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Sources of Agricultural Finance

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SUMMARY

Farm finance assumes vital importance in the agro – socio economic development of the country both at individual and at aggregate level. The catalytic role of farm finance strengthens the farming business and augments the productivity of scarce resources. Finance in agriculture is as important as other inputs being used in agricultural production. Technical inputs can be purchased and used by farmer only if he has money (funds).With the passing of Reserve Bank of India Act 1934, District Central Co-op. Banks Act and Land Development Banks Act, agricultural credit received impetus and there were improvements in agricultural credit. Till 14 major commercial banks were nationalized in 1969, co-operative banks were the main institutional agencies providing finance to agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension. Now the agriculture credit, through multi-agency approach has come to stay.

INTRODUCTION

As compared to the quantum of credit requirement and the capacity of institutions to meet these credit demands under multiagency system, it is impossible to completely wipe out the private agencies from the rural scene. The Banking committee, (1931) and the Banking Commission (1972) offered suggestions to get over the evil aspects of private lending agencies and bring them under sound credit system. These suggestions may be adopted till the institutional agencies attain the capacity to meet the full demand for credit.

Major institutions supplying credit to agricultural sectors are

- Government
- Cooperatives
- Commercial Banks
- Regional Rural Banks
- National Bank for Agricultural and Rural Development

Government

The government sector banks extend both short term as well as long-term loans. These loans are popularly known as “Taccavi loans” which are generally advanced in times of natural calamities. The rate of interest is low and it is not a major source of agricultural finance. Commercial Banks: Previously commercial banks (CBs) were confined only to urban areas serving mainly the activities of trade, commerce and industry. The insignificant participation of CBs in rural lending was explained by the risky nature of agriculture due to its heavy dependence on monsoon, unorganized nature and subsistence approach. Through nationalisation of CBs in 1969 and CBs were made to play an active role in agricultural credit was accelerated and they are the largest source of institutional credit to agriculture.

Micro Financing

Micro financing through Self Help Groups (SHG) has assumed prominence in recent years. SHG is a group of rural poor who volunteer to organise themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a common fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management. The SHG is formed and a couple of group meetings are held, an SHG can open a Savings Bank account with the nearest Commercial or Regional Rural Bank or a Cooperative Bank

Cooperative Credit Societies

The history of cooperative movement in India dates back to 1904 when first Cooperative Credit Societies Act was passed by the Government. Accordingly, cooperatives received substantial help in the provision of credit from Reserve Bank of India as a part of loan policy and large scale assistance from Central and State Governments for their development and strengthening. Many schemes involving subsidies and concessions for the weaker sections were routed through cooperatives. As a result cooperative Cooperatives play a very important role in disbursement of agricultural credit. Credit is needed both by the distribution channel as well as by the farmers. The distribution channel needs it to finance the fertilizers business and farmers need it for meeting various needs for agricultural production including purchasing fertilizers. The credit needed by the farmers for purchase of fertilizers and other inputs is called 'short term' credit or 'production credit' whereas credit needed by the distribution channel is called 'Distribution Credit'. Cooperatives also play a very important role in disbursement of 'Medium Term' and 'Long Term' credit needed by the farmers'.

Regional Rural Banks

They are state sponsored, regionally based and rural oriented commercial banks. An effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. RRBs were supposed to evolve as a specialised rural financial institution for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Every RRB the granting of loans and advances particularly to small and marginal farmers and agricultural laborers individually or to a group, cooperative societies, agricultural processing societies, cooperative farming societies. The Granting of loans and advances to artisans, small entrepreneurs and small traders, businessmen, etc. They have to ensure that 40 per cent of their advances are accounted for the priority sector. Within the 40 per cent priority target, 25 per cent should go to weaker section or 10 per cent of their total advances to go to weaker section. RRBs were set up in those regions where availability of institutional credit was found to be inadequate but potential for agricultural development was very high. However, the main thrust of the RRBs is to provide loans to small and marginal farmers, landless labourers and village artisans. These loans are advanced for productive purposes. At present 196 RRBs are functioning in the country lending around Rs 9,000 crore to rural people, particularly to weaker sections.

National Bank for Agriculture & Rural Development

National Bank for Agriculture and Rural Development (NABARD) was established in the year 1982 by an Act of Parliament and was entrusted with all matters concerning policy, planning and operation in the field of credit for agriculture and other economic activities in rural areas. It helps in planning and operational matters related to credit for agriculture and allied activities, rural artisans, village industries and other rural development activities. It extends refinance to commercial banks for term loans in relation to agriculture and rural development. It provides short term credit to state cooperative banks, RRBs, and other financial institution notified by RBI for a period not exceeding 18 months by way of refinance for agricultural operations, marketing of crops and marketing and distribution of agricultural inputs. It offers direct loan by way of refinance to all eligible institutions for a period not exceeding 25 years. It provides finance for production and marketing activities of rural artisans, cottage industries, small-scale industries, handicrafts etc. in the rural areas. It facilitates all eligible financial institutions for conversion of production loans into term loans in the times of natural calamities. It contributes to share capital and securities of eligible institutions and State Governments concerned with agriculture and rural development. It also helps State Governments to contribute to the share capital of eligible institutions working for rural development. It offers advice and guidance to State Governments, Cooperative federations and National Cooperative Development Corporation (NCDC) and functions in close contact with Central Government in matters related to agriculture and rural development. It coordinates and monitors all agricultural and rural lending activities with a view to tying-up with extension and planned development activities in rural areas. It conducts training, consultancy and research relating to agricultural finance and agricultural and rural development.

Kisan Credit Card Scheme

Simplifies disbursement procedures.Removes rigidity regarding cash and kind. No need to apply for a loan for every crop. Assured availability of credit at any time enabling reduced interest burden for the farm. Credit facility for 3 years – no need for seasonal appraisal. Maximum credit limit based on agriculture income .Repayment only after harvest. Access to adequate and timely credit to farmers. Full year's credit requirement of the borrower taken care of minimum paper work and simplification of documentation for withdraw of funds from the bank. Flexibility to draw cash and buy inputs. Assured availability of credit at any time enabling reduced interest burden for the farmer.

CONCLUSION

Role of credit to agriculture focus "need to improve the overall income and economic well-being of the farmers" as agriculture has been the basic requisite for national sovereignty. The analysis of through relationship between agricultural and non-agricultural growth in India confirms that farm & non-farm sector in rural areas are complimentary to each other and risks mitigating. Rural credit policy and programs need to focus on farm & rural non-farm sector development to alleviate rural poverty, deprivation and suffering.

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