Model Answer Paper

MAHARASHTRA AGRICULTURAL UNIVERSITIES EXAMINATION BOARD, PUNE
SEMESTER END THEORY EXAMINATION

B.Sc. (Hons.) Agriculture

Semester	: IV (New)	Term	:	II	Academic Year	:	2023-24
Course No.	: ECON-242	Title	:	Agricultural Finance and Cooperation			
Credits	: 3(2+1)						
Day & Date	:	Time (hrs.)	:	3 hrs.	Total Marks	:	80

Note: 1. Solve **ANY EIGHT** questions from **SECTION "A"**.
2. All questions from **SECTION "B"** are compulsory.
3. All questions carry equal marks.
4. Draw neat diagrams wherever necessary.

SECTION 'A'

Marking scheme

Q.1 Define Agricultural Finance. Explain the role of agricultural finance in agricultural development. (2 marks)

Ans: Murray (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 a branch of agricultural economics, which deals with and financial resources related to individual farm units." (6 marks)

Role of agricultural finance in agricultural development.

1) Agril finance assumes vital and 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 the productivity of scarce resources. 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 in farm assets and farm supporting infrastructure provided by large scale financial investment activities results 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 and wealth variations.

6) Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.

7) As Indian agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.

8) Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

Q.2 Enlist the classification of credit and explain on the basis of security. (8 marks)

Ans: Credit is broadly classified based on various criteria:

1. **Based on time**: Short–term loans: Medium – term loans: Long – term loans:
2. **Based on Purpose**: Production loans: Investment loans: Marketing loans: Consumption loans:
3. **Based on security:** 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.

4. **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 upon (i.e. based on the understanding between the lender and the borrower) Collateral Security: Here the property is pledged to secure a loan. The movable properties of the individuals like LIC bonds, fixed deposit bonds, warehouse receipts, machinery, livestock etc, are offered as security. Chattel loans: Here credit is obtained from pawn-brokers by pledging movable properties such as jewellery, utensils made of various metals, etc.
5. **Mortgage:** As against to collateral security, immovable properties are presented for security purpose for example, 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 simple mortgage holds good. 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 borrower, then equitable mortgage is applicable. In this no such registration is required, because the ownership rights are clearly specified in the title deeds in the name of farmer-borrower.
6. **Hypothecated loans**: Key loans: b) Open loans: Unsecured loans:
7. **Based on liquidity:** • Self-liquidating loans: • Partially -liquidating:
8. **Based on approach:** Individual approach: Area based approach: • Differential Interest Rate (DIR) approach:
9. **Based on contact**: Direct Loans: • Indirect loans:

Q.3 Enlist different Repayment plans. Give in detail Amortized repayment plan. **(4 marks)**

Ans:

Repayment Plans

1. Straight end R P or Single R P or Lumpsum repayment plan
2. Partial repayment plan or Balloon repayment plan
3. Amortised repayment plan

   a) Amortized even repayment plan b) Amortized decreasing repayment plan
4. Variable repayment plan
5. Operational repayment plan
6. Reserve repayment plan or future payments

Amortised repayment plan: **(4 marks)**

Amortization means repayment of the entire loan amount in a series of instalments. This method is an extension of partial repayment plan.

Amortized repayment plans are of two types

a) Amortized decreasing repayment plan

Here the principal component remains constant over the entire repayment period and the interest part decreases continuously. As the principal amount remains fixed and the interest amount decreases, the annual installment amount decreases over the years. loans advanced for machinery and equipment will fall under this category. As the assets do not require much repairs during the initial years of loan repayment, a farmer can able to repay larger installments.

b) Amortized even repayment plan

Here the annual installment over the entire loan period remains the same. The principal portion of the installment increases continuously and the interest component declines gradually. This method is adopted for loans granted for farm development, digging of wells, deepening of old wells, construction of godowns, dairy, poultry units, orchards etc.

Q.4 **Describe the functioning of Regional Rural Bank.** **(8 marks)**

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 20,000 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 RRBs 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. RRBs have simplified procedural formalities in giving agricultural finance on recommendations of Sri. Baldev Singh's working group. RRBs use local languages in their transactions. The cost of operation i.e. user charges are low as compared to that of commercial banks.

The main functions are, to grant loans and advances particularly to small and marginal farmers, agricultural labourers, cooperative societies, cooperative farming societies for agricultural purposes, artisans, small entrepreneurs etc., within the operational area of the RRB.

They have been asked to extend other banking facilities like issue of drafts, collection of cheques etc.

They act as vital instruments in schemes, like IRDP, 20-point economic programme etc.

Q.5 Enlist higher financing institutions and write short notes on RBI. **(8marks)**

Ans: **Higher financing institutions:**

1. Reserve Bank of India (RBI)
2. National Bank for Agricultural and Rural Development (NABARD
3. International Bank for Reconstruction and Development (IBRD);
4. International Monetary Fund (IMF);
5. International Development Agency (IDA);
6. Asian Development Bank (ADB);
7. Insurance and Credit Guarantee Corporation

Resrve bank of India:

Origin, functions and role of RBI in agricultural development and finance: The Reserve Bank of India (RBI) was established in 1935 under the Reserve Bank of India Act, 1934. Its headquarters 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

The 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

Q.6 **Enlist the principles of cooperation and explain any two of them.** **(8marks)**

Ans: **The important principles of co-operation are**

1. Principle of open and voluntary association:
2. Principle of Democratic organization
3. Principle of service:
4. Principle of self-help and mutual help:

5. Principle of distribution of profits and surpluses:
6. Principle of political and religious neutrality:
7. Principle of Education:
8. Principle of thrift:
9. Principle of publicity:
10. Principle of honorary service

1. **Principle of open and voluntary association:** The admission and membership into 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 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 has 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.

Q.7 State cooperative credit structure and explain PACCS in India. (4 marks)

Ans: Organization, objectives, Functions and Procedure for Advancing Loans :

Cooperative Agril. credit societies are playing an important role in the Indian Financial System, especially in the sphere of rural finance, both for agriculture and small scale and cottage industries. The cooperative banking institutions is the most satisfactory institution for providing finance to borrowers in the rural areas of India.

The cooperative Agril. credit societies in India consist of mainly agricultural credit societies, long term agricultural credit institutions and non-agricultural credit societies.

Co-operative Credit Organization (Agril. Credit)

(Three tier system) Short and Medium term loans	(Two tier system) Long term loans
1. State Co-op. Bank (At state level)	1. Central Land Development Bank (At state level)
2. District Central Co-op. Bank (At district level)	2. Primary Land Development Bank (At taluka level)
3. Primary Agril. Co-op. credit societies (PACS) (At village level)	

the most important functions of PACS. (4 marks)

1. The main function of primary agril. co-operative credit society is to provide short term and medium-term loan to members.
2. They borrow adequate and timely funds from DCCBs and help the members in financial matters.
3. They attract local saving in the form of share capital and deposit from the villagers.
4. They supervise the end use of credit.
5. They distribute fertilizers, insecticides, seeds and other necessary inputs to needy farmers.
6. They provides machinery on hire basis to the farmers

7. They associate with the programmes and plan programme for the socio-economic development of the village.
8. They also involved in the marketing of farm produce on behalf of the farmers.
9. They provide storage facilities and marketing finance.
10. They supply certain consumer goods like rice, wheat, sugar, kerosene, and cloth at fair prices.

Q.8 **Write cooperative movement in Idia during post-independence era.** (8 marks)

Post-Independence Era: Planning commission was established in March, 1950, prepared first five-year plan (1951-1956) in 1951 under 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, All India Rural Credit Survey Committee (AIRCSC) appointed under the chairmanship of Sri. A.D. Gorwala pointed out two main drawbacks of cooperative credit. They were
- Cooperative credit was unevenly distributed.
- Cooperative credit was inadequate 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 All-India Rural Credit Survey Committee also observed that "Cooperation has failed in India but must succeed". This All-India Rural Credit Survey Committee also recommended an integrated scheme as a remedy for the then existing situation. The important recommendations 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

Q.9 **Enlist the objectives and functions of NABARD.** (4 marks)

Ans: Objectives:

1. As an apex refinancing institution
2. Nabard purveys all types of credit needed for the farm sector and rural development
3. Vested with the responsibility of promoting and integrating rural development activities through refinance
4. Providing direct credit to any institution or organization or an individual
5. Links with RBI for guidance and assistance in financial matters. (4 marks)
6. As a catalytic agent for rural development

Functions:

1. It helps in planning in operational matters relating to credit for agriculture allied activities, village industries and other rural development activities
2. Extends refinance to commercial banks for term loans
3. Provide short term credit to SCB
4. It makes direct loans by way of refinance to all institutions
5. Provides finance for production and marketing
6. Conversions of production loans into term loans
7. Contributes to share and securities of eligible institutions and agricultural rural development
8. Offers advice and guidance to state governments, NCDC

9. Coordinates and monitors all agricultural and rural lending activities
10. It conducts training, consultancy and research

Q.10 Short notes (4 marks)

1 Enlist and explain 3'R's of credits.

1. **Returns from the proposed investment:** This is an important measure in credit analysis. The banker 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 be able to generate returns that enable him to meet the costs. Returns obtained by the farmer depend upon the decisions like,

2. **Repayment capacity** the investment generates Repayment capacity is nothing but the ability of the farmer to repay the loan obtained for the productive purpose with in 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 only profitable but also have potential for repayment of the loan amount. Under such conditions only the farmer will get the loan amount

3. **Risk- bearing ability** of the farmer-borrower 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. The 3Rs of credit are sound indicators of credit worthiness of the farmers.

2 Three maxims of cooperation. (4 marks)

Maxims of co-operation: The founder of Irish co-operative movement Sir Horace Plunkett sums up cooperation 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 helps in meeting 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 favorable 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 help in preventing marketing middlemen (as minimum as possible) especially private traders from taking undue advantage.

3 Write short notes on Kisan Credit Card. (4 marks)

Ans: 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, the farmers would be issued a credit card-cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period etc and it will serve both as an identity card as well as facilitates the financial transactions. Credit 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 3 years and subject to annual review. The KCC will be considered as a non-performing asset (NPA) if it remains inoperative for a period of two successive crop seasons.

SECTION 'B'

Q11 Do as directed

1. Define Assets : Assets are those which are owned by the farmer. (1mark)
2. Give one example of hypothecation loan. e.g **tractor loan** (1mark)
3. Loan obtained from pawn brokers by pledging movable property are called **chattel** (Fill in blank). (1mark)
4. RBI came into existence in the year**1935.** (1mark)
5. Present value of future money is called as **Discounting.** (1mark)
6. Primary land Development bank comes under two tier credit co-operative structure. **True** (1mark)
7. PACCS have been organized based on **Raiffeisen Model.** (1mark)
8. The first cooperative societies act was passed in year **(1904).** (1mark)

Q12 Give full forms of following

1. ADB – Asian Development Bank (1mark)
2. IBRD- International Bank for Reconstruction and Development (1mark)
3. AFC- Agricultural Finance Corporation (1mark)
4. IMF- International Monitory Funds
5. ARDC- Agricultural Refinance and Development Corporation (1mark)
6. DICGC-Deposit Insurance and Credit Guarantee Corporation (1mark)
7. SFDA-Small Farmers Development Agency (1mark)
8. CCIS- Comprehensive Crop Insurance Scheme (1mark)

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