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A comprehensive study on the role of RBI in agricultural credit

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Abstract
The present paper study's the Institutional credit flow to agriculture. Institutional credit is the lifeblood of modern economic system without which no system can survive. In agricultural development also its role is crucial. Agriculture is the backbone of our economy and its prosperity can largely be responsible for the wellbeing of the entire economy. Adequate institutional credit is considered to be the most important factor, which if suitably provided, will go a long way to put the economy of the farmers especially the small and marginal farmers on a sound footing. So agriculture and rural development has been on the priority agenda of our policy makers since independence and considerable efforts have been made to develop the rural credit system as means of rural development. The study evaluates the performance of RBI in deploying agricultural credit. The objectives of the study are to review the performance of institutional agencies in deploying agricultural credit and to current status**.**

Keywords: Agriculture, Institutional Credit, RBI, NABARD

Introduction
RBI (Reserve bank of India) is the central bank of India, The origin of the Reserve bank can be traced to 1926, when the royal commission on Indian currency and finance. Also known as the Hilton-Young commission recommended the creation of a central bank to separate the central of currency and credit from the government of augment banking facilities throughout the country. The reserve bank of India act of 1934 established the reserve bank as the banker to the central government and set in nation a series of action culminating in the start of operations in 1935. Since then the Reserve bank roll and function have undergone numerous changes as the nature of Indian economy has changed. Reserve bank of India was nationalized in the year 1949. The Reserve Banks affairs are governed by a central board of directors. The board is appointed by the government of India in keeping with the reserve bank of India act. The central board of directors has twenty one members, the governor and four deputy governor, Two Finance Ministry representatives, ten government nominated directors to represent important elements from India's economy and four directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. India has four zonal offices. It has nineteen regional offices at most state capitals and at a few major cities in India. The bank has also two training colleges for its officers and four zonal training Centre's.

Main Objectives of RBI
- To manage the monetary and credit system of the country.
- To stabilize internal and external value of rupee.
- For balanced and systematic development of banking in the country.
- For the development of organized money market in the country.
- For proper arrangement of agriculture and industrial finance.
- For proper management of public depts.
- To establish monetary relations with other countries of the world and international financial institutions.
- For centralization of cash reserves of commercial banks.
- To maintain balance between the demand and supply of currency.

Objectives of the study

1. To examine the role of RBI in agricultural development in present status.
2. To study the institutional agricultural credit structure.

Research Methodology

This research study is based on the secondary sources. The secondary sources used for

Internet website is various Journals, various references books etc.

Role of RBI in Agricultural Development

Agricultural development is regarded as a prerequisite of economic development of the

country because seventy present of population in the country are engaged in agriculture sector and the total share of agriculture and allied sectors in terms of percentage of GDP is 13.9 percent during 2013-2014 at 2004-05 prices. Agricultural exports constitute a fifth of the total exports of the country. The RBI realizes the basis contributions of the agricultural sector in the overall economic development. This is the sector which:-

1. Provide raw material for industrial sector.
2. Provide the market for producer goods and consumer goods produced in the non agricultural sector.
3. Provide labour and capital to nonagricultural sector.
4. Provide foreign exchange.

On recognizing the fact that agricultural is the foundation on which the entire super structure of the growth of industrial and other sectors of the economy has to stand, the RBI

Develops the agricultural sector. Agricultural is the heartbeat of the Indian economy. Agricultural sector remains dominant despite remark able progress made in the realm of the industrial development, especially in the field of science and technology. The RBI always wanted an apex institute to be set up to help the growth of this sector in India. RBI has a separate for agricultural credit. According to section 54 of the RBI act, it is required to set up a separate agricultural credit department. The department initiates different measures to development a healthy ruler credit structure and provided guidance to state government and cooperative credit structure. The ACD of the bank, however, primarily confines itself to research rather than financing of agriculture. RBI also established the Agricultural Refinance Corporation (ARC) in 1963 to support investment credit needs for agricultural development. Consequent to undertaking of development and promotional function, ARC was renamed as Agricultural Refinance and Development Corporation (ARDC). With the formation of NABARD in 1982, all the activities of ACD and ARDC have been transferred to NABARD.

Agricultural credit

Agriculture credit is the key factor to accelerate agricultural development in India the credit needs of the farmers are of three kinds. Firstly – short –term credit –to finance agricultural operations like purchase of seeds, pesticides and fertilizers. Secondly- medium – term credit – for purchase of ploughs, agricultural equipment's, tractors and other implements to cultivate their lands with the help of modern implements. Thirdly, long-term credit-for agricultural development such as improvement of land, construction of boundaries and horticulture. And the main source of agri-credit to the farmer were the money-lenders, traders and commission agents who charged hive rate of interest and purchased the agricultural product at low price. So it was necessary to provide institutional credit to the farmers. It was a 1935 that the Reserve Bank was founded: the Reserve Bank of India act is unusual among central to have specific provision for attention and to agricultural credit. Section 54 of the act enjoined the Reserve Bank to set up an agricultural credit department, which was to have an expert staff to advise the central government, state government, state cooperative banks and other banks and to co-ordinate RBI function for agricultural credit. Section 17 of the act empowered it to provide agricultural credit through state co-operative banks or any other banks engaged in the business of agricultural credit. The RBI being the central bank of the country does not provide finance directly to the farmers, it provide in direct facility of agricultural through State Co-operative banks. Through the media of Co-operative credit system, the RBI thus provides three type of loans to the agriculturists, as under:-

1. Short- term credit.
2. Medium- term credit.
3. Long-term credit.

Short and medium term loans to the agricultural sector are made available through the

state Co-operative banks and long term credit is provided through the State Land Development Bank by purchasing their debentures. The RBI purchase or rediscounts the bill of exchange of SCB's, hereby providing refinance facilities. The bank has also made provision of long term loans to state government through the National Agricultural Credit Fund. The RBI also undertakes research investigations and surveys relating to rural finance. The bank has been giving very valuable advice to central and state government and to the state co operative bank on matters relating to rural finance.

RBI

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 RBI's role was not only a conventional central banker but it was an active agency that takes all necessary measures for enabling the cooperative system to provide a growingly larger share of rural credit. The adoption of special programs for increasing agricultural production and the spread of green revolution based largely on intensive use of fertilizers, 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 farmers and other weaker sections and four minimizing disparities in flow of credit to various regions. With the setting up of the national bank of agricultural and rural development (NABARD) in July 1982, The RBI's functions relating to the co-operative movement have been taken over by the NABARD. Besides, the RBI still offers loans and advances to SCB's.

NABARD

NABARD was established in July 1982 to oversee and develop the entire rural credit system including agricultural credit. Consequent, the major of the agricultural credit Department of the RBI and the entire undertaking of the ARDC, was taken over by it. Also it took over from the RBI the refinance, development and statutory inspection of co-operative banks and RRB's. The NABARD provides rural credit by way of refinance and loans and advances to state co-operative banks, land development banks, RRB's and other approved financial institutions for financing production, marketing and investment activities relating to agriculture and other allied economic activities in rural areas.

Co-Operative credit societies

An agricultural co-operative, also known as a farmer's co-op, is a co-operative where farmers pool there recourses in certain areas of activity. Co-operative credit societies acts of 1904 and 1912 was the first important land mark in the agricultural credit policy in India. In the subsequent period, the co-operative credit becomes more and more significant. It becomes the most important sources of farm credit in the country. Organizationally, the rural cooperative credit system has a unique structure with some specializing in short –term credit and some other in long term credit. In the field of short-term and medium –term rural credit, the cooperative have three-tire structure with primary agricultural credit societies (PACAs) at the base, District Central cooperative Banks (DCCBs) at the middle level and State Cooperative Banks (SCBs) at the apex. The PACs are affiliated to DCCBs and the later to SCBs with the super tire functioning as a balancing institution of funds for the lower tire. In the sphere of the long term credit, the cooperatives have a two-tier setup with Primary Land Development Banks at the base and State Land Development Banks at the apex level. The organizational structure of the rural cooperative credit system, shown in the following diagram:-

Short-medium term loans

The short term credit structure consists as following:-

1. Primary Agricultural Credit Societies at the base level.
2. Central Cooperative Banks at district level.
3. State Cooperative Bank at State level.

1. Primary Agricultural Credit Societies (PACS):- PACS occupy a predominant position in the cooperative credit system structure and form its base. It is the basic unit which deals directly with the rural borrowers, gives those loans and collects repayments of loans given. It serves as the final link between the ultimate borrower on the one hand and higher financing agencies, namely the SCBs and the RBI/NABARD on the other hand.

2. Central Cooperative Banks: - The district CCB being the middle tier of the cooperative credit structure, it is functionally positioned to deal with the concerns of both the upper and lower tiers. While the SCB may wish the DCCB to prioritize its task in a particular manner, the PACS may have their own demands on the DCCB. Balancing these competing concerns could often be a dilemma for the DCCBs.

3. State Cooperative Banks: - The SCBs provide finance, coordinate and control the working of the central cooperative banks in each state. They serve as the link between the Reserve Bank and the journal money market on the one side and the central cooperative and primary societies on the other hand. They obtain their funds mainly from the journal public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves.

Long-term loans

Land Development Banks were constituted for meeting the long term financial requirement of farmers for purchase and improvement of land, repaying old debits etc. LDBs mortgage the fired assets of the farmers and grant loans up to 50% of the mortgages value. The LDBs functions at two levels. Long-term credit structure consists as following:-

1. Primary Cooperative Agriculture& Rural Development Bank at the base level.
2. State Cooperative Agriculture& Rural Development Bank at state level.

Primary Cooperative Agriculture& Rural Development Bank

These banks work originally organized to cover one or a few talks in the district. At present they are eligible to cover one development block. All land owners are eligible to become members and borrow funds by mortgaging their land. The principal borrower is enrolled as A' class member and other who have interest in the mortgage property are admitted as B' class members

2. State Cooperative Agriculture& Rural Development Bank:- The members of the SCARDBs are the PCARDBs and a few individual promoters. It grants long-term loans to agriculturists through the PCARDBs and branches of SCARDBs. It raises funds through floating debentures, which are guaranteed by the state government. When PCARDBs obtains loan from the SCARDBs, it assigns the mortgage deeds obtained from the borrowers to the SCARDB. The SCARDB floats debentures and raises funds against the security of these properties. The NABARD and LIC subscribe for the debentures in large amounts and the former also extends refinance assistance to CARDBs.

Regional Rural Bank:-The Regional Rural Bank was established on October 2nd 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs, so as to develop agriculture, trade, commerce, industry and other productive activates in rural areas. The aim of the rural banks is to bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economy development in rural area. The equities of rural banks were divided in a proportion of 50:35:15 among the central government, the sponsor bank and the concerned state government.

Commercial Banks:- Commercial bank have a vital role to play in the progress of en economy irrespective of its status as developed or underdeveloped. The all India rural credit review committee under the chairmanship of B. Ventkatappah(1966) examined the rural credit system. It observed that the cooperative credit frequently fell short of standards of the timeliness, adequacy and dependability. The nationalization of commercial banks in 1969 was, therefore, a land mark in the history of Indian banking and see as an opportunity to bring these banks in a big way in the areas of agricultural finance to provide a strong background for economic development. They are providing short, medium and long term loans to agriculturists directly and indirectly. They have been opening branches in hitherto little areas and have also liberalized their lending procedures to bring a larger population within their ambit. They provided a major thrust to rural development with a number of schemes like SAA, DIR, LBS, Consortium approach for development of credit, formulation of DCPs, Review of credit plans etc. These schemes implemented gave a tremendous boost to the government sponsored programs in poverty alleviation, self-employment generation, crop production etc.

Table 1: Agency wise ground level credit flows for agriculture

(Rs. in Crore)

Agency	2012-13	2013-14	2014-15 Provisional
Cooperatives	111203.30	119963.79	138469.51
RRBs	63681.39	82652.72	102482.91
CBs	432490.93	509004.96	599690.77
Total	607375.62	711621.47	840643.19

Source:-NABARD Annual Report (2014-15)

Findings of the study

The RBI has played a unique role in the development of institutional finance for the agricultural sector in our country. It has seriously worked for strengthening the cooperative credit structure in this regard. It has also taken steps for the rehabilitation of the weaker cooperative. In short, the RBI policies and actions, on the whole, remained pragmatic and rational in the appropriate development of the agricultural finance during the course of study. But in spite of this, institutional credit structures have faced some problems:-

1. In serving the credit needs of the agricultural sector, the RBI has adopted the policy of Multi-agency approach. And a major weakness of this approach has been that the farmers are required to contact a number of different agencies to meet their various types of credit needs.
2. The performance of cooperatives in providing rural credit is poor but cooperatives should be strengthened as an important agency because of their suitability.
3. Government should come to the rescue of cooperatives by subscribing to the share capital of the cooperatives.

Conclusion

The performance of the agricultural credit in India reveals that though the overall flow of

Institutional credit has increased over the years, but there are several gaps in the system which include inadequate provision of credit to small and marginal farmers, paucity of medium and long term lending, limited deposit mobilization and heavy dependence on borrowed funds by the major agricultural credit purveyors. The non-institutional sources of agricultural credit still remain and they offer credit at higher rate of interest. To overcome this, the farmers should be made more bankable. The loans to farmers need to be adequate without any stringent rules and regulations. Special packages have to be designed to ensure timely recovery of loans.

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