Chapter - 4

Theorotization of the Topic

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Summary
Introduction:

Increasing growth of agriculture becomes essential in enhancing the purchasing power by income and employment generation. The general price stability in India largely depends upon the availability of farm products. Although, the share of agriculture in real GDP has been declining continuously, but agriculture still provides employment to about 66% workforce in the country. In recent years per capita availability of food has fallen significantly due to the lowering agricultural growth. Therefore, for successful poverty alleviation, it is essential to focus intensively on agricultural development. It is well known that high agricultural growth is prerequisite for the development of Indian economy. Agriculture is a dominant sector of our economy because a large segment of the population still depends upon this sector. It is observed that the overall GDP growth is higher whenever agricultural growth is high. It is not at all possible to achieve the GDP growth of 8 percent or more, unless there is higher growth in agriculture. Industry and service sector could not achieve expected growth without the support of agricultural sector. Even the international trade is also adversely affected by the decline in agricultural production.

4.1. Nature of Agricultural Credit:

Credit is defined as a mechanism for facilitating the transfer of money from those who have surpluses of it to those who are in need of it. Similarly, Agricultural Credit is the transfer of funds from lenders to needy farmers. Hence, lending and borrowing activities cause significant impact on agricultural production. Therefore, a study of the attainment and use of agricultural credit becomes essential. William G. Murray described agricultural credit as the borrowing of funds by cultivators. Agricultural credit is borrowed not only for production purpose but also for raising the productivity of farm resources as well as to promote the well being of the farming community.

Timely, adequate, cheap and hassle free availability of agricultural credit is important for increasing agricultural production. Even, in the post-reform period there is an urgent need to use available resources in the most efficient and effective. Because of the insignificant saving among the poor farmers, along with the modern technology, agricultural credit is an essential input for higher productivity. Hence, the
availability and access to adequate, timely and low cost credit is of a great importance. Along with other inputs, credit is essential for sustainable and profitable farming. As most of the farmers are marginal and small, easy access to affordable credit positively affects the agricultural productivity. Therefore, the major concern of the government is to bring all such farmers within the institutional fold to promote complete financial inclusion.

Development credit is also called the Investment Credit which is provided for purchasing durable assets like land, farm machineries and implements, construction of farm structures, development of plantation, development of dairy, poultry, sheep/goat, fisheries, sericulture, etc. On the other hand Production credit is provided for crop production. Such loans are used for purchase of inputs and paying wages. Likewise, credit for marketing is essential selling farm produce to get higher prices. Cultivators also need consumption credit to meet their day to day expenses. Further, according to the duration agricultural credit is classified into short-term, medium-term and long-term credit. Personal Credit is provided on the character and repaying capacity of the farmer and long-term credit is given on mortgage of land. Non-institutional agencies providing agricultural credit include money lenders, traders, and commission agents, friends, relatives etc. The non-institutional credit is generally considered as manipulative. But the credit provided by the co-operatives, commercial banks and regional rural banks is fair or non-exploitative. Therefore, it is indispensable to study the working and loan procedures of these credit institutions.

4.2. Objectives of Agricultural Credit:
The objectives of agricultural credit are given below.

a. To provides money for farm activities including production, marketing and investment.
b. Stimulate farmers to produce not only for subsistence but also for obtain profitability.
c. To enhance full utilization of farm resources resulting in higher economic returns for the investments.
d. To provide credit for strengthening the backward and forward linkages with economic development of a country.
e. Providing credit for acquiring durable assets or for improving the existing assets.
f. To speed up the process of modernization of agriculture by supplying credit for purchasing agro- implements like tractors, pump-sets, threshers etc.
g. Lending for the development of irrigation facilities, plantation, dairy, poultry, goat farming, fisheries, sericulture, etc.
h. Giving credit for meeting urgent needs of farmers and even to satisfy their consumption needs.

4.3. Methodology of Estimating Agricultural Credit Requirements:

This methodology is useful in estimating agricultural credit requirements in the country. Such methodology gives customary and homogeneous criteria for preparing the farm credit estimates both for the nation as well as for the particular province also. The credit estimates help the banks in measuring demand for agricultural credit. It is also useful for commercial banks for preparing their credit plans for their target areas. Such method also provides a list of qualified items to be considered while calculating the agricultural credit requirements. For a particular year, estimate of per hectare requirement of inputs like seeds, fertilizers, pesticides etc. for a particular crop is based upon the annual development plans of the local government. For the estimates sampling methods could be used. But it is argued that a data of a few stakeholders is not reliable enough to be used for the estimation. Hence, the estimation committee collects a detailed data on the use of seeds, fertilizers and pesticides. The estimation committee also makes a detailed study of previous reports for knowing the methodology used previously.

Farmers require credit for production and development purposes. Development credits are demanded mainly for creating durable assets like digging wells, construction of farm house structure, cold storage construction, purchase of land and agro- equipments. The agro implements include tractors and threshers. Whereas the production credit or crop credit is required for purchasing farm inputs like seeds, fertilizers, pesticides etc.

The requirement of investment credit varies with the type of machinery to be purchased, nature of project to be undertaken and type of company selling the input. Similarly, the demand for production credit depends on the size of the farm and the type of crop cultivated. As the farmers’ demand for all types of credit has increased
manifold, an expansion in the list of eligible items became essential to satisfy the increasing needs of the farmers.

4.4. Theories of Agricultural Credit

Theories of agricultural credit reveal various aspects that are internationally discussed by theoretical economists. Following are some selected theories of agricultural credit. Availability of credit is closely related to risks created to uncertainties.

a) Risk and Uncertainty Theory of Agricultural Credit:

The farm risks are not as protected as the commercial and industrial enterprises. Agriculture has to suffer many hazards like earthquakes, floods, droughts, famines, damage of crops due to insects and diseases, loss of cattle due to infectious diseases, loss of property due to fire and wide fluctuations in prices of farm products create uncertainty that leads to risks. Increasing hazards in farm sector is one of the most significant caused for low availability of agricultural credit from institutional sources.

Apart from risks emerging from physical as well as natural factors, borrowers have to face unexpected financial losses. An increase in investment in agriculture will take place only when the risks and uncertainties in the minds of the farmers have been removed. The lender as a seller of credit tries to keep him safe by way of security. Thus, the lender becomes safer than the borrower. There are three types of risks i.e. variations caused by the business cycles, changes in the industrial pattern and changes in the structure of credit markets.

Therefore it is essential to increase the risk bearing abilities of both lenders and borrowers through-

1. Increasing ability to make and save money,
2. Creating stability and reliability of income,
3. Enhancing ability to borrow in both good and poor times,
4. Ability to curtail operating and living expenses,
5. Maintaining own funds.
6. The fear of debt should be removed from the minds of the borrower farmers.

Some farmers think that debt keeps them always in debt. But now-a-days for effective yield of agricultural production some farmers bear this risk.
Credit is regarded as the most important input for raising farm output. The lenders risk might be minimized by linking credit to marketing, by building personal relations, supervision of utilization of credit, by keeping reserve funds etc. The marketing agencies should be able to collect the marketable surplus from farmers. For this purpose the co-operative institutions have both horizontally and vertically linked with various credit institutions in rural area. Timely borrowing and repayment certainly strengthens goodwill of farmers among credit agencies. When use of borrowing funds increases income levels repayment becomes easy and safe. Provision of timely credit is essential in agriculture. Credit is most essential to develop both farmers and farm activities. In India agriculture still dependents on monsoon. The risk and uncertainty bearing capacities of farmers could be strengthened by diversification of production, flexible production programs, better plant protection, crop insurance, agreements for product sales and input purchases, fair dealings and reduction in expenses. Thus, borrowers’ risk depends upon quality of soil, choice of crop, crop protection, use of bio-chemical and mechanical technology, irrigation, marketing, family needs, availability of input services, family background, and capital.

The farm level risk management is classified into four types i) farm-wise ii) crop-wise, iii) holding-wise and iv) natural calamity-wise

The farmers have to borrow only to the extent of the repayment ease and convenience. This is better described by A.G. Nelson as “One would be foolish to load a truck to the point, where an axle would break, if a wheel hit a chuckhole in the road. A farm family would be equally unwise to take on a credit load to the point where they would go broke if adversely hit.

b) Demand and Supply Theory of Agricultural Credit:

Requirement of farmer’s credit depends on his i) size of operating unit, ii) efficiency, iii) farm productivity, iv) control over production and price, v) economic conditions vi) knowledge of modern technology and vi) need for long-term investment in agriculture etc. Unfortunately, poor and ignorant farmers having very small holdings show no interest in long term investments in their farms. However, today, our agriculturists are undertaking both subsistence and commercial activities. So, the demand for credit in agriculture for long run practices is steadily increasing. But supply of funds is inadequate. However, after independence, various types of policy measures are being introduced to solve the financial inadequacy.
Individual credit demand is better identified by non-institutional agencies through individual contacts. Demand for credit also varies according to the season. If access to credit is easy and the interest rate is low, the demand for credit is high. Though, the Institutional credit sources charge low rate but their conditions for obtaining loan are difficult and time consuming. However, the formal sources of agricultural credit do not impose difficult conditions of credit, but they charge higher rate of interest.

\[ D_c = f (X_1, X_2, X_3, X_3a, X_3b, X_4, X_4a, X_4b, X_5, X_5a, X_5b) \]

Thus, above function of demand for credit states that the demand for credit depends on cost of credit, efficiency of credit, repaying capacity and farm production predictability.

The supply of agricultural credit (Sc) depends on the-

i) Level of savings and capital formation (S1),

ii) Degree of risk and uncertainties in lending (S2),

iii) Prospects of financial agencies (S3) and

iv) Alternative opportunities for investment (S4).

The central factor among these determinants is the level of savings. The determinants of the supply of farm credit in the equation can be written as follows-

\[ Sc = f (S_1, S_2, S_3, S_4) \]

Higher income but lower propensity to consume may result into higher saving. Likewise, high interest rates on the deposits encourage the saver to save more. The risk bearing capacity of both lenders and borrowers affect the supply of credit. Those lenders will supply more credit that bears the risk and uncertainties.

There should be always a balance between demand and supply of credit for agriculture. But, today Government and banking institutions are unable to supply credit to the extent of needs of the farmers. Credit supply should be cheap, timely and adequate. Agricultural credit must be fully institutionalized. Nicholson opined, “Credit is a weapon that may destroy the unskillful wielder, it is helpful or destructive according as it is used or abused.”

c) Business vs. Social and Moral Theory of Agricultural Credit:

Business aspect rather of agricultural finance focuses on profit and loss accounts and social and moral aspects are neglected. But social and moral aspects keep money-lenders in their business for a long time. These factors help money-lenders to dominate in rural credit even today. Now-a-days the institutional credit
agencies started to give importance to social aspect. However, according to bureaucratic attitude, interest and efficiency of the credit institution, the social and moral aspects differ. All agricultural credit has to be practiced for the welfare of the society. The business aspect should not be over emphasized and should be kept within reasonable limits. When business aspect becomes aggressive, the moral and social aspects are naturally disregarded which adversely affect welfare of the society.

The public sector banks judge their performance on the criteria like-

i. Growth of various types of the deposits mobilised,

ii. Management of credit,

iii. Social banking,

iv. Reserve requirements,

v. Quality, level and scope of customer service, and

vi. Profitability of the bank.

Because of the emergence of social and moral responsibility of banking, the parameters such as social banking and customer service are considered more. But the banking staff should not only emphasize on business aspect because due to the combination of these three aspects, the urban co-operative Banks and Urban Credit Societies have become very popular.

Staff should be motivated through proper training and incentives for integrating these three aspects of agricultural credit. If backward, illiterate, ignorant and traditional farmers motivated properly, mobilizing their savings and giving low cost credit to them will certainly be possible which will lead to success of bank business. Agricultural credit disregarding moral and social aspects will not be socially acceptable. For regular repayment, a sense of belongingness of financial system should be created among the farmers. Only giving credit to needy farmers will not serve this purpose. Co-operative society is an organization of persons. But in India social and moral virtues of co-operation are disregarded and business efficiency is more emphasized. Commercial banks prior to bank nationalization did not cultivate these attitudes.

Social and moral aspects consist of mainly i) no profit no loss operation of a firm, ii) self-help, iii) brotherhood, iv) mutual help attitude, v) welfare of the masses. On the other side, the business aspects comprise a) departure from unlimited liability, ii) multi-purpose activities of the institutions, iii) Government help, iv) horizontal and vertical integration of agricultural credit institutions etc.
Every credit agency must first emphasize on efficiency and then consider moral and social aspects of agricultural credit. However, small sized credit agencies may consider both aspects. Indian banking has blended harmoniously commercial banking with social banking during the post-nationalization period by converting earlier urban biased banking into mass banking. These banks have implemented measures like expansion of branches in rural area, credit supply at concessional rate of interest, more emphasis on the supply of loans to weaker section and wider coverage for small borrowers. After imposition of social controls and then nationalization of commercial banks, these banks actively engaged in anti-poverty program. But after 1991 as a result of New Economic Policy, the social and economic evils like prioritization and lowering credit targets of priority sector have become major objective of RBI’s monetary policy.

d) Cost Theory of Agricultural Credit:

Agricultural credit which the farmers have to take for undertaking farm operations. Expenses for getting agricultural credit include fees paid for a copy of land ownership record, travel expenses towards banking units, expenditure on refreshment during the visits to banks, waste of his labor hours while visiting credit units, photographs and other charges etc. Such expenses do not end with the receipt of credit, but continue up to the final repayment installment. After receiving the loan amount, the expenses like rate of interest, storage charges, marketing costs etc. have to be borne by the farmers. Thus costs of agricultural credit is classified as -

a) The costs incurred by the farmers before receiving loan amount,

b) The costs which the farmers have to bear after receiving the credit.

This type of cost is not easy to measure which makes agricultural credit a tough task.

In developing countries like India farmers are poor but the cost of agricultural credit is high. Moreover, banks and other agencies lack effective credit planning for timely supply of agricultural credit

A farmer has to enclose the following documents with his application form-

1. A copy of land ownership as security,
2. A certificate of last year produce
3. No dues certificate
4. Copies of recent photographs etc.
5. Filled forms of two guarantors
The borrower farmers have to pay charges for the enclosures of these documents. On an average, a farmer has to make three to four visits for obtaining his loan amount. After submission of an application for loan, about 15 to 30 days are required to receive the loan amount. Further, the PCARCBs in Maharashtra require 73 days for the disbursement of the loan installments to the borrowers. Some cooperatives require more than 3 months for disbursement.

Regardless of high rate of interest, the farmers prefer to borrow from informal sources like money-lenders, traders, relatives and friends. Now-a-days commercial banks have adopted quicker processes of credit disbursement. As a result, the percentage of credit disbursement of commercial banks became more than the cooperatives.

L.J. Norton suggested certain precautions for better use of agricultural credit. These suggestions are:

a. Borrow only for a business which is understood.

b. Keep debt at lowest point.

c. Study the price level and trends in prices during the life of the loan.

d. Use credit only for income producing purposes only.

e. Keep debts from getting too high.

f. Select a credit agency which will commit in writing to go along when incomes are low.

g. Make an adequate provision for insurance.

Thus, the cost of credit is a barometer that provides the answer the question of estimating his ability to repay the loan. Transaction cost is categorized into monetary & non-monetary costs. The monetary cost of the credit agency includes cost of interest on deposits and borrowing cost of refinance. The non-monetary costs include the expenses on facilities like office rent, furniture, stationary, travel, telephone communications etc.

Non-monetary transaction costs of institutional sources of credit are substantial. So, the lending formal agency should try to minimize these costs. Thus, the theories of agricultural credit related to risks and uncertainties, demand and supply, moral, social and business approach as well as cost of credit consideration directly or indirectly affects the availability of credit and the rate of returns obtained from the use of credit.
Consequently, the theories of agricultural credit related to risks and uncertainties, demand and supply, moral, social and business approach as well as cost of credit consideration directly or indirectly affects the availability of credit and the rate of returns obtained from the use of credit.

4.5. Working Definitions of Terms Used:

The researcher has used following working definitions for deciding concrete scope of his research.

i) Agricultural Credit:

Agricultural credit is stated as "an economic activity of borrowing funds by farmers from lending agencies for the organization and operation of farm activities."

ii) Non-institutional Credit Sources-

Relatives, Traders, Commission Agents, Landlords and Money-lenders are included in non-institutional sources of agricultural credit. They advance loans to agriculturists especially for consumption purpose against individual security without completing legal formalities. Day by day Small and marginal farmers are heavily depending on landlords and money-lenders for their financial requirements on a large scale.

iii) Institutional Sources of Agricultural Credit-

Following are the institutional sources of agricultural credit.

c) Co-operative Institutions Providing Short and Medium-term Credit-

- Primary Agricultural Cooperative Societies (PACS):

The Primary Agricultural Cooperative Societies are the grass root credit institutions in the three-tier structure of co-operative credit institutions providing short-period credit. These credit societies lend directly to individual members. They work on the cooperative principles like voluntary participation, democratic control, limited area of operation, limited liability etc. These societies work at the village level and provide short term and medium term credit. Small farmers as well as the marginal farmers together constitute 70% of total membership. But due to the lack of political support and education, small and marginal farmers do not get their due share in agricultural credit.
• **District Central Cooperative Banks (DCCBs):**

The DCCBs function as intermediaries between the PACS and SCBs. These banks are also called the federation of PACS. The DCCBs are founded basically for satisfying the credit needs of the PACS in the district. With providing loans they also undertake other banking functions such as accepting deposits, collecting bills, issuing cheques, safe deposit locker and providing drafts. The area of operation of these banks is limited to the entire district and they function through their branches spread all over the district.

• **State Cooperative Banks (SCB):**

In short-term cooperative credit structure, the State Cooperative Bank is the apex bank in each state. They provide short term credit to DCCBs in the state and regulate their functioning. This bank also works as an intermediary between SCB and DCCBs in the concerned state. Like the DCCBs, these banks are also called as the federation of the DCCBs in the state.

d) **Co-operative Agencies Providing Long-term Farm Credit:**

The structure of co-operative agencies supplying the farm credit for long period is of two-tiers. In the concerned state, the State Land Development Bank works as the apex bank. They regulate the working of the PLDBs in the respective state. The PLDBs are established at the district level. They work in the whole district through their branches. Later on, the SLDBs were renamed as the State Cooperative Agriculture and Rural Development Banks (SCARDB). Similarly, the PLDBS were renamed as the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). They supply long period farm credit directly to the farmers for purchasing costly agricultural implements, digging wells, land leveling, and lift-irrigation and for erecting farm structures.

• **Commercial Banks:**

The commercial banks are defined as the financial institutions that accept deposits, lend money, issue cheques as well as drafts and provide other banking services. Formerly commercial banks (CBs) were restricted only to urban areas serving mainly to trade, commerce and industry. Due to the risky nature of agriculture, participation of these banks in agricultural lending was insignificant. After the nationalization, the commercial banks brought significant changes in their lending policies. They started to play an active role in providing credit to farm sector.
Targets were fixed for lending to priority sector. Agriculture was included in the priority sector. Today, as compared to other institutional sources, these banks are the heightst in providing agricultural credit.

- **Regional Rural Banks (RRBs):**

Regional Rural Banks were established in 1975 for the development of rural economy. They lend to farm sector, rural artisans and farm workers. The Government of India, the concerned State Government and the commercial banks have sponsored the RRBs by subscribing to their share capital in the percentage of 50%, 15% and 35%, respectively. The area of operation of the RRB is restricted to a few districts in the State. The RRBs mobilize deposits and provide loans. These loans are provided mostly to small farmers, marginal farmers, agricultural laborers, rural artisans and other factors of the priority sector. As a result of merger, the number of RRBs declined to 64 at the end of March, 2013. But in the same year the number of branches of these banks increased to 17,856 covering 635 districts all over the country.

Thus, the multy-agency approach of agricultural credit includes above three credit institutions.

**Kisan Credit Card (KCC) Scheme:**

The KCC Scheme was launched jointly by the government, RBI and NABARD in 1998-99. The intention of the scheme was to ease the access of short-term or crop credit borrowed by the farmers from the financial institutions. The Kisan Credit Card is valid for three years but every year it has to be renewed from the lending bank. The credit under this scheme is sanctioned in percentage to the extent of the land passed. The KCC scheme has made a rapid progress. In 2011-12, the percentage share of co-operative banks and commercial banks in issuing the KCCs was 44 per cent and 43 per cent accordingly. The remaining 13 per cent KCCs were issued by the RRBs. The issuing of the KCCs increased at the average rate of 44 percent per year. The maximum growth rate of 75% was achieved by the RRBs.

- **Priority Sector**

The priority sector consists of the food production, small industries, small business, micro credit, educational loans, export credit etc. The credit targets are fixed
by the government for priority sector lending. The concept of priority sector got much importance since nationalisation of commercial banks.

- **Direct Credit**
  Direct credit to agriculture consists of short-period, medium period and long period loans directly given to an individual farmer and a group of farmers. The self help groups come under the group of farmers.

- **Short Term Loans or Crop Loans**
  These loans are payable within 15 months for purchasing HYV seeds, fertilisers, pesticides, fodder, cattle etc.

- **Medium Term Loans**
  Repaid within 5 years and given for purchasing low priced agricultural implements.

- **Long Term Loans or Investment Loans**
  Loans repaid within 15/20 years and used for long term land reforms such as digging wells, levelling of land, purchasing high priced farm tools like tractors etc.

- **Marginal, Small and Big Farmers**
  A farmer who owns the cultivated area up to one hectare is called the Marginal Farmer. Likewise farmer possessing the cultivated area from to 1 hectare to 5 hectares is considered as the medium farmer. Further, the farmer owning more than 2 hectares of cultivated land is the big farmers.

4.6. Demand and Supply Gap in Agricultural Credit:

Agriculture credit is important for farmers to expand their ownership of resources and undertake farm activities. Demand for agricultural credit is estimated by the planning experts. On the other hand demand for credit comes from the farmers for investment as well as development purpose. Adequate availability of credit is the essential condition for agricultural growth. So, it is also equally important to measure the gap between demand and supply of agricultural credit. However, regarding supply of agriculture credit, only the data of institutional sources is authentically available. But despite of a significant share in agricultural credit, the data of non-institutional sources like indigenous bankers, moneylenders, relatives and landlords is not sufficiently available as they come under unorganized sector.

Today, widening space between demand for and supply of agricultural credit is the biggest challenge before the government and planners. In spite of the expansion
in institutions of rural credit and growth in the quantum of such credit, the gap between the demand for and supply of farm credit is widening more and more. If agricultural sector has to grow faster, the concerned authorities should undertake effective measures for increasing expected flow of agricultural credit. Following table clarifies the demand and supply gap in agricultural credit.

Agricultural credit is demanded for the three types of durations. The crop credit is called the credit for short period up to one year. The medium term credit is demanded for purchasing low cost implements for 2 to 5 years duration. Further, the credit for long period is called the investment credit that helps in increasing the agricultural productivity for the long run. The duration of such credit is more than 5 years.

4.7. Agricultural Credit System in India:

Chart No.4.1- Agricultural Credit System:

\[ \text{GOVERNMENT OF INDIA} \]
\[ \text{RESERVE BANK OF INDIA} \]
\[ \text{NABARD} \]
\[ \text{COMMERCIAL BANKS} \]
\[ \text{RURAL CO-OPERATIVE CREDIT INSTITUTIONS} \]
\[ \text{REGIONAL RURAL BANKS} \]
\[ \text{LONG-TERM CREDIT STRUCTURE} \]
\[ \text{STATE CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANKS} \]
\[ \text{PRIMARY CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANKS} \]
\[ \text{SHORT-TERM CREDIT STRUCTURE} \]
\[ \text{STATE CO-OPERATIVE BANKS} \]
\[ \text{DISTRICT CENTRAL CO-OPERATIVE BANKS} \]
\[ \text{PRIMARY AGRICULTURAL CREDIT SOCIETIES} \]
\[ \text{DEPOSITORS AND BORROWERS} \]

\text{a) The Reserve Bank of India:}

The RBI is also called the Central Bank of India. It was established on April, 1, 1935, according to the provisions in the RBI Act of 1934. The bank was initially owned
Measures for Promoting Agricultural Credit:

The Reserve Bank of India is regarded as an engine of economic growth. Farming is the most significant sector. The RBI has been making the comprehensive efforts for promoting agricultural credit. Agricultural credit is considered as the prerequisite of agricultural growth. The RBI has made following efforts for expanding the agricultural finance and co-operative movement also.

i) Agricultural Credit Department:

With the establishment of the RBI, this department was established in April, 1935. The functions of this department were decided as follows-

a. Developing co-operative credit movement in agricultural finance.

b. To recruit the special staff for assessing all the issues concerning to agricultural credit.

c. This expert staff would advise to the SCBs, the State Governments, the Central Government and other banking organizations.

d. This department should co-ordinate the credit disbursement functions of the SCBs and any other banks engaged in providing agricultural credit.

e. This department was given the responsibility of supplying capital to the State Co-operative Banks so that they could finance to the agencies supplying credit to agriculture.

f. Along with the other functions, this department will stimulate the research in agriculture.

Although, the RBI was authorized to supply credit indirectly to agriculture through state co-operative banks, but no noteworthy progress was made by this bank in this direction till 1950. The RBI provided accommodation of Rs. 5.37 crores only in 1950-51 to State Co-operative Banks.

ii) Appointment of Committees for Studying Rural Credit:

The Reserve Bank appointed various committees for examining the structure of co-operative credit and suggesting measures for increasing the availability of the credit. Appointing various rural credit committees and accepting their recommendations really helped in bringing the expansion in institutional finance. The committees found that the agricultural credit was neither adequate nor of the exact
type. These committees further stated that the co-operative credit did not achieve the right purpose and often did not lend to the right people. These recommendations were taken seriously by the Reserve Bank.

iii) Establishment of Agricultural Credit Funds:

a) National Agricultural (Long Term) Credit Fund (NACF):

In February, 1956, Reserve Bank created NACF for long-term operations in agriculture. This fund was used for giving long-term advances to the State Governments buying the shares of co-operative banks and other credit societies. Later on, this fund was renamed as the National Rural Credit (Long-term Operations) Fund. This fund was used for providing sufficient capital to co-operatives so that the co-operatives would be able for lending more funds to the farmers. This would also strengthen the financial position of co-operative credit institutions.

b) National Agricultural (Stabilization) Fund:

This fund was formed by the RBI in June, 1956. This fund was used for giving medium-term loans to SCBs during drought and famines. This fund stabilized the financial position of co-operatives.

c) National Agricultural Relief and Guarantee Fund:

The RBI created above named fund for the relief and guarantee of farm finance. This fund was used for giving grants to co-operative credit institutions for to write off their outstanding loans on account of harsh famines.

iv) Agricultural Refinance Corporation (ARC):

RBI, on July 1, 1963, established the ARC to function as a refinancing agency. This corporation provided refinancing facilities to co-operatives so that these co-operatives could provide medium term and long term credit to farm sector. The corporation was directed to provide refinancing facilities to the SCBs, CLDBs and scheduled commercial banks. Afterwards, in 1975, this institution was renamed as the Agricultural Refinance and Development Corporation (ARDC).

The objectives of the ARDC were determined as follows-

1. To give financial support for increasing agricultural productivity, output and employment. Likewise, to encourage efficient use of natural resources such as land and water

2. To encourage for maintaining ecological balance in the environment.
3. To promote the development of secondary and tertiary sectors in rural area.
4. To give greater emphasis on marketing and the development of strong infrastructure useful for agriculture.
5. Achieving growth with justice by providing increased assistance to small farmers and other constituents of weaker section.
7. To encourage institutional building.
8. To promote technological development for securing optimum benefits of necessary knowhow.
9. To organize the training programs for intensifying professional abilities of the staff in the participating banks.
10. To promote research for agricultural as well as rural development.

v) Agricultural Credit Board:
For formulating policies for rural credit, Reserve Bank of India constituted the Agricultural Credit Board in February, 1970. This board was considered as a high-powered body. This board was asked to co-ordinate the activities of the co-operative credit institutions. In addition, this board was also assigned the responsibility of co-coordinating the policies of RBI. This board advised RBI for granting refinancing facilities to co-operative and commercial banks for agricultural purposes. After that, this refinancing facility was extended to the non-agricultural purposes also. However, after the establishment of NABARD, this board stopped its working.

Indirect Financing to Agriculture:
Although the RBI does not give the direct credit to farmers but it provides indirect assistance to agricultural sector through the SCBs and SCARDBs. In 1971, the Reserve Bank launched the scheme for guarantying small loans given by the commercial banks and the RRBs. However, after the establishment of NABARD, this bank started to perform all the functions of RBI concerned to agricultural credit and rural development.

b) National Bank for Agriculture and Rural Development (NABARD):
This bank was established on July 12, 1982. It was established as per the recommendations of the Shivaraman committee formed for examining the preparation
of institutional credit for farming and rural development. It is considered as an apex bank in agricultural and rural development. Then NABARD took over the charge of carrying the operations of the Agricultural Credit Department, Rural Planning and Credit Cell and Agricultural Refinance and Development Corporation. The NABARD is thought as the dedicated bank for farming sector and rural development. The Government of India and the RBI jointly provided the capital for NABARD. Initially, the RBI held equity of Rs.1450 crore in NABARD. The remaining stockholding of Rs 550 crore was held by the Government of India. The percentage share of the RBI and the Government in the equity holding of NABARD was 72.5% and 27.5% accordingly. In May, 2008, the Union Cabinet approved the request of the RBI for transferring its share holding in NABARD to the Government of India. Accordingly, the percentage share of the Government of India and the Reserve Bank became 99 per cent and 1 per cent. This bank is now associated to the international organization like the World Bank for advice and monetary aid. The advice of NABARD is used for the development of the people in rural area. The NABARD also takes care of the development of the cottage industries, small industries, village industries as well as other rural industries also.

**Functions of NABARD:**

The functions performed by the NABARD are as below-

1. To operate as an apex bank in agriculture and rural development.
2. To provide investment and production credit to SCARDBs and SCBs for undertaking the different developmental activities in rural area.
3. To formulate rehabilitation schemes for the development of rural credit institutions.
4. To make and implement the comprehensive plans for the restructuring of the credit institutions which incurred losses continuously.
5. To co-coordinate the activities of the rural financing institutions linked to the state governments and Reserve Bank.
6. The NABARD monitors and evaluates the projects financed by it.
7. Refinancing the credit institutions that lend to the rural people.
8. To keep a close watch on these institutes providing credit to agriculture.
9. To organize training programs for the bank personnel working in the field of rural development.
10. To regulate the credit supplied by the cooperatives and the RRBs.

c) Commercial Banks in India:

(i) An Evolution:

It is thought that the modern banking started in India in 1790. The Bank of Hindustan was the first modern bank established in 1770. Afterwards, the General Bank of India was founded in 1786. The foreign bank i.e. the Comptoir d'Escompte de Paris bank opened its branch in Calcutta in 1860. After that, another branch of this bank was opened at Bombay in 1862. Then after three years, Allahabad Bank was founded in 1865 which is still working as the Joint Stock bank in India. The Union Bank of Calcutta was founded in 1869 as a first private joint stock association. Later on, this bank was converted into a partnership entity. Being the most active trading port, Calcutta became the banking hub.

The period from 1906 to 1911 was the period of the ‘Swadeshi Movement’ which encouraged the local businessmen and political leaders to establish banks for the Indian society. A number of banks such as the Bank of Baroda, the Indian Bank, and the Central Bank of India, the Corporation Bank and the Canara Bank were established during this period.

The Reserve Bank of India was founded in April 1935 and then nationalized on January 1, 1949. The Banking Regulation Act was approved in 1949 to regulate and inspect the banks in India.

The State Bank of India is the largest and oldest bank in India. Imperial Bank of India was the old name of the State Bank of India. Imperial Bank was created after the merger of three presidencies banks i.e. the Bank of Calcutta, the Bank of Bombay and the Bank of Madras in 1921. After, nationalization of the Imperial Bank, the State Bank of India came in existence in 1955. The presidency banks acted as quasi-central banks until the establishment of the Reserve Bank. In 1960, the State Banks of India was given the control of eight state-associated banks which then became its associate banks.

A bold decision of the nationalization of the 14 major private commercial banks was taken in 1969. Further, in 1980, six more private commercial banks were nationalized. Today, these nationalized banks dominate the banking business because of their large size and widespread networks.
In July, 1991, the Government of India announced the New Economic Policy of Liberalization, Privatization and Globalization. Under liberalization banking licenses became decontrolled. Consequently, the private banks got more importance due to the adoption of the policy of privatization. Likewise, the policy of globalization encouraged the entry of foreign banks especially in private sector. These private banks are the tech-savvy banks. Hence, today, the three types of banks namely the public sector banks, private sector banks and foreign banks became uniformly important. The concessions in the form of low tax rates were given to attract the foreign direct investment. The privatization and globalization created intense competition. To survive in the intense competition, the public sector banks have to develop new banking products and new methods of customer services. NPA and Capital Adequacy norms became utmost important. For bringing an increase in the profitability of the public sector banks, the Narsinham committee recommended to lower the SLR, targets for priority sector lending and Cash Reserve Ratio as well as giving up the policy of concessional rate of interest.

Thus, the evolution of commercial banks started as joint stock banks. These banks were in private sector. These banks used to lend mainly to private enterprise and business. Therefore, the government nationalized major banks in the private sector. But after the adoption of the New Economic policy again the privatization and liberalization got utmost importance. As the consequence of liberalization the entry of foreign banks and foreign capital became easier. Instead of small banks, the policy of large viable banks was recommended by the banking committees.

Initially these banks were in private sector, owned and managed privately. Commercial banks were nationalised first in 1969 and then in 1980. Since the nationalisation, these banks have become the chief source of agricultural finance. The intention of bank nationalisation was to increase the supply of credit to rural areas at reasonable rate of interest to curtail the dependence of farmers on the informal sources of credit especially moneylenders and landlords.

Therefore, the nationalised banks adopted a policy of branch expansion in rural area. According to the new branch licensing policy, the nationalised banks were directed to open branches in rural area.
Chart No. 4.2 Evolution of Indian Banking

Evolution of the Indian Banking Industry

**TRIGGER EVENT**

- Beginning of Institutional Banking with 3 joint stock banks

**PHASES**

- Phase 1: Pre Nationalization Phase
  - Birth of joint stock banking companies.
  - Introduction of deposit banking & bank branches.
  - Presidency banks & other joint stock banks formed setting the foundation of modern banking system

- Phase 2: Era of Nationalization and
  - SBI formed out of imperial bank.
  - 20 SCB’s nationalized in 2 phases.
  - Direct credit programme on the rise

- Phase 3: Introduction of Indian Financial & banking sector reforms and partial liberalization
  - Major changes in prudential regulations.
  - Interest rates deregulated.
  - Statutory preemption of resources eased more private sector players came in strengthened the system as a whole

- Phase 4: Period of Increased liberalization
  - FDI ceiling for the banking sector increased to 74% from 49%.
  - Roadmap for inclusion of foreign banks declared.
  - More liberal branch licensing

**MAJOR CHANGES**

- Hike in the FDI ceiling for banking sector and declaration of road map for liberalization

Phase 4 continues – more liberalization expected

Source: D&B Industry Research Service
(ii) Organization and Structure:

Following chart shows the structure of commercial banks in India.

Chart No. 4.3. Organizational Structure of Banking in India

Source: D&B Industry Research Service
1. Scheduled Banks:

The scheduled Banks are included in the Second Schedule of the Reserve Bank of India Act, 1934. Those banks that included in the second schedule of the RBI Act, 1934, have to fulfill the following criteria.

a. Paid up capital and reserves together should be at least Rs. 0.5 million and
b. These banks should conduct their affairs in the benefit of their depositors.

The scheduled banks are classified as the commercial banks and cooperative banks.

(i) Public Sector Banks:

These banks are owned, controlled and managed by the government. These banks were established mainly for providing service to the society. They were not allowed to earn profit. Priority sector lending criteria is applicable to these banks. So, these banks lend to the priority sector at concessional rate of interest. Still today these banks are the most significant player in banking business. The Punjab National Bank, Bank of India, State Bank of India, Canara Bank, Corporation Bank etc. is included in the list of public sector banks.

The Public sector banks are classified as follows.

(a) SBI and its subsidiaries,
(b) Other nationalized banks.

(ii) Scheduled Cooperative Banks:

Scheduled cooperative banks are broadly classified as urban credit cooperative banks and rural cooperative credit institutions. Rural cooperative institutions provide short-term, medium-term and long-term loans. The cooperatives providing short-term loans are having a three-tier structure. These three-tiers include SCBs, DCCBs and PACS. However, Co-operative banks supplying long-term loans have generally two-tier structure i.e. SCARDB & PCARDBs. The scheduled commercial banks and scheduled cooperative banks differ according to their holding pattern. The scheduled cooperative banks are registered under the cooperative societies act and work according to the cooperative principle of mutual assistance.
(iii) **Private Sector Banks:**

These banks are owned, controlled and managed by the private businessmen. They are established mainly to earn profits. ICICI Bank, HDFC Bank, IDBI Bank, Axis Bank etc. are the private sector banks. Since the adoption of the LPG policy, the number of these banks is increasing fastly. The private sector banks are competing successfully to other banks by doing banking business efficiently.

(iv) **Foreign Banks:**

Foreign banks are owned and controlled by the foreign promoters. Since the adoption of the process of economic liberalization in 1991, the number of these banks is increasing rapidly. The Bank of America, American Express Bank, Standard Chartered Bank etc. are the foreign banks working in India.

2. **Non-Scheduled Banks:** Non-Scheduled banks are not included in the Second Schedule of the RBI Act, 1934.

d) **Rural Co-operatives:**

Rural Co-operatives are categorized as follows-

(i) **Rural Co-operatives Providing Short-term Loans:**

There is three-tier structure of the rural co-operatives providing short-term and medium-term agricultural credit. This structure is given as below.

(a) **Primary Agricultural Credit Societies-**

In the institutions providing short period co-operative farm credit the PACS are the grass-root level institutions. They directly provide credit to farmers for undertaking crop production operations. These societies are the base of the short-term co-operative farm credit structure. Generally, there is one PACS for each village having Grampanchayat. Initially, for the establishment of the PACS, the minimum membership should be ten but eventually it should cover the entire village. The legal responsibility of the member is limited to his share capital.

The directors are elected democratically by the members of PACS for five years. Through the directors of the society, the President and Vice-president are elected for five years. The elected dignitaries deliver their services on voluntary basis. The Primary Agricultural Credit Societies provide short term and medium term loans to member farmers for productive purpose only. These societies raise funds through
share capital, entrance fees, reserves, deposits, loans, investment income etc. In short, these societies are formed to meet the credit needs of their members. The paid-up share capital of these societies was Rs.19022 lakhs in 1993-94 and increased to Rs.28,28,010 lakhs in 2011-12. Total reserves increased from Rs. 79,201 lakhs to Rs. 77,1577 lakhs during the same period. The paid-up share capital and reserves together are called as the owned funds. These owned funds are available for lending at lower rate of interest. Reserves which are kept aside out of the net profit show the financial strength of the society. The share of owned funds in total resources was 9 percent in 1993-94 and augmented marginally to 10 percent only.

(b) District Central Cooperative Banks (DCCBs):

The DCCBs function as the link between SCB and PACS in the concerned state. Their area of operation is limited to a single district. The DCCBs play multiple roles in the district. On the one hand, they provide banking services but at the same time they coordinate the activities of the co-operative credit institutions in the concerned district.

With providing banking services, DCCBs accept deposits and lend to individuals and institutions including PACS. Providing financial support to the PACS in the district is the most important function of the DCCBs. The non-agricultural societies like the handloom and handicrafts cooperative societies, salary earners' cooperative societies, producers' cooperative societies; consumers' cooperative societies etc are also receive credit from the DCCBs. Thus DCCBs play an important role in supporting the PACS in the district.

The DCCB is the most significant source of funds for the PACS in the concerned district. The lending programs of the PACS are regularly supervised by the supervisors of the DCCBs. DCCBs provide loans to the PACS. The PACS use funds borrowed from the DCCB for lending to their members for purchasing fertilizers, high yielding variety seeds and chemical pesticides. These multipurpose cooperative societies also distribute essential commodities at reasonable rate. The DCC banks also conduct training programs for the directors and staff of the PACS in the district. The seminars and workshops on important topics are also organized for updating the knowledge of the staff of PACS.

The crop loan is provided on the basis of the "Scale of Finance" fixed for each crop. The scale of finance is determined by the "District Level Technical
Committee" by taking into account the total cost of production of the crop. This technical committee consists of elected chairmen of PACS, the representatives of the state government as well as the State Cooperative Banks and the CEO of the DCCBs. The DCCBs operate under the directorial power of the registrar of cooperative societies.

All the Rural Credit Survey Committee stated that the position of central co-operative banks in short-term co-operative credit structure is of critical importance. The leadership of the co-operative movement comes through the central co-operative banks. So, they are thought responsible for the development of co-operative movement in the district. The district central co-operative banks intermediate between the primary credit societies run by the farmers and the SCB in the respective state.

Functions of DCCBs:
The functions of the DCCBs are summarized as follows:

1. To provide funds to the PACS in the district.
2. To encourage thrift and mobilize saving among the members and others.
3. Accepting various types of deposits from the public
4. To grant loans to members and other depositors. These banks make available the advances against the mortgage of fixed deposit receipts, government papers, gold, silver and agricultural produce.
5. To invest the reserves of PACS safely.
6. Providing the banking services such as issuing cheques/drafts, collecting bills, rediscording hundies, mortgaging gold and railway receipts, providing the safe deposit vaults, transfer of money etc.
7. To administer the working of the primary agricultural societies in the district.
8. To organize training programs and workshops for the members and staff of the PACS in the district.
9. To co-ordinate financial activities of the primary societies affiliated to it.
10. The Standing Advisory Committee of the Reserve Bank on Agricultural Credit stated that generally there should be only one central bank co-operative bank for each district.

The membership of the district central co-operative bank includes the primary societies and individuals in the district. But the Macalgan Committee stated
that individuals should not be the members of the central co-operative banks. Further, the Madras Committee also recommended the elimination of individual shareholders from the constitution of the central bank. The paid-up capital of these banks enlarged from Rs. 126658 lakhs in 1993-94 to Rs. 818892 lakhs in 2011-12. It was more than six fold increase. The same trend was experienced in terms of total reserves. During the above period reserves increased from Rs. 122820 lakhs to Rs. 2292034 lakhs. The paid-up capital and reserves together are called the owned funds which are available for lending at lower cost. These reserves are kept aside out of the net profit. They account about 50 percent of the total owned funds. However, the percentage of owned funds increased from 09% to 12% in the study period.

(c) State Co-Operative Banks (SCBs):

The State Co-operative Bank is the apex bank in the state regarding short term co-operative credit. Hence, there is single SCB in each state. It provides the short-term and medium term credit to DCCBs in the state. The SCB is also considered the federation of the DCCBs in the state. The financial assistance of the Reserve Bank and NABARD is routed through the SCBs.

The resource position of SCBs is not at all sound. These banks accept deposits from DCBs, other institutions and individuals. SCBs provide loans to DCBs and invest funds to earn returns. Till the establishment of NABARD, these banks used to borrow from RBI. But after the establishment of NABARD, these banks started to borrow from NABARD. The SCBs work as an agent of the Government, co-ordinate the operations of cooperative credit institutions and organize workshops.

The paid-up capital of the SCBs increased from Rs. 29269 lakhs in 1993-94 to Rs. 261707 lakhs in 2011-12. This was more than tenfold increase. During 1993-94 to 2011-12, the reserves increased from Rs. 139303 lakhs to Rs. 1055819 lakhs. Total owned capital includes the paid-up capital and reserves. The owned funds are available at lower rate from the share holders and shows fiscal strength of the bank. The percentage share of owned funds was less than 1% in 1993-94 and researched to 9.24% in 2012-13.

(ii) Long-term Agricultural Credit Institutions:

The structure of long-term agricultural credit institutions is described as follows:
(a) **State Co-operative Agriculture and Rural Development Banks (SCARDBs):**

These banks were initially called as the Land Mortgage Banks. Indian farmers require credit for short, medium and long periods. Short period and medium period credit requirements are fulfilled by the three-tier co-operative banking institutions like PACS, CCBs and SCBs. Farmers borrow long-term credit for a period up to 20 years for buying equipments (like pump sets and tractors) renovation of land, fencing of land, digging new wells, construction of a tank or tube-well, buying additional land etc. This type of credit is generally provided by development banks. Initially, the Land Development Banks were called as the Land Mortgage Banks. The first Land Mortgage Bank was founded in 1920 at Jhind in Punjab but this bank could not function well. Therefore, the establishment of the Central Land Mortgage Bank at Madras in 1929 was considered a real beginning of such type of bank. Later on, theses banks were started in other states also. The LDBs grant long-term loans to the farmers against land security. The number of the SCARDBs increased from 5 to 20, during the period 1950-51 to 2005-06. At present there are 32 SCARDBs in India. These banks have succeeded in raising capital, mobilizing deposits etc.

The Land Development Banks (LDBs) are the co-operative institutions. Members of these banks have limited liability. The working capital of these banks is raised through selling of share capital and debentures. Borrowings from State Land Development Bank are also used for raising working capital. LDBs borrow from the State Land Development Banks. A large part of their funds are raised through long-term debentures issued only by the Central Land Development Banks. Pattern of LDBs in some states is unitary and in some others federal in nature. Under the federal structure, the LDBs include two-tier institutions namely the Central Land Development Bank (CLDB) and the Primary Land Development Banks (PLDBs). The CLDB was working at the state level and PLDBs were operating at the district level. The branches of PLDBs are spread throughout the district particularly at taluka level. But, there was single CLDB for each state. As there are a number of districts in a state, many primary land development banks are working in a state. However, there were also the mixed type of LDBs in states like Himachal Pradesh and West Bengal.

(b) **Primary Co-operative Agriculture and Rural Development Banks (PCARDBs):**

The PLDBs are today called as the Primary Co-operative Agricultural and
Rural Development Banks. The PCARDBs deal with the farmers directly. They provide loans against the security of land or other agricultural property. Loans are generally given on the first mortgage and in exception on the second mortgage of land or agricultural property. Charging very high rates of interest, red-tapism, delays granting loans, very high margin complicated procedures etc. are the defects in the working of these banks.

The number of branches of PCARDBs increased from 463 in 1960-61 to 696 in 2005-06. However, the growth rate declined from 61.88% in 1960-61 to 4.26% in 2005-06. These banks mobilized deposits of Rs.13, 117 crore in 2005-06. The deposits collected in 2004-05 were Rs.7, 304 crore.

e) Regional Rural Banks (RRBs):

On the recommendation of the M. Narashimham Working Group (1975) the Government of India established the Regional Rural Banks to satisfy the surplus credit demand from the economically and socially weaker section. The Banking Commission of 1972 also recommended for creating a substitute agency for rural credit. The M. Narashimham Group anticipated that the establishment of RRBs will surely ‘create a local feel with the rural people’.

Consequently, the Regional Rural Banks were established by the RRB Act of 1976. These banks were established for developing the rural economy by providing finance to productive operations in agriculture, trade, commerce and industry in the rural area. Credit and other facilities were also extended particularly to agricultural workers, artisans, small and marginal farmers etc. The share capital of RRBs was provided by the Central Government, concerned State Government and the sponsor bank in the percentage of 50:15:35 respectively.

RRBs have been playing a very important role in the agriculture and rural development of India. Through their huge banking network, these banks have vastly reached to the people in rural area. Consequently, RRBs have become the vital financing institutions at the rural level. They meet the credit requirements of rural people from weaker sections. But, today, most of the Regional Rural Banks are suffering from mounting overdue and non-performing assets.
Objectives:
The objectives of the RRBs were determined as follows:

1. To extend banking services to the rural people who are still deprived of it.
2. Supplying the institutional credit at cheaper interest rate to the weaker section of the society.
3. To mobilize rural savings for exploiting it for lending to productive activities in the backward area.
4. Generating employment in the rural area.
5. To curtail the cost of supplying finance in rural area.

The funds owned by Regional Rural Banks include share capital, deposits and the reserves. The owned funds were ₹ 12247.17 crore on 31 March, 2010 and researched to ₹ 13837.92 crore on 31 March, 2011 with a growth of 13.0%. The increase in owned funds was mainly due to the profit making RRBs. Deposits increased from ₹ 145036 crore to ₹ 166232.44 crore during the study years registering the growth rate of 14.60 percent. Borrowings of RRBs augmented from ₹ 18778 crore to ₹ 26493.81 crore with an increase of 41.10%. The percentage of total loans outstanding was 26.8% in 2010 but declined to 22.7% in 2011. The investment of RRBs also increased from ₹ 79389.16 crore to ₹ 86513.44 crore during the years mentioned above. This increase was of 8.98%. Out of 82 RRBs, 75 RRBs earned profit of ₹ 2422.75 crore during the year 2010-2011. The profit was slightly lower than the previous year. The remaining 7 RRBs incurred losses of ₹ 71.42 crore. On 31 March 2011, 23 out of 82 RRBs continued to incur losses. There was an improvement in the recovery percentage from 80.09% in June, 2009 to 81.18% in June 2010. The total cash/deposit ratio of RRBs increased from 57.10% to 59.51% during the study period.

Weakness of RRBs:

Although RRBs achieved rapid branch expansion and increase in volume of business but the drawbacks of these banks are:

1. Limited area of operation
2. High risk in lending to the weaker target group only.
3. Lending only to poor at concessional rate of interest lowered the profitability.
4. Rising losses resulted in poor resource base.
5. Narrow base of investment caused low rate of earning.
6. Heavy dependence on sponsor banks for capital.
7. Step-motherly treatment from the sponsor bank.
8. Inadequate knowledge of customers caused higher overdue.
10. Inadequate skills of the staff.
11. Lack of familiarity and affinity to the rural poor.

4.8. Special Agriculture Credit Plan (SACP):

Since 1994-95, the public sector banks have been formulating the Special Agricultural Credit Plans for obtaining unique improvement in the supply of farm credit. Under the SACP, the participating banks fix themselves a set of targets for achieving during the given financial year. The revised targets fixed by banks showed an increase of 20 to 25 per cent over the disbursements in the previous year. During 2005-06 and 2006-07 actual disbursement exceeded the targets set. But during the year 2007-2008, actual disbursement was less than the target fixed. In this year actual disbursement was Rs. 1,33,226 crore as against the target of Rs. 1,52,133 crore. Thus, the disbursement was 87.6% of the target fixed.

Since the year 2005-06, the SACP was also made applicable to private sector banks. During the year 2007-08, the credit disbursement by private sector banks was Rs. 47,862 crore as against the projection of Rs. 41,427 crore. Thus, credit disbursement of private sector banks exceeded the target fixed.

While making comparison regarding targets and disbursement of the public sector banks, it is found that generally these banks distributed farm credit more than the targets set.

<table>
<thead>
<tr>
<th>Year</th>
<th>Targets (RS.Crore)</th>
<th>Disbursement (RS.Crore)</th>
<th>Achievements (%)</th>
<th>Growth in Disbursement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>85024</td>
<td>94278</td>
<td>110.9</td>
<td>44.6</td>
</tr>
</tbody>
</table>
The Table No.4.1 presents the figures of targets, disbursement and percentage achievement from 2005-06 to 2007-08. During this period targets fixed increased from Rs.85024 crore to Rs. 152133 crore. Likewise, the loans disbursed also increased from Rs.94278 crore to Rs. 133226 crore. In the year 2005-06 and 2006-07 actual disbursement was more than the targets fixed. However, in 2007-08 actual disbursement was less the target fixed. This year actual disbursement was only 87.6% of the target fixed.

**Table No. 4.1-SACP by Public Sector Banks in India**

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>118160</td>
<td>29.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>122443</td>
<td>103.6</td>
</tr>
<tr>
<td>2007-08</td>
<td>152133</td>
<td>87.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.81</td>
</tr>
</tbody>
</table>


4.9 *Kisan Credit Cards (KCC) Scheme:*

The KCC scheme is a revolutionary credit delivery system for providing cheap, enough and well-timed credit to agriculturists. A simplified procedure is adopted for entire farm credit including short, medium and long-term credit. Under this scheme, beneficiaries are provided a credit card and a pass book or a credit card cum pass book. The name, address, land holding particulars, borrowing limit, validity period are mentioned in passbook for KCC. It is essential to affix a passport size
photograph of the customer. This credit card can be used both as an identity card and for recording the loan transactions. It is very useful in providing affordable credit to farmers. This card (KCC) allows the farmers to acquire cash credit without facing the bank credit screening processes. The repayment of loan is restructured if there is an unfavorable crop season. In case of adverse crop season, extension for four years is granted. The card is valid for three years subject to annual renewals.

The KCC scheme was launched jointly by the Central Government, Reserve Bank and NABARD in August, 1998. Currently, the scheme is being implementation in the entire country. The KCCs are issued by the Commercial Banks, RRBs and Cooperative banks also. This scheme has received plenty recognition among the bankers and farmers.

The Government of India constituted the Working Group under the Chairmanship of Shri T. M. Bhasin to analyze the progress of Kisan Credit Card scheme and suggest changes in it. This working group made various suggestions for making the KCC a Smart Card cum Debit Card.

After accepting the recommendations of the working group, the Govt. of India revised operational guidelines for the improvements in the earlier KCC scheme. These guidelines are as under:

1. Plastic card in place of paper card for to be used as ATM debit card.
2. Wider delivery channels, Cheque facility, TM debit card and Mobile handsets
3. Notional level hike of 10% for fixing credit limit from second year. More emphasis on financing Joint Liability Groups
4. At first, single time documentation and thereafter use of declaration should be applied.
5. Accessing online land records.
6. Thus, KCC scheme helps in providing sufficient and well-timed crop credit for purchasing inputs like HYV seeds, chemical fertilizers and pesticides. This scheme is elastic and cost saving.

**Features of KCC Scheme:**

1. The agriculturists who are eligible for obtaining the production loan of Rs. 5,000 or more will be eligible for getting KCC.
2. At the same time, the farmer is given Kisan Credit Card and pass book also.
3. Any numbers of withdrawals within the limit are allowed.
4. The credit limit is fixed on the basis of the operational land, cropping pattern and finance required.
5. Fixation of sub-limits for credit will be done by the banks as per their judgment.
6. KCC will be valid for 3 years subject to the annual renewal.
7. Each withdrawal should be repaid maximum within 12 months.
8. Conversion or re-scheduling of loans also permissible.
9. The rate of interest will be charged as per the RBI norms.
10. Withdrawal through issuing branch or through other bank branches is allowed.
11. At the time of withdrawals, Kisan Credit Card should be accompanied with the passbook.

Benefits of KCC Scheme:

a. Provision of hassle-free, timely and affordable credit to farmers
b. Decrease in working of branch staff.
c. Escape from repeated assessment and handing the of loan papers.
d. Least paper work, oversimplification of loan process.
e. Improvement in recovery of loans.
f. Reduction in transaction cost.
g. Better relations between bankers and client.
h. Personal accident insurance cover for death Rs50,000 and for Disability Rs.25,000

4.10 Interest Subvention Relief Scheme:

In 2006-07, the commercial banks were directed to allow two percent relaxation of interest rate on the principal amount up to Rs.1 lakh for each crop loan granted during the kharif and rabbi season of 2005-06. Further, the Public sector banks, RRBs and cooperatives were informed that from 2006-07, the Government would provide interest rate relief of 2% per year for short-term production credit up to Rs. 3 lakh. This financial support was available to the public sector banks, RRBs and
rural cooperatives on the condition that they must lend short-term loans at seven percent interest rate per year. This interest rate subvention scheme is still in operation for short-term loans up to Rs. 3 lakh.

4.11 Debt Waiver and Debt Relief Scheme for Agriculture:

Agricultural Debt Waiver and Debt Relief scheme for farmers was announced in the union budget for 2008-09. The total amount of overdue to be waived was estimated at Rs. 50,000 crore. A one-time settlement of relief on the overdue loans of Rs. 10,000 crore was granted by all the RRBs, scheduled commercial banks and the credit cooperatives. The scheme was finalized by the Government of India in discussion with RBI and NABARD. Direct agricultural advances given to small and marginal farmers by the SCBs, RRBs, rural cooperative credit institutions and local area banks were covered under this scheme. Accordingly, Reserve Bank informed to all the concerned banks to take essential steps for the implementation of the scheme. The NABARD also issued parallel directives to RRBs and rural cooperatives. For implementing this scheme, the Government of India provided Rs. 25,000 crore as the first installment to commercial banks, RRBs and cooperatives. Simultaneously, RBI also gave liquidity support of Rs. 17,500 crore to RRBs and cooperative banks. The RBI also gave liquidity support of Rs. 7,500 crore to commercial Banks. This was done to ensure adequate financing for agricultural operations by banks.

Summary:

Thus, this chapter titled ‘Theorotisation’ dealt with the nature of agricultural credit, objectives of agricultural credit, methodology of estimating agricultural credit requirements, theories of agricultural credit, working definitions of terms used, demand and supply gap in agricultural credit, structure of agriculture credit system in India, Special Agricultural Credit Plan, Kisan Credit Card scheme, Interest Subvention and Relief Scheme and Agriculture Debt Waiver and Debt Relief Scheme. In the next chapter classification, tabulation and analysis of the data pertaining to agricultural credit in India will be done using quantitative methods like percentage, average, growth rate, geometric mean etc.
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