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Rural and Agricultural Credit in India

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Abstract: During the 1960s and 1970s the key issue in agriculture and rural development was agricultural production. Agricultural credit was but an input, next to improved seeds and seedlings, fertilizer, pesticides, tools and machines. The target group was farmers. The issue was how to disburse agricultural credit to farmers. The funds were provided by governments and donors. Disbursement mattered, not repayment. The main disbursement channels were agricultural development banks and projects. Agricultural credit was a service, not a business. The strategy had much to show: the green revolution, driven by technology, financed on credit, with subsidized interest rates. The produce was purchased by government at guaranteed prices.

Key Words: agriculture, development, agricultural credit, improved seeds, fertilizer, pesticides.

So impressive was the business of the green revolution that the business of the financial service was ignored. But when farmers didn't repay their loans, the banks didn't cover their costs and the governments ran out of money to finance the subsidies, the banking business finally failed, and so did the service. Meanwhile, populations continued growing, increasing numbers of rural people could not live on agriculture alone. To survive they had to engage in numerous activities: on-farm, off-farm and non-farm. Rural households and rural economies got increasingly diversified. Access to finance was the limiting factor. Agricultural credit had been exclusive. It excluded all those who didn't own and till the land: labourers, micro entrepreneurs, traders, women and large numbers of smallholders too poor to pay the bribes and too uneducated to do the paperwork.

The unsatisfied demand prepared the ground for a revolution on the supply side: microfinance. Perhaps this should be called the blue revolution, blue being the bankers' colour. The new emerging 129 issue was now how to link microfinance to rural entrepreneurs: through inclusive financial systems development. Regional Rural Banks have been in existence for around three decades in the Indian financial scene. Inception of regional rural banks can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, 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.

Over the years, the RRBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a 130 key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the numbers have grown into 196 RRBs with 14,446 branches working in 518 districts across the country in March 2004 and thereafter in 2009-10 the total banks were 82 with 15,475 branches in 518 districts. RRBs have a large branch network in the rural area forming around 43 per cent of the total rural branches of commercial banks. The rural orientation of RRBs is formidable with rural and semi-urban branches

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constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilize rural savings. Regional Rural Banks in India are an integral part of the rural credit structure of the country. These banks played a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labors, and even small entrepreneurs.

The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "Real India lies in villages," and village economy is the backbone of Indian economy. Without the up-liftment of the rural economy 131 as well as the rural people of our country, the objectives of economic planning cannot be achieved. In fact, the real growth of Indian economy lied in the emancipation of rural masses from acute poverty, unemployment, and socio-economic backwardness. Keeping this end in view, various important plans and programmes of rural development have been conceived and implemented by the government of India since the commencement of first five-year plan from 1951-56. But an appraisal of the achievement of these programmes clearly reveals that much programmes failed to achieve the desired objectives due to the backward economic condition and lack of adequate finance to the poor people in the rural areas. Hence, bank and other financial institutions are of vital importance for development of rural economy of a country

Challenges For Rural and Agricultural Credit: Agriculture is a matter of livelihood and food security, with nearly 60 per cent of the population depending on it. At the same time, to withstand the global competition, enhanced productivity and sustainability of the agriculture sector has become imperative. In addition, the majority of the country's population, more so marginal and disadvantaged sections of society, stay in villages. Hence, the role of banks in the enhancement of agriculture productivity, expansion of rural credit and poverty eradication assumes high priority despite decades of efforts and experimentation in banking, the organized financial sector is still not able to meet the credit gap in the rural sector. The lower levels of per capita income, lack of infrastructure in the rural areas, focus in the urban sector and lack of proper connectivity were the main hindrances for banks to venture into rural areas. Directed lending, cumbersome procedures, delay in sanctioning loans and lack of statutory backing for recoveries were other major impediments to the growth of banking in the rural sector.

Agricultural Credit: The progress of agricultural credit in India has depended crucially on government intervention over the years i.e. package of incentives and policy measures, which the RBI and the Centre formulate and implement. The growth of commercial banks' lending to agriculture and allied activities witnessed a substantial decline in the 1990s as compared to the 1980s. Credit flow to the agriculture sector from all formal sources amounted to Rs. 70,810 crore in 2002-03 and Rs. 86,981 crore in 2003-04, much below the levels envisaged in the Tenth Plan. Agriculture's share in scheduled commercial banks' total outstanding credit as on 31st March 2005 was only Rs. 1,12,475 crore. The total agricultural lending by commercial banks is lower than credit in personal loans which stood at Rs. 2,66,988 crore, comprising advances for housing and consumer durables. In recent years, retail advances have increased by 41.2 per cent in 2004-05 as compared to the growth of 27.9 per cent in the overall loans and advances of Scheduled Commercial Banks. As a result, their share in total loans and advances increased significantly during the year ended March 2005.

However, according to the study only 15 out of 85 banks registered an increase in return on assets as at the end of 2004-05 over 2003-04. Hence, the argument that rural credit drives down the banks profits and increases NPA is not justified. NPA in rural credit are far less and the rate of retrieval of rural credit NPAs is faster than other advances. The annual growth rate of farm credit is around 15% and this growth in rural advances essentially comes from

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advances like gold loans for agriculture and Kisan Cards.

About 70% of the present rural credit stock of over Rs. 115243 crore is Kisan Credit Cards spread over 4.8 crore of such card holders. This shows the narrow focus of the banks towards short erm production loans rather than for term loans.

Importance of RRBs in Agricultural Finance: The RRBs were established with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto. RRBs established with the explicit objective of bridging the credit gap in rural areas, Check the outflow of rural deposits to urban areas & Reduce regional imbalances and increase rural employment generation. The main objectives of setting up the RRB are to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourer's artisans and small entrepreneurs in rural areas. Each RRB will operate within the local limits specified by notification.

If necessary, a RRB will also establish branches or agencies at places notified by the Government. Each RRB is sponsored by a public sector bank, which provides assistance in several ways, viz., subscription to its share capital, provision of such managerial and financial assistance as may be mutually agreed upon and helps the recruitment and training of personnel during the initial period of its functioning.

Every RRB is authorized to carry on transacting the business of banking as defined in the Banking Regulation Act and may also engage in other business specified in Section 6 (1) of the said Act. In particular, a RRB is required to undertake the business of (a) granting loans and advances to small and marginal farmers and agricultural laborers, whether individually or in groups, and to cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service societies, primary agricultural purposes or agricultural operations or other related purposes, and (b) Granting loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, industry or other productive activities, within its area of operation. The Reserve Bank of India has brought RRB's under the ambit of priority sector lending on par with the commercial banks. They have to ensure that forty percent of their advances are accounted for the priority sector. Within the 40 per cent priority tar get, 25 per cent should go to weaker section or 10 per cent of their total advances to go to weaker section.

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