WELCOME

AGRICULTURAL FINANCE AND COOPERATION (AGECON 211)

Agricultural Finance

- Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of India.

Credit

- Credit / loan is certain amount of money provided for certain purpose on certain conditions with some interest, which can be repaid sooner (or) later.

Credit is classified

- **1. Based on time:**
- Short–term loans: These loans are to be repaid within a period of 6 to 18 months. All crop loans are said to be short–term loans, but the length of the repayment period varies according to the duration of crop.
- Medium – term loans: Here the repayment period varies from 18 months to 5 years. These loans are required by the farmers for bringing about some improvements on his farm by way of purchasing implements, electric motors, milch cattle, sheep and goat, etc.
- Long – term loans: These loans fall due for repayment over a long time ranging from 5 years to more than 20 years or even more. These loans together with medium terms loans are called investment loans or term loans. These loans are meant for permanent improvements like leveling and reclamation of land, construction of farm buildings, purchase of tractors, raising of orchards ,etc. Since these activities require large capital, a longer period is required to repay these loans due to their non - liquidating nature.

Based on Purpose

- Production loans: These loans refer to the credit given to the farmers for crop production and are intended to increase the production of crops. They are also called as seasonal agricultural operations (SAO) loans or short – term loans or crop loans.
- Investment loans: The Loans given for tractors, pumpsets, tube wells, etc.
- Marketing loans: Regulated markets and commercial banks, based on the warehouse receipt are lending in the form of marketing loans by advancing 75 per cent of the value of the produce.
- Consumption loans: Any loan advanced for some purpose other than production is broadly categorized as consumption loan. These loans seem to be unproductive but indirectly assist in more productive use of the crop loans i.e. with out diverting then to other purposes.

Based on security

- Secured loans: Loans advanced against some security by the borrower are termed as secured loans. Various forms of securities are offered in obtaining the loans and they are of following types.

- I. Personal security: Under this, borrower himself stands as the guarantor. Loan is advanced on the farmer's promissory note. Third party guarantee may or may not be insisted upon (i.e. based on the understanding between the lender and the borrower)
- II. Collateral Security: Here the property is pledged to secure a loan. The movable properties of the individuals like LIC bonds, fixed deposit bonds, warehouse receipts, machinery, livestock etc, are offered as security.

- III. Chattel loans: Here credit is obtained from pawn-brokers by pledging movable properties such as jewellery, utensils made of various metals, etc.
- IV. **Mortgage:** As against to collateral security, immovable properties are presented for security purpose For example, land, farm buildings, etc. The person who is creating the charge of mortgage is called mortgagor (borrower) and the person in whose favour it is created is known as the mortgagee (banker). Mortgages are of two types
- a) Simple mortgage: When the mortgaged property is ancestrally inherited property of borrower then simple mortgage holds good. Here, the farmer borrower has to register his property in the name of the banking institution as a security for the loan he obtains.
- b) Equitable mortgage: When the mortgaged property is self-acquired property of the borrower, then equitable mortgage is applicable.

- Hypothecated loans: Borrower has ownership right on his movable and the banker has legal right to take a possession of property to sale on default (or) a right to sue the owner to bring the property to sale and for realization of the amount due. This happens in the case of tractor loans, machinery loans etc. Under such loans the borrower will not have any right to sell the equipment until the loan is cleared off. The borrower is allowed to use the purchased machinery or equipment so as to enable him pay the loan installment regularly.

- Hypothecated loans again are of two types viz., key loans and open loans.
- a) Key loans : The agricultural produce of the farmer - borrower will be kept under the control of lending institutions and the loan is advanced to the farmer . This helps the farmer from not resorting to distress sales.
- b) Open loans: Here only the physical possession of the purchased machinery rests with the borrower, but the legal ownership remains with the lending institution till the loan is repaid.

- Unsecured loans: Just based on the confidence between the borrower and lender, the loan transactions take place. No security is kept against the loan amount

Lender's classification:

- Institutional credit: Here are loans are advanced by the institutional agencies like co-operatives, commercial banks. Ex: Co-operative loans and commercial bank loans.
- Non-institutional credit : Here the individual persons will lend the loans Ex: Loans given by professional and agricultural money lenders, traders, commission agents, relatives, friends, etc.

Borrower's classification

- Based on the business activity like farmers, dairy farmers, poultry farmers, pisiculture farmers, rural artisans etc.
- Based on size of the farm: agricultural labourers, marginal farmers, small farmers , medium farmers , large farmers ,
- Based on location hill farmers (or) tribal farmers

Based on liquidity

- **Self-liquidating loans**: They generate income immediately and are to be paid with in one year or after the completion of one crop season. Ex: crop loans.
- **Partially -liquidating**: They will take some time to generate income and can be repaid in 2-5 years or more, based on the economic activity for which the loan was taken. Ex: Dairy loans, tractor loans, orchard loans etc.,

Based on approach

- **Individual approach**: Loans advanced to individuals for different purposes will fall under this category
- **Area based approach**: Loans given to the persons falling under given area for specific purpose will be categorized under this. Ex: Drought Prone Area Programme (DPAP) loans, etc
- **Differential Interest Rate** (DIR) approach: Under this approach loans will be given to the weaker sections @ 4 per cent per annum.

Based on contact

- **Direct Loans**: Loans extended to the farmers directly are called direct loans. Ex: Crop loans.
- **Indirect loans**: Loans given to the agro-based firms like fertilizer and pesticide industries, which are indirectly beneficial to the farmers are called indirect loans.

3 Rs of credit

- 1.Returns from the proposed investment
- 2.Repayment capacity the investment generates
- 3. Risk- bearing ability of the farmer-borrower

The 3Rs of credit are sound indicators of credit worthiness of the farmers.

Returns from the Investment

- This is an important measure in credit analysis. The banker needs to have an idea about the extent of returns likely to be obtained from the proposed investment. The farmer's request for credit can be accepted only if he can be able to generate returns that enable him to meet the costs.
- Returns obtained by the farmer depend upon the decisions like,
- What to grow?
- How to grow?
- How much to grow?
- When to sell?
- Where to sell?
- Therefore the main concern here is that the farmers should be able to generate incremental returns that should cover the additional costs incurred with borrowed funds.

Repayment Capacity

- Repayment capacity is nothing but the ability of the farmer to repay the loan obtained for the productive purpose with in a stipulated time period as fixed by the lending agency. At times the loan may be productive enough to generate additional income but may not be productive enough to repay the loan amount.
  - Hence the necessary condition here is that the loan amount should not only profitable but also have potential for repayment of the loan amount. Under such conditions only the farmer will get the loan amount.

Causes for the poor repayment capacity of Indian farmer

- 1. Small size of the farm holdings due to fragmentation of the land.
- 2. Low production and productivity of the crops.
- 3. High family consumption expenditure.
- 4. Low prices and rapid fluctuations in prices of agricultural commodities.
- 5. Using credit for unproductive purposes
- 6. Low farmer's equity/ net worth.
- 7. Lack of adoption of improved technology.
- 8. Poor management of limited farm resources, etc

Measures for strengthening the repayment capacity

- 1. Increasing the net income by proper organization and operation of the farm business.
- 2. Adopting the potential technology for increasing the production and reducing the expenses on the farm.
- 3. Removing the imbalances in the resource availability.
- 4. Making the schedule of loan repayment plan as per the flow of income.
- 5. Improving the net worth of the farm households.
- 6. Diversification of the farm enterprises.
- 7. Adoption of risk management strategies like insurance of crops, animals and machinery and hedging to control price variations ,etc.,

Risk Bearing Ability

- It is the ability of the farmer to withstand the risk that arises due to financial loss. Risk can be quantified by statistical techniques like coefficient of variation (CV), standard deviation (SD) and programming models. The words risk and uncertainty are synonymously used.

sources / types of risk

- 1. Production/ physical risk.
- 2. Technological risk.
- 3. Personal risk
- 4. Institutional risk
- 5. Weather uncertainty.
- 6. Price risk Repayment capacity under risk

Measures to strengthen risk bearing ability

- 1. Increasing the owner's equity/net worth
- 2. Reducing the farm and family expenditure.
- 3. Developing the moral character i.e. honesty, integrity , dependability and feeling the responsibility etc. All these qualities put together are also called as credit rating.
- 4.Undertaking the reliable and stable enterprises (enterprises giving the guaranteed and steady income)

- 5. Improving the ability to borrow funds during good and bad times of crop production.
- 6. Improving the ability to earn and save money. A part of the farm earnings should be saved by the farmer so as to meet the uncertainty in future.
- 7. Taking up of crop, livestock and machinery insurance.

5 Cs of credit

- 1. Character:
- 2. Capacity:
- 3. Capital
- 4. Condition:
- 5. Commonsense:

7 Ps of farm credit/ principles of farm finance

- 1. Principle of productive purpose.
- 2. Principle of personality.
- 3. Principle of productivity.
- 4. Principle of phased disbursement.
- 5. Principle of proper utilization.
- 6. Principle of payment and
- 7. Principle of protection.

Social Control and Nationalization of Banks

- At the time of independence, the private sector banks were predominantly urban–oriented and under the **control of a few industrialists** which had not helped in achieving the basic socio–economic objectives.
- The credit needs of agriculture, small– scale industries and also weaker sections such as small traders and artisans continued to be ignored.

- Even though for nearly three fourths of population, agriculture is the main occupation and contributed 50 per cent of gross domestic product, the total bank credit advanced to this sector was only one per cent as on June, 1967. The bulk of the deposits contributed by the public were being advanced to the industrial and trade sectors ignoring the prime sector of agriculture. In agriculture, the credit scene was dominated by the private money lenders who were charging exorbitant rates of interest.
- All these situations compelled the imposition of social control over the banks in 1968.
- The **main aim of social control was achieving of wider spread of bank credit to the priority sectors** thereby reducing the authority of managing directors in advancing the loans.

- Social control created the tempo of banks expansion, as evident by the addition of 785 new branches by the end of first half of 1969. But this did not make dent in increased canalisation of credit to agricultural sector and to the other weaker sections .
- The directions issued by the Government were also ignored by many of the banks. Under these circumstances the Government thought that the social control of banks was not sufficient for socio – economic development and nationalisation of banks was considered as an alternative solution.

- The Government of India on 19th July 1969, promulgated an ordinance called “The Banking companies Ordinance 1969” (Acquisition and Transfer of Undertakings).
- Under this act 14 commercial banks having deposits of more than Rs. 50 crore each were nationalised and they were

- 1. Central Bank of India
- 2. Bank of India
- 3. Punjab National Bank
- 4. Bank of Baroda
- 5. United commercial Bank
- 6. Canara Bank
- 7. United Bank of India
- 8. Dena Bank
- 9. Union Bank of India
- 10. Allahabad Bank
- 11.Syndicate Bank
- 12. Indian Bank
- 13. Bank of Maharashtra
- 14. Indian overseas Bank

objectives of nationalisation of banks (done by the former Prime Minister, Smt. Indira Gandhi) were

- Removal of control on banking business by a few industrialists.
- Elimination of the use of bank credit for speculative and unproductive purposes.
- Expansion of credit to priority areas which were grossly neglected like agriculture and small scale industries.
- Giving a professional bent to the bank management
- Encouragement of new entrepreneurs
- Provision of adequate training to bank staff.

- Encouraged by the success of first spell of nationalization of banks, six more banks in the private sector, having deposits more than Rs. 200 crore were nationalized on 15th April 1980.
- The six banks nationalized in the second spell were
- 1. Punjab and Sind bank
- 2. Andhra Bank
- 3. New Bank of India
- 4. Vijaya Bank
- 5. Oriental Bank of Commerce
- 6. Corporation Bank.

Lead Bank Scheme

- The study group appointed by National Credit Council (NCC) in 1969 under the chairmanship of Prof. D. R. Gadgil recommended “Service Area Approach” for the development of financial structure.
- In the same year i.e., 1969, RBI appointed **Sri. F.K.F Nariman committee** to examine recommendations of Prof. Gadgil’s study group.
- The Nariman committee also endorsed the views of the Gadgil committee on “Service Area Approach” and recommended the formulation of “Lead Bank Scheme”.
- The RBI accepted the Nariman’s committee recommendations and lead bank scheme came into force from 1969.

- Under the lead bank scheme, specific districts are allotted to each bank, which would take the lead role in identifying the potential areas for banking and expanding credit facilities.
- Lead bank is the leading bank among the commercial banks in a district i.e. having maximum number of bank branches in the district.
- Lead bank acts as a consortium leader for coordinating the efforts of all credit institutions in the each allotted district for the development of banking and expansion of credit facilities.

The activities of lead bank

- **Phase I: Survey of the lead district**
- Surveying the potential areas for banking in the district.
- Identifying the business establishments which are so far dependent on non – institutional agencies for credit and financing them so as to raise their income
- Examining the available marketing facilities for agricultural and industrial products and linking credit with marketing.
- Invoking cooperation among different banks in opening new bank branches.
- Estimating the credit gaps in various sectors of district economy.
- Developing contacts and maintaining liaison with the Government and other agencies.

Phase II-Preparation of credit Plans

- Formulate the bankable loaning schemes involving intensive use of labour, so as to generate additional employment.
- Disburse loans to increase the productivity of land in Agriculture and allied activities, so as to increase the income level.
- Give maximum credit to weaker sections of the society mainly for productive purposes. Therefore lead bank scheme expects the banker to become an important participant in the developmental process in the area of its operation in rural areas, and the service area approach put the banker in the position of implementing the development plans.

Regional Rural Banks (RRBs)

- All India Rural Credit Review Committee (AIRCRC) under chairmanship of Sri. B. Venkatappaiah during the year 1969 was of the opinion that over large parts of the country the marginal and small farmers were deprived of having access to the cooperative credit both for production and investment purposes. This stressed the establishment of institutional financial agencies under public sector.
- Consequently the first spell of nationalization of banks was done with greater expectations, but the situation had not changed as per the expectations

- Hence, the Government of India appointed a working committee under the chairmanship of **Sri. M. Narasimham** to study the financial assistance rendered to the weaker sections in the rural areas.
- This working committee recommended the setting up of rural based institutional agencies called "Regional Rural Banks" after identifying shortcomings in the functioning of commercial banks and cooperatives.

- The Government of India accepted the recommendations of **Sri. Narsimham committee** and regional rural banks came in to existence through regional rural banks ordinance on 26th September, 1975. Initially only 5 RRBs were set up on pilot basis with sponsorship of commercial banks on **October 2nd, 1975**. This ordinance of 1975 was replaced by the Regional Rural Banks Act, 1976.

SN	Sponsor bank	RRB	Head quarter
1	Syndicate bank	Pratham Bank	Moradabad
2	SBI	Gorkhapur	Gorakhpur
3	United Bank of India	Guar Grameen Bank	Malda (WB)
4	PNB	Haryana Kshetriya Grameen Bank	Bhiwani (Haryana)
5	UCO	Jaipur Nagaur Anchalik Grameena Bank	Jaipur

objectives of RRBs

- To develop rural economy.
- To provide credit for agriculture and allied activities.
- To encourage small scale industries, artisans in the villages.
- To reduce the dependence of weaker sections (Marginal farmers, small farmers and rural artisans) on private money lenders.
- To fill the gap created by the moratorium on borrowings from private money lenders.
- To make backward and tribal areas economically better by opening new bank branches.
- To help the financially poor people in their consumption needs.

- BRKGB- Baroda Rajasthan Kshetriya Gramin Bank sponsored by Bank of Baroda
- HQ- AJMER

- **RMGB**- Rajasthan Marudhra Gramin Bank sponsored by-SBI
- HQ- Jodhpur

Thank You

Stay safe, stay healthy