Agricultural Finance & Cooperation

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Course Name	Agricultural Finance & Cooperation
Lesson 1	Agricultural Finance- Meaning, Scope And Significance, Credit Needs And Its Role In Indian Agriculture
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Objectives of the lecture

- To explain the student about the meaning, definitions, scope of Agricultural finance.
- To elucidate credit needs in agriculture.
- To explain the role of agricultural finance in India Agriculture.

Meaning of Agricultural Finance:

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

The financial aspects include money matters relating to production of agricultural products and their disposal/ marketing.

The study of agricultural finance involves two aspects i.e. acquisition of funds and optimum utilization of funds within the farm business

Definition of Agricultural finance:

Murray (in 1953) defined Agricultural Finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture ."

Tandon and Dhondyal (1962) defined Agricultural Finance "as branch of Agricultural Economics, which deals with and financial resources related to individual farm units."

Nature & Scope:

Agricultural finance can be dealt at both micro level and macro level. Macro-finance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related / pertains to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business/units. And it is concerned with the study how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses within the farm. It is also concerned with the future use of funds.

Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture while micro-finance refers to the financial management of individual farm business.

Credit needs in Agriculture:

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. For a long time, the major source of agricultural credit was private moneylenders. But this source of credit was inadequate, highly expensive and exploitative. To curtail this, since independence, a multi-agency approach consisting of cooperatives, commercial banks and regional rural banks i.e. institutional credit has been adopted to provide cheaper, timely and adequate credit to farmers.

The financial requirements/credit needs of the Indian farmers are meant for,

1. Buying of agricultural inputs like seeds, fertilizers, plant protection chemicals, feed & fodder for cattle etc.
2. Support their families in those years when the crops have not been good (or) adequate for the purpose.
3. Buying additional land, to make improvements on the existing land, to pay off old debt and to purchase costly agricultural machinery.
4. To increase the farm efficiency as against limiting resources i.e. hiring of irrigation water lifting devices, labor and machinery.

Significance (or) Importance of Agricultural finance:

1) Farm finance / Agril. finance assumes vital / significant importance in the agro – socio – economic development of the country both at macro and micro level.
2) It is playing a catalytic role in strengthening the farm business and augmenting / improving the productivity of scarce resources Ex: When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.
3) Use of new technological inputs purchased through farm finance helps to increase the agricultural Productivity.
4) Accretion to / increasing in farm assets and farm supporting infrastructure provided by large scale financial investment activities result in increased farm income levels leading to increased standard of living of rural masses.
5) Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset & wealth variations.
6) Farm finance is like a lever with both forward & backward linkages to the economic development at micro and macro level.
7) As Indian agriculture is still of traditional & subsistence in nature, Agricultural finance is needed to create the supporting infrastructure for adoptions of new technology.
8) Massive / huge investment is needed to carry out major & minor irrigation projects, rural electrification, installation of fertilizer & pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

Designed and developed under the aegis of NAHEP Component-2 Project "Investments In ICAR Leadership In Agricultural Higher Education"
Division of Computer Applications, ICAR-Indian Agricultural Statistics Research Institute

Course Name	Agricultural Finance & Cooperation
Lesson 2	Agricultural Credit: Meaning, Definition, Classification
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Objectives of the lecture

- To explain the meaning and definitions of credit.
- To elucidate the detailed classification of credit

Meaning: The word "Credit" comes from the Latin word "**Credo**" which means "I Believe". Hence credit is based upon belief, confidence, trust and faith. Credit is otherwise called as loan.

Credit is the trust which allows one party to provide money or resources to another party wherein the second party does not reimburse the first party immediately but promises either to repay or return those resources (or other materials of equal value) at a later date.

The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower.

Definition:

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

(or)

According to Professor **Galbraith** credit is the "Temporary transfer of asset from one who has to other who has not"

Credit is broadly classified based on various criteria:

1. Based on time: This classification is based on the repayment period of the loan. It is sub-divided in to 3 types

i. **Short–term loans:** These loans are to be repaid within a period 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. The farmers requires this type of credit to meet the expenses of the ongoing agricultural operations on the farm like sowing, fertilizer application, plant protection measures, payment of wages to casual laborers etc. The borrower is supposed to repay the loan from the sale proceeds / money obtained from the sale of the crops raised.

ii. **Medium – term loans:** Here the repayment period vary 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. The relatively longer period of repayment of these loans is due to their partially-liquidating nature.

iii. **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 levelling and reclamation of land, construction of farm buildings purchase of tractors, rising of orchards etc. Since these activities require large capital, a longer period is required to repay the loan (or) due to their non - liquidating nature.

2. Based on Purpose: Based on purpose credit is sub-divided in to 4 types.

i. **Production loans**: These loans refer to the credit given to the farmers for crop production. These loans are intended to increase the production of crops. They are also called as seasonal Agril operations (SAO) loans (or) Short – term loans (or) crop loans. These loans are repayable with in a period ranging from 6 to 18 months in lumpsum.

ii. **Investment loans**: These are loans given for purchase of equipment whose productivity is distributed over more than one year. Ex: Loans given for tractors, pump sets, tube wells etc.

iii. **Marketing loans:** These loans are meant to help the farmers in overcoming the distress/forced sales and to market the produce in a better way. Regulated markets and commercial banks, based on the ware house receipt are lending the financial assistance in the form of marketing loans by advancing 75% of the value of the produce. These loans help the farmers to clear off their debts and dispose the produce at remunerative prices.

iv. **Consumption loans**: Any loan advanced for some purpose other than production is broadly categorized as consumption loan. These loans are seems to be unproductive but indirectly assists in more productive use of the crop loans i.e. with out diverting then to other purposes. These loans are not very widely advanced and restricted to the areas which are hit by natural calamities. These loans are extended based on group guarantee basin with a maximum of three members. The loan in to be repaid within 5 crop seasons (or) 2.5 years whichever is less. The branch manager is vested with the decretory power of sanctioning these loans up to Rs. 5000 in each individual case. The rate of interest is around 11 per cent.

The scheme may be extended to

1) IRDP beneficiaries
2) Small & marginal farmers
3) Landless Agril. Labourers
4) Rural artisans
5) Other people with very small means of lively hood such as carpenters, barbers, washermen etc.

Consumption credit is provided for the following purposes (since 1976):

i) Medical expenses Rs. 500/-
ii) Expenses related to Marriage needs -Rs. 500/-
iii) Educational needs Rs. 200/-
iv) Birth , funerals etc Rs.150/-
v) Religious ceremonies Rs.150/-
vi) General consumption Rs.150/-

4. Based on security: The loans transacted between lender and borrower is governed by confidence and this assumption is confined to private lending to some extent, but the institutional financial agencies do have their own procedural formalities on credit transactions. Therefore it is essential to classify the loans under this category in to two sub-categories viz., secured and unsecured loans .

I. **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 (i.e. based on the understanding between lender & borrower)

ii. **Collateral Security**: Here a property is pledged to secure a loan. The movable properties if the individuals like LIC bonds, fixed deposit bonds, warehouse receipts, machinery, livestock etc, are offered as security.

iii. **Chattel loans:** In these loans credit is obtained from pawn-brokers by pledging movable properties such as jewellary, utensils made of various metals etc.

iv. **Mortgage:** As against to collateral security immovable properties are presented for security purpose Ex: 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 it is called simple mortgage. Here, the farmer borrower has to register his property in the name of the banking institution as a security for the loan he obtains. The registration charges are to be borne by the borrower.

b) **Equitable mortgage:** When the mortgaged property is self-acquired property of the barrower, it is called equitable mortgage. In this no such registration is required, because the ownership rights are clearly specified in the title deeds in the name of farmer-borrower.

v. **Hypothecated loans**: Borrower has a national charge 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. The person who creates the charge of hypothecation is called as hypothecator (barrower) and the person in whose favor it is created is known as hypothecate (bank) and the property, which is denoted as hypothecated property. This happens in 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 instalment regularly.

Hypothecated loans are of again 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 position of the purchased machinery rests with the borrower , but the legal ownership remains with the lending institution till the loan is repaid .

II. **Unsecured loans:** Just basing on the confidence between the borrower and lender, the loan transactions takes place. No security is kept against the loan amount

5. Lender's classification: Credit is also classified on the basis of lender such as of

i. **Institutional credit:** Here are loans are advanced by the institutional agencies like co-operatives, commercial banks. Ex: Co-operative loans and commercial bank loans.

ii. **Non-institutional credit :** Here the individual persons will lend the loans Ex: Loans given by professional and agricultural money lenders, traders, commission agents, relatives and friends etc.

6. Barrowers classification: The credit is also classified on the basis of type of barrower. This classification has equity considerations.

Based on the business activity like crop farmers, dairy farmers, poultry farmers, pisiculture farmers, rural artisans etc.

i. Based on size of the farm: agricultural laborers, marginal farmers, small farmers , medium farmers , large farmers ,
ii. Based on location hill farmers (or) tribal farmers.

7. Based on liquidity: The credit can be classified into two types based liquidity and they are

i. **Self-liquidating loans**: They generate income immediately and are to be with in one year or after the completion of one crop season. Ex: crop loans.
ii. **Partially -liquidating (or) non- liquidating loans**: 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 each loan was taken. Ex: Dairy loans, Tractor loans, orchard loans etc.,

8. Based on approach:

i. **Individual approach**: Loans advanced to individuals for different purposes will fall under this category
ii. **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
   - **Differential Interest Rate (DIR) approach**: Under this approach loans will be given to the weaker sections @ 4 per cent per annum.

9. Based on contact:

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

Course Name	Agricultural Finance & Cooperation
Lesson 3	R's, and 5 C's and 7 P's of farm credits.
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Objectives of the lecture

- To explain the economic feasibility tests i.e. 3R's
- To elucidate 5C's and 7P's of farm finance

The technological break-thorough achieved by Indian Agriculture made the agriculture capital intensive. In India most of the farmers are capital starved/ lack of capital base through credit. The farmers need credit at right time, through right agency and in adequate quantity to realize maximum productivity. This is from farmer's point of view. In contrast from farmer's point of view, when a farmer approaches an Institutional Financial Agency (IFA) with a loan proposal, the banker should be convinced about the economic viability of the proposed investment/ loan proposal.

Economic Feasibility Tests of Credit

When the economic feasibility of the credit is being observed, three basic financial aspects are to be assessed by the banker.

If the loan is advanced,

1. Will it generate returns more than costs?

2. Will the returns have surplus, to repay the loan when it falls due?

3. Will the farmer stand up to the risk and uncertainty in farming?

These three financial aspects are known as 3 R's of credit, which are as follows

1. Returns from the proposed investment

2. Repayment capacity the investment generates

3. Risk- bearing ability of the farmer-borrower

The 3R's of credit are sound indicators of credit worthiness of the farmers.

1. **Returns from the Investment**
   This is an important measure in credit analysis. The banker/ lender 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 able to generate returns that make him to meet the costs. Returns obtained by the farmer depends 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.

To estimate the additional /incremental returns from using the borrowed funds, the Partial Budgeting Technique can be used as given in the table 1.

Table 1: Partial Budgeting Technique

Season/Crop	Existing plan				Season/Crop	Alternate Plan			
	Area(Ha)	Gross Returns (In Rs.)	Costs Incurred (In Rs.)	Net Returns (In Rs.)		Area(Ha)	Gross Returns (In Rs.)	Costs Incurred (In Rs.)	
Kharif Paddy (Improved Variety)	1.0	7000	3500	3500	Kharif Paddy (HYV)	1.0	11500	5200	6300
Rabi Paddy (Improved Variety)	1.0	7400	3900	3500	Rabi Paddy (HYV)	1.0	12000	5600	6400

Partial Budgeting Technique:

Added Costs+ Reduced Returns are equated with Added Returns +Reduced Returns

a)

i) Added costs =5200+5600=Rs. 10,800/-

ii) Reduced Returns= 7000+7400 = Rs.14400/-

Total = ------------

Rs. 25200/-

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b) Added Returns =11500+12000=Rs. 23500/-

ii) Reduced costs = 3500+3900 = Rs.7400/-

Total = ------------

Rs.30900/-

By getting a loan amount of Rs. 4500 and Rs. 4600 in Kharif and Rabi respectively the farmer can switch over from cultivation of improved varieties of paddy to High Yielding Varieties of paddy in both the seasons. He credit so obtained is quite productive in generating an incremental income of Rs. 5700/- per hectare of land. Based on this a farmer can present his claim for credit to the banker/ Institutional Financial Agency.

2. <u>Repayment Capacity:</u>

Repayment capacity is nothing but the ability of the farmer to repay the loan/ clear off the loan obtained for the productive purpose within 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 profitable but also have potential for repayment of the loan amount. Under such conditions only the farmer will get the loan amount.

The repayment capacity not only depends on returns, but also on several other quantitative and qualitative factors as given below.

$Y = f(\underline{X1, X_2, X_3, X4} \quad \underline{X_5, X_6, X_7}\ldots)$

Where Y, the dependant variable is the Repayment Capacity

Independent variables $X_1$to X_4 are considered as quantitative factors i.e. their affect can be quantified/measurable and while the X_5 to X_7 are considered as qualitative factors and their effect can be felt but not quantifiable.

$X_1(+)$ = gross returns from the enterprise for which the loan was taken during a season /year (in Rs.)

$X_2(-)$ = working expenses in Rs.

$X_3(-)$ = family consumption expenditure in Rs.

$X_4(-)$ = other loans due in Rs.

$X_5(+)$ = Literacy

$X_6(+)$ = Managerial skill

$X_7(+)$ = Moral Character like honesty, integrity etc.,

Hence, even though the returns are high, the repayment capacity is less because of other factors.

The estimation of repayment capacity varies from crop loans (i.e. Self liquidating loans) to term loans (Partially liquidating loans and non-liquidating loans)

i) Repayment capacity for Crop loans/self -liquidating loans

Gross Income- (working expenses + family living expenses + other loans due+ miscellaneous expenditure + crop loan)

ii) Repayment capacity for term loans/partially -liquidating and non-liquidating loans)

Gross Income- (working expenses + family living expenses + other loans due+ miscellaneous expenditure + annual installment due for term loan).

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 obtained credit for unproductive purposes
6. Low farmers equity/networth.
7. Lack of adoption of improved technology.
8. Poor management of limited farm resources.

Measures for increasing/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 networth 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.,

3. 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.

Some sources / types of risk

1. Production/ physical risk: loss in quantity and quality of the farm products during production and storage.
2. Technological risk: New technology is also sometimes fraught with risk
3. Personal Risk
   Risk due to illiteracy and ignorance of the farmer and inefficiency of the farmer due to sickness are considered as personal risk.
4. Institutional risk; Risk arising due to change in government policies.
5. Weather uncertainty: Due to aberrations in weather parameters
6. Price Risk: Risk arising due to extreme fluctuations in prices of agricultural commodities

Repayment capacity under risk:

Deflated Gross Income- (working expenses + family living expenses + other loans due+ miscellaneous expenditure + crop loan)

(or)

Deflated Gross Income- (working expenses + family living expenses + other loans due+ miscellaneous expenditure + annual installment due for term loan)

Here to incorporate the component of risk the gross returns are deflated.

Deflated Gross Income= Gross income-(Gross income X Coefficient of variation)

If gross income = Rs. 48,000/-   Coefficient of Variation= 15%

Deflated Gross Income= 48000-(48000X0.15) = Rs.40800/-

Measures to strengthen Risk bearing ability:

1. Increasing the owner's equity/networth
2. Reducing the farm and family expenditure.

3. Developing the moral character i.e. the 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 study income)
5. Improving the ability to borrow funds at 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 C's of farm credit:

Next to 3 R's of credit, the other important tests applied to study the economic feasibility of the proposed investment activity are 5 C's of credit viz., Character, capacity, capital, condition and commonsense.

1. Character:

The basis for any credit transaction is trust. Even though the bank insists upon security while lending a loan, an element of trust by the banker will also play a major role. The confidence of an institutional financial agency on its borrowers is influenced by the moral characters of the borrower like honesty, integrity, commitment, hard work, promptness etc. Therefore both mental and moral character of a borrower will be examined while advancing a loan. Generally people with good mental and moral character will have good credit character.

2. Capacity:

It means capacity of an individual borrower to repay the loans when hey falls due. It largely depends upon the income obtained from the farm.

C= f(Y), where C= capacity Y = income

3. Capital:

Capital indicates the availability of money with the farmer borrower. When his capacity and character are proved to be in adequate the capital will be considered. It represents the networth of the farmer. It is related to the repayment capacity and risk bearing ability of the farmer borrower.

4. Condition:

It refers to the conditions needed for obtaining loan from financial institutions i.e. procedure to be followed while advancing a loan.

5. Commonsense:

This relates to the perfect understanding between the lender and the borrower in credit transactions. This is in fact Prima-facie (Main) requirement in obtaining credit by the borrower.

Principles of farm finance / agricultural finance/7 P's of farm credit:

The increased role of financial institutions due to technological changes on agricultural front necessitated the evolving of principles of farm finance, which are expected to bring not only the commercial gains to the bankers but also social benefits. The principles so evolved by the institutional financial agencies are expected to have universal validity. These principles are popularly called as 7 P's of farm credit and they are

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.

7. Principle of Protection.

1. Principle of productive purpose:

This principle refers that the loan amount given to a farmer borrower should be capable of generating additional/incremental income.

Based on the level of the owned capital available with the farmer, the credit needs of them vary. The requirement of capital is visible in all farms but more pronounced in marginal and small farms. The farmers of these small and tiny holdings do need another type of credit i.e. consumption credit, so as to use the crop loans productively (without diverting them to unproductive purposes). In spite of knowing this, the consumption credit is relegated/brought back to the backseat by the institutional financial agencies.

If one wants this principle of productive purpose holds good, crop loans/short term loans of the small and marginal farmers are to be supported with income generating assets acquired through term loans. The additional incomes generated from these productive assets add to the income obtained from the farming and there by increases the productivity of crop loans taken by small and marginal farmers.

The examples of some assets, for purchase of which the term loans are needed are loans for dairy animals, sheep &goat, poultry birds, installation of pump sets on group action etc.

2. Principle of personality:

The 3R's of credit are sound indicators of credit worthiness of the farmers. Over the years of experiences in lending the bankers have identified an important factor in credit transactions i.e. trust worthiness of the borrower. It has relevance with the personality of the individual.

When a farmer borrower fails to repay the due crop failure caused by natural calamities, he will not be considered as willful defaulter. Whereas a big farmer who is using the loan amount profitably but fails to repay the loan, then he is considered as willful defaulter. This character of the big farmer is considered as dishonesty.

Therefore the safety element of the loan is not totally depends up on the security offered but also on the personality (Credit Character) of the borrower. Moreover the growth and progress of the lending institutions have s dependence on this major influencing factor i.e. personality. Hence the personality of the borrower and the growth of the financial institutions are interlinked.

3. Principle of Productivity:

This principle underlines that the credit which is not just meant for increasing production from that enterprise alone but also it should be able to increase the productivity of other factors employed in that enterprise. For example the use of high yielding varieties (HYV's) in crops and superior breeds of animals not only increase the productivity by themselves, but also should increase the productivity of other complementary factors employed in the respective production activities. Hence this principle emphasizes on making the resources as productive as possible by the selection of most appropriate enterprises.

4. Principle of phased disbursement:

As no enterprise or an investment activity needs all the funs at a time but spread over a period of time. This principle underlines that the loan amount needs to be distribute in phases/ spells, so as to make it productive and at the same time banker can also be sure about the proper end use of the borrowed funds.

The phased disbursement of loan amount fits for taking up of cultivation of perennial crops and investment activities to overcome the diversion of funds for unproductive purposes. But one disadvantage of here is that it will make the cost of credit higher. That's why the interest rates are higher for term loans when compared to the crop loans.

5. Principle of proper utilization:

Proper utilization implies that the borrowed funds are to be utilized for which purpose they are given. It depends upon the situation prevailing in the rural areas viz., the resources like seeds, fertilizers, pesticides etc., free from adulteration, whether infrastructural facilities like storage, transportation, marketing etc., are available. Therefore proper utilization of funds is possible, if there exists suitable conditions for investment. If the price stability is there it helps the farmer in planning the cropping pattern for effective use of funds.

6. Principle of payment:

This principle deals with the fixing of repayment schedule for the loans advanced by the institutional financial agencies.

For investment credit like irrigation structures, tractors, the annual repayments are fixed over a number of years based on the incremental returns that are supposed to be obtained after deducting the consumption needs of the farmers.

With reference to crop loans, the loan is to be repaid in lumpsum because the farmer will realize the output only once. A grace period of 2-3 months will be allowed after the harvest of crop to enable the farmer to realize a remunerative price for his produce. Otherwise the farmer will resort to distress sales. When the crops fail due to unfavourable weather conditions, the repayment is not insisted upon immediately. Under such conditions the repayment period is extended (or) differed besides assisting the farmer with another fresh loan to enable him to carry on the farm business.

7. Principle of Protection:

Because of unforeseen natural calamities striking farming more often, institutional financial agencies cannot abstain themselves from extending loans to the farmers. Instead of that they resort to safety measures while advancing loans like

- Insurance coverage
- Linking credit with marketing (or) tie-up arrangement
- Providing finance on production of warehouse receipt
- Taking sureties: Banks advance loans either by hypothecation (or) mortgage of assets
- Credit guarantee: When banks fail to recover loans advanced to the weaker sections, Deposit Insurance Credit Guarantee Corporation of India (DICGC) reimburses/ repays the loans to the lending agencies on behalf of the borrowers.

Books referred

1. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
2. Agricultural Economics by S .Subba Reddy, P. Raghuram, T.V.N. Sastry and I Bhavani Devi. Oxford & IBP publishing company Ltd. New Delhi.

Course Name	Agricultural Finance & Cooperation
Lesson 4	Sources of agricultural finance in India: Institutional and non-institutional sources
Content Creator Name	Saddikuti Hyma Jyothi
University/College Name	Acharya N.G. Ranga Agricultural University, Guntur
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Source of Agricultural Credit in India

There are two broad sources of agricultural credit in India:

(1) Non-Institutional Sources

2) Institutional Sources

(1) Non-Institutional Sources: The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The land or other assets are kept as collateral. The important sources of non-institutional credit are

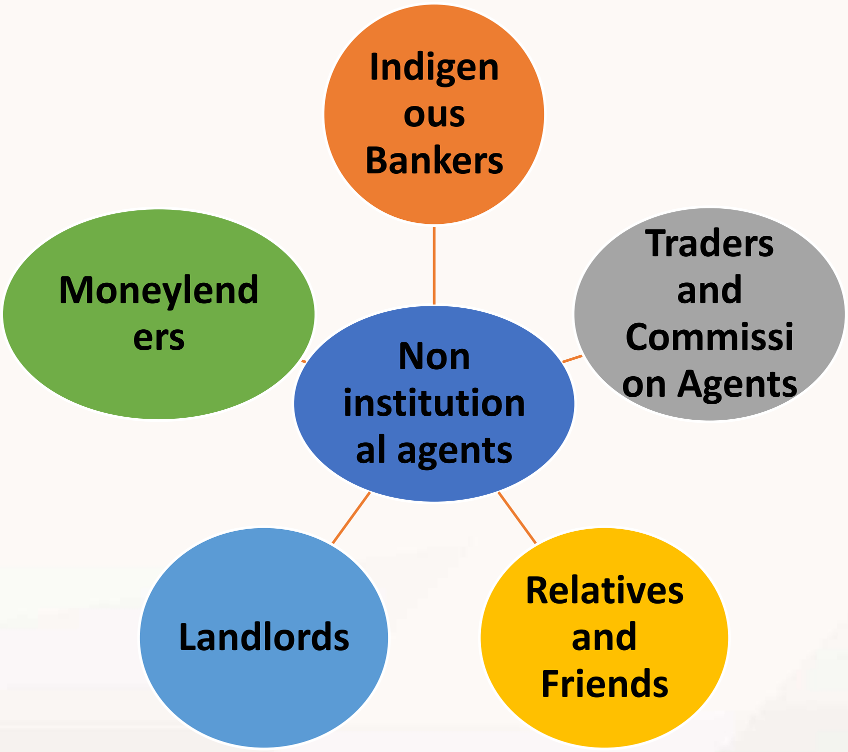
(i) Money-Lenders: Money-lending has been the widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators and in some cases even the peasants and members of his family are kept as collateral.

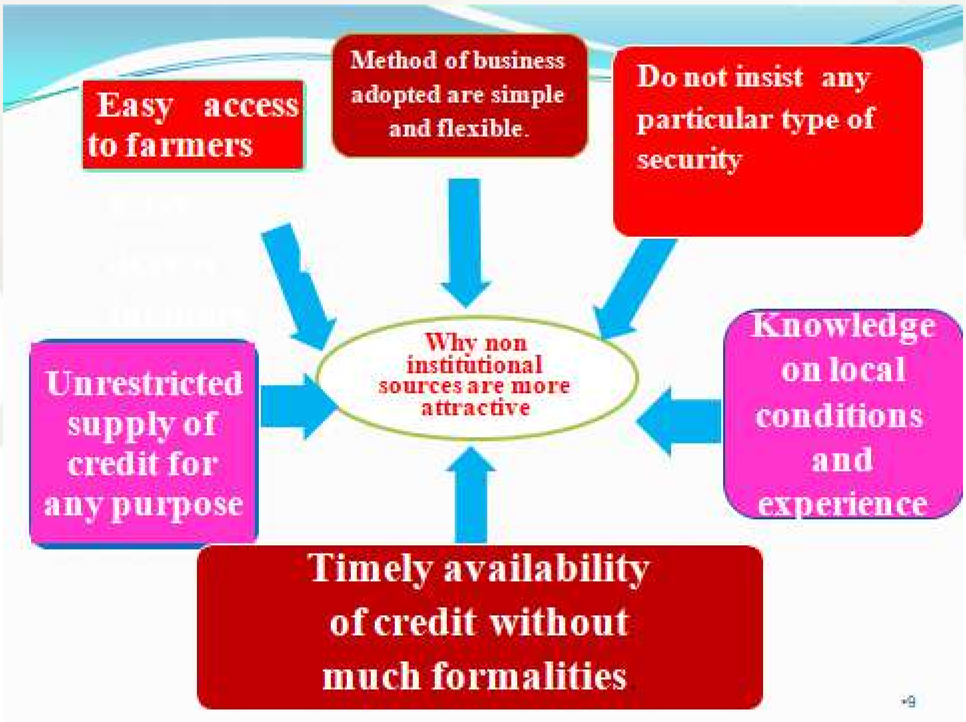
(ii) Other Private Sources:

(a) Traders, landlords and commission agents: The agents give credit on the hypothecation of crops which when harvested is used to repay loans.

(b) Credit from relatives: These credits are generally used for meeting personal expenditure.

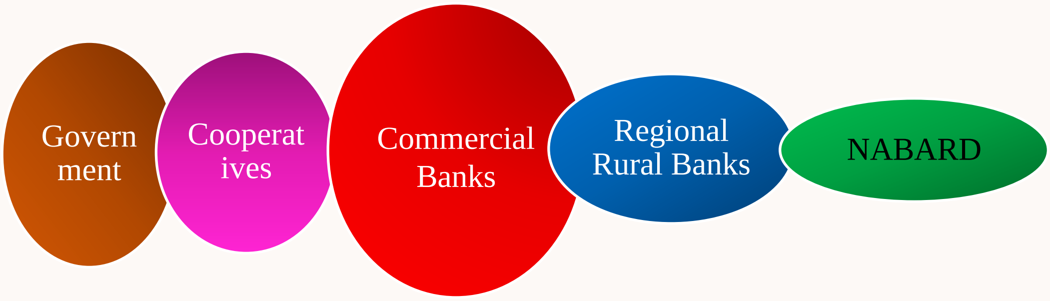
Fig: Non institutional sources of farm finance:





2) Institutional Sources: National Bank for Agriculture and Rural Development (NABARD) is <u>an apex institution</u> established in 1982 for rural credit in India.

Fig: The major institutions supplying credit to agricultural sectors



1. Rural Co-Operative Credit Institutions:

Rural Credit cooperatives are the oldest and most extensive form of rural institutional financing in India. The rural credit cooperatives may be further divided into

short-term credit cooperatives: The short-term credit cooperatives provide short-term rural credit and are based on a three-tier structure as follows:

(a) State Co-Operative Banks: At apex level
(b) District Central Cooperative Banks:
(c) Primary Agricultural Credit Societies (PACs): Grass root level institutions .

Long-term credit Cooperatives: These cooperatives meet long-term credit of the farmers and are organized at two levels:

a) Primary Agriculture land Development Banks(PALDBS): These banks operate at the village level as an independent unit.

b) Comprehensive Land Development Banks (CLDBs): These banks operate at state level.

2. Commercial Banks:

- Commercial Banks (CBs) provide rural credit by establishing their branches in the rural areas. The share of commercial banks in rural credit was very meager till 1969.
- Social Control of Banks – 1968
- ***First spell of nationalization of banks- 1969, 14 commercial banks were nationalized having deposits worth of > 50 crores.
- ***Second spell of nationalization of banks- 1980, 6 commercial banks were nationalized having deposits worth of > 200 crores.

Amalgamation / merger of commercial banks in India, 2020

- After the merger on 01.04.2020 there are only 12 public sector banks (PSBs) in India - six merged banks and six independent public sector banks.
- Six merged banks - SBI, Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India, Indian Bank
- Six independent banks - Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Punjab and Sind Bank, Bank of India, Central Bank of India.
- ***Andhra bank was merged with Union bank.

3. Regional Rural Banks (RRBs):

- RRBs are the specialized banks established in 1975 under RRB Act, 1976 to cater to the needs of the rural poor.
- RRBs are set-up as rural-oriented commercial banks with the low cost profile of cooperatives but with the professional discipline and modern outlook of commercial banks.
- RRBs were established based on the recommendations of Sri. M. Narasaimham Committee.
- RRBs primarily cover small and marginal farmers, landless laborers, rural artisans, small traders and other weaker sections of the rural community.

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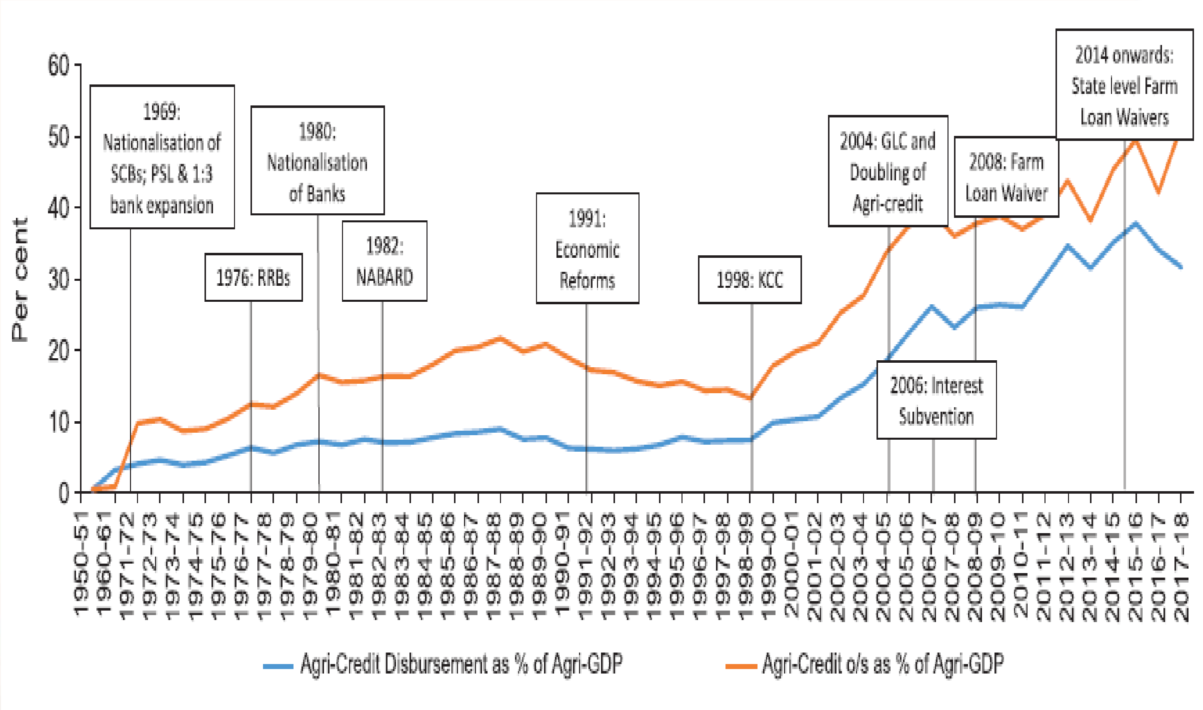
Direct Agricultural credit as percentage of Agricultural GDP (at current prices)



Source: RBI Report, 2019.

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2. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
3. Agricultural Economics by S .Subba Reddy, P. Raghuram, T.V.N. Sastry and I Bhavani Devi. Oxford & IBP publishing company Ltd. New Delhi

Course Name	Agricultural Finance & Cooperation
Lesson 5	Commercial banks, social control and nationalization of commercial banks
Content Creator Name	Saddikuti Hyma Jyothi
University/College Name	Acharya N.G. Ranga Agricultural University, Guntur
Course Reviewer Name	Dr. Sudhakar Dwivedi
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A commercial bank is a financial institution that grants loans, accepts deposits, and offers basic financial products such as savings accounts and certificates of deposit to individuals and businesses. It makes money primarily by providing different types of loans to customers and charging interest

Functions of Commercial Banks

The basic role of a commercial bank is to provide financial services to the general public, businesses, and companies. Banks also ensure economic stability and sustainable growth of a country's economy. A commercial bank performs the following functions

1. Accepting Deposits

Accepting deposits is one of the oldest functions of a commercial bank. When banks started, they charged a commission for keeping money on behalf of the public. With the changes in the banking industry over the years and the profitability of the business, banks now pay a small amount of interest to the depositors who keep money with them. However, depositors also incur administrative fees to maintain their accounts.

Banks accept three types of deposits. The first one is the savings deposit for small savers who are paid interest on their accounts. They can withdraw their money up to a limited amount by writing a cheque. The second type of deposit is the current account for people in business who can withdraw their money at any time without notice. Banks do not typically pay interest on deposits held in current accounts. Instead, the account holders are charged a nominal fee for the services rendered.

The last type of deposit is the term or fixed deposit. Customers who have money that they do not need for the next six months or more can save in the fixed account. The rate of interest paid increases with the length of the fixed deposit. Customers can only withdraw the money at the end of the agreed period by writing to the bank.

2. Advancing Credit Facilities

Advancing loans is an essential function of banks since it accounts for the highest percentage of revenue earned annually. Banks mostly offer short-term and medium-term loans from a percentage of the cash deposits at a high interest rate. They do not provide long-term financing due to the need to maintain liquidity of assets. Before advancing loans to customers, banks consider the borrower's financial status, business profitability, nature and size of the business, and ability to repay the loan without default.

3. Credit Creation

While granting loans to customers, banks do not provide the loan in cash to the borrower. Instead, the bank creates a deposit account from which the borrower can draw funds. This allows the borrower to withdraw money by cheque according to his needs. By creating a demand deposit in the borrower's account without printing additional money, the bank increases the amount of money in circulation.

4. Agency Functions

Commercial banks serve as agents of their customers by helping them in collecting and paying cheques, dividends, interest warrants, and bills of exchange. Also, they pay insurance premiums, utility bills, rent, and other charges on behalf of their clients.

Banks also trade shares, securities, and debentures, and they provide advisory services for customers that want to buy or sell these investments. In property administration, commercial banks act as trustees and executors of the estate on behalf of their customers. Banks charge a nominal fee for the agency functions performed on behalf of their clients.

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Other Functions

Apart from the above primary functions, banks also perform several other functions. They provide foreign exchange to clients who are in the import and export business, by buying and selling foreign currency. However, banks must get permission from the regulatory body, mainly the central bank, before dealing with foreign exchange.

A commercial bank also acts as a custodian of precious stones and other valuables. They provide customers with lockers where they can put their jewelry, precious metals, and crucial documents. Such items are more secure when stored at the bank than keeping them at home where they may be stolen or damaged.

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, 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 a good 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 / very high rates of interest.

All these situations compelled / forced 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 there by reducing the authority of managing directors in advancing the loans.

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Social control created the tempo of brands expansion, as evident by the addition of 785 new branches by the end of first half of 1969. But this did not make dent / effect in increased canalisation credit to agriculture sector and to the other weaker sections .the directions issued by the Govt were also ignored by many of the banks. Under these circumstances the Govt 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 GOI (Govt. of India) on 19th July 1969, promulgated an ordinance called "The Banking companies Ordinance 1969" (Acquisition & Transfer of Undertakings). Under this act 14 commercial banks having deposits of more than 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

The objectives of Nationalisation of Banks:

Nationalization of banks was 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 & Unproductive Purposes.

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- Expansion of credit to priority areas which were grossly / completely neglected like agriculture & small scale industrial.
- Giving a professional bent /touch to the bank management
- Encouragement of new entrepreneurs'
- Provision of adequate training to bank staff.

The average population served per bank branch declined markedly from 65,000 in June, 1969 to 32,000 by June, 1975.

Encouraged by the success of first spell of banks nationalisation under second spell six more banks in the private sector, having deposits more than Rs.200 crore were nationalised on 15th April 1980.

The six banks nationalised 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.

As a result of two spells of nationalisation of banks, by the end of June, 1992 bank advances towards agriculture sector were 16.2 per cent of total credit as against one per cent by the end of June, 1967.

Amalgamation / merger of commercial banks in India, 2020

- After the merger on 01.04.2020 there are only 12 public sector banks (PSBs) in India - six merged banks and six independent public sector banks.
- Six merged banks - SBI, Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India, Indian Bank
- Six independent banks - Indian Overseas Bank, UCO Bank, Bank of Maharashtra, Punjab and Sind Bank, Bank of India, Central Bank of India.
- Andhra bank was merged with Union bank.

Course Name	Agricultural Finance & Cooperation
Lesson 6	PMMY (MUDRA), Sthree Nidhi, Financial Inclusion
Content Creator Name	Saddikuti Hyma Jyothi
University/College Name	Acharya N.G. Ranga Agricultural University, Guntur
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PRADHAN MANTRI MUDRA YOJANA (PMMY), a flagship scheme of Government of India, was launched on 8th April, 2015 by the Hon'ble Prime Minster **"to fund the unfunded"** by bringing such enterprises to the formal financial system and extending affordable credit to them.

Objective of the Pradhan Mantri MUDRA Yojana

There are lots of scheduled caste, scheduled tribe and other backward class entrepreneurs in the MSME sector. NSSO Survey 2013 suggests that there are 5.77 crore small businesses like manufacturing, trading or services. It is very difficult for these units to get finance from the scheduled banks as they have to go through a tight scrutiny, thereby defeating the purpose of refinancing them under funds released from SIDBI. Thus, only 4% of these units are able to get loans for their business needs and others are forced to land with money-lenders.

The objective of this scheme to launch a Micro Units Development and Refinance Agency (MUDRA) Bank to support the entrepreneurs of the above mentioned classes.

Eligibility:

- Any Individual, Proprietor, Partner etc.
- Engaged in non-farm and allied to agriculture activities.
- For starting/extending business activities such as manufacturing, trading and services & sctivities allied to agriculture.

Loan Amount

- Maximum up to Rs. 10.00 Lakh and 3 category named as under:-

1. Shishu – Loans upto Rs. 50,000/-
2. Kishore– Loans above Rs. 50,000/- to Rs. 5.00 Lakh
3. Tarun – Loans Above Rs. 5.00 lakh to Rs. 10.00 Lakh

Type of Loan

- Cash Credit
- Overdraft
- Term Loan

Security

Hypothecation of Assets created out of Bank finance.

Processing Fee:

Upto Rs. 5.00 lakh – Nil

Above Rs. 5.00 lakh to Rs. 10.00 lakh - Rs. 300/- per lakh or part thereof

MUDRA Card

For working capital requirement maximum upto Rs. 20,000/-. MUDRA card may be issued for cash withdrawal.

MUDRA Bank

MUDRA stands for Micro Units Development and Refinance Agency. The MUDRA Bank was set up through as statutory enactment. The lending priority will be given to SC/ST enterprises. The bank has been allotted a Refinance Fund of Rs. 20,000 Crores from the shortfalls of Priority Sector Lending. It will regulate and refinance all MFI who lend to MSME engaged in small manufacturing, trade or services. It will partner all state/regional level coordinators to provide easy finance to even the remote investors. The primary functions of MUDRA Bank are:

- Frame policy guidelines for micro/small enterprise MFIs
- Registration of MFIs
- Regulation of MFIs
- Promoting and regulating responsible finance in favour of client welfare, remove indebtedness and provide proper protection principles and recovery methods.

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- Accreditation and rating of MFIs
- Promoting right technology solutions for problems faced by MFIs and borrowers.
- Framing a robust architecture for Last Mile Credit Delivery to MSMEs under the umbrella of Pradhan Mantri Mudra Yojana.

The MUDRA Bank was a powerful step to provide refinance to last mile financers and borrowers. However, it may promote shadow banking and channelize MFIs away from the mainstream banking system. This may stand juxtapose to the global trend which discourages shadow banking and let the main-line banking system address financing needs of all segments of society.

Sthree Nidhi credit cooperative Federation Ltd.,

Sthree Nidhi, a first ever women's cooperative microfinance bank began operations in Andhra Pradesh. It is promoted by the erstwhile Andhra Pradesh Government and the Mandal Samkahyas to supplement credit flow from banking sector and is a flagship programme of the Government. It was launched in the year 2011.

Sthree Nidhi provides timely and affordable credit to the poor SHG members as a part of the overall strategy of Society for Elimination of Poverty (SERP) for poverty alleviation.

SHGs are comfortable to access hassle free credit from Sthree Nidhi as and when required using their mobile and therefore do not see any need to borrow from other sources at exorbitant rates of interest.

SthreeNidhi is in a position to extend credit to the SHGs even in far flung areas of the state in 48 hours to meet credit needs for exigencies like health, education and other income generation needs like agriculture, dairy and other activities.

Status of Micro-finance in India

- Micro-finance is an important tool in an economy like India where a million new workers are added to workforce every month especially in small businesses. These businesses comprise about 5% of the economy. The performance of India's microfinance institutions is quite dismal. These institutions do not give loans beyond Rs.50,000 to a single person and the average amount given per account by Non-banking Financial Institution-Micro-finance institutions is Rs. 16,194. This figure is far below the funding requirements of first generation small entrepreneurs who are looking for amounts up to a few lakhs. India already has agencies which are involved in microfinance system.

Participants in the Microfinance System

- **National Housing Bank:** It was set up in 1988 to refinance home loans and regulate housing finance companies
- **National Bank for Agriculture and Rural Development:** It was set-up in 1982 by a law to regulate credit support, institutional development and encourage innovative initiatives in rural sector. It also promotes sustainable agricultural practices.
- **Small Industries Development Bank of India:** It was set-up in 1990 to promote, finance and develop small and medium enterprises and provide them easy finance up to a limit of Rs. 1 Crore.
- **Self Help Groups (SHGs):** Self-help groups or support groups are groups of people who can provide mutual support for each other. SHGs are informal groups of people who come together to address their common problem.
- **Micro-finance Institutions (MFI):** A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

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- **Non Government Organizations (NGOs):** Non-governmental Organisations are playing a vital role in the formation of Self-Help Groups and motivating women to join in Self-Help Groups. Nongovernmental Organisations in India were responsible for converting the pilot programme of Self-Help Groups into a mass movement in our country.

Financial Inclusion:

Is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.

Reasons Financial Inclusion in India is Important:

Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and constant pressure by the RBI. It is expected to unleash the hugely untapped potential of the bottom-of-pyramid section of Indian economy.

Benefits of financial inclusion:

- The rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account can be completed using fingerprint authentication. The confidence of fulfilment is provided by issuing an online receipt to the customer.
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- Direct cash transfers to beneficiary bank accounts, instead of physical cash payments against subsidies will become possible. This also ensures that the funds actually reach the intended recipients instead of being siphoned off along the way.
- Availability of adequate and transparent credit from formal banking channels will foster the entrepreneurial spirit of the masses to increase output and prosperity in the countryside.

Hence, it is believed that financial inclusion can initiate the next revolution of growth and prosperity. In the 21st century, India has been pulling all the right levers to advance financial inclusion and economic citizenship by channeling its own transactions to lubricate the system. India's journey towards economic growth relies on how the 65% unbanked population of India (conservative 2012 estimate by World Bank) is enabled with financial infrastructure.

Definition:

"Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral.

Microfinance: Is the provision of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty.

Micro credit: Making small loans to individuals who lack the necessary resources to secure traditional credit is known as microcredit.

Differences between micro finance and micro credit:

S. No.	Characteristics of loan	Micro -finance	Micro- credit
1.	Size of loan	Small	Small
2.	Repayment of period	Short	Short
3.	Sources of mobilization	Both external and internal	External
4.	Repayment	Obligation if source external	Definite obligation to repay

5.	Collateral	Not needed	May or may not be needed
6.	Purpose of use	Flexible, consumption, income generation	Mostly fixed, limited scope for deviation
7.	Scope of operation	Mostly group loans trickling down to individuals	Usually individual loans, though group loans might be given

Non-Banking Financial Company (NBFC): A NBFC is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds hire-purchase, insurance business or chit business but does not include any institution whose principal business includes agriculture, industrial activity or the sale, purchase or construction of immovable property.

Difference between NBFCs and Banks:

NBFCs perform functions similar to that of banks but there are a few differences-

- Provides Banking services to People without holding a Bank license,
- An NBFC cannot accept Demand Deposits,
- An NBFC is not a part of the payment and settlement system and as such,
- An NBFC cannot issue Cheques drawn on itself, and
- Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors, unlike banks,
- An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)

- An NBFC cannot indulge primarily in agricultural, industrial activity, sale-purchase, construction of Immovable Property
- Foreign Investment allowed up to 100%.

Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010.

The Andhra Pradesh government issued an Ordinance on October 15, 2010, which stipulated conditions for the microfinance activities in the State. This Ordinance was ratified two months later on December 15, 2010 by the lower house of the Andhra Pradesh assembly.

The key features of the Bill are:

- All MFIs should be registered with the district authority.
- No person should be a member of more than one SHG.
- All MFIs shall make public the rate of interest charged by them on the loans extended.
- There would be a penalty on the use of coercive/rude action by the MFIs.
- Any person who contravenes any provision of the Ordinance shall be punishable with imprisonment for a period of 6 months or a fine up to the amount of Rs 10,000, or both.
- The State assembly accepted most of the features from the earlier Ordinance in the Bill.
- However, the demand for a cap on the interest rates charged by the MFIs for the loans extended to the SHGs was rejected during the ratification.

Course Name	Agricultural Finance & Cooperation
Lesson 7	Lead Bank Scheme & RRBs
Content Creator Name	Saddikuti Hyma Jyothi
University/College Name	Acharya N.G. Ranga Agricultural University, Guntur
Course Reviewer Name	Dr. Sudhakar Dwivedi
University/college Name	Sher-E-Kashmir University Of Agricultural Sciences And Technology Of Jammu ,Jammu

Lead Bank Scheme:

Origin: 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 the examine recommendations of prof. Gadgil’s study group. The committee of Nariman also endorsed / supported 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 in to force from 1969.

Under 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 can be dealt under two important Phases

Phase I: Survey of the lead district

The RBI has mentioned the following functions of lead bank under phase-I

- 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 rise their income
- Examining the available marketing facilities for agricultural & industrial products and linking credit with marketing.
- Invoking / developing cooperation among different banks in opening new bank branches.

- Estimating the credit gaps in various sectors of district economy.
- Developing contacts and maintaining liaison / linkage with the Govt & other agencies.

Phase II-Preparation of credit Plans:

RBI emphasized that the lead bank should

- Formulate the bankable / dependable 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 his operation in rural areas, and the service area approach put the banker in the position of implementing the development plans.

Table: Lead Banks of Different Districts in Andhra Pradesh

S.No	District	Lead Bank
1	East Godavari	Union bank (Erstwhile Andhra Bank)
2	West Godavari	Union bank (Erstwhile Andhra Bank)
3	Guntur	Union bank (Erstwhile Andhra Bank)
4	Srikakulam	Union bank (Erstwhile Andhra Bank)
5	Chittoor	Indian Bank
6	Krishna	Indian Bank
7	Anantapur	Canara Bank (Syndicate Bank)
8	Cuddapah	Canara Bank (Syndicate Bank)
9	Kurnool	Canara Bank (Syndicate Bank)
10	Nellore	Canara Bank (Syndicate Bank)

11	Prakasam	Canara Bank (Syndicate Bank)
12	Visakhapatnam	State Bank of India
13	Vizianagaram	State Bank of India

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 first spell of nationalization of banks was done with greater expectations, but the situation was not changes as per the expectations.

Hence, the Government of India (GoI) 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/limitations in the functioning of commercial banks/ cooperatives.

The GoI accepted the recommendations of the Sri. Narsimham committee and Regional Rural Banks came in to existence through Regional Rural Banks Ordinance on 26th September, 1975. Initially only 5 RRB's were setup 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. The list of RRB's opened in the country is

S.No.	Sponsoring Bank	Name of RRB	Head Quarters
1.	Syndicate Bank	Pratham Bank	Moradabad (UP)

2.	State Bank of India (SBI)	Gorakhpur	Gorakhpur (UP)
3.	United Bank of India	Gaur Grameena Bank	Malda (WB)
4.	Punjab National Bank	Haryana Kshetriya Grameena Bank	Bhiwani (Haryana)
5.	United Commercial Bank	Jaipur Nagalur Anchalik Grameena Bank	Jaipur, Rajasthan

The objectives/ functions of RRB's are:

- To develop rural economy.
- To provide credit for agriculture and allied activities.
- To encourage small scale industries, artisans in villages.
- To reduce the dependence of weaker sections (MF, SF & Rural artisans) on private money lenders.
- To fill the gap created by the moratorium/ban 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.

Each RRB is being sponsored by a scheduled commercial bank. The operational area of each RRB is one (or) two districts. Each branch of RRB can serve a population of roughly 20,00,0 people.

Authorized share capital of each RRB is Rs. One crore, contributed by central government, state government and sponsoring commercial bank in the ratio of 50:15:35. Issued capital for each RRB is Rs. 25 lakhs.

The rate of interest charged by RRB's on the loans is same as that of Primary Agriculture Credit Societies (PACS). But they are allowed to offer 0.5 per cent interest more than that of commercial banks on its deposits.

RRB's have simplified procedural formalities in giving agricultural finance on recommendations of Sri. Baldev Singh's working group. RRB's use local languages in their transactions. The cost of operation i.e. user charges are low as compared to that of commercial banks.

S.No	Sponsor Bank	Name of New RRB	Names of Amalgamated RRBs
1.	Andhra Bank	Chitanya Godavari GB	Chitanya GB Godavari GB
2.	Indian Bank	Saptagiri GB	Kanakadurga GB Shri Venkateswara GB
3.	State Bank of Hyderabad	Deccan GB	Golconda GB Sri Rama GB Sri Saraswathi GB Sri Satavahana GB
4.	State Bank of India	Andhra Pradesh Grameena Vikas Bank (APGVB)	Kakatiya GB Manjira GB Nagarjuna GB Sangameswara GB Sri Visakha GB
5.	Syndicate Bank	Andhra Pragathi GB	Pinakini GB Rayalseema GB Sree Anantha GB

Note: GB- Grameena Bank

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1. Essentials of Farm Management by S.S. Johl and C.V. Moore. Today and Tomorrow's Printers & Publishers
2. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
3. Agricultural Economics by S .Subba Reddy, P. Raghuram, T.V.N. Sastry and I Bhavani Devi. Oxford & IBP publishing company Ltd. New Delhi

Course Name	Agricultural Finance & Cooperation
Lesson 8	Crop Loan System: Objectives- Importance- Scale of Finance-its estimation Term Loans – Objectives and Interest Rates, Kisan Credit Card
Content Creator Name	Saddikuti Hyma Jyothi
University/College Name	Acharya N.G. Ranga Agricultural University, Guntur
Course Reviewer Name	Dr. Sudhakar Dwivedi
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Designed and developed under the aegis of NAHEP Component-2 Project "Investments In ICAR Leadership In Agricultural Higher Education"
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Crop Loan System:

Even though All India Rural Credit Survey Committee (AIRCSC) under the chairmanship of Sri. Gorwala during 1954 and V.L. Mehra Committee on Co-operative credit in 1960 recommended the adoption of crop loan system in all states, it was not implemented due to several reasons. After a lapse/gap of five years i.e. in the year 1965 it was introduced throughout the country and in Andhra Pradesh from Karif, 1966.

The twin objectives of crop loan system are:

1. Treating the crop as security instead of immovable property like land.
2. Fixing the scale of finance depending upon the actual farm expenditure i.e. based on cost of cultivation.

Salient features of the crop loan system:

- The credit requirements of the farmers are to be estimated based on the cost of cultivation of the crops cultivated by him.
- The eligibility to receive the loan by farmer is not measured by the ownership of land but by the factor that he is a real farmer who needs credit for cultivation.
- The crop loans should be advanced on the hypothecation of the crop.
- The disbursement and recovery of the loans are to be made in accordance with the crop production schedule.
- The loans should include both in cash and kind components.
- The quantum of loan should be fixed according to the variety (i.e. local improved variety (or) HYV) the season in which it is grown and the type of crop i.e. whether it is irrigated (or) rainfed crop.
- Crop loan is fixed by the District Level Technical Committee (DLTC) consisting of experts from the fields of agriculture, animal husbandry, banking etc. The period of repayment of these loans is 6 to 18 months. Rate of interest is around 7 per cent. But in Andhra Pradesh from Kharif 2007-08 crop loans are being extended with an interest of only 3 per cent. Medium-term loans and long-term loans

together are called investment loans/ term loans. The repayment period for medium-term loans may vary from 2 to 5 years. Ex: Loans advanced for purchase of livestock and plant protection equipment. The repayment period for long-term loans varies from 5 to 20 years. The rate of interest may vary from 9 to 15 per cent based on the economic activity undertaken with that loan amount by the farmer. Ex: Loans given for permanent land improvement activities, tractor loans, orchard loans etc.

Scale of Finance (SoF):

Definition: It is an indicative cost taken as base cost depending on which the amount to be financed to a farmer is fixed. It is usually taken as 80 per cent of cost of cultivation of a particular crop during a particular season.

Normally scale of finance is given as a range, as the cost of cultivation for a farmer practicing traditional methods of farming and that of a progressive farmer practicing modern methods of cultivation will differ. The lower value of the range corresponds to the requirement of the former while the upper value corresponds to the later.

Scale of finance is fixed for annual, perennial crops and livestock also. Livestock will have fixed costs of finance and they are termed as unit costs. The unit varies with the type of livestock. Ex: for milch cattle the unit refers to two animals, for sheep & goat a minimum of10 animals and for poultry a minimum of 500 birds.

Factors influencing /affecting the scale of finance:

1. Type of the crop: It varies from crop to crop. Ex: Scale of finance for Paddy and turmeric during 2006-07 in East Godavari district were Rs. 8500/- and Rs. 26000/-.
2. Nature of the crop: With in the same crop between the local improved varieties and high yielding varieties (HYVs) the scale of finance will differ. Ex: In tobacco crop for FCV tobacco and Natu tobacco scale of finance were Rs.21000-22000/- and Rs.11500- 12000 respectively.

3. Season: Scale of finance will differ with season for the same crop. Ex: for Paddy in kharif scale of finance was Rs. 8000-9000/- while in rabi the same was Rs. 7000- 8000/-
4. Type of land: Based on the type of the land i.e. irrigated (or) dry the scale of finance will differ with the same crop. Ex: For chillies Scale of finance in irrigated land is Rs.17000-19000/- and in dry land Rs. 10000-12000/-
5. District/Area: For the same crop the scale of finance varies from district to district. Ex: for chillies the scale of finance in west Godavari district Rs. 10000/- and in Guntur it is Rs. 25000/-

How Scale of Finance is fixed:

Scale of finance for prime crops of each district is fixed by a committee known as District Level Technical Committee (DLTC).The members of DLTC constitute representatives of lead bank of that district, NABARD, local co-operative banks and commercial banks, officials of Department of Agriculture& Animal Husbandry etc. The meetings of DLTC are chaired by District Magistrate/ District Collector and convened by respective lead bank District Manager.

DLTC compiles technical survey report with the information obtained from NABARD. NABARD in turn obtains information from the state agricultural department every year, which will have the necessary details like what are crops grown, their extent etc. By using the above details a potential map is prepared. By using this we can list out the priority activities to be financed in each part of the district and extent to which these are to be financed. Finally cost of cultivation is estimated based on the market trends and needs. This scale of finance is not fixed and keeps on changing every year, accordingly scale of finance also changes.

Kisan Credit Card (KCC)

The Government of India introduced Kisan Credit Card Scheme by banks during 1998 -99. The scheme was designed by NABARD. KCC aims at adequate and timely support from the banking system to the farmers for their short-term production credit needs in cultivation of crops, purchase of inputs etc in a flexible and cost effective manner.

Under this scheme farmers would be issued a credit card-cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period etc & it will serve both as an identity card as well as facilitates the financial transactions .

Credit limit / borrowing limit on the card may be fixed on the basis of operational holding, cropping pattern and scale of finance as recommended by the District Level Technical committee (DLTC) / State Level Technical committee (SLTC)

As per the recommendations of Sri R.V. Gupta committee in the year 1998, on the flow of credit to agricultural sector, apart from the total credit need, a 20 per cent of total peak level credit requirement (PLCR) will be given contingent credit need (with a maximum ceiling of Rs.10,000)

The KCC should normally valid up to 5 years and subject to annual review. The KCC will be deemed / considered as a non-performing asset (NPA) if it remains inoperative for a period of two successive crop seasons.

Table 1: Bank-Wise Position of Kisan Credit Cards during Financial Year, 2006-07

							(Rs. in Lakhs)
Name of the Bank Group	Target 2007-08	From 1-4-2006 to 31-12-2007			% of achievement of Target	Cumulative position since inception	
	No	No of Cards issued	Limit sanctioned	Disbursement		No	Amount sanctioned
Commercial Banks	63100	31349	17521	16391	49.68	199567	75311
Cooperatives	189300	118384	29640	10382	62.53	956276	291201
RRBs	60900	27421	6776	11801	45.02	428703	40200

Total	313300	177154	53947	38574	56.54	1584546	406712

Source: www.pdfxp.com/kisan-credit-card-pdf.html

Table 2. Share of KCC in the total flow of credit to agricultural sector: 2000-01 to 2010-11

(Amount in crore)

Year	Flow of credit to agriculture				Credit flow under KCC			
	Regional rural banks	Commer- cial banks	Other agencies	Total	Cooper- ative banks	Regional rural banks	Commer- cial banks	Total
2000-01	4220	27807	82	52827	9412	1400	5615	16427
					(45.4)	(33.2)	(20.2)	(31.1)
2001-02	4854	33587	80	62045	15952	2382	7524	25858
					(67.8)	(49.1)	(22.4)	(41.7)
2002-03	6070	39774	80	69560	15841	2955	7481	26277
					(67.0)	(48.7)	(18.8)	(37.8)
2003-04	7581	52441	84	86981	9855	2599	9331	21785
					(36.7)	(34.3)	(17.8)	(25.1)
2004-05	12404	81481	193	125309	15597	3833	14756	34186
					(49.9)	(30.9)	(18.1)	(27.3)
2005-06	15223	125477	382	180486	20339	8583	18780	47702
					(51.6)	(56.4)	(14.9)	(26.4)
2006-07	20435	166485	0	229400	13141	7373	19786	40300
					(30.9)	(36.1)	(11.9)	(17.6)
2007-08	25312	181088	0	254658	19991	8743	19900	48634
					(41.4)	(34.5)	(10.9)	(19.1)
2008-09	26765	228951	226	301908	13172	7632	25865	46669
					(28.7)	(28.5)	(11.3)	(15.5)
2009-10	35217	285800	-	384514	7605.8	10131.7	39940.5	57678
					(11.9)	(28.8)	(13.9)	(15.0)
2010-11	43968	332706	-	446779	10719	11468	50438	72625
					(15.3)	(26.1)	(15.2)	(16.3)
CAGR (%)	27.8	30.7		25.7	-1.5	22.4	23.5	13.7

Note: The figures within the parentheses indicate percentage to the total flow of credit

Source: RBI (various issues); Samantara (2010); and NABARD (various issues)

Table 3. Number of KCC issued as percentage of the number of operational holdings

Region	No. of operational holdings (2005-06)	No. of KCCs issued (2010-11)	Percentage of No. of cards to the number of operational holdings
East	29465844 (22.8)	2014000 (19.8)	6.8
West	32546033 (25.2)	2441000 (24.0)	7.5
North	28324503 (21.9)	1861000 (18.3)	6.6
South	34775550 (26.9)	3687000 (36.2)	10.6
North-East	4110307 (3.2)	165000 (1.6)	4.0
India	129222237	10169000	7.9

Note: Figures within the parentheses indicate percentage in the respective columns

Source: GoI (2011); RBI(various issues)

Books referred

1. Essentials of Farm Management by S.S. Johl and C.V. Moore. Today and Tomorrow's Printers & Publishers
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Course Name	Agricultural Finance & Cooperation
Lesson 9	An Introduction To Higher Financing Institutions – RBI And NABARD
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Reserve Bank of India

Origin:

The Reserve Bank of India (RBI) was established in 1935 under the Reserve Bank of India Act, 1934. Its Head Quarters is located at Mumbai

The RBI was set up to

- regulate the issue of bank notes
- secure monetary stability in the country
- operate currency and credit system to its advantage

Functions role of RBI in agricultural development and finance:

The role of RBI in agricultural credit was found in the establishment of Agricultural Credit Department (ACD).

The primary functions of ACD are

- To Coordinate the functions of RBI with other banks and state cooperative Banks in respect of agricultural credit
- To maintain expert staff to study all the questions of agricultural credit and be available for consultation by central government, state governments, schedules commercial banks and state cooperative Banks.
- To provide legislations to check private money lending and checking other malpractices.

All India Rural Credit Survey Committee (AIRCSC) under the chairmanship of Sri. Gorwala in 1954 suggested several recommendations with regard to the activities of RBI in the sphere of rural credit. Based on this two funds were established after amending RBI act, 1934.

1. **National Agricultural credit (Long-term operations) fund-1955:** Started with initial capital of Rs.10 crores and annual contribution of Rs.5 crores and later this was increased to Rs. 15 crores**.** This fund was meant to provide long–term loans to various state governments so as to enable them to contribute to the share capital of different

types of cooperative societies including Land Mortgage Banks (LMB's). Loans and advances out of this fund are made to state governments for period not exceeding 20 years.

2. **National Agricultural credit (Stabilization fund)-1956:** Started with RBI's initial contribution of Rs. 1 crore and subsequent annual contribution of Rs. 1crore. This fund is utilized for the purpose of granting medium-term loans to State Co-operative Banks (SCB's), especially during the times of famines / drought and other natural calamities when they are unable to repay their loans to RBI.

The state and central cooperative banks and PACS in turn provide a similar facility to the farmer borrowers regarding short-term production loans taken for crops affected by the natural calamities. This helps the farmers in getting additional finance at the same time reducing their burden of repaying the loans immediately.

The role/functions of RBI in the sphere of rural credit can be dealt seen under three aspects:

1. Provision of finance
2. Promotional activities
3. Regulatory functions

Provision of Finance:

- Reserve Bank of India provides necessary finances needed by the farmers through the commercial bank, cooperative banks and RRB's on refinance basis.
- It advances long-term loans to state governments for their contribution to the share capital of the cooperative credit institutions like State Cooperative Banks (SCB's) and District Cooperative Central Banks (DCCB's).
- It advances medium-term loans to State Cooperative Banks.
- It extends refinance facility to the RRB's only to an extent of 50 per cent of outstanding advances.

Promotional activities:

Reserve Bank of India constitutes study teams to look in to the organisation and operation of the cooperative credit institutions all over the country. It also conducts number of surveys and studies pertaining to rural credit aspects in the country.

The RBI felt that the cooperatives are the major force in the field of agricultural credit and based on that following policies/measures were framed for the strengthening of cooperatives

- Reorganisation of the state and central cooperative banks on the principle of one apex bank for each state and one central bank for each district.
- Rehabilitation of those central cooperative banks, which are financially weak due to mounting over dues, insufficiency of internal finances, untrained staff, poor management etc.
- Strengthening of PACS's to ensure their financial and operational viability.
- Arranging suitable training programmes for the personnel of cooperative institutions.

Regulatory functions:

- Reserve bank of India is concerned with efficiency of channels through which credit is distributed.
- Banking Regulation Act, 1966 makes the RBI to exercise effective supervision over cooperative banks and commercial banks.
- As per the Credit Authorised Scheme (CAS) of 1976, the cooperative banks should get prior authorisation/ acceptance from RBI for providing finances beyond a certain limit.
- The cash liquidity ratio (CLR) and cash reserve ratio (CRR) are fixed by RBI for cooperatives, farmers service societies (FSS), regional rural banks (RRB's) and agricultural development banks (ADB's) at lower level than those fixed for commercial banks. For these cooperative banks the bank rate 3 per cent less than that of commercial banks.

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They are permitted by RBI to pay 0.5 per cent higher rate of interest on deposits.

Credit Control/ Credit Squeeze:

The term credit control or credit squeeze indicates the regulation by monetary authority i.e. RBI, on the volume and direction of credit advanced by the banking system, particularly the commercial banks.

At times of inflation, credit control operations aim at contraction of credit while during deflation they aim at expansion of credit. There are two methods of credit control

1. **Quantitative (or) General Credit control**: Aims to regulate the amount of bank advances i.e. to make banks to lend more or less.
2. **Qualitative (or) Selective credit control**: Aims to divert the bank advances in to certain channels or to discourage them from lending for certain purposes. These controls, in recent times assumed special significance, especially in under developed economies.

Credit Rationing: It is nothing but rationing of loans by non-price means at times excess demand for credit. Ex: under variable capital-asset ratio the RBI fixes a ratio of capital to the total assets of the commercial banks.

Some of the important terms pertaining to RBI:

- **Bank Rate:** This is the rate at which central bank (RBI) lends money to other banks or financial institutions. If the bank rate goes up, long-term interest rates also tend to move up, and vice-versa. Thus, it can said that in case bank rate is hiked, in all likelihood banks will hikes their own lending rates to ensure that they continue to make profit.
- **Repo rate and Reverse Repo rate:**
  Repo (Repurchase) rate is the rate at which the RBI lends short-term money to the banks against securities. When the repo rate increases borrowing from RBI becomes more expensive. Therefore, we can say that in case, RBI wants to make it more expensive for the banks to

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borrow money, it increases the repo rate; similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate. Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI. The banks use this tool when they feel that they are stuck with excess funds and are not able to invest anywhere for reasonable returns. An increase in the reverse repo rate means that the RBI is ready to borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep more and more surplus funds with RBI.

- **Fiscal Responsibility and Business Management:**
  The FRBM act is a fiscal sector legislation enacted by the government of India in 2003, aiming to ensure fiscal discipline for the centre by setting targets including reduction of fiscal deficits and elimination of revenue deficit. It is a legal step to ensure fiscal discipline and fiscal consolidation in India.
- **Moral Suasion:**
  Moral suasion and credit monitoring arrangement are other methods of credit control. The policy of moral suasion will succeed only if the Central Bank is strong enough to influence the commercial banks. In India, from 1949 onwards, the Reserve Bank has been successful in using the method of moral suasion to bring the commercial banks to fall in line with its policies regarding credit. Publicity is another method, whereby the Reserve Bank marks direct appeal to the public and publishes data which will have sobering effect on other banks and the commercial circles.
- **Statutory Liquidity Ratio (SLR):** This term is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved securities to liabilities (deposits) It regulates the credit growth in India.
- **Cash Reserve Ratio (CRR):** Cash Reserve Ratio is a specified minimum fraction of the total of customers deposits, which commercial banks have to hold as reserves either in cash or as

deposits with the central banks. CRR is a crucial monetary policy tool and is used for controlling money supply in an economy.

- **Open Market Operations:**

  Open market operations refer to the sale and purchase of securities by the Central bank to the commercial banks. A sale of securities by the Central Bank, i.e., the purchase of securities by the commercial banks, results in a fall in the total cash reserves of the latter).

  A fall in the total cash reserves is leads to a cut in the credit creation power of the commercial banks. With reduced cash reserves at their command the commercial banks can only create lower volume of credit. Thus, a sale of securities by the Central Bank serves as an anti-inflationary measure of control.

National Bank for Agricultural and Rural Development (NABARD):

Genesis / Origin:

Agriculture Refinance and Development Corporation (ARDC) had not made an expected dent / impact in the field of direct financing and delivery of rural credit against the massive credit demand for rural development. As a result many committees and commissions were constituted like,

* Banking commission in 1972

*National Commission on Agriculture (NCA) in 1976

* Committee to Review Arrangements for Institutional Credit in Agricultural and Rural Development (CRAFICARD) in 1979. This CRAFICARD, under the chairmanship of Sri. B. Sivaraman, a farmer member of planning commission recommended the setting up of a national level institution called NABARD for providing all types of production and investment credit for agriculture and rural development. As a result of CRAFICARD'S recommendations NABARD come in to existence on July 12th, 1982.

The then existing national level institutions such as Agricultural Refinance and Development corporation (ARDC), Agricultural credit Dept (ACD) and Rural Planning and Credit Cell (RPCC) of RBI were merged with NABARD with a Share capital of Rs.500 crore equally contributed by Government of India and RBI. NABARD operates through its Head Office at Mumbai and 17 regional offices-one each in major states, 10 sub-offices in smaller states / U.T'S and 213 district offices.

Board of Management:

Central Government in consultation with RBI appoints all the directors in the "Board of Management "along with the chairman and the Managing Director (MD). The M.D. is the chief executive officer (C.E.O) of NABARD and he is primarily responsible for the various operations of the bank. Apart from M.D & Chairman, the Board of Management consists of 13 other directors and these directors will act as "Advisory council" of NABARD. Of the 13 directors of Advisory council

- 2 are experts in Rural Economics & Rural Development.
- 3 are representatives of co- operatives
- 3 are representatives of commercial banks
- 3 are the officials of Government of India
- 2 officials belong to State Governments

Sources of funds:

Authorized share capital of NABARD is Rs. 500 crore equally contributed by Government of India and RBI. Issued and paid up capital of Rs. 100 crore. Other sources are:

- Borrowings from Government of India (GOI) and any institution approved by GOI
- Borrowings from RBI
- Deposits from state Govts & local authorities
- Gifts & grants received.

Objectives:

As an apex refinancing institutions, NABARD survey & estimate all types of credit needed for the farm sector and rural development

- Responsibility of promoting and integrating rural development activities through refinance.
- With the approval of Govt. of India, NABARD also provide direct credit to any institution or organization or an individual.
- Maintaining close links with RBI for guidance and assistance in financial matters.
- To act as an effective catalytic agent for rural development i.e in formulating appropriate rural development plans and policies.

Functions/activities of NABARD:

The functions / activities of NABARD are of 3 broad categories

a) Credit activities
b) Development activities
c) Regulatory activities

a) Credit activities:

- NABARD prepares for each district a potential liked credit plan annually and this forms the basis for district credit plan.
- It participates in finalization of annual action plan at block, district and state level.
- It monitors the implementation of credit plans.
- It frames the terms and conditions to be followed by credit institutions in financing rural farm and non- farm sectors.
- It provides refinance facilities. Refinance is of two types

1. Short-term refinance is extended for Agricultural production operations and marketing of crops by farmers & farmers cooperatives, marketing and distribution of inputs like fertilizers, seeds, pesticides etc. and production and marketing activities of village and cottage industries.

The eligible institutions for S.T refinance are state Cooperative Banks (SCB's), Regional Rural Banks, Commercial Banks and other banks approved by RBI. The time period is 12 months.

2. Medium term & long term refinance is extended for investments in agriculture and allied activities such as minor irrigation, farm mechanization, dairy, horticulture, for investment activities of rural artisans, small scale industries(SSI) etc. The period is up to a maximum of 15 years. The eligible institutions are Land Development Banks(LDB's).

The extent of refinance under various schemes is

- Pilot rainfed farming projects (100%)
- Wasteland development scheme of individuals (100%)
- Non-farm sector schemes (out side the purview of IRDP) 100%
- Agro-Processing units (75%)
- Bio-gas Scheme (75%)
- All other schemes including IRDP(70%)
- Farm mechanization (50%)
- Rural Electrification Corporation (50%)
- Apart from refinance, NABARD also provides direct finance to state governments, state sponsored corporations.

NABARD will monitor its assisted project in order to ensure their proper implementation. It also undertakes consultancy work for projects even though they are not refinanced by NABARD.

b) Development activities:

For the productive use of credit the following developmental activities are under taken by NABARD.

- Institutional Development: Providing financial assistance for establishment and development of institutional financial agencies.
- Research and Development Fund: Providing funds for research and development efforts of institutional financial agencies.

- Agricultural & Rural Enterprises Incubation Fund (AREIF): For providing assistance while inception of new enterprises.
- Rural Promotion Corpus Fund (RPCF): It is meant to provide financial assistance for training cum production centres, rural entrepreneurship development programmes, and technical monitoring & evaluation centres.
- Credit and Financial Services Fund (CFSF): It aims at providing the assistance for innovations in rural banking and credit system, supports institutions for research activities, surveys, meets etc.
- Linking SHG'S to Credit institutions: During the year 1992, NABARD started the pilot project of linking SHG'S to credit institutions. Under this it provides 100 percent refinance to banks for loans extended to SHG'S.

c) Regulatory activities

As an apex development bank, NABARD shares with RBI, some of the regulatory & supervisory functions in respect of cooperative banks and regional rural banks (RRB'S). They are

- Under Banking regulation act 1949, NABARD undertakes the inspection of RRB'S & Cooperative banks (other than PAC'S)
- Any RRB (or) cooperative bank seeking permission of RBI, for opening branches needs recommendation of NABARD.
- The state & district central cooperative banks also need an authorization from NABARD for extending assistance to units outside the cooperative sector & non -credit cooperatives for certain purposes beyond the cut-off limit.

Course Name	Agricultural Finance & Cooperation
Lesson 10	World Bank, IMF, ADB and Deposit Insurance and Credit Guarantee Corporation of India
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World Bank (WB):

The International Bank for Reconstruction and Development (IBRD) also called as World Bank was established in the year 1945 and started its operations in the year 1946. It is the sister institution of another international financial agency, International Monetary Fund (IMF)

The IBRD/world Bank's main aim is to reduce the poverty by promoting sustainable economic development in member countries. It attains this goal by providing loans and technical assistance for projects and programmes in its developing member countries.

The financial strength of IBRD is based on the support it receives from its shareholders and financial policies and practices adopted by it. The principal activity of World Bank is to providing loans to the member countries.

Functions/activities of World Bank

- **Development activities**: It provides loans to its member countries to meet their developmental needs. It also provides technical assistance and other services to the member countries to reduce poverty.
- **Providing Loans:** Each loan must be approved by IBRD's Executive Directors. Apart from providing loans it also waives the loans under special circumstances i.e. occurrence of natural calamities. After providing loans, the appraisal of the projects is carried out by IBRD's operational staff comprising engineers, financial analysts, economists and other specialists.

  The loan disbursements are subjected to the fulfilment of conditions laid in the loan agreement. During the implementation IBRD's experienced staff periodically visits the project site to review the progress and monitor whether the execution of project is in line with IBRD's policies. During these visits the bank staff helps in resolving any problems that may arise during the execution of the project. After the completion, the projects are evaluated by an independent body and findings will be reported to the Executive directors to determine the extent to which project objectives are fulfilled.

- **Consultancy:** In addition to the financial help, IBRD also provides technical assistance to its member countries irrespective of loans taken from it (or) not. There is a growing demand from borrowers for strategic advice, knowledge transfer and capacity building.
- **Research & Training:** For assisting its member countries, the World Bank offers courses and training related to economic policy development and administration for governments and organizations that work closely with IBRD.
- **Trust–Fund Administration:** IBRD itself (or) jointly with International Development Agency (IDA), on behalf of donors restricts the use of funds for specific purposes only. The funds so obtained are not included in the list of assets owned by IBRD.
- **Investment Management:** IBRD provides investment management services for external institutions by charging a fee. The funds thus obtained are not included in the assets of IBRD.

Affiliated Organizations of IBRD:

To complement the activities of IBRD, there are three affiliated organizations and they are

1. International Development Association (IDA):
It was established in the year 1960. Its main goal is to reduce the poverty through promoting economic development in less developed areas of the world.

The International Bank for Reconstruction and Development (IBRD), better known as the World Bank, was established in 1944 to help Europe recover from the devastation of World War II. The success of that enterprise led the Bank, within a few years, to turn its attention to developing countries. By the 1950s, it became clear that the poorest developing countries needed softer terms than those that could be offered by the Bank, so they could afford to borrow the capital they needed to grow.

With the United States taking the initiative, a group of the Bank's member countries decided to set up an agency that could lend to the poorest countries on the most favorable terms possible. They called the agency the "International Development Association." Its founders saw IDA as a way for the "haves" of the world to help the "have-nots." But they also wanted IDA to be run with the discipline of a bank. For this reason, US President Dwight D. Eisenhower proposed, and other countries agreed, that IDA should be part of the World Bank.

IDA's Articles of Agreement became effective in 1960. The first IDA loans, known as credits, were approved in 1961 to Chile, Honduras, India and Sudan.

IDA currently has 169 member countries. Members subscribe to IDA's initial subscriptions and subsequent replenishments by submitting the necessary documentation and making the required payments under the replenishment arrangements.

The International Development Asso- ciation (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.

IDA complements the World Bank's other lending arm–the International Bank for Reconstruction and Development (IBRD)–which serves middle-income countries with capital investment and advisory services. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards.

IDA is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries.

IDA lends money (known as credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA also provides grants to countries at risk of debt distress.

Since its inception, IDA credits and grants have totaled US$207 billion, averaging US$14 billion a year in recent years and directing the largest share, about 50 percent, to Africa.

2. International Financial Corporation (IFC):

It was established in the year 1955.Its main aim is to encourage the growth of productive private enterprises in the member countries by providing loans and investments without a member's guarantee.

3. Multilateral Investment Guarantee Agency (MIGA):
Its main aim is to encourage the flow of investments for productive purposes among member countries particularly in developing countries.
IBRD, IDA, IFC and MIGA are collectively called as World Bank Group. Each of them is financially independent, with separate assets and liabilities.

International Monetary Fund (IMF):

The International Monetary Fund (IMF) is an international organization. At present 185 countries are the members of IMF. Its headquarters is located at Washington, DC., USA.

Origin: After the Second World War, many countries felt the need to have an organization to get help in monetary matters between countries. To begin with, 29 countries discussed the matter, and signed an agreement. The agreement was the Articles of Association of the International Monetary Fund. IMF came in to being in December 1945.

Membership: Any country may apply to become a member of the IMF. When a country applies for membership, the IMF's Executive Board examines the application. If found suitable, the Executive Board gives its report to IMF's Board of Governors. After the Board of Governor clears the application, the country may join the IMF. However, before joining, the country should fulfill legal requirements, if any, of its own country. Every member has a different voting right. Likewise, every country has a different right to draw funds. This depends on many factors, including the member country's first subscription to the IMF.

Functions:

The IMF does a number of supervisory works relating to financial dealings between different countries. Some of the works done by IMF are:

- Helping in international trade, that is, business between countries
- Looking after exchange rates
- Looking after balance of payments
- Helping member countries in economic development

Management

A Board of Directors manages the IMF. One tradition has governed the selection of two most senior posts of IMF. Firstly, IMF's managing director is always European. IMF's president is always from the United States of America.

The major countries of Europe and America control the IMF. This is because they have given more money to IMF by way of first subscriptions, and so have larger share of voting rights.

Asian development Bank (ADB):

The Asian Development Bank is a regional development bank established in the year 1966 to promote economic and social development in Asia and Pacific countries by providing loans and technical assistance. The ADB's

Head Quarters is located at Manila, Philippines. It aims at eradication/ removal of poverty in the Asia –Pacific region.

It is a multilateral financial institution owned by 67 members. Forty eight (48) members from the region of Asia- pacific and 19 from other parts of globe. The highest policy-making body of the bank is the Board of Governors composed of one representative from each member country. The Board of Governors, in turn, elect among themselves the 12 member of the Board of Directors and their deputy. Eight of the twelve members come from Asia- Pacific members while the rest come from non-regional members.

The Board of Governors also elects the bank's president who is the chairperson of the Board of Directors and manages the ADB. The term of office /tenure of president lasting for five years, and may be reelected for second term. As Japan is the largest share holder of the bank, traditionally the president has always been Japanese.

The ADB was founded in 1966 with goal of eradicating the poverty in the Asia-Pacific region. With over 1.9 billion people living less on less than $2 a day in Asia, the institution has a formidable challenge. It plays the following functions for countries in the Asia –Pacific region:

- Provides loans and equity investments to its developing member countries (DMC's).
- Provides technical assistance for the planning and execution of development projects, programs and for advisory services.
- Promotes and facilitates investment of public and provide capital for development.
- Assists in coordinating developmental policies and plans of its DMC's.

Deposit Insurance and Credit Guarantee Corporation (DICGC):

The concept of insuring deposits kept with banks received attention for the first time in the year 1948 after the banking crises in Bengal. The question came up for reconsideration in the year 1949, but it was decided to hold it in abeyance till the Reserve Bank of India ensured adequate arrangements for inspection of banks. Subsequently, in the year 1950, the Rural Banking Enquiry Committee also supported the concept. Serious thought to the concept was, however, given by the Reserve Bank of India and the Central Government after the crash of the Palai Central Bank Ltd., and the Laxmi Bank Ltd. in 1960. The Deposit Insurance Corporation (DIC) Bill was introduced in the Parliament on August 21, 1961. After it was passed by the Parliament, the Bill got the assent of the President on December 7, 1961 and the Deposit Insurance Act, 1961 came into force on January 1, 1962.

The Deposit Insurance Scheme was initially extended to functioning commercial banks only. This included the State Bank of India and its subsidiaries, other commercial banks and the branches of the foreign banks operating in India.

Since 1968, with the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968, the Corporation was required to register the 'eligible co-operative banks' as insured banks under the provisions of Section 13 A of the Act. An eligible co-operative bank means a co-operative bank (whether it is a State co-operative bank, a Central co-operative bank or a Primary co-operative bank) in a State which has passed the enabling legislation amending its Co-operative Societies Act, requiring the State Government to vest power in the Reserve Bank to order the Registrar of Co-operative Societies of a State to wind up a co-operative bank or to supersede its Committee of Management and to require the Registrar not to take any action for winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the Reserve Bank of India.

Further, the Government of India, in consultation with the Reserve Bank of India, introduced a Credit Guarantee Scheme in July 1960. The Reserve Bank of India was entrusted with the administration of the Scheme, as an agent of the Central Government, under Section 17 (11 A)(a) of the Reserve

Bank of India Act, 1934 and was designated as the Credit Guarantee Organization (CGO) for guaranteeing the advances granted by banks and other Credit Institutions to small scale industries. The Reserve Bank of India operated the scheme up to March 31, 1981.

The Reserve Bank of India also promoted a public limited company on January 14, 1971, named the Credit Guarantee Corporation of India Ltd. (CGCI). The main thrust of the Credit Guarantee Schemes, introduced by the Credit Guarantee Corporation of India Ltd., was aimed at encouraging the commercial banks to cater to the credit needs of the hitherto neglected sectors, particularly the weaker sections of the society engaged in non-industrial activities, by providing guarantee cover to the loans and advances granted by the credit institutions to small and needy borrowers covered under the priority sector.

With a view to integrating the functions of deposit insurance and credit guarantee, the above two organizations (DIC & CGCI) were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence on July 15, 1978. Consequently, the title of Deposit Insurance Act, 1961 was changed to 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961.

Effective from April 1, 1981, the Corporation extended its guarantee support to credit granted to small scale industries also, after the cancellation of the Government of India's credit guarantee scheme. With effect from April 1, 1989, guarantee cover was extended to the entire priority sector advances, as per the definition of the Reserve Bank of India. However, effective from April 1, 1995, all housing loans have been excluded from the purview of guarantee cover by the Corporation.

Objective of DICGC: To contribute to stability and public confidence in the banking system through provision of deposit insurance and credit guarantee to small depositors and borrowers.

Course Name	**Agricultural Finance & Cooperation**
Lesson 11	**Interest rate, Cost of credit and Recent developments in agricultural credit**
Content Creator Name	**Saddikuti Hyma Jyothi**
University/College Name	**Acharya N.G. Ranga Agricultural University, Guntur**
Course Reviewer Name	**Dr. Sudhakar Dwivedi**
University/college Name	**Sher-E-Kashmir University Of Agricultural Sciences And Technology Of Jammu ,Jammu**

Interest rates: Interest is the cost paid for the use of capital or capital assets. Interest rates differ from region to region and also from institution to institution depending up on supply and demand for money in the market. There are several factors which will influence the rate of interest in the market

Cost of credit: It is different from interest rate. It refers to total acquisition charges that include:

- Rate of interest
- Travelling expenditure made by the farmers
- Payments made during the acquisition
- Loss of wage earning (opportunity) of the farmer
- Unproductive share capital investment

Agricultural credit in India:

Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. 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.

After independence, the Government adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover, with growing modernisation of agriculture during the post-green revolution period, the requirement of agricultural credit has increased further in recent years.

Interest subvention scheme:

- The interest subvention scheme for farmers aims at providing short term credit to farmers at the subsidised interest rate. The policy came into force with effect from Kharif 2006-07. The scheme is being implemented for the year 2018-19 and 2019-20.

- The interest subvention will be given to Public Sector Banks (PSBs), Private Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on use of own funds and to NABARD for refinancing to RRBs and Cooperative Banks.

- The Interest Subvention Scheme is being implemented by NABARD and RBI.

- Under this scheme the farmers' who availed crop loans from institutional financial agencies @ of 7 percent interest, if they repay the loan on or before due date 3 percent of interest subsidy is being credited to the account of the farmer from central government. In Andhra Pradesh, the state government is providing an additional interest subsidy of 4 per cent leading to zero per cent crop loans.

Problems regarding Agricultural credit in India

- **Insufficiency**: In spite of the expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of the increase in prices of agricultural inputs.
- **Inadequate amount of sanction**: The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.
- **Lesser attention of poor farmers**: Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better creditworthiness.
- **Inadequate institutional coverage**: In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.
- **Redtapism**: Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

Measures to counteract /mitigate the problems of agriculture credit:

- To monitor the taccavi loan offered by the Government in a serious manner.
- Co-operative credit societies should be organised to make it efficient and purposeful for delivering the best in terms of rural credit. Moreover, these societies may be transformed into a multi-purpose society with sufficient funding capacity.
- Middlemen existing between credit agencies and borrowers should be eliminated.
- Reserve Bank of India should arrange sufficient fund so that long term loans can be advanced to the farmers.
- Power and activities of the Mahajans and moneylenders should be checked so as to declare an end to the exploitation of farmers.
- The banks should adopt procedural simplification for credit delivery through rationalisation of its working pattern.
- In order to check the fraud practices adopted by the farmer, for getting loans from different agencies by showing same tangible security, a credit card should be issued against each farmer which will show the details about the loans taken by them from different agencies.
- Credit should also monitor the actual utilisation of loans by developing an effective supervisory mechanism.

Table 1: Shares of direct and indirect finance to agriculture in total credit to agriculture from scheduled commercial banks, India, 1985 to 2010, in per cent.

Year	Share in total agricultural credit (per cent)

	Direct finance	Indirect finance	Total
1985	83.2	16.8	100.0
1990	86.8	13.2	100.0
2000	85.5	14.5	100.0
2005	76.1	23.9	100.0
2006	72.1	27.9	100.0
2007	74.5	25.5	100.0
2008	77.5	22.5	100.0
2009	77.1	22.9	100.0
2010	76.1	23.9	100.0

Source: 'Basic Statistical Returns', Reserve Bank of India, various issues.

Table 2: Share of agricultural credit outstanding in rural and urban areas,

1990-2011, in per cent

Year	Total Agricultural Credit		
	Rural Areas	**Urban Areas**	**Total**
1990	85.90	14.10	100.0
1994	83.40	16.60	100.0
1995	83.70	16.30	100.0
2005	69.30	30.70	100.0
2006	62.40	37.60	100.0
2011	66.90	33.10	100.0
	Direct Agricultural Credit		
1990	88.80	11.20	100.0
1994	89.00	11.00	100.0
1995	88.60	11.40	100.0
2005	84.30	15.70	100.0
2006	80.00	20.00	100.0
2011	74.40	25.60	100.0

Chavan, Pallavi (2012), "Public Banks and Financial Intermediation in India"

Question and Answers:

Fill in the blanks:

1.The <u>interest subvention</u> scheme for farmers aims at providing short term credit to farmers at the subsidised interest rate.

1. Loans extended by the government are called as <u>taccavi loans.</u>

Definitions:

1. Interest rates: Interest is the cost paid for the use of capital or capital assets.
2. Cost of credit: It refers to total acquisition charges of credit apart from rate of interest.

Short answer questions:

1. Explain about interest subvention scheme.

Long answer questions:

1. Describe the problems in obtaining agricultural credit and measures to counteract them.

Books referred:

1. Essentials of Farm Management by S.S. Johl and C.V. Moore. Today and Tomorrow's Printers & Publishers
2. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
3. Agricultural Economics by S .Subba Reddy, P. Raghuram, T.V.N. Sastry and I Bhavani Devi. Oxford & IBP publishing company Ltd. New Delhi

Assignment:

Designed and developed under the aegis of NAHEP Component-2 Project "Investments In ICAR Leadership In Agricultural Higher Education"
Division of Computer Applications, ICAR-Indian Agricultural Statistics Research Institute

Course Name	**Agricultural Finance & Cooperation**
Lesson 12	**Preparation and analysis of financial statements – Balance Sheet and Income Statement.**
Content Creator Name	**Saddikuti Hyma Jyothi**
University/College Name	**Acharya N.G. Ranga Agricultural University, Guntur**
Course Reviewer Name	**Dr. Sudhakar Dwivedi**
University/college Name	**Sher-E-Kashmir University Of Agricultural Sciences And Technology Of Jammu ,Jammu**

What is Balance Sheet?

Balance Sheet is a statement of the financial position of a farm business at a particular point of time, showing its assets, liabilities and equity. It is a snap shot of a business at a particular point of time. If the assets are more than the liabilities, it is called **Net worth** or **Equity** and its converse is known as **Net deficit**. A typical balance sheet shows assets on the left hand side and liabilities and equity / net deficit on the right hand side. Both sides are always in balance, hence the name Balance Sheet.

A balance sheet can be prepared at any point of time to know the financial position of the farm business. It can also be prepared to study the performance of a business over years by preparing the same number of balance sheets. If the net worth increases over different periods, it indicates efficient performance of the business.

Usefulness of Balance sheet

1. Useful to know the solvency position of the business
2. Useful to identify different components of the assets and liabilities that influence the financial solvency of the business
3. Useful to develop financial test ratios and decision making
4. Useful to develop financial plans
5. Useful to convince the tenders about the long term and short term solvency of the business for further financing

The prime requisites to prepare a balance sheet are total assets and total liabilities of the farm. The **assets** are those, which are owned by the farmer. The **liabilities** refer to all things, which are owed to others by the farmer.

. Types of Assets

Assets are of two types, viz., current and long term or fixed.

Current assets: These are very liquid or short-term assets. They can be converted into cash, within a short time, usually one year. For Example:

Cash on hand, agricultural produce ready for disposal, i.e., stocks of paddy, black gram, jowar, wheat etc.

Long term assets or Fixed assets: An asset that is permanent or will be used continuously for several years is called a long-term asset. It takes longer time to convert the asset in to cash due to verification of records, legal transactions, etc. For Example: machinery, equipment, livestock, land, farm buildings

Types of Liabilities:

Current liabilities: Debts must be paid in the short term or in very near future. For Example: Crop loans, accounts payable, and hand loans etc.

Long-term liabilities: The duration of loan repayment is five or more years. For Example: livestock loans, machinery loans, tractor loan, orchard loan, land development loan etc.

Procedure of preparing a Balance sheet:

Step 1: List all the current and working assets with their monetary value and sum the values of assets

Step 2: List all the fixed assets with their monetary value and sum the values of assets

Step 3: Estimate the total assets by adding the sum of the values of the current assets and fixed assets

- Total assets = Current assets + Fixed assets

Step 4: List all the current and working liabilities with their monetary value and sum up.

Step 5: List all the fixed or long term liabilities with their monetary value and sum up

Step 6 Estimate the total liabilities by adding the sum of the values of the current liabilities and fixed liabilities:

- Total Liabilities = Current liabilities + Fixed liabilities

Step 7: Calculate the net worth or owners claim in the business

- Net worth or Owners claim = Total assets – Total liabilities

Step 8: Compute the balance sheet by writing the balancing figure at the end of the statement

Designed and developed under the aegis of NAHEP Component-2 Project "Investments In ICAR Leadership In Agricultural Higher Education"
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- Total assets = Total liabilities + Net worth

Balance sheet of a hypothetical farm as on 1st June, 2018

Assets	Amount (Rs.)	Liabilities	Amount (Rs.)
Current assets		**Current liabilities**	
Cash on hand	10000	Crop loans to be repaid to institutional agencies	8000
Savings in bank	8000	Accounts payable	11000
Value of grains ready for disposal	38,500	Hand loans	5000
Livestock products (eggs, birds, etc.) ready for disposal	60000	Money owed to input suppliers	25000
Fruits, fodder, vegetables, etc. ready for sale	8000	Annual instalments of MT and LT loans	19000
Value of bonds and shares to be realized in the same year	2000		
Sub-total	**126500**	**Sub-total**	**68000**
Long term assets		**Long term liabilities**	
Dairy cattle	10000	Livestock loan(outstanding amount)	8000
Bullocks	9000	Machinery loan (outstanding amount)	15000
Poultry birds	15000	Unsecured loans (Outstanding amount)	10000
Machinery and equipment	15000	Tractor loan (outstanding amount)	120000

Tractor	175000	Orchard loan (outstanding amount)	35000
Land	600000		
Farm buildings	25000		
Sub-total	**849000**	**Sub-total**	**188000**
Total of assets	**975500**	**Total of liabilities** **Net worth or Equity**	**256000** **719500**
		Total of liabilities + Net worth	**975500**

Analysis of Balance Sheet

Balance sheet is analyzed with the help of test ratio measures so as to know the exact financial position and stability of the farm business. The test ratios included for balance sheet analysis are Current ratio, Intermediate ratio, Net capital ratio, Quick ratio, Current liability ratio, Debt-equity ratio and Equity-value ratio.

The different test ratios can be calculated for a hypothetical farm with the Balance sheet as given below.

$$\mathbf{1.\ Current\ ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}} = \frac{126500}{68000} = 1.86$$

The current ratios indicate the capacity of the farmer to meet the immediate financial obligations (liquidity). If current assets are more than current liabilities and if the borrower fails to repay the loan, this is a case of willful default in spite of his position being solvent, which is more common in case of large farmers of financial institutions. A ratio of more than

one indicates a favorable run of the farm business. Current ratio reflects liquidity within one year's time.

$$\textbf{2. Net capital ratio} = \frac{\text{Total assets}}{\text{Total liabilities}} = \frac{975500}{256000} = 3.81$$

The net capital ratio indicates the solvency position of the farmers. If the net capital ratio is more than one, the funds of the institutional agencies are safe. A consistently increasing ratio over the years reveals the sound financial growth of farm business.

3. Acid test ratio or Quick ratio

$$= \frac{\text{Cash receipts} + \text{Accounts receivable} + \text{Marketable securities bonds, shares available in} > 1\ year}{\text{Total current liabilities}}$$

The acid test ratio reflects the adequacy of cash and income surpluses to cover all current liabilities during the period of one to two years. If there is no difference in the income position of farmers within that period, current ratio and acid test ratio reflect the same position.

$$\textbf{4. Current liability ratio} = \frac{\text{Current liabilities}}{\text{Owner's equity}} = \frac{68000}{719500} = 0.09$$

The current liability ration indicates the farmer's immediate financial obligations against the net worth. A ratio of less than one indicates a healthy performance of the farm business and over the years the ratio should become smaller and smaller to reflect a consistently good performance.

$$\mathbf{5. Debt - Equity\ ratio(Leverage\ ratio)} = \frac{\text{Total liabilities}}{\text{Owner's equity}} = \frac{256000}{719500} = 0.36$$

The debt-equity ratio or leverage ratio presents the capacity of the farmer to meet the long – term commitments. It also throws light on the extent of indebtedness in the farm business. A consistently falling ratio indicates a very heartening performance of the farming and the ability of the farmer to reduce dependence on borrowings.

$$\mathbf{6. Equity - value\ ratio} = \frac{\text{Owner's equity}}{\text{Value of assests}} = \frac{719500}{975500} = 0.74$$

This ratio highlights the productivity gained by the farmer in relation to the assets he has. This ratio has a direct bearing on the type of assets one has. Managerial ability of the farmer is an essential element in raising the productivity of the assets.

Assignment: 1

Given the Balance sheet statement of an Organic Farm, calculate the test ratios and comment on the farm financial position.

Balance sheet of an Organic farm, as on 31st December, 2017 (Amount in Rs.)

Assets	Amount (Rs.)	Liabilities	Amount (Rs.)
Current assets		**Current liabilities**	
Savings in bank	700000	Accounts payable	250000
Supplies	150000	Hand loans	122000
Securities marketable	100000	Money owed to input suppliers	65000
Cash value of insurance	200000	Accrued taxes	76000
Accounts receivable	350000		
Long term assets		**Long term liabilities**	
Vehicles	400000	Vehicles loan(outstanding amount)	68000
Poultry birds (2000 hds. @Rs100)	200000	Poultry loan (Outstanding amount)	42000
Machinery and equipment	800000	Machinery loan	50000
Farmland (3 ha @ Rs. 500000 per ha)	1500000	Farm (outstanding amount)	350000
Farm buildings	650000	Building depreciation	280000
Other facilities	210000		

Assignment 2

Prepare a Balance sheet statement by collecting necessary information of a farm and calculate the relevant ratios and draw conclusions about the farm business. **Preparation and Analysis of Income Statement of a Farm:**

Income statement or Profit and loss statement indicates how well the farm business has performed during the accounting period. From this, we can get an idea of the returns to various resources after deducting the expenses and also about overall earnings of the farm. This is an important financial record because it measures the financial progress and profitability over a period of time.

Definition: Income statement is a summary of receipts and gains minus expenses and losses during a specified period.

Preparation and Analysis of Income Statement of a Farm:

Income statement or Profit and loss statement indicates how well the farm business has performed during the accounting period. From this, we can get an idea of the returns to various resources after deducting the expenses and also about overall earnings of the farm. This is an important financial record because it measures the financial progress and profitability over a period of time.

Definition: Income statement is a summary of receipts and gains minus expenses and losses during a specified period.

Receipts: Receipts are the returns obtained from the sale of crop produce and other supplementary products like milk and eggs, wages, gifts, etc. Gain in the form of appreciation in the value of assets is also included in the receipts. However, returns from the sale of capital assets, such as livestock, machinery, farm buildings, etc. are not included because such returns / income are not really obtained during the period.

Expenses: Operating and fixed costs are recorded in this. Losses in the form of depreciation on the asset value fall under the expenditure item. However, the amounts incurred on the purchase of capital assets are not included.

Income statement is a summary of both cash and non-cash transaction of the farm business. In non-cash financial transaction, we get capital gain and depreciation. Income statement is divided into two major categories, viz., income and expenses. Income includes cash receipts, capital sales of business and changes in inventory value of items produced in the farm. Expenses include operating and fixed expenses.

i) **Inventory:** It is a complete listing of all assets. Items like supplies, grain and feed held for sale are listed on the inventory form.

ii) **Capital Sales of the Business:** The sale of milch animals and equipment are major items under this heading. These types of receipts are separated from normal cash receipts because they must be reported differently on tax forms.

iii) **Changes in Inventory:** In making adjustment for changes in inventory value, both changes in price and quantity should be taken into consideration. If the ending inventory value is greater than the beginning inventory value, it should be treated as a form of income. If opposite holds true it should be considered as negative income.

iv) **Operating and Fixed Expenses**: Operating expenses generally vary with the size of the business operation. Whereas, fixed expenses do not significantly vary with changes in the volume of business done under the period of reporting.

Thus, income statement helps to know the success or failure of a farm business over time. Basically, it constitutes three items, viz., receipts, expenses and net income.

Procedure of preparing a profit and loss statement

Step 1: Sum up the rupee value of the products and services that have been sold during the period specified (period for which profits and loss statement i.e accounting period).

Step 2: Estimate the net sales amount by deducting goods returned, discounts, allowances etc, if any, from the total sales amount.

Total sales = Rs.

Less goods returned = Rs.

Less discounts and

allowances = Rs. So, net

sales= Rs.

Step 3: Estimate the cost of goods sold as follows

- Net inventory costs or charges = beginning inventory – ending inventory
- Cost of goods sold = Net inventory charges + Other purchases

We can arrive at the cost of goods sold by adding the various items of the working costs like materials, raw materials, wages etc., used for production.

Step 4: Calculate the gross margin by taking the difference between total sales and the cost of the goods

- Gross margin = Total sales – Cost of goods sold

Step 5: Estimate and sum up all the other operating expenses not included earlier like marketing, administrative, general over head expenses etc, associated with the specific sales transacted during the accounting period

Step 6: Calculate the net operating margin (NOP) by subtracting the operating expenses from the gross margin.

- Net operating margin = Gross margin – Operating expenses

Step 7: Estimate the non operating income and expenses if any

Step 8: Estimate the Net Profit Before Taxes (NPBT) or Profits Before Taxes (PBT)

- PBT = (NOP + Non operating income) – Non operating expenses

Step 9: Estimate the bottom line of the business ie., Profit After Tax (PAT) ie., Net income or Net Profit After Tax (NPAT) by deducting taxes from PBT

- NPAT = NPBT – Profit tax

Income Statement of a Hypothetical Farm (1st July 2016 to 30th June 2017)

(Amount in Rs.)

	Receipts	Amount (Rs.)		Expenses	Amount (Rs.)
	Cash receipts		**I**	**Operating expenses**	
	Paddy sales	7500	1.	Hired labour	3000
	Sugarcane sales	5500	2.	Hired bullock labour	4000
	Groundnut sales	12000	3.	Fuel and repairs	2500
	Milk sales	6500	4.	Manures	1500
	Broiler sales	12000	5.	Other crop expenses (seed and spray of chemicals)	2400
6.	Miscellaneous income (Hired out human and bullock labour)	1500	6.	Livestock and veterinary expenses	1000
			7.	Interest on current debt	600
			8.	Other miscellaneous expenses	700
	Sub-total	**45000**		**Sub-total**	**15700**
	Net capital gain income		**II**	**Fixed expenses**	
	Sale of purchased milch animal	2000		Land rent	3000
	Sale of farm bred animal	2000		Land revenue and cess and surcharge	800
	Sale of machinery	2000		Land development	4200
	Sub-total	**6000**		Interest on intermediate and long term loan	1000
	Change in inventory value			Equipment depreciation	1500
	Crop inventory	4000		Livestock inventory change	1000
	Livestock inventory	1000		Imputed value of family labour	1000
	Sub-total	**5000**		Building inventory change	600

				Imputed value of operator's management	1500
				Sub-total	**14600**
	Gross Farm Income	**56,000.00**		**Total Expenses**	**30,300.00**
	Net Farm Income				**Rs.25,700/-**

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2. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
3. Agricultural Economics by S .Subba Reddy, P. Raghuram, T.V.N. Sastry and I Bhavani Devi. Oxford & IBP publishing company Ltd. New Delhi

Course Name	**Agricultural Finance & Cooperation**
Lesson 13	**Basic guidelines for preparation of project reports- Bank norms – SWOT analysis**
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Designed and developed under the aegis of NAHEP Component-2 Project "Investments In ICAR Leadership In Agricultural Higher Education"
Division of Computer Applications, ICAR-Indian Agricultural Statistics Research Institute

Guidelines for Project Preparation:

Project is a specific activity, with a specific starting point and ending point. Projects are the cutting edges of development. A project is an investment activity in the economy for its development, wherein monetary resources will be spent to create capital assets to gain benefits over an extended period of time. In some projects, however, costs are incurred for production expenses or maintenance from which benefits could be expected rather quickly. Indeed, a well demarcated boundary between an "investment" and a "production" expense in agricultural project is not that all clear. Agriculture and allied sector included broad spectrum of activities and the requirement of individual project or scheme will differ according to location and prevailing agro-clinic conditions, tastes and the expertise of the beneficiary markets for the end products and social customs. Accordingly, types of capital and recurring expenditures, trends in flow of benefits etc., which are required to be discussed in detail in a project report, will also greatly vary from one project/scheme to another. Nevertheless, there are certain common features as to what are the broad outlines for preparing a bankable project.

The most important salient points that must be included while preparing a project report are briefly discussed below:

1. **Introduction:** Briefly discuss the relevance of the proposed activity/enterprise in the present context of socioeconomic development, its role/share in the State/National income, employment etc.
2. **Location:** Give specification of the project area indicating village/town, block, Subdivision and district where the project is to be located. Indicate distance of the project site from the nearest highway/PWD road, railway station, town or any other big industrial unit/demarcating features. Also briefly discuss topography, relief, etc. for agricultural projects and the suitability of the site for other allied project(s) say dairy, poultry, fisheries etc.
3. **Objective:** A project must be perceived with well-defined objectives which may generally be much beyond the increasing income of the

entrepreneur. Clearly spell out those objectives in the project report.

4. **The Entrepreneur** : Give background of the entrepreneur in terms of his/her experience, professional skill, training etc. in the area of identified project as well as the management staff he is going to appoint.

5. **Project/Scheme Details**: Discuss details of the project with respect to technologies, plan of implementation, etc. broadly covering the following aspects:

a. Size, command area (say in case of Minor Irrigation scheme)

b. Type/brand/species & variety/breed (as applicable) and their availability

c. Technical specifications/design/planting scheme

d. Topography and physio-chemical properties of soils

e. Cropping pattern (in respect of Minor Irrigation & Land Development scheme) or Flock chart/Lactation chart (as applicable) Crop wise detailed package of practices/Feeding schedule

f. Availability of seed/saplings/inputs/animals/birds/machinery or raw material say for agro-processing (as applicable to a particular scheme)

g. Availability of technical guidance/extension support

6. **Phasing:** If the project is of fairly big size and is intended to be implemented to its full scale over a longer period, indicate number of years over which the scheme/project is proposed to be implemented and the year wise physical programme. Depending upon the physical programme, financial programme is to be worked out for each phase of implementation.

7. **Project Cost**: Work out post developmental capital and recurring expenditure for each item/component of the project. This is to be done for each year up to the end of the project period or till that time when the project yield gets stabilized. Aggregates of all types of capital cost along with such recurring cost required to be incurred till the project starts giving yield forms the project cost which can be worked out based on the unit costs approved by NABARD, wherever available. For those activities where

unit cost has not been fixed, invoice may be collected to estimate the project cost.

In case of a simple project consisting of only item of development, say a small dairy farm, a rough estimate of project cost may simply be arrived at multiplying the unit cost by the number of such units intended to be acquired in the project. However, in a commercial dairy project, certain additional accosts may be required which might not have been considered in the unit cost. Besides, as unit cost is only an average cost, the entrepreneur should obtain actual field level information regarding cost of each item of development and same should be considered while preparing the project report.

In respect of a composite project, consisting of more than one enterprise/activity, detailed cost estimate of each component to be provided and total cost has to be worked out on yearly basis. Where items like building/other civil works/land development works are involved, detailed cost estimates for each item has to be provided depending upon invoices, approved earth work rate etc.

8. **Margin/Subsidy:** Indicate amount of subsidy available, if any, from any agency/department under the proposed project. In the event of non-availability of any subsidy, the beneficiary has necessarily to contribute a portion of the total project cost, varying from a minimum of 5% (in case of marginal farmers) to 25% (in case of partnership farm/corporate bodies) from out of his own source. The amount to be contributed by way of equity/down payment/margin/subsidy should be clearly indicated.

9. **Bank Loan**: Total project cost less of down payment and/or subsidy will give the amount of bank loan required. This is generally, referred to as the Financial assistance.

10. **Project Benefit**: Estimate year wise pre and post developmental gross benefit from each activity/enterprise/crop and aggregate the year-wise total benefit from all sources for all the years of project life. However, project cost or benefit in most of the project is generally taken for the loan repayment period, particularly where project life is very long, say in case of plantation crops. The loan repayment period for most of the agricultural

projects ranges from 5 to 15 years depending upon the type of enterprise. While calculating the gross return, only farm gate price, and not the actual market price, should be considered.

11. **Economics** : From the project cost and benefits, work out the cash flow after taking into account year-wise recurring cost to be incurred in production phase/process, Compute net benefit, Net Present Worth (NPW) and Benefit Cost Ratio (BCR) @ 15% discount factor. To become a project viable, NPW must be positive and BCR must be >1 at 15% DF. If these conditions are fulfilled, work out Internal Rate of Return (IRR) by using the discounted cash flow technique. IRR for a project gives the measurement at what rate the project will give return to the capital. Wherever applicable, viz., in case of agro processing/cold storage projects Break Even Point (BEP), which is a no profit no loss point in the project, may be worked out. Different financial parameters used to work out the financial viability ofa project are calculated as under.

NPW: Sum of (Present Worth of Benefit – Present Worth of Cost) for all years

$$NPW = \sum_{t=1}^{n} \frac{B_t - C_t}{1 + r^{n}}$$

BCR: Present value (worth) of benefits ÷ Present value of costs

$$BCR = \frac{\sum_{t=1}^{n} \frac{B_t}{(1+r)^n}}{\sum_{t=1}^{n} \frac{C_t}{(1+r)^n}}$$

IRR: IRR is also called as marginal efficiency of capital. It is calculated by the discounting the cost and benefits of a project at a progressively higher discount rate till the NPW becomes negative. Thereafter, discount factor at which NPW becomes "Zero" is calculated by mathematical computation which is the IRR of the project.

$$IRR = \sum_{t=1}^{n} \frac{B_t - C_t}{(1+r)^n} = 0$$

IRR can be estimated through interpolation method as follows

IRR =

Lower discount rate + Difference between two discount rates

NPW at lower discount

rate

Absolute difference between two NPWs at two discount rates

Break Even Point: Break Even Point is calculated from the following relations: Sale price x Break even (units) = (Fixed cost + Variable cost) x Break even (units).

12. **Financing Bank**: Indicate the name of the bank as well as the branch which will be financing the project. Generally agricultural projects will be financed by the designated service Area bank branch of that area.

13. **Rate of Interest**: Indicate the likely rate of interest to be paid on bank loan. The rate of interest is governed by the RBI/NABARD guidelines and may be changed from time to time. At present financing banks are free to decide their lending rate within the upper ceiling of 2% above the Prime Lending Rate (PLR) for that bank. Generally bank charges higher interest for higher loan amount. Nevertheless, rate of interest is generally within 9% to 15% for most of the banks, depending upon the quantum of loan.

14. **Marketing:** Illustrate about the market survey and potential explored for selling the project products. Give details of existing marketing network, market infrastructure, including those being planned for development and strategies and arrangement for sale of the produce.

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15. **Repayment of Bank Loan:** In order to qualify as a bankable, a project should yield enough return to repay the entire bank loan along with the interest within the project life or within a reasonable time period, at the same time, leaving a portion of the net benefit with the beneficiary for sustenance. Repayment schedule indicating total loan outstanding, interest accrued, net incremental income (Gross surplus), repayment of capital and interest and net surplus should be furnished with the project report.

As a general principle, the total yearly outgoing towards repayment of both principal and interest should be within 50% to 60% of the gross surplus, (which may be extended to 70% depending upon the quantum of surplus) leaving 40% to 50% in the beneficiary's / entrepreneur's hand. The repayment period however, in any case, should not exceed 15 years for consideration of bank finance.

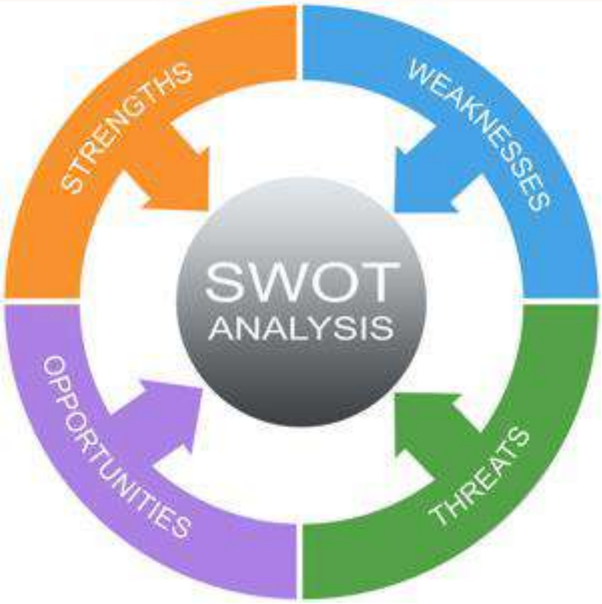
The loan can be repaid in equal (same total amount but varying proportion of principal and interest), equated (same principal amount + interest on outstanding balance) or graded (both principal and interest vary) instalments depending upon the nature of the project and choice of the entrepreneur. In case of long gestation plantation crops where no income is generated during first few years of the project, interest payment is deferred during the gestation period.

Debt Service Coverage Ratio (DSCR): Provides a basis for fixation of repayment schedule. The ratio indicates the capability of the unit to generate adequate cash accruals to pay off the instalments of term loan and interest thereon. DSCR should be around 1.5 to 2.0, for the financier to be satisfied about the repayment capability of the enterprise.

16. **Conclusion:** A conclusion may be drawn in the project report indicating the rise in the socio-economic status of the beneficiaries and also the positive impact of the project on the society and environment. The most important aspect of a good project report is that, it must contain authentic data. In absence of authentic data or if the data used

in preparation of a project report is of uneven quality, the result cannot be better, no matter what sophisticated tools of Financial Analysis are used. Therefore one must do a thorough survey of all related aspects before taking up a project.

SWOT analysis:



SWOT is a strategic planning tool used to evaluate the strengths, weaknesses, opportunities, and threats to a project. It involves specifying the objective of the project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. The strengths and weaknesses usually arise from within an organisation, and the opportunities and threats from external sources.

The SWOT analysis is an important part of the project planning process:

- **Strengths:** attributes of the organisation that help achieve the project objective.
- **Weaknesses:** attributes of the organisation that stop achievement of the project objective.
- **Opportunities:** external conditions that help achieve the project objective.

- **Threats:** external conditions that could damage the project.

Strengths (internal factors)	**Weaknesses (internal factors)**
Track record (similar successes) and expertise	Gaps in knowledge
Resource availability	Timescale and deadlines
Skill levels	Budget and funding
Reputation	Competing projects

Opportunities (external factors)	**Threats (external factors)**
Technology and infrastructure development	Political influences
Changing consumer behaviour	Environmental factors
Emerging and developing markets	Competitor activity
New innovations (R&D)	Economy
Market demand	Seasonal effects

With a SWOT analysis it is useful to ask these questions:

- How can we use our strengths?
- How can we address each weakness?
- How can we exploit each opportunity?

- How can we guard against each threat?

Advantages of SWOT

- Straight forward and only costs time to do.
- Produces new ideas to help take advantage of an organisation's strengths and defends against threats.
- Awareness of political and environmental threats allows an organisation to have response plans prepared.

Disadvantages of SWOT

- May persuade organisations to compile lists rather than think about what is essential to achieving objectives.
- Presents lists uncritically and without clear prioritisation so, for example, weak opportunities may appear to balance strong threats.
- Usually, a simple list and not critically presented.

Books referred

1. Economics Analysis of Agricultural Projects, Gitteger Price , J.1989 John Hopkins University Press, London
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Course Name	**Agricultural Finance & Cooperation**
Lesson 14	**Agricultural Cooperation – Meaning, brief history of cooperative development in India- Objectives, principles of cooperation, significance of cooperatives in Indian agriculture.**
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The origin and history of cooperative movement in India can be dealt under two eras.

a) **Pre-Independence Era:**

The cooperative movement in India during pre-independence era can be divided in to four phases viz.,

1. Initiation phase (1904-1911)
2. Modification phase (1912-1918)
3. Expansion phase (1919-1929)
4. Restructuring phase (1930-1946)

Initiation phase (1904-1911):

In olden days rural credit service was dominated by non-institutional financial agencies (i.e. private money lenders) charging exorbitant interest rates from farmers. In extreme cases or out of distress the poor farmers have to sell their belongings to clear their debts. This precarious situation triggered a sort of agitation by farmers against private money lenders in certain areas. The revolts found in Poona and Ahmadnagar areas of Maharashtra attracted the attention of government. Immediately the government passed three acts viz.,

- Deccan Agriculture Relief Act (1879)
- Land Improvement Loan Act (1883)
- Agriculturists Loan Act (1884)

In 1892, the Madras government appointed Federick Nicholson to study and examine the village banks organized on cooperative lines in Germany. After coming from there Nicholson submitted a report and raised a slogan “Find Raiffeissen”.

During 1901, Indian Famine Commission (IFC) and another committee headed by Sir Edward Law recommended the formation of credit societies on Raiffeissen model. These recommendations resulted in the enactment of Cooperative Credit Societies Act (1904).

Important/salient features of 1904 Cooperative Credit Societies Act:.

- Classification of cooperative societies in to rural and urban was made. According to this, rural societies are those having $4/5^{ths}$ of the total members are farmers and urban societies are those having $4/5^{ths}$ of the total members are non-agriculturists.
- Both the organization and control of these societies was to be done by registrar of cooperatives.
- Loans could be extended to the members on personal and collateral security.
- The principle of "one man one vote" was specified in the Act.

Modification phase (1912-1918):

Cooperative Societies Act of 1912was enacted for rectifying the shortcomings of 1904 Act.

Important/salient features of 1912 Cooperative Societies Act:.

- It provided legal protection to all types of cooperatives
- Liability is limited in case of primary societies and unlimited for central societies.
- As this act of 1912 gave provision for registration of all types of cooperative societies lead to the emergence of rural cooperatives both on credit and non-credit fronts. But this growth was uneven spatially i.e. localized in some areas only.

During the year 1914, government appointed a committee to under the chairmanship of Edward Mac Lagan to look in to the performance of the societies. He resented his report in 1915. The Mac Lagan committee's recommendations and cooperative Act o 1912, introduced the cooperative planning process in India.

The important observations of Mac Lagan committee/ drawbacks of then existing cooperatives as identified by Mac Lagan committee were:

- Illiteracy among the members.

- Misappropriation of funds.
- Rampant/uncontrolled nepotism (Favoritism towards friends and relatives).
- Undue delays in sanctioning of loans.
- Irregularity in repayment of loans.

  Some suggestions offered by Mac Lagan committee for the effective functioning of cooperatives:

- All the members of the society should be made aware of the cooperative principles.
- Dealings/transactions should be restricted to the members only.
- Honesty should be main criterion for extending a loan to someone.
- Careful scrutiny of applications before advancing a loan and effective follow up utilization of loan amount.
- Loans should not be advanced for speculative purposes like investment in stock markets, lotteries etc.
- Ultimate authority should be with all the members but not with the office bearers.
- Thrift/propensity to save should be encouraged among the members, so as to build reserve fund.
- The principle of "one man one vote" should be strictly followed.
- As far as possible, the capital should be raised from the savings of the members only.
- Punctuality in repayment should be strictly insisted upon the borrowers.

Expansion phase (1919-1929):

This phase was considered as "Golden Era" for the cooperative movement in India. Cooperative movement got impetus/boost as the cooperatives became a provincial subject under Montague Chelmsford Act of 1919/ Govt. of India Act, 1919. The economic prosperity during the period 1920-1929 also contributed to the growth of cooperative movement.

During the same period, the birth of Land Mortgage Banks (LMB's) took place first in Punjab (1924) subsequently in Madras (1925) and in Bombay (1926).

Restructuring phase (1930-1946):

In the year 1931, Indian Central Banking Enquiry Committee also emphasized shortcomings with reference to undue delay in advancing loans and inadequacy of credit.

In the year 1932, Madras Cooperative Societies Act came in to existence aiming for the growth of the cooperative movement. Madras cooperative Land Mortgage Bank Act (1934) came in to force for the development of long-term credit.

Excessive and abnormal fall in prices of agricultural commodities and the economic depression of early thirties lead to the collapse/downfall of the cooperative movement. Various enquiry committees were also constituted for restructuring and reorganization of cooperative societies. They were

- Vijayaraghavacharya committee in Madras.
- Rehabilitation Enquiry committee of Travancore (Kerala) and Mysore.
- Kale committee of Gwalior.
- Wace committee of Punjab.

The Agricultural Finance sub-committee under the chairmanship of Prof. D.R. Gadgil, in 1944 recommended the

- Adoption of limited liability to cooperatives.
- Assessing the credit –worthiness of a farmer based on his repayment capacity.
- Subsidizing the cost of administration of small cooperative societies.
- Linking credit with marketing.

In 1945, the cooperative planning committee (CPC) under the chairmanship of Sri. R.G. Saraiya pointed out that the limited progress of cooperatives is due to the Laissez-faire policy (irresponsible/ not showing due interest) of government and illiteracy of the people etc.

b) Post-Independence Era:

Planning commission was established in March, 1950 prepared first five year plan (1951-1956) in 1951under which main objectives with regard to cooperatives were

- Involvement of cooperatives in rural development programmes.
- Development of well organized credit system.
- Extending cooperatives to the fields of farming, industry, housing, marketing etc.
- Training of higher level personnel engaged in cooperatives.

During the year 1951, AIRCSC was appointed under the chairmanship of Sri. A.D. Gorwala pointed two main drawbacks of cooperative credit. They were

- Cooperative credit was unevenly distributed.
- Cooperative credit was in adequate and mostly lent to the asset-oriented large cultivators rather than small and marginal farmers.

He also pointed that weakest link in chain of cooperatives was the primary credit societies. The AIRCSC also observed that "Cooperation has failed in India must succeed".

This AIRCSC also recommended an integrated scheme as a remedy for the then existing situation. The important recommendations /salient features of it were

- State/Govt partnership in cooperatives at all levels.
- There should be coordination between cooperative credit, marketing and processing.
- Development of adequate warehousing.
- Giving adequate training for cooperative personnel engaged at all levels.

Under Second five year five year plan(1956-1961), on the recommendations of AIRCSC during the year 1956, National Cooperative Development and Warehousing Board (NCDWB) was established. Apart

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from this the second five year plan initiated the setting up of producer's cooperatives and processing cooperatives.

During the year 1959, the Committee on Cooperative Credit (CCC) under the chairmanship of Sri. V. L. Mehtha opined that the membership in a cooperative should not be too large and each village falling under the service area of the cooperative should be at a distance of less than 3-4 miles.

The Committee on Taccavi (Govt) loans and cooperative credit under the chairmanship of Sri. B.P Patel in 1961-62, stressed that the cooperatives should provide loans to the farmers for carrying out agricultural operations and land improvement. These loans should be given only to the farmers under distressed conditions.

The Committee on Cooperative Administration headed by Sri. V. L. Mehta said that the supervision of cooperatives at grassroots level i.e. PACS's should be done by District Cooperative Banks.

During Third five year plan (1961-1966), the emphasis was placed on the revitalization of dormant societies apart from increased emphasis on cooperative credit and cooperative farming. During this period

- National Cooperative Development Corporation (NCDC) was established in 1963.
- Establishment of National Federation of Cooperative Sugar Factories (NFCSF).

All India Rural Credit Review Committee (AIRCRC) was constituted during July, 1966 under the chairmanship of Sri. B. Venkatappaiah. He submitted his final report in the year 1969 and recommended the

- Setting up of Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers Development Agency (MFAL) and Rural Electrification Corporation (REC).
- Reorganization of primary societies in to economically viable units.
- Revitalization/reorganization of weak cooperative central banks.

- Checking of overdues.
- Greater flexibility in conversion of short-term loans in to medium-term loans.
- Simplification of loan application.
- A part of loan should be disbursed in kind.

During the third five year plan period itself the new concept of transport cooperatives was initiated.

After third five year plan, during 1966-1968 there were three annual plans called rolling plan. In the year 1967, Vaikunth Mehta National Institute of Cooperative Management (VAMNICOM) was started in Poona.

Fourth five year plan (1969-1974), gave impetus for the rehabilitation and reorganization of District Cooperative Credit Societies for the smooth flow of cooperative credit. During this plan, Indian Farmers Fertilizer Cooperative Limited (IFFCO) was established at Kandla, Gujarat.

During Fifth five year plan (1975-1979) new fertilizer projects were initiated with the success during fourth five year plan.

National Bank for Agriculture and Rural Development (NABARD) was established for providing credit to agriculture and allied activities under Sixth plan (1980-1985.The strengthening of dairy cooperatives was also given importance in this period.

Seventh five year plan (1985-1990), stressed up on

- Organizing of special cooperative loan recovery camps
- Strengthening of National and State Consumer Federation (NSCF)
- Introduction of single window system in Andhra Pradesh in 1987.

Eighth five year plan (1992-1997) emphasized replication of Anand Pattern of cooperatives for milk and strengthening of processing cooperatives.

Ninth five year plan (1997-2002):

Measures were initiated to revitalize the cooperatives to make them vibrant democratic institutions with economic viability and active involvement of members by the Government. These include the framing of National Policy on Cooperatives and finalisation of a new Multi State Cooperative Societies Bill to replace the then existing Multi State Cooperative Societies Act,1984.

It is proposed to have wide-ranging amendments to the Multi State Cooperative Societies Act, 1984. Broadly, the following issues have been addressed in the proposed legislation.

(i) greater degree of autonomy of Multi State Cooperative Societies;

(ii) reduction in the control and level of intervention of the Government;

(iii) establishment of Quasi-judicial Dispute Settlement Authority;

(iv) provisions for safeguarding the interest of members;

(v) removal of some restrictive provisions on the functioning of societies;

(vi) freedom of societies to determine their own priorities.

The National Cooperative Development Corporation (NCDC) undertakes planning and promotion of programmes for production, processing, marketing, storage, export and import of agricultural produce, foodstuffs and other notified commodities based on cooperative principles.

With the passage of time, it has been felt that NCDC mandate needs to be broad-based and amendments to the NCDC Act are proposed. The main features of the proposed amendment are as follows:

(a) expansion of NCDC's scope to include Animal Husbandry, Forestry, Horticulture, Pisciculture, etc.

(b) extension of NCDC's coverage to livestock, industrial goods, handicrafts and the services sector, and

(c) provision of loans directly to cooperative societies on appropriate security to be furnished by the borrower.

National level Cooperative federations have been providing dominant leadership role. Government of India has been giving financial and policy support to these federations to undertake extensive promotion and research activity and in ensuring improvement in infrastructural facilities.

Funds were provided for the implementation of Centrally assisted State Plan Scheme 'Watershed Development in Shifting Cultivation Areas' in North-Eastern States.

Tenth five year plan (2000-2007)

1. To review the status of Cooperative Movement and its role in the economic development of the country in general and in the agricultural economy of the country, in particular identify weaknesses of Cooperative Movement and Cooperative Movement to meet the desired goal.
2. To make a special study of the role of the cooperatives and challenges to be met in the wake of globalisation of Indian economy and also the issues relating to competitive efficiency of the cooperatives, constraints and remedial measures for improving the commercial and economic viability of the cooperatives with regard to modernisation, diversification, technology up gradation, quality improvement, marketability and export promotion, etc.
3. Formulate suitable programmes and schemes for the 10th five year plan indicating policies, objectives, strategy targets, programmes for development of cooperatives with due regard to the self-reliance, export promotion, removal of regional imbalances, reduction in rural poverty, generation of more employment opportunities and improvement in socio-economic conditions of the weaker section of the rural community.

4. To study the regional disparity in the development of Cooperatives, identify the factors inhibiting the development of cooperatives in the States and suggest suitable programmes for encouraging cooperatives in the cooperatively underdeveloped States.
5. To suggest measures for human resource Development in the Cooperatives.
6. To review the role and functioning of consumer cooperatives and suggest suitable measures for their improvement.

Meaning of co-operation:

Co-operation is voluntary association of persons for achieving a common goal. It generally means working together for a common goal. It indicates joint effort and coordinated action of all the members of the association. Ex: Producer's cooperatives, Consumer's cooperatives, marketing cooperatives, credit cooperatives, Multi-Purpose Cooperative Societies etc.

Definition: According to Huber Calvert "Co-operation is a form of organization, where in persons voluntarily associate together on the basis of equality for the promotion of common economic interest of themselves"

According to Sir. Horace Plunkett, "Co-operation is self help made effective by organization."

Co-operation helps in protecting the weak, provides equal justice to all and promotes welfare of the society. The motto of co-operation is **"Each for all and all for each."**

Principles of Cooperation:

Rochdale pioneers were a group of 28 weavers and other artisans in Rochdale region of England formed against the advent of industrial revolution forcing many skilled workers into poverty. Rochdale pioneers were most famous for designing the Rochdale principles i.e. a set of principles of co-operation now following worldwide. Hence the principles of co-operation originated from Rochdale Principles. The important principles of co-operation are

1. **Principle of open and voluntary association:**

The admission and membership in to a co-operative society is open to everybody irrespective of caste, religion, any social and political affiliations. It does not allow any discrimination. The membership is open as well as voluntary. It implies that there is no compulsion is exercised on any individual to join the cooperative. Once an individual joins as a member, there is no compulsion on him to continue as such. At any time he had every freedom to withdraw from the society.

2. **Principle of Democratic organization:**

Co-operatives are organized and managed based on the principle of democracy. Each member is given equal right to vote irrespective of his share capital in the society. "One man one vote" is the important principle of cooperation. The elected board of management will work based on the acts, rules and laws guiding the matters of co-operation.

3. **Principle of service:**

Co-operatives main aim is to cater the needs of its members. Unlike business organizations, the cooperatives are more service oriented rather than profit oriented. This spirit of service invokes/develops loyalty among the members.

4. **Principle of self-help and mutual help:**

The funds of society are contributed by the members in the form of share capital. In co-operatives generally, the members are financially weak. The society can barrow required capital from different financial sources at lower interest rates and offer the same to the members for productive purposes. This may not be possible at individual level. Hence, in co-operatives the principle of self-help and mutual-help can work for the welfare of the members.

5. **Principle of distribution of profits and surpluses:**

Co-operatives are not interested in making profits like business organizations. But, they are also required to run on same minimum profits through efficientworking. In co-operatives a certain amount of profits i.e. 25 per cent will be kept back as reserve fund and the remaining 75 per cent can be distributed among the members based on their contribution to the share capital.

6. **Principle of political and religious neutrality:**

The important strength for growth of the cooperatives is the unity among the members and non-interference of political parties. The members of the cooperatives should continuously work for the growth of the society with harmony, integration and unbaisedness towards any religion political party. The political and religious differences of the members should be kept away for the smooth running of the cooperatives.

7. **Principle of Education:**

If the members in cooperative society are illiterate, their participation is poor in running the cooperatives and they cannot understand what is going in the society. Hence, first such type of illiterate members should be made literate. For promoting awareness and efficiency in the operations of cooperatives, education to members and training to office bearers and executives is necessary.

8. **Principle of thrift:**

The cooperatives must aim at inculcating the habit of thrift i.e. “propensity to save” among the members. Thrift and service are part and parcel of cooperation. The members who save their money with cooperatives should get incentives. Thrift is very much basis of self-help, but it must precede credit. It implies that in sectioning of credit, a priority should be given to the members who save.

9. **Principle of publicity:**

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The cooperatives should make sincere efforts to tell their members about the society and all the dealings/transactions of the society should be made public.

10. Principle of honorary service

The honorary personnel will simply supervise and direct operations of cooperatives. But to have efficiency in the society, trained secretaries with salaries are needed. But, if the societies are started with poor members, it is better to have honorary office bearers, because such societies cannot afford to pay salaries to such office bearers.

Objectives/maxims of co-operation:

The founder of Irish co-operative movement Sir Horace Plunkett sums up co-operation in three famous maxims.

1. **Better Farming:**

It means helping the farmer to realize a better production in the farm business through adoption of requisite technology. The farmers objective of achieving higher production and productivity will be realized only when the resources are available in adequate quantities and at right time. For this necessary capital for the farmer also should be provided by institutional agencies at right time. A well developed co-operative network/set up helps in marketing this particular requirement of the farmers.

2**. Better Business:**

Farmers should get a better deal in buying the inputs as well as disposing the products. The efforts of the farmer will be fruitful only when an efficient marketing system is accessible to him. Farmers as a group enjoy better bargaining power when compared individually. Hence co-operatives should provide inputs needed by the farmers at reasonable rates and arrange for the disposal of produce at favourable/ remunerative prices.

3**. Better Living:**

This implies that the cooperative societies should supply consumer goods to the consumers at reasonable rates. This helps the consumers to pay less than what they pay in open market. A good and successful cooperative helps in preventing marketing middlemen (as minimum as possible) especially private traders from taking undue advantage.

Thus co-operatives help in getting remunerative/favourable prices to producers for their products and providing the same products for consumers at reasonable /affordable prices.

Importance/Significance of Cooperatives in Indian Agriculture:

The Cooperatives play very important role in India because it is an organization for the poor, illiterate and unskilled people. The importance of Cooperative sector for Indian agriculture is given below:

1. It provides agricultural credits and funds where state and private sectors have not been able to do very much.

2. It provides strategic inputs for the agricultural-sector; consumer societies meet their consumption requirements at concessional rates.

3. It helps to overcome the constraints of agricultural development.

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Course Name	**Agricultural Finance & Cooperation**
Lesson 15	**Agricultural cooperation in India- cooperative credit structure in India- credit, marketing, consumer and multi-purpose cooperatives, farmers' service cooperative societies, processing cooperatives, farming cooperatives, cooperative warehousing.**
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Cooperative Credit Structure in India

Government of India realized that cooperatives were the only alternative to increase agricultural credit and development of rural areas, as recommended by AIRCSC headed by Sri. Gorwala. Hence, cooperatives received substantial help in getting credit from Reserve Bank of India and large-scale assistance and encouragement from both central and state governments for their growth and development.

Many schemes of government with components of subsidies and concessions to the weaker sections were enrooted through the cooperatives. With this the cooperative institutions registered a remarkable progress in the post-independence period.

Cooperative structure was delineated in to two types viz., three-tier structure for providing short-term and medium-term loans and two-tier structure for long-term loans in all states except Bihar, Jammu and Kashmir, Maharashtra and Uttar Pradesh, where the structure is unitary i.e. concentrated at a single point.

Cooperative Credit Organization

ST & MT Loans

(Three tier system)

LT loans

(Two tier system)

State Cooperative Bank (SCB) Banks

Central Land Development

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(At state level) (CLDBs) (At state level)

District Cooperative Central Bank (DCCB) Primary Land Development Banks

(At district level) (PLDBs)(Erstwhile taluk level)

Primary Agricultural Cooperative Credit Societies

(PACS)

(At village level)

State Cooperative Banks (SCB's):

These are the apex/highest credit organizations existing at the state level. District cooperative Central Banks (DCCB's) and primary agricultural cooperative credit societies will act as members of these banks. These SCB's will supervise the activities of the member banks and mobilize and deploy the financial resources among the member banks. They serve as a bridge between RBI and PACS.

Specific functions of SCB's are

- They help the state governments in formulating developmental plans pertaining to cooperative institutions.
- They also helping coordinating the cooperatives with the government.
- They formulate and implement uniform credit policies pertaining to cooperative development in the state.
- They act as Bankers Bank to DCCBs.
- They will grant subsidies for the smooth functioning of DCCBs

- Similar to any other commercial bank, they also perform the normal banking operations.

District Cooperative Central Banks (DCCBs):

They act as link between state cooperative banks and primary agricultural cooperative societies. DCCBs also undertake normal banking functions like accepting of deposits from public, collection of bills, cheque and drafts etc. They also provide required credit for needed persons. In DCCBs the area of operation varies from erstwhile taluk to district, but in most of them it is confined only to taluks.

In DCCBs membership is open to individuals and other societies falling under its area of operation. Marketing societies, consumers' societies, Farming societies, urban banks and PACS' will usually enroll as its members.

Specific functions of DCCBs are:

- They supervise and inspect the activities and functions of PACS' and help them to function smoothly.
- Apart from providing guidance they also provide leadership to PACS'
- They also undertake non-credit activities like supply of seeds, fertilizers and also consumer items like sugar, kerosene etc.
- They provide requisite credit for societies under their control.
- They accept deposits from the member societies as well as from public.

Primary Agricultural Cooperative Credit Societies (PACS'):

With the enactment of Cooperative Societies Act of 1904, PACS' came in to existence following the guidelines of Raiffeissen model. The cooperative principles are framed for their smooth and efficient functioning.

These societies will function at village level providing the farmers the required short term and medium term loans. Supply of other agricultural inputs and essential consumer items is also taken up by these societies. PACS' also helps in formulating and implementing the agricultural developmental plans.

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Specific functions of PACS are:

- They borrow adequate and timely funds from DCCBs and help its members by providing required finances.
- So as to inculcate the habit of thrift they attract local savings of members towards share capital and deposits from the villagers.
- They supervise the end use of credit.
- They distribute fertilizers, seeds and pesticides to the needy farmers.
- They provide machinery to the farmers on hire basis.
- They also associate themselves with the plans and programmes meant for the socio-economic development of the village.
- They help the farmers in marketing of farm produce.
- They provide storage facilities and marketing finance.
- They help in supplying certain consumer goods like rice, wheat, sugar, kerosene, clothes etc at fair prices.

Central Land Development Bank (CLDB):

Central Land Development Bank is an apex bank in the two-tier cooperative credit structure providing long-term credit /finance to PLDBs and its subsidiary/affiliated branches. The branches of CLDBs, PLDBs and individual entrepreneurs are the members of CLDB.

National Bank for Agriculture and Rural Development and Life Insurance Corporation (LIC) subscribe for its debentures. NABARD is a refinancing agency to the CLDBs. CLDB is a link between NABARD and government in long-term transactions.

Specific functions of CLDB are:

- CLDB inspects, supervises and guides PLDBs in their banking operations.
- It floats/invites debentures for raising the necessary funds.
- It inculcates/develops the spirit of thrift among the members by mobilizing savings and stimulating capital formation i.e. asst creation.

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- It provides loans to the member banks for the redemption of old debts, development of land, purchase of machinery and equipment and development of minor irrigation etc.

Primary Land Development Banks (PLDBs):

The establishment of land mortgage banks on cooperative lines was initiated in Punjab during the year 1920 itself. During the 1920-29 i.e. in the expansion phase many Land Mortgage Banks (LMBs) were established in Mysore, Madras, Assam and Bengal, Bombay etc.

Even though there was slow progress of these banks until 1945, good progress of these banks was achieved in the post independence era i.e. 1948-53. During this period only large and affluent farmers obtained from the LMBs and small and marginal farmers were benefited very little.

Later on LMB's received massive support from institutional agencies like RBI, SBI, LIC and ARDC. With this LMBs directed their lending policies towards small and marginal farmers emphasizing agricultural development.

In the year 1974, LMBs were renamed as Land development Banks (LDBs) in Andhra Pradesh. The area of operation of PLDB was at erstwhile taluk level.

Specific functions of PLDBs are:

- To provide long-term credit to the needy farmers for the land development increased agricultural production and productivity of land.
- They provide loans for minor irrigation, purchase of land and for redemption of old debts.
- They finance farmers in purchase of tractors, machinery and equipment.
- They provide finance to farmers for the construction of farm buildings.

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- They mobilize rural savings.

Single Window System of AP:

Till 1987 the farmers in Andhra Pradesh depended on primary agricultural credit societies functioning under three tier structure for short-term and medium-term credit requirements and on primary land development banks functioning under two-tier structure for long-term credit needs. It means that the farmers have to obtain their total credit requirements from two different cooperative institutions. In addition to this the performance of PLDBs was not satisfactory. In marketing their farm produce also farmers faced many difficulties in getting marketing services from PACS in three tier structure.

With this backdrop, to make cooperatives rendering their useful services, the government of A.P thought to bring some appropriate organizational changes in the working of cooperatives in the state. Subsequently, a committee under the chairmanship of Sri. Mohan Kanda an IAS officer was to bring out some meaningful and practicable alternatives in the structure of cooperatives. The committee submitted its report in May, 1985 and recommended the establishment of “Single Window System” and a bill was passed for its establishment in the AP state assembly in January, 1987.

The main intention and idea of introducing the single window system is to supply all types of agricultural credit needed by the farmers through PACS and provide adequate marketing facilities to farm produce through District Cooperative Marketing Societies (DCMS).

Single window system is a three-tier structure in cooperative credit and two-tier structure in cooperative marketing as shown below.

Single Window System

Credit (Three Tier Structure)

The AP state cooperative

(ST, MT &LT)

↓

Andhra Pradesh State Cooperative Bank for Agriculture & Rural Development Societies

(APCOBARD)

↓

District Cooperative Bank for Agriculture & Rural Development

(DISCOBARD)

↓

Primary Agricultural Cooperative Credit Societies (PACS)

Marketing Federation Ltd

(MARKFED)

↓

District Cooperative Marketing

(DCMS)

With the introduction of single window system in Andhra Pradesh during the year 1987

- No of PACS were reduced from 6801 to 4257.
- Primary Cooperative Agricultural Development Banks (PCADBs), 218 in number were merged with DCCBs.
- Primary cooperative marketing societies were amalgamated/merged with DCMSs

Major functions of PACS under single window system are:

- To advance short, medium and long term loans.
- To supply required farm inputs like seeds, fertilizers and pesticides.
- To distribute essential commodities like rice, wheat, sugar, kerosene etc.

- To arrange fore marketing of farm produce of the members through DCMS.

Credit co-operative: A financial organization owned and controlled by its members, who can borrow at low interest rates from an amount of money they have saved as a group. Credit co-operatives provide financial services to poor and low-income people.

Marketing Cooperative: *Co-operative marketing organisations are association of producers for the collective marketing of their produce and of securing for the members the advantages that result from large-scale business which an individual cultivator cannot secure because of his small marketable surplus. In other words, co-operative marketing societies are established for the purpose of collectively marketing the products of the member producers.*

Consumer Cooperative:

These societies are primarily for consumers who wish to buy household goods at lower prices. The society buys goods or products in bulk amounts directly from the producer on wholesale rates and sells them to the members, thus eliminating the need for a middleman. The purchased goods are sold to members and non-members in cash. Capital is raised by issuing low denominational shares to the members who also get dividends on the shares.. They ensure a regular supply of goods at reasonable rates. They set up stores or outlets to sell goods and avail huge trade discounts from producers. Some of the best examples of a consumer co-operative society are Super Bazar and Apna Bazar.

Processing Cooperatives:

Cooperatives that involve in processing of agricultural and allied activities produce are called processing cooperatives. India being an agrarian economy, processing of agricultural produce is of vital importance. It not only helps in value addition, but also in employment generation and exports of agri-produce. NCDC has been promoting cooperatives involved in processing of foodgrains, plantation crops and oilseeds, by providing financial assistance through State Governments, as well as directly to the processing societies, to meet the needs of these cooperatives.

Cooperative warehousing:

These warehouses are owned, managed and controlled by co-operative societies. They provide warehousing facilities at the most economical rates to the members of their society.

Farmers Cooperatives:

An agricultural cooperative, also known as a farmers' co-operative, is a cooperative where farmers pool their resources in certain areas of activity. A broad typology of agricultural cooperatives distinguishes between 'agricultural service cooperatives', which provide various services to their individually farming members, and 'agricultural production cooperatives', where production resources (land, machinery) are pooled and members farm jointly.

Multi-Purpose Cooperative Society (MPCS):

The cooperatives formed for different purposes such as credit, marketing, production, consumption etc., are called as multi-purpose cooperative societies.

Whenever a cooperative society is established to attain multi-purpose objectives is called multi-purpose cooperative society. It is an organization which is owned and operated by a group of individuals for their mutual benefit. This cooperative attempts to gain various objectives whereas other cooperative objectives are limited. Whenever any cooperative society establishes to attain various goals such as production, purchasing, selling, credits sanction and so on this cooperative is called multi-purpose cooperative society. As the name indicates its responsibility for a different purpose for which it has been set up. It can work for arranging credit, improved seeds, agricultural implements, fertilizers, sanitation, health, etc.

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Farmers Service Societies (FSS)/ Farmers Service Cooperative Societies (FSCS)

Farmers Service Societies are well organized and registered units functioning on the principles of cooperation. As many cooperatives are rendering their services only to affluent farmers, the National Commission on Agriculture (NCA) strongly felt that separate societies for meeting the needs of weaker sections in rural areas are envisaged.

Hence with the recommendations of NCA, the FSS were organized in the year 1971, on cooperative lines to provide integrated credit services to weaker sections of rural areas viz., small farmers, marginal farmers and agricultural labourers and rural artisans.

Important functions of FSS are:

- To supply all types of loans i.e. crop loans (ST), MT and LT Loans to weaker sections.
- To provide adequate supplies of requisite inputs and technical guidance for their development.
- To encourage dairy, poultry, fisheries, farm forestry and other subsidiary occupations in rural areas.
- To make arrangements for bringing about improvements in agriculture markets.
- To mobilize deposits and small savings from weaker sections by providing incentives.

The area of operation of these societies is SFDA and MFAL districts. The sponsorship of these societies is done by Lead Bank of the respective district. The number of directors in the board of management varies from 9 to 13 based on the size of the society. One full- time Managing Director is deputed by Lead Bank. Of the nine members, five will be elected members (3 from SF& MF category and 2 from LF category) and four will be representatives of financial institutions, Department of Agriculture, cooperative societies and Block development officer (BDO).

Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS):

In line with the objectives of FSS, LAMPS were organized for the first time in December, 1971 n recommendations of Bawa team appointed by Government of India in tribal areas of the country.

Objectives of LAMPS:

- To provide all types of credit including consumption credit.
- Intensification and modernization of agriculture with appropriate technical guidance.
- Improving the marketing of agricultural and forest products in tribal areas.

Management of LAMPS include eleven board of directors. These eleven members are

- Five tribal members
- Two Non-tribal members
- Two nominated by registrar of cooperatives.
- Two nominees of lead bank.

Books referred

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2. Agricultural Finance and Management by S. Subba Reddy and P. Raghuram . Oxford & IBP publishing company Ltd. New Delhi.
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Course Name	**Agricultural Finance & Cooperation**
Lesson 16	**Role of ICA, NCUI, NCDC, NAFED**
Content Creator Name	**Saddikuti Hyma Jyothi**
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International Co-operative Alliance

The International Cooperative Alliance is an independent non-governmental organization which unites represents and serves co-operative organizations in the world.

The Alliance was founded in London in 1895. The Alliance members are national and international cooperative organizations in all sectors of activity including agriculture, banking, credit and saving, industry, insurance, fishing, social housing, health, public services, consumer services and tourism.

In 1946 the Alliance was the first non-governmental organization to be accorded consultative status with the United Nations. Nowadays it is one of the 41 organizations which appear in Category I on the list of organizations which enjoy consultative statute before the Economy and Social Council of the United Nations (ECOSOC).

The Alliance has four regional offices in: America, Europe, Africa and Asia. ICA's Headquarter is in Brussels, Belgium.

The main objective of the Alliance is to promote and to strengthen independent co-operatives all over the world. By means of international, regional and national activities. The Alliance also tries:

- to encourage and defend the values and principles of the co-operative movement;
- to stimulate mutually beneficial relations between its member organizations;
- to favor the economy and social progress of people, thus contributing to security and international peace.

Other objectives of the Alliance are:

- To promote a worldwide cooperative movement based on mutual self-help and democracy.
- To promote and defend co-operative values and principles.
- To facilitate the development of economic relations and other mutual benefits among its member organizations.
- To promote human sustained development and to encourage the economic and social progress of the individual.
- To promote gender equity in all the activities within the cooperative movement and in decision making processes.

NATIONAL COOPERATIVE UNION OF INDIA, (NCUI)

The National Cooperative Union of India (NCUI) is an Apex Cooperative Organisation in India representing the entire cooperative movement in the country.

Its objectives are to promote and develop the cooperative movement in India, to educate, guide and assist the people in their efforts, to build up and expand the cooperative sector and serve as an exponent of cooperative opinion in accordance with cooperative principles.

It was established in 1929 as All India Cooperative Institutes Association and was rechristened as National Cooperative Union of India in 1961

The National Cooperative Union of India has travelled a long way since then to now emerge as the sole representative of the Cooperative movement in the country. Being the apex organisation of the Indian cooperative movement in the country, the NCUI is committed to lend dynamism and vibrancy to the cooperative sector in the twenty first century. To make the voice of cooperation as strong as ever is the NCUI's supreme motto.

National Cooperative Development Corporation (NCDC): It was established by an Act of Parliament in 1963 as a statutory Corporation under Ministry of Agriculture & Farmers Welfare. It’s headquarter is New Delhi.

Functions:

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilisers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfilment of stipulated conditions.

Organisation & Management:

The Management vests in 51 member widely represented General Council to give shape to its policies and programmes and Board of Management with 12 members to cater to day-to-day activities. Besides its Head Office, NCDC functions through 18 Regional/State Directorates. The Managing Director is the Chief Executive. Various functional divisions look after the programmes. The field offices play an important role in project identification/formulation and oversee its implementation. NCDC is endowed with in-house technical and managerial capabilities in the areas of Cooperation, Organisation & Methods, Financial Management, Management Information Systems, Sugar, Oilseeds, Textiles, Fruits &

Vegetables, Dairy, Poultry and Livestock, Fishery, Handlooms, Civil Engineering, Refrigeration and Preservation to help cooperatives to identify/formulate projects and successfully implement them.

National Agricultural Cooperative Marketing Federation (NAFED):

NAFED was established in 1958, New Delhi as its headquarters. It is an apex organisation for cooperative marketing in India.

Objectives of NAFED:

1) to organise, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce,

2) to distribute agricultural machinery, implements and other inputs,

3) Undertake inter-State, import and export trade, wholesale or retail as the case may be and

4) to act and assist for technical advice in agricultural production for the promotion and the working of its members and cooperative marketing, processing and supply societies in India.

In addition to these objectives, the NAFED may undertake one or more of the following functions/ activities :

1. to facilitate, coordinate and promote the marketing and trading activities of the cooperative institutions in agricultural and other commodities, articles and goods;

2. to undertake or promote on its own or on behalf of its member Institutions or the Government or Government Organisations, inter-state and international trade and commerce and undertake, wherever necessary, sale, purchase, import, export and distribution of agricultural commodities, horticultural and forest produce.

3. to undertake purchase, sale and supply of agricultural products, marketing and processing requisites, such as manure, seeds, fertiliser, agricultural implements and machinery, packing machinery, construction

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requisites, processing machinery for agricultural commodities, forest produce, dairy, wool and other animal products;

4. to act as warehouseman under the Warehousing Act and own and construct its own godowns and cold storages;

5. to act as agent of any Government agency or cooperative institution, for the purchase, sale, storage and distribution of agricultural, horticultural, forest and animal husbandry produce, wool, agricultural requisites and other consumer goods;

6. to act as insurance agent and to undertake all such work which is incidental to the same;

7. to organise consultancy work in various fields for the benefit of the cooperative institutions in general and for its members in particular;

8. to undertake manufacture of agricultural machinery and implements, processing, packing, etc. and other production requisites and consumer articles.

9. to set up storage units for storing various commodities and goods, by itself or in collaboration with any other agency in India or abroad;

10. to maintain transport units of its own or in collaboration with any other organisation in India or abroad for movement of goods on land, sea, air etc.;

11. to collaborate with any international agency or a foreign body for development of cooperative marketing, processing and other activities for mutual advantage in India or abroad;

12. to undertake marketing research and dissemination of market intelligence;

13. to subscribe to the share capital of other cooperative institutions as well as other public, joint and private sector enterprises if and when considered necessary for fulfilling the objectives of NAFED.

14. to arrange for the training of employees of marketing/processing/supply cooperative societies;

15. to maintain common cadres/pools of managerial/technical personnel required by the marketing/processing/supply cooperative societies;

16. to establish processing units for processing of agricultural, horticultural and forest produce and wool;

17. to undertake grading, packing and standardisation of agricultural produce and other articles;

18. to acquire, take on lease or hire, lands, buildings, fixtures and vehicles and to sell, give on lease or hire them for the business of NAFED.

19. to advance loans to its members and other cooperative institutions on the security of goods or otherwise;

20. to guarantee loans or advances or give undertakings to any Society or Company in which the Federation has a shareholding or financial involvement as a promoter to be able to assist its development or expansion or for starting any industrial undertaking by such societies/companies;

21. to guarantee loans or advances or give undertakings on behalf of any such society or company as mentioned above to any financing institutions:

22. to do all such things or undertake such other business or activities as may be incidental or conducive to the attainment of any or all of the above objects.

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