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**UNIT- III**

**AGRICULTURAL CREDIT**

### **SOURCE OF AGRICULTURAL CREDIT**

Agricultural credit is essential for farmers and agricultural businesses to finance their operations, purchase equipment, and invest in their farms. The sources of agricultural credit can vary by country and region, but here are some common sources of agricultural credit:

1. **Commercial Banks:** Commercial banks offer various types of agricultural loans to farmers and agribusinesses. These loans may be short-term, medium-term, or long-term, depending on the purpose of the loan.
2. **Cooperative Banks:** Cooperative banks, often set up by farmers' cooperatives, provide financial services to their members, including agricultural credit. They may offer loans at lower interest rates compared to commercial banks.
3. **Regional Rural Banks (RRBs):** RRBs are specialized financial institutions in many countries that focus on providing credit and banking services to rural and agricultural areas.
4. **Agricultural Development Banks:** Some countries have specialized agricultural development banks that exclusively serve the agricultural sector. These banks understand the unique needs of farmers and offer tailored financial products.
5. **Microfinance Institutions:** Microfinance institutions provide small loans to farmers and rural entrepreneurs, enabling them to start or expand small-scale agricultural businesses.
6. **Government Programs:** Many governments around the world offer subsidized agricultural credit programs to support their farmers. These programs may provide concessional loans, interest rate subsidies, or direct financial assistance.
7. **Agricultural Credit Cooperatives:** These are credit institutions formed by farmers themselves to pool resources and provide loans to their members. They often have a deep understanding of local agricultural conditions.
8. **Private Lenders:** Some farmers may obtain credit from private lenders, including individuals, wealthy farmers, or non-bank financial institutions. However, interest rates from private lenders can be relatively high.
9. **Non-Governmental Organizations (NGOs):** Some NGOs provide agricultural credit and financial services to smallholder farmers in developing countries to improve their livelihoods and agricultural practices.

10. **Crop Input Suppliers:** In some cases, agricultural input suppliers, such as seed and fertilizer companies, may extend credit to farmers to purchase their products, with the understanding that the loans will be repaid after the harvest.
11. **Commodity Associations:** Certain commodity-specific associations or cooperatives may provide credit to farmers producing specific crops, with the understanding that the loans will be repaid from the proceeds of selling those crops.
12. **Crowd funding and Online Platforms:** With the advent of technology, some farmers access credit through online crowd funding platforms, peer-to-peer lending, and digital financial services.

## **CO-OPERATIVE BANKS**

Cooperative banks, often referred to as co-op banks, are financial institutions that are structured as cooperative societies. They are distinct from traditional commercial banks in that they are owned and operated by their members, who are typically individuals or businesses in the local community or a specific industry. Cooperative banks are designed to serve the financial needs of their members and the local community, and they operate under the cooperative principles of mutual self-help, shared ownership, and democratic control. Here are some key characteristics and functions of cooperative banks:

1. **Ownership Structure:** Cooperative banks are owned by their members, who are also the depositors and borrowers. Members have voting rights based on the principle of "one member, one vote," regardless of the amount of their deposits or shares.
2. **Democratic Control:** Cooperative banks are governed democratically, with members electing a board of directors and other leadership positions. Decisions are typically made through a democratic process, with members having a say in the bank's operations and policies.
3. **Community Focus:** Cooperative banks often have a strong focus on the communities they serve. They may prioritize lending to local businesses, farmers, and individuals, contributing to the economic development of the region.
4. **Retail and Commercial Banking:** Cooperative banks provide a wide range of banking services, including savings accounts, checking accounts, loans (including agricultural loans), and various financial products to meet the needs of their members.
5. **Profit Distribution:** Cooperative banks aim to generate profits, but their primary goal is to serve the financial needs of their members rather than maximizing profits. Any profits earned are typically reinvested in the bank or distributed to members in the form of dividends.
6. **Regulation and Supervision:** Cooperative banks are subject to regulatory oversight by the central bank or banking authorities in their respective countries. This regulation ensures their stability and compliance with financial and prudential standards.
7. **Financial Inclusion:** Some cooperative banks play a vital role in promoting financial inclusion by providing banking services to underserved and marginalized communities.
8. **Sector-Specific Cooperative Banks:** Some cooperative banks are specialized, focusing on specific sectors such as agriculture, housing, or urban development. These banks cater to the unique financial needs of their target sectors.

## **COMMERCIAL BANKS**

Commercial banks are financial institutions that provide a wide range of banking and financial services to individuals, businesses, and other organizations. They are typically for-profit entities and are an integral part of the modern financial system. Here are some key characteristics and functions of commercial banks:

1. **Accepting Deposits:** Commercial banks accept various types of deposits, including savings accounts, checking accounts, fixed deposits, and recurring deposits. These deposits are a primary source of funding for the bank.
2. **Providing Loans and Credit:** One of the central functions of commercial banks is to provide loans and credit to individuals and businesses. They offer various types of loans, including personal loans, home loans, business loans, and agricultural loans.
3. **Payment Services:** Commercial banks facilitate payment and fund transfer services. They issue checks, provide electronic funds transfer (EFT) services, and offer debit and credit cards to enable transactions.
4. **Investment Services:** Many commercial banks offer investment services, such as wealth management, brokerage, and the sale of mutual funds and other financial products.
5. **Safekeeping of Valuables:** Some commercial banks offer safe deposit boxes or vaults for customers to store valuable items, documents, and important assets.
6. **Foreign Exchange Services:** Commercial banks often provide foreign exchange services to facilitate international trade and travel, allowing customers to buy and sell foreign currencies.
7. **Treasury and Cash Management Services:** Commercial banks offer treasury services to businesses, helping them manage their cash flows, optimize working capital, and mitigate financial risks.
8. **Interest on Deposits:** They pay interest on deposits, which is an incentive for customers to keep their money in the bank. The interest rate may vary depending on the type of account and prevailing market conditions.
9. **Online and Mobile Banking:** Many commercial banks offer online and mobile banking services, allowing customers to access their accounts, make transactions, and manage their finances conveniently through digital platforms.
10. **Safety and Security:** Commercial banks focus on safeguarding customers' deposits through measures like insurance and risk management. Deposits in most commercial banks are insured up to a certain limit by government deposit insurance programs.
11. **Regulation and Supervision:** Commercial banks are subject to strict regulation and oversight by government authorities and central banks to ensure their stability and compliance with financial and prudential standards.
12. **Profit-Oriented:** Unlike cooperative banks or credit unions, commercial banks are generally profit-oriented institutions, seeking to generate profits for their shareholders.
13. **Corporate Banking Services:** They provide specialized banking services for businesses, including corporate loans, trade finance, and cash management services tailored to the needs of large and small enterprises.

## **NABARD**

**NABARD, or the National Bank for Agriculture and Rural Development**, is a specialized financial institution in India. It was established on **July 12, 1982**, by an act of the Indian Parliament with the aim of promoting rural and agricultural development. NABARD operates as an apex development bank and functions as a facilitator for rural and agricultural development across India. Here are some key functions and responsibilities of NABARD:

1. **Agricultural and Rural Financing:** NABARD provides financial support to various institutions involved in rural and agricultural development. It refinances commercial banks, cooperative banks, and regional rural banks to enable them to extend credit to farmers, rural entrepreneurs, and agriculture-related projects.
2. **Rural Infrastructure Development:** NABARD plays a pivotal role in financing and supporting rural infrastructure projects. This includes funding for irrigation, roads, bridges, rural electrification, and warehousing facilities, among others.
3. **Promoting Self-Help Groups (SHGs):** NABARD has been instrumental in promoting and supporting self-help groups (SHGs) in rural areas. These SHGs empower rural women to save, borrow, and undertake income-generating activities.
4. **Microfinance and Financial Inclusion:** NABARD encourages the growth of microfinance institutions (MFIs) and helps them reach underserved and marginalized sections of the population, including farmers and rural entrepreneurs. It promotes financial inclusion by extending financial services to remote and under banked regions.
5. **Research and Development:** NABARD conducts research and development activities related to agriculture, rural development, and cooperative credit institutions. It plays a critical role in generating and disseminating information on best agricultural practices and rural development strategies.
6. **Capacity Building:** NABARD provides training and capacity-building support to farmers, rural entrepreneurs, and the staff of financial institutions to enhance their knowledge and skills in various areas of rural and agricultural development.
7. **Promoting Sustainable Agriculture:** NABARD encourages and finances sustainable agricultural practices, organic farming, and the adoption of modern and eco-friendly agricultural technologies.
8. **Rural Credit Development Fund (RCDF):** NABARD manages the Rural Credit Development Fund, which provides concessional funding to cooperative banks and regional rural banks for specific purposes such as refinancing agricultural loans.
9. **Supervision and Monitoring:** NABARD supervises and monitors the credit flow to agriculture and rural sectors to ensure that the financial institutions follow the prescribed guidelines and meet the intended objectives of rural development.
10. **International Cooperation:** NABARD collaborates with international agencies and financial institutions to access funding for rural development projects and shares its expertise in agricultural and rural development with other countries.

## **LAND DEVELOPMENT BANKS**

Land Development Banks, also known as LDBs, are specialized financial institutions that play a crucial role in providing financial support for land development and agricultural purposes. These institutions are primarily found in India, where they have a long history of serving the agricultural and rural sectors. The key features and functions of Land Development Banks include:

1. **Agricultural Land Development:** The primary objective of Land Development Banks is to provide financial support for land development activities in rural and agricultural areas. This may include the reclamation of barren land, improvement of soil quality, leveling of land, and other activities aimed at making land suitable for agriculture.
2. **Long-term Loans:** LDBs typically offer long-term loans to farmers and landowners for land development projects. These loans have extended repayment periods, often spanning several years, to match the long-term nature of land improvement projects.
3. **Cooperative Structure:** Land Development Banks are typically organized as cooperative institutions, owned and operated by their members, who are primarily farmers and landowners. Members have a say in the bank's operations and elect representatives to manage the institution.
4. **Refinancing:** LDBs often act as refinancing institutions, providing funds to cooperative credit institutions and other financial entities to lend to farmers and landowners for land development purposes.
5. **Interest Rate Subsidies:** In some cases, LDBs may provide loans to farmers at subsidized interest rates, which can make land development projects more affordable.
6. **Promotion of Agriculture:** By supporting land development activities, LDBs contribute to the overall growth of agriculture by making previously unproductive land suitable for cultivation. This, in turn, helps increase agricultural productivity and crop yields.
7. **Rural Development:** Land Development Banks play a role in rural development by improving the living conditions of rural communities and enhancing their economic prospects through increased agricultural activities.
8. **Government Support:** In many countries, including India, Land Development Banks receive support and funding from the government to fulfill their objectives. Government backing ensures that these institutions can offer loans at favorable terms to farmers.
9. **Land Improvement Services:** In addition to providing financial support, LDBs may offer technical assistance and guidance to farmers and landowners on effective land development practices, soil conservation, and sustainable agricultural techniques.
10. **Risk Mitigation:** LDBs help mitigate the risks associated with land development projects by offering long-term financing and technical expertise to ensure that investments in land improvement are successful.

## **REGIONAL & RURAL BANKS**

Regional Rural Banks (RRBs) are specialized financial institutions in India that were established to provide banking services primarily in rural and semi-urban areas. RRBs were created to enhance financial inclusion, provide credit to rural and agricultural sectors, and support the economic development of rural communities. Here are key characteristics and functions of Regional Rural Banks:

1. **Serving Rural and Semi-Urban Areas:** RRBs are mandated to provide banking and financial services in rural and semi-urban areas, where the reach of traditional commercial banks is often limited.
2. **Ownership Structure:** RRBs have a specific ownership structure. They are jointly owned by the Government of India, the concerned State Government, and the sponsor bank (usually a nationalized or commercial bank).
3. **Low-Cost Banking:** RRBs focus on offering low-cost banking services to the rural population. They aim to make banking accessible and affordable for rural customers.
4. **Agricultural and Rural Lending:** One of the primary objectives of RRBs is to provide credit to the agricultural and rural sectors. They offer agricultural loans, crop loans, and various financial products tailored to the needs of rural farmers and entrepreneurs.
5. **Promoting Financial Inclusion:** RRBs play a significant role in promoting financial inclusion by offering savings and credit facilities to marginalized and unbanked populations in rural areas. They encourage rural households to open bank accounts and participate in formal banking systems.
6. **Government Initiatives:** RRBs often participate in government initiatives related to rural development, poverty alleviation, and employment generation by providing financial services to the beneficiaries of these programs.
7. **Community-Based Approach:** RRBs typically have a strong community-based approach, working closely with local communities and understanding their specific needs and challenges.
8. **Interest Rate Subsidies:** In some cases, RRBs may offer loans at subsidized interest rates, making credit more affordable for rural borrowers, especially for agricultural purposes.
9. **Deposit Mobilization:** RRBs encourage rural households to save their money by offering savings accounts and other deposit products. This helps in mobilizing rural savings and channeling them for productive purposes.
10. **Training and Capacity Building:** RRBs often provide training and capacity-building programs for rural entrepreneurs, farmers, and self-help groups to enhance financial literacy and entrepreneurial skills.
11. **Regulation and Supervision:** RRBs are regulated and supervised by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) to ensure their stability and compliance with financial and prudential standards.
12. **Cooperative Structure:** RRBs operate under a cooperative structure and may have a board of directors elected by their members.

## **AGRICULTURAL REFINANCE**

Agricultural refinance is a financial mechanism that involves the provision of funds to financial institutions or lenders to support their lending activities to the agricultural sector. This typically occurs when financial institutions, such as commercial banks or regional rural banks, need additional funds to provide agricultural loans and meet the credit needs of farmers and rural entrepreneurs. Agricultural refinance serves as a way to ensure the availability of adequate credit for the agricultural sector. Here's how it works:

1. **Financial Institution's Need for Funds:** Financial institutions, including commercial banks, cooperative banks, and regional rural banks, may not always have sufficient funds available to meet the demand for agricultural loans. Seasonal and cyclical factors can influence the need for agricultural credit.
2. **Refinancing Institutions:** In many countries, including India, specialized institutions like the National Bank for Agriculture and Rural Development (NABARD) act as refinancing institutions. These institutions are responsible for providing financial support to other financial intermediaries, such as banks and credit cooperatives.
3. **Loans to Financial Institutions:** Refinancing institutions disburse loans to the financial institutions in need of additional funds for agricultural lending. These loans are provided at favorable terms, often with lower interest rates and longer repayment periods compared to market rates.
4. **Purpose of Refinance:** The funds obtained through agricultural refinance are earmarked for agricultural and rural development purposes. They may be used to finance various agricultural activities, including crop production, livestock, farm equipment purchase, and rural infrastructure development.
5. **Risk Mitigation:** Agricultural refinance helps mitigate the financial risks that financial institutions may face when extending agricultural loans. The refinancing institutions often share part of the risk and provide financial support during adverse agricultural conditions, such as crop failures or natural disasters.
6. **Government Support:** In many cases, agricultural refinance is supported and encouraged by the government as part of its agricultural and rural development policies. The government may provide subsidies, guarantees, or capital to the refinancing institutions to ensure the flow of affordable credit to the agricultural sector.
7. **Agricultural Development:** The availability of agricultural refinance plays a vital role in promoting agricultural development, improving crop yields, enhancing rural livelihoods, and supporting the overall growth of the agricultural sector.
8. **Interest Rate Subsidies:** In some instances, agricultural refinance loans may be provided at subsidized interest rates to make credit more affordable for farmers and rural borrowers.
9. **Regulation and Supervision:** Refinancing institutions, such as NABARD in India, are regulated and supervised by the central bank or relevant authorities to ensure that they follow established guidelines and maintain financial stability.