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Rural Credit Refinance- A Review

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Agriculture, being the main occupation in India is not able to sustain the living of rural population. One of the perennial evils prevailing in the Indian Agricultural Economy was rural indebtedness. That is why it has been cryptically remarked, "The Indian farmer is born in debt, lived in debt and died in debt". The credit needs of the rural people can be taken to be the same as the credit needs of the agriculturists, as the latter constitute the largest majority of the rural population.

Agricultural credit can be classified according to its period of credit. Period of credit can be categorised into (a) short-term credit, (b) Medium-term credit and (c) Long-term. Short term credit and medium term credit are provided by the Co-operatives, Commercial Banks and Regional Rural Banks. Long - term credit is provided by the Land Development Banks and Commercial Banks. Co-operatives are three tier structure with the state co-operative bank as its apex and the Land Development Banks are having two tier structure with the State Land Development as its Apex Bank. Commercial Banks and Regional Rural Banks are functioning in the rural areas with its branches.

Lending to the rural people by these institutions are mostly refinanced by the NABARD - which is a subsidiary of RBI. Reserve Bank of India Act has a provision for agricultural credit. Accordingly Agricultural Credit Department was established. The RBI Act was amended in 1955 to enable the bank to create the two funds viz., the National Agricultural Credit (Long term Operations) Fund and the National Agricultural Credit (Stabilization) Fund. On the recommendation of the RBI, the Agricultural Refinance Corporation came into existence in 1963 through an Act of Parliament. Subsequently it was renamed as Agricultural Refinance and Development Corporation in the year 1975. The committee

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to review arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1981 recommended the establishment of National Bank for Agriculture and Rural Development (NABARD) and it was established on July 12, 1982. NABARD plays a pivotal role in rural credit and acts as a friend, philosopher and guide to the whole agricultural credit system in India.

NABARD is assisting for many schemes of the Cooperatives, Land Development Banks, Commercial Banks and Regional Rural Banks. Table 1 shows the refinance sanctioned during the years 1975-76 and 1990-91 - Agency wise. The extent of refinance provided by the NABARD during the year 1990-'91, with a comparison of the refinance provided by the ARDC in the year 1975-'76 may help us to elicit the growth of refinance facilities in the field of rural credit.

i) In the year 1975-'76 there was no refinance to Regional Rural Banks, but subsequently it was started and in the year 1990-'91 refinance availed by them accounted for 2.13 per cent in the total schemes and 11.11 per cent in the total financial assistance.

ii) It could be inferred from the table that there is a spectacular growth both in number of schemes and in financial assistance.

iii) But it is heartening to note that the refinance availed by the SLDBS has decreased over a period of time. In the year 1975-'76 the total refinance availed by them was 59.50 per cent of the NABARD's total commitment. But it decreased to 35.20 percent. It is also due to the participation of the commercial banks and the regional rural banks in the rural credit.

iv) Scheduled Commercial Banks and Co-operatives are in a position to avail refinance more than that of 1975-'76. It is due to the diversified rural credit and the intensive programmes implemented by the Commercial Banks.

The above analysis shows the growth of refinance facilities to rural credit. Availing refinance facility is subject to the fulfillment of the norms framed by the NABARD. Viz., i) Favourable recovery trend, ii) Implementation of new - production oriented schemes. But the problems of overdues and its adverse effect on the eligibility to avail refinance standstill. It is in the hands of farmers to move the wheel smoothly.

TABLE-I

REFINANCE SANCTIONED DURING THE YEARS 1975-'76 and 1990-'91 - AGENCY WISE

(Rs. in Crores)

AGENCY	No. of Scheme		Financial Assistance		ARDC/NABARD Commitment	
	1975-'76	1990-'91	1975-'76	1990-'91	1975-'76	1990-'91
1. State Land Development Banks	256 (28.16)	5,719 (53.69)	206.57 (57.96)	846 (30.13)	176.62 (59.5)	746 (35.20)
2. Scheduled Commercial Banks	650 (21.50)	4,395 (41.36)	148.75 (41.74)	119.45 (52.93)	119.45 (40.2)	950 (44.83)
3. State Cooperative Banks	3 (0.33)	309 (2.90)	1.04 (0.3)	163 (5.80)	0.84 (0.3)	143 (6.75)
4. Regional Rural Banks	-	227 (2.13)	-	312 (11.11)	-	280 (13.21)
Total	909 (100)	10,650 (100)	356.36 (100)	2,807 (100)	296.91 (100)	2,119 (100)

Note : Figures in Paranthesis indicates percentages.

Source : (1) Annual Reort 1975-'76, Agricultural Refinance Development Corporation, Bombay, P.39.

(2) Report on Trend and Progress of Banking in India 1990-'91, Reserve Bank of India, Bombay, P.130.