survey of both theoretical and empirical evidence of works. This research methodology adopted by previous researchers and the collection of secondary data for analyses are also inclusion.

ANALYTICAL APPROACH

According to population census of 2001, 58.4% of the total main and marginal workers in India were engaged in agriculture. Besides, a large number earn their living by working in occupations dependent on agriculture; like storage, processing, trade and transport of agricultural products. In villages, about 80% of the people earn their livelihood from cultivation and allied Agro industries. A large part of the labour force in towns and cities also finds job in agro-based industries and other activities related with agriculture. Thus, the share of agriculture in offering employment is higher in the process of economic development of the country.

TABLE 1: SHARE OF MAJOR SECTORS IN TOTAL EMPLOYMENT

Sectors	1999-2000	2004-05	2011-12
Agricultural sector	59.9%	58.5%	48.9%
Manufacturing	16.4 %	18.2%	24.3%
Services	23.7%	23.3%	26.9%

Source: Dr. V. Rajarajeswari (2016)

A trend observed across countries in the course of the development process. However, despite the heavy dependence of Indian agriculture on the monsoon with almost 53% of the gross cropped area rain fed, the production of various crops has grown at a recent rate.

6. SOURCE OF AGRICULTURAL CREDIT IN INDIA

There are two broad sources of agricultural credit **(Figure No. 1.2)** in India:

(1) NON-INSTITUTIONAL SOURCES

The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The important sources of non-institutional credit are as follows:

(i) Money-Lenders: Money-lending has been the widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators and in some cases even the peasants and members of his family are kept as collateral.

(ii) Other Private Sources:

(a) Traders, landlords and commission agents: The agents give credit on the hypothecation of crops which when harvested is used to repay loans.

(b) Credit from relatives: These credits are generally used for meeting personal expenditure.

(2) INSTITUTIONAL SOURCES

The general policy on agricultural credit has been one of progressive institutionalization aimed at providing timely and adequate credit to farmers for increasing agricultural production and productivity. Providing better access to institutional credit for the small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been a major thrust of the policy. **National Bank for Agriculture and Rural Development (NABARD)** is an apex institution established in 1982 for rural credit in India. It does not directly finance farmers and other rural people. It grants assistance to them through the institutions described as follows:

1. RURAL CO-OPERATIVE CREDIT INSTITUTIONS (RCCIs)

Rural Credit cooperatives are the oldest and most extensive form of rural institutional financing in India. The major thrust of these cooperatives in the area of agricultural credit is the prevention of exploitation of the peasants by moneylenders. The rural credit cooperatives may be further divided into short-term credit cooperatives and long-term credit cooperatives.

(A). **Short-term credit Cooperatives**: it provides short-term rural credit and are based on a three-tier structure as follows:

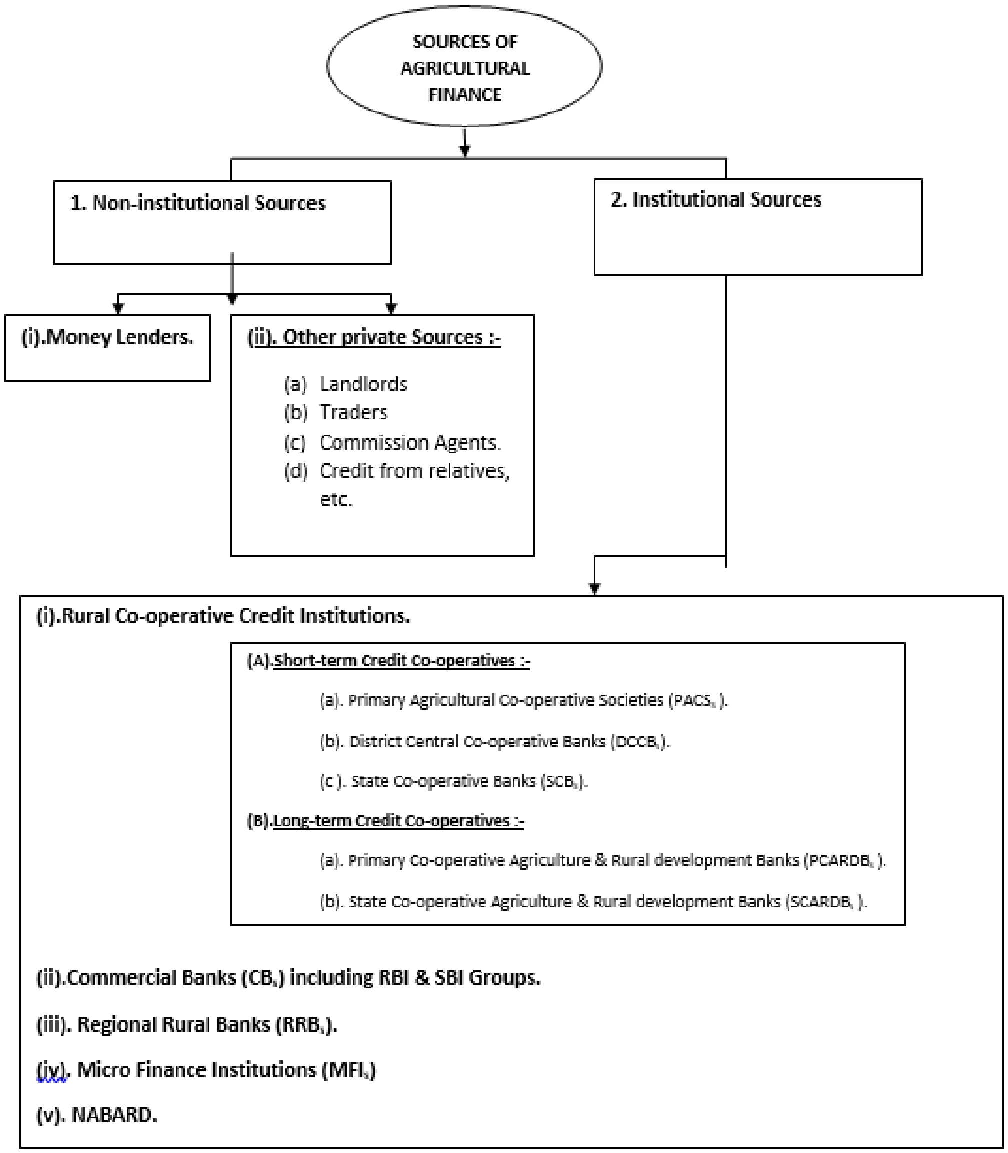
(i) Primary Agricultural Credit Societies (PACs): These are organized at the village level. These societies generally advance loans only for productive purposes. The main objective of a PACS is to raise capital for giving loans and supporting the essential activities of the members such as supply of agricultural inputs at cheap price, improving irrigation on land owned by members, encourage various income-augmenting activities such as horticulture, animal husbandry, poultry etc. In India, around 99.5 percent of villages are covered by PACs.

(ii) District Central Cooperative Banks: These cooperatives are organized at the district level. The PACS are affiliated to the District Central Co-operative Banks (DCCBs). DCCBs coordinate the activities of district central financing agencies, organize credit for PACs and carry out banking business.

(iii) State Co-Operative Banks: The DCCBs are affiliated to State Co-operative Banks (SCBs), which coordinate the activities of DCCBs, organize provision of finance for credit worthy farmers, carry out banking business and act as leader of the Co-operatives in the States.

STRUCTURAL FRAMEWORK OF THE SOURCES OF AGRICULTURAL FINANCE

CHART 2



(B).Long-term credit Cooperatives: These cooperatives meet long-term credit of the farmers and are organized at two levels:

(i) Primary Co-Operative Agriculture and Rural Development Banks: These banks operate at the village level as an independent unit.

(ii) State Co-Operative Agriculture and Rural Development Banks: These banks operate at state level through their branches in different villages.

2. COMMERCIAL BANKS

Commercial Banks (CBs) provide rural credit by establishing their branches in the rural areas. The share of commercial banks in rural credit was very meager till 1969. The All India Rural Credit Review Committee (1969) recommended multi agency approach to the rural and especially agricultural credit. It suggested the increasing role of the CBs in providing agricultural credit. Further, under the Social Control Policy introduced in 1967 and subsequently the nationalization of 14 major CBs in 1969 (followed by another six banks in 1980), CBs have been given a special responsibility to set up their advances for agricultural and allied activities in the country. The major expansion of rural branches took place and CBs introduced Lead Bank scheme and district credit plans for rural areas. Banks were asked to lend 18 percent of their total advances to agriculture within the quota of 40 percent of priority sector lending. This expansion of rural credit remained till the late 1980s. However, during late 80's, CBs suffered huge losses due to waiving of agricultural loans by the government. The financial liberalization process with the adoption of **Narasimham Committee** report in 1993 has necessitated the banks to focus on profitability and adopt prudential norms. The proportion of bank credit to rural areas especially small borrowers has come down steadily.

3. REGIONAL RURAL BANKS (RRBs)

RRBs are the specialized banks established under RRB Act, 1976 to cater to the needs of the rural poor. RRBs are set-up as rural-oriented commercial banks with the low cost profile of cooperatives but with the professional discipline and modern outlook of commercial banks. Between 1975 and 1987, 196 RRBs were established with over 14,000 branches. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March, 2006 and to 96 as on 30 April 2007. RRBs covered 525 out of 605 districts as on 31 March 2006. After amalgamation, RRBs have become quite large covering most parts of the State. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI). The branch network of RRBs in the rural area from around 43 per cent of the total rural branches of commercial banks. A large number of branches of RRBs were opened in the un-banked or under-banked areas providing services to the interior and far-flung areas of the country. RRBs primarily cover small and marginal farmers, landless laborers, rural artisans, small traders and other weaker sections of the rural community. However, even after so many years, the market share of RRBs in rural credit remained low and has suffered huge losses. In recent years Government has initiated reform process to improve the functioning of RRBs.

4. MICRO FINANCE INSTITUTIONS (MFIs)

Banks offer concessional interest rates for the rural credit. However, small farmers are unable to access them because of borrower-unfriendly products and procedures, inflexibility and delay, and high transaction costs, both legitimate and illegal. Thus, Non-Government Organisations (NGOs) are providing alternative means to enhance access to credit by the poor since mid-70's. After pioneering efforts by organizations like SEWA, MYRADA, PRADAN and CDF, in 1992 the RBI and NABARD encouraged commercial banks to link up with NGOs to establish and finance self-help groups (SHGs) of the poor. The RBI has included financing of SHGs under priority sector lending. At present, there are three groups of SHGs viz. SHGs formed and financed by the banks (20 percent); SHGs formed by other formal agencies but financed by banks; SHGs financed by banks using NGOs and other agencies (8 percent).These institutions provide small loans to the poor at low interest rates without collateral.

The experience of micro-finance scheme in India suggests that i) It is the cost effective way of financing the rural poor; ii) The repayment rate of SHGs is more than 95 percent due to peer pressure; iii) It reduces transaction costs of borrowers as well as lenders; iv) It inculcates the habit of thrift among members and provide timely credit.

7. MAJOR FINDINGS IN RURAL CREDIT STRUCTURE

- **Lack of Motivation:** In order to fill the gap that occurred due to the failure of rural cooperative societies Government gave increasing role to the commercial banks. However, commercial banks lack the desired skills and expertise in the agro-credit. The banks have enough financial resources but the service consultancy is not available. Thus, there is a failure to provide complete package of assistance to the farmers. Further, financial sector reforms have put pressure on banks to improve their financial position and so these banks are now concentrating on selected clientele of large borrowers.
- **Overemphasis of Monetary Credit**: The rural credit institutions have given overemphasis on the financial assistance to the cultivators. While the finance is very important factor but it should be complemented with the extension of services in form of guidance, expertise and counseling on agricultural issues.
- **Multiplicity of Institutions**: The rural credit structure is based on multi agency credit system whereby there exist numerous organizations providing similar kind of financial services. There is a lack of coordination in the system and the commercial viability is adversely affected in this scenario.
- **Lack of Motivation:** In order to fill the gap that occurred due to the failure of rural cooperative societies Government gave increasing role to the commercial banks. However, commercial banks lack the desired skills and expertise in the agro-credit. The banks have enough financial resources but the service consultancy is not available. Thus, there is a failure to provide complete package of assistance to the farmers. Further, financial sector reforms have put pressure on banks to improve their financial position and so these banks are now concentrating on selected clientele of large borrowers.
- **Financial Exclusion**: Despite of a large network of the institutional credit system, it has not been able to adequately penetrate the informal rural financial markets and the non-institutional sources continue to play a dominant role in purveying the credit needs of the people residing in rural areas. The results of the All-India Debt and Investment Survey (AIDIS, 2002) also indicate that the share of the non-institutional sources, in the total credit of the cultivator households, had increased from 30.6 percent in 1991 to 38.9 percent in 2002.
- **High Interest Rates:** The rate of interest charged by rural financial institutions (RFIs) from farmers continues to be considerably higher than those charged by financial institutions from urban consumers. The owners of small or marginal farms, which are non-viable or viable at the margin, and self-employed in the informal sector, cannot afford to bear the level of interest charged by RFIs.
- **Procedural Delays**: There is a problem of considerable delays in processing of loan applications and collaterals. Thus, farmers shy away from institutional financing and increase their dependency upon non-institutional sources.
- **Poor Recoveries**: Banks are shying away from rural financing mainly because of poor recoveries, which is inflicting the system. It is ironical that the recoveries position is adverse amongst rich farmers than amongst the small farmers. The political decisions of waiving off loans are further putting pressures on the financial system.

8. SUGGESTIONS FOR IMPROVING INSTITUTIONAL RURAL CREDIT SYSTEM

- **Financial Discipline to Improve Recovery:** A national consensus among political parties should be evolved for not politicizing the RFIs and resist from announcement of loan or interest waiver schemes and giving calls for not repaying the institutional loans. However, given the risk involved in the agriculture credit the recovery system should be flexible and humane.
- **Revamping the Cooperative Credit Structure:** The Cooperative Credit Structure should be strengthened to make use of its wider reach. These have to be recapitalised so as to provide funds for improving their financial positions. There is a need of capacity building, human resource development, institutional restructuring to ensure democratic functioning, and improving the regulatory regime to empower the Reserve Bank of India (RBI) to enforce prudent financial management.
- **Better Physical, Social and Economic Infrastructure:** The long-term policy framework needs to be designed to improve infrastructure facilities so as to boost rural economic growth. This requires increased public expenditure on social infrastructure (like education, availability of drinking water, health facilities), physical infrastructure (like roads, power) and economic infrastructure like (irrigation, modern agricultural techniques). These measures would help to improve the debt paying capacity of rural poor and provide greater opportunities to RFIs.
- **Financial cum Consultancy Approach:** RFIs needs to provide extension services like consultancy about seeds, availability and use of modern inputs, marketing strategies etc to the cultivators so that a holistic package of assistance can be provided to them.
- **Group Approach to Lending:** The lending to homogenous farmer's groups needs to be organized to improve credit delivery. This would help to improve recovery because of peer pressure. Further, group lending tends to be cost-effective. Involving NGOs or rural educated youths in organizing farmers or rural families in groups, scrutinizing applications, disbursement of loan and effecting recoveries would help RFIs in reducing lending costs.
- **Autonomy to RRBs:** RRBs should be given more autonomy and flexibility in planning and lending policies, so that their comparative advantage in rural lending is restored.
- **Greater involvement of Micro Finance Organizations:** The banks need to involve micro-finance agencies like SHGs, NGOs etc. and other grass root level financial intermediaries who have better understanding of the credit needs and recovery situations.
- **Technological Up-Gradation**: Technological improvements like computerization can be critical in building up a reliable credit information system and database on customers, reducing transaction costs and facilitating better pricing of risk, improving the efficiency of the financial system, and thereby increasing the access of un-banked rural people in an efficient manner.
- **Information Dissemination to Rural Poor**: Credit counseling, awareness and financial education regarding the benefits of institutional financing are important for effective expansion of financial services in rural areas. To do this, banks may utilize the services of non-governmental organizations, village youth clubs, village panchayats, farmer clubs and self-help groups into confidence.

9. CONCLUSION OF THE STUDY

From the above elaboration, it is concluded that day-by-day the size of the landholding has constantly been fragmented due to excess pressure of population on land. It is clear from the study that PACS is not protecting and uplifting the weaker section of the farming population. In most cases, it has become an institution of some financially sound people who mislead and exploit the weaker section. The office-bearers of PACS are not expanding the membership for the fear of being defeated in the election of the office-bearers of PACS. It was gathered that most of the loanee farmers are devoid of banking behaviour as a result of their illiteracy. As a consequence, the repayment attitude is not good. Here loanee farmers are sometimes influenced by political leaders who advise them not to repay institutional credit, as there are the chances of the loan being written off by the government.

It may also be concluded that the informal lenders still have much importance in rural credit market and they contribute considerably to the growth of agriculture in spite of having a lot of allegations leveled against them.

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