CHAPTER – II

CREDIT REQUIREMENTS OF DISTRICT MUZAFFARNAGAR

INTRODUCTION

There is a wide gap in the distribution of Income, earning capacity and wealth in India. India is a habitat of different castes, religions and creeds. Moreover the Directive principles of State policy contained in Part-IV of the Constitution provide that the State shall, strive to minimize the inequalities between income and endeavour to eliminate inequalities, not only among individuals but also among groups of people residing in different areas or engaged in different vocations. Article 14 of Constitution of India requires equal treatment to all people meaning thereby that there should be no discrimination in providing service benefits to persons of the same category.

The weaker sections constitute about 55% of total population of India according to (2001 census). Throughout the country there are 1452 districts where community is largely dominated by weaker sections. District Muzaffarnagar is one of such districts which contain 54% of total population as against the national average of 55%. Weaker sections comprise of:

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1. Small and marginal farmers with land holding of 5 acres or less, landless labourers, tenant farmers and share croppers;

2. Artisans (irrespective of locations) or industrialists of small activity (viz., manufacturing, processing, preservation and servicing) in villages and small towns with a population not exceeding 50,000 involving utilization of locally available natural resources and/or human skills. Individual credit requirement should not exceed Rs.25,000 to be considered as part of weaker sections.

3. Beneficiaries of Integrated Rural Development Programme (IRDP);

4. Scheduled Castes and Scheduled Tribes;

5. Beneficiaries of Differential Rate of Interest (DRI) Scheme;


This study has been undertaken with a view to evaluating the scheme of Banks for granting credit to weaker section of the community in the district of Muzaffarnagar. The objects of the study is to find out (i) whether weaker sections gets benefitted by the various loan schemes of the Banks? (ii) Whether the loan is utilized for the purpose for which it was availed? (iii) Do the credit schemes help in betterment of weaker sections in their social and economic status? (iv) What should be the rate of interest for providing loan to
weaker sections? (v) And what is the extent of dependence of weaker sections on banks for getting credit?

The study has been carried out in 14 blocks of Muzaffarnagar consisting 842 villages. The proposed study aims at making a detailed examination of loans granted by banks or other institutions, the method adopted in granting loan to weaker sections and the security requirement of banks for granting loans.

**PROBLEMS OF ECONOMIC DEVELOPMENT**

A country is poor because it is poor is the basic idea underlying the concept of vicious circle of under−development. In the context of India we can enlist the following reasons for under−development of the Indian Economy.

The underdeveloped economy suffers from lack of Industrialization. With over−increasing population, pressure on agriculture increases. Thus excessive labour deployment in Agriculture reduces the productivity to very low level. With low level of surplus from agriculture, demand for industrial projects is lower resulting in poor industrialization and underemployment. Thus poverty leads to poverty.

This subsistence level of income results in very low level of savings in the economy. Low capital formation is the result of low savings. With low
capital formation, capital per worker is low resulting in low productivity. Low productivity means low per capita income and under–development. India is a developing country and its characteristics are described below:

1. **Low per Capita Income**

Under–developed economies are marked with the existence of low per capita Income. The per capita income of India in 2004-2005 was 530 US$. Barring few countries the per capita Income in India is lowest in world. The per capita income in U.K. in 2005 was 53 times, in Germany about 47 times, in U.S.A. 71 times and in Japan 65 times of the per capita income in India during the same period.²¹

2. **Occupational Pattern**

The second characteristic of Indian Economy is that it is still an agricultural producing economy. In India a very high proportion of working population is engaged in agriculture, which contributes a large proportion of Income in India.

According to World Bank, World Development Report 2004, in India 65% of working population was engaged in Agriculture while in Pakistan it was 48%, in China 64%, in U.S.A. and U.K. only 2% of working population was found to be engaged in Agriculture.²²

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3. **Transition Stage of Population Growth**

The total Indian population at the dawn of 1st March, 2001 was 102.87 crore. India accounts for a meager 2.4% of the world surface area of 135.79 million sq. km. Yet, it supports and sustains a whopping 16.7% of the world population. At present, every sixth person in the world will be an Indian.

India is the second country in the world after China to cross the one billion mark. It is now estimated that by 2050, India will most likely overtake China to become the most populous country on the earth with 17.2% population living here. The United Nations has estimated that the world population grew at an annual rate of 1.4% during 1990-2000, China registering a much lower annual growth rate of population of 1% as compared to that for India, at 1.95% during 1991-2001. The first census in India was done in 1872 but a series of census was adopted in 1881. In the year 1881, India’s population was 23.7 crore which increased upto the level of 84.64 crore in 1991. According to 2001 census this population level touched the height of 102.87 crore.\(^{23}\)

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\(^{23}\) Census of India, 2001.
4 Low Rate of Capital Formation

Another basic characteristic of Indian Economy is the existence of capital deficiency which is reflected in two ways – firstly, the amount of capital per head available is low, secondly, the current rate of capital formation is also low. Two important indicators of low capital per head available in developing countries are the consumption of crude steel and energy. Table 2.1 clearly indicates that per capita consumption of steel and energy in India is extremely low as compared to advanced countries.

Table 2.1

Per Capita Consumption of Steel and Energy
(As at 31st December, 2004)

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita Consumption of Crude Steel (Kgs.)</th>
<th>Per capita Consumption of Energy (Kgs of oil equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>417</td>
<td>7905</td>
</tr>
<tr>
<td>U.K.</td>
<td>259</td>
<td>3786</td>
</tr>
<tr>
<td>Japan</td>
<td>582</td>
<td>3964</td>
</tr>
<tr>
<td>China</td>
<td>64</td>
<td>707</td>
</tr>
<tr>
<td>India</td>
<td>20</td>
<td>260</td>
</tr>
</tbody>
</table>


5. High Proportion of population below the poverty line

The preliminary estimates of the 2004-05 NSS sample survey shows that while the percentage of BPL population has come down between
1993-94 and 2004-05, in terms of net number of people the situation remains alarming. The percentage of people living below the poverty line has reduced from 36 percent in 1999-2000 and to 22 percent in 2004-05. The new estimates show that between 1993-94 and 2004-05 the BPL population has come down by 0.74 percent every year, which in net terms would be around eight crore people. “This figure of 0.74 percent has been made the reference point for the approach paper to the 11th Five Year Plan rather than the 1.66 percentage point a year implied in 1999-2000.  

6. Chronic Unemployment

In India unemployment is structural and is the result of the deficiency of capital. The Indian economy does not find sufficient capital to expand its industries to such an extent. In India labour is an abundant factor, and consequently, it is very difficult to provide gainful employment to the working population.

7. Illiteracy

In India a greater part of population is uneducated or educated below primary level. Illiteracy retards growth. A minimum level of Education is necessary to acquire skills as also to comprehend social problems.  

In India people are very poor and they have lesser earnings to fulfill their needs. Thus they fail to have adequate assets.

CREDIT NEEDS OF FARMERS AND SMALL SCALE INDUSTRIES

Credit is one of the key ingredients for development of an economy. Access of farmers to hassle free, timely and adequate institutional credit is one of the important factors that could help in realizing this potential. The mission statement by GOI envisages doubling of credit flow to agriculture in the next three years. In order to achieve this, a growth rate of 30% has been projected for the year 2005-06\textsuperscript{26}.

The Union Budget 2006-07 envisages accelerating the completion of irrigation projects, water harvesting structures, providing farm and livestock insurance, launching of National Horticulture Mission for doubling of horticultural production and indicative target of credit linking 5.85 lakh SHGs upto March, 2007. In order to achieve the above objective, it would be desirable to review the existing scales of finance, avail the capital investment subsidy scheme for construction of rural godowns, carry out debt restructuring in respect of farmers in distress/arrears, provide OTS to small and marginal farmers, promote agri-business units and area based bankable projects. NABARD, on its part, would create the enabling environment with necessary policy, planning and project inputs to make things happen. Sector wise Potential Linked Credit Plan for the Financial Year 2006-07 for the district of Muzaffarnagar is given below.

\textsuperscript{26} Economic Survey, Government of India, 2005-06, p -165.
<table>
<thead>
<tr>
<th>Sector</th>
<th>PLP Projections</th>
<th>Likely Credit Flow</th>
<th>Resource Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minor Irrigation</td>
<td>1,523.83</td>
<td>312</td>
<td>1,211.83</td>
</tr>
<tr>
<td>Land Development</td>
<td>103.68</td>
<td>75</td>
<td>28.68</td>
</tr>
<tr>
<td>Farm Mechanization</td>
<td>6,323.6</td>
<td>1,950</td>
<td>4,373.6</td>
</tr>
<tr>
<td>Plantation &amp; Horticulture</td>
<td>4,714.71</td>
<td>3,640</td>
<td>1,074.71</td>
</tr>
<tr>
<td>Sericulture</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Forestry &amp; Waste Land Development</td>
<td>158.24</td>
<td>104</td>
<td>54.24</td>
</tr>
<tr>
<td>Dairy</td>
<td>3,737.5</td>
<td>2,600</td>
<td>1,137.5</td>
</tr>
<tr>
<td>Poultry</td>
<td>109.2</td>
<td>65</td>
<td>44.2</td>
</tr>
<tr>
<td>Sheep/Goat/Piggery</td>
<td>395.2</td>
<td>26</td>
<td>369.2</td>
</tr>
<tr>
<td>Fisheries</td>
<td>44.5</td>
<td>26</td>
<td>18.5</td>
</tr>
<tr>
<td>Storage Godown/ Market yard</td>
<td>45.5</td>
<td>45.5</td>
<td>--</td>
</tr>
<tr>
<td>Bio Gas</td>
<td>7.8</td>
<td>6.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Other (agriculture) &amp; ADV Carts</td>
<td>2,141.1</td>
<td>2,080</td>
<td>61.1</td>
</tr>
<tr>
<td><strong>Total Term Loan (Agriculture)</strong></td>
<td>19,304.86</td>
<td>10,930</td>
<td>8,374.86</td>
</tr>
<tr>
<td>Crop Loan</td>
<td>41,463</td>
<td>33,050</td>
<td>8,413</td>
</tr>
<tr>
<td><strong>Total Agricultural Credit (Term Loan &amp; Crop Loan)</strong></td>
<td>60,767.86</td>
<td>43,980</td>
<td>16,787.86</td>
</tr>
<tr>
<td>Non Farm Sector</td>
<td>8,781.26</td>
<td>4,810</td>
<td>3,971.26</td>
</tr>
<tr>
<td>Other Priority Sectors</td>
<td>14,274.24</td>
<td>12,000</td>
<td>2,274.24</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>83,823.36</strong></td>
<td><strong>60,790</strong></td>
<td><strong>23,033.36</strong></td>
</tr>
</tbody>
</table>

**Source:** Potential Linked Credit Plan, Muzaffarnagar (National Bank for Rural Development), 2006-07, p-1
## Table 2.3

**PLP Projections for X plan period updated PLP projections upto Current Year & Base PLP Projections for Remaining Years**

**(District Muzaffarnagar)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Crop loan</th>
<th>MI</th>
<th>LD</th>
<th>FM</th>
<th>P &amp; H</th>
<th>Forestry &amp; WLD</th>
<th>DD/AH</th>
<th>Poultry</th>
<th>SGP</th>
<th>IF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>17942.40</td>
<td>634.80</td>
<td>40.00</td>
<td>3499.50</td>
<td>696.90</td>
<td>4.90</td>
<td>1713.00</td>
<td>54.00</td>
<td>14.00</td>
<td>14.00</td>
</tr>
<tr>
<td>2003-04</td>
<td>19886.43</td>
<td>843.30</td>
<td>40.00</td>
<td>349.50</td>
<td>2324.50</td>
<td>114.00</td>
<td>2068.00</td>
<td>60.50</td>
<td>218.73</td>
<td>34.20</td>
</tr>
<tr>
<td>2004-05</td>
<td>27642.00</td>
<td>1172.18</td>
<td>55.60</td>
<td>4864.30</td>
<td>3231.00</td>
<td>158.00</td>
<td>2875.00</td>
<td>84.00</td>
<td>304.00</td>
<td>34.28</td>
</tr>
<tr>
<td>2005-06</td>
<td>414.63</td>
<td>1523.83</td>
<td>103.68</td>
<td>6325.60</td>
<td>4714.71</td>
<td>158.24</td>
<td>3737.50</td>
<td>109.20</td>
<td>395.20</td>
<td>44.50</td>
</tr>
<tr>
<td>2006-07</td>
<td>203.00</td>
<td>643.60</td>
<td>40.00</td>
<td>3618.00</td>
<td>826.00</td>
<td>7.00</td>
<td>1925.00</td>
<td>96.00</td>
<td>1875.00</td>
<td>18.75</td>
</tr>
<tr>
<td>Total</td>
<td>934423.46</td>
<td>5317.71</td>
<td>279.28</td>
<td>2184.90</td>
<td>11793.11</td>
<td>439.14</td>
<td>10457.50</td>
<td>403.70</td>
<td>1030.68</td>
<td>145.65</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>MF</th>
<th>SMY</th>
<th>Sericulture</th>
<th>BG</th>
<th>Others</th>
<th>Total</th>
<th>Total Agriculture</th>
<th>NFS</th>
<th>OPS</th>
<th>NPS</th>
<th>Total Priority sector (19+20+21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>4.90</td>
<td>1175.0</td>
<td>7851.00</td>
<td>33664.40</td>
<td>4860.40</td>
<td>3822.5</td>
<td>--</td>
<td>42327.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>--</td>
<td>35.00</td>
<td>--</td>
<td>4.90</td>
<td>1175.0</td>
<td>10417.60</td>
<td>30304.06</td>
<td>4860.00</td>
<td>6325.0</td>
<td>--</td>
<td>41489.0</td>
</tr>
<tr>
<td>2004-05</td>
<td>--</td>
<td>35.00</td>
<td>--</td>
<td>6.00</td>
<td>1647.0</td>
<td>14466.30</td>
<td>42108.30</td>
<td>67555.00</td>
<td>8792.0</td>
<td>--</td>
<td>57655.3</td>
</tr>
<tr>
<td>2005-06</td>
<td>--</td>
<td>45.50</td>
<td>--</td>
<td>7.81</td>
<td>2141.1</td>
<td>19304.86</td>
<td>66076.86</td>
<td>8781.26</td>
<td>14274.2</td>
<td>--</td>
<td>83823.3</td>
</tr>
<tr>
<td>2006-07</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>7.00</td>
<td>1325.0</td>
<td>8522.10</td>
<td>37350.00</td>
<td>5596.00</td>
<td>4545.0</td>
<td>--</td>
<td>47491.2</td>
</tr>
<tr>
<td>Total</td>
<td>--</td>
<td>115.5</td>
<td>--</td>
<td>30.3</td>
<td>9564.2</td>
<td>60644.5</td>
<td>2041747</td>
<td>30852.6</td>
<td>227.3</td>
<td>--</td>
<td>7272786</td>
</tr>
</tbody>
</table>

**Source:** Potential Linked Credit Plan, NABARD, U.P. Regional Office, Lucknow, 2006-07, p-2.
INFRASTRUCTURES INPUTS TO BE CREATED
BY VARIOUS AGENCIES AND CONSTRAINTS THEREON

1. **Crop Loan**: (a) During crop season timely inputs like seed, fertilizers, pesticides are not readily available to the farmers; (b) As on today many farmers are not getting KCCs.

2. **Minor Irrigation (MI)**: (a) Irrigation facilities are not available due to defective boring sets; (b) Areas where ground water is not easily available sprinkler sets to be provided to the farmers.

3. **Land Development (LD)**: Farmers are not aware about LD scheme.

4. **Farm Mechanisation (FM)**: There is a need for emphasizing upon the farmers for financing of other agricultural implements viz., Seed drillers (to diversifying financing under this sector) etc.

5. **Plantation and Horticulture (PH)**: Insulated vans are not available to the group of beneficiaries for transporting their produce (flowers) to Delhi.

6. **Forestry**: In Muzaffarnagar District popular and eucalyptus plantation is growing in large scale so there is a need of setting up wood based industries.

7. **Dairy**: There is also a need to implement heifer development programme to produce quality animals.

8. **Poultry**: Poultry feed mixing plant and hatchery unit is needed to develop this sector.
(9) *Sheep/Goat/Piggery*: There is no organized market for sale of pig meat and pig lets.

(10) *Inland Fisheries*: Lack of coordination between FFD and Bankers.

(11) *Bio – Gas*: Functioning of old plants affected due to non-availability of spares parts of plants.

(12) *Non Farm Sectors (NFS)*: Some more agro processing and preservation units need to be set up.

**CREDIT NEEDS OF FARMERS IN MUZAFFARNAGAR**

It is no wonder, that all farmers, specially the small and marginal peasants, require financial support every now and then. The rural masses borrow almost habitually, passing on the burden of debt to the next generation. It is perhaps this phenomenon of agriculture that compelled Nicholson to observe:

“The lesson of universal agrarian history from Rome to Scotland is that an essential element of agriculture is credit. Neither the condition of the country nor the nature of land tenures, nor the position of agriculture, affects that one great fact that agriculturists must borrow.”[27]

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The magnitude of rural indebtedness in the country clearly indicates that the Indian peasant is no exception. The saying that, "The Indian farmer is born in debt, lives in debt and dies in debt" still holds good. Cultivators are extremely poor and so are forced to depend on outside sources of finance for meeting their essential needs. As most of the cultivators are heavily indebted to the latter at reduced prices or they have to sell in the market immediately after the harvest when the prices of crops are usually the lowest, in order to meet the demand of the Mahajans for repayment. The farmer requires money for the purchase of tools and equipment, seeds, fertilizers and to pay for labour charges and meet other expenses. Agricultural loans can broadly be classified into:

1. Direct Agricultural Loans. 2. Indirect Agricultural Loans

1. Direct Agricultural Loans

Following activities will come under direct lending to agriculture:

(i) Production Finance is used in meeting cultivation expenses of crops, improvement of land, improvement in irrigational facilities etc.

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28. Chobey, B.N., “Agricultural Banking in India”.
(ii) Equipment Finance for Purchase of agricultural implements such as tractors, pump sets, oil engines etc.

(iii) Processing Finance for certain crops require to be processed (e.g. tobacco, turmeric) before they could be marketed. The crop for seed production will also likewise require to be processed finance.

(iv) Construction of godowns including storage;

(v) Transport;

(vi) Marketing;

(vii) Special farming activities such as Dairy/Poultry/Sheep pig farming/goat rearing; and

(viii) Plantation crops.\(^{29}\)

2. *Indirect Agricultural Loans*

Following is the list of activities under indirect lending:

(a) Financing of cooperatives; (b) Financing of agricultural machinery on hire purchase basis; (c) Financing of customer service units, agro industries corporations etc.; (d) Assistance to farmers through intermediaries such as sugar factories etc.; and (d) Financing of rural

electrification schemes undertaken by the State Electricity Boards.

The financing needs of agriculturists can be classified into three parts on the basis of time as given below:

(i) **Long Term Finance**

It is needed for the purchase of land, agricultural equipment, installation of the tubewells or making permanent improvement in the land. It requires a period of 10 to 20 years for repayment.

(ii) **Medium Term Finance**

It is needed for the repayment of old debts, purchase of ordinary tools and equipment and for meeting expenses of social functions etc. The usual repayment period is 3 to 10 years.

(iii) **Short Term Finance**

It is required for the purchase of seeds, fertilizers, insecticides, payment of labour charges and also for meeting the current domestic expenditure of the cultivators. The period required for repayment is usually one to three years.\(^{30}\)

**DIFFICULTIES IN OBTAINING AGRICULTURAL FINANCE**

The survey of various lending banks and other institutions in Muzaffarnagar District has revealed that a number of difficulties are

\(^{30}\) Ibid, p-349.
experienced by the lending institutions in financing agriculturists. Which are as follows:

(1) The borrower does not want to repay a loan and is usually called a willful defaulter. It could arise due to the loopholes in the organizational structure, such as in case of cooperatives, there is inadequate linkage of investment (long term) and production credit (short term), the farmer being disbursed by Land Development Banks, independent of the latter which are disbursed by central cooperative banks. The long-term loans being independent and just “one shot” operation, the farmers think they could afford to avoid repayment.

(2) The farmer wants to repay (has no intention to default) but has little or no money to repay. This could happen due to a host of factors as:

(A) Natural disasters such as draught, flood, and pest crop loss due to etc. occur leading to crops failure. If crops fail, the paying capacity of the farmer is reduced and the debt burden begins to grow;

(B) Low Return on loans and inadequate loans leading to incomplete / unsatisfactory investment, untimely loans leading to misutilization or increase in the cost of credit or loss of a
season or so; inadequate credit appraisal, loan supervision (follow up) including monitoring of end use and lack of technical guidance to the loanees.

(C) Flow of returns mismatching the repayment schedule; Inadequate appraisal generally, over-assessment of returns particularly in first few years and/or longer gestation period than envisaged; Investment becoming obsolete much earlier than expected e.g. milch animals (some)/poultry birds may die; diversion of loans for other production purposes yielding a different flow of returns:

(3) Again the borrower wants to repay, also has (or would have in due course of time) money to repay, but may still default due to:

(A) Recovery dates mismatch the flow of return i.e. the loan repayments may not be geared to crops maturities. The farmer had enough money during the year but little on the due dates for repayment:

(B) Inadequate recovery arrangements, as very few could be expected to travel long distances at one’s own expenses, just for effecting repayment. The collection staff may be inadequate; it may be once again a drama of going through
lengthy procedures; the borrowers may not be reminded of their obligations to repay well in time etc.

(4) Political Reasons

The political factors also discourage the collection efforts of the State Governments. The impact of elections ranges from promises of debt remission by some candidates, to a government ban on legal action against defaulters, to pre-occupation of the administration with elections to the detriment of loan recovery action.\(^{31}\).

Also the farmers have no proper security to offer. The study made by Reserve Bank of India discloses that nearly 70 percent of the loans were given on the personal security of the borrowers and further 4.5 percent of the guarantee of the third party. Hardly 25 percent of the loans are thus secured. Even out of this small percentage 20.3 percent of the loans are secured by mortgage of immovable property, which in the banking business is regarded as the worst form of security\(^{32}\).

**Resources Available**

At present farm credit is being supplied in the District of Muzaffarnagar by several agencies. These agencies vary in their character. Broadly, these can be grouped under two categories.


\(^{32}\) Reserve Bank of India Publication.
1. Institutional sources comprising Government, Cooperative Credit Institution and Commercial Banks including Regional Rural Banks sponsored by them. The amount of money borrowed from these agencies is called institutional finance.

2. Private sources, under which fall such agencies of finance as the money lenders, indigenous bankers, Nidhis, Chit Funds, relatives, traders and commission agents and others. The amount borrowed from these agencies is known as non-institutional finance.

THE MONEY LENDERS

The moneylenders constitute the traditional source of agricultural finance. The money lenders are usually classified as agriculturist moneylenders and the professional moneylenders. An agriculturist moneylender is a farmer, whether cultivating wholly or partially his lands, who supplements his income from agriculture with earnings from money lending. He is an agriculturist and a moneylender combined.

The all India Rural Credit Survey conducted by Reserve Bank of India under the Chairmanship of Shri A.D.Gorwala confirmed the preponderant role of the moneylenders in agricultural finance. This survey was conducted for the year 1951-52 and covered 1,27,343 representative families in 600 villages from 75 districts all over the country. According to this survey the moneylenders provided for 70%
of the credit needs of the agriculturists. According to the Rural Credit
Follow up survey conducted in 1957-58, released in 1961, professional
and agriculturists money lenders accounted for 61% of the credit needs
of agriculturists. According to the All India Rural Debt and Investment
Survey (AIRDIS), the share of money lenders in the total loans taken
by the agriculturists has further fallen to 49.2% in 1961-62.

Inspite of all these faults, the fact remains that the village
money lender is of vital importance and will continue to be, for
longtime to come.

THE RELATIVES

In 1951-52, according to the All India Rural Credit Survey,
relatives contributed about 14.2% of the total finance of the
agriculturists. By 1961-62, this share has fallen to 8.8% of the total.
But according to the NCAER estimates, it had again gone up to
16% by 1996-97. However, this source of credit has no meaningful
place in the organization of credit, since it is on personal basis,
extended on considerations which are basically non-economic. This
source of financing is more to meet the social obligations by a better
placed relative to the other and no more.
The village moneylender is, often accused for dishonest dealings, as also multiple rates of interest and indiscriminate lending. The main criticisms against him are:

1. Interest is generally deducted in advance. Borrowers are made to sign a bond for the full amount. Sometimes a higher amount is inserted in the bond than the amount actually lent.

2. The village moneylenders very often make wrong entries in the account books. Receipts are seldom issued for recoveries.

3. The debtors are made to pay certain highly objectionable charges like ‘Girah Khulai’, Gaddi Khareya’ and ‘Salami’ etc.

4. Not only is the rate of interest charged very high but also what is further worse, compound rate of interest is charged.

**INDIGENOUS BANKERS**

There are some professional bankers working mostly in rural areas called indigenous bankers. They accept deposits from the people and also deal in Hundies. Activities of Indigenous bankers have been regularized to some extent. They are now required to have licence and keep proper accounts, the maximum rate of interest has also been fixed. They have to send the account to every borrower six monthly. But still a number of indigenous bankers are doing their work without proper license and cheating rural people taking advantage of their weaker financial position.
*Organized Agencies*

**Government**

The Government has been an important, though not a major source of rural finance, for short as well as long periods. The financial help comes from Government at the centre. The State Government also extends such help. This direct as well as indirect financial help is provided separately for the following purposes:

**(i) Indirect Financing**

Indirect credit is provided through the cooperative societies. Government assistance to the cooperative credit societies has been mainly in the following directions:

i) Taking shares in cooperative credit institutions so as to give them prestige and also to enhance their borrowing capacity.

ii) Providing guarantees to the relatively weak apex banks to enable them to borrow from the Reserve Bank of India;

iii) Providing subsidies to cooperative societies to enable them to employ trained and full time managers/secretaries. Loans and subsidies are also given to primary credit societies for the construction of small warehouses.

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33 Madhav Dass K., Government Financing in India, Agricultural Cooperative Credit in South East Asia, p-174-175.
iv) Contributing to **Special Bad Debt Reserve Funds** of the primary cooperative credit societies and banks to help them finance the weaker sections of the membership.

v) Providing grants in special cases to stabilize the position of cooperative bank, rendered weak owing to abnormal conditions.

vi) Some of the State Governments have also setup Agricultural Credit Relief and Guarantee Funds for giving assistance to cooperatives where the position is made vulnerable by irrevocable arrears of debts having arisen from causes beyond their control.

vii) Subsidies to enable cooperative banks to meet the difference between their economic lending rate and the rate at which funds are to be provided under certain Government Schemes.

viii) Guaranteeing the debentures issued by cooperative central land mortgage banks and giving interim accommodation to such banks pending floating of their debentures.

The Government is playing a complementary role of the Reserve Bank of India in the Development of cooperative credit in India. These Government measures indirectly provide finances that do not go into the
pockets of farmers, but provide credit, which is directly made available to the societies.

(ii) Direct Financing

The Government has also been financing the rural people directly. Rural credit from the Government is called ‘taccavi’. It is provided under the Land Improvement Loans Act, 1883 and the Agriculturists loan Act 1884. Under the Land Act long term loans are provided for permanent improvement on land which adds to its letting value, such as construction of wells or erecting embankments, the preparation of lands for irrigation, protection of land from floods or erosion.

Loans are also being provided through the agency of community development and NES blocks and the Revenue and Agricultural Department of the States. These loans are strong in Tamil Nadu, Andhra Pradesh, Mysore, Maharashtra and Gujrat.

The performance of Government finance towards agriculture had been very poor. The amount of loans supplied by the Government to agriculturists was Rs.180 crores during 1982, Rs.187 crores during 1983, Rs.191 crores during 1984, Rs.187 crores during 1985, Rs.182 crores
during 1990, Rs.186 crores during 1996-97 and Rs.590 crores during 2005-06\textsuperscript{34}.

The percentage of government finance in total institutional credit had been 8.17 percent during 1984, 5.22 % during 1985, 4.82% during 1986; 4.05% during 1990; 4.82 percent during 1996-97 and 3.21 percent during 2004-05.

Thus, it may safely, be concluded that the role of Government finance in agricultural credit had been significant so far. Not only the amount and percentage of this credit during different years had been very low but is has also shown a downward trend throughout all these years. Although the advantages of these two kinds of State loans lie in their long term duration and low rates of interest but the total amount lent under both these Acts had been extremely insignificant and quite inadequate in relation to the needs of the cultivators. \textit{The Rural Credit Survey Committee Report} remarks, ‘In practice, the taccavi is apt to be little less then the ill performed disbursement of inadequate moneys by an ill suited agency. It would not be far from the truth to say that record to taccavi is a record of inadequacies.'

In the present day structure of institutional finance, the role of taccavi loans is very insignificant. Any way, this loan is becoming increasingly unpopular with the passage of time and may have to be abandoned sooner than later.

**Cooperative Credit Institutions**

Among all the institutional credit agencies, the cooperative credit institutions occupy a pivotal position, ever since the idea of extending loans to cultivators should be finalized through the cooperative institutions. Although the cooperative credit movement in India was started during the last decades of the 19th century, in one form or the other, yet the Central Assembly made the real beginning in the year 1904 with the adoption of Cooperative Credit Societies Act 1904. For quite some time the cooperative institutions could not make any headway in the improvement of rural economy due to the absence of a definite policy. It was only after independence and, more particularly, with the implementation of the recommendations of the All India Rural Credit Survey committee, 1951, that a systematic plan of development for cooperative credit was inaugurated consequently, with the introduction of subsequent Five Year Plans and the framing of definite agricultural policies to be followed under these plans that a suitable credit structure...
was visualized and deliberate efforts were really made to build up a strong credit structure.

Three types of credit namely, short, medium and long term are provided for by two types of institutions viz., primary agricultural credit societies, helped and guided by other agencies, supplying short and medium term credit; and land mortgage/development banks, with their own connected organizations concerning themselves with long term credit needs. These two types of agencies developed, along different liens, with somewhat different organizational setup.

Thus, primary agricultural credit societies alone advance credit to the cultivators and the other two agencies render indirect help i.e., the central cooperative banks function through primary agricultural credit societies and the state cooperative banks through central cooperative banks.

**Loaning Operations of PAC’s**

These societies provide short and medium term loans to their members. The short term loans, commonly known as crop loans, are given for seasonal agricultural operations, such as, purchase of agricultural inputs like seeds, fertilizers, insecticides etc. and also for meeting other agricultural expenses such as payment of wages,
irrigational charges, land revenue, hire charges of agricultural machines etc. The amount of crop loans is divided between cash and kind components and both are disbursed separately. The medium term loans are advanced for the repair and construction of wells, minor irrigation works, bullocks, purchase of agricultural machinery and implements, reclamation and improvement of land, and also for allied activities, such as, purchase of dairy cattle, poultry, bullock carts, piggery, sheep rearing etc. In practice, the loans for minor irrigation, agricultural machinery and land reclamation and improvement are not advanced by the primary societies in the light of the availability of these long term loans for identical purpose from the land development banks.

**Performance of Primary Agricultural Credit Societies**

The recommendations of the All India Survey Committee and the contemporary policy statements of the Government both have made it clear that the cooperative society will be the chief agency to finance the agriculture and allied activities in the country. In order to strengthen the credit cooperatives, certain positive steps have already been taken, such
as, state participation in the share capital of cooperative institutions and the provision of concessional finance. During the last four decades a number of committees and working group had been appointed from time to time at various levels to review the progress of the movement and also to identify its weaknesses besides formulating policies and programmes for removing these weaknesses. And now, it is because of the faithful implementation of these policies and prorammes, that the movement has been able to reach its present stage of development.

*Cooperative Land Development Banks*

Though primary agricultural credit societies are equipped to provide credit for seasonal agricultural production requirements, yet they were not considered suitable for providing long term credit to the farmers for purpose of long term investments in their lands. Investment credit envisaging repayment in easy installments extending over a period of 10 to 15 years has to be advanced against the mortgage of land. The procedure involved in the advancement of such loan being complicated needs expert handling by technically qualified staff, which happened to be beyond the capacity of the primary agricultural credit societies to provide for. Moreover, the rural credit societies were not
advised to employ their short notice liabilities in advancing long term loans. For investment credit, specialized method of raising resources, mostly, through the issue of debentures, had to be evolved which also required expert handling. Therefore, two separate structures were developed in India one for dealing with the advancement of short and medium term loans and the other, for dealing with investment credit for long duration.

The Land Development Banks, also known as Land Mortgage Banks and Agricultural Development Banks, are operating in the field of agricultural credit for more than 80 years, with the establishment of the first Land Mortgage Bank in our country at Jhang (now in Pakistan) in Punjab in 1920.

*Land Development Bank Loans to Small Farmers and Weaker Section*

The RBI had stipulated that the banks should provide at least 20 percent of their annual credit disbursements to small farmers owing less than 5 hectares of land. However, ARDC, under the IDA assisted credit projects, envisages 50 percent of its refinance going to small farmers. This was increased to 60 percent later. The land development banks on their
own, eventually, extended the coverage of credit to small farmers and weaker sections to the level of 75 percent. They have also extended several concessions to small farmers and to certain extent, changed their lending policies and procedures to suit the small farmers. These concessions include reduction in the rate of interest to 9% percent against 11.5% to others, relaxation in security standards, advance against marginal guarantee of State Government towards short fall in security, concession in regard to evaluation fees and longer repayment period of loans etc.

The performance of the banks in regard to advances to small farmers has been satisfactory in most of the states as well as in District Muzaffarnagar. The percentage of loans advanced to small farmers against the total loans advanced during 2005-06 for a few banks was 70 percent. The percentage was around 60% in Muzaffarnagar.

**U.P. State Cooperative Agricultural Development Bank Ltd.**

The in-depth study of U.P. State Cooperative Agricultural Development Bank Ltd. becomes all the more important because of its direct relationship with the farmers and particularly rural masses as they are amongst its shareholders and thus, they feel close to it. As most of the rural masses are illiterate, they are generally hesitant in going to Commercial and other Banks for want of exposure to the methodology and
formalities of their lending procedures. Since they feel UPSCADB Ltd. to be their own bank, they feel at home and find no hesitation in going to this bank for loans etc. A district like Muzaffarnagar which is quite backward due to its geographical setup, people are all the more reluctant to go to the Commercial Banks. By going through the in-depth study, the importance of U.P. State Cooperative Agricultural Development Bank Ltd. in the promotion of Agricultural and allied activities is highlighted to a great extent. Thus we felt it important to cover it also in our study of the banking facilities to agricultural and allied activities with latest facts and figures.

At present the bank is advancing loans for the purposes like installation of tubewells, purchase of tractors, soil conservation, horticulture and grape cultivation, reclamation of alkaline land, dairy development, poultry development, animal driven carts, farm forestry (popular plantation), inland fishery, installation of bio-gas plants, bee-keeping, establishment of broiler farms, sheep rearing, mushroom cultivation, calf-rearing, purchase of threshers, purchase of agricultural implements, redemption of land, purchase of land, construction of cattle shed/small godown, sand scraping etc.
Since inception, the bank has advanced loans of more than Rs.1,900 crore for agriculture and allied activities and thus has played a major role in ushering in green and white revolution in the State.

During the 10th Five Year Plan beginning from 2002-03, the bank has a loaning programme of Rs.3,547 crores. The bank has already advanced Rs.422 crores during the first year of the 10th Five Year Plan, during 2004-05, against Rs.352 crores advanced during the year 2003-04, thus achieving a growth rate of 25%. During the current year i.e. 2005-06, the bank would advance loans amounting to Rs.488 crores i.e., more than one crore per day.

During the year 2004-05 the NABARD had allocated the refinance support of Rs.306 crores against which the bank has floated debentures of Rs.354 crores.

In addition to the traditional and allied activities the bank has further diversified its loaning activities and started financing for cultivation of cut flowers, purchase of second hand tractors, rearing of rabbits, Tent house, Marriage Place, mini rice shellers, trucks, pick-up vans and even roadside 
dhabas.

The bank has also started financing for the Non-Farm Sector Activities to provide self-employment avenues to the educated/skilled
persons in the state from the year 2002-03. So far, the bank has advanced more then Rs.100 crore for these activities. Bank’s recovery has been excellent and it was best in the country amongst ARDBs during the last 2 years.

*Steps taken by the Bank for the benefit of farmers and to improve the working of the Bank:*

- Previously, the farmers could purchase agricultural machinery only from firms approved by the banks, but now the farmers are at liberty to purchase agricultural machinery/implements from the firms of their own choice with bank loans;
- In case of Non-Farm Sector loans the bank has also decided to take security of immovable property other than only agricultural land;
- The bank has simplified the loaning procedure by dispensing with the avoidable documents like surplus area certificate, *taccavi certificate*, no due certificate from the village society etc. for the benefits of the farmers;
- Valuation of land taken as security has been substantially enhanced. Now a farmer can avail loan ranging from Rs.1.44 lakhs to Rs.2 lakhs against the security of one acre of irrigated land;
- The bank has created Primary Bank Vikas Fund for strengthening and helping the weak Primary Bank;
• The bank has now decided to introduce the Deposit Mobilization Scheme with the approval of Registrar, Cooperative Societies, Punjab and would soon start collecting deposits from the individual in the State:

• For updating the information system and improving the efficiency further, the bank is on way to introduce computerization;

• There are strict instructions to the PADBs to dispose the loan cases within 15 days from the date of receipt of application in the PADBs.

The Bank and the state government had signed a memorandum of understanding (MOU) with NABARD on 27-03-1995 and now this is being signed every year. The bank has not only achieved rather surpassed most of the financial as well as other parameters stipulated in the said memorandum of understanding during 2004-05 and 2005-06. This is the only cooperative institution in the state which provides long term credit to the farmers for agriculture and allied activities.

COMMERCIAL BANKS

The first effort to involve a commercial bank in rural credit began with the conversion of Imperial Bank of India into State Bank of India, in accordance with the recommendations of the All India Rural Credit Survey Committee Report, 1954 which inter-alia proposed that the new
institution should, in collaboration with the Reserve Bank of India, draw up and undertake a much larger programme of branch expansion in rural areas. The State Bank of India and its subsidiaries started a net work of branches in semi-urban and rural areas but this lead was not followed up by other commercial banks.

It was only after the Government’s policy of social control over commercial banks initiated in 1968 that these banks began to extend their lending operations to agricultural sectors, directly as well as indirectly. But Priority Sector, for banking lending the banking services were extended to a wider area and new branches were opened in rural areas and previously unbanked centres in a big way, especially, to enlarge the flow of commercial banks’ credit to agriculture. Changes were also made in the loaning policies and procedures to suit the needs of the small clientele.

The economic policies pursued by the Government for the country’s development lay down the broad guidelines of the national credit policy. The Reserve Bank of India, as the Central Banking and monetary authority of the country, in pursuance of Government economic policies, is responsible for exercising control over bank credit by such instruments of credit control as the bank rate, the rediscounting policy, the selective credit control and even by moral persuasion and other restrictive methods.
Subject to the controls and directions laid down by the Reserve Bank, banks are free to frame their own policies and carry out their own operations.

A major objective of bank nationalization was stated to be, making banks responsive to the needs of national development and fulfillment of the aspirations of the common man. In consonance with this policy, the banking industry embarked upon a new phase requiring reorientation of credit policy and operations. The hitherto neglected sectors of the economy like agriculture, small industry, small business and economically weaker sections were brought within the ambit of commercial banking and declared these as become much more important than the security aspect. In extending financial assistance to the weaker sections, banks are expected to follow the production oriented approach and not as hitherto, the security oriented approach.

The Central Government has also directed the banks to attain the following targets:

(a) 40 percent of Priority Sector advances should by 1985, be extended to the agricultural sector by each bank, as priority sector advances would account for 40 percent of the total advances by 1985, this would mean that the advances to agricultural sector would be at least
16 percent of the total advances of the banks. The remaining sectors would make up the balance of the stipulated level of 40 percent.

(b) 50 percent of the direct lending to agriculture and allied activities, should by 1985, be directed to weaker sections in agriculture which comprise small and marginal farmers with land holdings of not more than 5 acres and agricultural labourers and persons engaged in allied activities whose borrowing limits, for such advances, do not exceed Rs.10,000/-.

(c) Advances under DRI scheme to form one-percent of the total advances on an on going basis.

(d) Two thirds of credit under DRI scheme to be routed through rural and urban offices and two fifths of such credit is to be given to scheduled castes and scheduled tribes on an going basis.

The private sector banks have also been asked to endeavour to raise the share of priority sector advances to the level of 40 percent and also participation in extending assistance to the beneficiaries of 20 point Economic Programme on the same lines as the public sector banks.

The second round of nationalization of 6 commercial banks, which took place on April 15, 1980, gave further impetus to the rural development work, which was already in progress.
**Financing of Agriculture by Commercial Banks**

In the sphere of providing credit, the commercial banks have already been meeting the needs of agriculture, both directly and indirectly:

(a) Under direct financing the banks advance loans either by formulating loan financing schemes namely, short and medium term loans or by adopting an area/project approach and select their branches in and around for intensive financing of the schemes;

Under the first category all short and medium term loans are included. A brief explanation of these two forms of loans is as follows:

(i) **Short Term Loans or Production Loans**

These loans are advanced for the purchase of inputs like seeds, fertilizers, pesticides etc. as also to meet expenses of cultivation such as cost of labour, irrigation charges, electric & fuel charges and other. These loans are repayable within a period of one year;

(ii) **Term Loans or Investment Loans**

These loans are advanced for meeting outlays for the replacement and maintenance of the wasting assets and for capital investment designed to increase the output from land.
These loans are required for purchase of agricultural machinery and implements like tractors, threshers, power tillers etc., installation of tubewell or pump sets, sinking of new tubewells, and improvements, purchase of bullocks and reclamation of land etc. These loans are repayable within 5 to 7 years and in exceptional cases even in 10 years.

Besides direct financing to agriculture, commercial banks also finance the promotion of certain allied activities like dairy farming, poultry farming, piggery, goat and sheep rearing, bee keeping, pisciculture, fruit cultivation, horticulture etc.

(b) Under Indirect Financing the banks make provision of credit for activities related to agricultural operations. These include provision of financial assistance to individuals and agencies for such purpose; distribution of fertilizers and other agricultural inputs; energisation of wells (e.g. to electricity boards); loans to producers of sugarcane through sugarcane factories; loans to farmers through primary agricultural credit societies etc. These banks may indirectly finance agriculture through subscription to land development banks or through extending guarantees to agro
industries corporations also. The benefits of all these advances are utilized by the agriculturists in the area indirectly.

**Banks Coverage of Rural Areas**

The commercial banks have considerably enlarged their coverage in rural areas to enhance the flow of credit to the cultivating and non-cultivating weaker sections of the rural population. The Government and the Reserve Bank of India both, have sponsored various schemes and taken up other steps to help commercial banks to enlarge their coverage, which are as follows:

(i) **Lead Bank Scheme and Rural Oriented Branch Expansion Programmes**

The Reserve Bank has issued revised guidelines on credit planning and monitoring under the Service Area Approach which came into force for the credit plan period beginning from April 1, 1991.

(ii) **Village Adoption Scheme**

The Village Adoption Scheme, with its emphasis on area approach, was first conceived by Sate Bank of India in 1969. The attractiveness of this scheme to a bank lay in its easy assessment of financial needs, low cost of operation, better supervision, gainful use
of staff and conveyance, easier and better recovery and avoidance of
duplication in financial matter and better coordination between bank
and development agencies and building up report between the bank
and its clients.

The commercial banks formulated Village Adoption Scheme in
1973-74. Under this scheme, aiming at intensive efforts for
improvements of the village economy, contiguous villages are
grouped together and the entire credit requirements of the farmers in
these villages for agricultural and other allied activities are expected
to be provided for by the designated branch of a commercial bank.
The other agencies operating in the area were told of the bank’s
intention to adopt a particular village so that they did not
simultaneously extend finance in that village. The scheme, thus,
aims at the integrating development of the agricultural economy of
the adopted villages.

(iii) Farmer’s Service Societies;

Arising out of the recommendations, made by the National
Commission on Agriculture in 1972, Farmers’ Service Societies are
being organized by the nationalised banks in selected Small Farmers
Development Agency Area to provide integrated credit, supplies and
services, particularly to small and marginal farmers, through one institutional source. Each society is expected to cater to a minimum population of 10,000 and may cover a community development block in full. There will be a union of such societies at the district level. the Lead Bank of the district will provide the finance, guidance and supervision as well as the services of a Managing Director and thus, the societies will be linked to the commercial Banks.

A Farmer’s Service Society will be registered as a cooperative society under the Cooperative Societies Act of the concerned state, with its own by-laws to ensure autonomy. The Farmers’ Service Society will be launched at the initiative of the financing bank, which is meant to be a lead bank. Thus, the financing bank would be a commercial bank. The financing bank will make a normal contribution to the share capital of the society to qualify for its membership, where so required by State enactments. The bank will make funds available to the society for its lending and business operations through loans. Members, State Government and Small Farmer Development Agency will provide the share capital.
All the credit requirements of the members production as well as investment credit will be met by the Farmers service society under one roof. The farmers will not have to go to any other agency, even for medium or long-term loans. Besides, the society has to get itself directly involved in ensuring that the farmers, and particularly, the small farmers, have easy access to the other inputs as well as use of farm and transport equipment, storage and marketing facilities etc. It means that FSS will directly undertake the business of supplying inputs and services, at reasonable prices, so that credit goes converted into inputs an repayment is ensured by having a direct influence over the use of credit.

The following weaknesses of FSS were revealed by a study conducted by Reserve Bank of India in 1980:

1. In many states, a number of primary Agricultural Cooperative Societies co-exist side by side with Farmers Service Societies with the common areas of operation, performing the credit functions. This has resulted in overlapping of jurisdiction and duplication of credits;

2. Large farmers continue to wield influence on the management of FSS and draw major benefits from them;
(3) The nominees of the State Governments and the sponsoring banks have invariably been indifferent to the working of these societies. The FSSs in many states are working without well qualified administration and technical staff. This has severally affected the effectiveness of FSSs in providing adequate financial and other services to the small and marginal farmers:

(4) In many states, the Farmers’ Service Societies are trying to cover larger areas both geographically and in terms of expansion of their functions. In such a short time of operation, it would be premature to pass any judgement on their performance. They are conceptually sound and given the necessary help, they help out the promise of transforming the economy.

(iv) Financing of Primary Agricultural Credit Societies.

Besides undertaking financing individual agriculturists directly, the commercial banks are also helping in financing the farmers through the Primary Agricultural Credit Societies. The scheme of financing primary agricultural credit societies by commercial banks was formulated by the Reserve Bank of India in 1969, in consultation with the Government of India, with a view to filling in the credit gaps that
existed in the areas of some of the District Central Cooperative Bank which were financially and administratively weak. The scheme was initially introduced in June 1970 in 49 Districts of 5 States. It has subsequently been extended to all the districts including Muzaffarnagar.

**Differential Rates of Interest**

Besides adopting the above-mentioned schemes the nationalised commercial banks have also adopted the scheme of differential rate of interest. This scheme was introduced in 1972 to make interest rate mechanism subserve the objectives of social justice in the matter of distribution of credit. It envisaged the making of loans and advances by public sector banks at the concessional rate of 4 percent per annum to small farmers and other persons belonging to low income groups for such productive purposes or enterprises on a modest scale as would become economically viable within a period of 3 years. This scheme was introduced in August 1972, in a bid to provide financial assistance to the ‘weakest of the weak’. In 1972, when the scheme was introduced, initially, 63 relatively backwards districts, not covered by the SFDA/MFAL Scheme, were put under this scheme. But the coverage of this scheme has
been extended to all the districts including Muzaffarnagar in the country from May 1977 onwards.

To begin with, each public sector bank was expected to lend under DRI Scheme a minimum of 1/2 percent of its total advances, but this proportion has been revised to 1 percent on an ongoing basis, in November 1978.

**REGIONAL RURAL BANKS**

Although the proposal for setting up of some sort of rural banks was first mooted by the banking commission in its report in 1972 but no action was taken by the government of India on this proposal. It was not until after the middle of June 1975, that the policy makers in the Government of India felt any need for setting up some kind of a new institution like rural banks for providing credit.

The idea of the new rural banks was inspired by considerations of lowering the cost of rural banking and operating such banks with local staff in an environment, which the poor people in the village would find most homely. The concept was to take the banking services rights at the door steps of rural masses, especially the unbanked rural areas.

The Government of India, thus conceived the idea of setting up rural banks as part of the New Economic Programme. In order to further
rationalize and operationalize this idea, the Government of India appointed working group on Rural Banking under the chairmanship of M. Narsimham to examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. This working group was appointed on 1st July 1975 and it submitted its report on 30th July 1975.

**Entry of Regional Rural Banks**

The Regional Rural Banks are sponsored by the scheduled commercial banks (mainly by public sector banks). They have been set up at the initiative taken by the sponsoring bank in consultation with the concerned state government and the Central Government and under licence from the RBI. The sponsor bank provides assistance to the Regional Rural Banks in several ways. These include subscription to its share capital, provision of managerial and other staff assistance, to be mutually agreed upon, within the period of 5 years of its existence and financial assistance on mutually negotiable terms. A few non-public sector commercial banks have also sponsored Regional Rural Banks.

Following modifications have been effected in the scheme: (i) As against the earlier loan limit of Rs.2,500 banks may assist handicapped persons for acquiring aids, appliances and equipments...
(such as type-writer) to the extent of actual cost not exceeding Rs.5,000, this assistance will be independent of the productive loan limits of Rs.6,500 under the scheme; (ii) Housing loans upto Rs.5,000 (direct and indirect advance) granted to SC/ST beneficiaries who satisfy the income criteria stipulated under DRI scheme may be classified by banks under the scheme, SC/ST beneficiaries availing of housing loan upto Rs.5,000 under DRI scheme are eligible for further assistance for productive activities under the scheme upto Rs.6,500 or under IRDP/SEEU/SCIME, according to their eligibility under the respective schemes.

*Lending Operations*

Every Regional Rural Bank has the status of a commercial bank and has been empowered to mobilizes deposits and grant short term and medium term loans, directly, only to small and marginal farmers, agricultural labourers, rural artisans, small entrepreneurs and persons of small means engaged in any productive activity and also to all types of cooperative societies and the farmers service societies operating within its areas of jurisdiction. This bank can also provide loans both for production and consumption purposes.
National Bank for Agriculture and Rural Development (NABARD)

The National Bank for Agricultural and Rural Development (NABARD), which started functioning on July 12, 1982, can be viewed as a national-level apex refinancing institution in the field of rural credit and as a bank responsible for “institution-building” in the field of rural credit and rural-banking in the country. As the Reserve Bank of India observed, “Conceived as an exercise in decentralization of the Reserve Bank functions in the sphere of rural credit, it will take over the entire undertaking of the Agriculture Refinance and Development Corporation (ARDC) as well as the refinancing function from the Regional Rural Banks (RRBs)”35. As such the NABARD occupies the central place in the rural credit system of the country.

There are four types of Financial Institutions in India: (a) All India Financial Institutions comprising, IDBI, SIDBI, and IFCI; (b) Specialised Financial Institutions comprising Exim Bank, IFCI venture capital Funds Ltd., ICICI Venture Ltd., Tourism Finance Corporation of India Ltd. and Infrastructure development Finance Company Ltd; (c) Investment Institutions such as LIC, UTI, GIC and; (d) Refinance Institutions such as National Housing Bank Ltd. (NHB) and National Bank for Agriculture and Rural

Development, Export Credit Guarantee Corporation of India Ltd. (ECGC) and Deposit Insurance and Credit Guarantee Corporation (DICGE) are some other FIs. The proposed research pertains to the management, functioning, profitable and achievements and failures of NABARD. The bank was set-up on 12 July, 1982 under the National Bank for Agriculture and Rural Development Act, 1981 (Act 61 of 1981). It has been established by merging the Agricultural Credit Department and Rural Planning and Credit Cell of Reserve Bank of India and the entire undertaking of Agriculture Refinance and Development Corporation (ARDC).

NABARD is an Apex Development Bank in the Country for supporting and promoting to the Act the Bank has been established “for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto.”

NABARD provides short term credit to State Co-operative Bank (SCBs), Regional Rural Banks (RRBs) and other Financial Institutions approved by the Reserve Bank; It provides medium-term credit to State Co-operative Banks (SCBs), State Land Development Banks (SLDBs), Regional
Rural Banks (RRBs) and other Financial Institutions approved by the Reserve Bank; It provides **long term credit** to State Land Development Banks (SLDBs), Regional Rural Banks (RRBs), Commercial Banks (CBs), State Co-operative Banks (SCBs) and other Financial Institutions approved by the RBI, NABARD provides refinance Institutions, normally SCBs and RRBs for conversion and re-scheduling of loans under conditions of drought famine or other natural calamities, military operations, enemy action etc.; it also finances cottage/village/small scale industries, etc. located in rural areas are also eligible for refinance from NABARD, Co-operative Development Fund – NABARD created the Co-operative Development Fund in 1992-1993 for the development of infrastructure for deposit mobilization, human resource development, building of better management information system and computerizations in the Co-operative Banks.

**Reserve Bank of India**

The Reserve Bank of India which is the Central Bank of this country was established on 1\(^{st}\) April, 1935 on the recommendations of the Hilton Young Commission and in accordance with the provisions of the Reserve Bank of India Act, 1934. It was originally started as a shareholders bank with a share capital of Rs.5 crores divided into 5 lakh shares of Rs.100
each fully paid up. But since January 1949, the Reserve Bank has been nationalized and it is now a purely state concern.

The principal function of the Reserve Bank of India is to regulate the monetary system of the country (in accordance with the overall economic policy of the government) in such a way that the balanced economic growth of the country is achieved alongwith economic stability. According to the Preamble of the Reserve Bank of India, 1934, “The main function of the bank is to regulate the issue of bank notes and keep reserves with a view to ensure monetary stability in the country and operate the currency and credit system”. It performs all the functions of a Central Bank, viz., issue of notes, banker to the state, regulation of banking system in the country, exchange control, credit controls etc. It advises the government on the formulation of monetary policy. It meets the financial needs of agriculture, industry, trade, transport, small industry etc. in the interest of the economic inequalities and unemployment. In short, it persons both banking and development functions.

**Improvements in the System of Agricultural Finance**

1. The first thing is that the supply of finance should be fully institutionalized and dependence of private sources for credit **eliminated**.
2. Grant of agricultural credit must be basically production oriented;

3. The interest policy for agricultural credit should be such as to ordinarily provide for low rates as well as different rates for different uses to which it is put;

4. There should be trained and devoted personnel to financial institutions;

5. Co-operative credit should be made the best and most important method of making available institutional credit. Steps should be taken to improve upon the system of co-operative credit.

6. It is also necessary that the contribution of commercial banks to agricultural credit should be stepped up sharply;

7. RBI should be required to provide still more help to the agricultural sector in the year to come;

**Important Socio-Economic Developments and Pre-development Activities**

Muzaffarnagar is a very well developed district and all traditional activities are being carried out successfully and profitably. This trend of progress continues and people are moving towards modernization and non-traditional activities. However, the traditional activities still continue to form major chunk of economic activities of the district. There is clear trend for mechanization and also towards diversification.
The Trend towards diversification is likely to result in picking up of allied activities, such as dairy, poultry, floriculture, mushroom. Goatery, piggery in large. DAHO involvement would help in picking up these activities.

There is lot of scope for further development in the district as far as floriculture and horticulture schemes are concerned where infrastructure is available. Market is also easy as the district is well connected with rail and road with the National capital. There is greater need for educating the farmers to shift to these activities and the district authorities can help in regulating the marketing arrangements with various agencies like NAFED for mushroom and firms engaged in oriented business for flowers.

*Agro-Climatic Zone Planning*

Under the agro climatic approach the agro character such as rainfall soil topography, cropping and farming systems and water resources, country had been divided in to 15 agro climatic zones. According to this category Muzaffarnagar falls in the Indo Genetic plains. The Zone had 13% intensity and 150.5% cropping intensity. Irrigation was largely through rivers and tube-wells. Looking at the soil fertility and availability of irrigation facilities. Horticulture offers good scope in the area to take export oriented market of the National Capital which is not for away from the district. Milk yield in the
region can be improved through cross breeding, balance feeding and better management system.

ENVIRONMENTAL ISSUES OF THE DISTRICT

The sugarcane is the main crop of the district which covers about 65% of the total cropped area. The uses of excess chemical fertiliser in this crop is very common which affects the soil texture and fertility of the soil in the long run. The uses of the pesticides is also affects the biological imbalances in the nature.

In view of the above, efforts has been made to challenging the environmental conservation problems with the efforts of Agricultural Department, UPDASP, Banks and NGOs working in the district.

These institutions are working on following lines on environmental issues in the district :

(a) Approximately 70 nos. On NADEP composting and 70 nos. On Vermi composting demonstration were made by agricultural department during 2005-06.

(b) In order to adopting biological methods of composting preparations the UPDASP had provided training / demonstrations to the farmers. Up to previous year 2005-06, 906 nos on NADEP composting, 1065 nos on vermi composting, 1106 Cow pet pits were demonstrated by
UPDASP in 8 blocks of the district. Besides these, 147 kgs biberia basiana, 463 liter neem oil 1627 kg neem cake, 763 kgs tricoderma 147 nos trico cards were also distributed by UPDASP among Small and marginal farmer sunder Integrated pest management.

(c) The Plantation programme was organized by Punjab National Bank by planting about 5000 saplings in central school, private schools, Block premises and Bank’s premises in mason season to keep environment green by inviting important dignitaries of the district.

(d) The Institute of agricultural & environment is operating the district. They are selecting 10-15 small / Marginal farmers in a village and advising them for layout of an ideal orchard in half or one acre land. From germination to Fruit stage all support is being provided by institute. A part from it, training is given to raise medicinal crop to farmers. In this process one of Krshak club Arya Kisan Club is involved in this programme.

(e) Farmers in the district have started the farming of Jatropha and medicinal crop cultivation which is highly environment friendly.