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# RURAL FINANCE: ANALYSIS OF GROWTH OF ORGANISED AGRICULTURE CREDIT

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**Abstract:-**A cultivator is in almost perpetual need of credit both for product ion and consumption. Traditionally his needs were met by the landlord-trader –moneylender complex involving usurious interest rates and other exploitative practices. Official cognizance of his needs goes back to 1793, when the system of taccavi loans was introduced providing loans at low rates of interest for agricultural improvements, mainly for the digging of wells. During the rule of Lord Mayo (1869-1872), the Land Improvement Act, 1871 was passed. It was amended in 1876 and replaced in 1883 when a more comprehensive legislation was enacted, namely the Land Improvement Loans Act, 'to consolidate and amend the law relating to loans of money by the Government for agriculture improvements' which included construction of wells, tanks and other works; preparation of land for irrigation, permanent improvement of land for agricultural purpose and renewal or reconstruction of any of these works. Loans were to be granted on the basis of security of land. Where the amount of loan did not exceed three-fourths of the value of the applicants' transferable interest in the land after improvements had been made. The rules in most states provided for an interest at the rate of 6.25 per cent per annum. Loans were to be repayable in instalments which could be extended over a period of 35 years depending upon the durability of the work or the purpose for which loan was advanced. Further the Agriculturists' Loans act was passed in 1884 to provide for the advance of loans to the owners for the agricultural activities.

**Keywords:**Rural Finance , Organised Agriculture Credit , Analysis of Growth , Official cognizance .

## INTRODUCTION

Government finance continued to be channelled under the provisions of the Acts of 1883 and 1884. Some special regulations for advancing loans for specific purposes like calamities, pumping sets and agricultural machinery were also passed by the number of states or provinces. However, defects in the working of the Acts continued to be commented upon. In 1903, the Irrigation Commission pointed to a number of defects, such as high rate of interest, rigidity of collection, the unpleasant terms regarding periods of repayment, delays in distribution and conditions relating to securities required, etc. The Punjab Land Revenue Committee, 1938, was due to the petty exactions of subordinate revenue staff, delay in obtaining money, the necessity of repaying on a fixed date, the failure of the revenue officers to take any interest in the grant of loans. Commenting on these findings, the Agriculture Finance Subcommittee of the Policy Committee on Agriculture, Forestry and Fisheries, 1945 stated: It is clear, therefore, that the difficulties which have resulted in the comparative failure of State loans so far have been present almost since the inception of the system and that if the alternative agency is to work successfully some other lines than those of the present taccavi system will have to be contemplated (Gadgil D.R:1945:32).

**Cooperative Finance**

The cooperative movement was started in India as a defence mechanism against the usurious money-lender. Cooperative finance gained recognition with the passage of the Cooperative Credit Societies Act, 1904. The main objectives of the Act, which was limited to primary cooperative credit societies only, were (1) to provide for the constitution and control of cooperative credit societies by an enactment specially adapted to their organization and aims (2) to confer special statutory privileges and concessions upon them a view to encouraging their formation and assisting their operation and (3) to ensure that they were cooperative in name as well as in spirit. The Cooperative Societies Act of 1912 was made applicable to all types of societies, credit and non-credit. The stimulus to the cooperative movement came following the recommendations of Maclagen Committee in 1915. That Committee had recommended the setting up of a three-tier organisation comprising primary agriculture credit societies at the village or base level, central banks at the district level, and provincial banks at the apex level. Accordingly, changes in the cooperative structure were initiated by the Government of India. Cooperation became a provincial transferred subject with the passage of the Government of India Act, 1919.

Two Committees set up by the Government of India in 1945 had commented on the working of the cooperative credit institutions. In its Report of July 1945 the Agricultural Finance Sub Committee had noted the weakness of the apex institution of the three-tier provincial structure. The committee made recommendations for the relief of rural indebtedness, development of private institutional credit (Commercial banks), regulation of money-lending and the role of cooperative agencies in financing agriculture.

The cooperative credit agencies thus included the primary cooperative credit society at the village level, which was the basic unit in the short-term credit structure. The primary societies were usually federated into banking unions or central cooperative banks and these again into the state cooperative bank which functioned as the apex institution for the whole state. The long term credit needs of the agriculturists were supplied by the land mortgage banks. At the top of these layers was the Reserve Bank of India which would provide financial accommodation to the cooperative movement for seasonal agricultural purposes through the state cooperative banks. The reserve bank functioned as a lender of the last resort to the state cooperative banks also, and its loans to the cooperative banks carried a concessional rate of interest. A number of fiscal and other privileges were also granted to the cooperative institutions.

**After Independence**

At the time of Independence, finance was being advanced to agriculturists by the government, departmentally in the form of loans and grants, through the cooperative credit agencies, and to a small extent, by the commercial banks. But all these accounted for only 7.3 per cent of the total credit needs of agriculture which were then estimated to be between Rs. 500 crore and Rs. 800 crore, the bulk of which continued to be met by thee private money-lender. The dominant position of the money-lender was due basic facts: the weak financial position of most of the borrowers, and their requirements of credit in small amounts for urgent but unpredictable needs, to which money-lender had completely adapted. The cooperatives and the government supplied credit for specific productive purposes, whereas the requirements of the borrowers were largely for the family purposes. For instance, in 1951-52, 46.9 per cent of the borrowings cultivators and 69.9 per cent by non–cultivators were family purposes.Borrowing for expenditure on the farm constituted 42.1 per cent of the total borrowings by the cultivators and 7.1 per cent by non-cultivators.

In 1949, the Government of India appointed the Rural banking Enquiry Committee to consider, among other terms of reference, the measures that could be immediately adopted for the extension of banking facilities in rural areas. The committee submitted its Report in 1950. It expressed the view that no university applicable pattern of machinery could be laid down for all the regions; adequate machinery should be developed in conformity with local circumstance. The Committee favoured a cooperative credit structure and said; In any scheme for the setting up of a sound and efficient system of agriculture finance, sufficient emphasis must be laid on the building of a sound structure of primary institutions-whether cooperative credit societies or multipurpose societies. Regarding the long term credit, the Committee said that the land mortgage banks were the most appropriate agencies for the purpose.

**First Five Year Plan (1952-56)**

The first five year plan emphasises the importance of credit facilities to support the targets of agricultural purposes. For this purpose, all the existing agencies money-lender, commercial banks, cooperatives and the state agencies had to be utilised, it was necessary to build and expand the system of government or cooperative credit so that the implementation could proceed according to schedule. The target should be to bring 50 per cent of the villages and 30 per cent of the rural population within the ambit of the primary societies within 10 years. The provision of short-term accommodation by the Reserve Bank to the cooperative societies through the state apex institutions and further through the district banks had increased short-term advances substantially between 1946-47 and 1951-52. According tothe First Plan, the essential characteristics of short-term finance should be cheapness, elasticity and promptness. The concessional rate at which the Reserve Bank granted loans helped to reduce the interest rate charged to members. However, the promptness and elasticity were far from met because of the rigidity of procedure associated with the whole mechanism of cooperative credit.

The plan recommended that the function of long-term loans could be best discharged by the land mortgage banks which possessed long-term funds raised shares, debentures and fixed deposits. The two main problems were lack of trained personnel and the inability of the borrower to offer land as security. The major part of the advances made by the land mortgage banks were for the repayment of old loans. It was further suggested by the First Plan; (1) the loans should be linked to the programmes of increased agriculture production. (2) The loans should reach, by preference, areas and classes not reserved at present by the cooperative credit system.(3) where credit is disbursed in area already served by the cooperatives that agency should be utilised as afar as possible.

**All-India Rural Credit Survey (1954)**

In the meanwhile, the Reserve Bank of India had appointed a Committee of Direction to direct an All India Rural Credit Survey. The survey was conducted during 1951 to 1952. The report was published in 1954 and underlines the policy, progress and problems in this field over the past 40 years. The survey showed that in 1951-52 the private agencies taken together(excluding commercial banks) supplied 93 per cent of the total amount borrowed by the cultivators, that of the total borrowing by cultivators, roughly 50 per cent was for family expenditure, 28 per cent for capital expenditure on farm and 10 per cent for current farm expenditure. Relatively larger proportions of the borrowings of big and large cultivators were from institutional agencies and that the dependence of the medium and small cultivators on the private agencies. Regarding long term credit the advances made by the Land Mortgage Banks were for repayment of old loans (Planning Commission: 1954:234-249).

Without seeing the underlying causes, the Committee expected that the situation could be corrected by what it called an integrated scheme of reorganisation of the system or rural credit founded on three fundamental principles, namely (1) full coordination between credit and other economic activities. (2) State partnership at different levels, and covering cooperative credit, processing, storage, warehousing and marketing and also commercial baking as represented by the important sector of state associated banks. (3) Administration through fully trained and efficient personnel, representative to the needs of rural people. As far reorganisation of credit system was concerned the committee recommended a set of measures.

In the structure of cooperative credit prescribed by the Committee, there was to be a state cooperative bank, a central land mortgage bank, and a state cooperative marketing society at the apex in state. At the district level, there was to be preferably a district central cooperative bank or a branch of a state cooperative bank, a primary land mortgage bank, and a district marking society. At the primary level there were to be large, primary agricultural credit societies, primary land mortgage banks, grain banks and primary marketing societies. The proposed State Bank of India would help in financing individual marketing and processing societies. The Committee in its Report of Rural Credit Survey referred for the vast and rapid expansion of cooperative credit.

In 1962, the Reserve Bank of India undertook a resurvey called the All India Rural Debt and Investment Survey, 1961-62, to assess changes since the Rural Credit Survey 1952-52. It showed that, over the 10 years, borrowings from the cooperative had increased from 3.1 to 15.5 per cent but the private money-lenders still predominated (RBI 1964). There was little change in the purpose of borrowing, and household expenditure continued to be a major purpose accounting for almost half of the total. Moreover much progress had not occurred in the cooperative sector in some parts of the country despite the efforts made during the first five year plan. The third five year plan (1961-66) admitted the Reserve Bank of India had played a major role in building up the cooperative movement during the first two five year Plans through its financial supervision, arrangements for training, loans to states for participation in share capital of cooperative banks and advances to cooperative banks and expected the Reserve bank of India to play an even larger role in strengthening the cooperative credit structure. The All-India Credit Review Committee appointed by the Reserve Bank of India in 1966, in its Report, submitted in 1969, that is, 15 years after the report of the Rural Credit Survey Committee in 1954, admitted that the Integrated Scheme of Rural Credit envisaged by the Rural Survey with state participation at every level of the cooperative structure was not pursued or implemented vigorously in all the states; that cooperatively backward states were still lagging behind; characteristically, the remedy suggested was to set up agricultural credit corporations in these states. There were weaknesses in a number of banks and societies in other part of the country too, of low deposits, high overdues and a general lack of business-like management. Of course, the remedy again was to take corrective action, namely, to reorganize non-viable primary credit societies into economically viable ones; rehabilitate weak central cooperative banks; take administrative and policy measures to check overdues; streamline lending policies and procedures of cooperative institutions; and let central banks and apex banks directly finance cultivators and societies in areas where they were weak or dormant.

At the bottom of it all lay the notion that non-viable primary credit societies could be converted into economically viable ones by finance from central banks and apex banks with seeing the obvious fact that thereby one weakens the central and apex banks by putting on them an unbearable burden. It was easy and natural to extend the logic to small and marginal farmers who, as farm families, were essentially non-viable. Hence, in spite of the admission of failure of the policy enunciated in the Rural Credit Survey (1954), theAll-India Rural Credit Review Committee (1969) emphasized that credit must be made more easily accessible to the small farmers. Special pilot programmes called the Small Farmers' Development Agencies (SFDAs) were recommended, one in each state, to identify the problem of small but potentially viable farmers and help them with inputs, services and credit, the funds for which shouldbe provided by the Government of India. The illusion continued that small farmers were potentially viable if credit was supplied on concessional terms and new agencies were created to look after them. In the Fourth Plan (1969-74) SFDAs two hectares or less and approved 40 projects (MFAL) for the provision of supplementary occupations and other employment opportunities for sub-marginal farmers, agricultural and landless labourers. Meanwhile, in 1971 the National Commission on Agriculture (NCA) submitted an interim report on the credit needs of and services for small and marginal farmers and agricultural labourers. It recommended the institution of an integrated agricultural credit service for the provision of credit along with inputs and services covering not only the complete range of farm produce up to the marketing stage, but also ancillary farm occupations, such as those of rural artisans and craftsmen which provide services to the farmers.

To speed up the flow institutional credit to the weaker sections of the rural community, the government felt it was necessary to establish new institutions on the basis of an attitudinal and operational ethos entirely different from those obtaining in the public sector banks' and set up Working Group on Rural Banks(1977). Based on its recommendations, 48 regional rural banks (RRBs) were set up by 1977. They were to grant loans and advances particularly to small and marginal farmers and agricultural labourers, and to rural artisans, small entrepreneurs and persons of small means engaged in trade and other productive activities in their areas of operation; the lending rate of the banks was not to be higher than the prevailing lending rates of cooperative societies; and the salary structure of their employees was to be determined by thegovernment, keeping in view the salary structure of the employees of the state government and local authorities of comparable level and status in the area of their operation.

In its final Report submitted in January 1976, the NCA pointed out that the rise in the overdues from year to year had affected the credit-worthiness of the cooperative system and its ability to extend further credit to the farmers and that same was true of the lending by the public sector banks. Nevertheless, it charged the commercial banks and cooperatives that they did not make any serious attempt to understand the special credit needs of the small farmers, let alone the marginal farmers or agricultural labourers, and develop the ability to attend to their needs. The NCA felt that for this purpose, a comprehensive ground-level organizations was needed which would facilitate the conversion of credit into inputs and services as well as the realization of fair price for the produce, and would operate fully on commercial basis covering all the needs of the farmers. With the advent of new technology in agriculture, the All-India Rural Credit Review Committee (1969) expected that the demand for credit would increase and seeing that the cooperative credit structure would not be able to meet the entire demand, recommended an active and positive role for commercial banks in the field of agricultural credit. In 1969 the largest 14 commercial banks were nationalised and their lending policies and procedures were oriented to meet the requirements of the priority sector of the economy. Agriculture, particularly the small farmer was one of the priority sectors. Each district was allotted to one bank called the 'lead' bank which would survey the resources and potential for banking development in that district, offer advice to small borrowers, particularly cultivators, assist other primary lending agencies, ad liaise with the government (Planning Commission:1970:140-145).

Thus the predominant role played by the cooperatives in the supply of institutional credit lasted from 1952 to 1969 and there was a shift in emphasis from cooperative only to a multi-agency approach. This was both because of limitations of cooperative resources which in fact were largely Reserve Bank of India resources, and the failure of the cooperative sector to perform. Weakness in the movement continued despite efforts to recognise and strengthen the cooperative credit institution. In 1979, the Reserve Bank of India formulated a scheme under which, in areas where the central cooperative banks were weak, the commercial banks were to finance primary agricultural credit societies as transitional measures. They would advance short and medium-term credit only through the primary credit societies while they could provide long-term directly. In 1972, the Steering Committee All Debt and Investment Survey (1971-72), Reserve Bank of India, in its assessment found that although the commercial banks did provide the necessary finance, they did not pay much attention to the revitalisation of the societies and professionalization of their management.

In 1972, a Reserve Bank of India Study Team on overdues found that defaults were by and large wilful and there was hardly any distinction between small and big farmers in this respect. Defective lending policies of the cooperatives, especially inadequate and untimely credit or over-financing or lack of supervision over the end use of credit. Fixation of unrealistic due dates and financing of defaulters combined and apathy of the managements in taking quick action against unwilling members, and lack of support from state governments had encouraged defaults and led to the accumulation of overdues. A programme of rehabilitation by way of relief in respect of defaults under short and medium-term agricultural loans by non-wilful defaulters, especially those who belonged to the low income category was also recommended. The team suggested several measures including automatic disqualification of managing committee or board of directors, denial of fresh credit and voting rights of defaulters as well as their sureties, amendment of Cooperative Societies Acts of various states, the Registrar to issue orders on his own motion for the recovery of loans as arrears of land revenue and setting up of state farming corporations for the purchase of lands of defaulters at the time of action. Unfortunately these were politically impossible propositions. With multiple institutional agenesis operating in the field of rural credit-cooperatives, RRBs and commercial banks a number of problems arose, such as un coordinated credit disbursal, diversion to unproductive purposes, inability of the credit agencies to formulate agricultural programmes on the basis of an area approach, overlapping and duplication of banking facilities, lagging recovery, and numerous problems arising out of differential systems, procedures, security norms, service charges and interest rates,etc.

In 1979, the Reserve Bank of India appointed a committee to suggest improvements in the existing arrangements for institutional credit for agriculture and rural development (REAFICARD). The Committee noted that the problems of agricultural credit had not only grown in complexity and size but had also merged with the larger tasks of rural development, and recommended the setting up of a new apex bank –the National Bank for Agriculture and Rural Development (NABARD) - providing undivided attention, forceful direction and pointed focus to the credit problems arising out of the integrated approach to rural development. NABARD was to take over from the Reverse Bank of India the over the issue of entire rural credit system including credit for rural artisans and village industries and statutory inspection of cooperatives banks and RRBs on an agency basis though the Reserve Bank of India could continue to retain its essential control. The Sixth Five Year Plan (1980-85) endorsed the setting up of NABARD which was established by an Act of Parliament in 1982 'for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with view to promoting integrated rural development and securing prosperity of rural areas' (NABARD: 1982:73-84). The Sixth Five Year Plan noted that mounting overdues had clogged the system of cooperative credit. At the end of 1985, the percentage of overdues to demand at the primary agricultural credit society's level was 40 per cent and at the level of LDBs (Land Development Bank) it was around 42 per cent. It was worse in the case RRBs and commercial banks at around 50 per cent. The health of agriculture credit institutions, both cooperative and commercial banks, was in a very poor state in many parts of the country. Seventh Five Year Plan (1985-90) mentioned that if banks were reduced to institutions providing grants rather recycling credit, the banking system would not be able to meet the credit needs of agriculture in future (Planning Commission: 1985:17). The Eight Five Year Plan (1992-97) confirmed these apprehensions. The debt relief scheme announced in 1990-91, affected the recovery climate resulting in a lower volume of credit flow.

In 1986, the Reserve Bank of India appointed yet another Agriculture Credit Review Committee which submitted its report in 1989. Three main elements in the structure of rural credit system are the commercial banks, regional rural banks and the cooperative. The Committee (1989) considered them in the order. As the Committee pointed out, the place of the commercial banks in the rural credit system rests on the fact that, if lending to rural and weaker sections are to be at concessional rates, there has to be some cross subsidization and in the Indian context, only commercial banks have the capacity to do it. But too much burden has been placed on the commercial banks. The overall profitability of the commercial banks has been under the strain for some time due to a rise in the cost of deposits, declining yield on advances, rise in establishmentexpenses, etc. low interest rates on agricultural advances, lendings under IRDP relatively poor deposit mobilisation in rural branches, lower staff productivity, etc., have contributed for the poor profitability of rural commercial branches. The Committee concludes that if commercial banks are to emerge as strong system to be able to purvey credit effectively and efficiently in the rural areas, the targets for financing weaker sections and the rural poor should be reasonable, such as the system can bear.

Coming to RRBs, the Committee concludes that out of 194 RRBs in 1986 the number of RRBs working at loss was 148. The Committee concludes that there can be no place for the RRBs in the country's rural credit system in the future and they should be merged with the sponsor banks. Committee confirms the major weaknesses of the cooperative and pointed out namely neglect of the base-level institutions, with the lower tiers looking up to the higher tiers for refinance at all levels while higher level institutions look after their own interests, at the cost of primaries. The Committee emphasises that the essence of the basic features of a cooperative banking system must be greater reliance on resources mobilised locally and a less and less dependence on higher credit institutions. In 1991, the new Government of India announced a New Economic Policy effecting major changes designed to correct the macroeconomic imbalances and effect structural adjustment so as to bring about a competitive system and promote efficiency in the real sectors of the economy. Financial sector reform is a necessary along with industrial policy liberalisation and in fact it is ctitically important. Hence in 1991, the Ministry of Finance appointed a Committee on Financial System to examine all aspects of relating to structure, organisations, functions and procedures of financial system. The committee submitted its report in 1991-92.

Directed credit programmes have had adverse implications for the profitability of the banks also because of the stipulations of concessional lending rates on priority sector credit and the element of subsidy. The Committee recommended few suggestions regarding the manner in which the present banking system, both commercial and cooperative, should be reorganised. First let various cooperative credit institutions function so long as they are commercially viable. Otherwise, they should be gradually phased out.

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