CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about two-thirds of the population is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India’s development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which is an important segment of the priority sector lending of scheduled commercial banks (SCBs) and a target of 18 per cent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per
cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance.¹

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases – 1904 – 1969 (predominance of co-operatives and setting up of RBI), 1969-1975 (nationalization of commercial banks and setting up of Regional Rural Banks (RRBs), 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms).

The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Co-operative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so.²

1.2 IMPORTANCE OF INSTITUTIONAL CREDIT

Institutional agencies alone can assess the value of land and the exact financial needs and the repaying capacity of the farmers can be judged by qualified staff of the institutions.

Secondly, the money-lender’s web can be avoided only through the fair practice in the institutions.

Thirdly, institutional agencies alone can supervise the use of loan and also avoid diversion of loans for unproductive channels.

Fourthly, institutional agencies look after the welfare of the farming community by encouraging them to save more and to increase their standard of living and.

Fifthly, institutional agencies have appointed extension officers. These officers make the credit programme successful and also enhance agricultural production. So, for the development of agriculture, the role of institutional agencies is essential.³

### TABLE 1.1

**INSTITUTIONAL CREDIT TO AGRICULTURE**

(Rs. in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-op. Banks</th>
<th>Share (per cent)</th>
<th>RRBs</th>
<th>Share (per cent)</th>
<th>Commercial Banks</th>
<th>Share (per cent)</th>
<th>Total</th>
<th>Per cen -tage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>3874</td>
<td>55</td>
<td>--</td>
<td>--</td>
<td>3131</td>
<td>45</td>
<td>7005</td>
<td>--</td>
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<tr>
<td>1986-87</td>
<td>4207</td>
<td>52</td>
<td>--</td>
<td>--</td>
<td>3809</td>
<td>48</td>
<td>8016</td>
<td>14</td>
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<tr>
<td>1987-88</td>
<td>4420</td>
<td>52</td>
<td>--</td>
<td>--</td>
<td>4009</td>
<td>48</td>
<td>8429</td>
<td>5</td>
</tr>
<tr>
<td>1988-89</td>
<td>4851</td>
<td>53</td>
<td>--</td>
<td>--</td>
<td>4233</td>
<td>47</td>
<td>9084</td>
<td>8</td>
</tr>
<tr>
<td>1989-90</td>
<td>5082</td>
<td>52</td>
<td>--</td>
<td>--</td>
<td>4719</td>
<td>48</td>
<td>9801</td>
<td>8</td>
</tr>
<tr>
<td>1992-93</td>
<td>3408</td>
<td>39</td>
<td>--</td>
<td>--</td>
<td>5438</td>
<td>61</td>
<td>8846</td>
<td>-10</td>
</tr>
<tr>
<td>1993-94</td>
<td>5800</td>
<td>52</td>
<td>596</td>
<td>5</td>
<td>4806</td>
<td>43</td>
<td>11202</td>
<td>27</td>
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<tr>
<td>1994-95</td>
<td>9378</td>
<td>62</td>
<td>831</td>
<td>5</td>
<td>4960</td>
<td>33</td>
<td>15169</td>
<td>35</td>
</tr>
<tr>
<td>1995-96</td>
<td>10117</td>
<td>61</td>
<td>977</td>
<td>6</td>
<td>5400</td>
<td>33</td>
<td>16494</td>
<td>9</td>
</tr>
<tr>
<td>1996-97</td>
<td>9406</td>
<td>50</td>
<td>1083</td>
<td>6</td>
<td>8255</td>
<td>44</td>
<td>18744</td>
<td>14</td>
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<tr>
<td>1997-98</td>
<td>10479</td>
<td>48</td>
<td>1381</td>
<td>6</td>
<td>10172</td>
<td>46</td>
<td>22032</td>
<td>18</td>
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<tr>
<td>1998-99</td>
<td>11944</td>
<td>45</td>
<td>1684</td>
<td>6</td>
<td>12783</td>
<td>48</td>
<td>26411</td>
<td>20</td>
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<tr>
<td>1999-00</td>
<td>14085</td>
<td>44</td>
<td>2040</td>
<td>6</td>
<td>15831</td>
<td>50</td>
<td>31956</td>
<td>21</td>
</tr>
<tr>
<td>2000-01</td>
<td>15916</td>
<td>43</td>
<td>2538</td>
<td>7</td>
<td>18443</td>
<td>50</td>
<td>36897</td>
<td>15</td>
</tr>
<tr>
<td>2001-02</td>
<td>18363</td>
<td>40</td>
<td>3172</td>
<td>7</td>
<td>24733</td>
<td>53</td>
<td>46268</td>
<td>25</td>
</tr>
<tr>
<td>2002-03</td>
<td>20801</td>
<td>39</td>
<td>4219</td>
<td>8</td>
<td>27807</td>
<td>53</td>
<td>52827</td>
<td>14</td>
</tr>
<tr>
<td>2003-04</td>
<td>23604</td>
<td>38</td>
<td>4854</td>
<td>8</td>
<td>33587</td>
<td>54</td>
<td>62045</td>
<td>17</td>
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<tr>
<td>2004-05</td>
<td>23716</td>
<td>34</td>
<td>6070</td>
<td>9</td>
<td>39774</td>
<td>57</td>
<td>69560</td>
<td>12</td>
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<tr>
<td>2005-06</td>
<td>26959</td>
<td>31</td>
<td>7581</td>
<td>9</td>
<td>52441</td>
<td>60</td>
<td>86981</td>
<td>25</td>
</tr>
<tr>
<td>2006-07</td>
<td>31424</td>
<td>25</td>
<td>12404</td>
<td>10</td>
<td>81481</td>
<td>65</td>
<td>125309</td>
<td>44</td>
</tr>
<tr>
<td>2007-08</td>
<td>39404</td>
<td>22</td>
<td>15223</td>
<td>8</td>
<td>125859</td>
<td>70</td>
<td>180486</td>
<td>44</td>
</tr>
<tr>
<td>2008-09*</td>
<td>33174</td>
<td>22</td>
<td>15170</td>
<td>10</td>
<td>100999</td>
<td>68</td>
<td>149349</td>
<td>--</td>
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</tbody>
</table>

* Up to December 2009.

**Source:** Economic Survey and NABARD, Various Issues.
However, the growth of direct finance to agriculture and allied activities witnessed a decline in the 1990s’ (12 per cent) as compared to the 1980s (14 per cent) and 1970s (around 16 per cent). Furthermore, a comparative analysis of direct credit to agriculture and allied activities during 1980s and since 1990s reveals the fact that the average share of long-term credit in the total direct finance has not only been much lower but has also decelerated (from over 38 per cent to around 36 per cent), which could have a dampening effect on the agricultural investment for future growth process.

**TABLE 1.2**

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rupees in crore)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tr>
<td>Gross Bank Credit</td>
<td>258991</td>
<td>300283</td>
<td>342012</td>
<td>400818</td>
<td>469153</td>
<td>536727</td>
<td>669534</td>
<td>764383</td>
<td>1040909</td>
<td>1445837</td>
</tr>
<tr>
<td>A. Priority Sector</td>
<td>84880</td>
<td>99507</td>
<td>114611</td>
<td>131827</td>
<td>154414</td>
<td>175259</td>
<td>211609</td>
<td>263834</td>
<td>381476</td>
<td>509910</td>
</tr>
<tr>
<td>I. Agriculture</td>
<td>31442</td>
<td>34869</td>
<td>39634</td>
<td>44381</td>
<td>51922</td>
<td>60761</td>
<td>73518</td>
<td>90541</td>
<td>125250</td>
<td>172279</td>
</tr>
<tr>
<td>Share of Agriculture in Total</td>
<td>12.14</td>
<td>11.61</td>
<td>11.59</td>
<td>11.07</td>
<td>11.07</td>
<td>11.32</td>
<td>10.98</td>
<td>11.84</td>
<td>12.03</td>
<td>11.92</td>
</tr>
<tr>
<td>II. Small Scale Industries</td>
<td>35944</td>
<td>43508</td>
<td>48483</td>
<td>52841</td>
<td>56002</td>
<td>57119</td>
<td>60394</td>
<td>65855</td>
<td>74588</td>
<td>90239</td>
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<tr>
<td>III. Other Priority Sector</td>
<td>17494</td>
<td>21130</td>
<td>26494</td>
<td>34362</td>
<td>46490</td>
<td>57299</td>
<td>77697</td>
<td>107438</td>
<td>181638</td>
<td>247379</td>
</tr>
<tr>
<td>B. Industry</td>
<td>102604</td>
<td>117350</td>
<td>130516</td>
<td>147319</td>
<td>162837</td>
<td>172324</td>
<td>235168</td>
<td>247210</td>
<td>352304</td>
<td>248808</td>
</tr>
<tr>
<td>Share of Industry in Total</td>
<td>39.62</td>
<td>39.08</td>
<td>38.16</td>
<td>36.75</td>
<td>34.71</td>
<td>32.11</td>
<td>35.12</td>
<td>32.34</td>
<td>33.85</td>
<td>31.73</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, Various Issues.
Sectoral deployment of gross bank credit reveals that the share of agriculture since the second half of 1990s has ranged between 11 and 12 per cent. At the end of March 2006, the share stood at around 11.9 per cent.

The accessibility to institutional credit is higher in the Southern region where the level of agricultural development is also higher. Similar results were reported in the studies conducted earlier during the 1980s (Rao, 1994). It is a kind of vicious cycle operating in less developed States. Less availability of credit influences adversely the adoption of modern technology and private capital investments, which in turn lowers the productive capacity of the agricultural sector and results in lower productivity and production, and also pushes the farmers to borrow from non-institutional sources. Consequently, the demand for agricultural credit for short and long-term purposes is dampened.

The extent of deployment of credit out of deposits in a given State could be measured by Credit-Deposit Ratio (CDR). The proportion of districts having CDR less than 40 is higher (66 per cent) in less developed States as compared to the developed States (32 per cent) indicating growing migration and wide disparities in the deployment of credit in major States (Table 1.3)
TABLE 1.3
CREDIT DEPOSIT RATIO IN MAJOR STATES

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of States</th>
<th>Number of Districts</th>
<th>&lt; 40</th>
<th>40 – 50</th>
<th>&gt; 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>States with per capita SDP less than national average</td>
<td>9</td>
<td>196 (100)</td>
<td>129</td>
<td>26</td>
<td>41</td>
</tr>
<tr>
<td>States with per capita SDP more than national average</td>
<td>11</td>
<td>187 (100)</td>
<td>60</td>
<td>33</td>
<td>94</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>383 (100)</td>
<td>189</td>
<td>59</td>
<td>134</td>
</tr>
</tbody>
</table>

Figures in the brackets represent percentages; Credit is taken on Utilization basis.


1.3 IMPORTANCE OF INSTITUTIONAL FINANCE

a) Non Institutional Finance

The village money lender continues to be the most important constituent of the unorganized monetary sector. Individual credit has however its own limitations. The rate of interest charged by the moneylender is very high. Besides, he does not have the financial resources to equip farmers with adequate funds to make permanent improvements to land, and to buy tractors, agricultural machinery etc.
b) Institutional Finance

Finance to the farmers is also provided by the Government, the Reserve Bank of India, the State Bank of India and its subsidiaries the co-operative banks and the commercial banks.

i) Government

As far back as the eighties of the 19th century, the Government of India passed the Land improvement Loans Act in 1883 and the Agriculturists Loans Act in 1884 for providing takavi (or tagavi) loans to the farmers. Under the former Act, long-term loans for permanent improvement of land such as sinking of wells and construction of bunds (embankments) are given. Under the latter Act, short term loans for current agricultural purposes, say the purchase of implements, cattle, seeds, manure, etc. are sanctioned. It has however, been noticed that the amount disbursed by the Government agencies has not been adequate to meet the growing needs of the agriculturists. There is a lot of delay also in granting the loans.

ii) Reserve Bank of India

The Reserve Bank of India is doing its best to bring about improvement in the finance of agriculture. The bank has an Agricultural Credit Department which maintains expert staff to study all questions relating to agricultural credit. The
services of this department are available for consultation by the Union and State Governments, State Co-operative Banks and Commercial banks.

During 1970-71, three important developments in the sphere of bank credit to agricultural sector took place. First, the Reserve Bank issued a set of guidelines to commercial banks in order to enable them to understand the rationale, policies and procedures for making agricultural loans. Secondly the expert Group with Shri.R.K. Talwar, as Chairman, which was set up to examine the State Governments’ enactments relating to agricultural debt relief regulation of money-lending land reforms etc., submitted its report. Third, in order to provide a system of guarantees for bank lending to individual small borrowers including small farmers, in hitherto neglected sector of the economy, a separate body known as the Credit Guarantee Corporation of India Ltd., was set up in January 1971.4

iii) Co-operative Banks

The resources of co-operative credit institutions consist mainly of deposits and borrowings for short periods. Owing to the limited resources of their members, these institutions have not much of share capital. Unfortunately, sufficient reserves have also not been built up owing to meagre profits and a large amount of bad debts. The co-operative credit institution can, therefore, supply only the short-term and medium term credit needs of agriculturists and hardly

their long-term needs except to a limited extent, and that too, through the Land Development Banks.

**iv) Commercial Banks including the State Bank of India**

Till recently, commercial banks, except for advances made to tea, coffee, rubber plantations, etc., played an insignificant role as purveyors of rural credit. Their share in the total borrowings of the cultivators in 1961-62 at 0.6 per cent was smaller than that in 1951-52 (0.9 per cent). Even in absolute terms, the advances of commercial banks to agriculture declined from Rs.12 crores in 1951 to about Rs.4 crores in 1965. The change took place during the period in which the total advances of commercial banks rose from Rs.585 crores to Rs.2,095 crores. This fact indicates that the proportion of advances to agriculture compared to the total advances of commercial banks had gone down considerably. They had therefore, been subjected to a good deal of criticism for the lack of interest in offering advances to agriculture.

**1.4 NATURE OF FINANCE NEEDED**

The farmer may need finance for short-term, medium-term or long-term purposes as mentioned below:
i) Short-term Finance

Short-term advances, say from 6 to 18 months may be required by the farmers mainly for

a) Purchase of manures and fertilizers
b) Purchasing seeds including hybrid and high yielding varieties.
c) Purchasing pesticides, insecticides and fungicides.
d) Preparing soil for growing of crops or land for irrigation.
e) Purchasing farm implements say, ploughs, plough-shares, spades, sickles, spraying machines etc.
f) Repairing farm machinery e.g. tractors.
g) Repairing wells and tube wells.
h) Constructing farm fences to prevent access of stray cattle.
i) Constructing cattle sheds etc.

The inputs are normally required for producing particular crops and the advances should, therefore, be normally adjusted from the sale proceeds of the crops after they are harvested. Similarly the purchasing of implements and repairs to a well etc. may not cost much and the loan should ordinarily be repaid after a crop or two are harvested and marketed.
ii) **Medium - Term Finance**

An advance may be required by a farmer for a period of over 18 months but not exceeding say 3 to 7 years, for any of the following.

a) Construction of surface wells, deepening and cleaning of wells, construction of shallow and deep tube wells and construction of storage tanks.

b) Life irrigation from river basins, tanks, bandharas etc.

c) Laying out of field channels and levelling of land for irrigation.

d) Purchasing oil –engines, pumpsets or other costly mechanical equipment like power-tillers.

e) Soil conservation by presentation of erosion etc., reclamation of land from rivers or conversion of barren land into cultivable land.

f) Purchasing a tractor.

g) Purchasing livestock, say bullocks or horses, or animal drawn carts.

h) Drainages of land

i) Horticulture

j) Construction of farm-houses, cattle –sheds and sheds for processing of agricultural produces.

k) Purchasing machinery for crushing surgarcane, or for manufacturing gur or khandsari.

l) Purchasing a jeep or truck for transport of the farm produce.

m) Starting of dairy farm, poultry, piggery, etc.
n) Financing of schemes of production of hybrid or high yielding varieties of seeds.

The medium-term loans are usually repayable by installments which are conveniently fixed and relate generally to harvesting and sale of the produce. As the benefit of improvement to land or purchasing the machinery may accrue after some time, banks in suitable case consider the request of borrowers to defer payment of the first installment say by a year or so. In case of unforeseen circumstances beyond the control of the borrowers e.g., failure of monsoon or damage by locusts, the period of repayment may be further extended.

The security in case of medium-term advances is generally by way of hypothecation of machinery and equipment purchased, or mortgage of landed property and/or third party guarantees. Margin may range between 25 per cent and 50 per cent. It may be lowered or waived in suitable cases.

iii) Long Term Finance

Long-term loans are repayable within a period ranging from over 7 years or 15 years. The purpose may be a major improvement to land, purchase of expensive and heavy machinery, construction of storage tanks, reclamation and preparation of land, and development of mechanized farming of new plantations of tea, coffee, coconut, rubber. Even finance for construction of warehouses and
cold storage in appropriate areas may be considered. The repayment of loan begins normally after a couple of years from the date of advance. In case of drought or other natural calamity, the period of repayment of loan may be suitably extended. If advances are required for purchasing machinery, they should be hypothecated to the bank. The borrowers additionally execute a legal mortgage (or an equitable mortgage in suitable cases) of the land, and/or furnish suitable guarantees. The long-term loans are repayable by installments of convenient maturity, say, quarterly, half-yearly, or yearly, depending on the number of crops grown on the land and the harvesting seasons.

1.5 FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE

The Agricultural Credit Policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies, rationalization of lending policies and procedures and bringing down the cost of borrowing. Bank credit is available to the farmers in the form of short-term credit for financing crop production programmes and in the form of medium-term/long-term credit for financing capital investment in agriculture and allied activities like land development including purchase of land, minor irrigation, farm mechanization, dairy development, poultry, animal husbandry, fisheries,
plantation, and horticulture. Loans are also available for storage, processing and marketing of agricultural produce.\footnote{www.google.com/agricultural credit in India 2008.}

**Institutional Arrangements**

Agricultural credit is disbursed through a multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Co-operatives. There are approximately 100,000 village-level Primary Agricultural Credit Societies (PACS), 368 District Central Co-operative Banks (DCCBs) with 12,858 branches and 30 State Co-operative Banks (SCBs) with 953 branches providing primarily short and medium-term agricultural credit in India. The long-term co-operative structure consists of 19 State Co-operative Agricultural and Rural Development Banks (SCARDBs), with 2609 operational units as on 31 March 2005 comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA & RDBs) with 1049 branches.

**Flow of Credit**

A comprehensive credit policy was announced by the Government of India on 18 June 2004, containing measures for doubling agriculture credit flow in the next three years and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement.

\footnote{www.google.com/agricultural credit in India 2008.}
- Credit flow to agriculture sector to increase at the rate of 30 per cent per year.
- Debt restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling of outstanding loans over a period of five years including moratorium of two years, thereby making all farmers eligible for fresh credit.
- Special One-Time Settlement scheme for old and chronic loan accounts of small and marginal farmers.
- Banks allowed to extend financial assistance for redeeming the loans taken by farmers from private moneylenders.
- Commercial banks (CBs) to finance at the rate of 100 farmers/branch; 50 lakh new farmers to be financed by the banks in a year.
- New investments in agriculture and allied activities at the rate of two to three projects per branch.
- Refinements in Kisan Credit Cards (KCCs) and fixation of scale of finance.
The achievements in terms of credit flow during the year 2005-06 are listed below:

- The target of agriculture credit flow for the year 2005-06 was fixed at Rs.1,41,000.00 crore and the achievement as on 31st March 2006 was Rs.1,67,775.00 crore, representing 119 per cent of the target.

- Around 42.01 lakh new farmers were financed by the public sector CBs and 5.26 lakh new farmers by private sector CBs. Further, RRBs have financed 17.03 lakh new farmers during the year. The total number of new farmers financed by CBs and RRBs together formed 64.30 lakh, which is 128.60 per cent of the target set for the year.

- An amount of Rs.4393.81 crore was provided as debt relief to farmers in distress, farmers in arrears and under the One-Time Settlement scheme during 2005-06.

- Public sector CBs provided Rs.22.14 crore as advances to 5173 farmers to enable them to redeem their debt from moneylenders. The corresponding figures for Co-operative Banks and RRBs are Rs.2.22 crores (283 loan accounts), and Rs.7.05 crore (2826 loan accounts) respectively.
During the current year (as on 31 December 2006), the achievement with regard to credit flow are as follows:

- **The target of agriculture credit flow for the year 2006-07 was fixed at Rs.1,75,000.00 crore and the achievement as on 31 December 2006 was Rs.1,49,343.16 crore, constituting 85.34 per cent of the target.**

- **During the first nine months of 2006-07, 34.92 lakh new farmers were financed by public sector CBs and 4.23 lakh new farmers by private sector CBs. Further, RRBs have financed 14.22 lakh new farmers during the year. Thus, the total number of new farmers financed by CBs and RRBs together aggregated to 53.37 lakhs, which exceed the target of 50 lakh farmers for the year. In addition to this, co-operative banks financed 9.66 lakh new farmers during the year, taking the total number of new farmers financed by the banking system to 63.03 lakh.**

- **An amount of Rs.4158.30 crore has been provided as debt relief to farmers in distress, farmers in arrears and under the one-time settlement scheme up to 31\textsuperscript{st} December 2006.**

- **Public sector CBs provided Rs.36.25 crore as advances to 8722 farmers to enable them to redeem their debts from moneylenders. The corresponding figures for co-operative banks and RRBs are Rs.10.76**
crore (7311 loan accounts) and Rs.17.06 crore (3548 loan account) respectively.⁶

1.6 KISAN CREDIT CARD (KCC) SCHEME

The Kisan Credit Card Scheme, introduced in 1998-99, as an innovative scheme to facilitate access to short term credit by farmers, has gained popularity and its implementation has been taken up by 27 commercial banks, 378 District Central Co-operative Banks/ State Corporation Banks and 196 Regional Rural Banks throughout the country. The number of cards issued and the amount sanctioned under the scheme have increased in each successive year, since its inception, to reach a total of over 271 lakh cards involving an amount of over Rs.64000 crore by September 2007. With a view to generating greater awareness about the scheme so that all the eligible agricultural farmers are covered under the scheme by 31 March 2008 and to educate the card holders to use the cash credit facility more optimally and efficiently, NABARD has formulated a model scheme to channelise its financial support out of its Co-operative Development Fund (CDF) by way of one time grant to all SCBs and DCCBs, with a budget allocation of Rs.6 crore. The scheme announced in 2007-08. Budget for personal insurance cover for accidental death or permanent disability for the KCC holders (up to a

⁶www.google.com\agricultural credit in India_ 2008.
maximum amount of Rs.50,000 and Rs.25,000 respectively) has been operationalised by a number of banks.

**TABLE 1.4**

**NUMBER OF KISAN CREDIT CARD AND AMOUNT SANCTIONED**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>No. of Cards Issued (lakh No.)</td>
<td>Amt. Sanct. (Rs. Cr)</td>
<td>No. of Cards Issued (lakh No.)</td>
<td>Amt. Sanct. (Rs. Cr)</td>
<td>No. of Cards Issued (lakh No.)</td>
</tr>
<tr>
<td>Co-op Banks</td>
<td>35.95</td>
<td>3605</td>
<td>56314</td>
<td>9412</td>
<td>54.36</td>
</tr>
<tr>
<td>RRBs</td>
<td>1.73</td>
<td>405</td>
<td>6.48</td>
<td>1400</td>
<td>8.33</td>
</tr>
<tr>
<td>Comm. Banks</td>
<td>13.66</td>
<td>3537</td>
<td>23.90</td>
<td>5615</td>
<td>30.71</td>
</tr>
<tr>
<td>Total</td>
<td>51.34</td>
<td>7548</td>
<td>86.52</td>
<td>16427</td>
<td>93.40</td>
</tr>
</tbody>
</table>

Source: NABARD, 2009, (Website: www.indiabudget.nic.in)

### 1.7 COMPONENTS OF FARM CREDIT

Not only is the magnitude of finance required likely to have become much higher, but also the credit requirements should have become more varied too. As is well-known the need for credit in the case of majority of cultivators arises from the fact that their income accrues during the limited period of the year while their various expenses are distributed throughout the year. Of course, even if their income were adequate for consumption and continuous over the year, there would still be a need for credit for meeting certain production expenses. Roughly, there
can be two broad categories of such expenses (i) the long-term or capital expenses necessary to secure inputs which assist in the production process over a number of years and (ii) short-term or working expenses needed to help producing only one set of commodities. Short-term capital is mostly needed for hiring labour and for buying seeds, fertilizers, insecticides. Long-term capital is needed to make investment outlays, land improvement, sinking and repairing of wells, purchase of installation of machinery and the like. Therefore, credit needs on account of outlays of a capital nature have to be separately considered. The advent of the green revolution in India and the striking improvements in technology have opened up vast potentialities for long-term development of agriculture. Thus, a major scope for converting ‘static’ into income generative, self-liquidating ‘dynamic’ credit now lies in permanent investments in land and farm machinery through credit taken for periods longer than a crop season. Moreover, without long-term credit the utility of short-term credit itself might be restricted. For instance, credit for improved seeds, fertilizers, insecticides and other inputs can yield best results only when the primary requirements of irrigation are fulfilled and therefore, term loans for the sinking of wells and installation of pumpsets would be essential in places where no other sources of irrigation are available. Similarly, credit for long-term development purposes will not be fully effective before the short-term requirements of a farm have been catered to.
In addition to borrowings for agricultural purposes, cultivators, frequently seek credit for their personal consumption and unforeseen expenses, such as serious illness, marriage, death ceremonies etc. In particular, the low income of a large number of small cultivators forces them to borrow for sustenance and such consumption of credit forms an important part of the economy of farmers in India, as in all developing countries.

Thus, the position of small farmers in the credit market cannot be improved without meeting a part of their requirements for pressing consumption (emergency outlays). In fact these expenses, though not strictly agricultural, are so closely related to the efficiency of the farm workers that it would be unrealistic to consider them as unproductive. In other words, one cannot limit the estimates of credit only to the requirements of agricultural production but has to extend them also to cover maintenance and emergency expenses (excluding of course, those for conspicuous consumption).

1.8 SOURCE OF AGRICULTURAL FINANCE

The effective demand for credit is evidently conditioned by the availability of credit and the amount and pattern of the demand for credit would be different, if the credit structure and conditions of loans were altered. Accordingly, an analysis of the supply side of credit also becomes imperative in connection with any survey of credit requirements.
In India there are various agencies, both private and institutional, giving credit to farmers for agricultural purposes. Money lenders and traders represent the most important private agencies. The two major institutional agencies are the co-operative and commercial banks, although the State Government’s have also been financing farmers through various departments. Long-term credit has been primarily the function of agencies specializing in investment financing the co-operative land mortgage banks and land development banks. Commercial banks have also, of late, taken to long-term financing of agriculture.

1.9 LEAD BANK SCHEME AND DISTRICT LEVEL CREDIT PLAN

Prior to nationalization of 14 commercial banks, agriculture got only a meagre share of about 2 per cent of total bank credit. By the time it was felt that banking facilities should be extended to rural areas to promote agricultural development which generated about 50 per cent of national income, responsible for about 40 per cent of export earnings and providing employment to about 70 per cent of the population.

The major objectives of lead bank scheme is to extend the banking facilities in the rural areas to enable the rural people to enjoy the benefits of economic development through the adoption of production raising technology, subsidiary occupations and rural industrialization. The lead bank is responsible for the all round development of the district allotted to it.
The lead banks have expanded and strengthened their branch network and have established the necessary machinery for securing co-ordination between the activities of financial institutions and development agencies at district/state level.

To meet the credit needs of customers, the lead banks have prepared credit plans for all the districts in the country and they are at various stages of implementation. In 1979, the Agricultural Refinance and Development corporation issued guidelines to the states for the preparation of block banking plans which were to be in effect portfolio of immediately bankable schemes. At the end of November 1980, 196 banking plans covering 17 states and 1375 blocks and involving a financial outlay of about Rs.323 crores had been prepared.

The district credit plans are prepared by the lead bank in consultation with other institutional credit agencies and district authorities to promote balanced rural development. The multi-agency approach has considerably streamlined and strengthened the rural credit structure.

According to Gadgil Study Group and Nariman Committee,⁷ the Reserve Bank of India introduced the concept of “Lead Bank” in December 1969. The RBI declared with a wider responsibility of accelerating banking development in the area.

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The lead bank should conduct district surveys and prepare district credit plan and to implement them accordingly with the co-operation of other banking institutions in the district. The following are the objectives of the scheme.

i) Bank branch expansion, supervision and guidance would become effective.

ii) Co-ordination among commercial banks, co-operative credit institutions and government agencies.

iii) Conduct surveys and prepare credit plans.

Lead Bank conducted surveys in 380 districts in 1973-74 and there was a rapid bank branch expansion between 1969 and 1990. There was almost a seven fold expansion in the number of branches. Before 1969 one branch office served 65000 people, but in 1969 the branch population ratio was 1:12000. During 1950-51, bank deposits were in the order of Rs.8.5 crores. It rose to Rs.235.29 crores in June 1992. During the above periods the bank credit increased from Rs.580 crores to Rs.25000 crores. During 1969 one out of thirty Indians only had a bank account while in 1989, one out of three Indians had a bank account. Now the priority sector target is 40 per cent out of total credit, whereas it was 14 per cent in 1969. The number of priority sector borrowing accounts have shown a phenomenal increase from around 4,00,000 to nearly 35 millions at present.
The study groups recommended that the lead banks should prepare technologically feasible and economically viable schemes in priority sectors. The High Power Committee reviewed the progress of the lead bank in 1976 and recommended that the lead bank should prepare District Credit Plan and Annual Action Plan. The lead bank should implement Integrated Rural Development Programmes (IRDP).

The Lead Bank Scheme,\(^8\) introduced towards the end of 1969, envisages assignment of lead roles to individual banks (both in public sector and private sector) for the districts allotted to them. A bank having a relatively large network of branches in the rural areas of a given district and endowed with adequate financial and manpower resources has generally been entrusted with the lead responsibility for that district. Accordingly, all the districts in the country (excepting the metropolitan cities) have been allotted to various banks. The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the priority sector in the rural and semi-urban areas, with the district being the basic unit in terms of geographical area.

The lead bank has been assigned lead responsibility in respect of 140 districts out of a total of 564 districts across the country. The lead bank disbursed

\(^8\)www.statebankofindia.com/ruralbanking/leadbankscheme.asp.
loans to the different sectors aggregating Rs.2033 crores in lead districts and has achieved 104 per cent of the annual outlay for the year ended March 2004 as against 90 per cent by All Financial Institutions. The lead bank also disbursed loan aggregating Rs.11,552 crores in the non-lead districts to various sectors and has achieved 92 per cent of the annual outlay.

State Level Banker’s Committees are formed in all the states for inter-institutional coordination and joint implementation of programmes and policies by all the financial institutions operating in the State. Responsibility for convening State Level Banker’s Committee (SLBC) meeting has been assigned to various commercial banks. SLBC meetings, held quarterly, provide for interaction amongst the various banks in the State on the one hand and between the banks and the State Government authorities on the other.

1.10 ADMINISTRATIVE SET UP OF LEAD BANK SCHEME

The lead bank officers and supplementary staff, appointed by the banks in their lead districts, are looking after the implementation of the scheme. It is the duty of the lead bank officer to assist the concerned regional manager of the bank to ensure that the bank has fulfilled its responsibility of developmental activities under the scheme. On the other hand the effective implementation of the scheme largely depends upon the clear understanding of the concept of the scheme and the role playable by the branches. In the non-lead districts, district co-ordinators are
also appointed mainly to focus on the role played by their banks in the district at the meeting of the districts level credit committee and other forums.

1.10.1 Benefits of the Scheme

1) Co-ordinated Development

   It gives scope for co-ordinated development of banking in the entire country, particularly in the neglected and backward areas.

2) Joint Participation

   It provides the basis for a joint participation of credit institutions and Government departments in the developmental activities.

3) Creation of a Link

   It creates a link between banking and other developmental activities of the country.

4) Implementation of Government Programmes

   It is instrumental in the implementation of 20 point programme, the integrated rural development programme and other anti poverty programmes of the government.
5) Identification of Potential Areas

The surveys conducted under this scheme facilitate the identification of potential areas and the problems which affected their growth.

6) Rural Credit Facility

The district credit plans prepared under this scheme divert the flow of credit to the major sectors of the rural economy.

7) Co-ordination of Development Programmes

The annual action plans co-ordinate the programmes of development prepared by the development agencies operating in the districts, particularly in the rural areas.

While looking at the progress made under the lead bank scheme, it is clear that it has a greater impact on the country’s economic development. Though there are certain drawbacks in the implementation of the scheme, the scheme has been made successful as regards the following:

i) The flow of credit to the weaker sections of the society.

ii) The promotion of co-ordinated effort among different agencies towards the development of the country.
However, to bring the Lead Bank Scheme effectively at the village level, the Government has introduced the ‘Service Area Approach’ to development. Under this scheme the plans are prepared village wise instead of district-wise.

1.10.2  Lead Bank Scheme and Service Area Approach to Rural Lending

Origin of the Lead Bank Scheme

Following shortfalls in agricultural output and slowing down of industrial production in 1965-67, the Reserve Bank’s credit policy for the slack season 1967 was liberalized on a selective basis with a view, among other purposes, to enlarging the flow of credit to the select sectors such as agriculture and small-scale industries, as also exports. The measures for social control over banks were initiated by the Government of India in 1967-68 for securing a better adaptation of the banking system to the needs of economic planning and also for playing a more active and positive role in aiding sectors like agriculture and small-scale industries. The scheme of social control envisaged a purposive distribution of available lendable resources consistent with the basic economic and social objectives as well as a more effective mobilization of savings, besides eradication of certain deficiencies observed in the functioning of the banking system. The origin of priority sector prescriptions for banks in India can also be traced to the Reserve Bank’s credit policy for the slack season of the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the
financing of key sectors, such as, agriculture, exports and small-scale industries, as a matter of urgency. Further, the nationalization of major commercial banks in 1969 also envisaged that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small.⁹

In pursuance of a decision of the National Credit Council, at its meeting held on July 24, 1968, a Study Group on the Organizational Framework for the Implementation of Social Objectives was constituted towards the end of October 1968, with Prof. D.R. Gadgil as Chairman. The group was entrusted with the task of identifying the major territorial and functional credit gaps and making recommendations to fill them up so that adequate institutional credit, at reasonable terms, could be made available to neglected sectors and areas and weaker sections of the community. The group noted that the Indian banking system had made significant progress in the last 20 years by expanding its territorial and functional coverage and yet the unevenness of spread of institutional credit facilities to different areas of the country, the urban-oriented organization of commercial banks, weaknesses of the co-operative system and the non-availability of institutional credit to the weaker sections of the community, still persisted. The group observed that the main social objective of banking and credit was to more evenly spread institutional credit over unbanked and underbanked areas and to

⁹www.rbi.org/publicationdivision\leadbankscheme.
ensure that neglected sectors and the small borrowers, who had to depend on non-institutional credit, also got adequate credit at reasonable terms from banks.

The concept of ‘Lead Bank Scheme’ was first mooted by the Gadgil Study Group, which submitted its report in October 1969. The Group was of the view that banking was not developed in India judging by the criterion of population served per bank office. The average population served by a commercial bank office in India was as high as 73,000 as against 4,000 in United Kingdom and 7,000 in USA. In the rural areas, it was found that only one per cent of the total number of villages (5,64,000) were served by commercial banks by the end of June 1967. Further, there was an uneven spread of bank offices and banking business as between States and population groups. Thus, commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. Moreover, out of the institutional credit to agriculture sector at 39 per cent of total credit, the share of commercial banks was negligible at one per cent, with the balance being met by the co-operatives. As a result, the banking needs of the rural areas in general and the backward regions in particular, were not adequately taken care of by the commercial banks and particularly the credit needs of rural sector of the economy such as agriculture, small-scale industry and allied services remained virtually neglected. The Group, therefore, recommended the adoption of an ‘An Approach” to evolve plans and programmes for the development of an appropriate banking and credit structure in the rural areas. The
group also observed that the central idea was to assign, depending upon their area of operations and locations, to commercial banks, particular districts in an area where they should act as pace-setters providing integrated banking facilities. There was the imperative need that thus all the districts in the country were to be covered. The district was identified as the unit under the Area Approach because the co-operative structure was organized in relation to a district and most statistical and other data were available at the district level.

The Reserve Bank appointed a Committee of Bankers on Branch Expansion Programme of public sector banks, which submitted its report on November 15, 1969, endorsing the area approach. It further recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on under banked districts where it should function as a ‘Lead Bank’, as well as open bank branches to fulfill the target of providing every place designated as a town with a bank branch by the end of 1970.

Thus, pursuant to the recommendations of the Gadgil Study Group and Nariman Committee suggesting adoption of ‘area approach’ in evolving credit plans and programmes for development of banking and the credit structure, the Lead Bank Scheme was introduced by the Reserve bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.
Development in the districts was sought to be achieved by making banks the key instruments for local deployment of credit, entrusting them with the responsibility of locating growth centres, mobilizing deposits, and identifying credit gaps and evolving a co-ordinated programme for credit deployment in each district, in concert with other banks and credit agencies. In order to enable the banks to assume ‘leadership’ in an effective and systematic manner, the various districts, except the metropolitan cities of Mumbai, Delhi, Kolkata and Chennai and certain Union Territories in the country were allotted among the public/select private sector banks and each such bank was designated as the Lead Bank for the district concerned. The Lead Bank was also expected to work for expansion of branch banking facilities and assume a major role in the development of banking and credit in the allocated districts.

The specific functions of the Lead Bank in a district are as follows:

(i) Surveying the resources and potential for banking development in its district.

(ii) Surveying the number of industrial and commercial units and other establishments, and farms, which do not have banking accounts or depend mainly on money-lenders, and increasing their own resources through the creation of surpluses from additional production financed from the banking system;
(iii) Examining the facilities for marketing of agricultural produce and industrial production, storage and warehousing space, and linking of credit with marketing in the district;

(iv) Surveying the facilities for stocking of fertilizers and other agricultural inputs and repairing and servicing of equipments.

(v) Recruiting and training staff, for offering advice to small borrowers and farmers, in the priority sectors, which may be covered by the proposed credit insurance schemes and for follow-up and inspection of end-use of loans;

(vi) Assisting other primary lending agencies; and

(vii) Maintaining contact and liaison with Government and quasi-government agencies.

The Lead Bank Officer was given the responsibility to prepare the district credit plan/annual action plan (DCP/AAP) for the district after taking into account the annual estimated commitments of individual financial institutions. The plan document indicated a sectoral, scheme-wise and institution group-wise break-up of the total credit outlays, as also the estimated expectation of Government departments by way of specific action on infrastructure development, supply of inputs, etc. The DCPs/AAPs were to be prepared in consonance with the objectives of the National Plan, viz., removal of unemployment and under-employment and bringing about an appreciable rise in the standard of living of the
poorer sections of the population through provision of credit to meet their basic needs. Consequently, the main objectives of the banks’ loans envisaged loans for labour-intensive schemes which generated employment, increased productivity of land and other allied sectors so as to reduce underemployment and increase income levels, besides granting loans to the weaker sections of the population for productive purposes as also meeting in part their consumption needs. The DCP/AAP was to be passed on the existing pattern of economic activities and potential for development, ensuring Five-Year Plan targets and annual budgetary provisions; performance of financing agencies under the previous plan and their potential in respect of availability of funds as well as man power, in addition to likely demand for credit in respect of specific projects, different sectors and blocks in the district. The allocations of the credit plan amongst the commercial banks, co-operative institutions and other financial agencies operating in the district were to be done at a special meeting of the District Consultative Committee (DCC).

In pursuance of the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (Chairman: B. Sivaraman), the Reserve Bank, in November 1981, set up a Working Group under the chairmanship of U.K. Sarma to review the working of the Lead Bank Scheme in all its aspects. The recommendations of the
Group, with some modifications, were implemented. The major recommendations pertained to:

(a) Reconstitution of the DCCs and Standing Committees to make them effective;

(b) Constitution of District Level Review Committees in place of District Level Review Meetings (DLRMs);

(c) Status, designation and role of the Lead Bank Officer;

(d) Periodical DCC, DLRC meetings and their conduct;

(e) Effective management information system under Lead Bank Scheme;

(f) Training needs on Lead Bank Scheme for all officials up to the block level in government and officers of rural branches of financing agencies;

(g) Strengthening infrastructure of Lead Bank Offices, i.e., provision of jeep, telephone connectivity, etc.

Presently, the Lead Bank Scheme is in operation in all the districts in the country (except the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories) and covers 622 districts as at the end of March 31, 2009.10

10www.rbi.org|publicationdivision\leadbankscheme.
Service Area Approach to Rural Lending

Considerable efforts were made to increase the flow of institutional credit towards agriculture and rural development during the post-nationalization era, with a view to reducing dependence on informal credit sources. By the late eighties, studies undertaken by RBI to assess the impact of bank credit in increasing production, productivity and income levels of the rural population revealed certain weaknesses in the system of dispensation of rural credit, viz., the rural lending of bank branches was haphazard and dispersed in a large number of villages spread over a wide area rendering supervision difficult. Absence of effective local level planning taking into account the potential for development, poor availability of infrastructure and linkages etc. were identified as the contributory factors. It was, therefore, felt necessary to adopt an approach of assigning specific service areas to the bank branches in rural and semi-urban areas, paving the way for ‘Service Area Approach’ to rural lending.

Service Area Approach (SAA) basically aimed at planned and orderly development of an identified command area which would enable the branch to have development orientation and concentrate on productive lending, thereby contributing to the development of specific areas assigned to it. The Union Finance Minister in his budget speech for the year 1988-89 had also referred to the proposed dispensation under which each bank branch would have a designated
service area. In order to examine the operational aspects involved in the implementation of this approach, a Committee was set up by the Reserve Bank. On the basis of the recommendation of the Committee, a decentralized planning policy was adopted and Service Area Approach to Rural Lending was introduced with effect from April 1, 1989, involving five distinct stages in its implementation:

(i) Identification of the service area for each bank branch.

(ii) Survey of the villages in the service area for assessing the potential for lending for different activities and identification of beneficiaries for assistance.

(iii) Preparation of credit plans on an annual basis for the service area by each branch.

(iv) Co-ordination between credit institutions on the one hand and field level development agencies on the other on an on-going basis for the effective implementation of credit plans; and

(v) A continuous system of monitoring the progress in the implementation of the plans and individual schemes.

The above approach to rural lending was intended to bring about a major change in the quality and productivity of rural lending and forge effective linkages between bank credit, production, productivity and increase in income levels. The basic principle of SAA was demarcation of service area and preparation of credit
plans for systematic administration of credit in the assigned area. Under the SAA, all rural and semi-urban branches of commercial banks and regional rural banks were allocated specific number of villages (about 15 to 25 villages), generally in geographically contiguous areas and proximity to the branch concerned, the credit needs of which were to be taken care of by the respective service area branches. It was also to be ensured that the designated area of bank branch was not intercepted by the designated area of another bank branch. In the service areas of RRB branch, the sponsor bank’s branch or the nearest branch of any other commercial bank was given the responsibility to finance the non-target group beneficiaries. The service areas were allocated to the branches by a Committee headed by the Lead District Officer of the Reserve Bank of India with Lead Bank Officer of the district and the concerned officer from NABARD as members.

The prescribed time schedule for the different stages in preparation/implementation of the district credit plan is as follows:

(i) Supply of ‘Background Paper’ by the Lead Banks/ District Development Manager of NABARD to the branches – October 31.

(ii) Preparation of Service Area Credit Plans by co-operative bank branches (SLDBs/PLDBs/DCCBs) – November, 30.

(iii) Preparation of Service Area Credit Plans by the branches of commercial banks and RRBs – December, 31.
(iv) Finalization and approval of Service Area Credit Plans by controlling offices – January, 31.

(v) Finalization of Service Area Credit Plans at BLBC and aggregation into Block Credit Plans – February, 28/29.

(vi) Aggregation of Block Credit Plans into District Credit Plan – March, 15.

(vii) Launching of the District Credit Plan, April 1.

The Commercial Banks, Regional Rural Banks (RRBs), District Central Co-operative Banks (DCCBs), Land Development Banks (LDBs) and non-banking financial institutions were required to prepare village-wise credit plans based on the village profiles and the background paper. The Village Credit Plans, once finalized, were to be aggregated at branch level as Service Area Credit Plans. The credit requirements for both the priority and non-priority sectors were required to be indicated therein.

The proforma of the Annual Credit Plans drawn up for the district under the Service Area Approach comprised five chapters, namely

(a) Profile of blocks in the district – Chapter I

(b) Review of performance – Chapter II

(c) Development programmes of the district – Chapter III

(d) Arrangements for supporting facilities/services and agencies /departments responsible there for – Chapter IV; and
(e) Bank-wise credit plan for the priority sector lending – Chapter V.

However, in case of Block Credit Plans, such detailed chapter-wise classification was not required to be done. The Block Plans consisted of merely the background paper supplied by the Lead Bank and the service credit plans.

With regard to the allotment of villages to branches, the latter were required to carry out a survey of the villages and prepare a village profile indicating the types of economic activities undertaken and potentialities for expansion of these activities or for undertaking new activities, the skills of the rural families to take up different activities, the coverage of rural families by credit institutions operating in the area, besides the level of infrastructure facilities and linkages available in the area and those required to be developed to support bank credit. The Service Area Plans drawn up by all branches in the block were to reflect the potentialities and the needs of the service area on the basis of the intimate knowledge gained by the Branch Managers through the survey and the availability of other information. In order to enable branches to prepare the credit plan in a systematic manner, the lead bank was required to prepare a “Background Paper for Branch Credit Plan” on a block-wise basis and make it available to the branches. The service area plans drawn by each branch in rural and semi-urban areas, as finalized at the Block Level Bankers’ Committee, were to be aggregated to form the Block Credit Plan for the block and the block plans thus prepared were in turn to be aggregated into the annual credit plans for the district by the
concerned lead banks. Thus, the district credit plan was expected to represent the aggregation of two major components, namely (a) the service area credit plans of the individual branches and (b) the lending programmes for priority sector in the semi-urban / urban centres by the branches located in these centres.

The performance under Branch Credit Plans was to be monitored at three levels, namely, (a) by the branches themselves for each of the villages in their service area, in relation to the village credit plans, (b) by the controlling offices of the respective banks and (c) by the Block Level Bankers’ Committees. While the performance in respect of both priority and non-priority sectors was to be monitored by the branches and their controlling offices, the monitoring at the BLBC was with reference to priority sector lending.

With a view to improving the quality of credit planning process under the SAA on a realistic basis and strengthening the credit delivery system, NABARD was entrusted the responsibility of being the sole agency to plan, co-ordinate and monitor the credit programmes of banks and co-operatives at the district level. Accordingly, RBI advised NABARD in October 1989 to set up offices at the district level in all the districts. The role and functions of such NABARD offices were as enumerated below:

(i) The district office of NABARD was to be the principal agency at the district level for co-ordination of the agricultural and rural
development activities of various credit agencies such as commercial banks including RRBs, District Central Co-operative Banks and Land Development Banks, and liaising with concerned development departments of the Government. The Lead Bank Officer was to work in close co-ordination with the NABARD district office.

(ii) NABARD district office was to prepare, for each district, a potential linked credit plan (PLP) taking into account the agro-economic and other characteristics, infrastructure facilities including forward and backward linkages, extension, training and education as well as district development plan programmes. Such PLPs were also to contain block-wise details, to help in identifying various types of activities and the extent to which they could be taken by the credit agencies.

(iii) NABARD district office was to provide necessary guidance and support to the DCCBs and LDBs in preparing their credit plans for each service area.

(iv) With a view to improving the flow of necessary inputs, supply of requisite linkages and removal of bottlenecks, NABARD district office was requested to interact with the district level development officers on a continuing basis.
(v) NABARD district office was to monitor the progress of implementation of service area plans. For this purpose, the Lead Bank Officer was to ensure that the information relating to the credit plans of each service area, agency-wise was obtained and furnished to it at prescribed intervals. On the basis of such data, the NABARD district office was to evaluate the performance of each service area credit plan, agency-wise and provide feedback to the concerned branches offices and their immediate controlling offices.

(vi) NABARD district offices were also to prepare a comprehensive review of the performance of each credit agency in the district on a quarterly basis and furnish the information to the Regional Offices of NABARD and RBI (RPCD), which in turn, were to transmit the same to their respective Head Office/Central Office.

(vii) NABARD, as the main co-ordination agency for all credit institutions at the district level was required to attend all DCC and BLBC meetings.

Consequent upon implementation of the Service Area Approach, the role of lead banks was reviewed and specified as follows:

(a) The Lead Bank was to collect the various returns from the bank branches;
(b) Prepare the credit plans for the block/district;

(c) Provide appropriate feed-back to the block/district level on the performance of banks under the credit plans;

(d) Co-ordinate the activities of banks and government departments;

(e) Obtain active support and guidance from the District Development Managers of NABARD; and

(f) Ensure conduct of regular meetings of DCC, Standing Committees of DCC and DLRC.

It was expected that the lead bank of the district, the DDM of NABARD and the Lead District Officer of Reserve Bank would work in close co-ordination and consultation with each other.

Due to allotment of villages to designated bank branches as their ‘service area’, the activities of service area branch were restricted to the villages allotted to them and they were not permitted to provide finance outside their service areas. Similarly, the borrowers’ belonging to these villages were required to approach the ‘designated bank branches’ for their credit needs and were not in a position to avail banking services from other bank branches, irrespective of their satisfaction or otherwise with the services rendered by the designated bank branches. On the basis of the recommendations of the Advisory Committee on Flow of Credit to Agriculture Sector and Other Activities from the banking system, it was decided
to dispense with the restrictive provisions of the scheme, while retaining the positive features of the SAA such as credit planning and monitoring of the credit purveyance. Accordingly, the allocation of villages among the rural and semi-urban branches of banks for lending, except under Government sponsored schemes, was dispensed with, from December 2004. Thus, while the commercial banks and RRBs were free to lend in any rural and semi-urban areas, the borrowers were given the choice of approaching any branch for their credit requirements. Resultantly, the requirement of obtaining ‘no due certificate’ from the service area branch for lending by non-service area branch was also dispensed with. However, banks at their discretion were expected to take steps considered necessary to avoid multiple financing. These relaxations were introduced with a view to facilitating rural borrowers to have easy access to institutional credit from any bank of their choice at a competitive price and to provide banks, public and private, with a level playing field.

Consequent upon depending with the restrictive provisions of the SSA, the Annual Credit Plan for each district began to be prepared based on Potential Linked Plans (PLPs) drawn up by NABARD. The particulars of the potential available in different sectors (as indicated in the PLPs) were to be communicated by the convener of Block Level Bankers’ Committees (BLBCs) to all the branches in the block. The branches, in turn, were to prepare branch credit plan based on such communication, and these branch credit plans aggregated by the BLBC
convener bank into block credit plan. The block credit plans were, in turn, to be aggregated into district credit plan, which were to be eventually aggregated into the State Level Credit Plan.  

1.10.3 Village Adoption Scheme

Under this scheme a bank’s branch adopts a particular village and provides financial assistance to the village for agricultural and other related activities. By this facility, the rural economy will improve gradually. Since each branch concentrates on a selected village alone, the financial assistance can be utilised effectively. But in practice the scheme was not so successful as expected. The various stages in the implementation of this scheme are as follows:

i) Selection of the village to be adopted.

ii) Studying the chances for development in that village.

iii) Preparation of the action plan.

iv) Identifying the persons eligible for getting the loan.

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11 [www.rbi.org.publicationdivision\leadbankscheme](http://www.rbi.org.publicationdivision\leadbankscheme).
1.11 STATEMENT OF THE PROBLEM

Like other industries, agriculture also requires capital. Small farmers and marginal farmers need credit since their capital is locked up in their loans and stock. They need funds to meet their operational expenses. Their credit need is high at the time of crop season. Millions of farmers are depending upon marginal and subsistence farming. Due to low yield, they are not in a position either to have ‘surplus’ for distribution or at times even to continue the production process successfully and economically. Due to these reasons they depend mostly on credit even for normal agricultural operations and have to pay a part of their income by way of interest later.

The demand for credit arises largely from the seasonal cycle of agricultural production which is superimposed on a largely perpetual and steady pattern of continuous consumption. Because of the marked contrasts in production and consumption pattern, the savings and credit demand of this process may be substantially relative to net income. When it is for stimulating the tempo of agricultural production through new production technology, it is necessary that the farmers must be provided with adequate and timely credit. New production technology includes intensive agriculture and modernization. It includes the use of high yielding variety of seeds, chemical fertilizers, creation of irrigational
facilities, plant protection measures and introduction of farm machinery like tractors and combined harvesters.

The present study proposes to highlight the agricultural credit extended by the commercial banks in Virudhunagar District and analyses the repayment performance of the borrowers. The commercial banks aim at intensive coverage of selected areas for meeting the priority sector credit needs, especially the agricultural credit requirements and ensuring effective supervision over the use of loans.

Virudhunagar district has a number of villages and possesses large areas of agricultural lands. Agriculture is the main occupation of the rural population in the district. So, an in-depth analysis of these problems and issues becomes essential. This is the reason for selecting the commercial banks in providing agricultural credit in Virudhunagar district.

1.12 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To study the trend and growth of the loans issued, recoveries of loans, outstanding loans and overdues of commercial banks in the Virudhunagar district.
2. To analyse the farm structure and the investment pattern of agricultural credit of sample farmers in the study area.

3. To analyse the level and extent of investment and the factors which influence investments in agriculture.

4. To study the impact of credit on farm income distribution

5. To analyse the factors responsible for overdues position of farmers and

6. To suggest suitable remedial measures for recovery of overdues.

1.13 LIMITATIONS OF THE STUDY

No records were maintained in the farms studied. Hence, the cost and return particulars were obtained orally from the farmers. The accuracy was limited by their recall bias. However, to minimize the lapses of memory, suitable cross checks and rechecks were made so that the final figures arrived at were more or less dependable.

This is only a sample survey in a limited area (Virudhunagar District) for a specific time-period of one crop-year (2008-09). Hence, the generalization of findings must be done with care.
1.14 THE SCHEME OF WORK

The report of the present study has been organized and presented in seven chapters. They are:

Chapter I introduces the subject and discusses the need for agricultural finance, institutional credit to agriculture, Lead Bank Scheme (LBS) and District level credit plan, statement of the problem, objectives and the scheme of the work.

Chapter II attempts to review the earlier studies in relation to agricultural credit in India. Further, it describes the methodology adopted including the choice of study area, sample design, collection of data, method of analysis and tools of analysis.

Chapter III discusses the profile of the study area in terms of rainfall, land use pattern, agricultural holdings, sources of irrigation, area under major crops, operations of financial institutions and infrastructure facilities. Further, it discusses the characteristics of the sample beneficiaries’ and non-beneficiaries’ groups.

Chapter IV examines the farm structure and the investment pattern of the farms of the selected farmers according to different farm size groups.

Chapter V deals with the extent of investment in agriculture and analyses the factors influencing the investment in agriculture in different farm size groups.
Chapter VI analyses the factors responsible for overdues and also examines the factors differentiating defaulters and non-defaulters and willful defaulters and non-willful defaulters.

Chapter VII presents the summary of findings, conclusion and the suggestions based on the findings.