CHAPTER I

AN OVERVIEW OF RURAL ECONOMY OF INDIA

1.1 Introduction:

India lives in villages and 5.73 lakh villages are there in our country, which are the backbone of our economy. As per the 1991 census, India's population is 84.7 crore, of which 67.9 crore are rural. \(^1\) Seventyfive per cent of the population are living still in villages. Because India is known as a country of villages and agriculture is the predominant occupation in our country. The entire economy depends on it. But unfortunately agriculture and the villages have been the symbol of backwardness and image of rural economy is not all that green as it should have been. It is gray and dark.

The problems of rural economy are vast and varied. There are many problems that the agricultural sector has to face and in the root of all the problems there is finance. Poverty, in rural India, is the basic phenomenon. Millions of people in rural India live in acute misery and utter poverty. The income and consumption of rural masses is miserably low, lower than the minimum requirement of physical subsistence for healthy living. Where needs of life i.e. food, clothing and shelter are denied and absolute poverty of Indian masses living in villages is consistent that no statistical record is necessary to
convince anyone for the rural poverty. Poverty in an absolute term is well proved by the simple fact that people living below poverty line in India constitute half of the total world poors.

The rural economy is the first love of economists, politicians and social thinkers because India literally is the land of villages. The rural lobby dominates India's social, political and economic scene. The father of nation Mahatma Gandhi rightly opined India's salvation lies in her village upliftment schemes. If villages are improved the country as a whole gets better. Therefore, no other problem is more important than to maintain the quality of life of rural population.

Agriculture development and allied activities is the testimony of rural development. So, there can be no national development without development of the rural areas. It is necessary to develop its rural sector in a proper way. The task of rural development is gigantic.

After independence, this has been the accepted theory of Indian economic development that rural development is the pre-condition for economic upliftment of the country. Rural development and reconstruction have been given top priority in the economic planning and programme. This has also been accepted that rural development can be possible only through rural credit.
1.2 Segments of Rural Economy:

There are two basic segments of the Indian rural economy, namely (i) Farm sector and (ii) Non-farm sector. Out of the two, farm sector is more prominent as more than 70 per cent of the rural working population is engaged in agriculture. The farm sector can be further sub-divided into two parts: (a) Agriculture (b) Allied activities, such as animal husbandry, forestry, fisheries, etc. The non-farm sector comprises of three components, viz., (i) traders (ii) artisans and (iii) rural industries.

CHART 1.1

Rural Economy of India

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<table>
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<tbody>
<tr>
<td>Farm Sector</td>
<td>Non-Farm Sector</td>
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<tr>
<td>Agriculture</td>
<td>Allied Activities</td>
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<td></td>
<td>Traders</td>
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<td></td>
<td>Artisans</td>
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<td></td>
<td>Rural Industries</td>
</tr>
</tbody>
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1.2.(i) Farm Sector:

(a) Agriculture:

Agriculture is the age-old occupation of rural India. Besides, giving employment to a vast majority of
population, agriculture contributes about 45 per cent to the national income. Agriculture is in fact a predominant segment of the entire Indian economy. It is also known as the primary sector of the economy. The growth of secondary and tertiary sectors depend to a great extent on the growth of the farm sector. There are many industries such as textiles, jute and edible oils which depend upon agriculture for the supply of their raw materials. Industries manufacturing farm inputs like fertilisers and farm machines and equipment depend upon the farm sector as their customer. Thus, agriculture is the backbone of the Indian economy.

(b) **Activities Allied to Agriculture:**

These include animal husbandry (dairy farming, poultry farming, sheep and pig rearing) fisheries, forestry etc. A good percentage of rural people are engaged in these activities either for full time employment or part time employment. Therefore, rural development should also include development of these activities.

The importance of activities allied to agriculture in the Indian economy is discussed below -

(i) Allied activities give employment to a large number of rural people.

(ii) The pressure of population on the agriculture is reduced as people can be absorbed in the allied activities.
(iii) Allied activities check migration of rural labour to urban areas.

(iv) Allied activities are a supplementary source of income to the farmers during the off-season.

(v) Development of allied activities ensure proper utilisation of rural resources for rural development.

(vi) Allied activities are necessary to maintain ecological balance in the country.

(vii) Allied activities bring more income to rural areas and thus help in increasing the standard of living in rural masses.

(viii) Allied activities are a source of supply to certain industries. They also help in increasing the export earnings of the country.

1.2.(ii) Non-farm Sector:

(a) **Trade:**

Rural traders generally operate on a small scale and help the farmers in getting regular supply of farm inputs. They also help in marketing the agricultural produce and other farm products.

(b) **Rural Artisans:**

Traditional artisans such as carpenters, weavers, masons, goldsmiths etc. constitute an important segment of
(ii) **Agro-based Industries:**

The concept of Agro-industries have been in existence since times immemorial. Formerly, the village smith, the carpenter and cobler used to prepare and repair the various traditional types of Agricultural tools and implements. These industries were the part and parcel of rural life. In their refined form, the modern agro industrial concerns broadly mean industries manufacturing input for agriculture or processing agricultural output.

Agro-industries can be classified into two broad categories: (1) Processing Industries; and (2) Supply Industries. Industries engaged in processing of Agricultural produce include dehusking of rice, flour milling, wheat milling, rice milling, dal milling, sugar, gur and khandisari, cotton ginging and bailing. Oil expelling, canning of fruit juice, vegetable dehydration, food preservation beverage and so on. Animal husbandry, dairy, poultry farming, egg processing, preservation and canning of fruits can also be included within the scope of agro-based industry. Industries producing fertilizers, agricultural implements, tractors, power engines, etc. come under the category of supply industries.

Thus, industries having "backward and forward" linkages with agriculture and having a direct bearing on agriculture and rural economic life can be placed in the category of agro-based industries! In this broad category,
we include all those industries which are engaged in the manufacturing process of inputs such as agricultural implements, pesticides, insecticides, manures and fertilizers required by the agricultural sector and industries which extract raw material from agriculture and utilise agricultural produce as their basic raw materials such as oil crushing, sugar manufacturing, rice milling, bakery, processing of cereals and preservation of fruits and vegetables. In other words, agro based industries are industries that encourage greater input into agriculture, lead to better processing and conversion of agricultural commodities, ensure high returns of processed goods and increase agricultural production. Thus, agro industries depend not only upon outputs of agriculture but also depend on the inputs of allied industries like agricultural implements, fertilizers and pesticides. Apart from helping farming, agro industries are being used to provide employment opportunities to the surplus agricultural labour. They give gainful employment to the farmers during off season. Especially at the output end agro-industries are more labour intensive rather than capital intensive. For example, Gur and Khandari Industrial units can be set up with small capital and technical know-how which can absorb a large number of labourers, say about 28 to 30 persons in each unit on an average. Similar is the case with rice milling industry. Apart from this, agro-based industries
also supplement the income of the agriculturists by absorbing them in suitable subsidiary economic pursuits. This results in overall development of the economy of state and lead to much saving and investment.²

(iii) **Small-Scale Industries:**

These days small-scale industries are being encouraged by the Government in the rural and semi-urban areas for the balanced growth of different regions of the country. Entrepreneurs running small enterprises are given subsidies and tax concessions by the Government agencies. The maximum limit of investment in plant and machinery of small industries has been fixed by the Government at ₹3.35 lakhs. Those industries investing capital of less than 2 lakhs are termed as tiny industries.

The industries in villages use labour-intensive techniques of production. They are a source of employment to the rural masses. They can generate more employment per unit of capital as compared to the large industries. It is the policy of the Government to help the small scale sector to grow for generating employment opportunities and for balanced regional development. Small scale industries have been clubbed under 'priority sector' along with agriculture, exports etc. and they get priority in financing by the commercial banks and other institutions.³
1.3 Characteristics of Rural Economy in India:

India's rural economy is equipped with following basic characteristics -

1.3.1 Predominance of Agriculture:

Agriculture is a very old occupation of the rural masses. More than 70 per cent of the rural people follow agriculture to earn their livelihood. About 10 per cent of the rural people get indirect employment from agriculture as they are engaged in trade and transport of agricultural products and supply of inputs to farmers.

1.3.2 Mix of Traditional and Modern Technology:

Though modern technology has crept into the modern rural India, traditional technology still has its stronghold, because the main distinguishing feature of rural economy is that the rich farmers use capital intensive seed-fertiliser technology whereas small/marginal farmers depend upon conventional methods of cultivation. Accordingly, major gains of new farm technology are pocketed by the rich farmers whereas other categories of farmers are denied these gains. The differences in the techniques of cultivation are found not only between states but also within states as areas with irrigation facilities have enjoyed the gains of new farm technology whereas rainfed areas continue to be cultivated with traditional method.
1.3.3 **Small and Fragmented Holdings:**

It has been observed that the increase in agricultural population is a continuous process in India. This increasing dependence of population on agriculture led to the shrinkage in the size of holdings in our country which is an important factor in hindering the growth of agriculture in India. The small holdings are not suitable for adoption of modern techniques of agriculture. The uneconomic size of holdings raise the cost of production per unit of land and retards capital formation. Due to meager resources the small farmers have been prevented taking full benefit of the new technology.

1.3.4 **Unequal Distribution of Land:**

There are large inequalities in the ownership pattern of land. Small and marginal farmers with less than 5 acres of land constitute more than 70% of the landholders.

1.3.5 **Low Productivity:**

Productivity of Indian agriculture is very low as compared to advanced countries of the world. There are so many reasons for this which are listed below -

(i) Indian Agriculture continuous to be a 'gamble on the monsoon', irrigation facilities are available to about 35% of the cultivated land only.
(ii) Land-holdings of a vast majority of farmers are less than five acres (i.e. 2 hectares). This is a major stumbling block in increasing productivity.

(iii) Most of the farmers are poor. They don't get sufficient institutional funds for improvements in agriculture.

(iv) Modern technology is very costly. An individual farmer can't afford it. Co-operative movement has not gained momentum in our country.

1.3.6 **Dominance of Caste-system and Custom:**

The stronghold of caste system has not weakened in the rural areas. The caste system and customs do not allow the poor masses to raise their standard of living. Because in rural India caste system plays a dominant role in village politics. Various decisions relating to village development are made on the basis of caste-factor. The most painful feature of the system is that it has polluted the congenial social atmosphere as the relations are strained between the castes. Cases of rivalries/feuds are reported each day between the castes in villages and the situation is always exploited the politicians to their advantage during elections.

1.3.7 **Vast Under-employment:**

Vast unemployment and under-employment are the dominant features of Indian rural economy. Since irrigation
facilities are not available everywhere, multiple cropping is not possible in all parts of the country.

1.3.8 **Inadequate Infrastructural Facilities:**

Growth promoting infrastructural facilities are lacking in rural areas as undue stress has been laid by the government upon the widening and strengthening of these facilities in the urban areas. Economic development of a country depends to a great extent on infrastructure. Various components are:

(1) Less development of transport and communication.
(2) Lack of quality educational facilities.
(3) Inadequate development of health facilities.
(4) Less availability of power for energisation of electric motors for irrigation and for the promotion of rural industries.
(5) Poor credit facilities, etc.

As a result, the rural people have lagged behind in enjoying the benefits of Economic Development.

1.3.9 **Large Size of Rural Population:**

There is a heavy pressure of population in rural India as shown in table 1.1.
**TABLE 1.1**

**Rural-Urban Population in India**

*(in millions)*

<table>
<thead>
<tr>
<th>Census Year</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rural</td>
</tr>
<tr>
<td>1901</td>
<td>213</td>
<td>26</td>
<td>239</td>
<td>89.2</td>
</tr>
<tr>
<td>1911</td>
<td>226</td>
<td>26</td>
<td>252</td>
<td>89.7</td>
</tr>
<tr>
<td>1921</td>
<td>223</td>
<td>28</td>
<td>251</td>
<td>88.8</td>
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<td>1931</td>
<td>246</td>
<td>33</td>
<td>279</td>
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<tr>
<td>1941</td>
<td>274</td>
<td>44</td>
<td>318</td>
<td>86.1</td>
</tr>
<tr>
<td>1951</td>
<td>299</td>
<td>62</td>
<td>361</td>
<td>87.7</td>
</tr>
<tr>
<td>1961</td>
<td>360</td>
<td>79</td>
<td>439</td>
<td>82.0</td>
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<td>1971</td>
<td>439</td>
<td>109</td>
<td>548</td>
<td>80.1</td>
</tr>
<tr>
<td>1981</td>
<td>524</td>
<td>159</td>
<td>683</td>
<td>76.7</td>
</tr>
<tr>
<td>1991</td>
<td>629</td>
<td>218</td>
<td>847</td>
<td>74.3</td>
</tr>
</tbody>
</table>

**Source:** Census of India 1991.

Table 1.1 highlights that 74.3 per cent of the population in the country live in villages. Thus the soul of India lives in villages and the prosperity of India depends upon the prosperity of villages. The increase in
rural labour force is naturally the maximum. The increasing labour force against inadequate supplies of capital has made the rural economy labour-abundant leading to overcrowding of agriculture and allied activities. Thus the heavy pressure of population on agriculture has further aggravated the problem of disguised unemployment.

1.3.10 Money-lenders and Indigenous Bankers:

In rural India, money-lenders continue to be principal source of credit. Banking facilities were lacking in rural areas prior to nationalisation of 14 major banks in 1969. Money-lenders and indigenous bankers monopolised in providing loans and advances to the farmers for meeting their requirements. The main cause of his dominance is that he is easily approachable even at odd hours. He charges high rate of interest and adopts various other mal-practices.

1.3.11 Closed Economy:

The rural economy in India is basically a closed one. It has very little interaction with the other segments of the economy. In many villages, people's consumption consists mainly local of production though many developments have taken place in transport and communication in the recent years. Barter economic system, i.e., exchange of goods for goods still prevails in many villages.
1.4 **Modern Trends in Rural Economy:**

Significant progress has been made by the country in the development of agriculture industry and infrastructure since the beginning of economic planning in 1951. The important changes that have been brought to the rural economy of India since her independence are discussed below -

1.4.1 **Land Reforms:**

The government has undertaken many land reforms. It has fixed the ceiling on the maximum size of landholdings. Zamindari system has been abolished. Surplus land has been distributed among the landless labourers. These changes were not sufficient to remove poverty from the villages. The government has started many programmes to help the poorest of the poor in the rural areas to cross the poverty line. These programmes includes 20-point economic programme, National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP), Rural Landless employment Guarantee Programme (RLEGP), and Minimum Needs Programme (MNP).

1.4.2 **Rural Urbanism:**

Some of the salient features of urban civilization such as heterogeneity, impersonal relations, mobility, social participation and sophistication have crept into many advanced villages. Thus, a new way of urbanism or rural
urbanism has come into existence in India. This concept indicates the effect of urbanism on the rural society. It has brought modernisation in the social attitudes of rural masses, their philosophy of life and their demand patterns. The evils of bonded labour and untouchability are being vanished. The villages do not consider it a sin to move outside the village for seeking employment. The desire for occupational mobility is also a sign of modernisation.

1.4.3 **Growth of Institutions:**

After the independence, the Union Government took charge of the overall development of the rural economy. For this purpose, it has created many institutions, including commercial banks for helping the villages. For instance, Food Corporation of India buys food-grains and pulses directly from the farmers. The minimum rates of procurement are prescribed by the government every year. A large number of branches of commercial banks and rural banks have been opened up in rural areas for providing financial assistance to rural masses at reasonable rates of interest. The assistance is given by these institutions for increasing productivity of agriculture, poultry farming, animal husbandry, etc.

1.4.4 **Commercialisation:**

Prior to independence, the rural economy was closed in nature. Most of the villages were self-contained and
self-sufficient economic units. They had very less inter-
action with the towns and cities. But during the last four
decades, the rural economics since has undergone a sizable
transformation. The trend towards commercialisation of farm
sector is quite evident. The village economy has opened up.
The farmer no longer produces for his family consumption
only. He treats it as a commercial activity and understands
the economies of large-scale production. He uses latest
farm equipments, tractors, pesticides and fertilisers to
increase productivity of land. He is even ready to borrow
funds from credit institutions of investment in agriculture.
In short, commercialisation of rural economy has taken place
due to the following factors.

(i) There has been a change in the thinking of rural
people because of spread of education and
government publicity. They no longer consider
agriculture a means of mere subsistence. It is
pursued as a commercial activity. The income from
this occupation may be used for buying industrial
consumer goods for increasing standard of living.

(ii) Expansion of rail and road transport has brought
the rural and urban areas close together. Both are
independent on each other.

(iii) Research in agricultural technology has increased
the productivity of farm sector. A modern cultivator
uses better inputs and advanced technology to get
higher production.
Co-operative movement has awakened the rural masses. Cooperative credit societies and marketing societies have speeded up the trend towards commercialisation.

The role of government in commercialisation of rural economy can't be undermined. The government has reserved many items for the exclusive production of cottage and village industries. It gives encouragement to cooperatives in the rural areas and helps them to sell their products in the urban areas. There is no fear of exploitation of the farmers and artisans as the government has created agencies for direct purchase of their products from the villages.

1.5 **Structure of Rural Credit in India:**

The rural credit structure at present, covers a host of financial institutions. Chart 1.2 indicates the prevailing rural credit structure operating in the economy.

The rural credit structure mainly comprises of two broad categories of institutions such as: Institutional and non-institutional agencies. The non-institutional agencies mostly include money-lenders; agricultural and professional landlords, traders and commission agents, friends and relatives and others. These institutions mostly belong to the unorganised sector of the Indian money market. It may be observed that in the category of non-institutional agencies,
CHART 1.2

Rural Credit Structure in India

Institutional Agencies

NABARD (Apex)

Government Co-operative Banks Commercial Banks Regional Rural Banks

Agricultural Non-Agricultural

Short and medium-term

Long-term

SBI and Nationalised Banks Private Sector Banks

Centre of State Land Development Banks (CLDBs/SLDBs)

State Co-operative Banks (SCBs)

Primary Land Development Banks (PLDBs)

Central Co-operative Banks (CCBs)

Primary Agricultural Co-operative Credit Societies (PACs)

Farmers

Service Societies (FSS's)

Large Sized Multi-purpose Co-operative Societies (LAMPS)
the indigenous bankers play an important role in dispensing rural credit. Indigenous bankers are those who combine money lending with some business activities. Sahukars, Banias, Gujraties, Multanishroffs and Marwaries are some of the examples of indigenous bankers. Even today these indigenous bankers continue to have their hold in rural economic activities by supplying credit.

On the other hand, institutional credit agencies mainly consist of institutions like: Government, Cooperative Banks, Commercial Banks, and Regional Rural Banks. They belong to the organised part of the Indian Money Market. There is very little link between the agencies operating in the organised segment of the money market and the agencies, operating in the unorganised segment. In fact, there is virtually, no organic relationship between the two. National Bank for Agriculture and Rural Development (NABARD) is the apex bank of the institutional financing agencies. Its primary role is to provide refinancing facilities to institutional financing agencies catering to the needs of rural clientele.

1.6 Needs of Rural Credit:

Demand for agriculture credit arises because the agricultural operations in India where more than 70% of the population depend on agriculture is obvious. Agriculture being an important industry needs large finances.
Agriculture to be India's largest occupation. Despite its great importance, even today agriculture is not in a sound shape. One of the most unsatisfactory features of India's agricultural organization is the lack of existence of adequate agricultural financing institutions in the country. There is nothing wrong or peculiar in cultivators borrowing, because finance is essential for all business undertakings and agriculture is no exception. Practically, the backwardness of agriculture in India is the outcome of lack of availability of adequate farm credit facilities which have prevented the farmer from making improvements in agriculture. The existence of major credit organisations which have been providing rural credit the village money-lenders and the agricultural co-operative credit societies were either defective or themselves financially weak and consequently have been ineffective in solving the problems of rural finance in the country.\(^5\)

The rural India needs short-term credit to finance mainly its agricultural requirements such as for buying seeds, manure, agricultural implements, cattle, etc. The medium-term and long-term credit in the rural sector is required to buy land or to carry out necessary improvements on the land such as the construction of wells, fencing, drainage and reclamation of land while this need is no less urgent. Difficulties are far greater than those faced by his industrial counterpart. His unit of production is usually
small and his income is highly uncertain depending mostly on weather and monsoon conditions. The existing sources of supply of credit for the rural sector are also much less organised and less adequate than those available for the urban and industrial sector. In India the problem of rural credit is very much complex on account of the existance of large indebtedness among the rural folk. The lack of adequate credit facilities in rural India has inhibited the growth of Indian agriculture which has had a retarding effect on the over all growth rate of the economy. Agriculture, which supports seven-tenths of our population and presently contributing about 35 per cent of gross national product has remained backward. Consequently, the country has to depend on food imports, particularly during the period of drought and scarcity.6

If this dependence has to be ended, Indian Agriculture has to be modernized by systematic and timely application of modern scientific inputs, such as high-yielding variety of seeds, fertilizers and pesticides on a large scale. This would naturally call for huge investment, quite beyond the resources of individual peasants and co-operative credit agencies. Paucity of rural credit facilities is, therefore, one of the most important factors responsible for the low agricultural productivity in the country and if the productivity has to be raised, sufficient credit facilities have to be provided to the rural sector.
The rural India, as referred above, requires the provision of credit facilities mainly for three purposes: 7

1.6.1 **Short-term Credit:**

Farmers need funds for short period of less than 15 months for the purpose of cultivation or for meeting domestic expenses. Short term credit is mainly to finance his current farming requirement such as buying of manure, seeds, payment of irrigation charges and to finance various agricultural operations. Such short period loans are normally repaid after the harvest.

1.6.2 **Medium-term Credit:**

The farmers require finance for medium period ranging between 15 months to five years for purchasing cattle and other farming implements etc. These loans are larger than short-terms loans and can be repaid over longer period of time.

1.6.3 **Long-term Credit:**

To purchase costly implements like tractor, thresher etc., acquire land and to make permanent improvement on land such as providing well, proper fencing and security round his fields. This type of credit is generally required for a period exceeding five years.
1.7 **Sources of Rural Credit in India:**

The cultivator, like all other businessmen can finance his operations by his own capital resources. Unfortunately, the majority of the Indian cultivators do not possess own resources for this purpose. Consequently, they have to depend on external sources for the supply of credit forcing them to borrow the total amount of short-term credit. Credit needs of the cultivators have been variously estimated. The All-India Rural Credit Review Committee had estimated the demand for short-term rural-credit in 1973-74 at ₹2,000 crores and for medium and long-term rural credit at ₹500 crores and ₹1,500 crores respectively. The Agriculture Credit Review Committees in its report of August, 1989 has given the following estimates of demand for short-term credit for the rural sector in India for 1994-95 and 1999-2000.

**TABLE 1.2**

<table>
<thead>
<tr>
<th>APS</th>
<th>1994-95</th>
<th>1999-2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop production</td>
<td>15,733</td>
<td>23,888</td>
</tr>
<tr>
<td>Livestock</td>
<td>939</td>
<td>1,185</td>
</tr>
<tr>
<td>Fishery</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>AIDS</td>
<td>315</td>
<td>478</td>
</tr>
<tr>
<td>Total</td>
<td>17,107</td>
<td>25,751</td>
</tr>
</tbody>
</table>

Source: All India Rural Credit Survey Committee Report, August 1989.
Table 1.2 shows that the future short-term demand for credit in the rural areas will increase at a rapid rate. The present sources of credit supply for the rural sector in India are (i) Village money-lenders (ii) Indigenous Bankers (iii) Primary co-operative credit societies (iv) Land development Banks (v) State Bank of India group (vi) Reserve Bank of India (vii) The Commercial Banks (viii) Regional Rural Banks. (ix) State Governments (x) The NABARD. According to the latest estimates, about 60% of the credit requirements of the rural sector are being met by institutional agencies like co-operatives, commercial banks including Regional Rural Banks and the government.

1.7.(i) The Village Money-lenders:

Although reduced in importance, the village money-lender is still an important single source of supply of the credit needs of cultivators. The majority of the money-lenders combine money lending with the trading. Their method of financing are prompt and elastic and they give the farmers spot finance. The borrower approaches them direct and is not bothered by any unnecessary formalities. Unfortunately, this source of rural credit has not always been a blessing to the poor people in India. The main defects of village money-lending as a source of rural credit are high rate of interest charged on the borrowings, going sometimes upto 36% resulting in the mounting
indebtedness and exploitation of the rural people. Two types of money lenders are operating in the country-professional and non-professional money-lenders.\(^8\)

1.7.(ii) Indigenous Bankers:

The indigenous Bankers do not supply credit directly to the cultivators. They finance the movement of crops from the village to the main marketing centres and ports. The village money lenders sometimes also borrow funds from them for the purpose of lending to the cultivators. However, the importance of money lenders and indigenous bankers has been decreasing every day because of expansion of institutional credit.\(^9\)

1.7.(iii) Primary Co-operative Credit Societies:

To mitigate the sufferings of the poor farmers the infrastructure of co-operative credit was brought into being in the matter of agricultural finance. The co-operative societies Act of 1904 provided for the formation of Primary Agricultural Co-operative Credit Societies. Later in 1912, the co-operative movement was extended to the formation of non-agricultural co-operative credit societies also. According to All India Rural Credit Survey Report, a three tier pyramidal system consisting of an apex body at the state level at intermediary structure at the district level and primary units at village level called state co-operative banks, district central co-operative banks and primary
credit societies respectively came into being. Further, the co-operative banking structure relating to provision of investment credit for redemption of mortgage on agriculture land, development of farm land and discharge of other prior debt, etc. as medium/long term loans was separately in operation since 1970s. These banks were also sought by the All India Rural Credit Survey Committee to be organised as two-tier structure contemplating establishment of central land Mortgage Bank at the State level and Primary Land Mortgage Banks at district level. The provision of credit facilities to its members is the major objective of the co-operative movement in the country, and that co-operative credit societies have been considered to be the most suitable source of rural credit.

These institutions constitute very important source of rural finance. The agricultural co-operative credit societies are formed by cultivators to raise funds and to give loans to their members. They mostly borrow from the central co-operative banks to lend funds to their members to meet their credit needs.\(^{10}\)

The table 1.3 gives a picture of the progress made by the Co-operative Credit movement in the country as observe in the years 1992-93 and 1994-95. A total number of 90 thousands Primary Agriculture Societies were working in the country in the year of 1994-95 as against 84 thousands in 1992-93. But the membership decreased from 88.53 lakhs
TABLE 1.3

Progress of Primary Agricultural Credit Societies in India

(Amount in ₹. crore)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>1992-93</th>
<th>1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of Societies (in thousand)</td>
<td>84</td>
<td>90</td>
</tr>
<tr>
<td>2. Membership (in thousand)</td>
<td>88,539</td>
<td>88,047</td>
</tr>
<tr>
<td>3. Owned Funds</td>
<td>2,032</td>
<td>2,584</td>
</tr>
<tr>
<td>4. Deposits</td>
<td>1,863</td>
<td>2,520</td>
</tr>
<tr>
<td>5. Borrowings</td>
<td>7,896</td>
<td>9,596</td>
</tr>
<tr>
<td>6. Working capital</td>
<td>12,666</td>
<td>16,304</td>
</tr>
<tr>
<td>7. Total Loans issued</td>
<td>6,793</td>
<td>9,373</td>
</tr>
<tr>
<td>8. Total Loans outstanding</td>
<td>8,116</td>
<td>11,404</td>
</tr>
<tr>
<td>9. Total Loans overdue</td>
<td>3,256</td>
<td>3,937</td>
</tr>
<tr>
<td>10. % of overdues to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Loans outstanding</td>
<td>40.1</td>
<td>35.0</td>
</tr>
<tr>
<td>(ii) Demand</td>
<td>43.0</td>
<td>36.0</td>
</tr>
</tbody>
</table>

in 1992-93 to 88.04 lakhs in 1994-95. Their deposits increased by 1863 crores in 1992-93 to 2520 crores in 1994-95 respectively. Their borrowing showed an increase from 7896 crores in 1992-93 to 9596 crores in 1994-95 and the outstanding loans advanced by the societies recorded an increase from 8116 crores in 1992-93 to 11404 crores in 1994-95.\textsuperscript{11}

1.7.(iv) Land Development Banks:

In India, the need for long-term credit in the rural sector is being satisfied by the land development banks. The objective of such banks is to provide long term credit to the peasants against the mortgage of their lands. The loans from these banks are quite cheap and are spread over a long period of 15 to 20 years. It is, therefore, convenient to borrow from these banks if previous debts have to be cancelled or if additional land to be purchased or if permanent improvements in land have to be made.

Though LDBs have been making considerable progress in recent years in this country, they have not really contributed much to the financial needs of the farmers. Virtually, the amount they lend every year is like a small drop in the ocean and does not touch the problem of rural credit in a serious way. In most of the areas small farmers are not even aware of the existence as well as the usefulness of such Banks.\textsuperscript{12}
1.7.(v) **State Bank of India:**

The State Bank of India group consisting of the SBI and its seven subsidiaries have also played a significant role in the sphere of rural credit. This group adopted "village adoption approach" for the financing of agricultural operations for the benefit of small farmers. Under this scheme, villages selected for are ordinarily those in which the co-operative credit institutions have not made much headway. In the villages adopted, efforts are made to assist all the viable or potentially viable farmers, irrespective of their land holdings for all their requirements for agricultural development. By the end of June 1996, the SBI group had 12968 offices in the country, out of which 8852 belong to the SBI and 4116 to the associated banks.\(^\text{13}\)

The SBI group has initiated new experiment by setting up special "Agricultural Development Branches" in selected intensive centres. The various credit support programmes have been as follows -

(a) Production finance.
(b) Provision for irrigation facilities.
(c) Modernisation of farm practices.
(d) Dry land farming.
(e) Waste land development. Thus, the State Bank of India's has given substantial credit facilities to the rural people under different programmes.
1.7.(vi) The Reserve Bank of India and Rural Credit:

The Reserve Bank of India, though does not extend credit to the agriculturists directly, is financing agriculture in an indirect manner by lending funds to state co-operative Banks, land development banks and the state government. The RBI has now assumed the role of an active central financial agency to tender credit assistance for agricultural development in the country in a number of ways. It is participating in the capacity of a major shareholder in the capital of the State Bank of India. Earlier it had established the Agricultural Refinance and development corporation of India to provide re-finance facilities to Banks and other financial institutions for agriculture and allied purpose. The RBI provides short-term loans to the State Co-operative Banks for seasonal agricultural operation and marketing of crops at 2% below the usual bank rate. It converts the short-term loans given to the State and Central Co-operative Banks into medium-term loans out of the funds in the National Agricultural Credit (Stabilization) Fund. The RBI has also established the National Agricultural Credit (long-term operations) Fund for providing long-term loans to state governments and the land development banks and medium term loans to state co-operative Banks for agricultural purposes. Thus, the RBI is doing a yeoman's service in the field of rural finance. Since 1982 with the
setting up of NABARD (National Bank for Agriculture and Rural Development), the Reserve Bank of India has passed on its functions to the NABARD.

1.7.(vii) Commercial Banks and the Rural Finance:

The direct participation of commercial banks in rural finance and credit may be traced back to the year 1955 when the State Bank of India was set up to provide credit assistance to the co-operative marketing and processing societies. With the nationalisation of major commercial banks in July 1969 and thereafter in April 1980, there has been a rapid expansion of commercial bank rural branches.

Table 1.4 shows that the number of commercial bank branches (including RRBs) went up from 62,531 end of June 1995 to 63,092 end of June 1996, of which more than half 33069 (52.4 per cent) bank offices are in rural areas, there are 13,507 (21.4 per cent), Semi-urban banks, 1905 (14.4 per cent) Urban banks and 7411 (11.7 per cent) banks are metropolitan/port-town respectively. The nationalised banks accounted for the largest number of branches with a share of 49 per cent, followed by RRBs with 23 per cent, and State Bank of India with 14 per cent of the total number of branches. Rural branches accounted for 47 per cent of the total number of branches of State Bank of India. Under the directions of the RBI some banks have implemented the "village adoption scheme" for intensive rural
<table>
<thead>
<tr>
<th>Bank Group</th>
<th>No. of Banks</th>
<th>June 1995</th>
<th></th>
<th>No. of Branches</th>
<th>June 1996</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Semi-urban</td>
<td>Urban</td>
<td>Metropolitan/Port-town</td>
<td>Rural</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>1</td>
<td>4,130</td>
<td>2,393</td>
<td>1,355</td>
<td>934</td>
<td>8,812</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(46.9)</td>
<td>(27.2)</td>
<td>(15.4)</td>
<td>(10.6)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Associate Banks of SBI</td>
<td>7</td>
<td>1,374</td>
<td>1,403</td>
<td>684</td>
<td>587</td>
<td>4,048</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(33.9)</td>
<td>(34.7)</td>
<td>(16.9)</td>
<td>(14.5)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>19</td>
<td>13,939</td>
<td>6,310</td>
<td>5,658</td>
<td>4,953</td>
<td>30,860</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(45.2)</td>
<td>(20.4)</td>
<td>(18.3)</td>
<td>(16.0)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Private Banks</td>
<td>34</td>
<td>1,129</td>
<td>1,446</td>
<td>927</td>
<td>588</td>
<td>4,090</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(27.6)</td>
<td>(35.3)</td>
<td>(22.7)</td>
<td>(14.4)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>30</td>
<td>-</td>
<td>3</td>
<td>13</td>
<td>128</td>
<td>144</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-)</td>
<td>(2.1)</td>
<td>(9.0)</td>
<td>(88.9)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Non-Scheduled Banks</td>
<td>3</td>
<td>14</td>
<td>11</td>
<td>10</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(38.9)</td>
<td>(30.6)</td>
<td>(27.8)</td>
<td>(2.8)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>196</td>
<td>12,503</td>
<td>1,744</td>
<td>289</td>
<td>5</td>
<td>14,541</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(86.0)</td>
<td>(12.0)</td>
<td>(2.0)</td>
<td>(..)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Total</td>
<td>290</td>
<td>33,089</td>
<td>13,310</td>
<td>8,936</td>
<td>7,196</td>
<td>62,531</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(52.9)</td>
<td>(21.3)</td>
<td>(14.3)</td>
<td>(11.5)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>

Source: RBI Bulletin (Report on Trend and Progress of Banking in India, 1996)
development. It is heartening to note that more than 20 per cent of the total disbursed credit by banks has gave to the rural sector in India.¹⁴

1.7.(viii) **The Regional Rural Banks:**

As a part of 20-point economic programme announced on July 1, 1975, the government of India decided to set-up 50 Regional Rural Banks throughout the country, each catering for a population of 10 million. The main objective of these Banks was to develop the rural economy by providing credit for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas; credit and other facilities particularly to the small and marginal farmers, agricultural labourers, village artisans and small entrepreneurs. By the end of March, 1996 there were 196 RRBs in 427 districts with total offices to the extent of 14497.¹⁵

The RRBs though basically scheduled commercial Banks differ from the existing commercial banks and have the following distinctive features -

(i) Their area of operation is limited to a specified region comprising one or more districts in any state.

(ii) They grant loans and advances particularly to small and marginal cultivators, labourers, rural artisans and small traders for productive activities in their area of operation.
(iii) The lending rates of these Banks are not to be higher than the present lending rates of co-operatives in any particular area.

(iv) The salary structure of the employees of these banks has been prescribed by the central government.

1.7. (ix) **The State Government**:

The State governments have been granting two types of loans to the rural sector directly. They are short-term loans for the purchase of seeds, manure, cattle, etc., and long-term loans for financing permanent improvement in land. These loans are called taccavi loans and the total amount of these loans is too small to be compared to the large credit requirements of the rural India. Moreover, such loans are not always granted as a regular source of credit, rather they are emergency loans granted during periods of distress or crop failures. As a result, these loans have not been very popular in the rural areas.

Apart from this, the State governments also help indirectly in financing the agricultural operations by contributing to the share capital of primary agricultural credit societies, central co-operative Banks and the central land development Banks, as mentioned earlier in this chapter.
1.7 (x) **NABARD and the Rural Credit:**

On the recommendations of SIVARAMAN committee of RBI known as the Committee for Reviewing Arrangement for Financing Institutional Credit for Agriculture and Rural Development (CRAFCARD), the National Bank of Agriculture and Rural Development the NABARD was set up in July 1982 to operate as an Apex Bank in agriculture. The NABARD has taken over the function of ARDC and the refinancing functions of RBI in relation to co-operative Banks and the RRBs. The NABARD is linked organically with the RBI, by the latter contributing half of its share capital, the other half being contributed by the government of India. To meet its loan requirements, it draws funds from the government of India, the World Bank and other agencies.

The main functions of the NABARD are:

(i) It serves as a refinancing institution for all kinds of production and investment credit to agriculture, to small scale, cottage and village industries, the artisans, handicrafts and rural crafts and other allied economic activities.

(ii) It provides short-term, medium term and long-term credit to state co-operative Banks, RRBs, LDBs and other financial institutions approved by the Reserve Bank of India.
(iii) It gives term loans (upto 20 years) to State governments.

(iv) It has the responsibility to inspect RRBs and the co-operative Banks.

(v) It maintains a research and development fund to promote research in agriculture and rural development.

The aggregate amount disbursed by this agency till March 1996 has been ₹275,429.5 lakhs. Minor irrigation got the first place in the disbursed amount, while farm mechanisation got the second place. NABARD has started playing an energetic role in strengthening and reorganising the co-operative structure in the country. It is also helping in re-habilitating as well as improving the organisation and managerial efficiency of land development Banks. Thus, NABARD has taken over the tasks of ARDC and of the RBI with regard to providing rural credit and it is playing the role of an apex body in this sphere.

Conclusion:

To review the main conclusions of this chapter, the following points are of relevance:

Agriculture occupies a significant place in the economy of the country on account of the fact that it
supports a major portion of the India's population and contributes substantially in the net output of the country.

Although the country is endowed with favourable factors for agricultural development as it possesses the best soils, adequate water resources and good climate yet its condition is precarious due to lower yield, defective cropping pattern, uneconomic holdings, backward techniques of production, occasional floods and famines, erosion of soil, water logging, under-utilization of irrigation potential and regional imbalances.

Despite the fact that agriculture has contributed much in the economy of the country, its role has remained far from satisfactory. Instead of providing growth stimulant it has remained more or less neutral to growth India even today imports cereals, pulses and edible oils to feed its huge populations. The morass in which the rural economy of India is intangle can be cleared only if the following effective steps are taken in respect of:

(1) Creation of infrastructural facilities.
(2) Controlling of rising population.
(3) Quality education to change the mental outlook.
(4) Proper arrangements of institutional credit facilities.
(5) Promotion of agriculture through new inputs, fertilizers, support prices and better marketing arrangement.
Development of subsidiary occupations.

Promotion of industries of labour intensive type to correct the defective occupational structure.

Besides, in spite of the rapid expansion of institutional credit agencies, co-operatives and commercial banks - in the country, a large segment of rural population consisting of small/marginal farmers, agricultural labourers and rural artisans were not availing institutional credit facilities and were dependent upon money lenders for borrowing both for production and consumption purposes who exploited them by charging exorbitant rates of interest and various other malpractices. To save the rural people from exploitation as well as to assess the rural credit requirements, a working group was set up by the RBI in 1974-75. The group highlighted that the major gains of institutional credit have been enjoyed by the rural rich whereas the rural poor were denied the gains. Consequently, small/marginal farmers failed to adopt new farm technology to the same extent as by the rich farmers and lagged behind in reaping the benefits of seed-fertiliser technology. Accordingly, the group suggested the establishment of rural banks to advance loans to the neglected sections of rural population for the adoption of production boosting technology and subsidiary occupations. Thus, the author advocates that the care should be taken that the benefits
of growth should be equally shared by the rural people irrespective of class, creed or colour. The planners should, at any stage, not of the opinion that the rural people belong to weaker sections are orthodox, fatalist and look upon their poverty as the "will of god".
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