CHAPTER – III

AGRICULTURAL FINANCE – AN OVERVIEW

3.1. INTRODUCTION

Finance in agriculture is as important as development of technologies. Technical inputs can be purchased and used by farmers only if sufficient money (funds) is available with farmers. Most of the times farmers suffer from the problem of inadequate financial state. This situation leads to borrowing from an easy and comfortable source\(^1\).

Professional money lenders were the only source of credit to agriculture till 1935. They used to charge unduly exorbitant rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them are left with perpetuated debts. There were widespread discontents among farmers against these practices and there were instances of riots also\(^2\).

With the passing of Reserve Bank of India Act 1934, District Central Cooperative Banks and Land Development Banks, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being through the initiative of the government. Large-scale credit was available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them. The cooperative banks advance credit mostly to agriculture. First bank advanced short-term and medium term loans while the second

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bank advanced long-term loans. The Reserve Bank of India as the Central bank of the country took lead in making credit available to agriculture through these banks by laying down suitable policies3.

Although the cooperative banks started financing agriculture with their establishments in 1930’s real impetus was received only after Independence when suitable legislations were passed and policies were formulated. Thereafter, bank credit to agriculture has made a phenomenal progress by opening branches in rural areas and attracting deposits.

Till 14 major commercial banks were nationalized in 1969, cooperative 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. In bringing "Green Revolution", "White Revolution" and now "Yellow Revolution" finance has played a crucial role. Now the agriculture credit, through multi agency approach has come to stay4.

The procedures and amount of loans for various purposes have been standardized. Among the various purposes "Crop loan" (Short-term loan) has the major share. In addition, farmers get loans for the purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe

lines, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises

3.2. MEANING

"Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loanable funds.

3.3. DEFINITION

Murray (1953) defined agricultural finance as “an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society’s interest in credit for agriculture.”

Tandon and Dhondyal (1962) defined agricultural finance “as a branch of agricultural economics, which deals with and financial resources related to individual farm units”.

3.4. IMPORTANCE OF AGRICULTURE FINANCE

Agricultural production in this country depends upon millions of small farmers. Their intensity, effort and efficiency have helped in raising yields per acre. Finance in agriculture act as a key to farmers. But farmers’ money is always inadequate and he needs outside finance or credit. Because of inadequate financial

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resources and absence of timely credit facilities at reasonable rates, many of the farmers, are unable to go in for improved seeds and manures or to introduce better methods or techniques.

The farming community must be kept informed about the various sources of agriculture finance. Agricultural finance possesses its usefulness to the farmers, lenders and extension workers. The knowledge of lending institutions, their legal and regulatory environment helps in selecting the appropriate lender who can adequately provide the credit with terms and related services needed to finance the farm business.

3.5. ROLE OF AGRICULTURE FINANCE

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about two thirds of the population is dependent on this sector. Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial service providers face distinct challenges when dealing with this sector. For example, the seasonal nature of production and the dependence on biological processes and natural resources leave producers subject to events beyond their control such as droughts, floods or diseases. The modern agriculture has increased the use of inputs specially for seed, fertilizers, irrigational water, machineries and implements, which has increased demand for agricultural credit. The adoption of modern technology, which is capital intensive, has commercialized agricultural production in India. Besides, the farmers’ income is seasonal while his working expenses are spread over time. In addition, farmer's

inadequate savings require the use of more credit to meet the increasing capital requirements. Furthermore, credit is a unique resource, since it provides the opportunity to use additional inputs and capital items now and to pay for them from future earnings\(^9\).

The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India. Timely and adequate agricultural credit is important for the increase in fixed and working capital for farmers. In order to provide sufficient credit to the farmers, many institutional and non-institutional agencies are working. Under institutional agencies cooperative, commercial, regional rural banks and different Government organizations are supplying credit to the needy farmers on priority basis\(^10\).

3.6. STATUS OF AGRICULTURE FINANCE

Credit in conjunction with modern agricultural technologies has ushered in the agricultural development across Indian regions. The liberal credit supply by the lending institutions enabled rapid infrastructural growth across and thereby improved


the farm level credit absorption capacity. Although credit has played vital role in agricultural development yet regional and farm-category wise disparity has also taken place. Infact, some of the states with better natural resource base have progressed well while some others lagged far behind. Likewise, some farmers with better resource endowments and access to financial and other institutions have marched faster while others could not do so. Furthermore, multiplicity of lending institutions together with the liberal deployment of credit through various ongoing schemes including micro-financing have saved rural dwellers from the clutches of money lenders. Yet, non-institutional credit agents still survive as they follow the canons of financing.

3.7. STRATEGY TO IMPROVE AGRICULTURE FINANCE

The achievement of targets in the agricultural sector which covers production of food and essential raw material like cotton, jute and oilseeds, ought not to be allowed to suffer for want of adequate credit. However, specific items of productive work and rates of interest need to be considered as an integral part of the Plan. For providing these facilities all the existing agencies like money lenders, commercial banks, cooperatives and the State have to be integrated and harnessed to a common purpose. Such a comprehensive approach is essential for ensuring the best use of all the available resources of the nation\(^\text{11}\).

3.8. CLASSIFICATION OF FINANCE.

3.8.1 On the basis of time

- **Short-Term**: The "short-term loans" are generally advanced for meeting annual recurring purchases such as, seed, feed, fertilizers, hired labour

expenses, pesticides, weedicides and hired machinery charges which are termed as seasonal loans/crop loans/production loans. These are expected to be repaid after the harvest. It is expected that the loan plus interest would be repaid from the income received through the enterprise in which it was invested. The time limit to repay such loans is a year.

- **Medium-Term (from 15 months up to 5 years):** "Medium-term loans" are advanced for comparatively longer lived assets such as machinery, diesel engine, wells, irrigation structure, threshers, shelters, crushers, draught and milch animals, dairy/poultry sheds, etc., where the returns accruing from increase in farm assets is spread over more than one production period. The usual repayment period for such type of loan is from fifteen months to five years.

- **Long-Term (above 5 Years):** Loans repayable over a longer period (i.e. above 5 years) are classified as long-term loans. "Long-term loans" are related to the long life assets such as heavy machinery, land and its reclamation, erection of farm buildings, construction of permanent-drainage or irrigation system, etc. which require large sums of money for initial investment. The benefits generated through such assets are spread over the entire life of the asset. The normal repayment period for such loans ranges from five to fifteen or even up to 20 years.¹²

### 3.8.2. Purpose classification

Credit is also classified based on purpose of loans e.g. crop loan, poultry/dairy/piggery loan, irrigation loan, machinery and equipment loan, forestry

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loan, fishery loan etc. These loans signify the close relationship between time and use as well as rate of return or profitability. Sometimes loans are also classified as production and consumption loans due to the fact that production loans are diverted for consumption purposes by the weaker sections. So, the banks have also started financing for consumption purposes (exclusively for home consumption expenditures) besides financing for the production purposes. The consumption loans are also to be repaid from the sale proceeds of the crop.

3.8.3. Security classification

Security offered/obtained provides another basis for classifying the loans. The secured loans are advanced as against the security of some tangible personal property such as land, livestock and other capital assets, i.e., medium and long term loans. The borrowers’ credit worthiness may act much more than the security offered, which if doubtful may result wilful default. Moreover, the secured loans are further classified on the basis of type of security e.g. mortgage loans, where legal mortgage of some property such as land is offered to the lender, i.e., loans for intangible property such as land improvement, irrigation infrastructures, etc. and hypothecated loans, where legal ownership of the asset financed remains with the lender despite physical possession being with the borrowers i.e. loans for tangible property such as tractor, machinery and equipments. The private money lenders, usually possess items such as gold ornaments / jewellery or land as security, which reminds the borrower about his obligations of loan repayments. On the contrary, unsecured loans are generally advanced without offering any security e.g. short-term crop loans13.

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3.8.4. Lender classification

Credit is also classified on the basis of lender such as

- Institutional Credit e.g. cooperative loans, commercial bank loans and government loans;
- Non-Institutional Credit e.g. professional and agricultural money lenders, traders and commission agents, relatives and friends etc.

3.8.5. Borrower classification

The credit is also classified on the basis of the type of borrowers (i.e., production or business activity as well as size of business) such as crop farmers, dairy farmers, poultry farmers, fisherman, rural artisans etc. or agricultural labourers, marginal/small/ medium/large farmers, hill farmers or tribal farmers etc. Such classification has equity considerations.\(^{14}\)

3.9. SOURCE OF AGRICULTURAL FINANCE

3.9.1. Non-institutional Credit Agencies

- **Traders and Commission Agents:** Traders and commission agents advance loans to agriculturists for productive purposes against their crop without completing legal formalities. It often becomes obligatory for farmers to buy inputs and sell outputs through them. They charge a hefty rate of interest on the loan and a commission on all the sales and purchases, making it exploitative in nature.

- **Landlords:** Mostly small farmers and tenants depend on landlords for meeting their production and day to day financial requirements.

Money lenders: Despite rapid development happening in rural branches of different institutional credit agencies, village money lenders still dominate the scene. Money lenders are of two types, agriculturist money lenders who combine their money lending jobs with farming and professional money lenders whose sole job is money lending.

3.9.1.1. A number of reasons have been attributed for the popularity of moneylenders such as:

- they meet demand for productive as well as unproductive requirements
- they are easily approachable even at odd hours; and
- they require very low paper work and advances are given against promissory notes or land.

Money lenders charge a huge rate of interest as they take advantage of the urgency of the situation. Over the years a need for regulation of money lending has been felt. But lack of institutional credit access to certain sections and areas have facilitated unhindered operation of money lending.

3.9.2. Institutional Credit Agencies

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of cooperatives and setting up of RBI), 1969-1975 (Nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)), 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). Institutional funding of the farm sector is mainly done by commercial banks, regional rural banks and cooperative banks. Share of commercial

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banks in total institutional credit to agriculture is almost 48 per cent followed by cooperative banks with a share of 46 per cent. Regional Rural Banks account for just about 6 per cent of total credit disbursement.

- **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.

- **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. The scope of the Act was restricted to establishment of primary credit societies and non-credit societies. The shortcomings of the Act were rectified through passing another Act called Cooperative Societies Act 1912. The Act gave provision for registration of all types of Cooperative Societies. This made the emergence of rural cooperatives both in the credit and non-credit areas, though with uneven spatial growth. Soon after the independence, the Government of India following the recommendations of All India Rural Credit Survey Committee (1951) felt that cooperatives were the only alternative to promote agricultural credit and development of rural areas. 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

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weaker sections were routed through cooperatives. As a result cooperative institutions registered a remarkable growth in the post-independent India.

- **Commercial Banks:** Previously commercial banks (CBs) were confined only to urban areas serving mainly the activities of trade, commerce and industry. Their role in rural credit was meager i.e., 0.9 per cent in 1951-52 and 0.7 per cent in 1961-62. 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.

- **Regional Rural Banks (RRBs):** 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.

- **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. As soon as 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. This is essential to keep the thrift and other earnings of the SHG safely and also to improve the transparency levels of SHG’s transactions. Opening of SB account is the beginning of a relationship between the bank and the SHG. Once this process is over, banks liberally lend to the groups or to members and recover the loans conveniently. The banks even offer subsidy to the amount of loans borrowed based on their good response.\(^\text{17}\)

### 3.10. COOPERATIVE CREDIT ORGANISATION

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'. In India, 78 per cent of the farmers belong to the category of small and marginal farmers and they depend heavily on credit for their agricultural operations. These farmers will not be able to adopt the

modern agricultural practices unless they are supported by a system which ensures adequate and timely availability of credit on reasonable terms and conditions\textsuperscript{18}.

3.11. PRIMARY AGRICULTURAL COOPERATIVE SOCIETIES (PACS)

PACS functions on the basis of cooperative principles of voluntary participation, democratic control, limited area of operation and limited liability. These societies work at the village level and are meant for the farmers regarding provision of requisite short term and medium term loans. Supply of agricultural inputs and other essential commodities are also taken up by these societies. The PACS are associated with following functions:

- they borrow adequate and timely funds from DCCBs and help the members in financial matters;
- they attract local savings in the form of share capital and deposits from the villagers, thereby inculcating the habit of thrift;
- they supervise the end use of credit;
- they make available fertilizers and insecticides to the needy farmers;
- they provide machinery on hire basis to the farmers;
- they associate with the programmes and plans meant for the socio-economic development of the village;
- they are also involved in the marketing of farm produce on behalf of the farmer-borrowers;
- they provide storage facilities and marketing finance;
- they supply certain consumer goods like rice, wheat, sugar, kerosene, cloth etc. at fair prices.

### 3.12. DISTRICT CENTRAL COOPERATIVE BANKS (DCCBs)

DCCBs function as a link between the PACS and State Cooperative Banks (SCBs). They are basically meant for meeting the credit requirement of PACS. They also undertake banking business such as accepting deposits from public, collecting bills, cheques, drafts etc. and providing credit to the needy persons. The area of operation varies from taluk to district but in most of the states their operations are confined to the taluk level. Membership of the DCCBs is open to individuals and societies working in its area of operation. Marketing societies, consumer societies, farming societies, urban banks and PACS are usually enrolled as members of this bank.\(^{19}\)

#### 3.12.1. The specific functions of the bank are:

- to supervise and inspect the activities of PACS and help the credit societies run smoothly;
- to maintain close and constant contact and guide the primary societies and provide leadership to them;
- to undertake non-credit activities like supply of seeds, fertilizers besides sugar, kerosene and other consumer goods;
- to provide requisite funds to societies under their control; and
- to accept deposits from the member societies as well as from public.

### 3.13. STATE COOPERATIVE BANK (SCB)

SCBs are at the apex of the cooperative credit organization present at the state capitals. They perform the same functions for the DCCBs as the latter does for the

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\(^{19}\) Durgadas Roy (2006), “Rural Banking and Agricultural Finance in India Promise and Reality”, Rajat Publications, New Delhi
CHAPTER – III

AGRICULTURAL FINANCE – AN OVERVIEW

PACS. The membership comprises of DCCBs and individuals. It finances and controls the working of the DCCBs in the state. It also serves as a link between the RBI and DCCBs.

3.13.1. The Specific functions of SCBs:

- SCBs perform as the banker's bank for the DCCBs;
- SCBs banks facilitate the respective Sate Governments to draw up cooperative and other development plans as well as their implementation;
- they act as a link between the DCCBs and the RBI;
- they supervise, control and guide the activities of DCCBs;
- these banks also perform normal banking operations;
- they grant subsidies to DCCBs for development of cooperative activities;
- they formulate and implement uniform credit policies; and
- these banks coordinate their own policies with those of the cooperative movement of the government.

3.14. PRIMARY LAND DEVELOPMENT BANKS (PLDBs)

- The establishment of the Land Mortgage Bank (LMBs) on cooperative lines dates back to the year 1920 in Punjab. Later during the period 1920 and 1929 number of LMBs were established in the states of Punjab, Madras, Mysore, Assam and Bengal. After that not much growth was observed in the number of LMBs till 1945. However, during 1945-53 a rapid growth was observed in the number of these banks. During this period only rich and affluent farmers derived benefits of these banks and small and marginal farmers remained untouched of the developments. LMBs got massive support from the RBI,

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SBI, LIC and Agricultural Refinance Corporation. As a result LMBs had to reorient its lending policies in favour of marginal and small farmers. LMBs were renamed as Land Development Banks (LDBs) in 1974. Primary LDBs are generally organized to serve the farmers at Taluk level. Its specific functions are:

- to provide long term finance to the needy farmers for the development of land, increasing production and productivity of land;
- to provide long term loan for minor irrigation and for redemption of old debts and purchase of land;
- to provide long term finance for purchase of tractors, machinery and equipments and construction of farm structures;
- to mobilize rural savings\(^\text{21}\).

3.15. CENTRAL LAND DEVELOPMENT BANK (CLDBs)

In many states PLDBs are federated into CLDBs. Branches of CLDBs, PLDBs and individual entrepreneurs are the members of the CLDB. NABARD and LIC subscribe for its debentures in large amounts. In fact, NABARD is the refinance agency of CLDBs. It acts as a link between NABARD and the Government in long-term business transactions. It supervises and guides the PLDBs. It inculcates the practice of thrift among member banks by mobilizing savings and stimulating capital formation. The CLDBs provides loans to member banks for the redemption of old

debts, improvement, reclamation and development of land, purchase of agricultural machinery and equipment and development of minor irrigation\textsuperscript{22}.

### 3.16. REGIONAL RURAL BANKS

In the multi-agency approach to provide credit to agriculture, Regional Rural Banks (RRB's) have special places. 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\textsuperscript{23}.

#### 3.16.1. Formation

The government of India, in July 1975, appointed a Working Group to study in depth the problem of devising alternative agencies to provide institutional credit to the rural people in the context of steps then initiated under the 20 Point Economic Programme. The Narsimham committee conceptualized the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. The Government of

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India promulgated the Regional Rural Banks Ordinance on 26th September 1975, which was later replaced by the Regional Rural Bank Act 197624.

3.16.2. Objectives

The RRBs have following objectives:

- to develop rural economy
- to provide credit for agriculture and allied activities
- to encourage village industries, artisans, carpenters and craftsmen, etc
- to reduce dependence of weaker sections on money lenders
- to identify a specific and functional gap in the present institutional structure
- to supplement the other institutional agencies in credit delivery to rural areas,
- to make backward and tribal areas economically better by opening new branches.

3.16.3. Functions

Regional rural banks in India have penetrated every corner of the country and extended a helping hand in the growth process of the country. 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. Every RRB may undertake the following types of functions: The granting of loans and advances particularly to small and marginal farmers and agricultural laboursers individually or to a group, cooperative societies, agricultural processing societies, cooperative farming societies, etc. The Granting of loans and advances to artisans, small entrepreneurs and small traders, businessmen, etc. 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 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.²⁵

3.17. ROLE OF COMMERCIAL BANKS

The commercial banks form the core of the organized banking system and constitute quantitatively the most important group of financial intermediaries in the country, comprising both scheduled and non-scheduled banks. Deposits paid up capital and borrowings from the Reserve Bank of India form the resources of the commercial banks. The short term and medium term credit needs of both industry and agriculture are met by the commercial banks and they also help finance developmental plans by investing funds in the government securities. Initially, the commercial banks were concentrating only on the financing of the trade and industry. In the beginning, Commercial Banks (CBs) were not interested in financing agricultural operations and confined themselves largely to financing trade and exports. The All India Rural Credit Review Committee (1969) therefore suggested enhancing the role of the CBs in providing agricultural credit. Further, under the Social Control Policy introduced in 1967 and subsequently the nationalisation 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.

With the nationalization of the banks, they are now actively involved in the disbursement of agricultural credit. On account of the branch licensing policy adopted by the RBI, the rural branches of the commercial banks account for a large percentage of the total network and the Agricultural Development Branches, Gram Vikas

Kendras and Rural Service Centers were set up to cater exclusively to the needs of agriculture and the allied activities. Under the 'Lead Bank Scheme' all districts were allotted to commercial banks that were entrusted with the responsibility of preparing credit plans for their lead districts. The 'Village Adoption Scheme' was formulated by commercial banks to carry out leading operations in contributing significantly to the development of agriculture²⁶.

Bank credit is available to the farmers in the form of short-term credit for financing crop production programmes 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 produce²⁷.

Banks have been favouring indirect rather than direct finance to agriculture. Finance to dealers, commission agents, NBFCs and SEBIIs, and investment in bonds earmarked for the priority sector have gained more priority than basic agricultural finance. Banks are parking the funds in priority sector bonds or contributing to the RIDF of NABARD or SIDBI deposits in reaching the statutory norm of 40 per cent of net bank credit to the priority sector. Undoubtedly this indirect finance will improve the infrastructure facilities in rural areas and create new services.

But the farmer has no purchasing power to buy these services, it is more important to support the basic economic activity of the farmer. Banks have to adopt

modern tools and techniques in estimation of risks in agriculture. Agriculture is always exposed to an uncontrolled environment, unlike other production activities. The market for agricultural output will be perpetual because everyone needs food to live. The risks farmer faces are much higher than those for other producers. In the absence of a suitable and comprehensive public policy, such risks lead either to under production or mispricing of output. The practice of increasing the minimum support price has to be re-examined as it results in to large procurement of foodgrains by the public sector agencies and can distort the price formation mechanism\(^{28}\).

### 3.18. NATIONAL BANK FOR AGRICULTURE & RURAL DEVELOPMENT

#### 3.18.1. Genesis

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. The Bill for setting up the Bank was passed by the Parliament in December, 1981 and National Bank for Agriculture and Rural Development came into existence on 12\(^{th}\) July, 1982. Before that, this job was being done by Reserve Bank of India.

#### 3.18.2. Objectives

NABARD works for progressive institutionalisation of the rural credit and ensures that the demands for credit from agriculture including the new and upcoming areas like floriculture, tissue culture, bio-fertilisers, sprinkler irrigation, drip irrigation

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etc. are met. It is also vested with the responsibility of promoting and integrating rural development activities through refinance.

### 3.18.3. Functions

- 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\(^ {29} \).

### 3.19. MICRO CREDIT

Micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. In developing countries especially, micro credit enables very poor people to engage in self-employment projects that generate income. Though the micro credit financing has got its root from the development of Grameen Bank in Bangladesh in 1976s, and now it has been expanded globally, not only in terms of covering a larger number of clients but also with increasing number of microfinance institutions that come forward to carry out these services for the poor. In order to give further fillip to micro-finance movement, the RBI has enabled Non-Governmental Organisations (NGOs) engaged in micro-finance activities to access external commercial borrowings (ECBs) up to US $ 5 million during a financial year for permitted end-use, under automatic route, as an additional channel of resource mobilisation. RBI is moving towards a systems perspective for providing effective policy support not only because a number of different institutions, viz.

banks, MFIs, NGOs & SHGs are involved, but also because these institutions have very different institutional goals.

3.20. NON GOVERNMENTAL ORGANISATION (NGO)

A Non-Governmental Organisation (NGO) is a voluntary organization established to undertake social intermediation like organizing SHGs of micro entrepreneurs and entrusting them to banks for credit linkage or financial intermediation like borrowing bulk funds from banks for on-lending to SHGs. The microfinance sector has emerged from the efforts of Non-Governmental Organisations (NGOs), and as a response to the failure of existing structures to deliver financial services to the poor. The efforts by NGOs have emerged from grassroots and represent diversity.

3.21. SELF HELP GROUP (SHG)

A Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. In fact, peer pressure has been recognized as an effective substitute for collaterals.

3.22. PRIORITY SECTOR LENDING (PSL)

Priority Sector includes those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such

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as agriculture, tiny and small enterprises. Presently, the broad categories of priority sector for all scheduled commercial banks are as under:

3.22.1. Categories of Priority Sector

- **Agriculture (Direct and Indirect finance):** Direct finance to agriculture includes short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions) for taking up agriculture/allied activities.

- **Small Enterprises (Direct and Indirect Finance):** Direct finance to small enterprises include all loans given to micro and small (manufacturing) enterprises engaged in manufacture/production, processing or preservation of goods, micro and small (service) enterprises engaged in providing or rendering of services, and whose investment in plant and machinery and equipment (original cost excluding land and building and such items as mentioned therein). The micro and small (service) enterprises include small road & water transport operators, small business, professional & self-employed persons, and all other service enterprises. Indirect finance to small enterprises include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

- **Retail Trade:** includes retail traders/private retail traders dealing in essential commodities (fair price shops), and consumer cooperative stores.

- **Micro Credit:** Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or
indirectly through a SHG/JLG mechanism or to NBFC/MFI for on-lending up to Rs. 50,000 per borrower, will constitute micro credit.

- **Education loans**: Education loans include loans and advances granted to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions.

- **Housing loans**: Loans up to Rs. 20 lakh to individuals for purchase construction of dwelling unit per family, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.\(^{31}\)

### 3.23. KISAN CREDIT CARD SCHEME

#### 3.23.1. Genesis

In spite of various measures to rejuvenate farm credit, the flow of credit remained quantitatively and qualitatively poor. The institutional sources of credit meet only 51 per cent of the credit requirements of farm sector. The non-institutional sources were mainly reached by farmers due to lack of collaterals, frequent needs, undue delays, complicated procedures and malpractices adopted by institutional lending agencies. With a view to inquiring into the reasons for the problems of the farm credit and suggesting measure for improving the delivering system, RBI set up a one man Committee of Shri R. V. Gupta to in December 1997. The Committee submitted its report in April 1998. It was against this background that RBI directed all Public Sector Banks (PSBs), RRBs and cooperative banks to introduce "Kisan Credit Card Scheme".

\(^{31}\) Mamoria C.B (2003), “Rural Credit and Agricultural Co-operation in India”, Kitab Mahal, Allahabad
Card Scheme (KCCS)" on the lines of the model scheme formulated by NABARD and in due course of time the KCCS was adopted by all the directed agencies.

3.23.2. Objective

The KCCS aims at adequate and timely support from banking system to farmer for crop production and ancillary activities. The credit limit (loan) is sanctioned in proportion to the size of the owned land but some flexibility is provided for leased-in land in addition to owned land. The borrowing limit is fixed on the basis of proposed cropping pattern. Most of the banks are adhering to Scales of Finance (SOF) decided by the State Level Bankers Committee (SLBC) but some banks have fixed their own SOF. The nature of credit extended under KCCS is revolving cash credit i.e., it provides for any number of withdrawals and repayments within the limit. This feature would provide flexibility and reduce the interest burden upon KCCS beneficiary. Security and margin norms would be in conformity with the guidelines issued by RBI and NABARD from time to time. With effect from 2001-2002, it was made obligatory for the implementing agencies to operate the KCCS with an in-built component of life-insurance for KCCS beneficiary. The KCCS as envisaged has substituted all other existing institutional modes of short term credit delivery.

3.23.3. The features of the scheme at a glance are:

- Type of revolving cash credit facility with unlimited withdrawals and repayments.
- Meet the production credit need, cultivation expenses, and contingency expenses of the farmers.
- Limits based on the basis of operational land holding, cropping pattern and scale of finance. This limit is inclusive of 20 per cent of production credit.
- Each withdrawal to be paid within 12 months.
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- Card valid for 3 years subject to annual renewals.
- Credit limits can be enhanced depending on performance and needs.
- Rescheduling is also possible depending upon the situation. If for example the crops fail due to a natural calamity and the farmer is not able to repay his loan, then he could get an extension of up to four years.
- Cash withdrawals through slips accompanied by card and passbook.
- A credit cum passbook would be issued.
- All branches engaged in agricultural lending could issue Kisan Credit Cards.

3.23.4. Benefit of KCC Scheme

- Simplified 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 farmer.
- Helps buy seeds, fertilizers at farmer’s convenience and choice
- Helps buy on cash-avail discount from dealers
- Credit facility for 3 years - no need for seasonal appraisal
- Maximum credit limit based on agriculture income
- Any number of withdrawals subject to credit limit
- Repayment only after harvest
- Rate of interest as applicable to agriculture advance
- Security, margin and documentation norms as applicable to agricultural advance.32

3.24. SUBSIDIES

3.24.1. Meaning

Subsidies are grants given to a specified public to get a desired action from their side, for instance, when government feels that the yield per hectare is low which can be increased by using fertilizers, than government gives fertilizers subsidies so that small farmers can purchase the fertilizer. This means that subsidy is changing the price exogenously to alter the demand and supply figures. Most controversial classes of subsidies across the world are fuel subsidies and agricultural subsidies and today we are discussing agricultural subsidies.

An agricultural subsidy is a governmental subsidy paid to farmers and agribusinesses to supplement their income, manage the supply of agricultural commodities and influence the cost and supply of such commodities. Examples of such commodities include wheat, feed grains (grain used as fodder, such as maize or corn, sorghum, barley, and oats), cotton, milk, rice, peanuts, sugar, tobacco and oilseeds such as soybeans.  

3.25. AGRICULTURAL DEBT WAIVER AND DEBT RELIEF SCHEME

The Finance Minister, in his Budget Speech for 2008-2009, announced a Debt Waiver and Debt Relief Scheme for farmers. Subsequently in the budget for 2010-11, in view of the recent drought in some States and the severe floods in some other parts of the country, it was proposed to extend by six months the period for repayment of the loan amount by farmers from December 31, 2009 to June 30, 2010. The Scheme will cover direct agricultural loans extended to ‘marginal and small farmers’ and

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‘other farmers’ by Scheduled Commercial Banks, Regional Rural Banks, Cooperative Credit Institutions (including Urban Cooperative Banks) and Local Area Banks (hereinafter referred to compendiously as “lending institutions”) as indicated in the Guidelines. The Scheme shall come into force with immediate effect.

### 3.25.1. Definitions

‘Direct Agricultural Loans’ means Short Term Production Loans and Investment Loans provided directly to farmers for agricultural purposes. This would also include such loans provided directly to groups of individual farmers (for example Self Help Groups and Joint Liability Groups), provided banks maintain disaggregated data of the loan extended to each farmer belonging to that group.

‘Short Term Production Loan’ means a loan given in connection with the raising of crops which is to be repaid within 18 months. It includes working capital loan, not exceeding Rs. 1 lakh, for traditional and non-traditional plantations and horticulture.

‘Investment Loan’ means investment credit for direct agricultural activities extended for meeting outlays relating to the replacement and maintenance of wasting assets and for capital investment designed to increase the output from the land, e.g. deepening of wells, sinking of new wells, installation of pump sets, purchase of tractor / pair of bullocks, land development and term loan for traditional and non-traditional plantations and horticulture; and investment credit for allied activities extended for acquiring assets in respect of activities allied to agriculture e.g. dairy, poultry farming, goatery, sheep rearing, piggery, fisheries, bee-keeping, green houses and biogas.
‘Cooperative Credit Institution’ means a cooperative society that i) provides short-term crop loans to farmers and is eligible for interest subvention from the Central Government; or ii) carries on banking activities regulated or supervised by RBI or NABARD; or iii) is part of the Short-Term Cooperative Credit Structure or Long-Term Cooperative Credit Structure in a State or Union Territory.

❖ ‘Marginal Farmer’ means a farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres).

❖ ‘Small Farmer’ means a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 1 hectare and up to 2 hectares (5 acres).

❖ ‘Large Farmer’ means a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 2 hectares (more than 5 acres).

3.25.2. Eligible amount

The amount eligible for debt waiver or debt relief, as the case may be (hereinafter referred to as the ‘eligible amount’), shall comprise of: (a) in the case of a short-term production loan, the amount of such loan (together with applicable interest):

❖ disbursed up to March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008;

❖ restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government, whether overdue or not; and

❖ restructured and rescheduled in the normal course up to March 31, 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not.
in the case of an investment loan, the installments of such loan that are overdue (together with applicable interest on such installments) if the loan was:

- disbursed up to March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008;
- restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government; and
- restructured and rescheduled in the normal course up to March 31, 2007 as per applicable RBI guidelines on account of natural calamities.

3.25.3. The following loans shall not be included in the eligible amount:

- advances against pledge or hypothecation of agricultural produce other than standing crop; and
- agricultural finance to corporates, partnership firms, societies other than cooperative credit institutions (referred to in para 3.4), and any similar institution.
- Nothing contained in this Scheme shall apply to any loan disbursed by a lending institution prior to March 31, 1997.\(^\text{34}\)

3.25.4. Debt Waiver

In the case of a small or marginal farmer, the entire ‘eligible amount’ shall be waived.

3.25.5. Debt Relief

In the case of ‘other farmers’, there will be a one time settlement (OTS) Scheme under which the farmer will be given a rebate of 25 per cent of the ‘eligible amount’.

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amount’ subject to the condition that the farmer pays the balance of 75 per cent of the ‘eligible amount’;

Provided that in the case of revenue districts listed in Annex-I, ‘other farmers’ will be given OTS rebate of 25 per cent of the ‘eligible amount’ or Rs.20,000, whichever is higher, subject to the condition that the farmer pays the balance of the ‘eligible amount’.

3.25.6. Implementation

Every branch of a scheduled commercial bank, regional rural bank, cooperative credit institution, urban cooperative bank and local area bank covered under this Scheme shall prepare two lists, one consisting of ‘small and marginal farmers’ who are eligible for debt waiver and the second consisting of ‘other farmers’ who are eligible for debt relief under this Scheme. The lists shall include particulars of the landholding, the eligible amount and the amount of debt waiver or debt relief proposed to be granted in each case. The lists shall be displayed on the notice board of the branch of the bank/society on or before June 30, 2008. A farmer classified as ‘small farmer’ or ‘marginal farmer’ will be eligible for fresh agricultural loans upon the eligible amount being waived.

A farmer classified as ‘other farmer’ eligible for OTS relief shall give an undertaking agreeing to pay his share (that is eligible amount minus the amount of OTS relief) in not more than three installments and the first two installments shall be for an amount not less than one-third of his share. The last dates of payment in the case of three installments will be September 30, 2008; March 31, 2009 and June 30, 2009. The undertaking shall be in such form as may be prescribed by RBI/NABARD.
The amount of OTS relief (i.e. the Central Government’s share) will be credited to the account of the ‘other farmer’ upon the farmer paying his share in full. In the case of a short-term production loan, the ‘other farmer’ will be eligible for fresh short-term production loan upon paying one-third of his share.

In the case of an investment loan (for direct agricultural activities or allied activities), the ‘other farmer’ is eligible for fresh investment loan upon paying his share in full.

Reserve Bank of India shall be the Nodal agency for the implementation of the Scheme in respect of scheduled commercial banks, urban cooperative banks and local area banks. NABARD shall be the Nodal agency in respect of regional rural banks and cooperative credit institutions.

3.25.7. Interest and other charges

The lending institutions shall not charge any interest on the ‘eligible amount’ for any period after February 29, 2008. However, in the case of ‘other farmer’ who defaults in paying his share of the eligible amount on or before June 30, 2009 and becomes ineligible for OTS relief, the bank may charge interest for the period after June 30, 2009.

Instalments of investment credit which fall overdue after 31.12.2007 shall be recovered by the lending institutions along with the applicable interest. Lending institutions may, however, in appropriate cases, reschedule these installments in accordance with the normal policy of the lending institution concerned. Notwithstanding anything contained in this Scheme, the amount of interest that a
lending institution may claim as reimbursement from the Central Government under this Scheme shall not, in any case, exceed the principal amount of the loan.

Ministry of Finance will issue supplemental instructions to the lending institutions in respect of all incidental and ancillary matters including instructions on interest and other charges that shall not be claimed by the lending institutions from the farmer or the Central Government.

3.25.8. Certificate of debt waiver or debt relief

In the case of small and marginal farmers, upon waiver of the eligible amount, the lending institution shall issue a certificate to the effect that the loan has been waived and specifically mention the eligible amount that has been waived.

In the case of ‘other farmers’, upon granting OTS relief, the lending institution shall issue a certificate to the effect that the loan account has been settled to the satisfaction of the lending institution and specifically mention the eligible amount, the amount paid by the farmer as his share and the amount of OTS relief.

The certificate shall be in such form as may be prescribed by RBI/NABARD and upon issuing the certificate the lending institution shall take an acknowledgement from the farmer.\(^{35}\)

3.26. CROP INSURANCE

3.26.1. Meaning

Crop insurance is undertaken by agricultural producers, including farmers, ranchers, and others to protect themselves against either the loss of their crops due to

natural disasters, such as hail, drought, and floods, or the loss of revenue due to declines in the prices of agricultural commodities.  

3.26.2. CROP INSURANCE HISTORY

In our country crop production has been subjected to the vagaries of the climate. Some of the other problems that the Indian agriculture is constantly tackling with are the large-scale damages that are caused as a result of the attack of pests and diseases. It is in a scenario in India the issue of crop insurance assumes a vital role in the stable growth of the agricultural sector. Tracing the Crop Insurance History in India we see that it was started with the introduction of the All-Risk Comprehensive Crop Insurance Scheme (CCIS) that covered the major crops. This scheme was introduced in 1985. In fact this period of introduction also coincided with the introduction of the Seventh-Five-year plan. This initial scheme was of course later substituted and replaced by the National Agricultural Insurance Scheme. This substitution came into effect from 1999. These Schemes that have been introduced throughout the crop insurance history have been preceded by years of preparation, studies, planning, experiments and trials on a pilot basis.

In the crop insurance history, the question of introducing a crop insurance scheme was taken up for examination soon after the Indian independence. The first aspect that was examined related to the modalities of crop insurance. The issue under consideration was about whether the crop insurance should be offered under an Individual approach or on Homogenous area approach.

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The Individual approach of the scheme indemnifies the farmer to the full extent of the losses. Also the premium that is to be paid by him is determined with reference to his own past yield and loss experience. The Individual approach for these schemes necessitates reliable and accurate data of crop yields of individual farmers for a sufficiently long period, for fixation of premium on actuarially sound basis.

The Homogenous area approach on the other hand was aimed at envisaging a homogeneous area from the point of view of crop production and similarity of annual variability of crop production. The homogenous area approach was found to be more favorable. This is because it would facilitate the provision of a single unit treatment to various agro-climatically homogenous areas and the individual farmers and allow them to pay the same rate of premium and receive the same benefits, irrespective of their individual fortunes.

3.26.3. CROP INSURANCE RISKS COVERED

The Crop insurance schemes aim at providing comprehensive risk insurance which covers the yield losses that occur to the agricultural output of small and marginal farmers due to non-preventable risks.

The crop insurance risks covered under the non-preventable category are listed below:

- Natural Fire and Lightning
- Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane and Tornado
- Flood, Inundation and Landslide
- Drought and Dry spells
- Pests and Diseases

The crops insurance risk does not cover any of the losses that arise out of war and nuclear risks, malicious damage and other risks which are preventable risks. The sum insured under the crop insurance risks covered usually extends to the value of the threshold yield of the insured crop. This is usually subject to the option of the insured farmers. Nevertheless, a farmer may also choose to insure his crop beyond the value of the threshold yield level up to 150 per cent of average yield of the notified area on payment of premium at commercial rates.

Apart from the risks covered in the crop insurance scheme, what is important is the sum insured. In case of Loanee farmers the sum insured would be at least equal to the amount of crop loan advanced. Further, in the case of the Loanee farmers, the insurance charges that will be levied will be additional to the Scale of Finance for the purpose of obtaining loan. Apart from the above mentioned issues, the matters of Crop Loan disbursement procedures, which have been outlined by the RBI or NABARD are binding. The insurance premium issues still stand at an undecided state as the transition to the actuarial regime in case of cereals, millets, pulses & oilseeds is expected to be made in a period of five years. 

3.26.4. CROP INSURANCE SCHEMES IN INDIA

In order to provide a boost to the agriculture in India, a number of experimental crop insurance schemes have been introduced in the country. The first ones of the experimental crop insurance schemes has been a Pilot Crop Insurance scheme. This was introduced by GIC from the year 1979.

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Some of the important features of the scheme were based on "Area Approach". This scheme covered crops such as Cereals, Millets, Oilseeds, Cotton, Potato and Gram. The scheme was confined to loanee farmers only and on voluntary basis. The risk was shared between General Insurance Corporation of India and State Governments in the ratio of 2:1. The maximum sum that could be insured under the scheme was 100 per cent of the crop loan, which was later increased to 150 per cent.

Under this scheme, 50 per cent of the subsidy was provided for insurance charges which was payable to the small / marginal farmers by the State Government & the Government of India on 50:50 basis.

Among the earlier crop insurance schemes that were introduced was a comprehensive Crop Insurance Scheme. The Government of India introduced the Comprehensive Crop Insurance Scheme with effect from 1st April 1985. This scheme was introduced with the active participation of State Governments. The Scheme was optional for the State Governments.

This Scheme was linked to the short-term crop credit that was extended to the farmers and was implemented using the Homogeneous Area approach. The number of states that were covered under the scheme were 15 States and the number of UTs that were included. This Scheme was implemented until Kharif 1999. Some of the important features of this scheme allowed a cover to the farmers availing crop loans from Financial Institutions for growing food crops & oilseeds on compulsory basis. The coverage under this scheme was restricted to 100 per cent of crop loan subject to a maximum of Rs. 10,000/- per farmer. The premium rates for Cereals and Millets were 2 per cent and for Pulses and Oilseeds 5 per cent. The premium and risk claims
were shared in a ratio of 2:1 by the central and state Government. The Scheme was optional to State Governments\(^3^9\).

3.27. AGRICULTURE SCHEMES PROVIDED BY VARIOUS SECTORS OF BANKS

3.27.1. AGRICULTURAL GOLD LOANS

3.27.1.1. Purpose

Bank extends hassle free finance to farmers / agriculturists against Gold Ornaments / gold wares to increase their liquidity to meet crop production expenses, Investment expenses related to agriculture and / or allied agricultural activities.

3.27.1.2. Eligibility

Any person engaged in agriculture or allied activities as well as persons engaged in activities permitted to be classified under agriculture.

3.27.1.3. Quantum of Loan

Upto 70 per cent of the value of the ornaments .Value will be as advised by the bank to the branches periodically.

3.27.1.4. Security

Pledge of gold ornaments.

3.27.1.5. How do you repay

Credit / Overdraft like KCC it is a running account for a period of 3 years.

\(^3^9\) http://agro.indiamart.com/agro-programme-schemes/credit3.html
3.28. LAND PURCHASE SCHEME

3.28.1. Purpose

To assist Small & Marginal farmers and landless agricultural labourers for purchase of Land, who are our existing borrowers to consolidate land holdings & development of Wasteland & fallow lands.

3.28.2. Eligible

- Small & Marginal Farmers owning less than 5 acres of unirrigated or 2.5 acres of irrigated land in their own names, landless agricultural labourers.
- The borrowers should have a record of prompt repayment of the loan for at least two years.
- Good borrowers of other Banks are also eligible provided they liquidate their outstandings to other banks.

3.28.3. Loan amount

Loan may be considered for:

- Cost of land
- Provision of irrigation facilities & land development (shall not exceed 50 per cent of the cost of the land).
- Purchase of farm equipments.
- Registration charges & stamp duty.

Loan amount will be 85 per cent of the cost of the land, as assessed by the bank, subject to the maximum of Rs 5 lakhs

3.28.4. Security

Mortgage of land to be purchased
3.28.5. How to repay the loan

Maximum 9-10 years beginning after the expiry of gestation period, with half yearly installments. Gestation period will be maximum of 1 year for the developed land and 2 years for the land to be developed.

3.28.5. How to apply for this loan

Contact your Branch You may contact our nearest branch or talk to the marketing officers visiting your village.

3.29. MINOR IRRIGATION SCHEMES

3.29.1. Purpose

Loan covers various activities like digging of new wells (open / bore wells), deepening of existing wells, energisation of wells (oil engine/electrical pump set), laying of pipelines, installing drip / sprinkler system and lift irrigation system.

3.29.2. Eligible

All farmers having a known source of water available for irrigation purpose are eligible for the loan.

3.29.3. Loan amount

- For loans upto Rs 50000 - 100 per cent of the project cost
- For loans above Rs 50000 - upto 85 per cent of the project cost will be provided as loan cost

3.29.4. Documents

- Land records
- Quotation for the assets to be purchased
- An estimate for the civil works to be undertaken
3.29.5. Security

A) Where movable assets are not created

(a) Upto Rs 10000/  Personal guarantee
(b) Above Rs 10000/ Personal guarantee and Mortgage of land

B) Where movable assets are created

(a) Upto Rs 50000/ Hypothecation of assets created
(b) Above Rs 50000 Hypothecation of assets and mortgage of land

3.29.6. Repayment of loan

Repayment will be in Quarterly or half yearly or yearly installments’ over a period of 5 to 7 years depending on the crops or the liquidity created by the agriculture activity undertaken.

3.29.7. How to apply for this loan

You may contact our nearest branch or even talk to the marketing officers visiting your village.

3.30. FARM MECHANISATION SCHEME

3.30.1 Purpose

Loan is sanctioned for Purchase of new tractors and matching implements or equipments, purchase of new power tillers, purchase of second hand tractors with matching implements, purchase of agricultural machinery, and repair/renovation of tractors.
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3.30.2. Eligibility

For tractors: Farmer or a group of farmers holding land jointly should have a land holding either owned by them or held by them on perpetual leasehold rights of minimum 2.5 acres of perennially irrigated land or corresponding acreage. Economic viability of financing tractor in each case shall be worked out. Thus, financing of tractor shall be done after ensuring economic viability of the tractor loan proposal. For Power tillers: Farmer or a group of farmers holding land jointly should have a land holding either owned by them or held by them on perpetual leasehold rights of minimum 1.5 acres of perennially irrigated land or corresponding acreage. Financing of power tiller shall be done after ensuring economic viability of the power tiller proposal. For other farm machinery/equipments: No condition of minimum land holding has been stipulated. Farmer should have proper scope for utilization of assets and based on economics should be in a position to conveniently repay loan.

3.30.3. Extent of Loan

Need based loan.

3.30.4. Insurance

The tractor borrowers who have opted for PNB Farmers’ Welfare Fund Scheme are required to get their tractor and matching implements insured against” Liability” (third party) under the Insurance Act to get insurance coverage. Subscription will be recovered from the accounts of borrowers who give their consent to opt for PNB Farmers Welfare Fund Scheme. The structure of fee is as under:-

- Rs.800/- : for 12 months of calendar year.
- Rs.400/- : for less than 6 months in a calendar year.
3.30.5. Repayment of Loan: Repayment of loan is to be made in half yearly/yearly installments as under:

- Tractors 7-9
- Second hand tractors 5
- Power tillers 7
- Other farm machinery:
  - a) Small & marginal farmers 5
  - b) Other farmers 7 (including repayment holiday of one year)
- Repair/renovation of tractors 5

Note: Repayment period shall be fixed on a case by case basis depending on nature of repairs, category of farmer and his repayment capacity, etc.

3.31. GOVERNMENT SPONSORED SCHEMES

Bank is the front-runner in implementing various Government Sponsored Schemes aimed to uplift poor, educated unemployed or underemployed people in rural or semi-urban or urban areas by providing financial assistance to set up self-employment ventures with the help of various government authorities or agencies.

3.31.1. SWARNA JAYANTHI SHAHARI ROZGAR YOJANA (SJSRY)

3.31.1.1 Purpose

Assistance to individuals under Urban Self Employment Programme (USEP) for setting up of gainful self-employment ventures & Development of Women & Children in Urban Areas (DWCUA).
3.3.1.2. Eligibility

BPL Applicants residing in urban/semi-urban towns for at least 3 years. Any bankable project/activity involving a project cost of upto Rs 50000 for individuals. For DWCUA no ceiling on project cost.

3.3.1.3. Margin

5 per cent of the project cost

3.3.1.4. Quantum of Loan

95 per cent of project cost

3.3.1.5. Security

Hypothecation/Mortgage/Pledge of assets created out of loan

3.3.1.6. Activities

Any bankable activity / project which can be undertaken at towns

3.3.1.7. Project Cost

Rs.50, 000/- under USEP In respect of DWCUA, no ceiling on project cost.

3.3.1.8. Subsidy

Individuals – 15 per cent of the Project cost (Max-Rs. 7500) DWCUA group

50 per cent of the Project cost (Max-Rs.1.25lakh)

3.3.1.9. Repayment

Within 3 to 7 years

3.3.1.10. Sponsoring Authority

Urban Local Bodies
3.3.1.11. Conditions Apply

The information provided above is only illustrative and not exhaustive.

3.3.2. SWARNAJAYANTHI GRAM SWAROZGAR YOJANA (SGSY)

3.3.2.1. Purpose

For setting up self employment ventures in rural areas

3.3.2.2. Eligibility

All families in rural areas who find a place in the list of below poverty line identified through BPL census duly approved by Gram Sabha are eligible for assistance under the scheme.

3.3.2.3. Margin

Loans upto Rs.50,000/- for individuals & Loans upto Rs. 6.25 lakh for Groups
No margin Loans above Rs.50,000/- for individuals – 20 per cent of the project cost minus the actual subsidy available Loans above Rs. 6.25 lakhs for Groups 25 per cent of project cost minus actual subsidy

3.3.2.4. Security

Loans upto Rs. 50000 for individuals & loans upto Rs. 5 lakh for Groups
Hypothecation of assets created out of loan or mortgage of landed property or third party guarantee. Above Rs.50, 000/- in case of individuals and Rs.5 lakhs in case of SHGs - Hypothecation of assets created out of loan & mortgage of landed property or guarantee of third party.

3.3.2.5. Activities

Key activities identified by Gram Sabha including farm sector
3.31.2.6. Project Cost

Unit cost as fixed by District SGSY Committee

3.31.2.7. Subsidy

30 per cent of the project cost with a ceiling of Rs.7500/-. For SC/ST 50 per cent of the project cost with a ceiling of Rs.10000. For groups, 50 per cent of the project cost subject to ceiling of Rs.1.25 lakhs.

3.31.2.8. Repayment

Within 5 to 9 Years

3.31.2.9. Sponsoring Authority

Block Development Officer

3.31.2.10. Conditions Apply

The information provided above is only illustrative and not exhaustive\(^{40}\).

3.32. CONCLUSION

Thus, the government through its various schemes of finance to agriculture aim at helping farmers and by helping it attempts to promote the growth and productivity of agriculture. This enhancing attempt is a major encouragement to farmers to sustain the growth in agriculture. The schemes of finance explained is a continuous and sustained effort of the government to encourage farmers.

\(^{40}\) http://www.indianchild.com/Business/crop-insurance-india.htm