1. NEEDS FOR CREDIT FOR INDIAN FARMERS

The financial requirements of the Indian farmers can be classified into three types depending upon the period and the purpose for which they are required:

Period of Credit

(a) Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. For example, they want to buy seeds, fertilisers, fodder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose. Such short-period loans are normally repaid after the harvest.

(b) The farmers require finances for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, etc. These loans are larger than short-terms loans and can be repaid over longer periods of time.

(c) The farmers need finances for the purpose of buying additional land, to make permanent improvements on land, to pay off old debt and to purchase costly agricultural machinery. These loans are for long periods of more than 5 years.

Productive and Unproductive Loans

We can further classify the credit requirements of farmers into two types—productive and unproductive loans. The former include loans (a) to buy seeds, fertilisers, implements, etc. (b) to pay taxes to the Government and (c) to make permanent improvements on land, such as digging and deepening of wells, fencing of land, etc. All these forms of credit help the farmers in their agricultural operations or in improving their land.

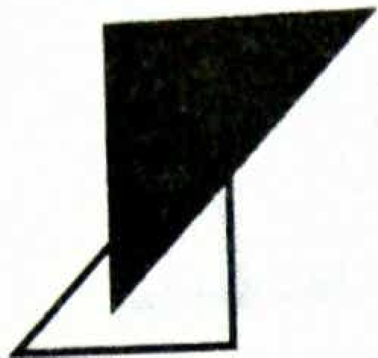
The Indian farmers often borrow for unproductive purposes too, such as for celebration of marriages, births and deaths, for litigation etc. Unproductive loans raised at exorbitant rates of interest are highly improper and unjustified.

Sources of Rural Credit

Broadly, there are two sources of credit available to the farmers—institutional and private. Institutional

credit refers to loans provided to farmers by co-operative societies and co-operative banks, and commercial banks including regional rural banks (RRBs). Non-institutional or private sources include money-lenders, traders and commission agents, relatives and landlords.

Non-institutional sources — money- lenders landlords, traders etc. accounted for 93 per cent of the total credit requirements in 1951-52 and institutional sources including the Government accounted for only 7 per cent of the total credit needs in that year. The All India Debt and Investment Survey (1981), estimated that the share of non-institutional sources had slumped to about 37 per cent in 1981, moneylenders accounting for barely 16 per cent; the share of institutional credit, however, had jumped to 63 per cent — co-operatives contributing 30 per cent and commercial banks about 29 per cent.



9. REGIONAL RURAL BANKS (RRBs)

One of the important points of the 20-point economic programme of Mrs Indira Gandhi during Emergency was the liquidation of rural indebtedness by stages and provide institutional credit to farmers and artisans in rural areas. It was in pursuance of this aspect of the New Economic Programme that the Government of India setup regional rural banks (RRB).

The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

"Regional rural banks (RRBs) were conceived as institutions that combine the local feel and familiarity of cooperatives and the business organisation ability of the commercial banks. In a multi-agency approach for agricultural and rural credit in India, RRBs have a special place".

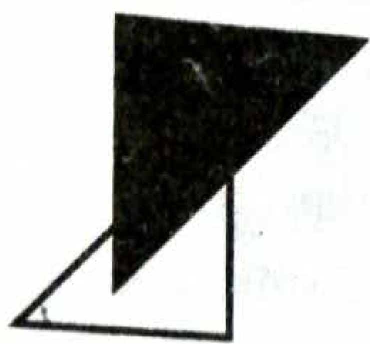
Initially, five regional rural banks were set up on October 2, 1975 at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal. Each regional rural bank had an authorised capital of ₹ 1 crore, and issued and paid-up capital of ₹ 25 lakhs. The share capital was subscribed by the Central Government (50%), the State Government concerned (15%), and the sponsoring commercial bank (35%). The RRBs though basically scheduled commercial banks, differ from the latter in certain respects :

(a) The area of RRBs is limited to a specified region comprising one or more districts of a State.

(b) The RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers and others of small means for productive purposes.

(c) The lending rates of RRBs should not be higher than the prevailing lending rates of co-operative societies in any particular State. The sponsoring banks and the Reserve Bank of India provide many subsidies and concessions to RRBs to enable the latter to function effectively.

structures.



6. COMMERCIAL BANKS AND RURAL CREDIT

An important argument in support of bank nationalisation was that commercial banks had kept themselves aloof from the problems of agriculture and had remained largely indifferent to the credit needs of farmers for agricultural operations and land improvement. When social control of banks was introduced in 1967, a rapid expansion in bank branches in rural areas was started. By July 1969, all

commercial banks had over 1,860 branches in rura and semi-urban areas; this number had increased tc over 30,585 by June 2006. There were 3,07,17,19 million agricultural borrowing accounts with commercial banks amounting to ₹ 3,08,087 crores (2007-08), as compared to only 0.2 million accounts with total outstanding advances to the extent of about ₹ 160 crores in June 1969. A large number of village co-operatives are among the borrowers, some of them borrowing from other financial agencies as well.

3. RURAL CO-OPERATIVE CREDIT SOCIETIES

Indian planners considered co-operation as an instrument of economic development of the disadvantaged, particularly in the rural areas. They saw in a village panchayat, a village co-operative and a village school, as the trinity of institutions on which a self-reliant and just economic and social order was to be built. The non-exploitative character of co-operatives, voluntary nature of membership, the principle of one man one vote, decentralised decision-making and self-imposed curbs on profits eminently qualified them as an instrument of development combining the advantage of private ownership with public good.

The rural co-operative movement was started in over 100 years back largely with a view to providing agriculturists funds for agricultural operations at low

rates of interest and protect them from the clutches of money lenders.

The organisation of the co-operative credit for short period is briefly outlined here:

Primary Agricultural Credit Society. (PACS): A co-operative credit society, commonly known as the primary agricultural credit society (PACS) may be started with ten or more persons, normally belonging to a village. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. Primary Agricultural Credit Societies (PAC S) are the grassroot level arms of the short-term cooperative credit strucure. PACS deal directly with farmer-borrowers, grant short term and medium term loans and also undertake distribution and marketing functions.

The management of the society is under an elected body consisting of President, Secretary and Treasurer. The management is honorary, the only paid member being normally the accountant (in case the society is large and requires a paid whole-time accountant). Loans are given for short periods, normally for one year, for carrying out agricultural operations, and the rate of interest is low. Profits are not distributed as dividend to shareholders but are used for the welfare of the village, in the construction of a well, or maintenance of the village school, and so on.

The usefulness of PACs has been rising steadily. In 1950-51, they advanced loans worth ₹ 23 crores; this rose to ₹ 200 crores in 1960-61, and to ₹ 34,520 crores in 2000-01. The PACS have stepped up their advances to the weaker sections particularly the small and marginal farmers. This progress has been quite spectacular but not adequate considering the demand

District Central Co-operative Banks (DCCBs).. These are now at the end of March 2006 ·69 District Central Cooperative Banks. The loans out tanding came to ₹ 79,200 crores. These are federation f primary credit societies in specified areas normall xtending to a whole district (hence they are some imes known as district co-operative banks). Thes anks have a few private individuals as shareholder who provide both finance and management. Their mai ask is to lend to village primary societies, but the re expected to attract deposits from the gener ublic also (volume of deposits). But the expectatio as not been fulfilled and many of the co-operati entral banks act as intermediaries between t

Remedies to the Problem of Rural Indebtedness

The problem of rural indebtedness has two aspects and, therefore, the solution is also two-fold. In the first instance, measures may be devised for cancelling old debts. Secondly, measures should be devised to see that fresh borrowing is limited to the minimum necessary and to the productive type. At the same time it is necessary to control the money-lender and regulate his activities.

(a) **Settlement of Old Debt**. Most State Governments and Union Territories have enacted appropriate legislation to scale down the debts of small farmers and to discharge non-institutional debts of weaker sections like landless labourers and rural artisans. In most States, legislation exists for compulsory reduction of ancestral debt and in a few cases, even for their liquidation. The difficulty with such legislation is that the farmers and the landless labourers may not take advantage, either because they are ignorant of such legislation or because they are afraid of the money-lender.

(b) **Reduce Dependence on Moneylenders**. In order to reduce the dependence of the rural people on local money-lenders, the network of institutional

credit structure, comprising cooperatives, commercial banks and RRBs, is being rapidly expanded throughout the country to provide timely and adequate credit support to the small farmers and artisans. In practice, however, these services are being monopolised by the richer farmers.

(c) **Control of New Loans**. It is not sufficient to help in the settlement of old debts. It is necessary to see that the farmers resort to borrowing only for the most essential and productive purposes. Non-productive loans should be avoided, but here the government can do very little.

Social and religious functions form an important part of the life of our villages. The expenditure in connection with them cannot be eliminated so easily by advising farmers. Actually some institutional finance should be arranged for this purpose. In its report submitted in April 1976, the Sivaraman Committee outlined these proposals:

(*i*) consumption loans for marriages, births and deaths, religious expenses, medical expenses, education etc., should be provided by the Government corporations and nationalised banks to small farmers, landless labourers and artisans;

(*ii*) banks and co-operatives should provide similar loans to marginal farmers, and

(c) schemes should be devised to enable these classes of people to return these loans.

In some States, legislation has been passed to prevent farmers from selling their lands to professional money-lenders who are not farmers. At the same time, measures have been taken to control the activities of money-lenders.

Under the 20-point Programme, in 1975, the Government had declared a moratorium on the recovery of debt by money-lenders from farmers, landless labourers and rural artisans. Liquidation of rural indebtedness and abolition of bonded labour were two dynamic aspects of the old 20-point economic programme.

Causes of Rural Indebtedness

The main cause of the indebtedness of the farmer is his poverty. The farmer has to borrow for various purposes, as he has no past savings of his own. Sometimes, the crops fail because of the failure of monsoons, or because of floods, etc. When he has to make some improvement on his land as bunding, construction of wells, etc. or when he has to buy costly implements, he is forced to borrow. Just as poverty forces him to borrow, it is his poverty again which forces him to have so little for paying off his debt.

Secondly, the farmers have a tremendous passion for land and desire to make improvements on land. This is a good thing. There is nothing wrong in trying to have more land or in making improvements on land. But this should be done through saving and not through borrowing. But farmers mostly borrow for these purposes.

Thirdly, the farmers are to incur certain types of expenditures which automatically lead them to borrowing and indebtedness. For instance, they respect social customs very much and, therefore they have to celebrate marriages, religious festivals, etc. Births and deaths are also sources of unnecessary and unproductive expenditure. Again, Indian farmers are given to litigation, which is highly expensive in India. All these are highly unproductive loans and the farmers who borrow for these purposes rarely get the necessary savings from agricultural production to pay off the debts incurred.

Fourthly, much of the debt may be inherited. A person inherits his father's property; likewise he inherits his father's debts too. In many cases bonded labourers continue to be so, often for generations.

Finally, the money-lenders themselves are responsible to a large extent for rural indebtedness. They are more interested in forcing the borrowers to part with their land. Consequently, they encourage the farmers to borrow from them, get their lands mortgaged to them, charge very high rates of interest, keep false accounts and finally, when the farmers' debt has accumulated to a sufficient amount, they take away the land of the borrowers. Like a fly in the cobweb, which can rarely escape, so also, the farmer once caught by

the money lender can rarely come out of his clutches. Loans from the money-lender support the farmer as the hangman's rope supports the hanged.