Chapter - I

INTRODUCTION
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INTRODUCTION

So long as the farmer continues to feed and clothe the world, agriculture continues to assume the role of a basic industry in some degree or another. Being a primary industry agriculture plays a significant role in the process of economic development of a country. But the contribution of the agricultural sector to the overall economy varies from country to country depending upon the level of economic development. In the early stages of economic development, normally, agriculture was the major contributor to national income generating employment opportunities to a majority of people. At later stages of fairly high level of economic progress, the importance of agriculture gradually decline. However,
agriculture with its fundamental importance has its own contribution to make throughout the unending process of economic development.

Historical evidences clearly show that no country has moved from the stage of chronic stagnation to the take-off stage of economic development without achieving a substantial increase in agricultural production. In the earlier stages of economic development of modern advanced stage, a high rate of agricultural production has played a crucial role ensuring overall economic growth. The take-off periods of France, Belgium, Germany and Sweden also rested upon a firm base of raising agricultural productivity. Economic development of Russia, China and Japan reveals the predominant role played by agriculture in the earlier stages. Russian economic progress was made possible by an initial substantial food surplus. In India, too, during the planning era, both the State and Central Governments have accorded high priority to agriculture by advocating and adopting policies to improve the agriculture production and productivity.

According to recent census Indian population registered 121 crores in 2011 of which about 70 percent live in rural area and about 59 percent of the total population was engaged in agriculture itself. Indian population is projected to be about 140 crores by 2026. It will result in shortage of foodgrain production and employment opportunities leading towards social instability.

During the period of 1921 to 2001, per capita cultivated area in India has swelled down from 1.11 acres to 0.23 acres with a decrease of 71 percent. It cannot be compensated,
unless we contribute intensive efforts to improve agriculture production and productivity. Per capita availability of foodgrain, declined to 445 grams in 2006 as against 469 grams in 1961, creating great challenge before policy makers.

The agriculture share in total national export significantly, declined from 70 percent in 1950-51 to 20.3 percent in 1996-97 and 10.8 percent in 2005-06 acknowledging severe problems in agricultural development.2 Same is the experience in case of share in GDP. Unless, we develop agriculture the dream of national development cannot be materialized. Hence, Government should add their intensive efforts to the same direction.

1.1 Role of Agriculture in Economic Development:

Agricultural development is important for many reasons. Agriculture primarily provides adequate food and nutrition supplies to the fast growing population and supply the raw materials for growing manufacturing industries. Nearly one-third of India’s industrial out-put still depends upon the supply of agricultural commodities such as raw cotton, jute, oilseeds and rice.3 In underdeveloped economies, the agricultural sector with surplus labour can supply manpower to the growing agro based industries. The agricultural sector, with unlimited supply of manpower, as Arthus Lewis4 has put it, has to release the labour force for industrialization.

The agricultural sector creates significant demand for industrial goods. As agricultural development takes place, the per capita farm income will improve. Now the farmers would be in a position to buy more of modern agricultural inputs and consumer goods from the industrial sector.
Agricultural sector also plays pivotal role in capital formation which is essential for economic growth. The contribution of agriculture to capital formation can take place in different ways. If agricultural production is large enough to yield on exportable surplus, it will earn the much needed foreign exchange for imports of essential equipment, technical know-how and industrial raw materials, protecting national interest.

The significance of agriculture in the national economy can be best explained by considering the role of agriculture under different heads.

1.1.1 Share of Agriculture in the National Income:

The importance of agriculture can be judged mainly from its contribution to national income and employment in populous country like India. Agriculture contributes to be a major source of income to a vast majority of people in India.5

Table 1.1
Share of Agriculture in Total GDP (At 1999-00 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of Agriculture (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>56.5</td>
</tr>
<tr>
<td>1970-71</td>
<td>45.9</td>
</tr>
<tr>
<td>1990-91</td>
<td>34.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>24.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>19.55</td>
</tr>
<tr>
<td>2006-07</td>
<td>18.51</td>
</tr>
<tr>
<td>2007-08</td>
<td>17.8</td>
</tr>
<tr>
<td>2008-09</td>
<td>16.9</td>
</tr>
</tbody>
</table>


The table reveals that in the share of agriculture in gross
domestic product (GDP) was 56.5 percent, in 1951 acknowledging predominant role of agriculture. As the process of industrialization and economic growth gained momentum under Five Year Plans with manufacturing and service sectors growing rapidly and agricultural sector limping along, the percentage share of agriculture in GDP has declined and reached a level of 16.9 percent in 2008-09. It means the share of agriculture in national income, however, has deteriorated continuously while the shares of the manufacturing and service sector has recorded increasing trend.

The decline in the share of agriculture in the GDP in the earlier phase of economic planning did not reflect any structural change in the economy. It merely indicated the failure of agriculture to contribute its due share to the country's national income as a result of unfavorable weather conditions. Even now for a higher increase in the national income, rapid growth of the agricultural sector is necessary. In recent years the country's economy has undergone some structural changes. Special endeavor is essential in this regard.

1.1.2 Indian Agriculture and Pattern of Employment:

Agriculture dominates the economy to such an extent that a very high proportion of working population in India is engaged in agriculture.
Table 1.2

Population and Agricultural Workers

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Particulars</th>
<th>1951</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Population of India</td>
<td>36.1</td>
<td>102.9</td>
</tr>
<tr>
<td>2</td>
<td>Total Working Population</td>
<td>14.0</td>
<td>40.1</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td></td>
<td>(100)</td>
</tr>
<tr>
<td>3</td>
<td>Population Employed on land</td>
<td>9.8</td>
<td>23.5</td>
</tr>
<tr>
<td></td>
<td>(70)</td>
<td></td>
<td>(59)</td>
</tr>
<tr>
<td>4</td>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) Cultivators</td>
<td>7.0</td>
<td>12.8</td>
</tr>
<tr>
<td></td>
<td>(50)</td>
<td></td>
<td>(32)</td>
</tr>
<tr>
<td></td>
<td>ii) Agricultural Labourers</td>
<td>2.8</td>
<td>10.7</td>
</tr>
<tr>
<td></td>
<td>(20)</td>
<td></td>
<td>(27)</td>
</tr>
</tbody>
</table>

Note: Figures in bracket indicate percentage.

Data provided by the Census of India reveals that in absolute terms, agriculture provided employment to 9.8 crore persons in 1951; the number of people working on land (cultivators and agricultural labourers) increased to 23.5 crores in 2001. In terms of percentage, people working on land came down from 70 to 59 percent during the five decades between 1951 and 2001.

The Tenth Plan (2002-07) estimated that the agricultural sector still provides employment to 57 percent of India's work force and is the single largest private sector occupation. It is, however, really disturbing that the proportion of agricultural labourers has increased from 20 to 27 percent between 1951 and 2001 but that of cultivators registered a declined from 50 percent to 32 percent. This clearly shows the growing pauperization of the rural peasantry.
1.1.3 Role of Agriculture in Export:

Indian agriculture plays pivotal role in economic development of the nation contributing substantial in export. Agricultural products like tea, sugar, oilseeds, tobacco, spices etc. constituted the main items of Indian exports. The share of agriculture the total export is given in table 1.3.

**Table 1.3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural Exports</th>
<th>Total Exports</th>
<th>Share Percentage of Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>6013</td>
<td>32527</td>
<td>18.5</td>
</tr>
<tr>
<td>1996-97</td>
<td>24161</td>
<td>118817</td>
<td>20.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>28657</td>
<td>201356</td>
<td>14.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>61194</td>
<td>456418</td>
<td>10.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>62411</td>
<td>571779</td>
<td>10.92</td>
</tr>
<tr>
<td>2007-08</td>
<td>77770</td>
<td>640172</td>
<td>12.05</td>
</tr>
</tbody>
</table>


Broadly speaking, the proportion of agricultural goods which were exported came to 50 percent of our exports and manufactures with agricultural content (such as manufactured jute, cloth and sugar) contribute another 20 percent or so; reaching to total 70 percent of India's exports in 1950-51. Table 1.2 depicts that the diversification of exports, specially after the introduction of agricultural export which were 18.5 percent in 1990-91 rose to 20.3 percent in 1996-97 and there after indicated a continuous sweep and recorded only 12.15 percent in 2007-08, creating challenge before policy
makers in maintaining the comfortable share of agriculture in export.

Indian agriculture is a gamble of rain. Many times the country had to face severe drought conditions resulting in large scale imports of food grains. Strenuous efforts are essential to control gradual decline in agriculture share in export avoiding adverse effect on Indian economy.

1.1.4.1 Importance of Agriculture for Industrial Development:

Indian agriculture has been the source of supply of raw materials to our leading industries. Cotton, Textile, Jute Industries, Sugar, Flour Mills, Vanaspati and Plantations units depends upon agriculture directly. There are many other industries which also depend upon agriculture in an indirect manner. Many of our small-scale and cottage industries like handloom weaving, oil crushing, rice husking etc. depend upon agriculture for their raw materials together they account for 50 percent of income generated in the manufacturing sector in India.

However, in recent years, the significance of agriculture in industrial sector is going down as many new industries have come up which are not dependent on agriculture. Under the Five Years Plans, iron and steel industries, chemicals, machine tools and other engineering industries, information technology etc., have come up in a big way.

However, in recent years, the importance of food processing industry is being increasingly recognized both for generation of income and for generation of employment.
Agriculture production not only accelerates the growth of industries, but also brings stability to the industrial sector. Thus, agricultural helps in many ways. It is obvious that the agriculture, industry and transport etc., mutually help and fortify one another towards the integrated growth of an economy.

1.2 Need for Agricultural Finance:

The average Indian farmer cannot meet the increasing demand of capital from his personal savings. Accordingly, he has to depend on external source of finance to meet the farm financial needs. In the traditional agriculture, technology was adjusted to a level of equilibrium based on the available funds. Adoption of improved production technology with adequate capital may lead to significant increase in return. Hence, new technology creates spark both in investment and productive credit. Financial constraints such as credit have become a limiting factor in adoption of new technology.

Credit plays a crucial role in oiling the wheels of agricultural production. It is said to be the life blood of agriculture 'credit' is defined by the All India Rural Credit Survey Committee (1961-62) as means of obtaining resources at a certain period of time with an obligation to repay in a subsequent period in accordance with terms and conditions of credit obtained.9 Credit is the backbone of Indian agriculture.

Generation and reinvestment of saving are inconceivable because of the subsistence nature of agriculture characterized by perpetual dis-saving and deficits. Therefore, farmers are compelled to avail outside finance to satisfy their needs.
Credit need of the farmers can be summarized under two major categories: productive credit and unproductive credit.

Productive credit need comprises all credit requirements which directly affect the agricultural production and productivity. Farmer need loans for the purchase of seeds, fertilizers, manures, agricultural implements, livestock, digging and repair of wells and tube-wells, payment of wages, effecting permanent improvement on land and so on. Unfortunately, commercial banks have been reluctant in providing finance to agriculture, as they never assume it as a great security.

Unproductive credit requirement consists litigation, performance of marriages, social ceremonies on the birth or death of a family member, religious functions, festivals, build and repair house etc. Since institutional agencies do not grant credit for such unproductive purposes, farmers have to seek assistance from Moneylenders and Mahajans.

Farmers especially from underdeveloped countries require both the productive and unproductive kinds of credit. With the limited resources of the farmers and lack of saving with them, it is beyond their capacity to fulfill their additional demand for cash expenditure. They have no alternative to depend on agricultural credit support from financial institutions.

Quantitatively the most important source of finance to acquire and use capital goods is the profit retained in business or saved by the individual farm operator from other sources. It would be practically impossible for a person to take up
farming without any tool, implements or cash of his own. No one would lend some one whose only assets are strong back and two willing hands. On the other hand, it is very seldom possible to utilize labour and land and optimum level with capital owned solely by the farmers. Credit or the borrowed capital thus becomes not only desirable but necessary requirement of farm sector.

The farm credit plays a decisive role in stimulating farm production. The credit need of the farmers is influenced by several factors which may broadly be categorized into external and internal factors. The external factors are beyond the control of farmers which includes price level of various agricultural inputs, cost of cultivation, cost of credit, risk and uncertainties, irrigation facilities, cropping pattern, value of gross products and the level of liquidity. Internal factors cover consumption credit requirements and amount required to pay old debts.

Credit has to play leading role in facilitating production by providing to the producer, command over resources and services extending the production. Thus, the first concern of the planners has been to ensure that adequate productive finance is to be made available in the rural areas for agriculture and allied activities.

1.3 **Type of Agricultural Credit**:

Agricultural credit may be classified according to period-wise, securitywise and creditorwise. Generally it is classified, period-wise such as short-term, medium term and long-term credit.
1) **Short-term credit**: Short term credit is also called as seasonal credit. It is provided to agriculturists with the intention to help them for harvest. It helps the farmers until the harvest can be sold. This short-term loan may be borrowed for consumption or for production on personal security or with land as a collateral; security from money lender or co-operative society. The period of such loans is less than 15 months. Such loans are required for the purchase of seeds, fertilizers, pesticides, feeds and fodder of livestock, marketing of agricultural produce, and payment of wages of hired labour and unproductive purposes. It has great significance in day today life of rustic.

2) **Medium-term Credit**: Medium-term loans are generally used for the purchase of cattle, small agricultural implements, repair and construction of wells etc. It supports for an average duration, for example, the conversion of cultivation system safeguarding the national interest. The period of such loans ranges from 15 months to 5 years.

3) **Long-term Credit**: The period of such loan is long. In India the duration of this loan is 20 years. The durations of long-term credit in various countries vary i.e., Finland-30 years, Switzerland-57 years, Hungary-63 years, Ireland-68.5 years, France - 75 years. It is required for permanent improvement on land, digging wells, purchase costly agricultural machinery, like tractors, harvesters etc. and repayment of old debts. The Reserve Bank of India stated that the long-term credit is more important in India because the agricultural development problem could be solved through long-term loan.
Long-term loan is essential in underdeveloped countries but the question is that whether it is given by a mortgage or on the honesty of farmers. In India, according to co-operative societies Act of 1925 which was amended in April 1928, mortgage security is compulsory condition for the sanction of credit by every co-operative society.

In India, there is lack of strong credit institutions to provide huge amount of long term loan. Indian agriculture totally depends on monsoon and Indian farmers are the victim of flood or drought prone conditions. Short-term loan and medium-term loans can easily be recovered within time, but the accumulated debts which have long duration cannot be easily recovered by the financial institutions. The debts can not be recovered in critical situation, creating challenge before the financial institutions to contribute flow of long term credit.

At the time of independence, the most important source of agricultural credit was the money lenders. In 1951 money lenders accounted for as much as 71.6 percent of rural credit. It is obvious that the money lenders remain dominant in rural areas. All India Credit Survey Committee (1954) reported that professional moneylenders dominate rural credit, because they do not have any competition. All India Credit Survey Committee rightly stated that, co-operative credit societies in spite of their existence for over 50 years, supplied merely 3.1 percent of the total credit requirement of the farmers. Further committee opined that, “Co-operation has failed, but hastened to add that co-operation must succeed.” It indicates the role of importance of co-operative movement in economic development, marching towards social rest.
During the third five year plan, Indian Government has introduced the High Yielding Varieties Programme (HYVP) which increased the demand for loan. The seeds which yield more production are being purchased. Moreover, other mechanical instruments are also required to cultivate modern seeds. Accordingly, farmers required huge agricultural credit. The Agricultural Credit Review Committee had estimated that the total demand of short-term credit during the Fourth Plan period would be of the order of Rs. 4000 crores. As compared to this, the institutional credit made available to the farmers is not more than Rs. 570.20 crores. Till today India is facing the same problem. Perennial efforts are essential in making available sufficient long term financial support to peasants in time.

1.4 Sources of Agricultural Finance in India:

Indian small farmers, artisans and other rural people are placed in circumstances that they must borrow. Our villages have been proverbial for their illiteracy and being unconnected in every respect with the comparatively more developed urban area, have remained centres of backwardness and poverty. They can not afford modern machinery and are lagging behind in economic development. Rural people have not developed the habit of saving and most of the people spend their income on nonproductive work like marriage, death ceremony, birthday celebration and it creates great financial gap which must be filled some how.
Following are the premier sources of agricultural finance, in India.

1) Moneylenders
2) Co-operative banks
3) Land Development Banks
4) Commercial Banks
5) Nationalized Banks
6) Government Department.

Reserve Bank of India provides finance to all these agencies except moneylenders.

1.4.1 Moneylenders:

At the time of independence, the most important source of agricultural credit was the moneylenders. The procedure followed by moneylenders is simple and quick. They don’t use paid staff but their rate of interest is very high. Moneylenders provide very small loans but they charge high rate of interest and provide only short-term loans. It is dangerous for the farmers to take loans from this source as they may lose their land or become debt slaves. But the farmers have no alternative for that. Table No.1.4 shows the role of moneylenders in agricultural credit in India. Table denotes that share of moneylenders decreased from 69.7 percent in 1951 to 26.8 percent in 2002 recognizing that institutional agriculture credit is increasing. It may assume positive sign.

The Indian Central Banking Enquiry Committee (1931) listed many questionable practices connected with moneylenders consisting of 16:
(i) Demand for advance interest;
(ii) Thumb impression on a blank bond paper with a view to inserting any high amount at a later date if the debtors becomes irregular in payment of interest;
(iii) Change in actual figure;
(iv) General manipulation of the account adversely affecting the debtor; and
(v) Taking of conditional sale deeds in order to provide against possible evasion of payment by the debtor.

All the above constraints badly affect the economic growth of peasants. However, Indian farmers have to approach money lenders as nobody comes forward to help them except moneylenders. Moneylenders provide loans at their own risk for protecting their own interest. That is why the organized financial institutions are needed to finance agriculture sector.

The percentage share of various agencies in agriculture credit is given in table No.1.4.

From Table No.1.4 it can be proclaimed that an institutional credit source of agriculture credit has gone up from 7.3 percent in 1951 to 61.1 percent in 2002, while share of others (Govt. & unspecified) in agricultural credit continues to be negligible all through out of the sources. The share of co-operatives increased from 3.3 percent in 1951 to 30.2 percent in 2002. Accordingly, share of agricultural credit by the commercial banks has gone up from 0.9 percent to 26.3 percent. Total institutional credit for agriculture and allied activities in India has been given upto Rs. 287149 crores in 2008-09, of which co-operative sector Rs. 36762 crores (12.8 percent), Commercial Banks Rs. 223663 crores (77.89 percent)
and Regional Rural Banks Rs. 26724 crores (9.31 percent) had
distributed in India. It is thus evident that agriculture
(priority) sector is given a lot of importance by the commercial
banks and co-operative sector.

Table 1.4
Percentage Share of Various Agencies
in Agricultural Finance in India

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Institutional credit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Co-operatives</td>
<td>3.3</td>
<td>15.5</td>
<td>22.0</td>
<td>32.0</td>
<td>30.0</td>
<td>30.2</td>
</tr>
<tr>
<td>ii) Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>30.0</td>
<td>35.2</td>
<td>26.3</td>
</tr>
<tr>
<td>iii) Others (Govt. &amp; unspecified)</td>
<td>3.1</td>
<td>2.6</td>
<td>7.1</td>
<td>-</td>
<td>6.2</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7.3</td>
<td>18.7</td>
<td>31.5</td>
<td>62.0</td>
<td>69.4</td>
<td>61.1</td>
</tr>
<tr>
<td><strong>B) Non-institutional credit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Moneylenders</td>
<td>69.7</td>
<td>49.2</td>
<td>36.1</td>
<td>16.1</td>
<td>17.5</td>
<td>26.8</td>
</tr>
<tr>
<td>ii) Others (Traders, Commission Agent, Relatives, Landlords etc.)</td>
<td>23.0</td>
<td>32.1</td>
<td>32.4</td>
<td>20.7</td>
<td>13.1</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>92.7</td>
<td>81.3</td>
<td>68.5</td>
<td>36.8</td>
<td>30.6</td>
<td>38.9</td>
</tr>
<tr>
<td><strong>TOTAL (A &amp; B)</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Chart 1.1

Farm Credit Structure in India

Institutional Credit

Government

Co-operatives

Commercial Banks

Non-institutional Credit

Landlords

Money-lenders

Traders or Commission Agents

 Relatives

Others
From the table 1.4 it can be depicted that the share of agriculture credit of private agencies including moneylenders has declined from 92.7 percent in 1951 to 38.9 percent in 2002, confessing pitfalls of non institutional credit supply. It is clear that farmers have been relieved to some extent from the money lenders malpractices.

Government of India has taken major steps to control and regulate the lending activities of moneylenders. The Government has passed Moneylenders Act in 1933. The main provisions of this act are:

i) Maintenance of account in prescribed form,
ii) Restrictions on maximum interest rate,
iii) Provide receipts and periodic data
iv) Licensing of moneylenders,
v) Penalty for any malpractice.

The act was brought into practice to prevent undue benefits to moneylenders providing proper justice to society. Unfortunately, these rules and regulations have not brought any improvement. Consequently, All India Rural Credit Survey Committee (1954) has recommended an 'Integrated Scheme', to overcome the obstacles. The fundamentals of the scheme are as follows:

1) State Partnership in co-operative institutions
2) Full co-ordination between credit and other activities should be aimed and achieved and
3) Administration of credit should be in the hands of well trained personnel.

Farmer avails credit facilities from merchants and
shopkeepers in rural areas, but interest rate charged by them is also equal to that of moneylenders. There are so many evils in the private agencies. As a result, the Indian farmers are under trouble. To improve productivity, earning capacity and to overcome the difficulties in agricultural credit, institutional credit supply is essential. The Government of India should formulate a comprehensive plan to support institutional farm credit safeguarding the national interest in general and farmer community in particular.

1.5 Institutional Credit:

The remarkable feature of agricultural credit extension in India has widespread network of rural financial institutions. Institutional credit to agriculture is tabulated in Table 1.5.

It has been widely acknowledged that large-scale branch expansion was undertaken with a view to creating a strong institutional credit base in rural areas, especially, after the nationalization of 14 major commercial banks in 1969. Table 1.5 reveals that the total agricultural credit from institutional credit had steadily hiked from Rs.31956 crores in 1997-98 to Rs. 287149 crores in 2008-09. The contribution of co-operatives was 44.08 percent of total institutional credit in 1997-98 unfortunately it was recorded only 12.80 percent in 2008-09. Correspondingly, commercial banks including RRBs have raised their share from 49.54 percent to 77.89 percent during this period. There has been steady decrease in percentage terms, in the contribution of co-operative banks in rural credit from 44.08 percent in 1997-98 to 12.80 percent in 2008-09.
<table>
<thead>
<tr>
<th>Year</th>
<th>Co-operatives Banks</th>
<th>Scheduled Commercial Banks</th>
<th>Regional Rural Banks (RRBs)</th>
<th>Total Credit (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>14085 (44.08)</td>
<td>15831 (49.54)</td>
<td>2040 (6.38)</td>
<td>31950 (100)</td>
</tr>
<tr>
<td>1998-99</td>
<td>15957 (43.29)</td>
<td>18443 (50.04)</td>
<td>2460 (6.67)</td>
<td>36860 (100)</td>
</tr>
<tr>
<td>1999-00</td>
<td>18260 (39.47)</td>
<td>24733 (53.45)</td>
<td>3275 (7.08)</td>
<td>46268 (100)</td>
</tr>
<tr>
<td>2000-01</td>
<td>20718 (39.22)</td>
<td>27807 (52.64)</td>
<td>4302 (8.14)</td>
<td>52827 (100)</td>
</tr>
<tr>
<td>2001-02</td>
<td>23524 (37.91)</td>
<td>33587 (54.14)</td>
<td>4934 (7.95)</td>
<td>62045 (100)</td>
</tr>
<tr>
<td>2002-03</td>
<td>23636 (33.98)</td>
<td>39774 (57.18)</td>
<td>6150 (8.84)</td>
<td>69560 (100)</td>
</tr>
<tr>
<td>2003-04</td>
<td>26875 (30.90)</td>
<td>52441 (60.29)</td>
<td>7665 (8.81)</td>
<td>86981 (100)</td>
</tr>
<tr>
<td>2004-05</td>
<td>31231 (24.92)</td>
<td>81481 (65.03)</td>
<td>12597 (10.05)</td>
<td>125309 (100)</td>
</tr>
<tr>
<td>2005-06</td>
<td>39786 (22.04)</td>
<td>125477 (69.52)</td>
<td>15223 (8.44)</td>
<td>180486 (100)</td>
</tr>
<tr>
<td>2006-07</td>
<td>42480 (18.22)</td>
<td>166486 (72.57)</td>
<td>20435 (8.91)</td>
<td>229401 (100)</td>
</tr>
<tr>
<td>2007-08</td>
<td>48258 (18.95)</td>
<td>181088 (71.11)</td>
<td>25312 (9.94)</td>
<td>254658 (100)</td>
</tr>
<tr>
<td>2008-09</td>
<td>36762 (12.80)</td>
<td>223663 (77.89)</td>
<td>26724 (9.31)</td>
<td>287149 (100)</td>
</tr>
</tbody>
</table>

Note: Figures in bracket indicate percentage to total.
Graph 1.1
Institutional credit to Agriculture in India (Rs. In crores)

- Co-operatives
- Scheduled Commercial Banks
- Regional Rural Banks (RRBs)

1997-98

2008-09
Both the two tier and three tier systems of co-operative farm credit played a remarkable role in agriculture and rural development of India. Besides, in efficiency and financial indiscipline, Government policy of withdrawing support under LPG era remained great obstacle in the development of co-operative movement.

Following types of institutional credit agencies are established:

1.5.1 Commercial Banks:

In pre-independence period, banking business was only confined to industry and commerce. During the mid-fifties drastic change took place and banking got top priority in First Five Year Plan and onwards. Despite of significant changes in banking, industry, banks showed keen interest in providing credit to industry and commerce. Commercial banks have very little contribution to agriculture as they were reluctant in financing agriculture. It was only 0.9 percent in 1951-52 and 0.7 percent in 1961-62. They don’t’ look upon agricultural finance as a part of their general business. The diversification of banking changed during the Fourth Five Year Plan. The green revolution, during the period has made great effect on banking and greater emphasis was given to agricultural finance.

The Government of India amended the Banking Regulation Act (1949) to give effect to the scheme of social control. But it effect could not achieve the expected level, so, that 14 major commercial banks were nationalized in 1969. This was followed by the nationalization of 6 more banks in 1980. After nationalization the banks opened a large number
of branches in rural areas and have increased their advances. In June 1969, out of the total of 8262 branches of commercial banks in India, merely 1832 (i.e. 22.2 percent) were in rural areas. By the end of June 2006 the number of total branches had shot up to 69,616. Of which, 30754 (i.e. 44 percent) were in rural areas acknowledging the positive efforts and deep concern of bank nationalization in rural development.

It shows that the total number branches increased by about eight and half times, the total number of rural branches jumped by almost seventeen times. For instance, advance to Agriculture aggregated only Rs. 160 crore in June 1969. By the end of March 2006 this had risen to Rs. 1,55,219 crore accounting for 15.3 percent of total bank credit. During 2005-06 commercial banks provided rural credit of Rs. 1,25,859 crore. This was 69.7 percent of total Rs. 1,80,486 crore institutional credit to agriculture provided in that year. It records to some satisfactory position of agriculture finance.
1.5.2 Government Finance:

The Government loans are provided in the forms of 'Taccavi loans' which distributed by the Collector office through tahasil offices and Zilla Parishad through Panchayat Samities at taluka level. The taccavi loan have been distributed under the following circumstances:-

i) Famine and chronic scarcity.
ii) Floods.

The taccavi loans should be made available in substantial giving relief to the farmer under circumstances mentioned above.

1.5.3 Co-operative Banks and Societies:

History of Co-operative credit is very old in India. In fact, the co-operative movement was initiated in 1904 through the establishment of co-operative credit societies. The co-operative movement started with the prime objective of helping farmers making available reasonable agriculture finance. In due course, many other forms of co-operatives were added to it. The farmers are provided cheap and adequate finance at lower rate of interest by the Co-operative Banks. The three tier system is popular in co-operative short-term and medium term agriculture finance which consist of -

1) State Co-operative banks,
2) District Central Co-operative Bank and
3) Primary Agricultural Co-operative Credit Societies.

The Reserve Bank of India provides loan through NABARD to Co-operative banks. State Co-operative Bank at
State and the District Central Co-operative Banks at district level control and regulate co-operative credit. District Central Co-operative Banks render credit to farmers through Primary Co-operative Credit Societies.

1.5.3.1 **Primary Agricultural Credit Societies (PACSs):**

A Co-operative Credit Society commonly known as the Primary Credit Society may be started by ten or more persons, usually belonging to the village. The share price is very low so that poorest farmer can become a member. The members are fully responsible for the entire profit or loss of the society. Loans are given for very short period normally one year. Table 1.6 indicates the progress made by the PACSs.

**Table 1.6**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Societies</td>
<td>1,15,462</td>
<td>2,12,129</td>
<td>1,60,780</td>
<td>94,866</td>
<td>88,921</td>
<td>93,816</td>
<td>94,942</td>
</tr>
<tr>
<td>Increase/Decrease (%)</td>
<td>--</td>
<td>83.72</td>
<td>-24.21</td>
<td>-40.99</td>
<td>-6.27</td>
<td>5.50</td>
<td>1.20</td>
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<tr>
<td>Working capital (Rs. Crore)</td>
<td>41.38</td>
<td>273.92</td>
<td>1009.96</td>
<td>3377.56</td>
<td>11300.18</td>
<td>76726.35</td>
<td>88160</td>
</tr>
<tr>
<td>Increase/Decrease (%)</td>
<td>--</td>
<td>561.96</td>
<td>268.71</td>
<td>234.42</td>
<td>134.57</td>
<td>190.89</td>
<td>14.83</td>
</tr>
<tr>
<td>Loans and Advances (Rs. Crore)</td>
<td>29.13</td>
<td>218.00</td>
<td>784.48</td>
<td>2607.92</td>
<td>7246.20</td>
<td>19023.79</td>
<td>57643</td>
</tr>
<tr>
<td>Increase/Decrease (%)</td>
<td>--</td>
<td>648.37</td>
<td>259.85</td>
<td>232.44</td>
<td>177.85</td>
<td>162.53</td>
<td>203.00</td>
</tr>
</tbody>
</table>

2) RBI Report on Trend and Progress of Banking in India 2008-09.
Chart 1.3

Co-operative Banking Structure in India

NABARD (Apex Bank)

Co-operative Credit Institutions

Rural Co-op. Credit Institutions

Urban Co-op. Credit Institutions

Short Term and Medium Term Credit Institutions

Long Term Credit Institutions

State Co-op. Banks (State level)

District Central Co-op. Banks (District level)

Primary Agricultural Credit Societies (Village level)

State Co-op. Agriculture and Rural Development Banks (SCARDBs)

Primary Co-op. Agriculture and Rural Development Banks (PCARDBs)
It can be pointed out from the table 1.6 that the number of societies increased from 1,15,462 in 1951 to 2,12,129 in 1961 with an increase of 83.72 percent. In the year 1971 there were 1,60,780 societies, in 1981 the number further decreased to 94,966 and in 1991 it again dropped to 88,921. It means the number of primary credit societies have declined continuously in three decade after 1961, because of, establishing viable societies and amalgamating some of the societies. But in last decade the number of credit societies slightly moved up by 5.50 percent in 2000 and 1.20 percent in 2008.

There has been phenomenal rise in their working capital from 41.38 crores in 1951 to 88107 crores in 2008. Highest rate of growth in working capital registered during the period 1951 to 1961 i.e. 561.96 percent.

Amount of loans and advances have been consistently recorded increasing trend over the period. The loans and advances by PACSs amounted to Rs. 29.13 crores in 1951 and Rs. 57643 crores in 2008. There has been steady increase in the amount of loans and advances extending more credit facilities. The role of co-operative credit societies in providing credit was almost negligible in the pre-independence period. The progress after independence observed quite rapid, however, they have to improve performance to uplift rural economy in particular.

1.5.3.2 District Central Co-operative Banks (DCCBs)

In the three tier system of short and medium term loans, DCCBs are in the middle tier. The PASCs in a district
federate and from a DCCBs. Generally, the DCCB is located at the headquarters of a district. Some DCCBs have branches in some towns. The PACSs get finance from the DCCBs.

The DCCBs are of two types. One type of the DCCBs, the membership (i.e. federating members) is confined to primary societies only. This type is known as “Banking Union”. Another type of DCCB, has mixed membership, consisting of both primary societies and individuals possessing some financial status or some special business capacity or experience in the field of co-operative banking.

Financial resources of the DCCBs consisting of share capital, reserve fund out of profits, membership fees from primary societies, deposits from the public, deposits of surplus funds and reserve funds of PACSs affiliated to the DCCBs, and loans from the Apex Bank, i.e., the State Co-operative Bank.

The DCCBs lend money to PACSs affiliated to them. They charge generally for their loans to PACSs 3 percent higher than the rate which they pay for their borrowing from the State Co-operative Bank. The three percent margin between their lending rate and the borrowing rate is intended for meeting the day to day expenses of the bank to pay dividend on share capital and to build a reserve fund to the extent of 25 percent of their profits. The progress of DCCBs is given in table No. 1.7.
Table 1.7
Progress Made by DCCBs in Agricultural Credit in India

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of DCCBs</td>
<td>505</td>
<td>390</td>
<td>341</td>
<td>337</td>
<td>351</td>
<td>367</td>
<td>371</td>
</tr>
<tr>
<td>Increase/Decrease (%)</td>
<td>-22.77</td>
<td>-12.56</td>
<td>-1.17</td>
<td>4.15</td>
<td>4.56</td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Working Capital</td>
<td>56.37</td>
<td>314.05</td>
<td>1030.74</td>
<td>4274.96</td>
<td>17518.64</td>
<td>76726.35</td>
<td>N.A.</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>-457.12</td>
<td>228.21</td>
<td>314.75</td>
<td>309.80</td>
<td>337.97</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
<td>34.14</td>
<td>220.03</td>
<td>813.40</td>
<td>2986.59</td>
<td>11727.57</td>
<td>44356.51</td>
<td>93162</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>-544.50</td>
<td>269.68</td>
<td>267.17</td>
<td>292.67</td>
<td>278.22</td>
<td>110.03</td>
<td></td>
</tr>
</tbody>
</table>

2) RBI Report on Trend and Progress of Banking in India 2008-09.

Table 1.7 expresses that the number of DCCBs reached to 505 in 1951. It can be ascertained from the table that in first three decades after 1951 there was continuously decrease, while in last three decades slight increase in number of DCCBs, indicating instability in numbers. Highest decline was recorded during the period 1951 to 1961, i.e. -22.77 percent, because of the schemes of reorganization and wedding out of dormant or non-functioning DCCBs.

There has been phenomenal growth in their working capital from 56.37 crores in 1951 to 76726.35 crores in 2000 with an increase of 337.97 percent. Highest rate of growth in working capital enlisted 457.12 percent in 1961 over 1951. Because, the NABARD provides 50 to 90 percent of their working capital.
As far as loans and advances is concerned, it has been observed that the amount of loans and advances continuously raised over the period. It increased from Rs. 34.14 crores in 1951 to Rs. 93162 crores in 2008. Highest increase registered 544.50 percent during the period 1951 to 1961. While lowest increase registered was 110.03 percent during the period 2000 to 2008. It is obvious that there was considerable increase in loans and advances provided by the various DCCBs, which is assumed to be a good sign for agricultural development. However, Government should formulate policies in favour of DCCBs extending agriculture production and productivity on one hand and protecting the interest of rustics on the other.

1.5.3.3 State Co-operative Banks (StCBs)

In the three-tier system of short and medium-term loans, the State Co-operative Bank at an apex institution. These Apex Banks or StCBs formed by federating DCCBs in a particular State. Usually, the jurisdiction of Apex Bank is the, State itself.

The funds for an Apex Bank are obtained by way of share capital subscribed by the affiliated DCCBs, deposits from the Public, surplus funds of the affiliated DCCBs, reserve fund, short-term loans, overdrafts and credit from the State Bank of India and other commercial banks. The Apex Banks get major part of their funds from the NABARD. The last mentioned source is quite important, as it constitutes in the range of 50 to 90 percent of the working capital of the State Co-operative Bank in the country. The StCBs are not only interested in helping the rural co-operative credit movement but also in promoting other Co-operative ventures and
extending the principles of co-operation. During 2005-06 the 31 StCBs had lent about Rs. 48,260 crores to DCCBs.19

The progress made by StCBs during the period 1951 to 2008, is given in table No. 1.8.

**Table 1.8**

**Progress of StCBs in Agricultural Credit in India**

(Rs. Crores)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of StCBs</td>
<td>15</td>
<td>21</td>
<td>25</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Increase/Decrease (%)</td>
<td>40.00</td>
<td>19.05</td>
<td>8.00</td>
<td>3.70</td>
<td>3.57</td>
<td>6.90</td>
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<tr>
<td>Working Capital</td>
<td>34.42</td>
<td>221.65</td>
<td>665.83</td>
<td>2628.53</td>
<td>11250.36</td>
<td>45117.27</td>
<td>N.A.</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>543.95</td>
<td>200.40</td>
<td>294.40</td>
<td>328.01</td>
<td>351.17</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
<td>17.90</td>
<td>166.69</td>
<td>747.59</td>
<td>1836.64</td>
<td>7518.64</td>
<td>39507.62</td>
<td>57455</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>831.12</td>
<td>348.49</td>
<td>145.67</td>
<td>309.36</td>
<td>425.46</td>
<td>45.43</td>
<td></td>
</tr>
</tbody>
</table>

2) RBI Report on Trend and Progress of Banking in India 2008-09.

The table 1.8 indicates that the significant progress was witnessed at the level of StCBs during the study period. The increase in the number of StCBs from 15 in 1951 to 31 in 2008 recorded due to creation of new states and establishment of new banks in the union territories over the period of time. Working capital of the StCBs also went up from Rs. 34.42 crores in 1951 to Rs. 45117.27 crores in 2008. A large part of these additional resources came from co-operatives. The main source of working capital of the StCBs is the Reserve Bank of India, which provides nearly 50 to 90 percent of their working capital. The total loans operation also appreciably enhanced
from Rs. 17.90 crores in 1951 to Rs. 57455 crores in the year 2008. These loan operations were assisted largely by borrowing from the Reserve Bank of India.

The co-operative credit system makes credit available to the farmers at convenient distance and has intimate knowledge of the local conditions and problems which arise. But the system is organizationally and financially weak and its ability to support credit to the agricultural sector is considerably limited. Hence, both the Central and State Government should take initiative and provide special funds to StCBs to extend agricultural production and productivity.

1.6 **Land Development Banks (LDBs):**

The Co-operative organization providing long-term credit has a two-tier system. Primary Land Development Banks work at taulka and district level and the Central Land Development Bank at the State level. There is one Central Land Development Bank in each State and Primary Land Development Banks generally at the district or block level. LDBs played pivotal role in the development of agriculture in particular and rural part of the country in general.

The long-term credit requirements of the farmers were traditionally met by the money-lenders but later by other agencies also, such as the State Governments and other co-operative credit societies. But these agencies were found defective for one reason or another. There was, thus, a great need in India to form an institution specially to cater to the long-term credit needs of the agriculturists, which would offer long-term funds at moderate rates and recover loans in annual
or semi-annual installments spread over a number of years. Initially, LMBs were organized for the purpose of providing long-term credit to farmers. These banks were later called Land Development Banks (LDBs). In recent years, they have been renamed as Co-operative Agricultural and Rural Development Banks (CARDBs). These are classified into Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) and State Co-operative Agricultural and Rural Development Banks (SCARDBs).

1.6.1 **Structure of Land Development Banks:**

The structure of land development banks not found uniform and varies from State to State and also from region to region within the State.

(i) The structure consisting of the land development bank at the top and the primary land development bank at the base as in Tamilnadu and Andhra Pradesh.

(ii) The mixed type in which there are a number of Central Land Development Banks which operate through branches as in parts of Maharashtra and Gujrat.

(iii) State Land Development Banks advance loans to individuals and operate through their branches as in Saurashtra area of Gujrat.

(iv) Central Land Development banks which are merely departments of the State Co-operative Banks, as in the case of Madhya Pradesh and Vidarbha region of Maharashtra.
1.6.2 **Source of Finance to Land Development Banks:**

The Land Development Banks raise funds mainly by floating debentures in the market. Such debentures are guaranteed by the State Government. The major investors in these debentures are the Life Insurance Corporation of India, The State Bank of India group, Commercial Banks, Reserve Bank of India, Co-operative Banks and the Central and State Government. National Bank for Agriculture and Rural Development (NBARD) also provide substantial assistance to the land development banks. Moreover, long term deposits are accepted from the public. These funds are then made available to the Primary Land Development Societies whenever they have to make loan to their members. In the State of Maharashtra and Gujrat, these State Land Development Banks operate directly through their branches as well as indirectly through Primary Land Development Societies, playing significant role in permanent agriculture development.

1.6.3 **The Functions and Objects of LDBs:**

The prime object of primary land development bank is to arrange the long-term loans from the central LDB and to lend to the farmers against the security of mortgage of lands and immovable properties owned by them. So, the Primary Bank borrows loan from the central LDB and lends to their members for the following purposes.

1) The redemption of mortgage on agricultural land.
2) The permanent improvement of agricultural land and methods of cultivations.
3) The repayment of prior debt.
4) Repair or construction of water tanks for agricultural purpose.
5) Digging of wells.
6) Conversion of dry land into irrigated one.
7) Leveling and bunding of land.
8) Purchase of new land.
9) Purchase of Tractors or other costly agricultural implements.
10) Purchase of oil engines, pump sets electric motors etc.
11) For horticulture purpose and extending irrigation facilities.

Over 90 percent of the loans issued by the LDBs are now for productive purposes of which a major portion goes to minor irrigation.

1.6.4 Development of LDBs:

The real beginning in land development banking was made by Madras with the organization of CLDB in 1929 for centralizing the issue of debentures and for co-ordinating the working of banks in the State. The progress of land development banking has been very slow. Under the great depression, (1929-33) LDBs received some stimulus as agricultural prices fell considerably and the farmers needed financial assistance. But with the Second World War, the farmer experienced a good measure of prosperity and were in a position to repay their debts with the LDBs. Especially, after independence, LDBs are enjoying a great degree of prosperity. However, it is important to note that whatever progress was achieved was concentrated in few States only like Andhra Pradesh, Karanataka, Tamil Nadu, Gujrat and Maharashtra.
The number of PCARDBs and their branches swelled up from 286 in 1950-51 to 696 in 2005-06, and SCARDBs increased from 5 to 20 during the same period.

Total loans advanced by PCARDBs during 2005-06 were Rs. 2250 crores and the loans outstanding at the end, March 2006 stood at Rs. 12,740 crores. On the contrary, SCARDBs had sanctioned loans worth Rs. 2900 crores in 2005-06 and the amount of outstanding at the end of March 2006 was Rs. 17,710 crores. Thus, LDBs should form effective machinery to recovery overdues and offer more facilities to Indian agriculturist. It has been widely acknowledged that both the three and two tier credit system of co-operative movement played a significant role in making India self-reliant in food grain production. Hence, the edifice of co-operative credit structure, which is reared by taking so much effort, should be protected from becoming on dreary desert in the interest of nation.

1.7 Regional Rural Banks (RRBs):

The nationalization of major commercial Banks in 1969 and 1980 resulted in the tremendous progress in purveying institutional finance to the rural areas. However, it is noticed that the Commercial Banks extended benefits mostly to the richer sections of the rural areas. Moreover, the savings mobilized from the rural areas have flown into urban and metropolitan areas and not meet the needs of the weaker sections of the rural community. Therefore, Government of India appointed a working group on July 1, 1975 to examine in depth need of setting up of new Rural Banks as subsidiaries of public sector Banks to cater the credit needs of rural poor.
under the chairmanship of M. Narsimham. The committee recommended to setup the State sponsored, region based and Rural Oriented Commercial Banks called RRBs.

The Government of India accepted the recommendations of the group and RRBs ordinance of promulgated on September 26, 1975. It was replaced by the RRBs Act of 1976. Initially, five RRBs were set up on October 2, 1975 at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Harayana, Jaipur in Rajasthan and Malda in West Bengal. Each Regional Rural Bank had an authorized capital of Rs. 1 crore, and issued and paid-up capital of Rs. 25 lakhs. The share capital was subscribed by the central Government (50 percent), the State Government concerned (15 percent) and the sponsoring commercial bank (35 percent).

The RRBs though basically scheduled commercial banks, differ from the later in certain respects:

1) The area of RRBs is limited to a specified region comprising one or more districts of a State.

2) The RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers.

3) The lending rates of RRBs should not be higher than the prevailing lending rules of co-operative societies in any particular State. The sponsoring banks and the Reserve Bank of India provide many subsidies and concessions to RRBs to enable them to function effectively.

The sponsor banks have continued to provide managerial and financial assistance to RRBs since inception and also
provide concessions such as lower rate of interest (8.5 percent). The cost of staff deputed to RRBs and training expenses of RRB staff are borne by the sponsor banks.

The RBI has been granting many concessions to RRBs:

1) They are allowed to maintain cash reserve ratio at 3 percent and statutory liquidity ratio at 25 percent.

2) They are provided refinance facilities through NABARD.

The progress made by RRBs is shown in the table 1.9.

Table 1.9

<table>
<thead>
<tr>
<th>At the end of</th>
<th>No. of RRBs</th>
<th>Districts covered</th>
<th>No. of Branches</th>
<th>Deposits Rs. Crore</th>
<th>Advances Rs. Crore</th>
</tr>
</thead>
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<tr>
<td>Dec. 1975</td>
<td>5</td>
<td>11</td>
<td>17</td>
<td>0.20</td>
<td>0.10</td>
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<tr>
<td>Dec. 1980</td>
<td>85</td>
<td>144</td>
<td>3279</td>
<td>199.83</td>
<td>243.38</td>
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<tr>
<td>Dec. 1985</td>
<td>188</td>
<td>333</td>
<td>12606</td>
<td>1285.82</td>
<td>1407.67</td>
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<tr>
<td>March 1990</td>
<td>196</td>
<td>196</td>
<td>14443</td>
<td>4150.52</td>
<td>3554.04</td>
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<tr>
<td>March 1995</td>
<td>196</td>
<td>425</td>
<td>14509</td>
<td>11150.01</td>
<td>6290.97</td>
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<td>March 2000</td>
<td>196</td>
<td>457</td>
<td>14301</td>
<td>32204.00</td>
<td>13184.00</td>
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<tr>
<td>March 2002</td>
<td>196</td>
<td>487</td>
<td>14350</td>
<td>44539.00</td>
<td>18598.00</td>
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<tr>
<td>March 2006</td>
<td>133</td>
<td>525</td>
<td>14494</td>
<td>71329.00</td>
<td>39713.00</td>
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<tr>
<td>March 2007</td>
<td>96</td>
<td>534</td>
<td>14520</td>
<td>83144</td>
<td>48493</td>
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<td>March 2008</td>
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<td>March 2009</td>
<td>86</td>
<td>617</td>
<td>15181</td>
<td>120189</td>
<td>67802</td>
</tr>
</tbody>
</table>

3) Nabard Annual Reports from 2000 to 2011.
Graph 1.2
Progress of RRBs in India
□ Deposits ■ Advances Rs. Crore
£6066
m£8
681-02 L
20000
40000
00009
80000
100000
120000
140000
Dec. 80 Dec. 85 Mar-90 Mar-95 Mar-00 Mar-02 Mar-06 Mar-07 Mar-08 Mar-09
The RRBs have registered tremendous growth in terms of branches, deposits and advances. By the end of March 2009, the number of district covered were 617 and branches were 15181 indicating satisfactory growth in RRBs. It is clear that in each successive year the number of RRBs, district covered and number of branches had significantly accelerated. From the table it is ascertained that the number of RRBs remained constant from 1990 to 2005. As result of the amalgamation and matter of economic reforms the number of RRBs reduced from 196 to 86 March, 2009. However, the number of branches reached to 15181 as on 31.3.2009 and district covered has also been increased to 617. There is ascent in number of districts covered, due to bifurcation of old districts in various stages.

The performance of RRBs in terms of deposit mobilization and credit extension has also shown upward trends since 1975. In the year 1975, the bank mobilized a total deposit of Rs. 0.20 crore and extended advances of Rs. 0.10 crore. The RRBs in India have recorded significant growth in mobilization of deposits and advances of credit of Rs. 120189 crore and Rs. 67802 crore respectively till the end of March 2009 resulting in socio-economic development of the nation. Indeed, the RRBs achieved a commendable progress in terms of deposit mobilization and fulfilling the credit requirements of rural people during the 35 years of their existence. But the banks have margin to take efforts to extend more credit in deposits. In fact, RRBs played positive role in economic development of the nation, so, any movement to disturb RRBs will cause great harm to national development.
1.9 **Government Policies:**

As agriculture occupied prominent role in Indian economy. Following are the policy measures taken by the Government. Since the day of independence Government adopted and advocated multi agency approach consisting of co-operatives, commercial banks and RRBs i.e. institutional credit to supply cheaper and adequate credit to agriculturist and introduced special programmes such as pulses development programme, special rice production programme and national oilseeds development project providing to required finance support. Consequently, Government declare several policies on agriculture and rural development making India self-sufficient in food grain produce and extending the export.

1.9.1 **Debt Waiver and Debt Relief Scheme:**

In the year 1990-91, Madhu Dandwate, the then Union Finance Minister announced the Agricultural and Rural Debt Relief Scheme also called the loan waiver scheme. The scheme came into force from May 1990. The scheme provided debt relief up to Rs. 10,000 to the individual borrowers of public sector banks and RRBs. The eligible loans for debt relief under this scheme covered:

i) that part of the short term loans, including converted medium term loans, availed by an individual borrower on or after April 1, 1986 and overdues of term loans by non-wilful defaulters;

ii) chronic overdues including interest i.e., overdues for more than three years;
iii) loans taken by a borrower who had died before October 2, 1989; and

iv) the overdue loan of a borrower who has been declared insolvent.

A scheme on similar pattern was framed and put into operation by the State Governments and applied to banks in the co-operative sector.

In the budget of 1990-91, the Central Government made a provision of Rs. 1000 crores towards the debt relief scheme and committed to underwrite the entire burden of the relief which would be provided by commercial banks and RRBs. In addition, the Central Government was committed to provide 50 percent assistance for the relief to be provided by the co-operative credit institutions. While the initial estimates placed the debt relief at Rs. 14000 crores, the Government estimate was a total relief to the value of Rs. 2840 crores.

In the budget speech in 2008-2009, the Finance Minister indicated again one time debt waiver for all marginal and small farmers holding up to 2 hectares of land. The waiver would involve a total amount of Rs. 61000 crores. Certain modifications were made regarding the size of holdings. The banks have waived from loans to the extent of nearly Rs. 65000 crores.22

While many experts have praised this one time waiver as a welcome step to help poor and weak farmers, others have criticized the scheme as an undesirable one. For, it has penalized honest re-payers to the banking and co-operative
sector. In the future too, farmers may resort to wilful defaulting of their institutional loans and hope to get repeat ‘one time’ waivers.

Such debt waives and debt relief scheme may not be assumed as an ultimate solution. It may adversely affect the recovery of loans in future.

1.9.2 Priority Sector Lending:

Commercial Banks and RRBs have been providing credit for small scale industries, rural industries and cottage industries, tiny sector, Khadi and village industries, handloom, handicrafts and skill units under secondary sector as well as for a wide variety of purposes under service and business sector. Thus priority sector advances include agriculture, small scale industries, service and business sector. The credit support to primary sector not only stimulates increasing farm and non-farm sector output, but also creates large scale self-employment opportunities.

In the year 2000 the public sector banks were provided loans of Rs. 1274780 million and Rs. 4103790 million in 2006 for priority sector, in India, same time the private Banks were provided loans of Rs.183680 million and Rs.1065660 million for the same sector. According to guidelines of RBI every banks should provide 40 percent of loans to priority sector out of which 18 percent loans to agriculture sector.

This priority sector does not properly support bankers for repayments of loans hence it accumulates bankers’ overdue and many banks do not show much concern to priority sector lending.
1.9.3 Fixation of Minimum Support Prices (MSPs) and Procurement Prices by the Government:

The Foodgrain Prices Committee, 1964 recommended the setting up of an Agricultural Prices Commission, stating that the price policy of all agricultural commodities should come within the preview of the Agricultural Price Commission. The Commission was, accordingly set up in January 1965. It was renamed Commission for Agricultural Costs and Prices (CACP) in 1985. Ever since its inception, the Commission has been announcing minimum support prices procurement prices for a number of agricultural commodities. The Government has accordingly been fixing these prices for different agricultural commodities for the past several years. Minimum prices are in the nature of a long-term guarantee to the producers. Prices are not allowed to fall below these announced minimum prices. Procurements are fixed at a higher level as compared to the minimum support price.24

There are several problems associated with the cost of production which are used as a basis for MSPs. These prices were significantly lower for example; in 1997-98 the MSP of rice was Rs. 415 per quintal as against the cost of production of Rs. 411 per quintal. Hence, farmers are not capable to pay off their loans, resulting in heavy overdues of the bankers.

1.9.4 Government Sponsored Programmes:

Commercial Banks and RRBs have been actively involved in providing credit support to Government sponsored programmes that have specific aims and objectives viz. alleviating poverty, improving socio-economic status of
scheduled caste/tribes and weaker sections of the society etc.

Integrated Rural Development Programme (IRDP) was one of the several programmes under which bank credit was linked with capital subsidy provided by the Government to the targeted below poverty line (BPL) beneficiaries. The total amount of credit and capital subsidy provided to 25906000 beneficiaries was Rs. 153166.5 million and Rs.85529.2 million respectively in India. Recovery percentage to demand varied from 29 percent in 1993-94 and 1994-95 to 41.4 percent in 1990-91. As on June 30, 1996 overdue amount was as high as Rs.12100 million as compared to Rs.5319 million recovered out of demand of Rs. 17140 million.25

It obvious that Government sponsored programmes mounting bankers’ overdue. It calls for greater attention of the credit supplying institutions in application of the loans and beneficiaries should utilize it properly ensuring great capacity to return loan amount in stipulated time on the other.
References:


9) Reserve Bank of India, All India Rural Credit Committee, Bombay, 1954, PP. 151-54.


15) RBI, Report of the All India Rural Credit Review Committee, Bombay, 1969, P.95.


