



INDIAN ECONOMY

(UNIT – III)

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WHAT IS CREDIT?

- ▶ According to Samuelson
- ▶ “Credit is the use of someone else’s funds in exchange for a promise to pay with or without interest at a later date”



DEFINIATION AGRICULTURE CREDIT

- “ Farm Credit or Agriculture Credit is the count of loan or Credit obtained form any source for the promotion & development of Agriculture”
- Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programs. In India there is an immense need for proper agricultural credit as Indian farmers are very poor.
- From the very beginning the prime source of agricultural credit in India was moneylenders.



ON BASIC OF TIME AGRICULTURE CREDIT



**Short Term
Credit**
(up to 15 months)

**Medium Term
Credit**
(from 15 months to 5
years)

Long Term Credit
(more than 5 years)

Types of Agricultural Credit In India



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graph TD; A[Types of Agricultural Credit In India] --- B[ ]; B --- C[ ]; C --> D[Short Term Credit (For a period of less than 15 months to purchase seeds, fertilizers and wages etc)]; C --> E[Medium Term Credit (For 15 months to 5 years to purchase machineries and scientific policy.)]; C --> F[Long Term Credit (For more than 5 years for change in cropping pattern)];
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Short Term Credit (For a period of less than 15 months to purchase seeds, fertilizers and wages etc)

Medium Term Credit (For 15 months to 5 years to purchase machineries and scientific policy.)

Long Term Credit (For more than 5 years for change in cropping pattern)

SOURCES OF AGRICULTURE CREDIT

1. Institutional credit:

- ❖ Here are loans advanced by the institutional agencies like co-operatives, commercial bank.
- ❖ Ex: co-operatives loans, commercial bank loans, Financial institution, Government etc.,,

2. Non - Institutional credit:

- ❖ Here the individual persons will lend the loan.
- ❖ Ex: Loans given by professional & agricultural money lender, traders, commission agent, relatives, friends etc.,

SOURCE OF AGRICULTURAL CREDIT

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graph TD; A[SOURCE OF AGRICULTURAL CREDIT] --> B[1. Institutional Source]; A --> C[2. Non-Institutional Source]; B --> D["(a) Established by Government  
(b) Also known as 'Formal Source of Credit'  
(c) Aim is to provide credit at cheap rate of interest"]; C --> E["(a) Traditional Source of Credit  
(b) Also known as 'Informal Source of Credit'  
(c) They charge high rate of interest"];
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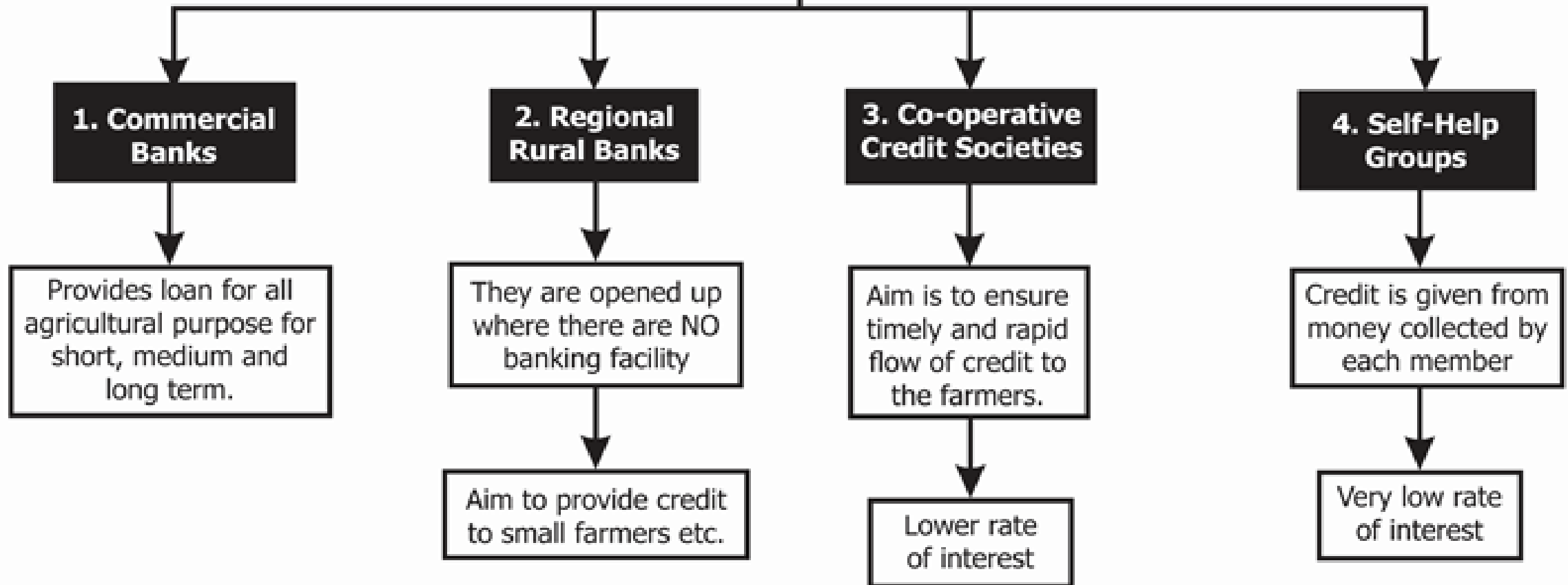
1. Institutional Source

- (a) Established by Government
- (b) Also known as "Formal Source of Credit"
- (c) Aim is to provide credit at cheap rate of interest

2. Non-Institutional Source

- (a) Traditional Source of Credit
- (b) Also known as "Informal Source of Credit"
- (c) They charge high rate of interest

INSTITUTIONAL SOURCE OF CREDIT



NON-INSTITUTIONAL SOURCE OF CREDIT

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graph TD; A[NON-INSTITUTIONAL SOURCE OF CREDIT] --> B[1. Money Lenders]; A --> C[2. Rich Land Lords]; A --> D[3. Traders and Commission Agents]; A --> E[4. Relatives and Friends]; B --> B1[Famous source provide credit to all rural people]; C --> C1[Provide loan to small and marginal farmers at high rate of interest]; D --> D1[Provide credit to peasants on mortgaging crops at high rate]; E --> E1[Credit from relative and friends at no interest];
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1. Money Lenders

Famous source provide credit to all rural people

2. Rich Land Lords

Provide loan to small and marginal farmers at high rate of interest

3. Traders and Commission Agents

Provide credit to peasants on mortgaging crops at high rate

4. Relatives and Friends

Credit from relative and friends at no interest



Institutional Credit Agencies(1/8)

❖Co-operative Societies:

❖Primary Agricultural Credit Societies (PACs):

- These are organized at the village level
- These societies generally advance loans only for productive purposes
- The main objective of a PACS is to raise capital for the purpose of giving loans
- And supporting the essential activities such as supply of agricultural inputs at cheap price, improving irrigation on land owned by members, encourage various income-augmenting activities such as horticulture, animal husbandry, poultry etc.

Institutional Credit Agencies(2/8)



❖ District Central Cooperative Banks:

- These cooperatives are organized at the district level
- The PACS are affiliated to the District Central Co-operative Banks (DCCBs)
- DCCBs coordinate the activities of district central financing agencies, organize credit for PACs and carry out banking business

❖ State Co-Operative Banks:

- The DCCBs are affiliated to State Co-operative Banks (SCBs), which coordinate the activities of DCCBs,
- It organize provision of finance for credit worthy farmers, carry out banking business and act as leader of the Co-operatives in the States

Institutional Credit Agencies(3/8)



❖ Commercial Banks:

- Commercial banks are providing finance both directly and indirectly
- Direct finance is for agricultural operation for short and medium periods
- Indirect finance refers to advance for distribution of fertilization and other inputs





Institutional Credit Agencies(4/8)

❖ Land Development Banks

- Land Development Banks were set up in order provide for long term finance
- Previously they were called Land Mortgage Banks; the objective of the bank is to provide long term credit to cultivators against the mortgage of their lands

These banks provide loans for :-

- Repayment of old loans to cultivators
- Purchasing new land
- Digging, construction and repairing of the well





Institutional Credit Agencies(5/8)

❖ Regional Rural Banks

- The Regional Rural Banks were set up in 1975 on the recommendations of M. Narsimha committee
- The main objective of the RRBS is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs so as to develop agriculture, trade commerce, industry and other productive activities in the rural areas





Institutional Credit Agencies(7/8)

❖ NABARD

- NABARD was set up as the government needed an Apex institution to extend support and give guidance to credit institutions
- NABARD was set up in July 1982 and it took over the functions of ARDC and also the functions of the RBI in relation to co-operative banks and RRBs
- The main objective of the NABARD is to look after agricultural credit
- It also has to provide refinance facilities to all banks and financial institution lending to agricultural and rural development



Contribution of NABARD to Agricultural finance

- ❖ Refinance to state government & co-op. banks
- ❖ Development of Rural Infrastructure Development Fund
- ❖ Promotion of Micro-finance
- ❖ Bulk Lending Support to NGOs
- ❖ Tribal Development Project in Gujarat (wadi project)
- ❖ Kisan Credit Card Scheme
- ❖ Gender Development through Credit: Assistance to Rural Women in Non-Farm Activities (ARWIND)
- ❖ Refinance under Swarnajayanti Gram Swarojgar Yojna Supervising body
- ❖ Farm Income Insurance Scheme (FIIS) 2003-04
- ❖ Differential Rate of Interest (DRI) 1972



COMMERCIAL BANKS	RRB
1. Located throughout the countries	Located in backward areas
2. No restriction for customers	Farmers are main customers
3. Loans given to commercial rate of interest	Loans will be given at concession rate of interest
4. Profit motive	Service motive
5. It is owned by public and central government	It is owned by central and state government
6. The scope of commercial banks is wide and it not only provides agriculture finance but also housing loan, car finance, letter of credit, credit to big companies and for many activities	Scope of RRB is limited to agriculture finance, small sector loans, handicrafts and other small sector loans
7. The focus of commercial banks apart from lending and borrowing is on many other services like stock broking, asset management, insurance, merchant banking, venture capital financing, foreign exchange, etc.	The focus of RRB is more on accepting deposits and granting of loans to the people