

RURAL FINANCIAL INSTITUTIONALS IN INDIA

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ABSTRACT: Agriculture assumes greater importance in a developing country like India for its varied contributions to the national economy. Nearly 72 per cent of the total population directly depends on this sector for their livelihood. In making available the three basic needs for human existence viz., food, shelter and clothing, agriculture leads over all the other sectors of the economy. In addition to these, it provides all the fodder that is needed to sustain livestock whose number runs into several crores. Agriculture sustains much of the non-agricultural activities of the economy pertaining to manufacture, trade and transport. For a variety of manufacturing industries, it provides raw materials or inputs. Agricultural goods continue to figure considerably in both the export and import trades. The importance of such goods lies in the foreign exchange that exports make available, and the imports of goods that they make possible. In this way, agricultural exports and imports play a vital role in the foreign trade of the country.

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INTRODUCTION

Provision of adequate institutional credit to support the modern technology, and augmentation of agricultural productivity and production is the basic aim of the country's agricultural credit policy. All production activities require for their sustenance some degree of credit for the amount and duration of which depends on the length of the production cycle. So all rural families engaged in production activates need to have savings at one time and may borrow at other times. Financial institutions in this regard can help the potential savers and borrowers by adjusting to their different behavior and this process will increase the community's investments and productivity. Credit could play a major role in preventing the rather extreme measures of asset depletion and pauperization adopted by the farmers in drought years.⁸ Removal of regional imbalances in the matter of credit supply is another important objective which is receiving government attention.

The programme for achieving higher levels of productivity and production calls for a marked increase in the volume of both production and investment credit with a large share going to the weaker sections and backward areas. As the majority of the farmers in the country are small and marginal fanners having meager resources, there is a need for, such credit policies and programmes, as would enable them to make step-by-step progress towards scientific and intensive use of their limited land resources by a greater input of both labour and capital.⁹ To facilitate understanding of the credit needs of the farmers, it would be fruitful to break up the total demand for credit of cultivator households for major purposes. The basic purposes for which farmers borrow have been classified into four types of credit and are explained below.

CLASSIFICATION OF AGRICULTURAL CREDIT

Generally, credit for agriculture is available as direct and indirect credit. In the direct credit, finance is provided directly to the farmers for productive purposes such as crop production, land improvement, irrigation, purchase of implements/machinery/equipment, development of dairy/sheep rearing/ poultry / fisheries, development of plantations like tea, coffee, rubber, coconut, cashew nut, etc. While in the indirect credit, finance is provided through the institutions involved in the supply of production inputs and other relative services of agriculture. Agricultural credit can be classified into four different ways as per the requirement and period of credit granted. The classification of agricultural credit is presented in Chart 1.

Chart -1
CLASSIFICATION OF AGRICULTURAL CREDIT

Period-wise	Purpose-wise	Security-wise	Creditor-wise
1. Short-term	1. Farm	1. Secured	1. Institutional
2. Medium-term	2. Non-Farm	2. Un-secured	2. Non-institutional
3. Long term	3. Family expenditure		

ESTIMATES OF CREDIT REQUIREMENTS FOR AGRICULTURE

The Central Banking Enquiry Committee in 1931 mentioned Rs-.300-400 crores as a lower limit of the farmers need for short - term and intermediate credit in the whole of British India, and expressed the opinion that there was an almost unlimited scope for the grant of long-term loans. Doctor Baljit Singh, who conducted his survey in 1946, put the credit requirements at Rs. 1200 crores. S. Tirumalai in 1954 estimated the credit requirements to the tune of Rs. 1286 crores. All India Debt and Investment Survey 1961-62 estimated borrowings of the rural households at Rs. 1034crores. The working group set up for the agricultural production board of the Government of India in 1965 estimated the credit requirements of the agricultural sector at Rs. 1106 crores for the year 1970-71. All India Rural Credit Review Committee (1969) has estimated the short term production credit requirements at Rs. 2000 crores in 1973-74. National Commission on Agriculture estimated the total credit requirements by the year 1985 at Rs. 16549 crores. Planning commission estimated credit requirements at Rs.30,000 crores during the seventh plan period which included Rs. 11,000 crores for disbursement through co-operative credit institutions, Rs. 15,400 crores through Commercial Banks and Rs. 3,600 crore through Regional Rural Banks. The total credit flow to agriculture and allied sectors during the tenth five year plan (2002-07) is projected at Rs. 7,36,570 crores, which is three times higher than the credit flow compared to the ninth plan period. (Rs.229853 crores).

INSTITUTIONALISATION OF AGRICULTURAL CREDIT

There has been a phenomenal progress in the institutionalization of agricultural credit during the period 1971 - 1991. The institutional structure for agricultural credit is presented in chart 2

Chart -2
INSTITUTIONAL ARRANGEMENTS FOR
RURAL CREDIT IN INDIA

Government of India	NABARD	Reserve Bank of India
Cooperative Banks		Commercial Banks
Short-term structure SCBs (29)	Long-term structure SCARDBs (20)	Metropolitan branches (8626)
DCCBs (368)	SLDB Branches (NA)	Urban branches (10268)
PACS (99,000)	PCARDBs (1)	Semi-urban branches (12745)
		Rural branches (20331)
		RRBs (196)
		RRB branches (14,522)

Depositors and Borrowers

Note: Figures in brackets indicate number of officers

Abbreviations:

NABARD	: National Bank for Agriculture and Rural Development
SCBs	: State Co-operative Banks
DCCBs	: District Central Co-operative Banks
PACS	: Primary Agricultural Credit Societies
SCARDBs	: State Co-operative Agricultural Rural Development Banks.
PCARDBs	: Primary Co-operative Agricultural Rural Development Banks.

Source: 1. RBI, Report on Currency and Finance, 1995-96, Vol. II, p. 117
 2. RBI, Report on Trend and Progress of Banking in India, 2002-03
 p. 96 and p. 229.

The problem of agricultural finance in India, like that of other developing countries is both quantitative and qualitative. The report of the All India Rural Credit Survey Committee brought into sharp focus the inadequacy of co-operative finance to agriculture. The Rural Debt and Investment Survey underlined the changes in the pattern, quantity and texture of farm credit arising out of the measures initiated on the basis of the prescription of the survey report. The decades 1971-81 and 1981-91 were colorful, revolutionary and more promising when compared to the decade of 1951-61.

Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country.

SBI has 30 Regional Rural Banks in India known as RRBs. The rural bank of SBI is spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBIs Regional Rural Banks in India branches is 2349 (16%). Till date in rural banking in India, there are 14,475 rural banks in the country of which 2126 (91%) are located in remote rural areas.

CO-OPERATIVE BANKS AND RURAL CREDIT

The Co-operative bank has a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate.

Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks.

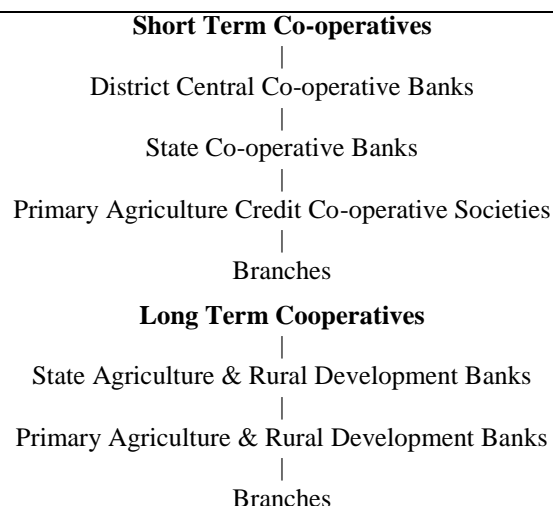
Co-operative Banks in India are registered under the Co-operative Societies Act. The RBI also regulates the cooperative bank. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Co-operative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Institutional Arrangements for Rural Credit (Co-operatives)

- Short Term Co-operatives
- Long Term Co-operatives



Primary Agricultural Credit Societies (PACSSs)

An agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally for the harvest season, for carrying on agricultural operation, and the rate of interest is fixed. There are now over 92,000 primary agricultural credit societies in the country with a membership of over 100 million.

The primary agricultural credit society was expected to attract deposits from among the well-to-do members and non-members of the village and thus promote thrift and self-help. It should give loans and advances to needy members mainly out of these deposits.

Central Co-operative Banks (CCBs)

The central co-operative banks are located at the district headquarters or some prominent town of the district. These banks have a few private individuals also who provide both finance and management. The central co-operative banks have three sources of funds,

- Their own share capital and reserves
- Deposits from the public and
- Loans from the state co-operative banks

Their main function is to lend to primary credit society apart from that, central cooperative banks have been undertaking normal commercial banking business also, such as attracting deposits from the general public and lending to the needy against proper securities. There are now 367 central co-operative banks.

State Co-operative Banks (SCBs)

The state Co-operative Banks, now 29 in number, they finance, co-ordinate and control the working of the central Co-operative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the central co-operative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves.

COMMERCIAL BANKS AND RURAL CREDIT

The commercial banks at present provide short term crop loans account for nearly 45 to 47% of the total loans given and disbursed by the commercial banks. Term loans for varying periods are given for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube well, for development of fruit and garden crops, for leveling and development of land, for purchase of ploughs, animals, etc. commercial banks also extend loans for allied activities viz., for dairying, poultry, piggyery, bee keeping, fisheries and others. These loans come to 15 to 16%.

Commercial Banks and Small Farmers

The commercial banks identifying the small farmers through Small Farmers Development Agencies (SFDA) set up in various districts and group them into various categories for credit support so as to enable them to become bible cultivators. As regard small cultivators near urban areas and irrigation facilities, commercial banks can help them to go in for vegetable cultivation or combine it with small poultry farming and maintaing of one or two milch cattle.

IRDP and commercial banks

Since October 1980, the Integrated Rural Development Programme (IRDP) has been extended to all the blocks in the country and the commercial banks have been asked by the government of India to finance IRDP. The lead banks have to prepare banking plans and allocate the responsibility of financing the identified beneficiaries among the participating banks. Commercial banks have been asked to finance all economically backward people identified by government agencies.

REGIONAL RURAL BANKS AND RURAL CREDIT

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the government passed the Regional Rural Banks Act, 1976. The main objective of RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs and develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

The progress of RRBs in the initial stage was quite rapid. For instance, the Sixth Five-year plan(1980-85) had envisaged the setting up of 170 RRBs covering 270 districts by the end of march 1985. The target was exceeded. There are now 196 RRBs in 23 states of the country with 14,200 branches.

Structure of regional rural bank

The establishment of the Regional Rural Banks (RRBs) was initiated in 1975 under the provisions of the ordinance promulgated on 26.9.1975 and thereafter Section 3(1) of the RRB Act, 1976. The issued capital of RRBs is shared by Central Government, sponsor bank and the State Government in the proportion of 50%, 35% and 15% respectively.

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