CHAPTER - IV

GROWTH OF REGIONAL RURAL BANKS IN INDIA – AN OVERVIEW

4.1 Introduction

The present chapter deals with the growth of Grameen Banks in India and the institutional finance to agricultural development, the origin and objectives of the Grameen Banks Branch Expansion of Rural Banks and finally the role of Grameen Banks in agricultural credit in India.

In this country agriculture plays a crucial role in the development. It accounts for about 19 per cent of GDP and about two-thirds of the populaiton is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculutre in the macroeconomic framework and its role in poverty alleviation. Recognising the importance of agriculture sector in India’s development, the Government and the 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 forms an important segment of the priority sector lending of scheduled commercial banks and target of 18 per cent of net bank credit has been stipulated for the sectoral development.

The rural areas suffer from poor infrastructural facilities. The rural areas are yet to emerge as the main centres of production activity. The productivity is to produce goods in urban areas, even to meet the basic needs of rural consumers. This apart, the rural population requires not one but a few inputs and services. These have to be provided at the right time and in the right sequence. This demands the right kind of co-ordination amongst agencies extending help to the rural sector development. [1]

The labour force in India depends on agriculture, not because it is remunerative but because there are no alternative empolyment opportunities. It is a major cause for the backwardness reportedly seen in the Indian agricultural sector. So we should opt for a type of rural industrialisation which extends full support to the agricultural sector. A part of the labour force now engaged in agriculture needs to be shifted to non-agricultural jobs in the country.

The Green Revolution too has created some problems. Moreover, the first phase of the Revolution is said to have reached the saturation point. Agricultural scientists are laying stress on its second phase which alone can give the real boost needed for India's agricultural sector. Irrigation has emerged as a crucial input contributing to the success of the Revolution. The farmers no doubt require price incentives, but their problems can be solved only when there is a steady increase in agricultural productivity. Technology should be cost-effective and give good financial returns to the farming community also in the country. [2]

The unfavourable power structure, the benefits of the revolution even the anti-poverty programmes do not reach to benefit the rural community. The workers and small producers in India cannot put in their best in an inequitous atmosphere, therefore, production suffers. Also, the rural sector cannot take advantage of opportunities available so long as the institutions and dominated by the rich people.

4.2 Agricultural Credit during reform era

In India the agriculture is shifted with the fertile land and abundant availability of water resources. It had a long history of the fertile plains of Northern India irrigated by the Indus, the Ganga-Jamuna river systems and the Brahmaputra in the East. Southern India has its own river systems. So the prosperity of India is based mainly on the development of agriculture because majority of its populaiton is engaged directly or indirectly in agriculture. So, the development of agriculutre would mean the development of the rural masses and developemnt of India. further, increase in agriculutral productivity depends on the adoption of new farm practices such as high yielding variety seeds, chemical fertilisers, pesticides, insecticides, farm machinery and assured irrigation opportunities also.[3]

The application of the practices depends on the availability of larger and larger amounts of finance. The creation of adequate and requisite credit avenues is therefore essential for agricultural progress. Credit is a condition that enables a farmer to extend his control over his ownership of resources. It represents mobilization of the savings by financial intermediaries or government from the people and through such credit operations financial savings are transformed into capital, the money obtained through credit provides a command enough funds to explore opportunities. Most of the developing countries, aiming to strengthen their agriculture have evolved rural financial institutions to provide agricultural credit. Credit plays the role of an accelerator for agricultural development in the country.[4]

Generally, the Credit for agriculture sector refers to credit provided to the rural population. It covers loans to agriculture as well as loans to non-agriculturists, artisans and landless labourers who are residing in rural areas. The aim of agricultural credit is to provide adequate finance for agriculture, animal husbandry, rural industry, rural trade, rural transport and all other economic activities of the countryside. The need of credit in India arose because majority of farmers and non-agricultural population suffer from financial anemia at present and that the injection of sufficient quantities of finance into them could accelerate their pace and increases the value and volume of their production. The idea of agricultural credit scheme should aim at providing and ensuring adequate finance to every person in the countryside, who is engaged in or willing to engage in any economic activity also.[5]

In India the significance of agricultural credit, which is essentially rural in nature hardly, needs elaboration, economic development of the countryside hinges upon availability of credit to rural economy. The burden of indebtedness in rural India is great, and falls mainly on the households of rural working people. The exploitation of this group in the credit market is one of the most pervasive and persistent features of rural life in India. despite major structural changes in credit institutions and forms of agricultural credit in the post-independence period, Darling's statement (1925), [6] that "the Indian peasant is born in debt, lives in debt and bequeaths debt", still remains true for the great majority of agricultural households in the countryside. Rural households need credit for a variety of problems.

Particularly the Credit is necessary both for meeting the short-term requirements for working capital and for long-term investment in agriculture and other income-bearing activities. Generally rural households, particularly those vulnerable to what appear to others to be minor shocks with respect to income and expenditure, need credit as an insurance against risk. Realization of the gravity of the problem of agricultural credit by the government at different levels and at different periods is well reflected in appointment of several committees and commissions to examine the problem of agricultural credit before and after independence in the country.[7]

Credit for agriculture is disbursed with the help of a multi-agency network consisting of Commercial Banks (CBs), Grameen Banks and Cooperatives. Approximately, there are 100,000 village-level Primary Agricultural Credit Societies (PACS), 368 District Central Cooperative Banks (DCCBs) with 12,858 branches and 30 State Cooperative Banks (SCBs) with 953 branches. These are providing primarily short and medium-term agricultural credit. Long-term cooperative structure consists of 19 State Cooperative Agricultural and Rural Development Banks (SCARDBs), with 2609 operational units as on 31st March 2005 comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA & RDBs) with 1049 branches. The credit needs of the farmers can be seen from two angles; (i) on the basis of time and (ii) on the basis of purpose also.[8]

4.3 Institutional Finance: Evolution and Structure in India

Banking credit for agriculture in India dates back to 1793 when the system of loans originated. Credit to agriculture is given priority by the government for the rural credit system. Earlier the finance was provided to the farmers departmentally and grants as well as cooperative credit. During the pre independence period, agricultural credit to farmers was exclusively provided by cooperative banks also. Taht credit has no explicit relationship with input supply or farm investment and seen as an alternative to the village moneylenders in India. And State Cooperative Agriculture and Rural Development Banks are called the land mortgage banks provided long-term loans to repay the old loans in rural areas. [9]

The starting of bank credit to agriculture sector could be broadly classified into four distinct phases – 1904 – 1969, 1969-1975, 1975- 1990 and from 1991 onwards. The history of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the cooperative societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit system. The central bank is perhaps the first central bank in the world to have taken interest in the matters related to agriculture sector loans.

The milestone stage in the rural banking system has happened with the nationalization of 14 commercial banking systems. The banks moved from class banking to mass banking and also led to the opening of new branches to unbanked areas and increase in rural sector credit. [10] By the introduction of production oriented system and Green Revolution cooperatives alone would not be able to meet the credit needs of farmers. Regional Rural Banks (1975) were set up exclusively for the small, marginal farmers, agricultural labourers, artisans and small entrepreneurs for development of agriculture, trade, commerce, and other productive activities also. Grameen Banks are state sponsored and work in partnership with commercial banks in India.

The Rural finance is available from the different financial sources. So the finance system in rural India can be classified as institutional credit (formal banking system) and non-institutional credit sources. Institutional credit includes Co-operatives, CBs and Grameen Banks and Non-institutional credit sources include professional money lenders, agriculture moneylenders, commission agents, merchants, friends, relatives and others sources also.

NABARD is an apex development bank of the country for promoting sustainable and equitable agriculture and rural development through effective credit support, related services, building institutions, and other innovative initiatives. Hence today this institute is at the center of the development activities in the rural areas and bedrock of prosperous rural economy development.

The basic development in the field of agricultural credit is the setting up of the NABARD in July 1982. So NABARD is an apex organization in respect of all matters relating to policy, planning and operational aspects, concerning the flow of credit for development of agriculture, rural industries and handicrafts and other allied activities in the rural sector. This is a single integrated agency for meeting the credit needs of all types of agricultural and rural community empowerment. Hence, this has taken over the entire operations of the ARDC as well as refinance functions of the central bank.

The NABARD bank has been guiding all major agencies operating in the rural credit market, namely the CBs, the Grameen Banks and the cooperative credit institutions. NABARD has been envisaged as the leader of the entire rural credit system.

Especially, NABARD has been playing a pivotal role in channelization of bank credit to the rural areas. This gives refinance and improves the resource base of institutions providing credit to the rural development. In recent past NABARD has attempted to enhance the coverage of rural credit institutions by bringing in areas of non-traditional agriculture and new ventures in farm activities for further improvement. So NABARD is also taking steps to restructure the institutional credit system in India. [11]

4.4 Trends in Agricultural Credit in India

In India to improve the credit flow to the agriculture sector, the Government initiated a number of policy measures, from time to time, like farm credit package and SACP. The Central Finance Minister in his budget speech for 2008-09 had urged the banks to disburse Rs.1,75,000 crore as credit to agriculture sector only. The total progress during the year 2010-11 was Rs.2,03,296 crore rupees only. And the new farmers covered under the institutional credit system were 8.35 million as against the target of five million. Developed by the achievement, budget 2007-08 set a higher target of Rs.2,25,000 crores for disbursement of credit and further addition of five million new farmers as borrowers to the banking system. The details of institutional credit to agriculture and allied activities from 2006-07 to 2011-12 are presented in Table – 4.1.

Table – 4.1

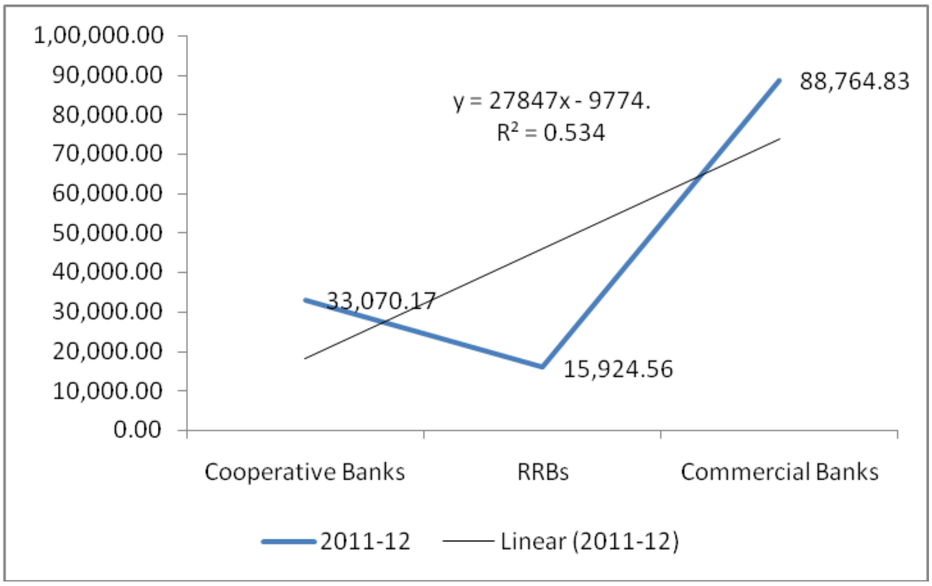
Trends in Credit to Agriculture and Allied Activities (Rs. In Crores)

Bnaks	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Commercial Banks in India	39,773.60	52,440.85	81,481.14	1,25,858.90	1,40,381.93	88,764.83
Cooperative Banks in India	23,716.38	26,958.79	31,424.23	39,403.77	42,479.80	33,070.17
Grameen Banks	6,069.79	7,581.15	12,404.00	15,222.90	20,434.65	15,924.56
Total	**69,559.77**	**86,980.79**	**1,25,309.37**	**1,80,485.57**	**2,03,296.38**	**1,37,759.56**

Source: NABARD Report, 2011-12.

Graph – 4.1

Trends in Credit to Agriculture and Allied Activities for the year 2011-12



Generally, in spite of the impressive strides made by the formal channel in rural areas, Government of India had been seized with the anomaly that most of the small and marginal farmers, rural artisans, and agricultural labourers are deprived of the crucial input of timely and adequate credit from the banking system. Then the government has been taking elaborate and extensive initiatives to augment the outreach of formal channel to rural weaker sections. Then the major initiatives taken were establishment of grameen banks in the year 1975.

Grameen Banks were conceived with the notion of augmenting the outreach of the institutional channel of credit Regional Rural Banks Act, 1976; which was deemed to have come into effect with retrospective date of 26 September 1975. Then the Five Grameen Banks were established in the first phase in 1975. Today, the country has 196 Grameen Banks employing about 70,200 persons, sponsored by 28 sponsoring banks operating in 484 districts with more than 14,300 branches in India.

Grameen Banks are state sponsored regionally based and rural oriented commercial banks envisaged to combine simultaneously the desirable qualities of both co-operative banks and commercial banks Grameen Banks being an important segment of the Rural financial institution in the country have carried out a special place for themselves in terms of geographical coverage clientele outreach business volume and contributions for development of rural economy. Grameen Banks are focusing their attention on the attainment of sustainable viability improved customer services, new and innovative loan products and diversified business portfolio Grameen Banks are at par with the scheduled commercial banks in respect of priority sector lending investment and credit discipline and transparency system.

Hence, the co-operative and commercial banks has an impressive record in terms of geographical courage and disbursement of credit system. Then it has been observed that the vast majority of the poor were generally deprived of credit and other banking facilities in India. Then in order to provide access to low-cost banking facilities to the poor, a new set-up of banks is Grameen Banks was established in the country to meet exclusively the needs of the weaker sections of the rural population as institutions which combine the local feel and the familiarity with rural problems which the co-operative possess and the degree of business organization ability to mobilize deposit access to central money markets and modernized outlook which the commercial banks in the economy. [12]

Specially, The Govt. of India in July 1975 appointed a working group to study in depth the problem of devising alternative agencies to provide institutional credit to the rural people in the context of steps then initiated under the 20-point economic programme in India. Then the working group identified various weaknesses of the cooperative credit agencies and the commercial banks and felt that these institutions would not be able to fill the regional and functional gaps in the rural credit system within a reasonable period of time for the betterment of agriculture sector.

After that the Government of India promulgated the Grameen Banks ordinance on 26th September 1975 which was later replaced by the Regional

Rural Bank Act in the year1976. Hence, the Preamble to the Act 1976 the preamble to the act states the objectives to develop rural economy by proceeding credit and facility for the development of agriculture trade commerce industry and other productive activities in the rural sector in India. So the credit to particularly to small marginal farmers, in the rural areas. The Grameen Banks Act empowers the Central Government to open the banks from time to time at places in rural areas. And the Government of India jointly owns a Grameen Banks. Then the GOI of concerned state and public sector bank which sponsored it. The authorized capital of each bank is Rs.1 crore with paid-up capital Rs.25 Lakhs that is held by them in the proportion of 50, 15 and 35 per cent respectively. Then each grameen bank carries the banking business within the local limits specified by the notification. On 26th September 1975 a New Landmark was made in the history of Indian Banking as Grameen Banks ordinance was promulgated by the President of India. And on 2nd October 1975 as mark of tribute to father of nation five Grameen Banks were set in four states.

4.5 Main Objectives of the Grameen Banks in India

Generally the setting up of the Grameen Banks Act India, "with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith in rural areas of the country".

The importnat objectives of setting up the Grameen Banks is to help or assist the potential rural development of agriculture and economy of the area through providing credit and other facilities to the needful people of the rural area well in time in particular. Hence the rural farmers may start some viable production activities well in advance in the rural areas.

4.5.1 The Basic objectives of setting up of Grameen Banks are as follows:

1. To give larger volume of institutional credit to agricultural sector for rapid development and thereby helping in reduction of regional imbalances in the availability of credit in rural sector.
2. To allocate the credit and other facilities especially to the small / marginal farmers, agricultural labourers in rural economy also.
3. To implement the various credits institutions working in the field of agriculture to achieve adequate credit planning system.
4. To alleviate the curse of poverty in rural areas especially among the poor.
5. To encourage the continuous recycling of funds and to fill up the rural credit gap in agriculture sector.
6. To create the employment to rural educated youth who are properly oriented to look after the needs of the rural development. The banks will provide job opportunities also by financing subsidiary occupations reviewing rural vocations and life especially rural artisans and small entrepreneurs in rural sector.
7. To ensure the standard of living the Grameen Banks were considered to be a suitable institution to provide needed credit at their doorstep on reasonable terms and conditions so that the weaker sections of people in rural areas could raise their total productivity and through it their standard of living of the poorer sections of the society.
8. The main goals of rural banking policy are mainly to convey an institutional arrangement to mobilize the savings of the people in rural sector.

4.6 Branch Expansion Programme in India

The Grameen Banks have made a rapid and impressive progress in terms of their number from 196, in 1999 with it same to 196 Grameen Banks by the end of 2008. It clearly indicates that Grameen Banks and their branches are satisfactory and it is shown in the table - 4.2.

Table - 4.2

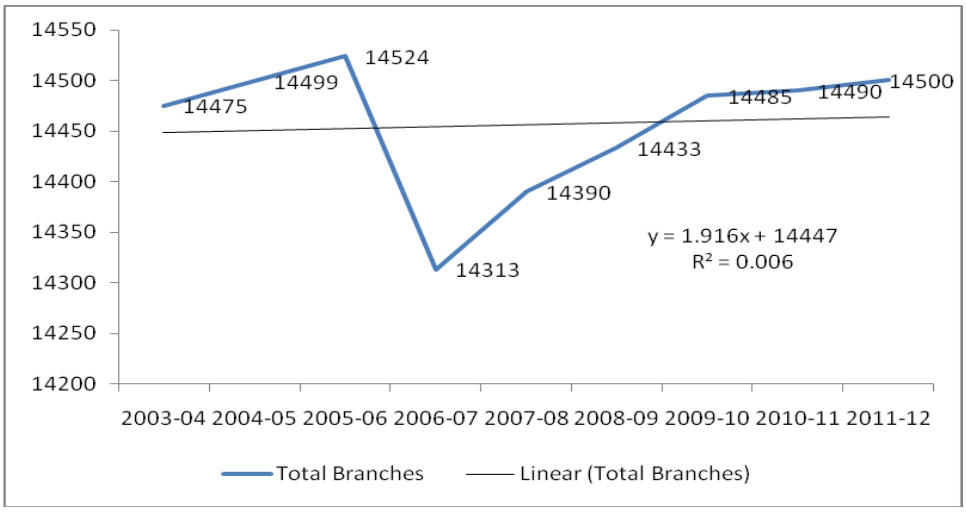
Growth of Grameen Banks and Branches in India

Year wise details	Grameen Banks Branches	Total Branches of Grameen Banks	No. of Districts Covered by Grameen Banks
2003-04	196	14475	448
2004-05	196	14499	484
2005-06	196	14524	492
2006-07	196	14313	497
2007-08	196	14390	504
2008-09	196	14433	509
2009-10	196	14485	509
2010-11	196	14490	509
2011-12	196	14500	510

Source: National Bank for Agriculture and Rural Development (NABARD) Statistics on Regional Rural Banks.

Graph – 4.2

Growth of Grameen Banks total Branches in India



In the year 2003-04 the total number of Grameen Banks increased to 196 with 14,475 branches covering 448 districts. During the year 2005-06 the total number of Grameen Banks it has 196 with increased to 14,524 branches covering 492 districts. During 2011-12 the total number of Grameen Banks has 196 with increased to 14,500 branches covering 510 districts in the country.

4.7 Deposits and Advances of Grameen Banks in India

It can be said that it is clear from the table 4.3 that in India since December 1975, there has been a rapid growth in deposit and outstanding advances of Grameen Banks in India.

Table – 4.3

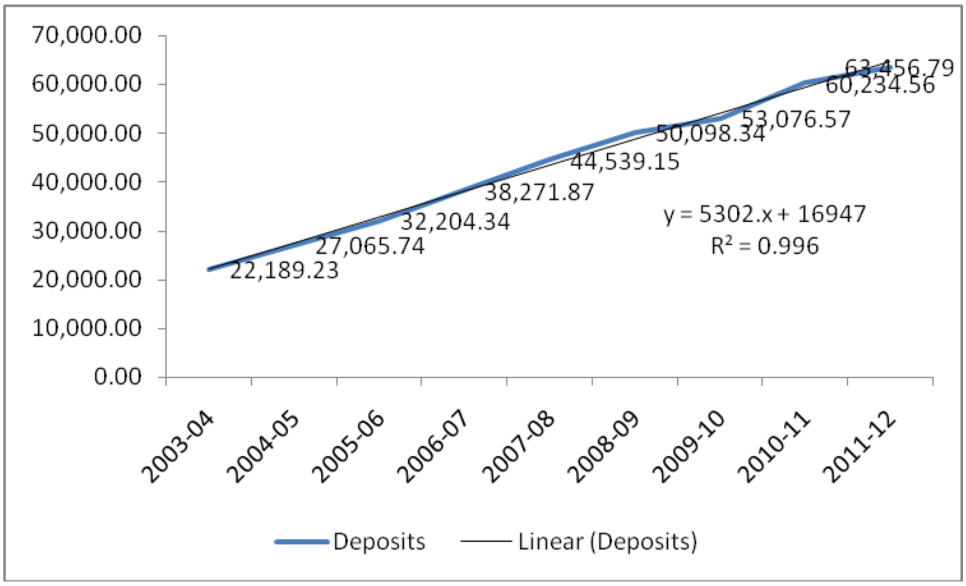
Deposits and advances of Grameen Banks in India

Year wise details	Deposits of Grameen Banks	Outstanding Advances of Grameen Banks
2003-04	22,189.23	9860.51
2004-05	27,065.74	11355.84
2005-06	32,204.34	13181.57
2006-07	38,271.87	15816.30
2007-08	44,539.15	18629.22
2008-09	50,098.34	22157.84
2009-10	53,076.57	23543.09
2010-11	60,234.56	25432.49
2011-12	63,456.79	27980.98

Source: Annual Reports of NABARD on Grameen Banks.

Graph – 4.3

Deposits of Grameen Banks in India



The above table clearly indicates that, during 2003-04 the deposits of Grameen Banks in India were Rs.22,189.23 crores, whereas outstanding advances was Rs.9860.61 crores. After 2003 there has been an increasing trend in both deposits and outstanding advances of RRB's in India. Deposits and outstanding advances rose to Rs.63,456.79 and Rs.27,980.98 crores in 2011-12, respectively.

The history of Grameen Banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks' that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The grameen banks s mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Central Bank defines rural area as a place with a population of less than 10,000 only. Grameen banks are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a grameen banks is shared by the owners in the proportion of 50, 15 and 35per cent, respectively. The first five grameen banks were set up in five States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks.

Grameen banks are commercial banks but they adopt some of the principles of cooperatives such allocation in areas, work for rural population in a limited area etc. Thus they are hybrid institutes. Grameen banks operate under the control of two institutions, the NABARD and RBI. Grameen banks in India started since the establishment of banking sector in India. Grameen banks in those days mainly focused upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country SBI has 30 Regional Rural Banks in India known as Grameen banks. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBIs Regional Rural Banks in India branches is 2349 (16 per cent). Till date in rural banking in India, there are 14,475 rural banks in the country of which 2126 (91 per cent) are located in remote rural areas. The details of the growth of Grameen banks in India since 1980 to 2012 are presented in the table – 4.4.

Table-4.4 clearly explains that a sharp rise in the number of banks which went up to 107, covering 182 districts with a branch network of 4,795 in the year 1981.it is also cleared from the table that in each successive year, the number of Grameen banks districts covered and number of branches had significantly increased. As on 31st March 2004, 196 Grameen banks were operating in India with 518 districts covered and 14,446 numbers of branches. Till in 2007 the total number of Grameen banks bringing down in the country from 133 to 96 only. And at the end of 31st March 2012, the number of Grameen banks are 82 with 16,914 branches of grameen banks.

Table – 4.4

Growth of Grameen banks in India

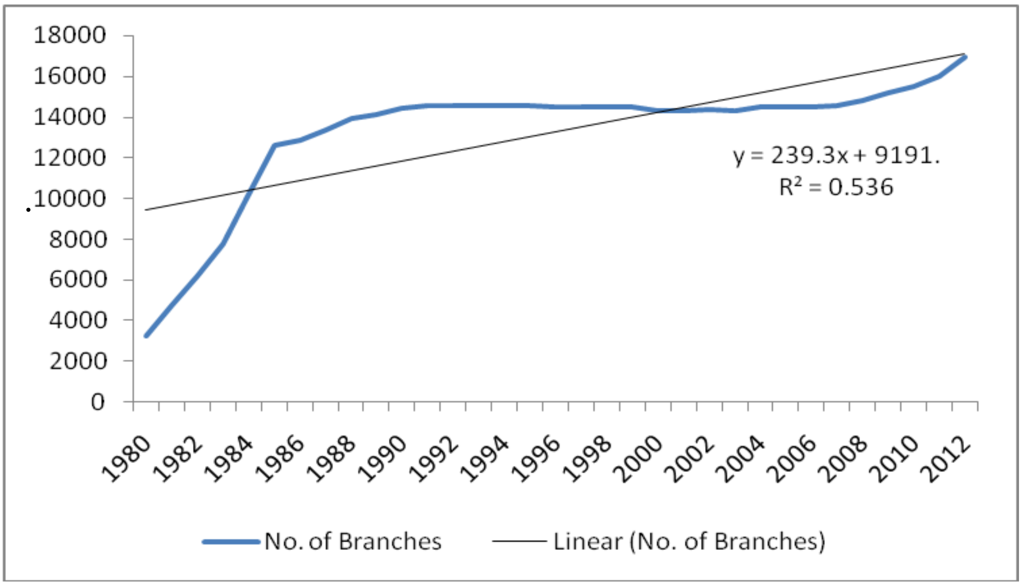
Year wise details	Number of Grameen banks	No. of RRB Branches	No. of District Covered
1980	85	3279	144
1981	107	4795	182
1982	124	6191	214
1983	150	7795	265
1984	173	10245	307
1985	188	12606	333
1986	194	12838	351
1987	196	13353	363
1988	196	13920	369
1989	196	14079	369
1990	196	14443	372
1991	196	14527	381
1992	196	14539	392
1993	196	14543	398
1994	196	14542	408
1995	196	14509	425
1996	196	14497	427
1997	196	14461	427
1998	196	14475	451
1999	196	14499	454
2000	196	14301	457
2001	196	14311	476
2002	196	14350	487
2003	196	14311	495
2004	196	14446	518
2005	196	14446	523
2006	133	14446	524
2007	96	14526	534
2008	91	14761	594
2009	86	15158	617
2010	82	15480	618
2011	82	16001	620
2012	82	16914	N.A.

N.A.: Not Available

Sources: Grameen Banks key statistics 2011-12, NABARD, Mumbai.

Graph – 4.4

Growth of Grameen banks in India



It is clear from the table -4.5 that there are 82 Grameen banks in India as on 31st March, 2012 end also. However many districts in the country are yet to be covered. As per table, Uttar Pradesh has the highest number of ten Grameen banks followed by Madhya Pradesh with eight Grameen banks. Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Pondicherry have minimum number of Grameen banks.

Table -4.5

Geographical Distribution of Grameen banks s in India

Sl. No.	Name of State in India	Number of branches
1	Andhra Pradesh	5
2	Arunachal Pradesh	1
3	Assam	2
4	Bihar	4

5	Chhattisgarh	3
6	Gujarat	3
7	Haryana	2
8	Himachal Pradesh	2
9	Jammu & Kashmir	2
10	Jharkhand	2
11	Karnataka	6
12	Kerala	2
13	Madhya Pradesh	8
14	Maharashtra	3
15	Manipur	1
16	Meghalaya	1
17	Mizoram	1
18	Nagaland	1
19	Orissa	5
20	Punjab	3
21	Rajasthan	6
22	Tamil Nadu	2
23	Tripura	1
24	Uttar Pradesh	10
25	Uttaranchal	2
26	West Bengal	3
27	Pondicherry	1
	All India	82

Sources: Grameen Banks key statistics, NABARD, Mumbai .

Graph – 4.5

Geographical Distribution of Grameen banks in India

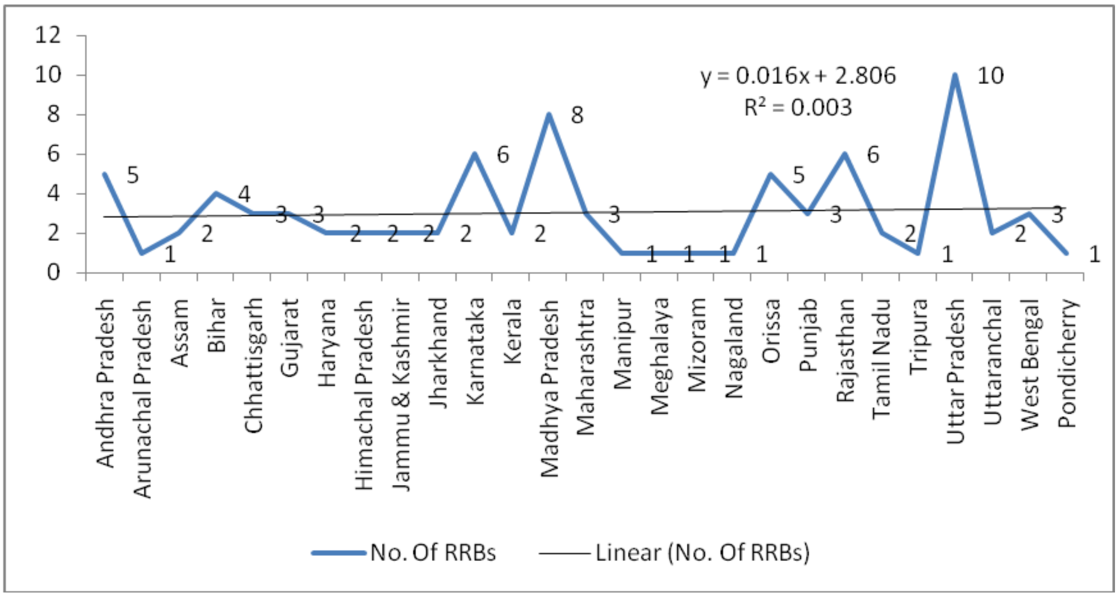


Table – 4.6

Outstanding loans and advances of Grameen banks in India

Sr. No.	Activity	2006	2007	2008	2009	2010	2011	2012
1	Short term loans (crop loans)	13877	18707	22748	26652	33643	40663	474
2	Term loans for agriculture and allied activities in Rural	7632	3745	10468	10715	12619	14404	167

	areas							
I	Total agriculture loans (1 to 2)	21509 (54.2)	27452 (56.6)	33216 (56.3)	37367 (55.1)	46282 (55.9)	55067 (54.9)	641 (53.2)
3	Loans for Rural artisans	748	736	671	772	810	881	11
4	Other industries loans	757	880	1227	1656	1598	2625	36
5	Loans for Retail trade etc.	3452	3677	4531	4690	5234	5082	66
6	Loans for Other purposes	13246	15748	19339	23317	28895	36643	452
II	Total Loans for non-agriculture (3 to 6)	18204 (45.8)	21041 (43.4)	25768 (43.9)	30435 (44.8)	36537 (44.1)	45231 (45.1)	564 (46.8)
	Total Loans (I to II)	39712 (100.0)	48493 (100.0)	58984 (100.0)	67802 (100.0)	82819 (100.0)	100298 (100.0)	1206 (100.0)

Source: NABARD.org/databank/statistics.asp.

During 2006-07: The part of agricultural loans (Rs.2, 964 crores in 2006-07) increased to 57.7 per cent at the end of March 2007 from 54.2 per cent at the end of March 2006 end also.

During 2007-08: Generally the share of agricultural loans declined marginally to 55.4 per cent at end-March 2008 from 56.6 per cent a year ago also.

During 2008-09: Particularly the share of agricultural loans declined marginally to 52.8 per cent as at the end of March 2009 from 56.3 per cent a year ago also.

During 2009-10: Importantly, however, the share of agricultural credit in total credit from Grameen Banks was on a declining trend in the recent years.

During 2010-11: It is significant to note that more than 80 per cent of the total credit of Grameen banks belonged to the priority sector in 2010-11. A little more than half of the credit was bagged by the agricultural sector in 2010-11, though the share of agricultural credit in total credit witnessed a marginal decline in the year 2010-11 over the previous year. Within agriculture, crop loans constituted almost 74 per cent of the volume of lending. Within the non-agricultural sector, majority of the credit was for other purposes in the year 2010-11.

During 2011-12: During 2012 priority sector advances comprised of more than 80 per cent of the total credit of Grameen banks. Purpose-wise composition of credit disbursed by Grameen banks remained broadly unchanged during 2011-12, with more than half of total credit going to the agricultural sector. The details of the credit deposit and investment deposit ratio are presented in table – 4.7.

Table – 4.7

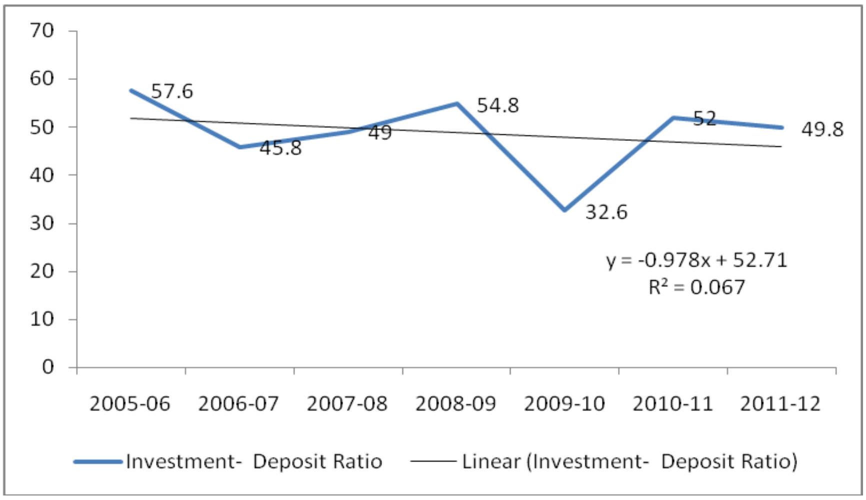
Grameen banks Credit deposit and investment deposit ratio in India

Year wise details	Credit- Deposit Ratio of Grameen Banks	Investment- Deposit Ratio of Grameen Banks
2005-06	55.7	57.6
2006-07	58.5	45.8
2007-08	59.5	49.0
2008-09	56.4	54.8
2009-10	57.1	32.6
2010-11	59.5	52.0
2011-12	63.3	49.8

Sources: Compiled from report on trend and progress of banking in India (2006-2012).

Graph - 4.6

Grameen banks Credit deposit and investment deposit ratio



During the year 2005-06 the credit deposit ratio was 55.7 while the investment deposit ratio was 57.6. At the year end March 2007 the credit deposit ratio was increased to 58.5 while credit investment ratio decrease to 45.8. The table shows that in 2009-10 the credit deposit ratio increased to 57.1 existing of 56.4 in last year. While the investment deposit ratio decreased to 32.6 and in 2011-12, the credit deposit ratio was 63.3 and investment deposit ratio was 49.8. The detail of the financial performance of Grameen banks during 2006-07 in India is given in table – 4.8.

Table – 4.8

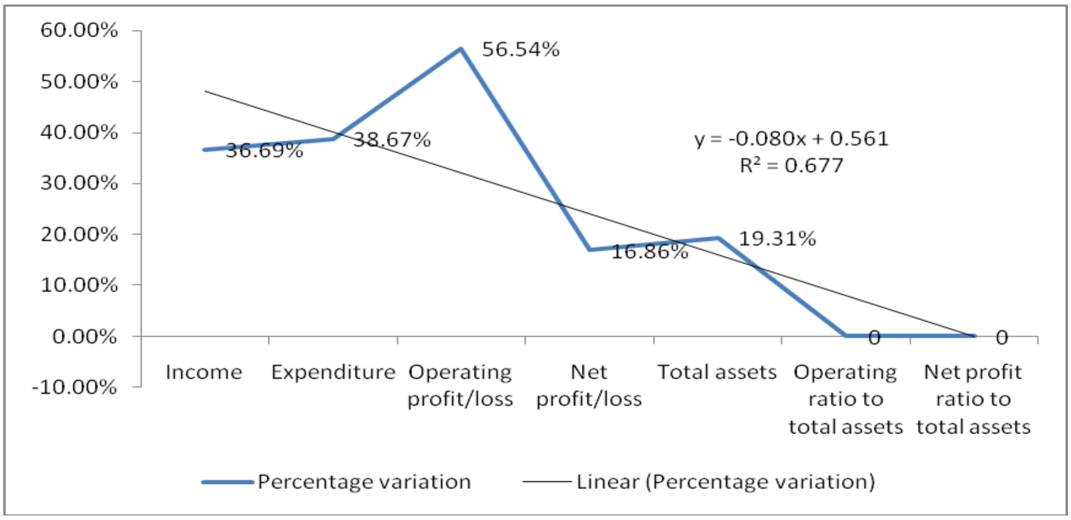
In India the Financial Performance of Grameen banks

Sr. No.	Particualrs	2006	2007	Changes	Percentage variation
1	Income level	5599	7653	2054	36.69
2	Expenditure level	5089	7057	1968	38.67
3	Operating profit/loss details	787	1232	445	56.54
4	Net profit/loss details	510	596	86	16.86
5	Total assets	88652	105768	17116	19.31
6	Details of Operating ratio to total assets	0.89	1.16	-	-
7	Details of Net profit ratio to total assets	0.58	0.56	-	-

Source: .NABARD.org/databank/statistics.asp.

Graph – 4.7

Financial Performance of Grameen banks



Generally increase in interest and other income of Grameen banks during 2006-07 did not keep pace with the increased expenditure on account of sharp growth in provisions and contingencies and wage bill. Consequently, net profits of Grameen banks declined from Rs.617 crores during 2005-06 to Rs.596 crores during 2006-07 respectively. Table-4.9 indicates the financial performance of Grameen banks all India level during 2007-08 also.

Table – 4.9

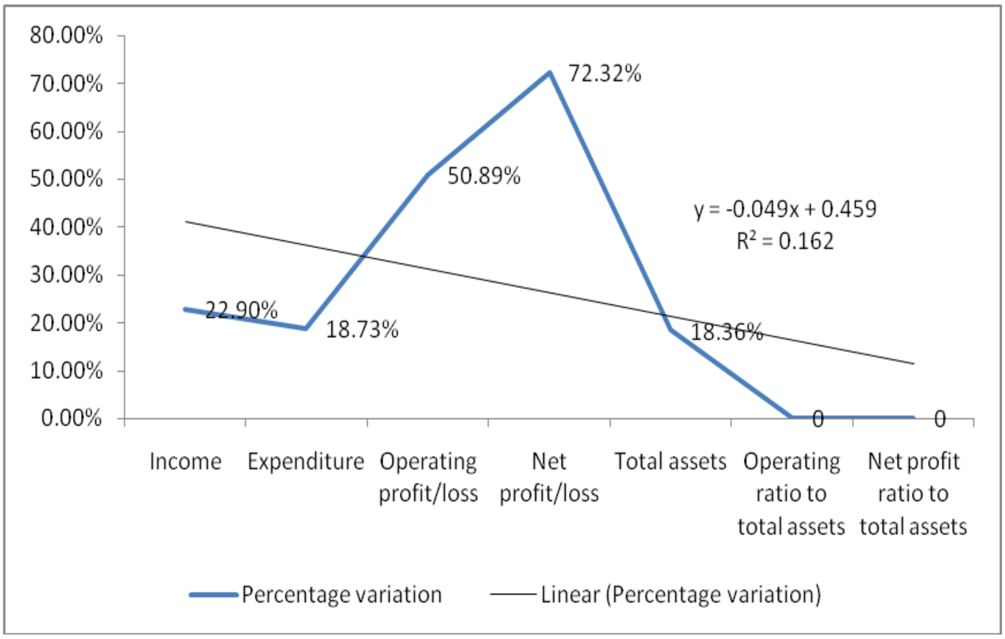
Financial Performance of Grameen banks in India

Sr. No.	Particualrs	2007	2008	Changes	Percentage Change
1	Income Level	7653	9406	1753	22.90
2	Level of Expenditure	7057	8379	1322	18.73
3	Details of Operating profit/loss	1232	1859	627	50.89
4	Details of Net profit/loss	596	1027	431	72.32
5	Total assets	105768	125194	19426	18.36
6	Details of Operating ratio to total assets	1.16	1.48	-	-
7	Details of Net profit ratio to total assets	0.56	0.82	-	-

Source: .NABARD.org/databank/statistics.asp.

Graph – 4.8

Financial Performance of Grameen banks



Generally, the aggregate income of Grameen banks during 2007-08 grew by 20.0 per cent on account of higher interest as well as non-interest income. Growth in expenditure during the year was relatively subdued on account of lower increase in interest expenditure and wage bill. As a result, profitability of Grameen Banks improved significantly during 2007-08. Out of 90 Grameen Banks, 82 Grameen Banks earned a combined profit of Rs. 1,429 crores, whereas 8 Grameen Banks incurred a combined loss of Rs. 55 crores in 2007-08 only. Hence, Grameen Banks, as a group, earned net profits of Rs. 1,374 crores during 2007-08 as compared with Rs. 625 crores in the previous year. The improvement in the financial performance of Grameen Banks has also reflected in the decline in NPAs ratios (both gross and net) during 2007-08. While gross NPAs to total assets ratio declined to 5.9 per cent at end-March 2008 from 6.6 per cent a year ago, the net NPAs to assets ratio declined to 3.0 per cent from 3.5 per cent a years ago in India. Table 4.10 gives the picture of the financial performance of Grameen Banks in India during the year2008-09.

Table – 4.10

Financial Performance of Grameen banks in India

Sr. No.	Particulars	2008	2009	Cahnges	Percentage variation
1	Income Level	9406	11388	1982	21.07
2	Expenditure Level	8379	10053	1674	19.98
3	Operating profit/loss aspects	1859	2123	264	14.20
4	Net profit/loss details	1027	1335	308	29.99
5	Total assets details	125194	150654	25460	20.34
6	Operating ratio to total assets details	1.48	1.41	-	-
7	Net profit ratio to total assets	0.82	0.89	-	-

Source: NABARD.org/databank/statistics.asp.

Generally, the growth rate of aggregate income of Grameen Banks decelerated to 19.5 per cent as at end- March 2009 from 20.0 per cent last year. This deceleration was mainly on account of slowdown in 'other income'. The expenditure of Grameen Banks, however, rose sharply mainly on account of increase in interest expended and rises in provision and contingencies. Out of 86 Grameen Banks, 80 Grameen Banks earned profit amounting to Rs.1,405 crores, whereas 6 Grameen Banks incurred loss amounting to Rs.36 crores for the year 2008-09. Thus, Grameen Banks together earned net profits of Rs.1,369 crores during the year 2008-09 as compared to Rs.1,027 crores during the previous year. The improvement in the performance of Grameen Banks was also reflected in the decline of NPAs (both gross and net) during 2008-09. While gross NPAs to total loan assets ratio declined to 4.2 per cent as at the end of March 2009 from 6.1 per cent a year ago, the net NPAs to loan assets ratio declined to 1.8 per cent from 3.4 per cent for the same period. Table- 4.11 represents the financial performance of Grameen Banks during 2009-10 in India.

Table – 4.11

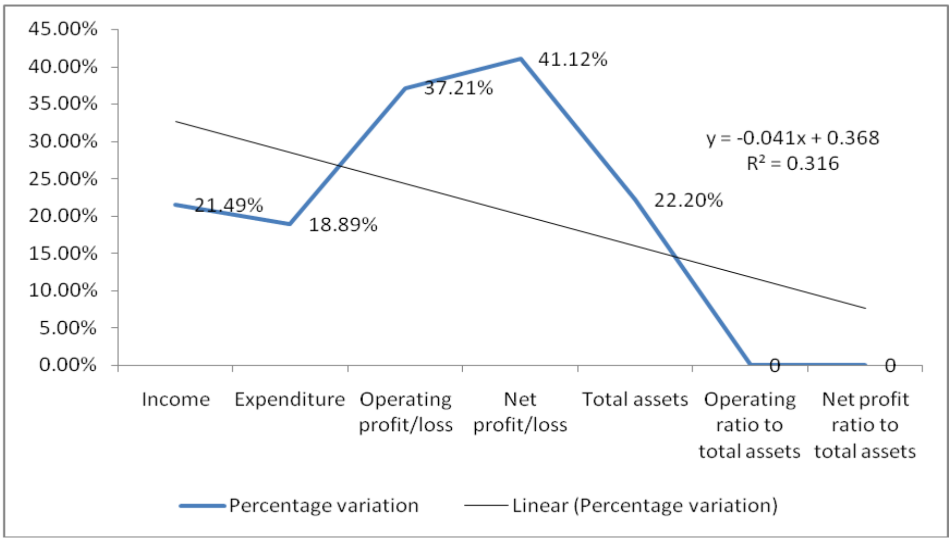
Financial Performance of Grameen Banks

Sr. No.	Items	2009	2010	variation	Percentage variation (%)
1	Income Details	11388	13835	2447	21.49
2	Expenditure Detials	10053	11951	1898	18.89
3	Operating profit/loss details	2123	2913	790	37.21
4	Net profit/loss details	1335	1884	549	41.12
5	Total assets details	150654	184093	33439	22.20
6	Operating ratio to total assets details	1.41	1.58	-	-
7	Net profit ratio to total assets details	0.89	1.02	-	-

Source: NABARD.org/databank/statistics.asp.

Graph – 4.10

Financial Performance of Grameen Banks



In India out of 82 Grameen Banks, 79 Grameen Banks were in profits during 2009-10 indicating an increase in the share of profit-making Grameen Banks to 96.3 per cent as compared to 93.0 per cent in the 2008-2009. Generally on the whole, all Grameen Banks taken together reported a net profit of Rs. 1,884 crores showing a growth of 41.1 per cent in 2009-10. As a result, there was a marginal rise in the Return on Assets (RoA) of Grameen Banks from 1.0 per cent in 2008-09 to 1.1 per cent in 2009-10 only. Financial performance of Grameen Banks in India during 2010-11 details is presented in table – 4.12.

Table – 4.12

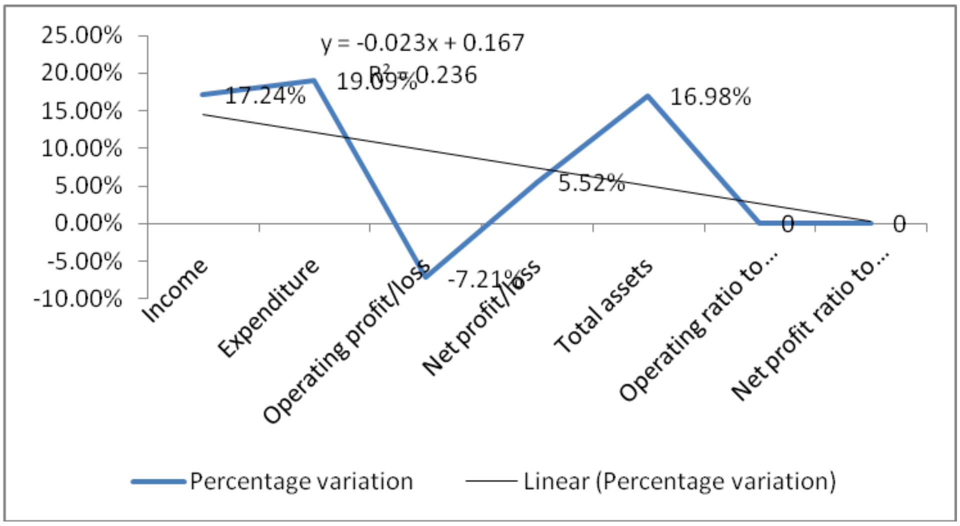
Financial Performance of Grameen Banks in India

Sr. No.	Particulars	2010	2011	Cahnges	Percentage variation (%)
1	Income Level	13835	16220	2385	17.24
2	Expenditure details	11951	14232	2281	19.09
3	Operating profit/loss details	2913	2703	-210	-7.21
4	Net profit/loss details	1884	1988	104	5.52
5	Total assets details	184093	215359	31266	16.98
6	Operating ratio to total assets details	1.58	1.25	-	-
7	Net profit ratio to total assets details	1.02	0.92	-	-

Source: NABARD.org/databank/statistics.asp.

Table – 4.11

Financial Performance of Grameen Banks



In India the net profits of Grameen Banks increased in 2010-11 over the previous year. Despite a decline in operating profits, net profits registered an increase owing to the decline in provisions and contingencies. Hence, even with the increase in net profits in absolute terms, the return on assets recorded a decline in 2010-11 over the previous year comparatively. The per branch profitability as well as per employee profitability of Grameen Banks witnessed an increase in 2010-11 over the previous year also. Table – 4.13 analyses the financial performance of Grameen Banks in India during the year 2011-12 respectively.

Table -4.13

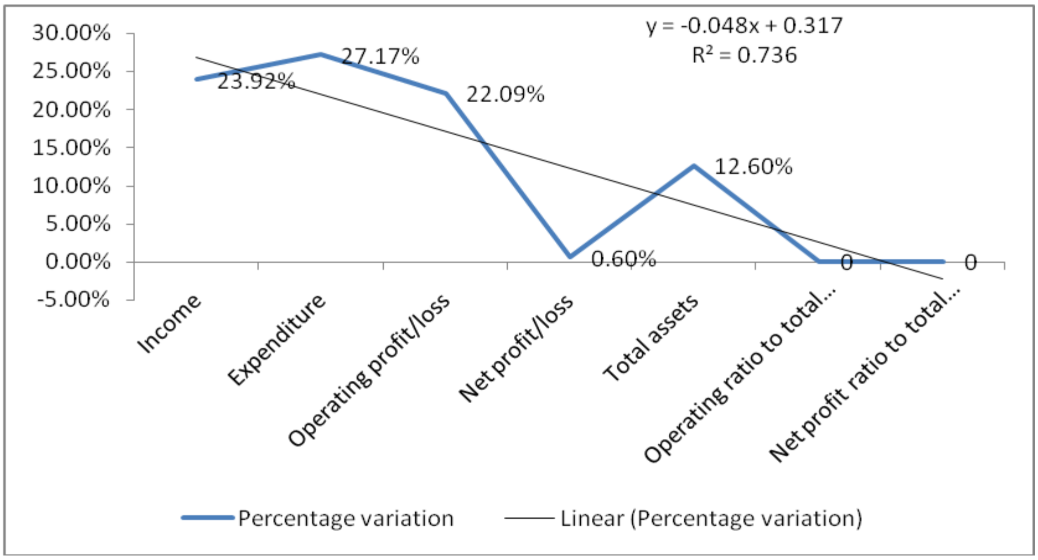
Financial Performance of Grameen Banks in India

Sr. No.	Particulars	2011	2012	Changes	Percentage changes(%)
1	Income Level	16220	20100	3880	23.92
2	Expenditure details	14232	18100	3868	27.17
3	Operating profit/loss details	2703	3300	597	22.09
4	Net profit/loss details	1988	2000	12	0.60
5	Total assets details	215359	242500	27141	12.60
6	Operating ratio to total assets details	1.25	1.36	-	-
7	Net profit ratio to total assets details	0.92	0.82	-	-

Source: NABARD.org/databank/statistics.asp.

Graph – 4.11

Financial Performance of Grameen Banks



Generally, during 2011-12, out of total 82 Grameen Banks operating in the country, 79 made profit whereas the remaining three Grameen Banks incurred loss. Though net profits of Grameen Banks witnessed improvement in recent years, their net margin exhibited a mixed trend in the country.

4.8 Kisan Credit Card Scheme in India

Generally to provide adequate and timely credit support to the farmers from the formal banking system in a flexible, hassle-free and cost-effective manner the KCC was introduced in 1998-99 only. The kisan credit scheme has now been extended to borrowers of the long-term cooperative credit structure, thus paving the way for acceptance of KCC as a single window for a comprehensive credit product only in India.

4.8.1 Characterisitcs of Kisan Credit Card

In India the farmers with rainfall crops, tenant farmers are eligible for the KCC. Even illiterate farmers can also have Kisan credit card. Credit limit is based on the cropping pattern and land holding using latest scales of finance. It provides for any number of drawls/repayments at the convenience of the farmers. Each drawl has to be repaid within a maximum period of 12 months. The card has valid for 3 years so that there has been no need for execution of loan documents every year. Further credit balance in KCC account may earn interest like in a savings bank account.

4.9 Advantages of Kisan Credit Card Scheme in India

Particularly as against the old system which was evidently restrictive the scheme has several advantages over the traditional mode of providing access to short term credit. Firstly the cards as envisaged under the scheme can be used like ordinary credit cards and have provisions such as revolving cash credit facility involving any number of withdrawals and repayments within the prescribed limitation. Secondly, the limit on credit is fixed on the basis of operational land holding, cropping pattern and scale of production credit requirement. Thirdly there is flexibility for repayment of loan and repayment is made through techniques accompanied by card cum passbook. Fourth, in case of crop failure of damage to the crops due to natural calamities, the system allows borrowers to get their loans rescheduled. Fifth, the card is valid for three years and is subject to only an annual review. Which means fewer formalities in completing the paperwork sixth a new feature that has been introduced recently provides for a personal insurance cover ranging from Rs. 25,000 to all cardholders, against permanent disability or accidental death also.

During the year 2000-01 onwards the card holders are begin provided personal accident insurance, which covers risks against death, permanent disability due to accident caused by external, violent or other visible means with a maximum sum assured for Rs.50,000. The premium for insurance is shared between banks and cardholders in the ratio of 2:1 and the rate of premium was Rs.15 for one year and Rs.45 for three years, respectively. The claim settlement procedure has been supposed to be simple and requires enquire cum verification committee, branch manager of the implementing bank. Lead bank officer and a representative of the insurance company to certify the nature of accident that caused disability/death and recommend settlement of insurance claims.

The crop loans for eligible crops cultivated by KCC holders are insured under RKBY for this the banks are required to maintain all records, cut off dates for submitting declarations and end use. The sum insured covers the value of threshold vied of crops covered under RKBY with an option to cover up to 150 per cent of the average yield for crops on payment of extra premium. There was 50 per cent subsidy on the premium paid by marginal and small farmers, which is shared equally by the central government and the state government in India.

Then the scheme of KCC provides flexibility to the farmer to draw cash from a branch other than issuing branch and to buy inputs from any supplier of his choice. Due to frequent drawal and payment of loans, it provides reduction in Quentin of interest to the farmers in India.

After that the studies reveal that major change witnessed after farmers received KCC scheme is that there has been a significant drop in the number of borrowers borrowing exclusively from informal sources to meet their short term credit needs. At the same time there was a considerable increase in the number of borrowers who borrow from both formal and informal sources and to a certain extent excessively from formal sources as well. Along with these changes another significant development that has occurred in rural financial markets is that the cost of borrowing from informal sources, mainly money lenders has also exhibited marginal decrease after the introduction of KCC scheme.

The NABARD advised all Grameen Banks to achieve the targets of issuing at least 150 KCC to each branch of grameen bank during 2007-08. Since inception of the KCC scheme, the banking system has issued 707.55 lakhs of the scheme up to 2011-12 (Table- 4.14).

Table – 4.14

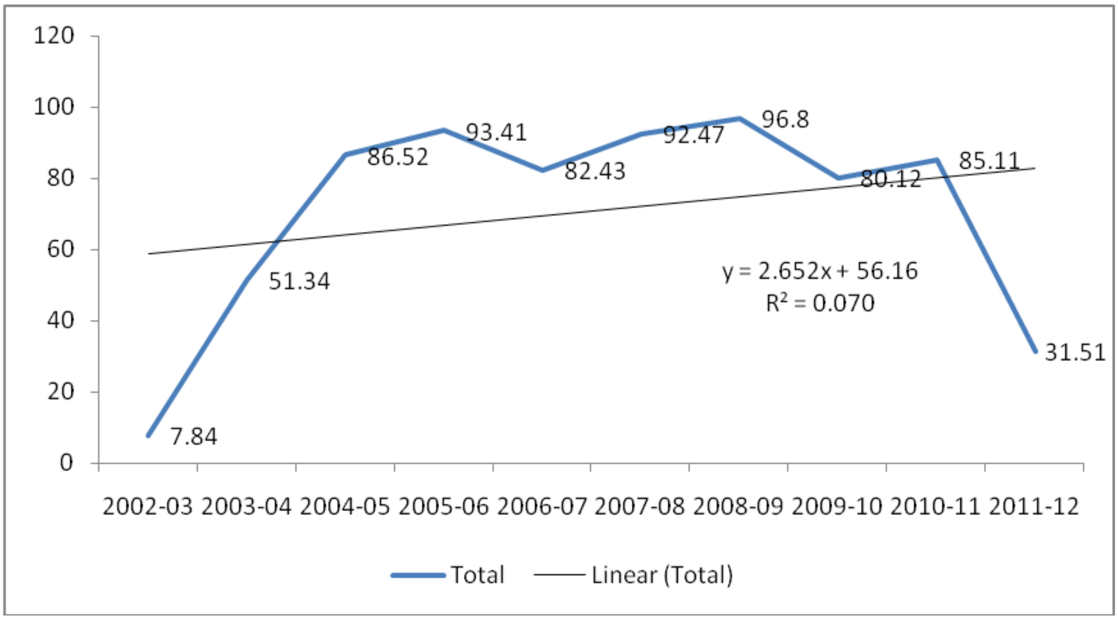
Institutions wise KCC issued in India

Year wise details	Details of Cooperative Banks	Grameen Banks	Commercial Banks in India	Total Fund
2002-03	1.56	0.06	6.22	7.84
2003-04	35.95	1.73	13.66	51.34
2004-05	56.14	6.48	23.90	86.52
2005-06	54.36	8.34	30.71	93.41
2006-07	45.79	9.64	27.00	82.43
2007-08	48.78	12.75	30.94	92.47
2008-09	35.56	17.29	43.95	96.80
2009-10	25.98	12.49	41.65	80.12
2010-11	22.97	14.06	48.08	85.11
2011-12	14.01	10.29	7.21	31.51
Total	**341.10**	**93.13**	**273.32**	**707.55**
% of share	**48.21**	**13.16**	**38.63**	**100.00**

Source: NABARD and RBI, 2011-12.

Graph – 4.12

Year-wise KCC issued in India



During the year 2010-11, the total number of KCC scheme issued were 85.11 lakhs and the amount scantiness was Rs.46,729 crores. As per the available information for 2007-08 the amount sanctioned was Rs.25,263 crores of rupees.

By the government on increasing credit flow to the agriculture sector, NABARD advised cooperative banks and Grameen Banks to identify and cover all farmers including defaulters, oral lessees, tenant farmers, sharecroppers and others, who might have been left outside the fold of the KCC scheme for any reason, as also new farmers so that all farmers are covered under the scheme by March 31st, 2007. Further, the banks were advised to issue KCC in a hassle-free manner and extend crop loans only through KCC and renew them so as to ensure quality in operations. To make the operation more user-friendly and comprehensive in its coverage of credit needs of the farmers through a single window system also. The NABARD has extended the scope of KCC to cover term loans for agriculture and allied activities and reasonable component for consumption loan. The scheme has also been extended to the clientele of the State Cooperative Agriculture and Rural Development Banks particularly.

Bank wise, cooperative banks account for about 62 per cent share of total number of cards issued upto January 2004. Of the remaining 38 per cent share, commercial banks account for around 28 per cent and the share of Grameen Banks was only 10 per cent. In terms of total advances sanctioned to card holders, the share of cooperative banks was 59 per cent followed by 30.5 per cent for commercial banks and 10.5 per cent for Grameen Banks in India.

4.10 State Wise Progress of KCC in India

The below table - 4.15 provides the information on the number of KCC issued and amount sanction under this scheme across states in India. It is revealed that among the various states of the country, the maximum number of KCCs have been issued in Uttar Pradesh (74.3 lakhs) followed by Andhra Pradesh (60.7 lakhs) and Maharashtra (37.2 lakhs). In terms of the cumulative amount sanctioned through KCCs, however, there is a slight alteration in the rankings of these states. Maharashtra edges out Uttar Pradesh marginally and emerges at the top in terms of amount sanctioned through KCCs. Thus two other major states Uttar Pradesh and Andhra Pradesh, which rank first and second in terms of total number of KCCs issued occupy second and third place in terms of amount sanctioned through KCCs. The details of number of KCCs issued and amount sanctioned up to January 2011-12 are presented in table – 4.15.

Table – 4.15

KCCs Issued and Amount Sanctioned in India

Sl. No	State wise details	Number of KCC Issued in India		Amount Sanctioned details	
		Number	% of total for all India	Amount (Rs in Crores)	% of total for all India
1	Andhra Pradesh	60,66,000	16.4	971	11.2
2	Assam	75,000	0.2	8	0.1
3	Bihar	13,47,000	3.7	175	2.0
4	Gujarat	16,00,000	4.3	582	6.7
5	Goa	5,000	0.0	6	0.1
6	Haryana	14,07,000	3.8	628	7.2
7	Himachal Pradesh	1,03,000	0.3	23	0.3
8	J & K	37,000	0.1	6	0.1
9	Karnataka	23,09,000	6.3	724	8.3
10	Kerala	12,93,000	3.5	252	2.9
11	Madhya Pradesh	23,05,000	6.2	701	8.1
12	Maharashtra	37,17,000	10.1	1199	13.8
13	Orissa	21,56,000	5.8	302	3.5
14	Punjab	13,37,000	3.6	659	7.6
15	Rajasthan	22,44,000	6.1	686	7.9
16	Tamil Nadu	24,83,000	6.7	482	5.5
17	Uttar Pradesh	74,31,000	20.1	1165	134
18	West Bengal	9,14,000	2.5	118	1.4
19	Other N.E states	31,000	0.1	4	0.0
20	Union Territories	22,000	0.1	5	0.1
	All India	**3,68,82,000**	**100.00**	**8696**	**100.00**

Source: NABARD, Bangalore. 2011-12.

As per the table- 4.16 it can be observed that barring the exceptions of Assam, Himachal Pradesh, Kerala, and Union territories, and the maximum share of KCC is cornered by the cooperative banks. The data in the table clearly indicates that there are variations in cooperative banks, Grameen Banks and CBs in India also.

Generally, as far as the amount sanctioned through KCC scheme was concerned in Assam, Goa, Himachal Pradesh, Karnataka, Kerala, Uttar Pradesh and Union territories, the maximum share of amount sanctioned through KCCs is accounted for by the commercial banks. In all other states cooperative banks dominate the scene. Similarly in Jammu and Kashmir, the amount sanctioned by Grameen Banks is close to the amount sanctioned by the cooperative banks. In Bihar and Tamil Nadu the amount sanctioned by Commercial Banks was note worthy.

Table –4.16

Details of the Cooperative Banks, Grameen Banks and CB in Total KCCs

Sl. No	State wise details	Cooperative Banks in India		Details of Grameen Banks		Commercial banks	
		Number	Amount	Number	Amount	Number	Amount
1	Andhra Pradesh	56.6	55.4	112.7	12.4	30.7	32.2
2	Assam	1.9	1.7	28.0	35.1	70.1	63.2
3	Bihar	68.1	51.2	6.0	7.2	32.2	41.6
4	Gujarat	59.8	68.4	7.4	7.0	32.8	24.5
5	Goa	55.3	10.2	0.0	0.0	44.7	89.8
6	Haryana	75.3	71.0	5.9	8.5	18.8	20.5
7	Himachal	28.9	22.9	3.7	40.0	9.1	11.3

	Pradesh						
8	J & K	79.3	48.7	11.7	40.0	9.1	11.3
9	Karnataka	44.4	32.3	18.6	23.8	37.0	43.9
10	Kerala	38.0	35.1	15.8	19.5	46.2	45.4
11	Madhya Pradesh	73.6	73.5	7.3	5.5	19.1	21.0
12	Maharashtra	78.6	80.3	2.5	2.8	18.9	16.9
13	Orissa	81.0	82.8	6.7	7.7	12.3	9.5
14	Punjab	56.2	52.5	3.1	5.7	40.7	41.8
15	Rajasthan	79.4	70.0	4.9	9.5	15.7	20.5
16	Tamil Nadu	51.5	55.8	4.0	1.5	44.4	42.7
17	Uttar Pradesh	57.7	36.6	16.6	21.1	25.8	42.3
18	West Bengal	56.7	56.0	8.2	8.0	35.1	36.0
19	Other N.E states	21.7	20.4	26.0	30.4	52.3	49.3
20	Union Territories	30.1	25.0	0.0	0.0	69.9	75.0
	All India	62.0	58.9	10.0	10.6	28.0	30.6

Source: NABARD, Bangalore 2011-12.

The table- 4.17 examines shares of different states and region of the country in total number of operational holdings as per 1995-96 census and number of KCCs issued as a ratio of number holdings. The resulting estimates clearly indicates quite mismatch in the number of holdings and progress made in issuing KCCs particularly in case of states like Bihar, Orissa, Punjab, West Bengal, Madhya Pradesh, Gujarat and Haryana. The ratios of number of KCCs issued to number of land holdings indicated that among major states of the country, progress in Punjab and Haryana was remarkable where the ratios work out to be 122.3 per cent and 81.4 per cent, respectively. The ratio exceeding 100 in the case of Punjab indicates that for some operational holdings, there was more than one KCC. The progress in Orissa and Andhra Pradesh was also significant given the fact in that about 50 per cent of land holdings seem to have been covered. In some other states such as Tamil Nadu, Uttar Pradesh, Maharastra, Karnataka, Rajasthan and Gujarat these ratios are the range of 31 to 42 per cent.

Table- 4.17

Number of operational land holdings of KCCs issued in India

Sl. No	State wise details	Number of Holdings	No. of KCCs as a ratio of no. of land holdings
1	Andhra Pradesh	1,06,03,000 (9.2%)	57.2
2	Assam	26,83,000 (2.3%)	2.8
3	Bihar	1,41,55,000 (12.2%)	9.5
4	Gujarat	37,81,000 (3.3%)	42.3
5	Goa	70,000 (0.1%)	7.1
6	Haryana	17,28,000 (1.5%)	81.4
7	Himachal Pradesh	8,63,000 (0.7%)	11.9

8	J & K	13,36,000 (1.2%)	2.8
9	Karnataka	62,21,000 (5.4%)	37.1
10	Kerala	62,99,000 (5.4%)	20.5
11	Madhya Pradesh	96,03,000 (8.3%)	24.0
12	Maharastra	1,06,53,000 (9.2%)	34.9
13	Orissa	39,66,000 (3.4%)	54.4
14	Punjab	10,93,000 (0.9%)	122.3
15	Rajasthan	53,64,000 (4.6%)	41.8
16	Tamil Nadu	80,12,000 (6.9)	31.0
17	Uttar Pradesh	2,15,29,000(18.6%)	34.5
18	West Bengal	65,47,000 (5.7%)	14.0
19	Other N.E states	967,000 (0.8%)	3.2
20	Union Territories	107,000 (0.1%)	20.6
	All India	**11,55,80,000 (100%)**	**31.9**

Source : Compiled from, Sharma, Anil; "The Kisan Credit Card Scheme Impact, Weaknesses and Further Reforms", NCAER, New Delhi, pp. 18.

We can say that in the remaining states the progress seems to be very slow. This was particularly true for Kerala, West Bengal, Himachal Pradesh, Bihar, Goa, Jammu and Kashmir and almost all states of the north eastern region. It has been pointed out by NABARD that progress in issuing KCC has been encouraging in those states where state governments took active interest in following up with the financial institutions in India.

The table – 4.18 indicates that the ratio of amount sanctioned through KCCs to total short term credit which is being advanced every year. It is an evidence of the phenomenal growth that has occurred in the issuance of credit cards. It is evident from the above table that by the end of 2006-07, out of the total short term credit issued by cooperative banks, 80.4 per cent was through Kisan Credit Card. In the case of Grameen Banks, the share of credit sanctioned through KCCs was a little over 60 per cent of total short term credit disbursements during the same year. In the case of commercial banks, however, the progress was slow in comparison to cooperative banks and Grameen Banks as the amount sanctioned through KCCs constituted only 35 to 42 per cent of their total short term advances.

Table – 4.18

Amount sanctioned through KCCs in India

Year Wise details	**Details of Cooperative Banks**		**Regional Banks**		**Commercial Banks**		**Total**	
	Short term credit (Rs. Crore)	**Amount sanctioned through KCC as a ratio of short term credit**	**Short term credit (Rs. Crore)**	**Amount sanctioned through KCC as a ratio of short term credit**	**Short term credit (Rs. Crore)**	**Amount sanctioned through KCC as a ratio of short term credit**	**Short term credit (Rs. Crore)**	**Amount sanctioned through KCC as a ratio of short term credit**
2007-08	12571	6.6%	1710	0.6	9622	13.0%	23903	8.7
2008-09	14845	24.3%	2423	16.7	11697	30.2%	28965	26.1
2009-10	16583	56.8%	3245	43.2	13486	41.6%	33314	49.3
2010-11	18829	84.7%	3777	63.1	17904	42.0%	40510	63.8
2011-12	19707	80.4%	4775	61.9	21104	35.0%	45586	57.4

Source: Sharma, Anil : The Kisan Credit Card Scheme : Impact, Weakness and Further Reforms, NCAER, New Delhi. Pp. 14.

Generally we can say that the share of credit sanctioned through KCCs by all three types of financial institutions works out to be approximately 60 per cent of the amount that farmers borrow for their short term requirements. For various reasons, particularly for lack of political will, land reforms have been neglected. The rural population requires support in terms of assets like land to improve their income levels and social status. Diversification of agriculture is needed to improve the plight of the agricultural labourers. The rural artisans and other sections would benefit only when the rural economy is diversified with stress on non-farming activities. Of course, organisation of the rural sector is needed to put an end to all kinds of exploitation continuing in the sector for a long time. And to solve this in rural areas regional rural banks play a very significant role in rural sector in India.

4.11 Credit Policy for Agricultural Development in India

Particularly in India Agricultural credit is one of the most crucial inputs in all agricultural development programmes for a long time. The major source of agricultural credit was the private money lenders; this source of credit was inadequate and highly expensive and exploitative. System in India [13]

The All India Rural Credit Survey (1951-52) All India Rural Credit Review Committee 1966, and several Economists have pointed out several defects in the working and organisation of co-operative credit society has been considered as the best agency to finance agriculture since 1904 to 1969. The posing of the cooperative society act, 1904 led to the publication of the report of the All India Rural Credit Review Committee in India.

4.12 Multi Agency Approach to Finance Agriculture in India

In the year1966 there was major development in the field of agriculturist it was result of adoption of new agriculture technology and HYVP. The green revolution opened up for the first time entirely new vistas of agrarian development. It become evident that agricultural production could be increased in a relatively short time, if adequate inputs made available. Hence the availability credit and of inputs like irrigation, HYV seeds and fertilizers, pesticides, insecticides etc were possible only with the help of large investments. These investments could be made. Only if the peasantry was to be assured of adequate and easy credit arrangement system for agriculture.[14]

In India in the earlier policy, before 1968, there was an exclusive dependence on the cooperative to disabuses agricultural credit commercial banks were more or less stunned. Since 1970 India come to practice what has come to be known as the multi agency approach in the rural credit. At present many agencies are significantly operating in the field of agricultural finance, such as cooperative credit societies, commercial banks, lead banks, Grameen Banks also. The multi-agency approach came to be adopted as the overall national policy as no single complex financial institution has the necessary organizational structure of financial strengths to cater to the total requirements of the Indian agriculture sector in India.

4.13 Suggestions of Kamath Working Group (1976)

The RBI constituted a working group under the chairmanship of C.E.Kamath in Aug 1976 to study the problems arising out of the adoption of multi-agency approach in agricultural financing and make appropriate suggestions.

Kamath Committee suggested regional approach for branch expansion whereby one or two banks with strong base is given the responsibility of opening branches in unbanked rural regions. This would make it possible for bank officials to inspect and also supervisions a large number of forms in a single visit, which will make supervision more effective and also reduce the cost of inspection and supervision of agricultural advances.

This scheme was introduced in 1972. On the recommendations of R.B.I committee under the chairmanship of Dr R.K. Hazari the categories of eligible borrowers under DIR scheme were landless labourers. Small lands holders, rural artisans and so on.

4.14 Regional Rural Banks and Agriculture Credit in India

In India the credit requirements of cultivators for agricultural purpose are met by institutional as well as non-institutional agencies. They later include agriculturist, money lenders, merchants and commission agents. The institutional agencies that lend money to cultivators are co-operative, government commercial banks, RRBs and so on.

Up to 1968 the official policy was to develop the co-operative system as the sole agency for meeting agricultural credit requirements. But the All India Rural Credit Review committee (1969) pointed out that co-operatives are not adequately meeting the credit requirement of agriculture, the fact brought commercial banks into the field of agricultural credit. [15] The single agency approach has changed into multi-agency approach to agricultural finance. So commercial banks could not come to expectations, commercial banks faced crucial items

The small and marginal formers were felt high and dry without any benefit from massive amount flowing into the agricultural sectors. Thus this gave the birth to regional rural banks in 1975 mainly to bring the gap felt unfilled due to the failure of cooperative banks on the one hand and commercial banks on the other in disseminating adequate credit to the agricultural sector in particular. Hence the president on 26th Sep 1975 promulgated the Regional Rural Banks ordinance. Which come into force with immediate effect? The main objective of setting up of the Grameen Banks was to provide credit and other facilities especially to small and marginal farmers, agricultural labourers in rural areas of the country.

Generally the Grameen Banks are required to undertake granting loans and advances to small scales and marginal farmers and agricultural labours whether individually or in-groups of cooperative societies or farmers services societies for agricultural purpose or agricultural operations or related activates also.

4.15 Grameen Banks and Agricultural Development in India

Grammen Banks in India are directly and indirectly supporting agricultural development in numerous ways. Grameen Banks give agricultural term loans for land based activities, such as minor irrigation, drip irrigation, to purchase tractors, tillers so that there will be increase in productivity by using modern skills and technology, so that there will be agricultural growth pattern also.

Grameen Banks also help agricultural development by giving crop loans, crops are advanced with the object of providing financial assistance to small and marginal formers to purchase seeds, chemical fertilizers and manure particulars. Crop loans are production-oriented loans and help in raising the crop to agriculture development by giving loans to allied activities. Table– 4.19 indicates the regional rural banks loans to agricultural development since 2007-08 to 2011-12 respectively.

Table – 4.19

Grameen Banks Loans to Agricultural Development Purpose

Activity	2007-08	2008-09	2009-10	2010-11	2011-12
1. Agriculture Crop Loans details	20808.29 (19.25)	2204428 80206.71 (17.33)	2170289 88666.68 (16.87)	2286769 111508.88 (17.72)	2322671 130824.90 (17.40)
2. Agriculture Term Loans details	23079.63 (21.35)	1856610 79820.59 (17.25)	1752094 89418.25 (17.02)	10669142 103973.17 (16.52)	1652971 123450.10 (16.40)
3. Agriculture and Allied	20519.03 (18.99)	2194326 67428.02 (14.57)	2252309 77891.96 (14.82)	2201590 85408.30 (13.57)	2170486 92376.30 (12.30)

Activities details					
4. Non-Agriculture Loans details	31521.62 (29.17)	4766438 16789885.23 (36.28)	4618844 181261.44 (34.50)	4535417 207849.66 (33.03)	4631465 242279.16 (32.20)
5. Others	12148.59 (11.29)	1360050 67732.17 (14.55)	1628867 88064.01 (16.72)	1904972 120354.29 (19.13)	1881772 161572.08 (21.52)
6. Total loans	1,08,077.15 (100)	12381852 462672.72	12422403 525302.34	12597890 629095.96	12659365 750302.54

Sources: National Bank for Agriculture and Rural Development (NABARD) Statistics on Regional Rural Banks.

Note: Number of Respondents**.**

Hence Grameen Banks advances to the development of agriculture in India. In the year 2007-08 the total loan disbursed was Rs. 1,08,077.15 lakhs. In the year December 2008 the share of crop loans was 19.25% with Rs.20,808.29 lakhs worth of loans. In the same year the share of agriculture term loans was 21.35% with Rs.23,079.63 lakhs worth of credit. Hence the share of allied activities was 18.99% with Rs.20,519.03 lakhs worth of credit to agriculture.

During the year 2008-09 the total loan disbursed amount to 4,62,672.72 lakhs benefiting 12,38,152 respondents. During March 2009 the share of crop loans slightly decreased from 19.25% to 17.33% benefiting 22,04,428 respondents with Rs. 80,206.71 lakhs worth of loans. During the year 2008-09 the share of agriculture term loans decreased to 17.25% benefiting 18,56,610 respondents with Rs. 79,820.59 lakhs worth of loans. The share of allied activities was a 14.57% beneficiary 21,94,326 with Rs. 67,428.02 lakhs worth of loans.

During 2009-10 the total loan disbursed amount to Rs.5,25,302.34 lakhs benefiting 1,24,22,403 respondents. During 2009 the share of crop loans decreased to 16.87% benefiting 21,70,289 respondents with Rs. 88,666.68 lakhs worth of loans. The part of term loans remained same at 17.2% but benefiting 17,52,094 respondents with Rs. 89,418.25 lakhs worth of loans. The share of allied activities was also same at 14.82% benefiting 22,52,309 respondents with Rs. 77,891.96 lakhs worth of loans. In the year 2009-10the total loan disbursed amount to Rs.6,29,095.96 lakhs benefiting 1,25,97,890 respondents. During March 2010, the share of crop loans increased slightly to 17.72% with Rs. 1.11,508.88 lakhs worth of credit benefiting 22,86,769 members only.

The part of term loans decreased slightly to 16.52% with Rs. 1,03,973.17 lakhs worth of credit benefiting 1,06,69,142 members. The share of allied activities was 13.57% with Rs. 85408.30 lakhs worth of credit benefiting 22,01,590 respondents. During the year 2010-11 the total loan disbursed to Rs. 7,50,302.54 lakhs benefiting 1,26,59,365 respondents. During March 2011 the share of crop loans was 17.40% with Rs.1,30,824.90 lakhs worth of credit, benefiting 23,22,671 members. The share of term loans slightly decreased to 16.4% with Rs. 1,23,450.10 lakhs benefiting 16,52,971 members only. Hence, the share of allied activities decreased to 12.3% with Rs. 92,376.30 lakhs benefiting 21,70,486, respectively.

4.16 Grameen Banks and the Rural Poor Community in India

Grameen Banks were created to have targeted lending in the rural areas. The performance of Grameen Banks over the years has not been great. In the past few years the Grameen Banks have turned around from their extended state of sickness. Even so, the loans as a percentage of resources at their command (Credit - Deposit Ratio) are falling but for an improvement is 2003. The ratio of grameen banks should be compared to the commercial banks over the years. The commercial banks and CD ratio of 60% as against the CD ratio and Grameen Banks ratio of 40%. This means that the turnaround story of the

Grameen Banks has been at the cost of access to credit to rural areas. In the years where the deployment of credit was high (1997) the NPAs were also high at 36.81% and the system as a whole was incurring losses. The NPA ratio has consistently fallen in the past years and now it is time for Grameen Banks to get back to their basic business of lending. This co-inside with a stable low interest rate regime and therefore opportunities for arbitrage in the money market and interest earnings from investments, which were a major source of income in the past years, are going to have limited impact on bottom lines of the Grameen Banks. However that fact is that Grameen Banks provided an outlet for the rural people empowerment.

In India in the last manyl measures were taken to improve the performance of the Grameen Banks these included a programme of recapitalisation to the extent of Rs. 2,188 crores examining of merger of Grameen Banks sponsored by the same bank and closing of non-profitable branches. In addition they have been encouraged to issue kisan credit cards and use micro finance as a mechanism to reach the poor by encouraging them to promote and lend to self help groups. The de-regulation of interest rates has gone a long way in making Grameen Banks competitive and market survey. In 2002 a working group also submitted a report recommending changes in the Grameen Bank Act which if implemented would change significant aspects of operations of the Grameen Banks only.[17]

Table – 4.20

Results of Grameen Banks during the previous years

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Details of Resources Mobilised	16971	20978	26319	31306	38696	44873	50190
Details of Loans Outstanding	8718	9692	11356	13109	15794	19075	22585
Interest income level	6606	2014	3286	3895	4625	5191	5501
Other income details	87	107	157	205	234	372	430
Detail sof Operating Profits	(53)	133	335	530	730	774	714
Position of Net Profits	(589)	76	247	428	600	608	524
Position of CD Profits	50.3	46.2	43.3	42.14	42.07	42.51	45.00
Level of Investment Deposit Ratio	14.66	16.82	19.69	20.00	20.38	15.67	25.90
Position of Standard Assets	63.2	67.2	72.2	76.9	81.2	83.9	No
Position of Non-Performing Assets	36.8	32.8	27.8	23.1	18.8	16.1	No

Source: Trend and Progress of Banking in India RBI (various Years).

Hence, the progress of the Grameen Banks is commendable, but, still there are certain gaps in their functioning. It is found that the credit channelized through the institutional agencies is less than the requirement. In spite of widespread bank expansion, there are still under-banked areas. The gap between the demand for and supply of the credit from existing institutional agencies is wide. While the cooperatives are democratic institutions, the commercial banks, and even the Grameen Banks are bureaucratic institutions. They are not likely to succeed in enticing the cooperation of the rural public and commanding their support and participation in the rural areas.[18]

4.17 Loans and Advances to Priority Sectors in India

In India the performance of the banks in meeting the credit needs under agriculture, total priority advances has to be increased to Rs.20,63,235.7 lakhs compared to Rs.7,14,269.92 lakhs in the year 2003-04. The growth amount is Rs.13,48,965.8 lakhs. It is a good signal to agriculture, which is the main occupation of India. In state wise disbursement of loans and advances, Uttarapradesh state issued highest amount of advances i.e., Rs.3,66,779.10 lakhs as on 31-03-2006. Andhrapradesh has been provided Rs.3,39,531.80 lakhs of loans to priority sectors. This is the second state being provided the highest amount to priority sectors. Year wise and state-wise disbursement of loans and advances to priority sector is furnished hereunder.

Table – 4.21

Priority Sector Advances in India

Details of Sectors	2007-08	2008-09	2009-10	2010-11	2011-12
Total Priority Sector advances	714269.9	884660.8	1172230.2	1656802	2063235.7
Short Term loans (Crop Loan)	381161.7	483374.1	613291.01	988343.9	1281589.4
Term Loans details (Agri & Allied)	78195.9	104531.1	104206.05	204339.7	248362.93
Rural Artisans loans	19807.17	23829.06	27621.97	31642.72	30619.72
Small Scale Industries loans	10671.97	13846.26	16713.56	20961.36	28072.45
Retail Trade loans	127924	142123.1	165315.35	196669.2	162447.17
SHGs Loans	18012.14	35019.23	50953.62	85849.75	102481.43
Other Loans	78497.05	81938.06	194128.63	128995.9	209662.62

Source: Annual Reports of NABARD.

So the Grameen Banks are satisfying to a large extent all the conditions of a sound rural credit system in the context of problem hidden area, it is desirable to take necessary steps by the Government of India for their expansion in a large scale sector also.

The important issues in a case of cooperatives and Regional Rural Banks (Grameen Banks) which supply bulk of the short terms production credit to agriculture were higher interest rates on deposits, lower interest rates on advances, higher operating costs because of small loans, which were advanced exclusively to the weaker sections in backward areas and higher default rates. The most common problems with rural credit have been defective loan policies, delays in sanction and disbursement of loans and fixation of due dates, which were not compatible with the harvesting and marketing seasons in the country.

The loan among was not even enough to fulfill the entire needs of the borrowers, which compelled them to borrow from local money lenders or other informal sources. In such a situation, the amount borrower from money lenders obviously received a higher priority in the repayment plan of the borrowers in rural areas.

Hence the main weaknesses of the erstwhile system of short term credit delivery were following. Firstly for each crop, farmers were required to file separate application and complete all formalities for obtaining loans. Secondly the system did not allow farmers to use credit limits as a regular cash credit for meeting their production requirements as and when they wanted. Thirdly, farmers were also required to submit a no due certificate each time while taking fresh loans. There are a large number of studies, which indicate that farmers in developing countries are credit problems in the country.

So most common reasons for overdues in the past were inadequacy of sanctioned loan amount due to ad hoc and unrealistic limits, scale of finance and delays in sanctions and disbursements of loans by Grameen Banks.

4.18 Discernible Trends in India

Generally in India a multi-agency approach comprising Co-operative banks, scheduled commercial banks and Grameen Banks has been followed for purveying credit to agricultural sector. The policy of agricultural credit is guided mainly by the considerations of ensuring adequate and timely availability of credit at reasonable rates through the expansion of institutional framework, its outreach and scale as also by way of directed lending. Over time, spectacular progress has been achieved in terms of the scale and outreach of institutional framework for agricultural credit system in India. One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources, notwithstanding some reversal in the trend observed particularly in the 1990s also.

The share of institutional credit, which was little over 7 percent in 1951, increased manifold to over 66 percent in 1991, reflecting concomitantly a remarkable decline in the share of non-institutional credit from around 93 percent to about 31 percent during the same period. Hence, the latest NSSO survey reveals that the share of no-institutional credit has taken a reverse swing which is a cause of concern. The details are presented in table -4.22.

Particularly co-operative banks since the 1990s have lost their dominant position to commercial banks in India. The share of cooperative banks (22 percent) during 2005-06 was less than half of what it was in 1992-93 (62 %), while the share of commercial banks (33 to 68 %) including Grameen Banks (5 to 10 %) almost doubled during the above said period. The flow of credit to agriculture seems to have yielded better results in the recent period as the total institutional credit to agriculture recorded a growth of around 21 percent during 1995-96 to 2004-05 from little over 12 percent during 1986-87 to 1994-95. The total credit to agriculture, the commercial banks recorded a considerable growth (from around 13 % to about 21 %), while cooperative banks registered falling trend.

Table – 4.22

Different credit sources in India

Credit sources	1951	1961	1971	1981	1991	2001
Details of Non-institutional finance	92.7	81.3	68.3	36.8	30.6	38.9
Of which Money Lenders share in India	69.7	49.2	36.1	16.1	17.5	26.8
Details of Institutional source	7.3	18.7	31.7	63.2	66.3	61.1
Of which Cooperative banks share in India	3.3	2.6	22.0	29.8	23.6	30.2
Details of Commercial banks share	0.9	0.6	2.4	28.8	35.2	26.3
Details of Unspecified share	-	-	-	-	3.1	-
Total share	100.0	100.0	100.0	100.0	100.0	100.0

Source: All India Debt and Investment Survey and NSSO.

Hence, the growth of direct finance to agriculture and allied activities witnessed a decline in the 1990s (12 %) as compared to the 1980s (14%) and 1970s (around 16 %). 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 percent to around 36 percent), which could have dampening effect on the agricultural investment for future development. In India sectoral deployment of gross bank credit reveals that the share of agriculture since the second half of 1990s has ranged between 11 – 12 %. As at the end March 2006, the share stood at around 11.9%.

4.19 Recent Policy Initiatives for Credit in India

Is today The Finance Minister in his Union Budget 1995-96 speech stated that, “Inadequacy of public investment in agriculture a matter of general concern? This is an area which is the responsibility of states. Many states have neglected the investment in infrastructure for agriculture. There are many rural infrastructure projects which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to rural population”.

Rural Infrastructure Development Fund was set up in NABARD. Since then, 11 branches of allocations have been made towards the Fund. Commercial banks make contribution towards the fund on account of the shortfalls in their priority/agriculture sector lending. The scope of RIDF has been widened to enable utilization of loan by Panchayati Raj Institutions (PRIs), Self-Help Groups , Non-Governmental Organizations etc., since 1999-2000. The fund has continued with additional corpus being announced every year in the Union Budget. The RIDF XI was announced in the Union Budget for 2005-06 with an allocation of Rs.8,000 crores making a total corpus of Rs.50,000 crores. RIDF XI accorded special emphasis for setting up of village knowledge centres by providing Rs.100 crore out of the corpus of Rs.8,000 crores particularly .

The micro-finance and Kisan Credit Card Scheme have emerged as the major policy developments in addressing the infirmities associated with the distributional aspects of credit in the recent years. The KCCS has emerged as the most effective mode of credit delivery to agriculture in terms of the timeliness, hassle-free operations as also adequacy of credit with minimum of transaction costs only.

4.20 Summary

The above analysis indicates that the policy on agriculture credit targeted at progressive institutionalization of credit agencies for providing credit to farmers for raising agricultural production and productivity. Agricultural credit is disbursed through a multi-agency network consisting of Cooperatives, commercial banks and Grameen Banks. Hence, ‘Farm Credit Package’ announced in June 2004 stipulated doubling the flow of institutional credit for agriculture in the ensuing years. So agriculture credit flow to farm sector got doubled during two years as against the stipulated time period of three years. In the year 2006-07 the total institutional credit flow to agriculture sector was Rs.2,03,297 crores having shares of cooperative banks, Grameen Banks and commercial banks at 20.9 per cent, 10.1 per cent and 69 per cent respectively. Government has decided that from Kharif 2006-07, farmers would receive crop loans up to a principal amount of Rs.3 lakh at 7 percent rate of interest. In the year 2007-08, the government of India is providing interest subvention of 2% per annum to public sector banks, grameen banks and cooperative banks on amount of short term agriculture credit in India.

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