"I rise to present the Budget for the year 1970-71. The annual Budget is the most important instrument through which we implement our successive plans for development. It is with this positive approach to problems of growth with stability and social justice that we have sought to give new emphasis and a new sense of urgency to economic policy in recent months. The nationalization of banks, for which there is overwhelming support in this Honorable House and the country at large, will, I am sure, be soon put on a stable footing."

- Shrimati Indira Gandhi Prime Minister and Minister of Finance introducing the Budget for the year 1970-71
In this chapter, Origin and evolution of Indian Banking, Financial sector developments, Rural credit-pre and post nationalization period, Move towards social control, Dimensions of Rural Development and role of Lead Bank in agriculture credit, Commercial Banks in agricultural finance are dealt in Section-I; Section-II covers National Agriculture Research System, Farm Management, Land related issues, Agricultural productivity, Agricultural Marketing and Trading, Legislation relating to money lending, Reasons for operating without licensing; Profile of Kurnool district, Role of informal credit delivery system, Women Development, Performance of credit agencies and Financial Inclusion are discussed in Section-III.

Section - I

2.1.1. Origin and Evolution of Indian Banking

The Word “Bank” is said to be of Germanic origin, cognate with the French word “Banque” and the Italian word “Banca”, both meaning “bench”. It is summarized that the word would have drawn its meaning from the practice of the Jewish money-changers of Lombardy, a district in North Italy, who in the middle ages used to do their business sitting on a bench in the market place. Again, the etymological origin of the world gains further relevance from the derivation of the word “Bankrupt” from the French word “Banque-route” and the Italian word “Banca-rotta” meaning “Broken bench” due probably to the then prevalent practice of breaking the bench of the money-charger, when he failed.  

In India, the ancient Hindu scriptures refer to money-lending activities in the Vedic period. In India during the Ramayana and Mahabharat eras, banking had become a full-fledged business activity and during the Smriti period which followed the Vedic period and Epic age the business of banking was carried on by the members of the Vaish Community. Manu, the great law-giver of the time, speaks of the earning of interest as the business of Vaishyas. The banker in the Smriti period performed most of those functions which banks perform in modern times, such as accepting of deposits, granting secured and unsecured loans, acting as their customers’ bailee, granting loans to kings in times of grave crises, acting as the treasurer and banker to the state and issuing and managing the currency of the country. Banking is different from money lending but two terms have in practice been taken to convey the same meaning. Banking has two important functions to perform, one of accepting deposits and other of granting loans and/or investment of funds. Money-lending was practiced in all countries including India, much earlier than the present type of Banking appeared on the scene.

2.1.2. Banking in Olden Times

Banks, as we recognize them as important financial intermediaries in the Indian financial system, could be regarded as an outstanding contribution of the British rulers, blossoming as the culmination of their trading interests. The British came to India for purposes of trade, but in the course of a century and a half the flag, as goes the saying, followed trade and they became the rulers of the country. It was only in their interest that the banks were established, the first bank being, The Bank of Hindustan in 1770, as an appendage of one of the British agency, M/s Alexander & Co. The present era in Banking may be taken to have commenced with the establishment of Bank of Bengal in 1809 under the Government Charter and with Government Participation in the Share Capital. Bank of Bombay and Bank of Madras commenced their operations in 1840 and 1843 respectively, on
similar lines. These three banks were known as the Presidency Banks. They were also given powers to issue notes and thus could be regarded as quasi-Central Banks, too. Since their notes did not become popular these powers were withdrawn in 1862. In fact, after this period there was virtually a mushroom growth of Banks from the year 1860. Joint stock banks with limited liability made their appearance on the Banking scene. Allahabad Bank Ltd. was established under European management in 1865; The Punjab National Bank Ltd. was founded in 1895; The Bank of India Ltd. and Canara Bank Ltd. in 1906; The Indian Bank Ltd. in 1907; Bank of Baroda Ltd. in 1908; Central Bank of India Ltd. in 1919; Andhra Bank Ltd. in 1923; Syndicate Bank Ltd. in 1938; United Commercial Bank Ltd. in 1943; and United Bank of India Ltd. in 1950. All these banks have branches in many important centres of the country. Some of them do have offices in foreign countries as well. These Commercial banks undertake all types of banking business including deposits, advances, collection and purchase of bills, remittances and foreign exchange.

2.1.3. Financial Sector Developments and Rural Credit: Pre-Nationalization Period

There have been several developments in the financial sector relating to rural credit. These developments may broadly be divided into pre and post-nationalization period. Pre-Nationalization period may also be marked as pre and post independence period. In the pre-independence period, financial sector developments were mainly to benefit the British Government directly or indirectly. To control the economic development of India, British finance capital secured a predominating position in the Indian Banking System. British Banking concerns were 3 Presidency Banks. There was a systematic destruction of the indigenous industry for turning India into a vast market for British goods and the commercialization of agriculture for providing raw material to British Industries. The government demands for land revenues for Zamindars were fixed very high resulting into exploitation of cultivators by them. There was no systematic assistance to farmers other than
financial assistance under Taccavi loans 1793, Land Improvement Act 1883, Agricultural Loans Act 1884. Money lenders were the only source of loans to the poor rural people who demanded very heavy interest. Banking was a class banking limited to only wealthy persons and big industries. Beginning of Cooperatives institutions in 1904 gave some respite to the farmers.

The demand for nationalization of the Reserve Bank, however, did not recede into the background; on February 18, 1947, Mr. Tamizuddin Khan moved a resolution in the Legislative Assembly recommending to the Governor General in Council that: the Reserve Bank of India be taken over by Government, converted into a State Bank and run as such. Nationalization of the Bank was proposed by Mr. Tamizuddin Khan not because he was dissatisfied with its working, but because he considered that the monetary organization of the country should be a national concern and should not be confined to a limited number of shareholders ‘who are none but capitalists’59.

In 1949 two major actions were taken which were very important from the point of view of structural reforms in the banking sector. First, the Banking Regulation Act was passed. It gave extensive regulatory powers to Reserve Bank of India (RBI) over the commercial banks. Another development of no less importance was the nationalization of the RBI. These two major developments in the immediate post-independence period proved to be the turning points in India’s commercial banking60.

Reserve Bank of India was established on 1st April, 1935 and Agricultural Credit Department was created, which gave suggestions about problems in agricultural credit and rural development. It also reported about money lenders exploiting the rural people with exorbitant interest rates and suggested establishment of Land Mortgage Corporations and that

59 RBI, All India Rural Credit Review Committee Report, Chairman Burra Venkatappiah, 1966, p.510.
the cooperative societies should not act as credit units alone but these should be given the shape of an agency for integrated rural development.

After Independence the RBI was nationalized on 1st January, 1949. As per the report of All India Rural Credit Survey Committee, ‘National Agricultural Credit (Long Term Operations) Fund’ and ‘National Agricultural (Stabilization) Funds’ were created in 1956 to assist agricultural and rural development. In the year 1955 State Bank of India established to provide assistance to rural areas by opening more and more branches in rural/semi-urban centers. It may be observed that the growth rate was less than 0.5 per cent per annum during the period 1904-05 to 1944-45 due to not providing proper support to agriculture. The Per capita national income remained constant between 1914 and 1947. Growth rate increased to 2.7 percent from 1949-50 to 1983-84. In 1996-97 the growth rate became 5.7 per cent per annum. Post-Independence period before nationalization witnessed the green revolution, started in 1961, as a boost for sharp increase of the credit needs of the farmers due to increased input requirements like improved seeds, manure and fertilizers, farm machinery etc. As the credit needs were not taken care by the then private owned banks and Cooperatives, social control of banks was announced in the year 1968. And thereafter the nationalization of the 14 banks on 19th July, 1969 became a landmark in the history of banking.

2.1.4. Move towards Social Control

The All India Rural Credit Review Committee (Chairman: Shri B. Venkatappiah) was set up in July 1966 to review the delivery of rural credit in the perspective of the Fourth Five Year Plan at macro level and the requirements of the intensive programmes of agricultural production in different parts of the country, at micro level in particular, and to make recommendations for improving the flow of agricultural credit. After a comprehensive
review, the Committee recommended that the commercial banks should play a complementary role, along with co-operatives, in extending rural credit\textsuperscript{61}.

The Social Control measures outlined above were not considered adequate to achieve the desired social and economic objectives. The Government of India therefore, with effect from 19 July 1969 (by an ordinance issued on that date) nationalized 14 major Indian Banks, each with an aggregate deposit of Rs.50 crore or more with a view to “to serve better the needs of development of the economy, in conformity with national priorities and objectives. The following were considered to be the compelling reasons for the nationalization of banks.

1. Concentration of wealth and economic power in industrialists and businessmen;
2. Branch expansion was confined only to urban areas with rural areas being neglected;
3. Sectors like agriculture, small scale industries and the other deserving sectors were outside the purview of the lending operations of the bank.
4. Various malpractices indulged in by banks under private ownership and management to favor big businessmen and industrialists.
5. To give a re-orientation in attitude and outlook of the bankers so as to make them conscious of social objectives and to make them embrace social banking.

The ordinance through which the Banks were nationalized was struck down by Supreme Court as unconstitutional and invalid, on grounds of “hostile discrimination” and “illusory compensation”. So the Government addressed these lacunae and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 was introduced. The fourteen banks covered under this Act of Nationalization were: Central Bank of India Ltd., Bank of India Ltd., Punjab National Bank Ltd., Bank of Baroda Ltd., United Commercial Bank Ltd., Canara Bank Ltd., United Bank of India Ltd., Dena Bank Ltd., Syndicate Bank Ltd., Union Bank of India Ltd., Allahabad Bank Ltd., Indian Bank Ltd., Bank of Maharashtra

\textsuperscript{61} Abstracted from \textit{All India Rural Credit Review Committee}, Shri B.Venkatappiah, 1966.
Eleven years after nationalization of 14 commercial banks each with demand and time liabilities exceeding Rs.200 crore through an ordinance issued by the President. These banks were: Andhra Bank Ltd., Corporation Bank Ltd., New Bank of India Ltd., Oriental Bank of Commerce Ltd., Punjab and Sind Bank Ltd., Vijaya Bank Ltd. Of these twenty banks nationalized in two installments, New Bank of India got merged with Punjab National Bank in September 1993. Thus, as of today, there are 19 nationalized banks operating in our country.

2.1.5. Dimension of Rural Development

Rural areas, which contain about three-fourths of the country's population, have, as compared to urban areas, much lower levels of per capita income and consumption, as also much poorer access to education, health, transport and other essential services. Emphasis on rural development is thus important in itself, but its importance acquires a macro dimension if it is realized that it has implication for migration to urban areas, for urban unemployment and for all the problems associated with slum dwelling.

As far as Development is concerned, it means a positive change in economic, social, cultural, attitudinal, physical, technological etc. World Bank defines the rural development as a strategy designed to improve the economic and social life of a specific group of people—the rural poor. The dimension of rural development can be broadly classified into the following categories.

(i). Economic Development: Economic Development involves developing the economic status of the rural people. It enables the people to acquire additional financial assets enabling them to have better purchasing power and better household savings improving the standard of living.

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(ii). **Social Development**: Social Development involves rural people developing more awareness regarding the environment and health viz. men and materials, social interactivity, cohesiveness, education, infrastructure development like basic facilities of medical treatment, population control measures etc.

(iii). **Cultural Development**: Cultural Development involves awareness of the existing culture, identifying and accepting the needs for change, adapting themselves for the necessary changes in culture and equipping themselves for the same. The dimensions may be extended further to the quality of life, productive employment, self development etc.

(iv). **Technological Development**: Technological development in rural areas involves the use of new technology in the field of agriculture and allied activities for increasing production and productivity and also to improve the quality of goods produced with value addition for both inland and export markets. Technological development gained momentum with the launching of Green Revolution in the year 1966 with the objective of increasing the production of major staple food crops like wheat, paddy etc, commercial crops like sugarcane, chilies, cotton etc.

One vital aspect of the economy, which calls for sustained and focused corrective action, is the inadequacy and poor quality of India’s infrastructure i.e., electric power, roads, ports telecommunications and also urban and rural drinking water supply and sewerage. Rapid growth is only possible if the supply of these services can be greatly increased and their quality also improved. To enlarge the resources of the public sector on the one hand and attract private sector to the infrastructure sector on the other.

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2.1.6. Financial Sector Developments and Rural Credit-Post Nationalization Period

D.N. Ghosh viewed it in a larger perspective when he made the following observations: "The decision of July 1969 was a complete break from the tradition; it was an explicit recognition by the government that it could not absolve itself of its responsibilities of controlling directly the banking system if it was to be shaped as an instrument of furthering economic development in accordance with national objectives and priorities."\(^{64}\)

Fourteen Banks with a deposit of Rs.50 crore and above were nationalized on 19th July, 1969 to fulfill the social needs of the country. This provided the 83 per cent of the financial resources of the country's banks in the hands of the Government for socio-economic development of the country. Lead Bank Scheme was started in December, 1969 giving the responsibility of the preparation of the District Credit Plan to a bank in each district designated as Lead Bank for proper coordination among all sectors of agricultural and rural development. And from here the era of banks involvement in rural development began. The post-nationalization period may well be defined with the following major financial sector developments which influenced the intake of the rural credit directly or indirectly and thus promoted agricultural and rural development.

Around the year 1964 the banks started recruiting specialists like Agricultural/Veterinary/Rural development/Technical Officers for technical and financial appraisal of agricultural projects. Various government sponsored schemes were started during post-nationalization period. Many committees were constituted by the government on various matters of rural credit whose recommendations were implemented.

Financial sector developments brought basic changes in rural credit. They are class banking to mass banking; Security based credit to need based credit; few branches to branch

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expansion; Money lenders to institutional credit; Private borrowings to Government support with subsidized programmes.

2.1.7. Lead Bank Scheme

A. F.K.F. Nariman Committee

The Reserve Bank appointed a Committee of Bankers on Branch Expansion Programme of public sector banks (Chairman: Shri F. K. F. Nariman), 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.

B. Service Area Approach

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 centers, mobilizing deposits, and identifying credit gaps and evolving a coordinated 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:

Surveying the resources and potential for banking development in its district;
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; Examining the facilities for marketing of agricultural produce and industrial production, storage and warehousing space, and linking of credit with marketing in the district; Surveying the facilities for stocking of fertilizers and other agricultural inputs and repairing and servicing of equipments; 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; Assisting other primary lending agencies; and Maintaining contact and liaison with Government and quasi-Government agencies.

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

Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing credit for promotion of, among others things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state cooperatives and RRBs. NABARD is the Apex institution which has been entrusted with a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions to augment their resource base. Since its inception, the NABARD has played a central role in
providing financial assistance, facilitating institutional development and encouraging promotional efforts in the area of rural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96; the corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets. NABARD has been playing a catalytic role in micro-credit through the conduit of Self-Help Groups (SHGs).65

In pursuance of the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (Chairman: Shri B. Sivaraman), the Reserve Bank, in November 1981, had set up a Working Group under the chairmanship of Shri 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:

Reconstitution of the DCCs and Standing Committees to make them effective;
Constitution of District Level Review Committees in place of District Level Review Meetings (DLRMs); Status, designation and role of the Lead Bank Officer; Periodicity of DCC, DLRC meetings and their conduct; Effective management information systems under Lead Bank Scheme; Training needs on Lead Bank Scheme for all officials up to the block level in government and officers of rural branches of financing agencies; 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.

D. Service Area Approach to permeate banking into rural segments

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 a 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.

A new hi-tech segment emerged in the rural sector: aquaculture, floriculture, tissue culture, green house farming, exploitation of wind energy and so on. PSB should lend aggressive credit support to the perfectly bankable projects in this segment. Considerable progress towards decentralization of development administration has been made in some States like Kerala. In Kerala, 40 per cent of the annual plan outlay devolves on the Panchayat Raj Institutions. PSBs should start a dialogue with these institutions for identifying bankable projects.66

66 N.A. Majumdar, op.cit, p.286.
E. NABARD – To gauge the Quality of Credit Delivery System

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.

2.1.8. Commercial banks in agricultural finance

Ever since nationalization, commercial banks have been working as catalyst in agricultural and rural development. Commercial banks have been introducing most updated and novel credit packages according to the needs of farmers to reduce their dependence on non-institutional credit to a greater extent. The views expressed by many authors and reports on commercial banks agricultural finance are presented below.

Development of the institutional agricultural credit has been a major function of the RBI from its very inception. During the 1960s and 1970s it took particular interest in developing agricultural credit. It not only assisted the development of short-term co-operative credit for agriculture but also participated in the establishment of the Agricultural Refinance and Development Corporation (ARDC) in 1963.67

Notwithstanding some knock-on effects of the global financial crisis, Indian banks withstood the shock and remained stable and sound in the post-crisis period. Indian banks nine now compare favorably with banks in the region on metrics such as growth, profitability and loan delinquency ratios. In general, banks have had a track record of innovation, growth and value creation. However, this process of banking development needs to be taken forward

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to serve the larger need of financial inclusion through expansion of banking services, given their low penetration as compared to other markets.\textsuperscript{68}

The government of India initiated the setting up of a Rural Infrastructure Development Fund (RIDF) to be raised from the commercial banks to the extent of their shortfall in agricultural lending.\textsuperscript{69}

The guidelines on lending to priority sector were revised with effect from April 30, 2007 based on the report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C.S. Murthy). The priority sector broadly comprises agriculture, MSEs, retail trade, micro credit, education and housing subject to certain limits. The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006. The priority sector lending targets (40 per cent and 32 per cent for domestic and foreign banks, respectively) have been linked to the adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31 of the previous year, as against the previous practice of linking targets to the ongoing net bank credit.\textsuperscript{70}

An increase in indirect finance is necessary to improve the capacity of farmers to absorb more direct finance. However, the promotion of indirect finance should not lead to an undermining of direct finance. The RBI’s advisory committee on flow of credit to agriculture and related activities in 2004 noted the demand made by banks to relax the stipulation that indirect finance to agriculture should not exceed 4.5 per cent of the net bank credit\textsuperscript{71}.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{68} Reserve Bank of India, \textit{Report on Trend and Progress of Banking in India 2009-10}, p.8.
\item \textsuperscript{70} Reserve Bank of India, \textit{Report on Trend and Progress of Banking in India 2009-10}, p.13 & 30.
\item \textsuperscript{71} R Ramakumar, Pallavi Chavan "Revival of Agricultural Credit in the 2000s: An Explanation", \textit{Economic & Political Weekly}, December 29, 2007, p.57.
\end{itemize}
\end{footnotesize}
Despite the significant strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate. One of the major impediments constraining the adoption of new technological practices, land improvements and building up of irrigation and marketing infrastructure has been the inadequacy of farm investment capital. Farmers seem to borrow more short-term credit in order to meet input needs to maintain continuity in agricultural operations without much worrying about long-term capital formation in the face of agricultural bountiness. It might be the case from supply side that short-term credit bears low credit risk, lower supervision and monitoring costs, and a better asset liability management 72.

Dr. Y.V. Reddy, Deputy Governor, RBI at The Indian Economy Conference, Program on Comparative Economic Development (PCED) expressed some critical elements for progress in reforms; accordingly it will be useful to distinguish between what a financial sector can contribute and what fiscal action can contribute to matters relating to poverty alleviation. In the interest of efficiency and stability of financial sector, intermediation may have to be progressively multi institutional rather than wholly bank-centered. Social obligations may have to be distributed equitably among banks and other intermediaries but that would be difficult to achieve in the context of emerging capital markets and relatively open economy. In such a situation, banks which are special and backbone of payment systems may face problems if they are subject to disproportionate burdens. Hence, mechanisms have to be found to reconcile these dilemmas. 73

73 Presentation by Dr. Y.V. Reddy, RBI at The Indian Economy Conference, Monetary and Financial Sector Reforms in India: A Practitioner’s Perspective Program on Comparative Economic Development (PCED) at Cornell University, USA, on April 19-20, 2002.
Section – II

2.2.1. National Agricultural Research System

The Indian Council of Agriculture Research (ICAR) has a strong institutional structure that comprises Central Research Institutes, National Research Centres, Project Directorates, National Bureau, All-India Co-ordinated Research Projects, State Agriculture Universities and Central Agricultural universities, agricultural faculties of Central Universities, voluntary organizations and private sector. Based on the recommendations of the Education Commission (1964-66) for establishment of Agricultural Polytechnics for imparting vocational education in agriculture, and further considerations by the Planning Commission and Inter-Ministerial Committee; the ICAR had appointed Dr. Mohan Singh Mehta Committee in 1973. The Committee suggested establishment of Farm Science Centre, commonly called Krishi Vidyan Kendra (KVK). Basically the KVKs aim to improve technical literacy of farmers, farm women, and to train field level extension functionaries. The teaching design is based on the philosophy of teaching-by-doing and learning-by-doing. The ICAR has so far established 500 Krishi Vigyana Kendras at the rural district level, and contemplates to have one KVK in each of the remaining 588 rural districts of the country by the end of the X plan as an innovative institutional model for assessment, refinement and on farm demonstration of agricultural technologies and training of trainers/farmers. Transfers of Technology (ToT) systems are (i) first-line extension system of the ICAR; (ii) national extension system of the Union Ministry of Agriculture, (iii) rural development programme of the Union Ministry of Agriculture, and (iv) extension efforts of the Non-government Organizations. The National Agricultural Research System (NARS) organized by the ICAR is among the largest in the world with manpower of about 25,000.
2.2.2. Farm Management

Farm Management is the science that deals with the analysis of the farming resource alternatives, choices and opportunities within the framework of resource restrictions as well as social and personal constraints of the farming business. *Farm Management is a decision making science.* It helps to decide the basic course of action of the farming business. A notion that management is not important for small farms is wrong. The principles of farm management deal with the allocation of resources and they apply to small and large farmers equally.

The objective of farm planning is the improvement in the standard of living of the farmer and to maximize the net income of the farmer through improved resource-use planning. The economic viability of plan may be evaluated by budgeting. The advantages of farm planning are income improvement, educational process and desirable organizational changes. The expression of a farm plan in monetary terms by estimation of receipts, expenses and net income, is called budgeting. In other words farm budgeting is a process of estimating costs, returns and net profit of a farm or a particular enterprise.

A. Farm Credit

The credit forms the total capital requirement minus farmer’s owned funds. A banker is always concerned with the recovery of the loan advanced by him to the farmer. Therefore, before advancing loan, the banker examines whether the farmer is capable to repay loan from the additional returns, which he may earn from investment in alternative plant. Under such a situation, the responsibility of farm-management specialist increases many fold. His planning for selection of alternatives should be such that the farmer earns more additional profit from the loans he has taken form the bank. As the loan is to be paid at the end of every season, repayments include:
1. Total amount in the case of self-liquidating loans that are for short periods and for purchasing seeds, fertilizers, hiring casual labour etc.

2. The installments of the medium and long-term loans which are not self-liquidating and are for constructing buildings, making irrigation structures, purchasing implements and machinery etc.

The format to compare existing and the alternative plans for credit should be prepared. It gives crop combinations that can increase yields and farm income in an alternative plan. It also shows how to work out short-term credit requirements and how to work out the repaying capacity and economic feasibility of the credit proposal.

B. Cost Concepts

There are many cost concepts that are frequently used in the farm management concepts i.e., Cost $A_1$, Cost $A_2$, Cost $B$ and Cost $C$; Working or variable or operational cost and fixed costs; machine costs, labor costs, livestock costs, crop costs etc.

Cost $A_1$: It includes 16 items of costs-value of hired human labor (permanent and casual); value of owned bullock labor; value of hired bullock labor; value of owned machinery; hired-machinery charges; value of fertilizers; value of manure (produced on the farm, and purchased); value of seed (both farm-produced, and purchased); value of insecticides and fungicides; irrigation charges (both of the owned and hired tube wells, pumping-sets etc); canal water charges; land revenue, cesses and other taxes; depreciation on farm implements (both bullock-drawn and worked with human labor); depreciation on farm buildings, farm machinery and irrigation structures; interest on the working capital; miscellaneous expenses (wages of artisans, cost of ropes and repairs to small farm implements)

Cost $A_2$: It is the Cost $A_1$+ rent paid for leased land.

Cost $B$: It is the Cost $A_2$ + Imputed rental value of owned land (less land revenue paid thereupon); and imputed interest on owned fixed capital (excluding land)
Cost C: It is the Cost B + Imputed value of family labor.

It can thus be seen that Cost C is a very comprehensive concept. But the risk and uncertainty costs are not taken care of. The aggregative measures of income are:

Gross Income: It is a measure of the size as well as of the volume of business. It is derived by adding gross sales, the home consumption of farm products, changes in the inventory and purchases together. It refers to the volume of output per year. This is a very important figure, as all other income figures are derived from it. The volume of business can be known by comparing the gross income in the same type of farming situations.

Cash Income: This relates to the cash receipts from the farm sales and from the custom hiring out of the farm resources. The net cash income derived after deducting cash expenses from the cash income shows the amount available for investments in the farm to bring about improvements.

Net Operating Income: Net operating income = gross income - (Operating expenses + depreciation on working assets)

The comparisons of net operating income of different farms are a good measure of their relative efficiency. Returns from individual factors can be derived from this measure.

2.2.3. Land Related Issues

Land reforms were basically aimed at stopping the exploitation of the actual tillers of the soil and passing on the ownership of land to them. The land reforms were introduced in the post-independence period of India with the measures (a) Abolition of Intermediaries (b) Tenancy Reforms (c) Reorganization of Agriculture. These measures especially tenancy reforms have not materialized with the conformity of the land reforms objectives. In fact a person claims that he is a tenant only if his name appears as such in the land records. However, it has been observed that in many States either no records of tenancy exists or are incomplete and out-of-date due to the non-cooperation of the landlord.
Since migration and feminization are increasing trends, land reforms that make tenancy legal and give well defined rights to tenants and to women are now need of the hour than ever not only to reduce farmers distress but also to increase agricultural growth. Lack of recognized tenancy rights makes it complicated for de facto tenants to get credit from formal sources. Tenants without legal rights do not have proper incentives to develop the land and this explains part of the yield gap and hampers the productivity. The linking of small and fragmented farms with large-scale processors and retailers remains a challenge in the high value sector, and restricted land (lease) markets tend to compound the problem. The land and credit markets are intricately linked, and improving the marketability of land will enhance access of farmers to institutional credit. NABARD has taken up the responsibility to bring the traditional moneylenders into the organized network as Non-Banking Financial Intermediaries (NBFI). NABARD has taken up the responsibility in order to refinance them at an interest rate of 7 per cent but still they can charge farmers up to 12 per cent rate of interest. The land related problems are the major hurdle for accessing institutional credit for tenant farmers/share croppers.

The agrarian class structure in India which emerged after implementation of first round of land reforms in India was; Big land owners at the top consisting of former landlord; rich peasants considered as upper layer of the peasantry having, relatively bigger holding and larger financial resource; inferior tenants consisting of large chunk of small cultivators who face the problems of indebtedness and less security of ownership rights and; tenants-at-will, sharecroppers and the agricultural laborers at the bottom, who are the actual tillers of the soil.74

Another important dimension is widespread prevalence and increase of informal or unrecorded tenancy system in rural areas preventing the implementation of legal measures.

related to fair rents and protecting the tenant's rights. In this context there is serious opposition to comprehensive land reform measures mainly from two sections; one is absentee non-cultivating owners living in urban areas and the other is resident cultivating owners (i.e., emerging rich peasantry) who are oriented towards profit earning.75

2.2.4. Agricultural Productivity

India is one of the largest growers and producers of most of the agricultural crop but ranks very low in terms of yield. Land tenure system, lack of credit and marketing facilities and uneconomic holdings account for institutional causes where as outdated agricultural techniques and inadequate irrigation facilities are the major hurdles from technical aspects.

A comparison of productivity levels in Indian agriculture with the levels in other countries shows how low the productivity in Indian agriculture is. Productivity of wheat in India is about 35 per cent of the productivity in France. It is 66 per cent (i.e., less than two-thirds) of the productivity in comparison to another underdeveloped country, China. As far as rice is concerned, productivity in India is 46 per cent of the productivity in China and Japan (i.e., less than half). The productivity of cotton in India is one-third of the productivity in China. Even in comparison to Pakistan, productivity of cotton in India is just 61 per cent. As far as groundnut is concerned, productivity in India is 34 per cent of the productivity in USA, 40 per cent of the productivity in China and 51 per cent of the productivity in Argentina. Similar conclusions hold for most of the other crops. The low levels of productivity in Indian agriculture point to the possibilities of increasing productivity by adopting appropriate strategies and policies. International comparisons reveal a wide gulf in India’s performance between achievements in output and productivity. While India compares favorably in terms of total output, it compares poorly in terms of yield per hectare. India has

60 million hectares of land under irrigation compared with just 47 million in China, but its food grain production is barely 40 per cent of China’s output.\textsuperscript{76}

Moreover, dropping water tables increase the pumping energy needed to produce the same irrigation service. With roughly 30.5 per cent of India’s electricity production currently devoted to pumping ground water and massive energy shortages affecting all sectors, the energy-related economic costs of falling water tables could be huge\textsuperscript{77}.

Some innovative technologies that need full scale implementation in India are: System of rice intensification (SRI), precision agriculture, use of GM crops, high density polythylene agrishade nets-a high value added product and organic farming\textsuperscript{78}.

HYV seeds have played a prominent role in the success of the Indian agriculture sector, resulting in higher production of food grains. During the Green Revolution, the Indian Council for Agricultural Research developed new strains of HYV seeds, and focused mainly on wheat and rice. The Seeds Act, 1966 and the New Policy on Seeds Development, 1988, form the basis of promotion and regulation of the Indian seed industry. The objectives of the National Seeds Policy, is to create an appropriate climate for the seed industry, safeguard the interests of Indian farmers, and the conservation of agro biodiversity.\textsuperscript{79}

India’s agricultural policy focuses on food self-sufficiency, remunerative prices for farmers, and maintenance of stable prices for consumers. These goals are met by a number of measures such as - minimum support prices, food subsidies for consumers, regulated markets, input subsidies for producers, and international trade policy. Since independence, the government has focused on the sector through five-year plans, and the public sector outlay in the sector as per the Eleventh Five Year Plan is US$ 29.6 billion (INR 1,363.8 billion). In

\textsuperscript{77} K.C. Pant, op.cit., p.72.
\textsuperscript{78} Website: http://www.pnbrcmbi.com/Topic_1-CSC-Agrl_Productivity.pdf
\textsuperscript{79} Website: http://agricoop.nic.in/AnnualRepor2009-10/AR.pdf
1950, per hectare use of fertilizers in India was 0.55 Kg. However, backed by government policies and initiatives, the consumption increased to more than 125 Kg per hectare by 2009. The government has taken various policy initiatives for the fertilizer sector, such as pricing policy for indigenous urea, new investments in the urea sector, nutrient-based pricing, production and availability of fortified and coated fertilizers, uniform freight subsidy on all fertilizers under the fertilizer subsidy regime, concession scheme for decontrolled phosphatic and potassic fertilizers, etc.\textsuperscript{80}

Major incentives for greater use of growth linked agricultural inputs (seeds, fertilizers both mineral and bio-fertilizers), pesticides (both chemical and bio pesticides), farm machinery and equipment, etc); Continued support for buffer stocking of essential commodities at a threshold level with creation of ultra-modern soils and cold storage facilities to avoid any post harvest losses; and insurance of crop and livestock with premium rates that are affordable by the resource poor farmers.\textsuperscript{81}

2.2.5. Agricultural Marketing and Trading

Agricultural Marketing in India till mid 1960s was almost totally under the control of private sector. Public intervention was minimal except in the emergency situation and for cash crops. Most of the produce was sold in the village itself to itinerary merchants, who then took that produce to markets in towns and cities. A minor fraction of produce that was brought to market was subjected to numerous malpractices involving exploitation of producers. This left little incentives with the farmers to generate a surplus and participate in the market. The situation has seen a sea change after mid 1960s, when new high-yielding varieties of rice and wheat became available for cultivation in the country. Since then the government has taken active interest in the development of infrastructure for marketing and

\textsuperscript{80} Website: http://indiabudget.nic.in/es2009-10/esmain.html.
\textsuperscript{81} Dr. R.S. Paroda, “Strategy for Productivity Growth”, \textit{The Hindu Survey of Indian Agriculture}, 2008.
trade and in influencing the structure and conduct of marketing. Besides physical measures, this has been done through institutional mechanism, legal framework and regulations and direct intervention in the market by public sector agencies.

2.2.5.1. Agricultural Produce Market Regulation Act (APMRA)

For checking unhealthy practices and to give fair treatment to farmers, the government took steps to bring all agricultural markets under the regulations of Agricultural Produce Market Regulation Act (APMRA). These markets are called regulated markets and their principal objective is to safeguard the interest of producers and to raise the standard of local markets where the exchange of agricultural goods takes place. This act removed several practices that worked against farmers and introduced standard weight and measures, rationalized market charges and specified methods for sale transaction and market conduct to impart competition, efficiency and transparency in the market. Further, the Act renders illegal any sale and purchase of agricultural produce outside the regulated market or market yard except where exemptions are granted. The APMRA has been enacted in all the states except Jammu and Kashmir and Mizoram.

2.2.5.2. Agricultural Produce Grading and Marketing Act, 1937

This act was passed to encourage quality and promote consumers' confidence in agricultural products. It defines standards of quality and prescribes grade specifications with regard to scheduled products. The Act authorizes Agricultural Marketing Advisor in each state to grant certificate of authorization to persons or corporate bodies who agree to grade agricultural produce as prescribed under the Act to use AGMARK grading. The AGMARK has remained quite low despite rising importance of quality attributes among the consumers.

The main aims of regulations are: (a) to keep a check on exploitations of producers and consumers by private trade through collusion, hoarding etc., (b) price stabilization, and (c) to raise the standards of markets and to improve market performance. Lot of changes
have taken place in marketing and trade environment since these regulations were framed. Development of transport and communication network, expansion of marketing and increased competition in economic activities have facilitated increased role of private sector in agricultural marketing. To increase the participation of private sector in agricultural marketing, some changes have been made in ECA to remove the requirement of licensing of dealers and restrictions on storage and movement of food grains, sugar, oilseeds and edible oils. Similarly, Sugar Control Order and Milk and Milk Product Order have also been amended to allow more freedom and increased participation by private sector in marketing of these commodities.

Eleventh Five Year Plan proposes to address the following issues related to agricultural marketing-marketing system improvement and conductive policy environment; strengthening of marketing infrastructure and investment needs; improving market information system with the use of Information and Communication Technology (ICT); human resource development for agricultural marketing; and promoting exports/external trade.  

2.2.6. Legislation Relating to Money Lending

Uttar Pradesh government amended the UP Regulation of Money Lending Act in 2008 to protect debtors by requiring the money lender to issue prior notice to the debtor before initiating proceedings for recovery of loans and enhanced punishments for molestation and non-furnishing of accounts. Andhra Pradesh government is proposing a single money lending law for its applicability in the entire state to replace licensing with registration, prevention of molestation, interest rate regulation and for accrediting loan providers. Kerala government is currently reviewing the money lending law. Madhya Pradesh government has set up a committee to go into the existing money lending law. Rajasthan government is

proposing to take a comprehensive view of the money lending law along with the need to regulate the micro finance sector.

Apart from the money lending laws in operation in the respective states, Tamil Nadu and Karnataka have each enacted a separate law to prohibit the charging of exorbitant interest by any person. Under these laws, notwithstanding anything contained in the respective money lending law, whoever charges interest at a rate more than that fixed by the state government under the money lending law, or molests or abets the molestation of any debtor for recovery of any loan, is punishable with imprisonment up to three years and fine up to Rs.30,000.

Money lending laws of Karnataka (section 7A) and Kerala [section 4(2A)] require registered moneylenders to keep security deposits with the government. The law provides a detailed table specifying the amount to be deposited by a moneylender, and it is linked to the amount of money lent in a year. The security deposit specified in Karnataka ranges from a minimum of Rs.5,000 to a maximum of Rs.50,000, and in Kerala it ranges from a minimum of Rs.5,000 to a maximum of Rs.2,00,000.

2.2.7. Reasons for operating without registration/license

Despite state laws requiring licensing/registration of moneylenders, the number of licensed registered moneylenders appeared to be well below the actual number of moneylenders active across the state. Moneylenders appeared to be operating without registration/license for the following reasons:

a) Inappropriate ceiling on the interest rate on lending;

b) Cumbersome process of registration: fear of disclosure of unaccounted money, fear of penalties and audit;

c) Need to compulsorily submit statements/returns at periodic intervals; and

d) No strict implementation of law for compliance.
Section – III

2.3.1. Profile of Kurnool District

Kurnool District is in the Rayalaseema region of Andhra Pradesh and is spread over 17658 sq. km. with a population of 35.29 lakh. It has 54 mandals, 894 inhabited villages (1711 habitations). There are 3.64 lakh cultivators, 6.25 lakh agriculture labourers with a net sworn area of 8.62 lakh ha and net irrigated area of 2.66 lakh ha. The principal rivers of the district are Tungabhadra, Krishna and Kundu with Hundri and Hagari as tributaries of Tungabhadra. There are two major forest ranges viz. Nallamalla and Erramalla. The district has rich mineral resources viz., limestone, barryettes, yellow shale, steatite and dolomite. Bethamcherla stone, available in abundance, is a well-known product used as tiles in construction of houses. The district has several places of tourist interest and most of them are pilgrimage centres. Agriculture sector with paddy, oil seeds, jowar and pulses plays a dominant role in the district’s economy. Apart from above, fruits, vegetables and spices are also cultivated in significant area. Allied activities like animal husbandry especially dairy, sheep and goat rearing have good acceptance. Rural Non Farm sector (RNFS) plays a pivotal role by providing employment to 5.11 lakh non-farm workers i.e. 14.48 percent of the
population. The RIDF projects contributed significantly to the infrastructure development in the district. Government of India identified Kurnool as one of the distressed districts and special package for mitigating the distress of the farmers has been announced.

2.3.2. Role of Informal Credit Delivery System

SHG-Bank linkage programme time and again proved that the poor can be banked with profitability. The credit needs of the poor are very small and they require credit support at frequent intervals. The SHG-Bank linkage programme could answer both these objectives very well. It has emerged as a cost effective strategy for banking with the poor and has challenged the hegemony of usurious moneylenders, landlords, shop keepers and market vendors etc., on whom poor were depending for meeting their credit needs till recently.

A. Existing Micro Finance practices in the District

The major micro financing practices in the district include direct financing of the SHGs by Commercial Banks and Andhra Pragathi Grameena Bank (APGB), MMS, Mahila Societies. NGOs/VAS viz., Share finance, Basix, Sadana, Shilpa Seva Samithi and Star Youth also extended the credit to some extent to SHGs. Government organizations like DRDA through its Indira Kranthi Patham (IKP), earlier known as Velugu and DWMA through its Jalajeevini are also extending considerable finance to SHGs. The other micro finance practices include financing of RMGs by banks and Joint Liability Groups by Basix, SIRI, SHARE, SPANDANA, SADHANA and HOPE. However, RMGs came into picture very recently in the district and the scale of operations of the above mentioned organizations is very limited. The players in the micro finance scenario of the district are few Govt. departments like Department of Co-operation, DWMA (District Water Management Agency), SETKUR (CMEY) and Department of Women and Child Welfare (DW&CW), Agriculture Department etc.


B. SHG Scenario of the District

In Kumool, SHG movement has its roots in South Asian Poverty Alleviation Programme (SAPAP) implemented in the year 1995 under UNDP, which was started in seven Mandals covering 210 villages. DRDA has taken a lead role in promotion of SHGs in the district. Micro Finance has played crucial role in poverty alleviation in the district especially in enlarging coverage of the unreached poor under the banking fold. As on 31.03.2009, there are 39624 groups in the district with membership of 4.50 lakh women, who have together saved Rs.162.76 crore. A total of 20759 groups were linked during 2008-09 involving financial assistance of Rs.22, 943 lakh. The average per group finance is Rs.1.10 lakh. The potential for financing SHGs during 2010-11 is estimated at Rs.64, 000 lakh.

UNDP could promote 183 village organizations (covering 2478 groups), which are federated into 7 Mandal Samakyas. IKP (Velugu) project launched in the district during the year 2002-03 along with DWMA, had strengthened the above institutional infrastructure leading to establishment of 1199 Village Organizations covering 1313 hamlets in 45 mandals for reducing poverty through social re-engineering, formation of SHGs and promotion of SHGs federations and Mandal samakyas. As a result of these efforts fifty Mandal Samakyas (including seven SAPAP and five Chenchu Mandals) are in existence as at the end of 31-03-2007. There are 203 Mahila thrift and credit cooperative societies registered under MACS Act 1995.

C. Activity Profile of the SHGs

In the initial days of SHG-Bank linkage programme most of the credit was directed in meeting consumption needs. Slowly, there is switch over from consumption to income generating activities. The economic activities taken up by group members under farm sector are agriculture dairy, ram lamb rearing, sheep rearing, fisheries and NFS activities include rope making, vegetable/fruit vending flower vending, kirana/small business, papad making,
basket making, pickle making, bricks manufacturing, tailoring, weaving, stone quarrying, chappal/shoe making, cloth business, plastic ware business etc.

D. Strategy for SHG Bank linkage programme in the district

The broad strategy and action plan lays stress on quality of SHGs and sustainability of linkage. For this it is necessary (i) to undertake rating of all SHGs as per CRI by the SHPI. Banks need to corroborate the rating before financing, (ii) to adopt SAO in a phased manner, (iii) to insist upon micro credit plan so that per group finance may increase, (iv) to undertake steps for capacity building of the groups, training of SHG leaders and members so that essential group processes are not compromised. (v) To take up extensive monitoring and follow up by both banks and SHPI for NPA free portfolio.

E. Grading

During 2003-04, DRDA had graded 20238 groups according to which there were 12405 good groups, 4099 average groups, 1907 poor groups and 1827 defunct groups. Rating of groups should be updated periodically according to Critical Rating Index parameters so as to ensure smooth linkage and also to improve the group dynamics and book keeping. Banks should revalidate the ratings before financing the groups and should also involve in strengthening of groups. DRDA should continue its efforts for rating at periodical intervals i.e. once in six months for further strengthening of the groups.

F. Introduction of Standard Accounting Package (SAP)

It is decided to adopt SAP for all new groups and transaction sheet of SAP for existing groups. Replacement of old books with SAP’s account books in case of existing groups is also planned in a phased manner. During first phase 10000 books were printed by DRDA and around 200-250 sets were given to each mandal. About 138 Master Book Keepers (MBKs) were recruited and trained on SAP introduction and they are working for
implementation of SAP through trained Village book keepers. There were 123 village book keepers for assisting the SHG members in maintaining the SAP books.

G. Capacity Building

Training and Technology Development Centre (TTDC) has been established in the district at B. Thandrapadu. Syndicate Bank Institute of Rural Entrepreneurship Development (SIRD) was also established in the premises of TTDC to enhance training facilities for SHG members. During 2003-04, in all IKP mandals, Mandal Velugu Training centers were opened for training and capacity building of the SHG members. These training centers should be given task of capacity building and skill up gradation of SHG members so as to enable them to take up income generating activities. The existing schemes like revolving fund assistance, subsidy and matching grant facilities are being continued to enhance the corpus available with the SHGs and to ensure up scaling of SHG Bank linkage programme.

H. Training Plan and Arrangements

Awareness among the Branch Managers of banks on latest development in the field of financing SHGs needs to be created. In order to have continuous interaction with the NGOs/DRDA officials, interface workshops of one-day duration will also be organized after assessing the requirements. Majority of the groups formed under DRDA/UNDP programme, with the involvement of a few NGOs/VOs and Gram Sevikas/MDOs, need to democratize their functioning and improve internal communication to ensure transparency. Due to illiteracy among the group members, more emphasis is required to be laid on maintenance of records. The DRDA-IKP has organized training programs for all the personnel concerned with SHG promotion. IKP is arranging series of workshops, consultation meets and training programs to all the players concerned with organization of families below poverty line into SHGs. However, to extend finance to all the SHGs in the district, with DRDA as a focal point, it is necessary to have proper coordination. The capacity building of the groups,
master book keepers etc., should be ensured as it is essential to have sustainable SHG Bank linkage programme.

I. Monitoring of SHG Bank Linkage Programme

For keeping the NPA levels at bare minimum levels, NABARD itself is undertaking SHG quick studies at regular intervals involving DRDA and Bank officials. Further, DRDA and Bank officials are also advised to undertake desk as well field monitoring studies for identifying the problem areas and for finding the appropriate solutions in the early stages of sickness. The branch staff should also monitor the functioning of SHGs on a periodical basis. Monthly MIS at district level on the progress of financing fresh and repeat groups and also on default groups and its review is advocated for healthy growth of the SHG-Bank Linkage programme. Recently IKP introduced Community Based Recovery Mechanism for having institutional approach for the recoveries under SHG-Bank Linkage and Govt. sponsored programs.

J. Important findings of the quick study of SHG Bank Linkage Programme

The recovery rate is 96 per cent but increasing default amount in case of few groups is the cause of concern. (b) Some mature groups were lacking skills to take up income generating activities and (c) Declining group dynamics and poor attendance was observed, which hampers the repeat finance process and is detrimental to SHG movement. (d) There is a gradual shift from consumption to income generating activities. (e) The study observations indicated that bank funds and group savings were not funded for lending purpose, thereby creating parallel loan cycles. (f) Inadequate monitoring efforts on the part of banks and promoting agencies were observed during the studies.

K. Rythu Mitra Groups (RMGs)

Agriculture Department organized Rythu Mitra Groups (RMGs) on the lines of SHGs in 2003-04 and is nurturing them. The department has formed 6470 RMGs comprising of the
50-60 per cent small and marginal farmers, 5-10% of tenant farmers and balance are other farmers. However, there is yet good scope for formation of new RMGs. There are 343767 small and marginal farmers (having 2 ha or less landing holding) out of them so far about 66500 small and marginal and tenant farmers are covered under RMGs. Therefore more than 18000 RMGs comprising of only small and marginal farmers can be formed. Department had prepared branch wise and Mandal wise list of all RMGs along with details of the members viz., age, social status, no. of family members, extent of land (own as well as leased), crops grown, irrigation source, loan outstanding with various banks/private lenders and credit requirement. However, interaction with few groups had indicated that the group dynamics are not at desired level and book keeping aspects need improvements. Further, it was also observed that in case of few members land is not in their name, due to inheritance or in the name of father even after division of the families. Therefore, district administration has to initiate special drive for mutations/issue of pass books on the basis of participation of families. Majority of RMG members are also cultivating lands which are taken on roal lease. Further, feedback from banks indicates that vast majority of groups are not homogeneous in nature. Therefore, agriculture department has decided to form 3300 new RMGs comprising of only tenant farmers so as to comply with homogeneity principle and also bring the tenant farmers into the fold of bank credit. As alternative strategy Agriculture Department is planning to reorganize the existing RMGs by taking away the small and marginal farmers from existing groups and forming a new group. For the purpose of reorganization and strengthening of the RMGs, there is a need to take help of the NGOs and also voluntary workers. Animators may be appointed specifically for the purpose of promoting RMGs as was done in the case of SHGs in its initial days. Members of the RMGs should be trained on importance of group approach, group dynamics, importance of accounts, availability of timely credit etc. For improving the book keeping also there is a need to utilize the services
of village book keepers supported under IKP. Animators, Agriculture officers and select branch managers of various banks need to be trained on strengthening and financing of the RMGs and also to help RMGs in technology dissemination. There are no problems with regard to recovery and documentation.

L. Farmers Clubs

Farmers Club could be set up in one village or a cluster of 2 to 3 contiguous villages. All the villagers except willful defaulters can become the members. The mission of the farmer club will be "Development of farmers through credit, technology transfer, awareness and capacity building. Such clubs are aimed at solving the problem of credit flow and effective use of the same while propagating the ethics of timely repayments and savings. The clubs will be of immense use for increasing the business of banks and integrated development of villages. NABARD takes initiative for setting up of these clubs and also provide assistance for ensuring successful implementation of club's programs and shaping their functioning on healthy lines. Further, clubs should become self-sufficient in five years time as the financial assistance will be provided by NABARD for first three years and by sponsoring bank for next two years.

2.3.3. Women Development

Improving economic status of rural woman has special significance in any rural development strategy. The women are suffering by way of less attention paid by the earning members of the family, less importance for women education in comparison to their male counter parts, restriction of educated women to stereo type of jobs etc. However, women belonging to lower strata are taking keen interest in maintaining income-generating assets. Even though women are playing a major role in maintaining livestock and undertaking various non-farm activities and contributing to agriculture labor, it is an established fact that the women as a whole could not get opportunity to develop their entrepreneur skills as there
was no focused attention to it. Training of women for undertaking various livelihood activities calls the attention of all concerned with women development. Further, capacity building of the women SHGs needs immediate attention with regard to conduct of affairs of the groups as per laid down democratic procedures and also to develop understanding about the importance record keeping. The activities like dairy, weaving of cotton and silk, kambal making, kalamkari painting, reeling and twisting, sculpturing miniature stones, fashion chappal making, leather goods manufacturing, readymade garments, making of baskets are identified as potential activities for women. At national level, Rashtriya Mahila Kosh and NABARD are actively involved in the overall development of women.

A. Promotional and Credit Packages for Women

REDPs, Artisan Guilds, mother units and common service centers are exclusively marketing rural non-farm products under its MAHIMA promotional scheme. In the district, Women and Child Development Project Directorate is working for formation of the women self-help groups. UNDP could establish firm roots in formation of SHGs in the district covering 7 mandals. The recent State Government Programme ‘IKP (Velugu)’ is also taking up women development in an all round manner. Presently, under various Govt. Sponsored programs, coverage of women is given importance. Under (SGSY) Individual category women constitute 25% of beneficiaries. All most all SGSY groups/SHGs have women as members. In other Govt. Programs, the coverage ranges from 10-25 per cent. Credit for women receives most importance under various Govt. sponsored programs outlined in earlier paragraphs. The data pertaining to the financial assistance given to women was not available in precise manner from all the departments concerned. Hence, on the basis of discussions with all concerned departments an attempt was made to arrive at estimated credit flow to women during 2005-06 under various Govt. sponsored programs apart from considering the entire progress under SHG-Bank linkage program.
B. Past trends and observations on credit delivery to women

The analysis of different programs in credit dispensation to women also reveals that SHG-Bank linkage programme is the largest contributor. Banks are finding it difficult to get trained women beneficiaries. The existing skill levels are not conducive to produce goods especially under non-farm sector, which can meet the market expectations. Existing training infrastructure is inadequate to meet the training and capacity building needs of women. There is a need to have activity specific training for women as they can undertake various activities like garment making, basket making, weaving of cotton and silk, kalamkari painting etc.

C. Constraints and Action Points

The Women and Child Welfare Department may chalk out a plan of action for development of women. The women welfare department/corporation is conducting number of training programs. There should be proper coordination among banks and the corporations on identifying trainees to facilitate extending financial assistance to the needy women.

Under Comprehensive Land Development Programme women should be given land pattas on a priority basis for their empowerment. Besides, training and financial assistance should be provided for organic farming and vegetable and food processing as there is a growing demand for processed food.

2.3.4. Performance of Credit Agencies

The credit agencies in the district during last three years could expand the deposit base as well as advances outstanding. During 2004-05 to 2009-10, all the agencies together could improve their deposits from Rs.2, 17,088 lakh to Rs.2, 907.38 crore. Amalgamation of Rayalaseema Grameena Bank (RGB) with RRBs, promoted by Syndicate Bank in Andhra Pradesh into Andhra Pragathi Grameena Bank (APGB) is the major development in the
banking sector. The process of implementation of revival package for the Cooperative Credit Structure (CCS) has also been initiated which is expected to strengthen the CCs.

The strengths of the credit delivery agencies of the district are good branch network and healthy deposit growth. The weaknesses are poor coordination, lack of diversification, delay/non submission of returns and data, lack of awareness among the staff members about the potential activities, poor recovery performance and rising NPA levels.

The deposits of banking system as on 31-03-2009 were Rs.4, 59,017 lakh with a growth rate of 25.34 per cent over the last year. The outstanding advances as on 31-03-2009 were Rs.4, 31,159 lakh with a growth rate of 15 per cent over the last year. The overall CD ratio of the district is 93.93. Direct loans to agriculture constitute around 53 per cent of total advances and 73 per cent of priority sector advances. While the Commercial banks performed reasonably well, the RRB and the DCCB performance were disappointing.

2.3.5. Financial Inclusion

Financial Inclusion may be defined as the process of ensuring access to timely and adequate credit and financial services for vulnerable groups such as weaker sections and low income groups at an affordable cost. A sizable majority of the population, particularly the low-income groups, continues to remain excluded from the opportunities and services provided by the financial sector. Accordingly, the “Committee on Financial Inclusion” set up by the Government of India under the chairmanship of Dr. C. Rangarajan, had, in its Interim Report recommended the establishment of two Funds, namely the “Financial Inclusion Fund (FIF)” for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the “Financial Inclusion Technology Fund (FITF)”, to meet the cost of technology adoption. The Hon’ble Union Minister of Finance, in the Union Budget Speech for 2007-08, announced the constitution of the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF), with an overall corpus of Rs.500 crore each.
A. Extent of Financial Inclusion

Various initiatives taken by banks/govt. NABARD in the last few years have resulted in the expansion of coverage of services by formal banking agencies in the district. Against the total households of 7, 70,056, the number of bank accounts in the district is estimated at 7,33,633 thus covering 95.27 per cent of population by banks against all India average of 57 per cent for rural households. The district is already declared as 100 per cent financially included district. However the outreach of banks in some of the areas/mandals like Bandi Atmakur, Chippagiri, Gadi vemula, Halahravi, Holagunda, Kothapalli, Jrishnagiri, Maddikera, Owk, Sanjamals, Uyyalawada, Devanakonda, still needs to be improved as the extent of coverage is considered low as compared to other areas in the district. The measures that can be considered to facilitate this can be opening of more branches in unbanked areas, opening of more no frills accounts in already banked areas, bringing new farmers into KCC fold, bringing more woman in to the fold of SHGs formation of more number of SHGs and formation of JLGs wherever required.

B. Financial Inclusion Fund and Financial Inclusion Technology Transfer Fund

The objectives of the FIF shall be to support “developmental and promotional activities” with a view to securing greater financial inclusion, particularly among weaker sections, low income groups and in backward regions/hitherto unbanked areas.

The objectives of the FITF shall be to enhance investment in Information Communication Technology (ICT) aimed to promoting financial inclusion, stimulate the transfer of research and technology in financial inclusion, increase the technological absorption capacity of financial service providers/users and encourage an environment of innovation and cooperation among stake holders. Promotional programmes, Workshops, mass contact programmes in unbanked areas can be arranged under FIF. FITF can be used to
help the RRB and the DCCB in improving their technological preparedness to achieve Financial Inclusion.

C. Business Facilitators and Business Correspondents

To enlarge the scope and access of financial services to rural population, RBI has permitted the banks to appoint business facilitators/business correspondents to outsource some of their activities that will contribute to enhanced productivity of bank branches. To broad base the BF/BC model, locally settled retired postmasters, school teachers, headmasters, ex-servicemen, ex-bankers, etc., have also been allowed to function as business facilitators/business correspondents (BFs/BCs). Banks are encouraged to make use of Information and Communication Technology (ICT) using biometric smart cards and mobile hand electronic devices for receipts and disbursement of cash by their business facilitators/correspondents.

D. Micro-Insurance

Micro Insurance services are an essential element of the Micro Finance as they enable SHG members to reduce vulnerability and have appropriate risk mitigating mechanisms in place. The Janasree Bhima Yojana in association with LIC is in operation in the district since 1st September 2006 for the benefit of SHG members. Further, Indira Jeevitha Bhima Pathakam (Aam Aadmi Bhima Yojana) is in operation in association with LIC for the benefit of Agriculture Laborers and the scheme is implemented through the Zilla Samakhya at the district level. Lead Bank has been taking a lot of projects to mitigate the problems faced by the rural poor borrowers with a view to accomplish financial inclusion.