

NON-COLLEGIATE WOMEN'S EDUCATION BOARD

Hansraj College Centre, University of Delhi, For 14/03/2020

B.A. (Prog) IIIrd Year, Section - A, Room No.- A101 (09:40-10:40)

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PAPER – ECONOMICS

SECTION – B, UNIT – 1 AGRICULTURE

AGRICULTURAL CREDIT -

Availability of credit plays a significance role in agriculture but unfortunately that is not accessible to most of the Indian farmers. As a consequence farmers lack money for purchasing seeds, fertilizers, tractors, thrashers and other useful equipments. Thus agriculture remains undeveloped and backward after long time since independence.

SOURCES OF AGRICULTURAL CREDIT -

Broadly there are two types of credit sources available to farmers –

a) Non-Institutional Sources –

1) Moneylenders/Mahajans – Rural cultivators mainly depend upon the moneylenders for their requirement of cash. These include big landlords and rich farmers who indulge in moneylending as a side business. They are easily accessible and maintain personal contact with the borrower.

2) Landlords – Landlords also provides credit to small and marginal farmers. In 1950-51, share of this source to total agricultural credit was found to be around 3 per cent. The contribution is more or less same even now.

3) Friends and Relatives – This is most non-exploitative source among all non-institutional sources and thus most preferential source for the farmers. At the time of independence, its share was 14 percent through it has tended to decline over time.

b) Institutional Sources -

1) Commercial Banks – Banks came out as a major source after nationalisation of 14 banks in 1969. Till 1969 banks granted only 5.5 percent but this increased up to 19 percent in 1999.

2) Regional Rural Banks – RRB's also serve as major source to cater credit needs of small and marginal farmers for growth of agriculture. These have made commendable progress in advancing loans to the weaker and underprivileged section of rural society.

3) Co-operative Societies – A co-operative society is a voluntary association of people coming together and invest their small savings for the mutual benefit of all members. Credit

societies offer short term loans to the farmers. In 1950-51, these societies covered just 9 percent of the rural population while their coverage has extended to nearly 90 percent at present.

4) Local Area Banks – The banks were established in August 1996 with the objective of mobilising local savings by local institutions and making them available for investment in local areas. These banks perform all normal banking business but their major function is to finance agriculture and allied activities and small scale industries in the rural and semi urban areas.

SHORTCOMINGS/PROBLEMS IN AGRICULTURAL FINANCE -

There are certain serious shortcomings in rural credit because of which it continues to be a matter of concern.

1) Inaccessible to Small Farmers – Credit from the institutional sources is often inaccessible to small and marginal farmers. This is owing to their low capacity to offer collateral for loans. Thus institutional credit has failed to reach those who need it the most.

2) Inadequate Availability – Availability of credit for agricultural purposes always remains inadequate as per its requirement. As people are shifting from non-institutional to institutional sources there has been increasing demand for agricultural credit.

3) Unproductive Use – It has been noticed that farmers after obtaining loans use them towards their personal needs. On one side funds are scarce and on the other these used for unproductive purposes this hinders financial institutions from fulfilling their objectives.

4) Red Tapism – Institutional sources of credit are involved with so much official formalities that this choice proves to be cumbersome and time consuming for small and illiterate tillers. This is why farmers are often forced to resort to non-institutional sources.

5) Lack of Cooperation from Beneficiaries – Most of the beneficiaries are illiterate and ignorant and they do not know the importance of cooperation from their side. Resultantly the recovery of credit also remains unsatisfactory. Nearly 50 percent of loan amount remains unrecovered which impedes the process of further lending.

OUR SUGGESTIONS FOR IMPROVEMENT –

1) Warehousing facility should be developed so that farmers can store their produce and use them as collateral for loans.

2) Loans advanced by institutional sources must be seriously monitored. For this purpose effective supervisory mechanism must be developed so that these funds do not deviate from their intended use.

- 3) Middlemen between the credit agencies and borrowers should be completely eliminated.
- 4) Besides granting loans the agencies should also provide technical know-how, viability of farming operations, alternative uses of funds.
- 5) Lending practices of moneylenders and landlords must be regulated and restricted.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Soon after its establishment, RBI started to cater agricultural credit needs and also set up the Agricultural Refinance Development Corporation to provide refinance support to the banks to promote agricultural development. With widening the role of bank credit from agricultural development to rural development government decided to have a broader organisation to provide support and guidance to credit institutions in matters relating to formulation and implementation of rural development programmes.

Therefore, NABARD was set up on July 12, 1982 to take over the functions of ARDC to refinance cooperative banks and RRBs. This apex development bank was established for the promotion of agriculture, small scale industries, cottage and village industries and other allied economic activities in rural areas.

Functions of NABARD –

1) NABARD has taken over refinancing function of RBI and ARDC and thus provides refinance facilities to banks and financial institutions to agriculture and rural development.

2) It provides short term, medium term and long term credits to State Cooperative Banks, Land Development Banks, Regional Rural Banks and other financial institutions approved by RBI.

3) NABARD gives long term loans up to 20 years to state governments to enable them to subscribe to the share capital of cooperative credit societies.

4) It has the responsibility of coordinating the activities of central and state governments and other institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts industries.

5) NABARD is empowered to inspect RRBs, cooperative banks and cooperative societies.

6) NABARD also undertakes various research and development functions to promote agriculture and rural development. It develops expertise to deal with agricultural and rural problems, projects and programmes suitable for the requirements of different areas and training programmes to upgrade the technical skills of personnel engaged in agriculture development.

