



TRIMMING OF RURAL FINANCE FOR RURAL DEVELOPMENT

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Abstract

Indian economy is an agricultural economy and real India lies in villages. The importance of the rural banking in the economic development of a country cannot be overlooked. Without an inclusive financial system, poor and vulnerable section of the community and small and petty enterprises would not be in a position to take advantages of growth opportunities. Traditionally, formal financial institutions have avoided or failed to offer sustainable services in rural areas. Thus, informal or semi-formal financial institutions as well as alternative providers like traders or input suppliers have become major providers of financial services. This article throws light on strengths and weaknesses of various financial institutions and role of NABARD for rural development.

Key Words: - Rural development, NABARD, Rural finance, Agricultural credit

Introduction

Rural finance is a dynamic term which focuses on areas for the entire development of the village economy. Although the share of agriculture sector's contribution to GDP has declined, the population dependent on this sector has not shown much fall. Major reason for the decline in the growth rate of agriculture sector has been the demises in the public investment after the reforms.

The critical importance of agriculture and rural development was well recognized in the successive Five Year Plans, since growth in this sector helped to improve food security, nutritional standards and the supply of wage goods at reasonable prices. Around the turn of the 1980s, an urgent need was felt for broad-based agricultural and rural development that gave an impetus to allied activities in rural areas, both to generate employment and to alleviate poverty. This prompted the establishment of a specialized apex institution for agriculture and rural

development, namely, the National Bank for Agriculture and Rural Development (NABARD) in 1982.

Review of Literature

Narasimham working party (1975) introduced replacement set of banks, as institutions which “combine the local feel and therefore the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money market and modernized outlook which the commercial banks have”

All India Rural Credit Survey (1951) of the RBI suggested that the co-operatives were complete failure in giving rural credit, and also have an importance in agriculture credit.

Rahman and Khandker (1994) suggested that Grameen Bank and BRAC are expanding various opportunities of self-employment for their members. Microfinance is basically providing loan to their members and it improves the standard of people.

Murdo chand Haley, 2002) suggested that informal credit system became a most powerful weapon for poverty alleviation among people who are economically and financially backward people.

Banerjee (2004) provides evidence that informal interest rates in India are high and exhibit variation. A latest study revealed that significant output of users of micro credit is higher than the non-users.

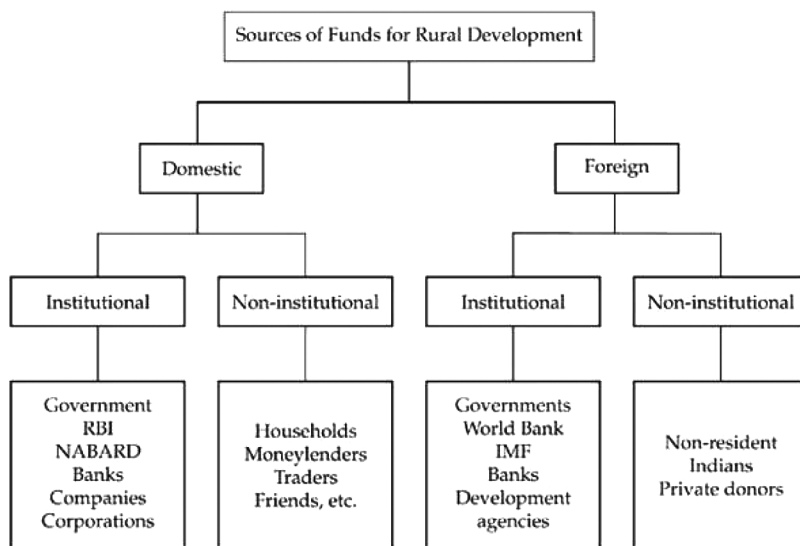
Significance of the study

The study begins with various institutions mainly created to provide credit facilities to agricultural activities, National Bank for Agriculture and Rural Development (NABARD), Regional Rural Banks, Commercial Banks and Co-operative Societies are analyzed. The human resource development needs literacy, education and skills for the development of rural areas. Development of productive resources is not efficiently utilized. Infrastructure development like irrigation, credit and marketing pro facilities, electricity, facilities for agriculture research etc. are poor conditions. Poverty alleviation measures bring about important improvement in the living style of the population. There is a need to emphasize access to productive employment opportunities.

Objectives of the study

- *To identify the relationship between rural finance and rural development.*
- *Understand the need for rural finance especially for the development of rural areas.*

Raising of Rural Finance



Contribution of Co-Operative Credit Societies

Efforts are being made to form co-operative societies more efficient due to its motive of welfare and betterment of cultivators. Their contributions have been consistently rising. This sector has one disadvantage ie, as loan is often taken for any purpose the emergency and purpose of loans are ignored. Hence, they have not been able to prove themselves to be good and viable substitutes of moneylenders. There are two wings of the co-operative credit system, one fulfilling the short-term needs and therefore the other managing long-term needs.

- **Primary Agricultural Credit Society:** It operates at the village level and focus on direct contact with the people to fulfill their needs. For its own requirements of finance, it is linked to a Central Co operative Bank which operates at the district level.

- **Land Development Banks.** These come under the category of long-term loan needs. Their other names are Land Mortgage Banks and Agricultural Development

Banks.. These banks have diversified lending for other equally important productive purposes; one among this can be subsidy to agriculture.

A large part of these societies is managed by large farmers and hence, small and medium farmers are bereft of benefits. There are serious regional imbalances observed in their growth. They depend more on external sources of finance which is not a good and healthy sign for their development in future. The other Id related with recovery of loans and advances. The overdue are large and growing. They suffer from inadequate organization and lack of managerial efficiency. In the case of Primary Agricultural Credit Societies they have small area of operation and less membership. Due to less business, their income is extremely low and that they cannot keep proper staff.

Bestowal of Commercial Banks

These provide loans for all agricultural purposes. These may broadly be divided into

- Direct Advances. It may be short, medium or long term. Short term may take the form of crop loans or production loans. These loans have to be repaid within a period of one month or two months, after the harvest of crops. Medium and long-term loans are granted for development programs which are capital intensive Maximum repayment period is 15 years.
- Indirect Advances. These include, Credit granted to dealers of fertilizers to meet their working capital requirements. Advances made to co-operative milk societies, which in turn extended credit assistance to their members for purchase of milk, cattle, sheep, etc.

Banks are quite selective in their village adoption approach. More backward villages have not been adopted. The manager lends to the rural poor very carefully because manager's performance will lead to this promotion or demotion. As a result he is very cautious while lending. Proper feedback system is no is absent. There are no linkages between bank credit and use of it in has raising productivity. The rural branches of commercial banks have not been able to mobile the savings of the rural population.

Alms of Regional Rural Banks

These are come upon under the Regional Rural Banks Act 1976. 'The areas of their operation have been very carefully selected as the area where banking facilities and co-operatives are absent. Normal region is a cluster of districts. The

central Government through NABARD participates in its 50% capital. They cater exclusively to the requirements of weaker section. These banks are successful because of loans at lower rate of interest and better rate of interest on deposits. The pay of the staff was in tune thereupon of other banks.

Regional Rural Banks have disparities in growth rate. The growth of RRBs in all parts of the country was not proportionate. Sometimes, they were wrongly located which created the problem of coordination. Problem of growing over dues is the reason. Pre-sanction inspections are not conducted properly. Sometimes documents executed by the borrowers were incomplete.

National Bank for Agriculture and Rural Development (NABARD)

In 1979, RBI appointed a committee to go into the whole structure of rural credit and make recommendations for reorganizing it. The committee gave its report in March, 1981 and recommended the fixing of NABARD it had been found out in July, 1982. The national form agricultural credit fund has been transferred from RBI to NABARD to a part of its National Rural Credit Fund. It is permitted to raise resources from market.

Operational areas of NABARD

- To provide short, medium and Banks and other financial long term credits to State Co-operative Banks, RRBs, Land Development institutions, approved by the RBI.
- To give loans to the approved institutions to invest in securities or to contribute to share capital institutions of engaged in agricultural and rural development.
- To promote research in agriculture and rural development.
- NABARD can help tenant farmers and small farmers to consolidate their landholdings.
- To coordinate institutions entrusted the activities in of the Central and the State Government and other all India and state level the development of small-scale industries, village industries and rural crafts.
- To grant long-term loans to the State Government for subscribing to the share capital of co-operative societies.

Suggestions to the problems of Agricultural Credit in India

- An effective mechanism for the recovery of the agricultural loans should be evolved at the earliest.

- Credit facilities should be extended to farmers by commercial banks on easy terms and conditions.
- Cooperative credit societies in rural areas should be strengthened and their working should be transparent and efficient.
- More regional rural banks should be found out to satisfy the credit needs of the rural and backward areas.

Conclusion

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio – economic backwardness. This article helps to know the agricultural development institutions and functions, need and role of NABARD. However, as per the current environment the rural credit systems need more changes for creating the agricultural sector aware. It also advised to provide more initiatives especially farm production, processing, marketing, trade, and distribution. We should connect farmers to economy for rural finance and rural development.

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