UNIT IV

Definition of agricultural Finance ,nature-scope, meaning , -micro &macro finance Meaning:

Meaning:

Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of India. The financial aspects include money matters relating to production of agricultural products and their disposal.

Definition of Agricultural finance:

Murray (1953) defined agricultural. finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture ."

Tandon and Dhondyal (1962) defined agricultural. finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units."

Nature and Scope:

Agricultural finance studied at both micro and macro level. Macrofinance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit,

quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses with in the farm. It is also concerned with the future use of funds.

Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business.

Significance of Agricultural Finance:

1) Agril finance assumes vital and significant importance in the agro – socio – economic development of the country both at macro and micro level.

2) It is playing a catalytic role in strengthening the farm business and augmenting the productivity of scarce resources. When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.

3) Use of new technological inputs purchased through farm finance helps to increase the agricultural productivity.

4) Accretion to in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.

5) Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset and wealth variations.

6) Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.

7) As Indian agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.

8) Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

Input finance for purchasing farm materials and livestock funding

For those wondering “What is agriculture finance?” one of the aspects of it is input finance. It is used for purchasing farm materials such as livestock, feed, seeds, and fertiliser. You can also use it to purchase livestock such as pigs, cattle, sheep or goats.

This finance may not cover the costs of large equipment or machinery but it does allow you to purchase other essential items that help with the smooth running of your farm. You can also use this finance to purchase other materials or even small equipment such as compact tractors or farming tools.

Emerging farmer finance

This type of finance is aimed specifically at SMEs and start-up farms. Emerging farmers often battle to gain access to the financial aid that they need, due to the fact they are considered to be higher-risk clients than their more established counterparts.

Emerging farmer finance is usually provided by financial institutions and by commercial banks, as private lenders may view it as a risky investment. If an SME or emerging farmer can be assisted to receiving a contract from a large-scale retailer, this contract can be ceded to a financial institution as security for their loan. You may find that finance for a start-up loan requires some form of collateral.

Asset finance

If you do not have the cash upfront to pay for an important asset, you can look into asset finance to aid the situation. Asset finance requires detailed descriptions of the equipment you need as well what you will be using it for.

Asset finance will allow you to purchase or replace any equipment you may need, such as milking equipment, tractors, harvesting machinery and any other assets that come with a large upfront cost. You could also look into leasing this equipment, if you do not need to use it for an extended period of time.

Establishment loans

An establishment loan is a lon provided to farmers who plant and harvest perennial crops. These loans are available for establishing sugar cane plantations, citrus and deciduous fruit orchards, timber plantations and vineyards for table and wine grapes.

You are not limited with this type of agricultural loan, and can apply for it if you are a commercial farmer, an individual farmer or any legal entity. It can be useful for those who are looking to expand what they will be farming or are interested in other avenues of income regarding agriculture.

Installment finance

This is a form of medium-term loan wherein the goods that you purchase are used as the main security for the loan. This means that the goods belong to the bank until you have repaid the loan and this type of loan is typically used for the purchase of equipment, implements, vehicles or livestock.

Installment finance allows farmers with limited budgets and assets to grow their business. It is the ideal choice for an SME or emerging farmer to choose for purchasing new essential farming equipment. The package is usually available from three to ten years, depending on the expected lifespan of the equipment and any type of farmer may apply for this finance.

Vehicle finance

While this may not seem like the most immediate choice of finance for a farm, the fact of the matter is that farmers need vehicles too. You may need specialist vehicles for certain tasks such as tractors, feed mixers and combine harvesters.

As a farmer you will also need a sturdy vehicle to traverse your farmland, and may not have the extra finances to purchase one. You can choose between hire purchase and lease agreements, and decide on one with better interest rates to suit your needs. This is perfect for farmers who need a new truck or vehicle to transport goods and workers around the farm.

Special mortgage loan

The special mortgage loan is aimed at farmers who have the potential to become successful but who have experienced setbacks such as being denied the right to purchase land. It offers a special interest rate for those who may not be able to pay the higher rates that some banks offer.

The rate is fixed over 24 months and the maximum amount is R500 000. You can pay this loan back over 25 years, making it highly affordable for those who are previously disadvantaged. You will qualify for this loan if you have been denied the right to buy land, are the son or daughter of someone who owns farmland (as a first time buyer) or if you own land in a town or a city.

Conclusion

There are several different options for those who are in need of agricultural finance. You will be able to find one to best suit your needs, and your budget. Be sure to research every aspect of whichever one you choose and read the fine print before signing anything. It may seem a daunting prospect but you will be able to find finance to help your farm grow.

Sources of Agricultural Finance In India

Institutional Sources

- Cooperative Credit societies (Primary Agricultural credit societies, Central Co-operative Bank, state Co-operative Bank)

- Commercial Bank
- Regional Rural Banks (RRB)
- NABARD

Non-Institutional Sources

Money lenders, Traders, Landlords

Co-operative credit societies

This is the cheapest source, these provide short term as well as long term loans.

- Primary Agricultural credit societies at village level
- Central co-operative Bank at District level
- State co-operative Bank at state level
- Commercial Banks

Initially the contribution of commercial bank was very less. After nationalization of banks in 1969, contribution of banks to agricultural credit increased significantly. It provides Direct & Indirect finance. Direct finance for purchasing of pump sets, tractors, other agricultural machinery, construction of wells, tube wells and for other agricultural activities to farmers. Indirect finance is granted to co-operative societies, FCI, state Govt. and other agencies engaged in procurement, storage and distribution of food grains. It also provide credit through service units for warehousing, processing , marketing, transporting etc.

Achievements of Commercial Banks

Share in total rural credit increased from 0.9 % to 74.5%. Helped rural population to free themselves from the cluches of Money lenders. Helped farmers to use the modern methods of cultivation and improve their financial position.

Problems:

Huge loss due to branch expansion Cost of service increased with large no. of small borrowings. Problem of bad debt Lack of coordination between the commercial banks, cooperative banks and RRB.

Regional Rural Banks (RRB)

5 RRBs set up in 1975 for weaker section of rural community. They give direct loans only to small and marginal farmers, agricultural laborers, rural artisans and small entrepreneurs to develop industry, trade and other productivity in rural areas. They are sponsored by a commercial bank which contributes to 35% of their share capital. Area of operation is limited to a specific region and few districts. Lending rates are low. Refinanced by NABARD.

Achievements of RRBs:

Helped needy poor people by providing loan at lowest cost. No. of RRBs increased from 5 to 196. In 2010-11 RRBs provided about 10 % of the Institutional credit to agricultural sector.

Problems: Controlled by many agencies central Govt., state Govt. and commercial banks. leads to delay in decision making. Recovery position is poor Substantial loss Lack of proper management. Defective lending policy.

NABARD

National Bank for Agriculture and rural development (NABARD) set up in 1982. it is a refinancing agency. During 2010-11 sanctioned Rs. 35,273 cr. Functions:

- As an apex institution it has to take care of financial requirement of agriculture and rural development.
- Provide short term, medium term and long term credit to cooperatives, RRBs and commercial banks which are main sources of institutional credit.
- It gives long term loan up to 20 years to state govt. to enable them to subscribe to the share capital of cooperative credit societies.
- Direct and supervise the flow of credit to agriculture, a small scale industries, cottage and village industries, handicrafts and other economic activities in rural areas.
- It maintains a Research and Development Fund to promote research in agriculture and rural development.

The Rural Infrastructure Development Fund(RIDF) was established in 1995-96 to finance infrastructure projects. The RIDF gives loans to state Governments for infrastructure projects such as irrigation, rural roads, rural bridges, watershed management, flood control, warehouses, cold storages, fisheries, forest development etc.

NABARD provides 100% refinance assistance to banks at low interest rates for financing self help groups.

It has introduced the Kisan Credit Card scheme in 1998-99 to provide short term credit to farmers. The scheme is implemented by commercial banks, RRBs and cooperatives. Today KCC has become very popular among farmers.

NABARD helps the RRBs and the co-operative banks to implement the Swarnajayanti gram Swarozgar Yojana.

It is responsible for conducting inspection of the cooperatives.

PROBLEMS OF AGRICULTURAL FINANACE:

Problems of Agricultural Credit in India with Suggested Remedies!

Agricultural Credit:

An average Indian farmer, who has to work on an uneconomic holding', using traditional methods of cultivation and being exposed to the risks of a poor agricultural season is almost always in debt. He is a perennial debtor.

Once the farmer falls into debt due to crop failure or low prices of crops or malpractices of moneylenders he can never come out of it. In fact, large part of the liabilities of farmers is 'ancestral debt'. Thus, along with his landed property, he passes on his debt to the next generation.

There are four main causes of rural indebted-ness in India:

(i) low earning power of the bor-rower,

(ii) use of loan for unproductive purposes,

(iii) very high rate of interest charged by the vil-lage moneylender and

(iv) the manipulation of accounts by the lenders.

In a few cases, the bad habits of the farmers (such as gambling, drinking, etc.) are responsible for his burden of 'unproductive' debt. However, in most cases, the cause of the debt may be some expensive social ceremony which the farmer was perhaps forced to "arrange for fear of a social boy-cott".

Need for Finance:

Finance is required by farmers not only for the production and marketing of crops but also to keep a stagnant agricultural economy alive. Most Indian farmers live near the brink of starvation. A bad monsoon, a poor harvest, an accident or ill-ness in the family forces him to approach the mon-eylender for a loan. In India, there is the prepon-derance of such 'distress' or unproductive loans. Agricultural finance in India is not just one re-quirement of the agricultural business but a symp-tom of the distress prevailing among the majority of the farmers.

Rural credit includes not only credit provided to farmers but also credit extended to artisans, owners of small and medium industries in rural areas, small transport operators and so on. Two main sources of rural credit are private and insti-tutional. The former includes private moneylend-ers, traders and commission agencies, relatives and- landlords.

The sources of institutional credit are rural co-operatives, commercial banks, particularly the State Bank of India (SBI). And, with the set-ting up of a specialised institution called the Na-tional Bank for Agricultural and Rural Develop-ment (NABARD) the Agricultural Refinance and Development Corporation (ARDC) has ceased to exist. Up to 1982 it was responsible for extending agricultural finance under guidance of the Reserve Bank of India.

It may also be noted that the short- and medium-term credit requirements of the farmers is met by indigenous bankers or village moneylenders, co-operative credit societies and commercial banks. Long-term credit needs are met by land development banks and NABARD.

The principal aim of institutional credit is to replace the widely prevalent money-lending at a very high rate of interest. Available data show that the rural credit institutions have succeeded to a considerable extent in achieving this aim.

Institutional Farm Finance:

The need for institutional credit has been felt because of the inherent defects of private agen-cies.

Five main defects of the system of private credit are the following:

1. It is highly exploitative in character be-cause of the inherent profit motive.

2. Since such credit is provided largely for unproductive purposes the rate of interest charged is very high.

3. Such credit is not necessarily directed to-ward needy persons or desired channels.

4. Such credit is provided for short periods of time and at high rates of interest and cannot, therefore, be utilised for land development or long- term improvement of agriculture.

5. Institutional credit is not linked with other non-farm services such as marketing and process-ing and warehousing.

By contrast, institutional credit is basically un-exploitive in character. It is largely directed to-wards raising agricultural productivity so that the income of the farmer increases sufficiently and he becomes self-sufficient. The rate of interest is not only low but varies from case to case. Different rates of interest are charged for different types of loans and different categories of farmers.

Institutional agencies also draw a clear-cut distinction between short-term credit and long- term credit. Moreover, they recognise the organic link between credit and other needs of the farmers and seek to achieve an integration of credit with such needs.

Farmers not only need credit but also guidance in adopting improved methods of culti-vation. Thus, it is necessary to provide such guid-ance and extension services along with credit. They must be taught how to use quality seeds, fertilis-ers, pesticides, etc. and also how to grow crops.

They must also be provided marketing assistance so that they can obtain the best possible return from their produce. Only institutions like co-operative societies, commercial banks, etc. can pro-vide such guidance, not the usurious moneylend-ers and greedy commission agents. So it is now necessary to make a brief review of different insti-tutional agencies of rural credit.

Consequences:

Rural indebtedness is also likely to have some undesirable social consequences. Due to ever--growing debt there emerges in the rural economy of India a class of landless labourers and tenants. Consequently independent or self-sufficient farm-ers gradually lose their identity. The landless work-ers have nothing to offer as security in order to obtain loans from moneylenders, except their la-bour power.

Consequently, they become bonded labourers. This creates discontent among them and adds to rural tensions. In fact, the acquisition of land by the traders and moneylenders and the con-sequent deprivation of the poor farmers of their meager landed property was the root cause of the Naxalite movement, which assumed serious pro-portions in West Bengal, Orissa and Andhra Pradesh in the late 1960s and the 1970s. Thus there is no use denying the problem of rural indebted-ness. Sooner the problem is removed from its roots the better for India's rural economy.

Suggested Remedies:

Since the problem of rural indebtedness has two major dimensions, to solve the problem we have to adopt a two-fold strategy. Since the mag-nitude of debt is quite high, steps may be taken to cancel old debts. There is a strong case for reduc-tion of ancestral debt and even for their liquida-tion.

This can be done by State Governments by passing Insolvency Acts. It may be noted that the Government decided in 1990 to write off Rs. 14,000 crores of loans outstanding from farmers Up to a maximum of Rs. 10,000 crores. This was considered necessary because 80% of India's popu-lation were farmers and farm workers. Earlier in some States moratorium had been declared on the recovery of debt by moneylenders from farmers, rural artisans and landless workers as per the 20- point Programme.

Secondly, it is to be ensured that the quan-tum of fresh borrowing is reduced to the minimum, keeping in view the repayment capacity of farm-ers. It is equally important to ensure that new bor-rowing is strictly for productive purposes and not for meeting consumption needs. It is, however, dif-ficult for the Government to ensure this in prac-tice.

Only through the spread of education and propaganda among farmers it is possible to check the volume of loans made for unproductive pur-poses. However, in LDCs like India, arrangement may also be made for providing such loans on a modest scale.

As a subsidiary measure, control of the ac-tivities of moneylenders is also necessary. This has been done by some States where sale of land to moneylenders has been prohibited by law.

It is important to note that the abolition of bonded labour and liquidation of rural indebted-ness are the two major aspects of the 20-point Pro-gramme. The system of bonded labour was abol-ished by an Act of Parliament in 1976. However, it seemed that the only answer to the present multi- agency credit system is implementing a new multi-purpose system with efficient management.

This will have to be so devised as to meet the need for consumption loan of the farmers so that they are not exploited by being paid low wages or low re-turns on their products. Moreover, the RRBs, if properly managed, can go a long way in solving the problem of rural indebtedness in an effective manner.

Conclusion:

Due to extension of institutional credit fa-cilities since 1950-51 the monopoly position of the village moneylender has been challenged. Due to progressive institutionalization of credit, pri-vate sources now meet barely 20% of the short- and medium-term credit needs of the farmers.

In other words, institutional sources meet about 80% of such needs. But the Agricultural Credit Review Committee headed by Prof. A. M. Khusro, in its report submitted on August 1989, commented that despite the disappearance of dual financial sys-tem, moneylenders are still operating their busi-ness in rural India.

One recent study of the Reserve Bank of India admitted that rural households still rely on informal credit markets for 60 to 70% of their credit needs even though interest rates charged are typically over 30%. This is due to apathy of State-owned commercial banks in pro-viding credit to poor peasants. Actually, big land-lords are capable of obtaining more loans and advances from various institutions in their own favour at the expense of the poor farm-ers.

Despite huge increase in overall agricultural credit, there is a serious problem of over-dues which has been inhibiting credit expansion on the one hand and economic viability of the lending insti-tutions, mainly the co-operatives and regional ru-ral banks on the other. The waiver of agricultural loans to the tune of Rs. 10,000 crores in 1990-91 has virtually stopped the credit cycle. If this .prac-tice is continued in the future too rural credit ex-pansion will take a back seat. But, if more and more emphasis is to be given to the agricultural sector, lending institutions will be under more and more pressure.

Above all, small and marginal farmers still remain unworthy borrowers in the banking par-lance, though it was hoped at the time of nation-alisation that these banks would take care of the credit needs of the farmers. Their dependence on informal markets after 50 years of planning does not augur well. The quantitative expansion of in-stitutional sources hide all these facts. From the qualitative angle, their performance is subject to serious scrutiny.

ROLE OF COOPERATIVE BANKS IN AGRICULTURAL FINANCE:

Though the co-operative credit movement was made a special responsibility of the MI right from the latter's birth in 1935, much was not accomplished in this sphere till about the mid- 1950s. The real turning point in the Bank's role in the movement came only after the Bank's All-India Rural Credit Survey Committee submitted its monumental report in 1954.

The Survey Committee had found that while the co-operative societies and government provided only 3% each of the loans raised by the cultivator, the private credit agencies (the moneylender and the trader) lent more than 70% of what the cultivator borrowed. The moneylender changed very high rates of interest and did not concern himself with the purpose of the loan.

The Survey Committee summed up the position of agricultural credit thus It fell short of the right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people It also said that 'co-operation had failed but co-operation must succeed'.

For this success, the Survey Committee recommended an 'integrated scheme of rural credit', of which the main features were:

(i) State partnership in co-operative credit institutions through contribution to their share capital;

(ii) Full co-ordination between credit and other economic activi-ties especially marketing and processing; and

(iii) Administration through adequately trained and efficient personnel, responsive to the needs of the rural population.

The RBI was assigned a crucial role in the scheme of integrated credit and in the building up of the co-operative credit organization. The consequent steps taken by the RBI in pursuance of the recommendations of the Survey Committee and later committees like the Committee on Cooperative Credit (1960) transformed the Bank's role from that of a conventional central banker to that of an active agency that takes all necessary measures for enabling the co-operative system to provide a growingly larger share of rural credit.

The adop-tion of special programmes for increasing agricultural production and the spread of green revolution based largely on intensive use of fertilisers, water, better seeds, and machine power have enhanced the RBI's responsibilities further. The RBI had also started offering greater financial assistance to co-operatives for credit facilities to small far-mers and other weaker sections and for minimising disparities in the flow of credit to various regions.

With the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982, the RBI's functions relating to the co-operative movement have been taken over by the NABARD.

Now, the RBI's role is primarily restricted to the provision of finance to the NABARD through its con-tributions to the two national rural credit funds, already transferred to the NABARD, and additional loans and advances to the latter. Besides, the RBI still offers loans and advances to SCBs.

The NABARD measures are basically a continuation of the RBI measures.

They are studied below under two main heads:

(A) Provi-sion of finance and

(B) Building up of the co-operative credit structure.

(A) Provision of Finance:

All the NABARD finance is provided to the co-operative sector through the SCBs. The bulk (almost 90%) of it goes to finance agriculture. The finance is of all the three types, viz., short-term, medium-term, and long-term.

(i) Short-term Agricultural Finance:

This is given primarily for sea-sonal agricultural operations which are interpreted to include mixed farming activities, i.e., animal husbandry and allied activities jointly undertaken with agricultural operations.

(ii) Medium-term Agricultural Finance:

The NABARD provides medium-term loans to SCBs for periods of 3 to 5 years. These loans are provided for (a) agricultural purposes (purchase of agricultural machinery, sinking and repair of wells and tube wells, etc.), animal husbandry, poultry farming and for purchase of shares of co-operative sugar factories and other processing societies by agricultur-ists, and (b) conversion of short-term agricultural loans into medium term loans whenever such conversion becomes necessary on account of wide-spread crop failure as a result of drought, floods or other natural calamities. All medium-term loans are fully guaranteed as to e repayment of the principal and the payment of interest by the state government concerned.

(iii) Long-term Agricultural Credit:

Long-term credit for agricul-ture is provided mainly through investment in the debentures of SLDBs. In addition, the National Bank makes long-term loans to state governments for contribution to the share capital of co-operative credit institutions, most of which goes to strengthen co-operative credit for agriculture. The financial accommodation of all kinds indicated above is provided at concessional rates of interest which vary between the Bank Rate and up to 3% below the Bank Rate.

(iv) Non- agricultural finance:

The NABARD also provides short- term finance for:

(i) The production and marketing activities of selected cottage and small-scale industries (mostly handloom weavers' co-opera-tive societies) and

(ii) The purchase and distribution of fertilisers.

The loans are generally provided through SCBs against guarantees of the state governments. However, all such finance has constituted a small proportion (5 to 7 per cent) of the total Reserve Bank short-term finance to co-operatives: the bulk of it goes to agricultural co-operatives.

During 1994-95, the total amount of financial assistance sanctioned by NABARD was about Rs. 5,300 crore. Of this, about Rs. 4,800 crore were short-term credit and Rs. 500 crore were medium-term credit. The outstand-ing amount of financial assistance was about Rs. 3,700 crore.

(B) Building up of the Co-operative Credit Structure:

From around 1951 the RBI made efforts to (a) strengthen the co-operative credit struc-ture at all the three levels and (b) reorient the operational policies of co-operative banks in more purposive directions. Under the former, the RBI had taken steps to get SCBs established in such states that did not have them and strengthen them where they were weak. The RBI had also tried for the rehabilitation of weak CCBs by prescribing action to recover over dues, strengthen the bad debts reserves and improve the quality of the administrative and supervisory staff.

Similarly, the Bank played an active role in the reorganization of primary societies. The Bank had also made arrangements for the training of personnel of co-operative depart-ments and institutions and undertaken periodical inspection of SCBs, CCBs, and SLDBs to promote healthy and sound growth of co-operative banking in the country. All these functions are now being performed by the NABARD.

Role of RBI in Promoting Commercial Banking, Rural Credit and Industrial Finance!

In addition to performing the traditional functions of a central bank discussed so far, the RBI, after India's independence in 1947,has been playing an active role in two main directions :

(a) In building up and strengthening the country's financial infrastructure, filling up major institutional gaps through the setting up of new financial institutions and reorganizing the existing ones in the context of changing development and other policy needs of the economy and

(b) In devising new measures for influencing the allocation of credit in socially-desired directions. In the discharge of its promotional role, the RBI has several accomplishments to its credit and is continuously engaged in the performance of several non-traditional tasks.

Promotion of Commercial Banking:

Under the Banking Regulation Act, 1949, vast powers of supervision and control of commercial banks have been vested in the RBI.

The latter has tried to use these powers:

(a) To strengthen the commercial banking structure in the country through compulsory liquidation of weak banks or their amalgamation into stronger banks and through improvement in the operational standards of banks by regular inspection and general surveillance,

(b) To extend banking facilities throughout the country, especially in small towns and rural areas so as to improve the geographical coverage of banks, and

(c) To extend the functional coverage of banks so as to improve the sectoral distribution of bank credit in favour of the priority sectors such as agriculture, small-scale industries, etc. and make more of it available to small borrowers. The RBI has also arranged for the education and training of different categories of banking personnel.

To inspire greater public confidence in bank deposits and thereby spread banking habit in the country, particularly among the people of small means, insurance of deposits with commercial banks was introduced in January 1962 and a Deposit Insurance Corporation" was set up for the purpose as a subsidiary of the RBI.

In later years the scheme of deposit insurance has been gradually extended to eligible co-operative banks and regional rural banks as well. The amount of deposit eligible tor insurance cover in respect of each depositor in each bank has also been revised upward from Ume to time. Or July 1,990 it was fixed at Rs. 30,000. At the end of June 1995, 70% of total assessable deposits (of Rs. 4, 09,000 crores) of commercial and co-operative banks were insured.

Promotion of Rural (Agricultural) Credit:

The provision of adequate amounts of institutional credit for agricultural and other rural activities was recognized as one of the special responsibilities of the RBI even at the time of its birth and appropriate provisions were made to this effect in the Reserve Bank of India Act, 1934, a separate Agricultural Credit Department of the Bank constituted, and the development of co-operative credit move-ment (which from its inception in 1904 has remained a rural or agricultural movement) made the Bank’s special charge.

Much was not done in this sphere till about the mid 50s, when, on the recommendation of the All-India Rural Credit Survey Committee (1954), the (then) Imperial Bank of India and other state-associated banks were nationalised and converted into the State Bank of India and associate banks. This group was made responsible for a vigorous programme of branch expansion in rural areas with a view to provide rural credit as well as mobilise rural savings.

This strategy got a further fillip with the nationalisation of 14 other major commercial banks in July 1969. Other important developments in this field have been the operations of the Agricultural Refinance and Development Corporation (a wholly-owned subsidiary of the RBI, 1963-82); strengthening of the co-operative credit organisation and provision of increasing amount of RBI’s refinance to it on concessional terms; setting up of regional rural banks, and channeling of increasing amounts of commercial bank credit to agriculture as a priority sector.

With the setting up of the National Bank for Agriculture and Rural Development in July 1982 to oversee the entire rural credit system and the takeover of the ARDC by it, the direct role and responsibility of the RBI in this sphere have been substantially reduced.

As a result of the measures listed above and increasing emphasis on the provision of institutional finance for agriculture, the picture of such finance has been undergoing rapid changes in favour of agriculture, especially after the nationalisation of 14 major commercial banks in July 1969. The latest position is summed up in Table 4.1. We may note for comparison that at the end of March 1995 total gross scheduled commercial bank credit outstanding was Rs. 1, 93,000 crores, about 39% of which had gone to industry.Institutional Finance for AgriculturePromotion of Industrial Finance:

While with some change in the credit policy of commercial banks, the short-term credit needs of large-scale industries could be taken care of relatively easily, the need for special measures was especially acute in two spheres:

(a) The provision of long-term development finance and

(b) Bank credit for small-scale industries.

In both the spheres on the active advice and participation of the RBI special measures have been successfully taken. For providing long-and medium-term finance as well as underwriting of new issues, specialised financial institutions in the form of industrial development banks such as the IDBI, IFCI, ICICI, SIDBI, SFCs and SIDCs have been established in the public sector and the ICICI in the private sector.

The RBI subscribed to the share capital of public sector development banks. It provides them loans from its National Industrial Credit (Long-Term Operations) Fund to which the RBI makes annual contributions from its profits. Started in July 1968 with an initial contribution of only Rs. 10 crore, the Fund had grown to Rs. 5,678 crore on June 30, 1995 and the loans and advances from it stood at Rs. 5,460 crore.

For the small-scale industries, finance is made available by SIDBI, SFCs, and SIDCs and more importantly by commercial banks which are the most important source of credit to them. The recognition of small-scale industries as a 'priority sector' has made all the difference.

At the end of June 1995, credit outstanding-to these industries from public sector banks stood at Rs. 26,800 crore which was about 40% of the total priority sector advances (excluding export credit). Additionally, this fi-nance is provided on concessional terms. One important measure in the promotion of credit to small-scale industries has been the Credit Guarantee Scheme for such industries instituted in 1960 and operated by the RBI on behalf of the Government of India.

Promotion of Export Finance:

(i) Various steps have been taken to provide export credit at interna-tionally competitive rates of interest. For example, a scheme was made operative in October 1993 for rediscounting export bills abroad at rates linked to international interest rates. Under another scheme of November 1993, exporters are given pre-shipment credit in major foreign currencies for financing imports.

The RBI provides export credit refinance limits to banks. On March end 1995, they were Rs. 9,400 crore. Export credit refinances limits for post-shipment credit was about Rs. 6,700 crore during 1994-95. More-over, the rate of interest on export credit has been decontrolled.

The percentage outstanding export credit to net bank credit was 9.3 per cent as on March end 1995. But, the percentage of export credit refinance limits of banks to their outstanding export credit eligible for such refinance was 48 per cent.

(ii) Export-Import Bank:

The government has set up in January 1981 an Export-Import Bank, which has taken over the functions of the inter-national financing wing of the IDBI and which acts as the apex institution relating to financing of foreign trade.

Credit to Weaker Sections:

Providing adequate, cheaper, and timely credit to weaker sections is the hardest nut to crack for the policy-makers.

The two measures in this respect taken by the RBI are:

(a) The establishment of the Credit Guarantee Corporation of India in 1971 (merged into the Deposit Insurance Corporation in July 1978) and

(b) The adoption of the Differential Rate of Interest (DRI) Scheme in 1972.

Credit Guarantees:

One of the important tasks assigned to the RBI has been to channelise increasing proportion of bank credit in favour of designated priority sectors and small borrowers. Among other things, one major reason for reluctance of banks to provide credit to such priority borrowers has been 'excessive' degree of credit risk involved in lending to them.

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This kind of risk coverage has been attempted mainly in the form of credit guarantees. Three separate credit guarantee schemes are now in operation. Their main common feature is to provide guarantees to banks against risk of default of credit extended to designated borrowers eligible, for the guarantee cover, the guarantee cover varying from 66.66% to 100% of the credit under default. The three schemes are explained briefly below.

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The scope and provisions of the Scheme have been liberalised from time to time. It extends to all types of credit facilities allowed to small-scale industrial units. The guarantee facilities are available at a small charge to approved credit institutions, including commercial and co-operative banks, regional rural banks, and state financial corporations. Besides, the RBI and the IDBI offer preferential refinance facilities to scheduled commercial banks in respect of short-term lending to small-scale industries covered by the guarantee scheme.

(ii) Credit Guarantee Corporation of India:

The Credit Guarantee Scheme for small-scale industries did not solve the problem of meager availability of institutional credit to weaker sections of small transport operators, traders, artisans, self-employed persons, small business enter-prises, farmers and agriculturists, etc. Such small borrowers are much less acceptable credit risks to banks than small industries.

Therefore, the RBI, realizing the need for encouraging greater flow of bank credit to small borrowers, established in January 1971 the Credit Guarantee Corporation of India (CGCI) to provide guarantee cover to approved banks in respect of loans and advances to small borrowers. In July 1978 this Corporation was, merged with the Deposit Insurance Corporation which has been renamed as Deposit Insurance and Credit Guarantee Corporation.

(iii) Export Credit and Guarantee Corporation (ECGC):

This Corpo-ration, established by the Government of India in 1964, is under the administrative control of the government, and not of the RBI. As a part of its business is that of issuing credit guarantees. The guarantees are offered to banks and other financial institutions against risk involved in providing export credit, whether in respect of pre-shipment or post-shipment of goods.

The guarantees have been designed to encourage banks to give liberal credit and other facilities for exports. Besides, the ECGC provides insurance covers to exporters against the risk of not receiving payments in respect of export of goods and services.

Differential Rate of Interest (DRI) Scheme:

The Scheme has been in operation since 1972. But its progress has been very slow. At the end of June 1995, the advances outstanding under the Scheme from all public sector banks stood at about Rs. 700 crore, constituting 0.33% of their total advances as against the target of 1%.

The advances covered about 23 lakh accounts. About 60% of these advances had gone to members of scheduled castes/scheduled tribes. They showed a very high percentage of over-dues to demand. Such schemes can provide only marginal help to the needy. Much more important are package measures that combine credit facilities with the provision of information, training, inputs, and marketing.

Due to the well-publicised securities-bank scam, 1992 has turned out to be a very trying year for the RBI. The Scam has exposed RBI's poor supervision of banks, and its own public debt office, responsible for recording transactions in

Government of India securities worth thousands of crore rupees per day. Several accusing fingers have been raised against the RBI's demonstrated incompetence, shallow vigilance and the like.Role of RBI in Promoting Commercial Banking, Rural Credit and Industrial Finance!

In addition to performing the traditional functions of a central bank discussed so far, the RBI, after India's independence in 1947,has been playing an active role in two main directions :

(a) In building up and strengthening the country's financial infrastructure, filling up major institutional gaps through the setting up of new financial institutions and reorganizing the existing ones in the context of changing development and other policy needs of the economy and

(b) In devising new measures for influencing the allocation of credit in socially-desired directions. In the discharge of its promotional role, the RBI has several accomplishments to its credit and is continuously engaged in the performance of several non-traditional tasks.

Promotion of Commercial Banking:

Under the Banking Regulation Act, 1949, vast powers of supervision and control of commercial banks have been vested in the RBI.

The latter has tried to use these powers:

(a) To strengthen the commercial banking structure in the country through compulsory liquidation of weak banks or their amalgamation into stronger banks and through improvement in the operational standards of banks by regular inspection and general surveillance,

(b) To extend banking facilities throughout the country, especially in small towns and rural areas so as to improve the geographical coverage of banks, and

(c) To extend the functional coverage of banks so as to improve the sectoral distribution of bank credit in favour of the priority sectors such as agriculture, small-scale industries, etc. and make more of it available to small borrowers. The RBI has also arranged for the education and training of different categories of banking personnel.

To inspire greater public confidence in bank deposits and thereby spread banking habit in the country, particularly among the people of small means, insurance of deposits with commercial banks was introduced in January 1962 and a Deposit Insurance Corporation" was set up for the purpose as a subsidiary of the RBI.

In later years the scheme of deposit insurance has been gradually extended to eligible co-operative banks and regional rural banks as well. The amount of deposit eligible tor insurance cover in respect of each depositor in each bank has also been revised upward from Ume to time. Or July 1,990 it was fixed at Rs. 30,000. At the end of June 1995, 70% of total assessable deposits (of Rs. 4, 09,000 crores) of commercial and co-operative banks were insured.

Promotion of Rural (Agricultural) Credit:

The provision of adequate amounts of institutional credit for agricultural and other rural activities was recognized as one of the special responsibilities of the RBI even at the time of its birth and appropriate provisions were made to this effect in the Reserve Bank of India Act, 1934, a separate Agricultural

Credit Department of the Bank constituted, and the development of co-operative credit move-ment (which from its inception in 1904 has remained a rural or agricultural movement) made the Bank's special charge.

Much was not done in this sphere till about the mid 50s, when, on the recommendation of the All-India Rural Credit Survey Committee (1954), the (then) Imperial Bank of India and other state-associated banks were nationalised and converted into the State Bank of India and associate banks. This group was made responsible for a vigorous programme of branch expansion in rural areas with a view to provide rural credit as well as mobilise rural savings.

This strategy got a further fillip with the nationalisation of 14 other major commercial banks in July 1969. Other important developments in this field have been the operations of the Agricultural Refinance and Development Corporation (a wholly-owned subsidiary of the RBI, 1963-82); strengthening of the co-operative credit organisation and provision of increasing amount of RBI's refinance to it on concessional terms; setting up of regional rural banks, and channeling of increasing amounts of commercial bank credit to agriculture as a priority sector.

With the setting up of the National Bank for Agriculture and Rural Development in July 1982 to oversee the entire rural credit system and the takeover of the ARDC by it, the direct role and responsibility of the RBI in this sphere have been substantially reduced.

As a result of the measures listed above and increasing emphasis on the provision of institutional finance for agriculture, the picture of such finance has been undergoing rapid changes in favour of agriculture, especially after the nationalisation of 14 major commercial banks in July 1969. The latest position is summed up in Table 4.1. We may note for comparison that at the end of March 1995 total gross scheduled commercial bank credit outstanding was Rs. 1, 93,000 crores, about 39% of which had gone to industry.Institutional Finance for AgriculturePromotion of Industrial Finance:

While with some change in the credit policy of commercial banks, the short-term credit needs of large-scale industries could be taken care of relatively easily, the need for special measures was especially acute in two spheres:

(a) The provision of long-term development finance and

(b) Bank credit for small-scale industries.

In both the spheres on the active advice and participation of the RBI special measures have been successfully taken. For providing long-and medium-term finance as well as underwriting of new issues, specialised financial institutions in the form of industrial development banks such as the IDBI, IFCI, ICICI, SIDBI, SFCs and SIDCs have been established in the public sector and the ICICI in the private sector.

The RBI subscribed to the share capital of public sector development banks. It provides them loans from its National Industrial Credit (Long-Term Operations) Fund to which the RBI makes annual contributions from its profits. Started in July 1968 with an initial contribution of only Rs. 10 crore, the Fund had grown to Rs. 5,678 crore on June 30, 1995 and the loans and advances from it stood at Rs. 5,460 crore.

For the small-scale industries, finance is made available by SIDBI, SFCs, and SIDCs and more importantly by commercial banks which are the most important source of credit to them. The recognition of small-scale industries as a ‘priority sector’ has made all the difference.

At the end of June 1995, credit outstanding-to these industries from public sector banks stood at Rs. 26,800 crore which was about 40% of the total priority sector advances (excluding export credit). Additionally, this fi-nance is provided on concessional terms. One important measure in the promotion of credit to small-scale industries has been the Credit Guarantee Scheme for such industries instituted in 1960 and operated by the RBI on behalf of the Government of India.

Promotion of Export Finance:

(i) Various steps have been taken to provide export credit at interna-tionally competitive rates of interest. For example, a scheme was made operative in October 1993 for rediscounting export bills abroad at rates linked to international interest rates. Under another scheme of November 1993, exporters are given pre-shipment credit in major foreign currencies for financing imports.

The RBI provides export credit refinance limits to banks. On March end 1995, they were Rs. 9,400 crore. Export credit refinances limits for post-shipment credit was about Rs. 6,700 crore during 1994-95. More-over, the rate of interest on export credit has been decontrolled.

The percentage outstanding export credit to net bank credit was 9.3 per cent as on March end 1995. But, the percentage of export credit refinance limits of banks to their outstanding export credit eligible for such refinance was 48 per cent.

(ii) Export-Import Bank:

The government has set up in January 1981 an Export-Import Bank, which has taken over the functions of the inter-national financing wing of the IDBI and which acts as the apex institution relating to financing of foreign trade.

Credit to Weaker Sections:

Providing adequate, cheaper, and timely credit to weaker sections is the hardest nut to crack for the policy-makers.

The two measures in this respect taken by the RBI are:

(a) The establishment of the Credit Guarantee Corporation of India in 1971 (merged into the Deposit Insurance Corporation in July 1978) and

(b) The adoption of the Differential Rate of Interest (DRI) Scheme in 1972.

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