Chapter 2

Need and Source of Agriculture Finance in India

In the economic history of a country, banking and bankers have always occupied a respectable place. In case of India also "there is plenty of evidence to show that even prior to the advent of occidental ideas, India was not a stranger to conception in of banking". Chanakya's Arthashashtra (about 300 B.C.) is full of facts to show that there were in existence powerful guilds of merchants bankers who received deposits, advanced loans and carried on other banking functions. Manu in his Smiriti, has written considerably on such types of activities by a section of persons of the society. It was the foreign invasions from 6th century onwards and consequent political instability that seriously undermined their status and standing. But individual bankers continued to prosper so much so that the famous Dilwara Temple of Mount Abu "is said to have been built by two bankers during 1197 and 1247 A.D. Mr. J.B. Travernier, a French traveller in 17th century, has mentioned that practically every village of India was having a shroff who according to him acted as a banker. During the Mughal period, the indigenous bankers were fairly prominent in the financing of trade and the use of instruments of trade.
Emperor Aurangzeb in his regime conferred the title of ‘Seth’ on the most eminent banker of his time known as Maneekchand. Seth Maneekchand and his five other brothers were equally great bankers. Emperor Farrukhsiyar conferred on Fatehchand, nephew of Seth Maneekchand, the title of “Jagat Seth” the banker of the world. The house of Jagat Seth virtually came to occupy the position of the Rothschild’s of India and rendered great assistance to the East India Company, in the early days of the British advent. Lord Cleve in 1859 is said to have entertained Jagat Seth for four days at a cost of Rs. 17,374. In those days the revenue of the East India Company was collected primarily through these indigenous bankers of various districts particularly in Bengal.

But banking in the modern sense came to be established in India with the setting up of three Presidency Banks—the Bank of Bengal in 1806, the Bank of Bombay in 1840 and the Bank of Madras in 1843. These were successors to agency houses, which invariably combined banking with their commercial and trading activities, and were floated by the East India Company to facilitate the borrowings of the Government and maintenance of credit. These presidency banks were amalgamated in January 1921 into the Imperial Bank of India. The intention was to create a Central Bank in the country with monopoly of note issue and serve as bankers’ bank and a government bank. To begin with, it was
shareholder’s bank until its transformation as the state Bank of India in July 1955. By this time, a number of joint stock company banks had come to be established after the acceptance of the principle of limited liability in 1860. The year 1860 is therefore, considered to be a landmark in the banking history of India as it was after wards that some of the well-known banks were formed—the Bank of Upper India (1863), the Allahabad Bank (1865) the Bangalore Bank (1868), the Alliance Bank of Simla (1874), etc. Indian-managed joint stock banks also began to be floated; the first being the Oudh Commercial Bank in 1881, followed by the Punjab National bank in 1894. Then the Swadeshi Movement of 1906 gave rise to the Bank of India, the Indian Bank at Madras, the Central bank of India, the Bank of Baroda, and the like.

The two world wars proved a boon to the banking industry when many large and small banks were started. A good proportion of them stood the test of time and survived the subsequent crises, especially the Great Economic Crash (1929-33). But at least an equal number of them failed and fell like the leaves of autumn as soon as the boom and prosperity of the war was over. Though the Reserve Bank of India was constituted in 1935, much could not be done in respect of bank failures till the Banking Companies Act was put on the statute book in March 1947. It changed the whole approach towards commercial banking and Government came
to recognize it as a positive instrument for faster economic development.

**Sources of Agricultural Finance**

It would be incorrect to categories the Indian banking system into modern and indigenous, or into organized and unorganized sectors. If at all it has to be classified, the basis should be nothing else then functional, where its constituents are: ¹

- Cooperative Banks
- Land Development Banks
- Indian Commercial Banks-Scheduled and Non-scheduled
- Regional Rural Banks
- Agricultural Refinance and Development Corporation
- Agricultural Finance Corporation Ltd
- State Bank of India and its Associates
- National Banks for Agriculture and Rural Development

**Cooperative Banks**

The establishment and growth of Cooperative is regarded as one of the important instruments for economic, social and cultural development as well as human advancement in developing countries.²
The cooperative credit movement was officially launched in India in 1904 after the famous prescription of Nicholson to "Find Raiffeisen". It represents a three-tier structure—Primary Agricultural credit societies (PACSs) forming the ground floor, the central cooperative banks (CCBs) the middle level, and the state cooperative bank (SCBs) the top floor as the open institutions whereas the Primary societies deal directly with individuals, the central banks deal with primaries and are in turn dealt by the state cooperative banks. To begin with, the primary credit societies were established with unlimited liability but now limited liability is accepted principle as it is with central and state cooperative banks and land development banks. Banking laws (Application to cooperative societies) Act 1965 with affect from March 1, 1966, the date on which this Act come into force, these state cooperative banks and primary non-agricultural credit societies which have a paid-up capital and reserves of not less than Rs. 1 lakh have been brought within the regulatory framework of the Reserve Bank. Accordingly, the name of the banking companies Act was changed into Banking Regulation Act. The number of licensed cooperative banks coming under the purview of the banking Regulation Act, as on June 30, 1982, numbered 1634 comprising 30 SCBs, 346 SCB and 1258 PACs.

An integrated approach to development calls for a well conceived development and productive plans duly supported
by a well-knit infrastructure, service facilities and timely credit through institutions. To bring about change such as structural, economic and social is not a quick or easy task. Cooperatives offer one way, perhaps the best way to attack these problems at the grass root level. A cooperative society is an organization, which has as its objective the proportion of the economic interest of its members or the promotion of thrift, self common economic needs, so as to bring about better living better business and better methods of production. Thus cooperatives have a major responsibility in the total effort to improve and develop communities.\(^3\)

Cooperative method of banking or any other business has been applauded by most of the theorists as well as by the people in the practical lines of business. But especially in the countries like India, which have been stamped as 'underdeveloped', this method is of overwhelming importance. In India, the need for capital is enormous but its supply is not sufficient. This is due to the low rate of capital formation through savings. The banking business in the country has been in the hands of big capitalists who never care to mobilize their funds in the common interest of the people except in the cases they receive huge profits. Their lending policies are such that only a small number of top class businessmen can get loans from these banks.
In such a situation, cooperative banks can play a vital role in the finance of developing economy. Agriculture is the main industry in India but that is out of the reach of the commercial banks in the country. It is only cooperative banks that can help the agriculture since they are established on the lines of cooperative and the rise, which is there in business, is distributed among all the persons equally. Cooperative banks can also be more successful in collecting deposits in small amounts from the villagers. Developing Indian economy offers a vast scope for the application of cooperation in its various forms. The socialist pattern of society necessitates the creation of a large number of decentralized units, both in industry and agriculture.

In its report published in 1954, the All India Rural Survey Committee laid emphasis on a coordinated scheme of the development of cooperation in India involving cooperative credit cooperative economic activity and cooperative education. "The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their very existence. The forces of transformation have at least to be powerful which are sought to be counteracted. Such forces can be generated not by cooperation alone but by cooperation in conjunction with the state". This recommendation of the Rural Credit Survey Committee Report is being implemented by the organization
of state partnered cooperation in the sphere of credit and other economic activities.4

The cooperative credit sector consists of state cooperative banks (SCBs), state land development banks (SLDBs), central cooperative banks (CCBs), primary agricultural credit societies (PACs), primary land development banks (PLDBs) and primary cooperative banks (PCBs).5
Primary Agriculture Credit Societies

As indicated in the beginning the primary agricultural credit societies (PACs) constitute the foundation of the three-tier Cooperative credit structure being developed over the past several decades with a view to institutionalize farm credit in the country. Latest additions to these societies are the Farmer’s Service Societies (FSS) and the Large Size Adivasi multi Purpose Cooperative Societies (LAMPS). The main features of these three types of societies may be seen in the chart given below:

### Distinguishing Features of Different Types of Primary Agricultural Credit Societies

<table>
<thead>
<tr>
<th>Features</th>
<th>PACS</th>
<th>FSS</th>
<th>LAMPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Coverage</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Generally a small area of not less than 2,000 hectares of cropped areas.</td>
<td>A large area of operation extending up to a block or population of 10,000</td>
<td>Area up to a block or a tehsil</td>
<td></td>
</tr>
<tr>
<td>Type of beneficiaries</td>
<td>Generally all types of farmers (big, medium and small)</td>
<td>All farmers and other rural households including rural artisans, agricultural labourers, etc.</td>
<td>Mainly tribals</td>
</tr>
</tbody>
</table>
### Need and Source of Agriculture Finance in India

<table>
<thead>
<tr>
<th>Nature of Credit business</th>
<th>Short-term crop loans and medium-term loans for agricultural and allied activities.</th>
<th>Multi-term and multi-purpose credit.</th>
<th>Short-term, Medium-term and long-term loans including consumption loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure of non-credit business</td>
<td>Supply of farm inputs, distribution of essential commodities, etc.</td>
<td>Package of services</td>
<td>Package of services including supply of consumer goods and marketing of minor forest produce and other products of members</td>
</tr>
<tr>
<td>Management</td>
<td>(a) Full time paid secretary, (b) Board of Directors consisting of 11 members of whom not less than 50 per cent shall represent weaker sections</td>
<td>(a) Whole-time Managing Director and Functional Specialist, (b) Board of Directors consisting of 11 members of whom five shall be representatives of weaker sections and two shall be elected from among other members besides two nominees of the Registrar of Cooperative Societies, one nominee of the financing bank and the Managing Director, ex-officio.</td>
<td>(a) Whole-time Managing Director and other staff, (b) Board of Directors consisting of 11 members of whom five shall be elected from among tribal members, besides two nominees of the Registrar, Cooperative Societies, one nominee of the financing bank and the Managing Director, ex-officio.</td>
</tr>
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Sources: Chobey, B.N., Agricultural Banking in India, Supplemental Role of Commercial Banking, National Publishing House, N. Delhi 1994, p. 170

**Central Cooperative Banks**

In the formal sense, cooperation was launched in India in 1904. The original schemes of cooperation provided for organization of Primary Agricultural Credit Societies at the
village level with a view to reduce the exploitation of the poor peasants by the private money-lenders. It did not contemplate the organization of federal societies to function as financing agencies for the village primaries, which in most cases could not mobilize adequate financial resources through share capital from members, and thus failed to meet the ever increasing demand for agricultural credit by farmers.

In order to mitigate the above problems faced by the primaries, the Central Government passed another cooperative legislation in 1912. The Act of 1912 provided for the organization of higher federal societies. Taking advantage of the new enactment, primary cooperative credit societies in compact areas federated themselves into banking unions and formed Central Cooperative Banks which in view of their financial strength and management competence were expected to mobilise funds through various kinds of deposits and divert the flow of funds from urban areas to village societies most of which were starving for want of funds. Thus, Central Cooperative Banks as federal institutions-formed, composed and governed by primary societies themselves, came to be organized all over the country.

The National Bank for Agriculture and Rural Development Bill, 1981, already passed by the Parliament in December 1981 for establishment of a national bank for
agriculture laid down the following definition of a Central Cooperative Bank:

"Central Cooperative Bank" means the principal cooperative society in a district of a State, the primary object of which is the financing of other cooperative societies in that district.

"Provides that in addition to such principal society in a district, or where is no such principal society in a district, the State Government may declare any one or more cooperative societies carrying on the business of financing other cooperative societies in that district to be also or to be a central cooperative bank or central cooperative banks within the meaning of this definition.

Following the recommendations of the All-India Rural Credit Survey Committee (1954), the structure of Central Cooperative Banks was rationalized and small banking unions/Central Cooperative Banks in a district were reorganized into a single District Central Cooperative Bank with a view to make it strong and viable institution. Thus, Central Cooperative Banks constituted the second tier in a three tier cooperative agricultural Credit structure in the country.7
**State Cooperative Bank**

The state cooperative bank is the open institution of the cooperative credit structure. These banks act as a banking medium between central cooperative bank and state cooperative banks (SCBs) acts as the banker of banks in respect of central cooperative banks. These banks also link the cooperative credit societies with the country money market. Central cooperative banks are guided and supervised by these open banks. The state cooperative bank generally provides short and medium term loans to central cooperative banks. The medium term loan is provided on slightly higher rates.\(^8\)

The state cooperative banks provide long-term credit through primary agricultural credit societies, farmer services societies and large size adivasi multi purpose societies of farmers.\(^9\)

The following chart gives an idea about the position of a State Cooperative Bank in the three-tier cooperative credit and banking structure:
It is evident from the above structure that a State Cooperative Bank derives its strength and support from the Primary Agricultural Credit Societies (PACs).\textsuperscript{10}

As mentioned earlier most of the Union Territories were served by a two-tier structure comprising of a state cooperative bank at the state level and the PACs (Primary Agricultural Credit Societies) at the village level. This is a departure from the accepted three-tier pattern contemplated under the Integrated Scheme of Rural Credit recommended by the All-India Rural Survey Committee.

Although the official policy regarding the three-tier pattern continues to be the same, there have been controversies between the three-tier and the two-tier structure of the Cooperative.\textsuperscript{11}

**National Commission on Agriculture Recommends FSS**

The National Commission on Agriculture, which has examined in depth the requirements and problems in respect of credit services for small and marginal farmers and agricultural labourers had come to the conclusion that the existing cooperatives had failed to take care of small and marginal farmers. The commission also found that even commercial banks had failed to reach the small and marginal farmers. It also observed that whatever credit was made available to the farmers through cooperative or commercial
banks it was not integrated with easy availability of inputs, extension and other services for supporting production and successful marketing which resulted in inadequate and ineffective end-use of credit.

In the light of their findings, the Commission recommended the organization of Farmers' Service Societies (FSS) for each tehsil/block or any other viable unit of convenient size with as many branches as might be required in the area.\textsuperscript{12}

**Bawa Committee Recommends LAMPS**

In the meantime, a special Study Group was appointed to go into the institutional arrangement for the providing agricultural credit and other facilities for the development of agriculture and allied activities in certain backward tracts and Adivasi/Tribal areas.

From the above discussion, it may seen that at the primary level three types of cooperative organizations have been accepted, namely PACs? FSS and LAMPS, the comparative feature of which is already indicated earlier. The primary structure, therefore, comprised of 1.13, 124, 1.577 and 1,424 LAMPS as on 30.06.1978.\textsuperscript{13}

**Land Development Bank**

The LDB (Cooperative & Rural Development Banks) grant medium and long-term advances against the
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Conveyance of land as security. The duration of such loans is generally 5 to 20 years, and their common purposes are (i) repatriation of old debts, (ii) purchase of land (iii) purchase of livestock and costly agricultural equipments (iv) consolidation and improvement, of holdings and (v) effecting permanent improvement in the productivity of land. Why their earlier name of land mortgage banks was restrictive and the new designation better places their role in providing investment credit for improved agriculture. Although the first such bank was established at Punjab in 1920, the real beginning of the movement was made with the formation of the central Land Mortgage Bank in Madras in 1929 and then, the lead was followed by many other states.

These have been established on cooperative lines because of the merits of cheaper management better information about credit worthiness of clients and the availability of Government subsidy.14

The All-India Rural Credit Survey Committee was in favour of a two-tier structure of land mortgage banking (1954) in the country, which contemplated the establishment of a Central Land Mortgage Bank in each State affiliating Primary Land Mortgage Banks at the taluka or district level. According to the Committee, all the areas in a State should be gradually covered by Primary Land Mortgage/Development Banks to be ultimately affiliated to
the Apex Central Land Mortgage Banks at the state level. The Primary Land Mortgage Banks were preferred as the Committee thought that they could play a very useful role in the involvement of the beneficiaries in the process of development, assessment of the credit needs of the borrowers, examination of loan applications for improvement of land and supervision over the use of loans with the help of intimate local knowledge and experience which could not be otherwise done effectively by a branch of a Central Land Mortgage Bank. For those States in which land mortgage banking had not yet started, the Survey recommended that in the first instance a Central Land Mortgage Bank should be organized and this Bank should take initiative to open branches in the districts and subsequently convert them into Primary Land Mortgage Banks.  

Central Land Development Bank also undertakes to develop long-term banking in the country. For that it extends necessary help and assistance to the Government in the implementation of schemes of agricultural and cooperative development in the area of its operation. The State Land Development Bank coordinates the policies and programmes of long-term banking with that of other organs of the cooperative banking structure engaged in dispensing short and medium-term credit. They provide the necessary links to the whole system with the RBI, ARDC and the Government.
By issuing Rural Debentures it helps in mobilisation of rural savings and creates favourable conditions under which capital formation in the agricultural industry might be made possible.

The Rural Development Banks save the small and medium agriculturists from the clutches of private moneylenders, stop alienation of lands, distress sales and help them in effecting permanent improvement on their lands and in productivity.

As an apex organization it is the main pivot for the organs of long-term credit structure and acts as a friend, philosopher and guide for all the Primary Land Development Banks affiliated to it.16

Commercial Banks

At the close of the 19th century, the Swadeshi movement led to the establishment of banks owned and run by Indian capital and management. The Punjab National Bank was the first such bank established in 1895. A number of other banks with Indian capital and management were established in the beginning of 20th century such as the Bank of India Ltd. in 1907, the Bank of Baroda Ltd. in 1908 and central Bank of India 1911. In 1920, the three presidency banks were amalgamated to form the Imperial Bank of India. During the pre-world war II period the banking business witnessed tremendous growth, so much so, that by 1939 there were 1500
Joint Stock Banks operating in India, some of which were tiny establishment, and were later liquidated, while some other later on, got amalgamated with other banks. All these banks were, however, established at important trading centers, and catered to trading centers and to the needs of growing trade and commerce.

Till the end of the 19th century, various banks in India were catering to the needs of trade and commerce and were, providing service to the people of cities and towns.

Indian banking system recorded rapid progress. This was due to plan economic growth, increase in money supply, growth of banking control and guidance by Reserve Bank and the nationalization of banks, etc.

In 1950-51 there were 430 commercial banks but the number of banks declined rapidly due to the Reserve Bank’s policy of mergers amalgamations of small banks with big banks, as a measure of strengthening the banking system. In 1960-61, for instance, there were 256 small non-scheduled commercial banks but in 1979-80 there were only 6 such banks; the rest of them were merged with bigger banks and had became large banks, themselves. In 1985, there were 256 reporting scheduled commercial banks in the country.

Commercial banks can be divided into two groups: public and private sector banks. The public sector group is the most important and consists of the State Bank of India.
along with its seven affiliates and 20 other nationalized banks.19

The promulgation of the ordinance dated 19th July, 1969 ring the acquisition of the following Private Mercial Banks by the Central Government:

- The Central Bank of India, Limited
- The Bank of India, Limited
- The Punjab National Bank of India, Limited
- The Bank of Baroda, Limited
- The United Commercial Bank, Limited
- Canra Bank, Limited
- United Bank of India, Limited
- Dena Bank, Limited
- Syndicate Bank, Limited
- The Union Bank of India, Limited
- Allahabad Bank, Limited
- The Bank of Maharashtra, Limited
- The Indian Overseas Bank, Limited20

Subsequently, the Ordinance was replaced by the Banking Companies (Acquisition and Transfer of undertakings) Act, 1969, which came into force from 9th August 1969. The names of the above mentioned 14 banks were incorporated in the first schedule of the Act after dropping "The" prefix and suffix "Limited". Otherwise, the identity of all these banks has been kept intact and they are
functioning as usual. The property in these banks now vests in the Union Government as per the provisions of the Act.

**Nationalisation of 6 More Banks**

On April 15, 1980, the President of India issued an Ordinance nationalizing 6 more banks each with demand and time liabilities in India of not less than Rs. 200 crores. The 6 banks were:

- The Andhra Bank, Limited
- The Corporation Bank, Limited
- The New Bank of India, Limited
- The Oriental Bank of Commerce, Limited
- The Punjab & Sind Bank, Limited
- The Vijaya Bank, Limited

With the nationalization of above 6 banks, the number of public sector banks excluding Regional Rural Banks increased from 22 to 28 (comprising the State Bank of India, and its 7 subsidiaries and 20 nationalised banks). The share of the public sector banks in the total outstanding deposits and credit of the commercial banking system went up to 91% each; it was 84% each prior to nationalization.21

**Regional Rural Banks**

The Government of India announced a 'New Economic Programme' called the 'Twenty-Point Economic Programme' on July 1, 1975 (soon after the declaration of Emergency on
June 25, 1975). Some of the points specifically aimed at ameliorating the lot of weaker sections of the rural society. These programmes contained a ‘plan for liquidation of rural indebtedness through a legislation or moratorium on recovery of debts from landless labourers, small farmers and rural artisans. In July 1975, the Government of India issued guidelines to the State Governments asking them to take suitable legislative action to ensure that all the debts of marginal farmers holding up to 2.5 acres of unirrigated land are treated as totally discharged, and those of the small farmers holding land between 2.5 to 5 acres are suitably scaled down, and to declare through the courts a moratorium on the recovery of loans for a period of one year. Similar scaling down of loans for farmers holding irrigated land as per defined conversion ratios was also to be ensured. It was felt that these legislative actions will in all likelihood dry-up the sources of finance for the village people, and the traditional sources will start demanding exorbitantly high rates of interest for supplying credit to the poor farmers, therefore, the Government of India seriously considered devising new alternative sources of credit to meet the needs of the weaker sections of rural society. It was in this context that the Government of India felt the necessity of establishing rural banks as ‘new institutions on the basis of attitudinal and operational ethos different from those operating in the public sector. The idea of such new rural
banks emanated from the considerations of (a) lowering the costs of rural banking, and (b) operating such banks with local staff in an environment which the poor people in the villages would find most homely. In order to further rationalize and operationalize this idea, the Government of India appointed a working group on Rural Banks, under the Chairmanship of M. Narasimhan on July 1, 1975 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. The working Group submitted its report on July 30, 1975.

Based largely on the scheme recommended by the Working Group on Rural Banks, the first set of 5 Regional Rural Banks was set up in October 1975. The scheme of Regional Rural Banks as accepted and implemented by the Government of India differed greatly from the concept of 'rural banks' advocated by the Banking Commission of 1972, except in so far as it involved the Commercial Banks as equity holders in same proportion-through that ratio was also different from the ratio suggested by the Banking Commission.

The RRBs were to be set up mainly 'with a view to developing the rural economy by providing for the purpose of development of agriculture trade, commerce, industry and other productive activities in the rural areas, credit and other
facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith the incidental thereto.  

Each RRB will be sponsored by a Scheduled Commercial Bank (mainly a Public Sector Bank), which shall initiate the proposal in consultation with the concerned State Governments, and will finally come into being under licence from the RBI with the approval of the Central Government. The sponsoring bank will provide assistance to the RRB by subscription to its share capital equal to 35% of its issued and paid up capital, and by providing managerial and other staff assistance within the first five years of its existence on mutually agreed, terms and financial assistance through refinancing on mutually negotiable terms.  

Dantwala Committee on Regional Rural Banks  

RBI appointed a committee under the Chairmanship of Mr. M.L. Dantwala to examine the working of Regional Rural Banks. The main findings may be summarized as follows:

- With some modifications in their organization and functioning, the RRBs “can become a very useful component in the totality of rural credit structure”

- The Dantwala committee was convinced that within a short period of two years, RRBs have demonstrated their capability to serve the purpose for which they are established.

- The RRBs have established “their image as a new type of institutions catering to the credit needs of a class of
borrowers to whom institutional credit was hereto not available.

- Hence, the Dantwala Committee does not approve of the idea of scrapping of RRB structure
- The RRBs are well suited for the purpose of "progressively filling up the credit gap in the rural section".
- Hence, the programme for the establishment of more RRBs deserves to be accelerated.
- In the Dantwala Committee's view establishment of RRBs will not disturb the cooperative credit structure at the base level". It is assured that the reorganized primary Agricultural Cooperative credit societies and Farmers service societies, whether they can be effectively organized will constitute "the base of the rural credit structure".
- RRBs should "Function at the intermediate level"
- As regards RRBs relationship with the cooperative institutions at the intermediate level (Central Cooperative Bank, District Central Cooperative Banks) and at the retail level (i.e. Primary Agricultural Cooperative Credit Societies and Farmer's Service Societies) are weak and inadequate, RRBs can fill up the gap”.
- In the first instance, RRBs should be extended to such areas where the Central Cooperative Banks (i.e. DCC Banks) are not able to adequately serve primary credit societies within their jurisdiction. Where the cooperative structure at the intermediate level (i.e. DCC Banks) is fairly strong, the question arises as to whether RRBs and the Cooperative pattern at the intermediate level can co-exist.

The Dantwala Committee was of the opinion that "the credit was of the opinion that "the credit gap, both
quantitative and qualitative, is so large that given a spirit of understanding both RRBs and central cooperative banks can function side by side without a class of interest. This means that the most relevant criterion for the selective extension of RRBs at the state level and the cooperative credit structure at the district level". In as many as 182 districts, the DCC Banks are weak, the 48 RRBs, established covered 55 of these 182 districts. To start with the programme of establishing new RRBs should be jointly chalked out by the Agricultural Credit Department of RBI and the Department of Banking operations and Development of RBI in consultation with the state Governments and Commercial Banks.

- Commercial banks operating in the 'commercial area' of RRB should be persuaded to 'progressively entrust their rural credit business which their rural branches are currently doing to RRB and its branches, keeping in view RRBs capacity to shoulder the responsibility.

- In the opinion of the Dantwala Committee, "the total replacement of rural branches of commercial banks by RRBs and their branches over a period of time would be acceptable to commercial banks and be welcomed by the rural clientele".

- There has been since 1969 rapid expansion of rural branches of commercial banks. The Dantwala Committee has suggested that the Reserve Bank may discuss with the Commercial Banks "the policy of extension of their rural branches during the first phase of selective establishment of RRBs. The Committee has recommended that the Government of India and the
Reserve Bank may take steps to initiate the process of making RRBs an integral part of the rural credit structure”.

The Dantwala Committee was of the opinion that “ideally the jurisdiction of a rural bank (RRBs) should be confined to one district. Since the size and the state of economic development of districts vary a great deal, it is advisable to retain some flexibility in this and other related matters. Naturally one RRB should cover a population of 10 to 15 lakhs. From the angle of financial viability and managerial efficiency, the reasonable number of branches (per district) of each RRB will be between 50-60. Each RRB branch would cover approximately a population of about 20,000.

Major Recommendations of the Working Group on Rural Banks

The working Group took note of the fact that while the major strength of the cooperative credit institutions lies in the local feel of the village society, the main strong point of commercial banks has been its professional management. The working group also took note of the weaknesses of both the cooperative institutions as well as the commercial banks, and realized that there does exist a gap on the rural credit scene both in terms of functional needs as well as geographical coverage. It further noted that steps have to be taken to meet the financial needs of the landless labourers, small and marginal farmers and village artisans who have been often neglected by both the cooperative, as well, Commercial Banks. With these considerations in mind, the Working Group made the following recommendations:
1. that new institutions to be called 'Regional Rural Banks' be set up which should be State sponsored, Regionally based and Rural-oriented Commercial Banks, and should combine the 'local feel' and familiarity with rural problems, which cooperatives possess, and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized out-look which the Commercial Banks have.²⁸

2. that the major objective of these banks should be to mobilize resources from the region, and deploy them within the same region.

3. that the areas of operations of various credit institutions, including Regional Rural Banks, should be judiciously planned so as to avoid duplication, and that the role of the regional rural banks should be supplement to and not supplant, the other institutional agencies in the field.²⁹

4. that the area of operation or region for each such bank should be an economic region, possibly a backward region with homogeneous agro-climate and socio-economic conditions, and holding out promise and potential for development. It need not necessarily be a district.³⁰

5. that the major thrust of the lending activities of these banks (50 percent at the minimum) should be towards providing productive credit for small and marginal farmers, landless labourers, the small traders, the rural artisans and the like belonging to the weaker sections of the rural society, though the lending to some richer farmers should not be excluded. Consumption loans could also be given by these banks to the poorer sections of the rural clientele upto a specified limit in genuine cases.³¹

6. that these banks should be Scheduled Commercial Banks, with authorized capital of Rs. 1 crore, and initial
issued paid up capital of Rs. 25 lacs which should be contributed by the Government of India, sponsoring Commercial Bank, concerned State Government and other institutions or individuals in the proportion of 50:25:10:15 respectively.  

7. that the sponsoring commercial bank should be the Lead Bank of the area.

8. that the new banks should not follow the organizational hierarchy, high wage structure procedures, systems and behavioural pattern or the culture of the existing commercial banks. Consequently while it envisaged that initially the managerial personnel and some other staff may have to be borrowed from the sponsor banks, it required the rural banks to prepare long term plans to recruit and train the necessary staff preferably from local manpower resources.

9. that these banks should exercise utmost economy in the establishment expenditure; and

10. that initially about five banks be set up to operate in selected areas. The expansion in the number of banks and their extension to other areas should be considered after evaluating the experience gained from the working of these banks.

The Government of India accepted the recommendations of the Working Group after consultations with the Chief Ministers of the States, Chairman of Public Sector Banks, Chairman of the Federations of the State Cooperative Banks and the State Land Development Banks. The Government of India promulgated an ordinance on September 26, 1975 to provide for the incorporation and regulation of the Regional Rural Banks. Initially five Regional Rural Banks started working from Oct. 2, 1975 in
four states. The first five banks set-up under the Regional Rural Bank (Ordinance) were located at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan, and Malda in West Bengal. The Regional Rural Bank Act replaced the ordinance, 1976 on February 9, 1976. The Government also decided to set up a total of 50 RRBs by the end of March 1977 with an expected total number of 785 branches. Each RRB was expected to open a minimum of 20 operating branches within the first year of its operation and 20 to 30 more branches in the second year to cover all relatively unbanked or under-banked centers in the area of its operation. The Government of India expected the 60 RRBs to be able to land Rs. 300 crores for one full year of their operation; and consequently set a target of Rs. 5 lacs per branch per year for deposit mobilisation.

Agricultural Refinance and Development Corporation

The Agricultural Refinance Corporation was set up on July 1, 1963. However, in order to reflect more clearly the promotional and development role being played by the Corporation in agriculture, its name was changed to Agricultural Refinance and Development Corporation (ARDC). The Corporation essentially was a refinancing agency and provided assistance to those agricultural development projects which could not be financed by other institutions either because of the large outlay involved or because the projects could not be brought within the normal
rules business of those institutions. Its establishment was recognition of the fact that if commercial and other institutions were to embark on agricultural finance on a large scale, refinance had to be provided. The main objectives of the Corporation were:

(i) Provision of medium and long-term credit by way of refinance to the primary lenders for facilitating agricultural development.

(ii) Grant of credit otherwise than by refinance up to a maximum period of 25 years to approved cooperative societies.

(iii) Subscribe to the debentures of any eligible institutions, whose payment of interest and repayment of principal were fully granted by concerned State Governments.

(iv) Perform certain development and promotional functions such as locating growth pockets, and rendering necessary expertise for formation, appraisal and implementation of development projects.

With the establishment of the National Bank for Agriculture and Rural Development (NABRD) in July 1982, all the functions of ARDC have been taken over. But in retrospect, since its inception in 1963 up to the end June 1982, the Corporation sanctioned 19,611 schemes with the commitments and disbursements amounting to Rs. 4650 crores and Rs. 2808 crore respectively.

Agricultural Finance Corporations Ltd.

Soon after the scheme of social control over banks was finalized, the agricultural finance corporation was established on April 10, 1968 as a consortium of commercial
banks. The main thrust of the AFC activities is in the area of ‘project formulation’ with special attention to backward areas and the weaker sections.\(^\text{35}\)

It has completed the formulation of its command area development projects. These projects aim at realizing the full potential of the investments made by undertaking, among others, minor irrigation, consolidation of land holdings development of land and water resources and infrastructure facilities crop planning and agriculture extension and development of small marginal farmers and agricultural labourers.\(^\text{36}\)

To make banking institution an effective source of rural finance various new schemes such as the Lead Bank Scheme (LBS), village Adoption Scheme (VAS), Service Area Plan (SAP), Intensive Centre Scheme (ICS) and Regional Rural Bank Scheme (RRBs) were introduced.

**State Bank of India (SBI)**

The bank was established on 1 July 1955 by taking over the entire assets and liabilities of Imperial Bank of India. This is the biggest commercial bank, which stands itself in “A” Class by itself. \(^\text{37}\)

Other commercial banks entered in the field of agricultural and rural finance. Since 1968, the SBI has been providing credit in this field since its inception. The SBI grants direct advances to farmers for all agricultural
operations and not merely be used for substitution of any existing institutional credit channel. The factors, which govern the eligibility of the proposals for agricultural advances, are primarily the progressiveness of the farmers and the economic viability of their schemes. The SBI also provides its financial assistance for special farming activities such as animal husbandry, dairy farming, pisciculture, peggery and poultry farming horticulture and fruit cultivation. The SBI also provides finances to agro-industries corporations to enable them to purchase tractors, power-tillers, pumpsets, etc. and extend hire purchase facilities to farmers for the purchase of agricultural machinery and equipment, custom service units and the storage and distribution of agricultural inputs like fertilizers, pesticides and seeds etc.

To facilitate the financial assistance to Indian farmers, the SBI has created agricultural credit cells at its local head offices and at the head offices of the subsidiaries as also in strategic locations. These cells have been entrusted to the appropriate officers who coordinate the work of agricultural finance in their respective circles and subsidiaries. The SBI also caters to training arrangements with agricultural universities and with the Bankers. Training College of the RBI, Agricultural department officials of various State Governments have also been taken on a deputation basis for
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assisting the bank in implementation of its various schemes in the field of agricultural development.

Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)

The committee to Review the arrangements for institutional credit for agricultural and rural development (CRAFICARD) appointed by the Reserve Bank, which in its report submitted in 1981 examined the role of RRBs in the rural credit system, and made some observation. The important among them accepted by the Government of India for its far-reaching consequences are: 38

(i) As these banks were more suitable for rural development work, preference should be given to them with regard to licensing of branches in the rural areas:

(ii) The Reserve Bank may take necessary steps to facilitate the transfer of eligible business of rural commercial bank branches to the RRBs when such proposals were presented.

(iii) The losses in the initial years should be made good by the shareholders

(iv) Various facilities provided by the sponsor banks should continue for a period of 10 years and

(v) The control, regulation and promotional responsibility of RRBs should be transferred to the newly proposed National Bank for Agriculture and Rural Development (NABARD) from the Government of India and the Reserve Banks.
National Bank for Agriculture and Rural Development

The NABARD has emerged as an apex refinancing institution for agricultural and rural credit in the country since July 1982. It has taken over refinancing functioning from the RBI in respect of State Cooperative Bank and Regional Rural Bank. It has also taken over the ARDC and now it provides all types of production and investment credit to agriculture, small-scale industries and other allied economic activities.

In short the rural credit has been provided by different agencies in Commercial Banks, Cooperatives, Private Institutions and individuals. In view of more credit requirements it was recommended to establish NABARD to look into the rural credit to meet agricultural requirements of the country.
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