

Role of Rural Credit Institutions in India for Agriculture and Rural Development: An In-depth Study

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Abstract:

In this research paper issues and concerns of rural credit in India which is a powerful tool for enhancing production and productivity of Indian agriculture for sustainable development has been analysed. Some of the strategies adopted by the Reserve Bank of India (RBI) to enhance rural credit have been highlighted. The role of the Regional Rural Bank (RRBs), Micro-finance Institutions, Self Help Groups (SHG), etc., have been analysed in detail. For agricultural credit the Kisan Credit Card (KCC) scheme introduced in August 1998 by Indian banks is a praiseworthy step. This Scheme was prepared by the National Bank for Agriculture and Rural Development (NABARD) on the recommendations of R.V.GUPTA committee to provide term loans for agricultural needs. In spite of many efforts put up by various organisations to increase the rural credit facilities, several challenges are there. It is pertinent to mention that the Co-operative Banks are providing the largest proportion of total institutional credit to agricultural and allied activities, nearly 55 percent to the agricultural sector.

Key words:

Agriculture, Bank, Credit, India, Institutional Source and Non-institutional sources of credit.

Introduction

India is basically an agricultural country. Around 65 percent of Indian population depend upon agriculture directly or indirectly. The contribution of the agricultural sector is vital for economic development. The development of every sector depends on the financial requirement which is fulfilled by rural credit -- institutional source and non-institutional source. The non-institutional sources are money lenders, land lords, traders, commission agents and others. The institutional source consists of the Government, Co-operatives, and Commercial Banks including Regional Rural Banks. Among these institutional sources, co-operative credit institutions play a vital role in agricultural and allied activities in the rural sector. In this paper an attempt has been made to study the co-operative credit Institution.

Objectives

The objectives of the study are:

- The structure of Co-operative Credit Institutions in India.
- The share of Co-operative banks in Agriculture credit.
- The number of credit cards issued by co-operative banks in India.
- The role of SHGs in India.

Methodology

The present study is based on secondary source for which data were collected from various Reports such Annual Reports of RBI, World Bank, websites etc. In India, rural co-operative credit institutions, central co-operative credit institutions, Primary Agricultural Co-operative Societies (PACS), Urban Co-operative Banks, State Co-operative Agricultural and Rural Development Bank have been playing important roles so these have been highlighted.

Structure of Co-operative Credit institutions in India

Co-operatives are the oldest institution of providing rural credit in India. The first co-operative societies Act was passed in 1904. The objective was to provide cheap credit to the small and marginal farmers so that the farmers are from the clutches of moneylenders. The societies and banks provide short term and medium term credit to agriculturalist and village industries. Co-operative credit in India is a three-tier federal system with regard to short term credit and two tier system with regard to the long term credit. Cooperative Credit Institutions broadly classified into Urban Co-operative Banks and Rural Co-operative Credit Institutions. It may be mentioned here that there are 1770 Urban Co-operative Banks and 98343 Rural Co-operative Credit institutions operating in order to provide short, medium and long term loans to the farmers.

Urban co-operative banks and State Co-operative Banks:

The urban co-operative banks comprise a number of institutions like scheduled Urban Co-operative Banks and Non-Scheduled Urban Co-operative Banks. It may be mentioned here that there are 1,482 urban cooperative banks.

The State Co-operative Bank is an institution which works as the link between the primary societies and money market. They finance and control the working of the central cooperative banks in the state. They act as a potential source of credit for seasonal and needs of their members. At present, there are 1,482 urban cooperative banks and 58 multi-state cooperative banks having about 8.6 crore depositors with a total savings deposit of about Rs 4.85 lakh crore ([google.com/search?q=total+number](https://www.google.com/search?q=total+number)) .

Rural Co-operative Credit institutions

It is working under the banner of state co-operative, central.co-operative and primary agricultural credit societies in order to provide short term loans.

Primary Agricultural Credit Societies

Primary agricultural credit societies, popularly known as village societies, lie at the root of the co-operative credit structure of the country. They are at the local (or) base level of rural India. It started with ten or more people going to a village. The main functions of the credit societies are to provide short and medium term credit to agricultural and other production requirements like seeds, fertilizers, insecticides etc. and to undertake marketing of agricultural produce. Since the beginning, PACSs play an active role in solving financial problem of the farmers, upliftment of their socio-economic condition and changes in social structure and values in rural areas. Thus with three tiers co-operative structure PACS at the village level, District Central Cooperative Bank (DCCB) at the district level and State Co-operative Bank (SCB) at the apex state level are functioning directly or indirectly for the economic liberation of rural linkages with the rural people have been playing a positive role in socio-economic development of rural people. It may be mentioned here that according to the National Federation of State Co-operative Banks Ltd (NAFSCOB established on 19 May 1964) with a view to facilitate the operations of State and Central Co-operative Banks in general and Development of Co-operative Credit in particular in India there 33 State Cooperative Banks (SCBs), 363 District Central Cooperative Banks (DCCBs) and 95995 PACS (nafscob.org/index.php).

Objectives of Primary Agriculture Credit Societies (PACS)

1. Provide short term and medium term credit.

2. Fostering the habit of saving.
3. Distribution of fertilizers and seeds.
4. Providing help in milk production, egg production, sugar production etc.
5. Distribution of consumer goods to their members.

The management of PACS is on pure democratic lines. The working funds of PACS consist of share capital, membership fee, and reserve fund, deposits of members and non-members and loans from central cooperative banks. The usefulness of PACS has been rising steadily, but not adequate considering the demand for finance from the farmers of the country.

Drawbacks

Although the performance of PACS has been commendable, they suffer from serious weaknesses:

1. Failure to mobilise deposits
2. The recovery of loans advanced has been disappointing.
3. Majority of PACS are non - viable
4. They fail to fulfil the credit needs of small & marginal farmers.

Share of Co-operative banks in Agricultural Credit

At present, there are three agencies supplying institutional finance to the farmers. They are Co-operative Institutions, Commercial banks and Regional Rural Banks. The contribution of co-operative banks in providing short, medium and long term loans to the agricultural sector is significant. Now from the Annual Report (2019-20) of Reserve Bank of India (RBI) few points are highlighted. The Government of India (GoI) fixes the agricultural credit target every year for commercial banks, regional rural banks (RRBs) and rural co-operative banks. During 2019-20, against the target of Rs 13.5 lakh crore, banks have achieved Rs. 13.7 lakh crore (101.8 per cent of the target), of which commercial banks, RRBs and rural cooperative banks achieved 109.2 per cent, 73.9 per cent and 92.8 per cent of their respective targets

Number of Kisan Credit Card:

An important development in recent years is the introduction of Kisan Credit Cards (KCC) in 1998-1999. The main objective of the Kisan credit card scheme is to facilitate short term credit to the farmers. This has gained popularity in the country.

For the benefit of readers few points about KCC are highlighted here as it is most of important for the farmer (bankbazaar.com/kisan-credit-card).

Features and Benefits of Kisan Credit Card:

- Farmers are given credit for meeting their financial requirements of agricultural and other allied activities along with post-harvest expenses.
- Investment credit for agricultural requirements such as dairy animals, pump sets etc.
- Farmers can take out a loan of up to Rs.3 lakh and also avail produce marketing loans.
- Insurance coverage for KCC scheme holders up to Rs.50,000 in the case of permanent disability or death. A cover of Rs.25,000 is given in the case of other risks.
- Eligible farmers will be issued a savings account with attractive interest rate along with smart card and a debit card in addition to the Kisan Credit Card.
- Flexible repayment options and hassle-free disbursement procedure.
- Single credit facility/ term loan for all agricultural and ancillary requirements.
- Assistance in the purchase of fertilizers, seeds, etc. as well as in availing cash discounts from merchants/ dealers.
- Credit is available for a period of up to 3 years and repayment can be made once the harvest season is over.
- No collateral will be required for loans amounting up to Rs.1.60 lakh.

Interest and Other Charges on Kisan Credit Cards

The interest rate on the KCC differs from one bank to other along with its credit limit.

However, the interest rate of KCC can be as low as 2% and averaging at 4%.

In addition, there are certain subsidies and schemes that the government offers farmers with regard to the interest rate. These would depend on the repayment history and general credit history of the cardholder.

Other fees and charges such as processing fees, insurance premium (if applicable), land mortgage deed charges etc. would be set at the discretion of the issuing bank.

Eligibility Criteria for Kisan Credit Card Loan Scheme

The eligibility criteria for the KCC scheme are as follows:

- Any individual farmer who is an owner-cultivator.
- People who belongs to a group and are joint borrowers. The group has to be owner-cultivators.
- Sharecroppers, tenant farmers, or an oral lessee are eligible for the KCC.
- Self-help groups (SHG) or joint liability groups (JLG) of sharecroppers, farmers, tenant farmers, etc.
- Farmers involved in the production of crop or allied activities such as animal husbandry along with non-farm activities such as fishermen.

Total number of Kisan Cards issued up to 2019-20 was 241.5 lakh, outstanding crop loan was Rs 4,23,587.8 crore, and outstanding term loan was 46,555.8 crore as RBI Report of 2019-20.

PM Kisan Samman Nidhi Scheme

The PM Kisan Samman Nidhi Scheme was launched the Central Government in 2019. Under this Scheme, all the farmers can get up to Rs.6,000 every year as their income support.

This has been done by bringing together the Kisan Credit Card (KCC) Scheme and the Kisan Samman Nidhi Scheme. All beneficiaries under the Kisan Samman Nidhi Scheme can get a Kisan Credit Card.

Self-help Groups in Rural development in India

In recent years, development in rural credit especially micro credit or micro finance plays a vital role in the economy. Micro finance is a novel approach to “banking with the poor”. In this approach, very successfully extending the bank credit to the poor is through Self Help Groups (SHGs) The SHG - Bank linkage programme, introduced and encouraged by NABARD. Women's SHGs are being supported by Government of India's Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) which is co-financed by the World Bank. DDU-NRLM has scaled up the SHG model across 28 States and 6 Union Territories of the country, reaching more than 67 million women. The women have saved \$1.4 billion and leveraged a further \$37 billion from commercial banks (worldbank.org/en/news/feature).

It may be mentioned that the Ministry of Rural Development (MoRD), Government of India announced the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) Antyodaya Diwas, on 25th September 2014. DDU-GKY is a part of the National Rural Livelihood Mission (NRLM), tasked with the dual objectives of adding diversity to the incomes of rural poor families and cater to the career aspirations of rural youth.

DDU-GKY is uniquely focused on rural youth between the ages of 15 and 35 years from poor families. As a part of the Skill India campaign, it plays an instrumental role in supporting the social and economic programs of the government like the Make In India, Digital India, Smart Cities and Start-Up India, Stand-Up India campaigns. Over 180 million or 69% of the country's youth population between the ages of 18 and 34 years, live in its rural areas.

The National Policy for Skill Development & Entrepreneurship 2015 has identified a skills gap of 109.73 million in 24 key sectors by the year 2022. This number cannot be achieved without addressing the 55 million poor from rural India. Also, a FICCI and Ernst – Young study published in 2013 identified a shortage of over 47 million skilled workers across the

globe by 2020. This presents an unprecedented opportunity for India to train its youth population and place them in jobs across the world and realize its demographic dividend.

DDU-GKY takes pride in its partners and their ability to add value. Innovation from partners is encouraged to build scale and capacity... its unique implementation structure involves partners, who are by nature, committed to changing lives and are experts in their areas, they form a part of the Skilling Ecosystem integrated by DDU-GKY. Partners are supported through investment, capacity building, strategies for retention, linkages to international placement and technology support for training purposes.

DDU-GKY is present in 28 States and UTs, across 689 districts, impacting youth from over 7,426 blocks. It currently has over 1,575 projects being implemented by over 717 partners, in more than 502 trades from 50 industry sectors. Over 9.9 Lakh candidates have been trained and over 5.3 Lakh candidates have been placed in jobs as on 1st April, 2020. From 2012, DDU-GKY has so far committed an investment of more than INR 5,600 Crores, impacting rural youth pan-India (ddugky.gov.in/content/about-us).

Conclusion

In our country credit institutions play a vital role in channelizing bank credit to the rural sector and also for the economic upliftment of the marginal and small farmers. In spite of recent development in rural credit, the farmers are not able to avail the credit at the right time. It is evident from the various studies that most of welfare programmes and subsidies launched by both the Central and State Governments did not reach to many many marginal and small poor farmers, while large and landlords were hugely benefited.

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