Peer Reviewed Refered and UGC Listed Journal

ज्ञान-विज्ञान विमुक्तये

AN INTERNATIONAL MULTIDISCIPLINARY HALF YEARLY RESEARCH JOURNAL

GENIUS

Volume - VI, Issue - II, FEBRUARY - JULY - 2018

ISSN - 2279 - 0489

Impact Factor - 4.954 (www.sjifactor.com)

PART - II

AJANTA PRAKASHAN

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Study of the Rural Finance in the Indian Economy

Krutika Dignesh Patel
(SY) BMS, Sonopant Dandekar College, Palghar.

Abstract

When you consider a rural market then the measure part of the rural business directly or indirectly connected with agriculture. In this condition,whenever you study about rural market you have to consider the impact of agriculture towards Indian Economy.

Profile of Rural people:-If we classify the rural people by their occupation, we find cultivators as the predominant occupation group who account 72% of rural households.

In this way rural population broadly divided into 6 categories:

1. Proprietors of land includes feudal tribute gatherers like zamindars, rich moneylenders and traders who acquire large tracts of land and companies or persons who own large populations.
2. Rich farmers who belong to dominant caste of the area.
3. Small peasants or marginal farmers owning uneconomic land holdings.
4. Tenant farmers operating on rented lands belonging to large land holders and working on small uneconomic land holdings.
5. Agricultural labourers who work on lands of landlords and rich farmers.
6. Artisans and others, which include the unemployed also.

Key Words:- RBI ,NABARD, RNFS

Research Methodology

Research Objectives

- To revise the financial capability of the lending agencies in rural areas to analysis the drawbacks & advantage of flow of credit in rural areas.
- The rural credit system should be strengthen
- To study the role of rural finance in Indian Economy.

Type of Research

The research is Exploratory in nature

Methods of Data Collection

Secondary data: - the sources of secondary data were internet, books and newspaper articles. The present study is based on information collected from secondary sources.

Introduction

Structure of Rural Credit In India

"In the village itself no form of credit organization will be suitable except the Co-operative Society—Co-operation has failed, but co-operation must succeed."

-All-India Rural Credit Survey

National Policy & Its's Aim

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. From olden days private money-lenders are main sources of credit towards agricultural or rural products. After independence multi-agency approach consisting of co-operatives, commercial banks and regional rural banks are adopted due to its cheaper and adequate credit to farmers. The major policy in the sphere of agricultural credit has been its progressive institutionalization for supplying agriculture and rural development programmes with adequate and timely flow of credit to assist weaker sections and less developed regions.

The basic aim of this Policy are as follows

a. To ensure timely & sufficient flow of credit to the farming sector;

b. To avoid money-lender chain from rural scene.

c. To reduce regional imbalance through their credit facilities.

d. To provide larger credit support to areas covered by special programmes. e.g. National Oilseeds Development Project.

Need of Credit for Farmers

Farmers need finance mainly for the following things—to pay current expenses of cultivation such as the purchase of seed, manures, etc.; the purchase of cattle, implements and raw materials; acquire new land; or improve land by irrigation, drainage, wedding and planting; pay up old debts to build and repair houses, to purchase food stuffs and other personal necessaries; pay land revenue to the Government; meet expenses connected with marriage and other social events in the family, but jewellery and conduct law suits. The credit need of agriculturists can, therefore, be broadly divided into directly productive &

indirectly unproductive expenses. Unfortunately fact is that underdeveloped and old countries are in need of both the types of credit.

Changing Scenario of Rural Credit

Indian rural credit structure is regarded all over the world as quite unique and innovative. It required a careful feasibility study to understand rural structure. Evolved over a period of last eight decades, it can perhaps claim the honour of being a very important constituent of the most complex rural economy in the third world countries. In India there is different caste, religion of people living together, the language of every state, caste is different than each other. The land, weather, water availability is different in different area, which give lots of problem in applying various policies. One of the distinguishing features has been its ability to adapt itself, without much turmoil and stress, to the socio-economic dynamics of the rural scenario. Over the years it has developed into a multi faceted structure to service almost the entire cross-section of rural population spread thoughtout the length and breadth of our country.

In rural areas the indigenous moneylenders continued to be the banker in need. Since these money-lenders had virtual monopoly in supplying credit in rural areas, the poor were often subjected to exploitation. With the overriding monopoly the money-lenders often resorted to usurious practices--- levying the exobirant rate of interest, demanding gift/contribution to the temple funds out of the amount of credit, demanding advance interest, etc. Besides, often the money-lenders resorted to unethical practices like taking thumb impression on a blank paper for inserting some arbitrary amount, manipulation of account to inflate the balance due. The poor villager could not escape the clutches of these indigenous bankers as they had to keep on borrowing from them under distress since they were the only source of credit for all type of requirements--- production and consumption. The conditions of the poor peasantry were perpetually so pathetic that an adage—"they are born in debt, they live in debt & die in debt" was the usual description of their plight.

To mitigate the sufferings of the poor farmers the infrastructure of co-operative credit was brought into being in the matter of agricultural finance. The Co-operatives Societies Act of 1904 provided the formation of primary agricultural co-operatives credit societies. Later in 1912, the co-operative movement was extended to formation of non-agricultural co-operative credit societies also.

The commercial banks on the other hand were participating in rural banking only as an alien since they were programmed for meeting the financial requirements of trade and commerce. In a view of the huge gap in rural credit from institutional sources and in a bid to meet the growing needs of financial assistance to modernizing farming, the government adopted the multi-agency approach. This was intended to increase the farm productivity and thus raise the living standards of the poor farmers. The formation of State Bank Of India which was formed my taking over the Imperial Bank of India by the Government was with a objective of "extension of banking facilities on a large scale more particularly in the rural and semi-urban areas and for other diverse purposes." This was an important milestone in the banking of rural India. Momentum was gained more prominently after the concept of "Social control" over commercial banks was propagated in 1967. With the setting up of National Credit Council in 1968 to asses the demand for bank credit for various sectors of economy and to determine priorities for the grant of loans, etc. it came to be felt increasingly that banks should become instruments of economic and social development.

To this effect nationalization of 14 major Indian commercial banks in July 1969 can be described as a major landmark in the history of Indian financial system and a big leap towards rural banking. With emphasis on lending to priority sector—agriculture, rural artisans and handicrafts, small scale industries, small business and retail trade and other weaker sections of the society— rural banking came to the fore. The step was initiated to utilize effectively the professional skills and acumen developed by the banking system for achieving the basic objective of balanced socio-economic development.

Both the Co-operative and Commercial banks made substantial development in providing credit to agricultural and rural economy. The total share of co-operatives in total borrowing of the rural household grew from 5,204 in july 1964 to 12,065 in Dec 1974. But still it was noticed that two-thirds of the total credit was taken from non-institutional sources. The demand for rural credit was on the increase owing to adoption of modern agriculture, which increasingly required larger amounts of capital both short term & long term.

Nabard

Rural Non-Farm Sector Finance Scheme

Rural Non Farm Sector (RNFS) holds the key to faster economic development of the country. It has potential and promise for generating employment and increased income in the rural areas. Hence, NABARD has identified financing, development and promotion of RNFS as one of its thrust areas.

Farm sector finance scheme:

A) Refinance Assistance for financing farm mechanization

i) Tractors:

(a) The quantum of refinance in respect of financing for acquisition of second tractor has been enhanced from existing level of 40% to 90% (95% in case of SCARDBs) of the loan amount as in the case of first tractor.

(b) Though the minimum land holding required for financing tractors is 8 acre perennially irrigated land, necessary discretion has been given to banks to evolve their own area specific norms, if need be, and report such norms evolved by them to the concerned RO of NABARD.

(c) Refinance facility for financing purchase of second hand tractors has been extended to Gujarat in addition to Punjab, Haryana and Rajasthan.

ii) Power Tillers:

(a) Though the minimum land holding required for financing power tillers is 6 acres of perennially irrigated land, necessary discretion has been given to banks to evolve their own area specific norms, if need be, and report such norms evolved by them to the concerned RO of NABARD.

(b) Banks have also been advised to give focused attention on financing power tillers by preparing a three year banking plan for a compact area for the benefit of the small farmers.

C) Swarnajayanti Gram SwarozgarYojana (SGSY)

SGSY, formed by restructuring ongoing self employmentprogrammes, viz. IRDP, TRYSEM, DWCRA, etc., is under implementation from 01 April 1999. The programme envisages formation of SGSY Groups and their linkage with the banks. Individuals as also SGSY group members, below poverty line are assisted under the programme

D) Scheme for setting up of Agriclinic and Agribusiness centers

In pursuance of the announcement made by the Union Finance Minister in the budget speech for the year 2001-02, National Bank in consultation with the Ministry of Agriculture, GOI and select banks formulated a scheme for financing Agriculture Graduates for setting up Agriclinics and Agribusiness Centres The scheme aims at supplementing the existing

Extension Network to accelerate the process of technology transfer to agriculture and supplement the efforts of State Agencies in providing inputs and other services to the farmers.

E) Scheme for financing farmers for purchase of land for Agricultural purposes

In response to the Hon'ble Union Finance Minister's emphasis on the need to step up priority sector lending and to examine financing farmers for purchase of land for agricultural purposes, the Working Group constituted by Indian Banks Association formulated a above scheme in consultation with the Government of India, RBI and NABARD. The objective of the Scheme is to finance the farmers to purchase, develop and cultivate agricultural as well as fallow and waste lands as also consider financing purchase of land for establishing or diversifying into other allied activities.

Conclusion

Agriculture and its associated activities are found constituting the economic base and the main source of livelihood and employment for the people in the state. However, unprecedented growth of population on one hand and decreasing rate of available agriculture land along with degradation of supporting natural resources as required for sustaining crop productivity on the other have been seriously forcing the problems of sustaining livelihood for farming communities. It is becoming difficult to do the farming activity without external or internal sources. In this context the significance of extending non-farm sector becomes only alternative but it also required finance assistance for its development.

Means a lot of hard work & government awareness is required to flow the finance assistance in Rural Economy. But various scheme which are provided by the various banks & government should be specific in its eligibility criteria to stop the misuse of these funds by large farmers and to ensure that the credit reaches the farmers who is in need of finance.

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