MAHARASHTRA AGRICULTURAL UNIVERSITIES EXAMINATION BOARD, PUNE

SEMESTER END EXAMINATION

MODEL ANSWER

B.Sc. (Agri.)

Semester	:	**IV** (New)	**Academic Year**	: **2018-19**
Course No	:	**ECON 242 (NEW)**	**Title : Agricultural Finance and Co-operation**	
Credits	:	**2+1=03**	**Total marks**	: **80**
Day and Time	:			

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"

Q.1 (a) Define Credit. Enlist Classification of Agricultural Credit on different bases with their Sub classes.

(b) Explain classification on the basic Security in detail.

Ans **Credit** – Certain amount of money provided for certain purpose on certain conditions with some interest which should be replayed sooner or latter OR Student should give any similar definition.

Students should. Enlist following classes along with their subclasses of credit .

1. Based on purpose – Production, marking and consumption
2. Based on time period-ST,MT,and L.T.
3. Based on security – secured loan, unscarred loan
4. Based on liquidity – Self liquidity loan and partially liquidating loan
5. Based on activity- orchard loan, Dairy loan
6. Based on approach – Individual approach, Area approach, DIR loans.
7. Based on contact with the farmer – Direct loan, Indirect loan

(*Marks distribution* -- Definition – 2 mark, for listing 6 or more than 6 class along with sub class of credit in 2. Explanation on the basic Security in detail 4 mark)

Q.2 (a) Enlist different Higher Financing Agencies. Write in detail information regarding any two higher financing agencies.

Ans **Higher financing agencies are :**

1) World bank, 2) International Monetary Fund, 3) International finance co-operation, 4) International Development Agency 5) RBI 6) NABARD

International Monetary Fund (IMF) : Establishment on 27th December 1945, Agreement with UNMO for mutual co-operation from 15th November 1947 Headquarter at Washington D.C., U.S.A. 185 countries are the members of IMF.

(**Enlist different Higher Financing Agencies** 2 marks Students should explain membership, management and function of any two higher financing agencies 3 marks each).

Q.3 Define Co-operation. Enlists different principles of Co-operation.
Explain any four principles in short.

Ans **Co-operation** – Co-operation is a form of organization in which persons voluntary associate together on the basis of equality for the promotion of their economic interest OR any similar definition.

Principles of Co-operation (Listing)

1. Principle of open and Voluntary membership
2. Principle of democratic control.
3. Principle of service.
4. Principle of self help and mutual help
5. Principle of equal distribution of profit
6. Principle of political and religions neutrality.
7. Principle of education
8. Principle of thrift
9. Principle of publicity
10. Principle of Honorary service

Explain any four principle in detail

(***Marks distribution*** – 2 Marks for definition, 2 marks for listing 4 marks for explaining four principles).

Q.4 Enlist different types of loan Repayment plans. Write in detail about Amortized Repayment plan with example and diagram

Ans **Different types of <u>repayment plans</u>**

i) Single repayment or lump sum repayment plan
ii) Partial repayment plan.
iii) Amortized Repayment plan.
iv) Variable repayment plan
v) Reserve or future repayment plan.

<u>Amortized repayment plan-</u>

It means repayment of entire loan amount in a series of installment

a) Amortized decreasing repayment plan.
b) Amortized even repayment plan

Student should explain above plan in short with diagram

1.

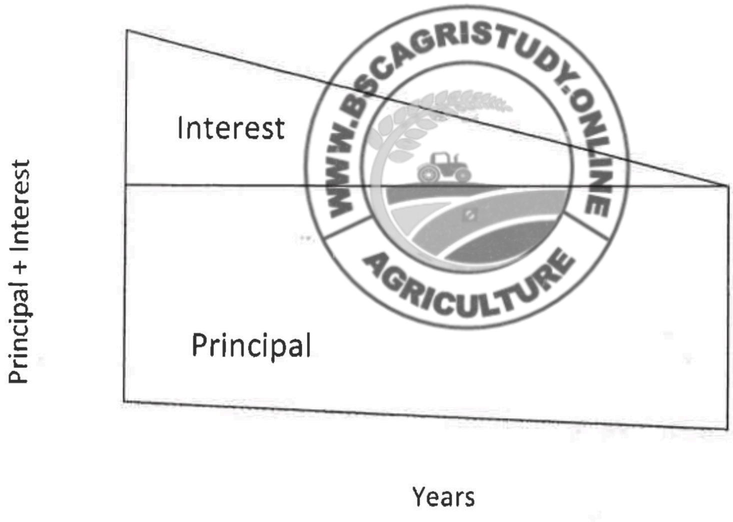

Figure 1 : Amortized decreasing repayment plan

The arithmetic calculation of the plan is embodies as follows

Example :

Loan amount Rs. 15,000/-
Time period 6 years
Rate of interest 9 %

Year	Principal (Rs.)	Interest (Rs.)	Installment (Rs.)	Balance amount (Rs.)
0	--	--	--	15000
1	2500	1350	3850	12500
2	2500	1125	3625	10000
3	2500	900	3400	7500
4	2500	675	3175	5000
5	2500	450	2950	2500
6	2500	225	2725	--
Total	**15000**	**4725**	**19725**	--

b) Amortized even repayment plan

This is called equated annual installment method. The annual installment over the entire loan period remains the same in this method. The principal portion of the installment increases continuously, while the interest part declines gradually. This method is mostly adopted for term loans. Loans granted for farm development, digging of wells, deepening of old wells, construction of godowns, dairy, poultry etc., are the examples. This is depicted diagrammatically in

Figure 2.

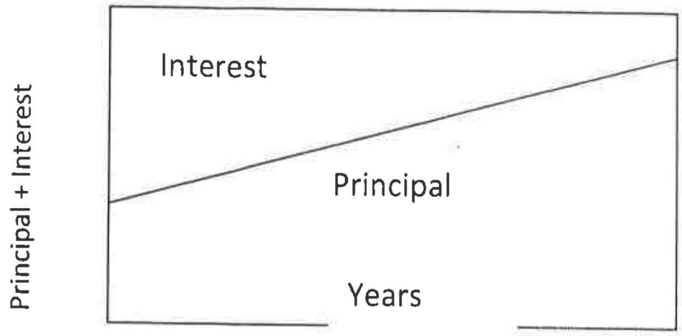

Figure 2 : Amortized even repayment plan

Amortized even repayment plan

a) Loan amount 15.000/-

b) Time period 6 years

c) Rate of interest 9 %

Solution

The annual installment is worked out by using following formula

$$A = \frac{P \times r \times (1 + r)^n}{(1 + r)^n - 1}$$

Where,

A = Annual equated installment in Rs.

P = Principal amount borrowed in Rs.

n = Time period of loan in years

r = Rate of interest in fraction

(***Marks distribution***- Enlist Different types – 2 marks
Amortized repayment plan-6 marks).

Q.5. (a) Define Repayment capacity. Give the factors on which Repayment Capacity of the farmer is depended.

(b) Enlist different types of Risk in Agriculture and Explain measures to Strengthen Risk bearing ability of the farmers.

Ans **(a) Repayment Capacity :**

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.

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

$Y = f(X1, X_2, X_3, X_4 \quad X5, X_6, X_7 \ldots)$

Where, Y is the dependent variable ie., the repayment capacity

The independent variables viz., x_1 to X_4 are considered as quantitative factors while X_5 to X_7 are considered as qualitative factors.

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

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

(b) Types of risk

1. Production / physical risk.
2. Technological risk.
3. Personal risk
4. Institutional risk.
5. Weather uncertainty.
6. Price risk

Measures to strengthen risk bearing ability

1. Increasing the owner's equity/net worth
2. Reducing the farm and family expenditure.
3. Developing the moral character i.e. 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 steady income)
5. Improving the ability to borrow funds during 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.
8.

(***Marks distribution*** – 1 Marks for definition, 3 marks for repayment capacity factors. Enlist different types of Risk 2 mark.. Measures to strengthen 2 mark).

Q.6 (a) Define Agricultural Finance. Explain Scope and importance's of Agricultural Finances.

(b) Write in short about Co-operative movement in pre-independence period in India.

Ans **(a) Agricultural finance** :

"Murrey" has defined – It is an economic study of borrowing funds by farmers of the organization and operation of farm lending agencies of society's interest in credit for agriculture.

"Tondon & Dhondyal" – Agricultural finance as a branch of agril. economics which deals with the provision and management of bank services and financial resources related to individual farm units.

Explain the scope and importance of agril. finance on the following points.

1. Explain at macro and micro level finance
2. In the agro-socio – economic development of the country
3. Its catalytic role strengthens the farming business
4. Accretion to farm assets
5. Contribute to reduction in regional economic imbalances
6. To stimulate the productivity
7. To promote the well – being of the society
8. Strengthening and development of both input and output market
9. To creating the supporting infrastructure for adoption of new technology

Needed investment on to carry out major and minor project and other programmes in the country.

(b) Co-operative movement in pre-independence period in India.

In Ancient India, co-operation took four principal forms Viz, Kula, Grama, Shreni and Jati.

Pre- Independence period

1. Period of Initial effort and planning ((between -1904 & 1912)
2. Period of Hurried Expansion (1912 to 1918)
3. Period of Unplanned Expansion (1918 to 1929)
4. Period of set back and Reorganization (1929-1939)

Period of recovery (1939-1946).

(***Marks distribution*** – 2 Marks for definition of Agricultural Finance, 3 marks for Scope and importance's of Agricultural Finances. Co-operative movement in pre-independence period in India 3 mark.).

Q.7 (a) Classify the Co-operative Credit Organization in India for Agricultural Credit. Write in short information regarding them.

(b) Explain Functions, Management and Capital structure of Regional Rural banks (RRBs).

Ans (a) **(b) Student should explain following credit structure-**

I) S.T and M.T. loans (Three tier system)

a) State Co-operative Bank at Apex level
b) DCCBs at District level.
c) PACs at village level.

II) L.T. loans (Two tier system)

a) Central LDB at state level
b) Primary LDBS at Taluka level

Explain Functions, Management and Capital structure of Regional Rural banks (RRBs).

Functions

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

Management :

The management of the bank is in the hands of a Board of Directors numbering eight, headed by a Chairman, who is an officer of the sponsoring bank. Of the eight Directors, three are nominees of the sponsoring bank, two from the State Government dealing with district developmental programmes and three from the Central Government. The Regional Rural Banks are sponsored by Commercial banks, generally the lead bank in the district. In some areas State Cooperative Banks and private commercial banks are allowed to sponsor RRBs. The sponsoring bank provides assistance to RRBs for the first five years.

(b) Management by Eight Directors i.e. 3 from sponsor bank, 2 from state Govt. and 3 from Central Govt.

Capital structure : Capital share being 50% by the central government, 15% by the State Govt. and 35% by the Sponsoring Bank.

(*Marks distribution* –. credit structure – 2 marks. short information regarding credit structure - them 2 marks. Explain Functions, Management and Capital structure of Regional Rural banks (RRBs 4 marks).

Q.8 **Write short note (Any two)**

a) ~~1~~. Sources of Agricultural Credit.

b) ~~2~~. Self Help Groups (SHGs)

c) ~~3~~. Role of 'NABARD' in Rural credit

Ans a) ~~1~~. **Sources of Agril. Credit –**

A) Non-Institutional credit -

1) Professional money lenders

2) Non- Professional money lenders

3) Landlords

4) Whole seller

5) Relatives

6) Friends

b) ~~B~~) Institutional credit –

1) Government

2) Commercial Bank

3) Co-operatives bank

b) ~~2~~) **Socio-economic Empowerment of Women through SHGs :**

The working of Self Help Groups broadly passes through three stage4s such as:

- Group formation
- Capital formation through saving, and
- Taking up economic activities for income generation.

Salient features of SHGs :

- Group membership is limited, it consist of 10-20 members.
- group may be registered or unregistered.

- Member of SHG should not be defaulter of any formal credit system.
- Group representative should be literate and posses all leadership qualities.
- SHG can be formed either exclusively for women or exclusively for men or mixed of men and women.

Functioning of SHGs :

- The groups usually create a common fund by contributing their small savings on a regular basis
- Most of the groups themselves or with the help of NGOs evolve flexible systems of working and managing their pooled resources in a democratic way with participation of every member in decision-making.
- Request for loans are considered by groups in their periodic meetings and competing claims on the limited resources are settled by consensus.
- Loaning is done mainly on trust with a bare minimum documentation and without taking any security documents.
- The amounts loaned are small, frequent and of short duration.
- The loans cover a variety of purposes, some of which are non-traditional and rather unconventional.
- Rare of interest differs from group to group and even with the purpose of loan. The interest charged is generally higher than that charged by the banks and lower than that charged by money lenders.
- The periodic meetings of the members.
- The defaults and rate mainly because of group pressure and intimate knowledge of the end use of credit.

c) 3) Role of NABARD in rural credit :

Its role to meet the change of integrated rural credit through institutional building, training, research, policy making, planning and providing expertise in the diverse disciplines of finance was inadequate and insufficient. Also explain role of NABARD on following points.

i) Objectives, ii) Functions

(**Marks distribution** – Each short note for 4 marks)

Q.9. (a) What is Crop Insurances? Give in detail salient features of "Comprehensive Crop Insurance Scheme?

(b) Write in short about stepwise procedure for processing of loan application of a farmer.

Ans (a) **Crop Insurance** – To safe guard the farmers again crop loss due to risk and uncertainty the crop insurance is one of the measures.

Main features of comprehensive crop insurance scheme :

1. Scheme covers all the farmers availing crop loan and it was limited to rice, wheat, millets, pulse and oilseeds.
2. Crop insurance risk is shared by GIC and state Government in the ratio 2:1
3. The sum insured is subject to 100% of crop loan limited to Rs.10,000/-
4. Premium fixed is 2% of sum insured for cereal crops and 1% for pulses and

oilseeds.

5. In case of small and marginal farmers, 50% of premium is subsidized .
6. Indemnity payable under the scheme is linked with threshold yield of crop.

(b) stepwise procedure for processing of loan application of a farmer.

1. Interview with the farmer
2. Submission of loan application by the farmer
3. Scrutiny of records.
4. Visit to the farmer's field before sanction of loan
5. Criteria for loan eligibility
6. Sanction of loan
7. Submission of requisite documents
8. Disbursement of loan
9. Post- credit follow-up measures, and
10. Recovery of loan

(***Marks distribution*** : Definition – 1 marks, Main features -3 marks. stepwise procedure for processing of loan application of a farmer 4 marks).

Q.10 (a) Enlist 5 'C's and 7 'P's of Credit Analysis.

(b) Explain in brief any four Principles of Farm Finances.

Ans (a) (b) Enlist 5 'C's

Details about five (5) 'C' s of Credit : -

To judge economic viability of investment or borrowing activity 5 'C' s are important

Explain the following five aspects

i)Character

ii) Capacity

iii) Capital

iv) Condition

vi) Commonsense

7 'P's of Credit Analysis.

Principles of farm finance or seven 'P's of agril. Credit.

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 and
7. Principle of protection.

(**Marks distribution** – Listing 5 'C's and 7 'P's all seven principles 4 marks and explain four of them 4 marks).

11

SECTION "B"

Q.11 ANSWER Match the following pairs.

1.	DIR Loans	=	b)	Loan to weaken seaction@4% Interest rate
2.	Macro Finances	=	a)	Aggregate finances
3.	Micro finances	=	h)	Individual farm business finance.
4.	Long term Loan	=	c)	Purchase of tractor.
5.	Lead Bank scheme	=	d)	Nariman's Committees
6.	Consumption loan	=	e)	Unproductive loan
7.	IBRD	=	f)	World bank
8.	IMF	=	g)	December-1945

Q.12 ANSWER Give full forms of the following.

1) **KCC** – Kisan Credit Card
2) **DISCOBARD** – District Co-operative Bank for Agriculture and Rural Development
3) **NCDC** – National Co-operative Development Corporation
4) **BKBY** – Bharatiya Krishi Bhirma Yojana
5) **DICGC** – Deposit Insurance & Credit Guarantee Corporation
6) **FSS** – Farmers Services Societies
7) **IFC** – International Finance Corporation
8) **AIRCRC** – All India Rural Credit Review Committee