CHAPTER- II
CHAPTER - II

NEED AND SOURCES OF AGRICULTURAL (RURAL) CREDIT:

Since more than 70% of the rural folk depend on agriculture as a source of living, rural finance is basically concerned with agricultural finance. In other words rural finance is primary concerned with the financial needs of rural masses for operations like cultivation, processing and making marketing of agricultural produce. The other rural activity covered by rural, finance are cottage and small scale industries and trading in rural areas. Thus, rural finance covers both the categories of rural population, namely:

a) Farmers.

b) Non-farmers such as artisans and village traders.

Agriculture in perhaps the first culture that mankind learned to practice as a means of living and way of life. But with the advancement of knowledge and civilization, the pattern, practice and potentialities of agriculture have gone a process of transformation. From a primitive way of life it is now considered a commercial activity and a profitable business proposition. In India agriculture occupies an important place as it provides employment to a vast majority of its working population in addition to food for masses and raw materials for industries virtually, modernization of agriculture is the need of the hour as developed agriculture is the basic foundation for Industrial development of to-day. Thus, provision for
agriculture credit can help a lot in the modernization of agriculture in rural India.

The actual available credit supply falls short to the needs of the rural inhabitants in India. The available credit is not only inadequate but is also costly which an average rural folk can hardly afford.

Traditional credit to agriculture has been available from such informal sources as money lenders, land lords, merchants and similar other individual lenders. This type of credit often called non-institutional credit, is full of pitfalls, in as much as this type of credit hardly provide any incentive to effective improvement on the land. The farmer is disinterested in increasing the yield by putting more and improved inputs as there is a genuine apprehension that the resultant increased yield would be unjustly appropriated either by the money lender making credit more costly or by the land lord by increasing his share in the yield.

The credit provided by these sources is thus, unproductive as its main objective is not to increase agricultural production but to bring the farmers in the grip of perpetual indebtedness.

The development of financial institution, a source of credit, thus can be regarded as a basic condition for agricultural progress and rural transformation. The objective of this type of credit is to make a break-
through in vicious circle of poverty, rack-renting, usury, debt and to stimulate the farmer to ‘boost agricultural productivity.

The arrangements are expected to do the following:

i) Facilitate and encourage savings and their mobilization for productive investments.

ii) Reduce the cost of credit administration.

iii) Pool the risk of lenders,

iv) Increase competition between private money lenders and effectively counter the local monopolies which many of them may enjoy,

v) Help farm families fully to understand the opportunities which a proper use of credit may afford, and

vi) Minimize the risks of the losses by borrowers.

**Requisites of a Good rural Finance System:**

Agriculture credit to serve a really good, purpose, should according to Louis Tardy:\textsuperscript{2} conform to the following criteria:

1) It should be granted for a sufficiency long time, commensurate with the length of operation which it is desired to facilitate.

2) It should ensure an equalization of credit terms. i.e., it must be available at rates comparable to those paid by other industries.
3) It should be adequately secured in order to avoid any abuse of credit facilities but the security should not necessarily be material.

4) It should be adapted to the average yield and capacity for the payment of the farms, particularly during the periods of economic depression.

5) It should be placed in the hands of the direction who have received special training and had actual banking experience.

At the Regional Seminar for Asia on “Agricultural Credit for small farmers held in Bangkok, (October 1974), Certain criteria for judging the suitability and validity of a credit system were evolved. These were:

i) All the credit needs (short, medium and long-term) of the farmers (in kind or cash) should be met.

ii) Credit should be made available as near to his doorstep as possible and when needed by the farmer.

iii) Government should generate savings and accelerate economic growth at the socially desired growth rate.

iv) The Credit policy should reflect a compromise between the often diverse plan objectives and differing group interest, i.e. the farmer the credit institutions and the government. The credit system should be able to reconcile different objectives.

v) The borrowing should be encouraged to adopt new technologies without which sufficient income cannot be generated to repay loans.
vi) Supply and other services too should be made available to him.

vii) The lending agency has to ensure that tending machinery is matched by a recovery machinery. Every slight imbalance in this respect can lead to heavy defaulting and a consequent collapse of the credit scheme. Particularly when credit is channeled through an agency which is strengthened by in centuries and linked with marketing agencies.

viii) An efficient finance system should not confine its area of operation to a particular crop or a single agricultural activity. The lending should be geared to finance the entire farming system which may include, crop loans, livestock loans. Agro-industry loans, etc.

ix) The credit agency should be in a position to interlink with marketing agencies to ensure the full recovery of loans.

x) In addition it is necessary that the rate of interest charged from the farmers should be relatively low. One must remember that a framer contracts loans not to indulge in any basic comforts or luxuries, but for his bare subsistence. A high rate of interest with defeat its very basic purpose. This is precisely what has happened in the past in India, the Rural Credit Survey Report noted that about 40% was lent at an interest rate ranging from 10 to 12.5 per cent, about 20 per cent and nearly 7.5 per cent of the total amount at 25-30 per cent. A very high rate of interest ranging from 25 to 50 per cent was also charged for about 3.5 per cent of loans”. Unable to bear this high
burden the Indian peasantry got itself chained down to the Usurious money lender, who acted no less than the traditional shylock.

xi) From the point of view of the lender security of the loan is of utmost importance, if the system is to work on the sustained basis. Credit may flow readily and steadily, if the lender is assured that his loan will eventually be repaid that the dues will be punctually met, that the areas will be easily recoverable. That his contract will be faithfully observed, that evasion, fraud and delay by debtors will be eliminated or minimized.

The objectives of agricultural credit discussed above hardly be fulfilled by any private system of finance such as the one operated by the money lender. Hence the necessity arises for an organized system of agricultural credit which may combine in itself the above mentioned essential ingredients of a successful credit programme. The evolution and development of a suitable framework for credit must be an integral part of a well though out agricultural credit policy which in term will e integral part of the overall economic policy of the government. Whatever the basis of the organization it must satisfy all the above mentioned postulates of agricultural credit. The structure must be strong and stable enough to provide adequate development—oriented credit, draw into the system the surpluses created out of the use of credit so as to promote useful accumulation of capital to develop qualities of thrift and prudence among the
users of credit, to assist the agricultural industry by long-term investment
finance to turn credit into productive channels and to stimulate into activity
the great virtues of self and mutual help.

In India, the Rural Credit Survey Committee has suggested the following requisites which the agricultural credit system should satisfy:

i) It should be associated with the policies of the State.

ii) It should be an effective alternative to the private agencies of credit.

iii) It should have the strength of adequate resources and of well trained personnel.

iv) It should lend not merely on security of land and other usual forms of security but also on the security of anticipated crops.

v) It should be such that it help in the effective growth and development from the village upwards of the cooperative form of association.

vi) It should effectively supervise the use of credit and constantly bear in mind the borrower’s legitimate needs and interests.

Policy of the Government in Respect of Rural Credit:

The government is responsible for evolving a suitable rural credit policy through Five-year plans. Besides formulating national policy the government has also the overall responsibility to rationalize and develop the organizational frame work for complete institutionalization of agricultural credit so that the exploitative system of providing finance by money lenders
is completely replaced by a system of facile credit responsive to the needs of the farmers.

Since 1947, the government’s policy in respect to rural credit has undergone two significant changes. These can be described as two distinct phases, one lasting till 1970, and other spanning the period since 1970.

During the period before 1970, the government was committed to the exclusive development of cooperatives as a major sources of institutional credit in the rural areas. In fact, some efforts of commercial banks to go into agricultural financing were not looked with favour. The government made deliberate attempts to nurture the cooperative societies. But in spite of various procedural and administrative reforms as well as credit facilities at concessional terms from the Reserve Bank of India the cooperative system could account for only 31% of the total borrowing of cultivators. The All India Rural credit Survey (1951-52) Report recommended the organization of large size societies covering area providing adequate business. In November, 1958 the National Development Council recommended that the responsibility and initiative for social and economic development is the responsibility of the government and for social and economic development at the village level will promote the economic interest to its members in accordance with the cooperative principles and seek to achieve this aim by activities in different directions. In other words, it was expected to be a
multipurpose organization which would provide credit to its members, promote saving, supply farm requisites and domestic requirements and arrange for the marketing of the surplus produce. The All India Rural Credit Review frequently was short of standards of time, schedules, adequacy and dependability. The cooperative system has remained relatively stagnant both in a proportion to the total numbers. Generally, the committee also noted that overdue were heavy and were rising from year to year. The committee also observed that a large number of primary agricultural credit societies were neither viable nor potentially agencies for disbursing agricultural credit.

During the second half of sixties two major development took place on the Indian economic scene with a direct bearing on rural finance. The first was the much-talked about Green Revolution in the wake of adoption of the new agricultural technology. The second was the social control over commercial banks which finally culminated in the nationalization of 14 major commercial banks in July 1969 (6 more commercial banks were nationalized in April 1980). The Green Revolution opened up for the first time entirely new vital of agrarian development. It became evident that agricultural production could be increased in a relatively short time if adequate inputs were made available. The availability of inputs like irrigation, HYV seeds fertilizers, pesticides etc. was possible only with the
help of large investments. These investments could be arranged only if the peasantry were to be assured of adequate and easy credit arrangements. The gross credit requirements of agriculture to be met from institutional sources were estimated by the National Commission of Agriculture to go up to Rs. 16,150 crore by 1985, this amount is likely to go up further in view of the government programme to year mark over 22% of total plan outlay for agriculture and rural development in the seventh plan.

It was further observed that cooperatives alone, though they had increased their coverage since 1950 both in terms of membership and finance provided, would not be in a position to meet the increasing requirement of credit. Besides inadequacy, it was observed that cooperative credit percent supplied to small farmers was significantly lower than that for large farmers. Using 1961-62 data collected through the All India Rural Debt and Investment Survey, the All India Rural Credit Review Committee (1969) remarked that the distribution of credit from cooperatives was iniquitous as among different assert groups such discriminatory distribution of cooperative credit not only revealed the weaknesses of the only source of institutional credit but also provided a scope for review of the agricultural credit policy in India in conformity with the basic objective i.e. growth with social justice, since small farmer have proved themselves equally efficient in the adoption of the technology, it was felt that institutional credit should not
only be adequate in an out but also be equitable in distribution. Furthermore, wide regional variations in the supply of cooperative credit were also discussed widely during the late sixties as a serious weakness of the credit system, the All India Rural Credit Review Committee (1969) found that cooperative loans issued per head of rural population were varying in the range of Rs. 129 to Rs. 425 in Assam, Bihar, West Bengal, Rajasthan, Jammu & Kashmir and Orissa, the corresponding variation was between the range of Rs. 1264 to Rs. 3025 in Mysore, Tamil Nadu, Maharastra, and Punjab during the year 1966-69.

The above three major defects of the cooperative credit necessitated the revision of earlier single-agency approach in the context of the changing agrarian scene and a new approach was thought of towards the late sixties under the issue of the right approach to the problem of rural credit, others lost their confidence in it. To check the exploitation of the farmers the only way was to supply them credit through the banks.

Structure of Rural Credit in India:

The rural credit structure at present, covers a host of financial institutions. 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 unorganized sector of the Indian money market. It may be observed that in the category of non-institutional agencies, 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, co-operative Banks, Commercial Banks, and Regional Rural Banks. They belong to the organized part of the Indian Money Market. There is very little link between the agencies operating in the organized segment of the money market and the agencies, operating in the unorganized 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.

The information about finance provided by different sources in 1951-52 is given in the Report of the All India Rural Credit Survey Committee (1954). Data along similar lines for 1961-62 have also been collected by the All
India Rural Debt and Investment Survey. These data showing the relative position of different financing agencies are presented in table below:

Sources of Rural Credit

<table>
<thead>
<tr>
<th>Sources of Rural Credit</th>
<th>1951-52</th>
<th>1961-62</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>2. Cooperative Societies</td>
<td>3.1</td>
<td>15.5</td>
</tr>
<tr>
<td>3. Commercial Bank</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>4. Money Lenders etc.</td>
<td>90.9</td>
<td>67.4</td>
</tr>
<tr>
<td>5. Others</td>
<td>1.8</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Sources: Report of the all India Rural Credit Review Committee 1969. P. 100.

According to the National Credit Council, the various institutional credit agencies as cooperative societies, commercial banks, etc. met only less than 33% of the estimated Credit requirements of agriculture in 1967-68 there have been only marginal improvement in this position by 1973-74, as against the credit requirement of Rs. 4000 crore for the year, as estimated by the All India Rural Credit Review Committee, the institutional Credit agencies provided Rs. 1537 crore (38.4%) only, comprising Rs. 919 crore (23%) from the commercial banks. The fifth plan projected that by 1978-79, 57 per cent of the short term requirements and 100 per cent of the investment needs will be met by the institutional agencies. In all, the
institutions agencies will meet 76% of the credit requirements of agriculture. The Sixth Five Year Plan (1980-85) however did not paint that optimistic picture. Against the total requirements of about Rs. 7890 crore of short term loans and Rs. 8260 crore for medium term loans, as estimated by the National Commission on Agriculture for the year 1985, the plan projected the level of credit from different agencies to be of the order of Rs. 5415 crores in 1984-85, the actual advances turned out to be of the value of commercial bank. The projection made in the VIIth Plan for the year 1989-90 are as shown in Table 2.1.

Agricultural Credit by different agencies.

<table>
<thead>
<tr>
<th>Agencies</th>
<th>Anticipated Advance in 1984-85</th>
<th>Level to be reached in 1984-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cooperatives:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>2500</td>
<td>540</td>
</tr>
<tr>
<td>Medium term</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>Long term</td>
<td>500</td>
<td>1030</td>
</tr>
<tr>
<td>2. Commercial Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(including RRBs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>1110</td>
<td>2500</td>
</tr>
<tr>
<td>Term loans</td>
<td>1450</td>
<td>3000</td>
</tr>
<tr>
<td>Total (1+2)</td>
<td>5800</td>
<td>12570</td>
</tr>
</tbody>
</table>

Sources: Seventh Five Year Plan 1989-90.

Two important observations from the above brief review of the various sources of rural finances can be made as follows:
First, the non-institutional agencies have been the traditional sources of loans in the agrarian economy. Among these the most important has been the village moneylender.

What the Royal Commission on Agriculture in India had to observe as early as in 1928 is almost equally even today’’ The greater proportion of the funds required by the land holders for the general agriculture purposes is provided by local money lenders who are often extra vagrant. The money-lenders recognize no distinction between the capital required to finance an industry and the money needed for ordinary household expenditure. Everything goes down in a common account. The borrower also fails to distinguish between sums borrowed for productive purpose, from the expenditure of which a more than equal return is to be expected, and those taken for current needs, which a more prudent man would meet from savings or income. The result is financial confusion and widespread indebtedness. And since neither in the borrower’s mind nor in the lenders ledger is the financing of agricultural operations of every kind kept distinct from the provision of finds for household and family expenditure, it is not possible to determine with any accuracy the proportion of the debt of the agricultural classes which is represented by investment in improvements or in stock. The general opinion is that the proportion is very low and such evidence as is available tends to confirm this viewpoint.
Money-lending as a business has generally flourished in rural areas, specially because of the following reasons:

a) A village money lender is always accessible to the borrowers.

b) He extends credit without resorting to any elaborate procedure or without trouble some formalities and in convenient questions.

c) He does not press the borrowers for repayment of the principal if they keep on paying interest regularly.

d) A money lender lends for any purpose and does not deny loans for non-productive and non-economic purposes.

However, the system of money-lending by village money lenders has suffered from a number of weaknesses, among which the more important are as follows:

a) The money lenders charge very high rates of interest.

b) As the money lenders lend for all purposes, the burden of improducting loans taken for consumption purposes goes on increasing there is a need to discourage the cultivators to borrow for religious and other improductive purposes.

c) Rural folks, illiterate as they are made to give their thumb impression on blank paper and this practice enables the money lenders to manipulate the accounts to their own convenience.
d) Borrowers run the risk of losing their land borrowers may alternatively be under an obligation to sell their crops to the creditor invariably at very unfavourable prices. The system ultimately leads to the practice of bounded labour. The non-institutional agencies have provided the bulk of loans required by the Peasantry. These agencies catered as much as 93.6% of the credit requirements of the farmers in 1951-52. There is undoubtedly a perceptible decline in their relative share in the provision of agricultural financing during the last three and a half decades as would be seen from table.

**Table-2.2**

Share of non-institutional agencies in total rural finance

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>93.6%</td>
</tr>
<tr>
<td>1961-62</td>
<td>85.0%</td>
</tr>
<tr>
<td>1971-72</td>
<td>75.0%</td>
</tr>
<tr>
<td>1978-79</td>
<td>65.0%</td>
</tr>
</tbody>
</table>


It would be seen that about two thirds of the total credit needs of the Indian peasantry, as yet, are being met by non-institutional sources. There is
no doubt that the relative share of the non-institutional sources will go on declining as the institutional agencies development spread, nevertheless, the farmer will continue to perform a significant role in the agrarian economy. As per the fifth plan projection the institutional agencies can meet only 57% of total credit requirements of the agrarian sector. It implies that even if these projections turn out to be perfectly correct, the Indian peasantry would have to depend on non-institutional sources for as much as 43 per cent of their credit requirement. Similarly, these are the major sources of consumption loans for the farmers. Cooperative societies and commercial banks generally have been reluctant to lend for consumption needs. The peasantry had invariably to fall back upon the non-institutional sources for that type of loans.

Second, Efforts, to build up the institutional financing system of agricultural commenced with the adoption of the cooperative credit societies.

Cooperatives were nurtured as the primary institutions to relieve farmers from the traditional burden of debt and to promote thrift. They assumed increasingly larger role in the rural sector both in the matter of quantitative expansion and diversity of functions although credit continued to be their main function. The banking system also made certain pioneering efforts in this sphere, but the progress made by them in this regard was
inadequate till the social control of banks, which finally culminated in the nationalization of 14 major banks in 1969. Since the commercial banks have taken a growing interest in financing agriculture. Cooperative societies and commercial banks taken together have become a viable system of financing agriculturists needs. The growth in the total institutional credit is indeed impressive. However, the absolute figures do not provide a good clue to the real ground situation. In order to have a better view, we need to translate these data in some comparable magnitudes.

First of all we have translated the total credit to per hectare basis, as shown in table.

Table-2.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Short term credit(Rs.)</th>
<th>Investment Credit(Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>3.67</td>
<td>0.68</td>
</tr>
<tr>
<td>1960-61</td>
<td>14.32</td>
<td>3.03</td>
</tr>
<tr>
<td>1970-71</td>
<td>35.80</td>
<td>24.66</td>
</tr>
<tr>
<td>1980-81</td>
<td>124.33</td>
<td>96.78</td>
</tr>
<tr>
<td>1989-90</td>
<td>200.00</td>
<td>185.00</td>
</tr>
</tbody>
</table>

Projected by CRAFICARD

It may be seen from table, that the short-term credit advanced per hectare of gross area advanced from Rs. 3.67 in 1950-51 to Rs. 124.33 in 1980-81 and projected Rs. 200.00 in 1989-90. The investment credit became
important. Only after the sixties, having reached to Rs. 24.66 per hectare of net soon area in 1970-71 and Rs. 96.78 in 1980-81.

These figures need to be compared with the yard stick adopted by the requirements for agriculture, of Rs. 600 per hectare for irrigated areas and Rs. 450 per hectare of non-irrigated areas (at 1974-75 prices). It would, therefore imply that even if we ignore the price factor the level of advance reached in 1980-81 is only 25% of the norm. Similarly for the investment credit, the commission had fixed Rs. 600 as the yardstick. The actual level of Rs. 96.78 per hectare reached in 1980-81 is only a fraction of the total requirements. Even if we consider the total projected availability in 1989-90, which would amount to Rs. 2000 as short term credit and Rs. 185 as investment credit, it would still be only 50% and 30% of the norms respectively. It shows the considerable gap in the institutional credit.

A second norm of judgement could be laid down in terms of (a) the share of short-term credit in the total value of all inputs or cash inputs or only some key inputs like fertilizers, pesticides and insecticides, and (b) the share of term credit in gross private capital formation in agriculture.

As to the (a) above, as per the available data from the central statistical organisation’s publications National Account Statistics the share of short term credit was 12.1% during 1970-71 and increased slowly only to 14.7 per cent during 1980-81. It implies that if short term credit advanced to
agriculture have increased at a fast rate so has the total value of inputs to agriculture. Further, if, major cash inputs are considerable, short term credit could meet around 27 to 28 per cent during most of the years. So much so, the short term credit could meet only about one half of the cost of the key inputs only.

As regard (b) above investment credit formed only 38.7% of gross private capital formation in agriculture during 1970-71 and 32.2% in 1980-81.

The above two tests show the enormous gap between the requirements and the actual institutional financing, the enormous gap came to be financed by the informal non-institutional sector comprising own savings and private credit from such sources as land lord cum money lender etc.

Looking ahead, considering the enormity of the problem the role of private sources of credit knowing its defect will continue to be important for quite some time. Besides the efforts to mobilize resources from this sector, the government should also evolve and establish some regulatory mechanism for smooth functioning of the private credit sector. Such a mechanism should not be limited to be merely informal rather it should be formally documented and amenable to regulation and effective controls but allowing the private credit sector reasonable margins of profit.

Credit Requirements in India:
Though it is rather difficult to estimate the credit requirements for short and long-term needs of agriculture, yet various efforts have been made to estimate the quantitative dimension of agricultural credit.

1) The All-India Rural Credit Survey Committee (1954): had placed the total agricultural credit requirements at Rs. 2,000 crores. Of this amount Rs. 800 crores was to be self financed; and the remaining Rs. 1200 crores were to be supplied by the agencies extending credit to the farmers.

2) The Working Group (1965): set up by the Agricultural Production Board of the Government of India, estimate the total credit need of agriculture at Rs. 1160 crores (for 1970-71).

3) The Panel of Economists (under the Chairmanship of Prof. M.L. Dantwala) on the basis of the value of agricultural produce and the expenses incurred, estimated the agricultural credit requirements somewhere between Rs. 1011 crores and Rs. 1174 crores. The short-term requirements were estimated to the order of Rs. 1000 crores in 1966-67 and were to touch the level of Rs. 1200 crores or more in 1970-71. The medium-term and long-term credit requirements were placed at Rs. 100 crores and Rs. 160 crores respectively per year.

4) The Ministry of Food and Agriculture estimated the total credit requirements for short, medium and long-term purpose at Rs. 3200 crores at the end of 1973-74. Of this Rs. 1550 crores have been estimated to be short
term credit requirement and Rs. 1650 crores as medium and long-term requirements.

5) The All-India Rural Credit Review Committee (1969) estimated the total short-term-credit requirements of agriculturist in 1973-74 as Rs. 2000 crores and Rs. 500 crores for medium term and Rs. 1500 crores for long-term. Thus the total credit requirements of agriculture were put by the Committee at Rs. 4,000 crores in 1973-74.

6) The Fifth Plan has put the targets of agricultural credit at Rs. 3000 crores for short-term requirements; and Rs. 2400 crores for medium and long-term requirements (for 1973-74 to 1978-79).

7) The national Commission on Agriculture has placed the total long-term short-term and medium-term requirements to the extent of Rs. 9400 crores by 1985.

The estimates indicate the magnitude of the credit requirements for agriculture. It should be noted that because of the occurrence of drought conditions in many parts of the country and floods in others and also because of the introduction and extension of new agricultural technology, the credit needs would be very high indeed for future.

**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 improvement in agriculture. The existence of major credit organizations 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.4

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 counter part. 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 organized 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 existence 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.  

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:

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.

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.

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.

**Sources of Rural Credit in India:**

The present sources of credit supply for the rural sector in India are (i) Village money-lenders (ii) Indigenous Bankers (iii) Primary co-operative
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.

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.
**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 centers 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.

**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 1920s. These banks were also sought by the all India Rural Credit Survey Committee to be organized 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.9

Table-2.1 gives a picture of the progress made by cooperative credit movement in India as observes 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 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 1994-95.10

**Progress of PACs in India: (Amount in Rs. Crore).**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>1992-93</th>
<th>1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of societies in Thousands</td>
<td>84</td>
<td>90</td>
</tr>
<tr>
<td>Membership (in thousand)</td>
<td>88,539</td>
<td>88,047</td>
</tr>
<tr>
<td>Owned Fund</td>
<td>2032</td>
<td>2584</td>
</tr>
<tr>
<td>Deposits</td>
<td>1863</td>
<td>2520</td>
</tr>
<tr>
<td>Borrowings</td>
<td>7896</td>
<td>9596</td>
</tr>
<tr>
<td>Working capital</td>
<td>12666</td>
<td>16304</td>
</tr>
<tr>
<td>Total loans issued</td>
<td>6793</td>
<td>9373</td>
</tr>
<tr>
<td>Total loans outstanding</td>
<td>8116</td>
<td>11404</td>
</tr>
<tr>
<td>Total loans overdue</td>
<td>3256</td>
<td>3937</td>
</tr>
<tr>
<td>Percentage of overdue to 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>

**Source:** RBI Bulletin (Report on Trend and Progress of Banking in India 1995-96 (Jul,y-June), March, 1997.

**Weaknesses of Co-operative Credit:**

In spite of its important role in providing agricultural credit, cooperative credit suffers from a number of weaknesses.
Firstly, many agricultural credit societies are of non-viable character. Since the basic philosophy of cooperative societies is to involve the people themselves in the process of economic transformation, a high degree of efficiency is required to realize this objective. Many cooperative societies did not become viable because dedicated, honest and efficient people did not come forward to undertake this noble task. Because of red-tapism, undue political interference and the strong hold of large farmers, the co-operative movement did not come up to the level of expectation.

At the first instance, fresh efforts are warranted to create a cadre of trained, dedicated and honest workers, Red-tapism, political interference, administrative bottlenecks and undue hold of large farmers has to be done away with. These societies must be run on an objective criterion aimed at quicker transformation of rural society.

Secondly, the credit needs of small farmers have to be given priority. The officials should not succumb to local pressure, political or otherwise. Politicians and powerful village lobbies should also not interfere unnecessarily. They should, however, discharge their moral obligations in this regard towards the larger benefits of the village community.

Thirdly, those states that have lagged behind should step up their performance and expand their network to cover as much of credit requirements of the farmers as possible. There also has to be an effort to
cover all the rural families so that no margin is left for non-institutional credit and of exploitation of the rural poor.

Lastly, the process of recovery is to be smoothened and stepped up. If the recovery continues to be poor, that will retard the pace of progress of these societies. Unless the process of recovery picks up, refinancing and greater coverage will not be possible.

**Land Development Banks:**

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.
State Bank of India:

The State Bank of India group consisting of the SBI and its seven subsidiaries have also played 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.12

The SBI group has initiated new experiment by setting up special “Agricultural Development Branches” in selected intensive centers. The various credit support programmes have been as follows:

a) Production finance.

b) Provision for irrigation facilities.

c) Modernization 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.
National Cooperative Development Corporation (NCDC):

The NCDC was set up in 1963 with the objective of (i) Promoting various economic programmes in the cooperative sector (ii) Providing financial assistance in the form of loans and subsidies to them. In 1993-94 the NCDC provided total assistance amounting to Rs. 287 crore. For the benefit of the weaker sections of the society, the cooperation implements action on programmes covering poultry, forming fisheries minor Forest produce. Sericulture and dairy farming in the cooperative sector. Since its inception in March 1963, till March 1994, the corporation had provided total assistance aggregating to Rs. 2925 crore NCDC had launched a scheme during the Seventh Plan called integrated cooperative Development project. This scheme is intended to strengthen and develop cooperative infrastructure so as to enable it to cater to the overall needs of rural community in the selected areas in districts. During the Eight Plan, the corporations focus will be on the promotion and development of weaker sections cooperatives poultry, dairy, handloom etc.

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.

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 nationalization of 14 major commercial banks in July 1969 and 6 in April 1980, there has been a rapid expansion of commercial bank rural branches.

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 33,069 (52.4 per cent) bank offices are in rural areas, there are 13,507 (21.4 per cent), Semi-urban banks, 19,05 (14.4 per cent) Urban banks and 7,411 (11.7 per cent) banks are metropolitan/port-town respectively. The nationalized 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 development. It is heartening to note that more than 20 per cent of the total disbursed credit by banks has gone to the rural sector in India.

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 14497.14

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.

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 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.\textsuperscript{15}

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.

\textbf{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\textsuperscript{16} 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 Rs. 2754295 lakhs. Minor irrigation got the first place in the disbursed amount, while farm mechanization got the second place. NABARD has started playing an energetic role in strengthening and reorganizing the co-operative structure in the country. It is also helping in re-habilitating as well as improving the organization 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.

Steps taken by the Government in this Regard:

In the recent years, steps have been taken to remove the difficulties and to make up the deficiencies mentioned above. A very important step in this direction was the appointment of a committee of Directors of All India Rural Credit survey in 1951 (reported in 1954) for assessing the nature and extent of the problem and to determine a suitable approach towards its solution. It is finding were very comprehensive and recommendation far-reaching. Most of its recommendations were accepted and have been implemented.

1) The cooperative movement has been strengthened largely through state partnership and the guidance and resources made available by the RBI.

2) Credit has been linked with other economic activities like marketing and processing.

3) Warehousing facilities have been increased considerably.

4) Funds set up in pursuance of the recommendations of the Rural credit survey, the following two funds have been established.

i) National Agricultural Credit: (Long term operations) Funds.
It grants long-term loans to State Government to enable them to contribute to the share capital of cooperative credit institutions and to provide medium-term loans to central land development banks.

ii) The National Agricultural Credit: (Stabilisation) Fund.

It grants medium-term loans to state cooperative Banks to enable them to convert short term credit into medium-term credit.

5) State Bank of India: A very far reaching further step was the establishment of the State Bank of India in 1955 (SBI) by nationalizing Imperial Bank of India. SBI has helped rural credit in various ways. It has provided finance for land development banks, it has given financial accommodation to marketing and processing cooperatives, it is giving remittance facilities and loans to cooperative credit institutions at concessional rates. It has been contributing to development of warehousing facilities by subscribing to part of the share capital of the central warehousing corporation and by lending on the security of warehous’s receipts. By opening a very large number of branches away from the main towns it has carried the banking facilities to the rural people. Accordingly, SBI’s direct as well as indirect finance to agriculture has been rapidly rising from year to year.

6) The Reserve Bank of India, till the recent establishment of NABARD, was playing a bigger role.
7) The District Credit Plan lending system has been regulated and reformed, under the supervision of Lead Bank of the District.

8) The Government too has simplified its procedures and made them less rigid. The state loans are now given more liberally and on easier terms.

9) For long-term loans, the land development banking is being developed.

10) Agricultural Refinance Development Corporation (ARDC) was established in 1963. It served as central financing agency for agricultural credit till its functions were taken over by NABARD in 1982.

11) Agro-industries Corporations have been set up in almost all major states which are providing an additional live of agricultural credit. The advance loans for the purchase of tractors and agricultural machinery under hire-purchase schemes.

12) Special attention has been paid to the development of rural credit in the five-year plans with the result that the cooperative loans advanced to farmers increased from Rs. 23 crores in 1950-51 to Rs. 203 crores in 1960-61, i.e. an increase of 773 per cent in one decade. In the year-endings March 1985, short-term loans advanced by primary agricultural cooperatives totaled Rs. 2700 crores and medium term Rs. 250 crores and long-term credit largely by land development banks amounted to Rs. 500 crores. The Seventh Plan (1985-90) put the target of co-operative short term credit at Rs. 5590 crores for the terminal year, i.e. for 1980-90 and Rs. 500 crores in respect of
medium-term loans and Rs. 1030 crores in respect of long-term loans. But the actual disbursement of co-operative short-term credit was Rs. 3654 crores in 1989-90. The disbursement of medium and long term credit was Rs. 416 crores and Rs. 744 crores respectively in 1989-90. In 1991-92, disbursement of short term medium and long term total co-operative credit increased to Rs. 5238 crores against Rs. 3408 crores in 1990-91.

Taking a broader view, the availability of commercial bank credit to agriculture and allied activities has been projected to expand from the base level of Rs. 3250 crores in 1984-85 to Rs. 7070 crores during the VIIth Plan (1985-90) in the banks short term and term loans to the farm sector. From Rs. 3250 crores in 1984-85 to Rs. 7515 crores in 1985-90 was the achievement of the Seventh Plan.

13) Nationalisation of 14 Major Banks in July 1969. The need for rural credit had gone up manifold on account of the adoption of the new agricultural production technology, which necessitated large credit for various modern inputs subsequently, in April 1980, six more commercial banks were nationalized, largely to augment the flow of commercial banks credit to the farmer sector, especially to the small and marginal farmers, tenants landless labourers and other weaker sections of the rural community.

14) Special Measures for small farmers and other weaker sections. In pursuance of the recommendations of the Rural Credit Review Committee
(1969). Small farmer’s development Agencies (SFDA’S) Schemes have been started in several states (now merged and called District Rural Development Agencies). One of the findings of the above mentioned committee had been that institutional credit had not penetrated into the small and economically weaker sections of agricultural population, who form the bulk of the cultivators in the country. One of the main functions of these agencies/schemes is to provide credit to such farmers at cheaper and easier terms, simplifying procedures to enable them to partake in the benefits of green revolution. Both these schemes actually started functioning on a significant scale especially in respect of disbursement of credit from co-operative year 1971-72. The ARDC and now NABARD, extends refinance facilities on a 100% basis in respect of viable schemes initiated by these Agencies/Schemes. The Seventh Plan (1985-90) document put special emphasis on enlarging the facilities of credit provision to the small farmers and other weaker sections in the rural areas and has laid down specific targets in this regard.

15) Establishment of Regional Rural Banks. A network of regional rural banks (RRBs) is being spread over the rural areas. These have low cost structure and follow simplified procedures to advance loans, particularly to small farmers, tenants and other weaker sections in rural areas. At the end of June 1992, there were 196 such banks in the country.
Summing up. The Crux of the measures adopted already and contemplated for the near future is the Government’s emphasis upon and efforts towards, increasing the proportion of institutional finance for agriculture and allied activities. That will remove most of the defects and shortcomings of the present system of rural credit in the country.

However, when all is said the problem of rural credit has not been solved. It is too gigantic a problem. The step taken are no doubt in the right direction, but they do not commensurate with the requirements of the situation.

CONCLUSION: Suggestions for Further Improvement and Findings:

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 facts for agricultural development as it possesses the best soils, adequate water resources and good climate yet its condition is precarious due to lower yield, detective cropping pattern, uneconomic holding, 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 entangled can be cleared only if the following effective steps are taken in respect of:

i) creation of infrastructural facilities.

ii) Controlling of rising population.

iii) Quality education to change the mental outlook.

iv) Proper arrangements of institutional credit facilities.

v) Promotion of agriculture through new inputs, fertilizers, support prices and better marketing arrangement.

vi) Development of subsidiary occupations.

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

Besides, in spite of the rapid expansion of institutional credit agencies, cooperative and commercial banks—in the country, a large segment of rural population consisting of small/marginal farmers, agricultural labourers and rural artisan’s 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, as working group was set up by the RBI in 1974-75. The group highlighted that the major games of institutional credit have been enjoyed by the rural rich whereas the rural pool we were denied the gains. Consequently small/marginal of harness failed to adopt new farm technology to the some extent as by the rich farmers and lagged behind in reaping the benefits of seed fertilizer technology. Accordingly, the group suggested the establishment of rural banks to advance loans to the neglected sections of the 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 caste, creed or colour. The planners should at any stage not of the opinion that the rural people belong to weaker sectors are orthodox fallacies and look upon there poverty as the “will of God”.

1) Since bank is the best agency of rural credit, the most important suggestion is to extend and improve its role.

2) The system of ‘taccavi’ loans should be simplified, liberalized and made more prompt. However, it will be better if the government lends
through the cooperatives. This will have additional advantage of encouraging the cooperative movement.

3) A very important improvement will be the development of licensed war chousing. Through such warehouses, the cultivators will be brought into contact with the banking system of the country. From the banks, he will be able to borrow at cheaper rates on the security of his produce.

4) It is necessary to ensure that credit sanctioned for productive purposes is not diverted to non-productive or consumption expenditure. Therefore, credit should be given for specific purposes and machinery should be set up to check it.

5) It is also well to remember that credit advanced to the farmers cannot be used effectively in the absence of adequate and suitable infrastructure for e.g. credit given for fertilizers will be useless in the absence of irrigation facilities. Similarly, lack of electric supply will stand in the way of utilization of credit given for pumping sets. Lack of adequate means of transport also stands in the way of credit absorption.

6) The Rural Credit facilities provided so far have largely been appropriated by the bigger farmers. The small farmers, tenants and other weaker sections of the rural community have been deprived
although it is these later categories of rural population who need them the most. Targets and specific action-oriented polices and measures be adopted to ensure a distinctly larger share for these classes in the existing and additional rural credit facilities to be made available.

It is gratifying to note that steps are being taken on the above lines. The five-years plans laid great emphasis on the development of the cooperative movement and on substantially raising the proportion of commercial bank credit for agriculture and allied activities. RRBs have set up the network of their branches which is being enlarged. RBI & ARDC are also making available large amount for rural finance.

A very welcome decision has been made by the government recently that farmers, whether they posses land or not be provided with loans on the security of their crops.

**Conclusion:**

But the problem is a complex one. The step taken already have to be multiplicity manifold, and carried over a long period before we can reach any where near the solution of the problem of rural credit.
REFERENCES

2. Tardy, L.system of Agricultural Credit & Insurance, 1930.
3. Grewal, P.S., Rural Banking in India, Kalyani Publisher, New Delhi, p. 13-16.
5. Mamoria, C.B.; Rural Credit in India, p. 32-33.
7. Ruddar Datt. & Sudharam, K.P.M. op. cit., p.469
8. Patnaik U.C. & Mishra, S.N.; Rural Banking and cooperative Management. Kalyani Publisher, New Delhi, p. 8