CHAPTER III

STRUCTURE, ORGANIZATION AND PERFORMANCE OF AGRICULTURAL FINANCIAL AGENCIES IN INDIA,
3.1. Introduction:

Credit institutions in India serving agricultural-sector developed in three phases. In the first phase, which lasted from 1947 to 1969, cooperative agencies were the primary vehicle providing credit. In the second phase, after nationalization of banks in 1969, commercial banks were assigned a role in providing agricultural credit but were supplementary to cooperatives. In the last phase starting in 1975, regional rural banks were established. In the 1990s, agricultural credit is provided through a multi stage approach in the form of cooperatives, commercial banks, and regional rural banks. These institutions have gradually ensured that credit reached the most remote agricultural and rural areas.

Since the inception of economic planning in India in 1950, the government has favored cooperative societies as a channel for providing credit and as a means of broadening the experience of villagers in such activities as marketing, community farming, and consumer purchasing. Credit societies were the first to be established and continue to be the most extensive and important group of cooperatives. Of the roughly 250,000 cooperatives in India in 1980, about 100,000 were Primary Agricultural Credit Cooperatives. By the late 1980s, because regional rural banks were doing more lending, the number of agricultural credit cooperatives had decreased to 87,300. By 1988, there were 93,000 primary agricultural credit societies operating in rural areas, with
a membership of 89.9 million. The societies aimed at universal membership and only poorer members could join cooperatives and use their service. Total loans advanced by such societies amounted to nearly Rs36.9 billion during the financial year 1986-87. These agricultural credit societies had a share capital of about Rs 10.1 billion at the end of June 1988.

Public-sector banks in India, including commercial and regional rural banks, increased their activities in the countryside after the nationalization of banks in 1969. Many bank branches were opened in rural areas. One indicator of increased availability of credit through public-sector banks was the increase in the number of accounts. The number went from 164,000, with outstanding loans of Rs 1.6 billion, to nearly 21.8 million accounts, with an outstanding balance of nearly Rs 165.2 billion in March 1990.

In economic terms, the growth in credit supply has been satisfactory, but the growth in deposits has not kept pace with credit supply and there has been a high rate of loan defaults. Field-level rural financial institutions have increased. There is large increase in the number of branches of commercial bank in the rural areas.
3.2 AGRICULTURAL CREDIT IN INDIA AND A.P.

Credit plays an important role in the development of an economy and its parts thereof. Agriculture sector is no exception to it. Modern agriculture is expensive. The farmer can increase the productivity of his land by adopting new technology. He needs investment on fertilizers, pesticides and pump sets etc., Indian farmer particularly the small and marginal farmer cannot incur the
expenditure on farming from his income which is hardly sufficient to meet his basic necessities of life. He has to depend upon outside finance.

3.2.1. Sources of Agricultural Finance:

Sources of agriculture finance can be divided into two categories: (i) non-institutional sources, and (ii) institutional sources. The non-institutional sources are (1) moneylenders, (2) relatives, (3) traders (4) commission agents and (5) land lords. The institutional sources are (1) government, (2) cooperatives (3) and commercial banks. The relative importance of various agencies is shown in table 3.

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<td>Commercial banks</td>
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<td>0.6</td>
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<td>28.0</td>
<td>33.7</td>
<td>30.0</td>
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<td>4</td>
<td>Money lenders etc.</td>
<td>90.9</td>
<td>67.4</td>
<td>68.4</td>
<td>38.8</td>
<td>32.7</td>
<td>22.0</td>
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<td>5</td>
<td>Others</td>
<td>1.8</td>
<td>13.9</td>
<td>1.3</td>
<td>0.6</td>
<td>5.9</td>
<td>3.0</td>
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<td>6</td>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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Sources: Report of the All India Rural Credit Review Committee and RBI bulletin and Economic Surveys.

The table 3.1 indicates that the non-institutional agencies have provided the bulk of loans acquired by the peasantry from 1951. Up to 1970 the reasons
for their being more popular than institutional agencies lie in the simplicity of
the method of their business and provision of loans for consumption purposes
also. However, total dependence of farmers in pre-independence period on
moneylenders enabled the latter to dictate terms and exploit the farmers in a
number of ways. For instance, village moneylenders charged exorbitant rates
of interest and resorted to malpractices such as entering in the promissory
notes, sums larger than actually lent, practice of not giving any receipts for
repayments and often deny such payments etc., They manipulated the accounts
in such a way that ultimately they seized the land of many farmers towards
clearance of their debts.

In order to regulate the activities of moneylenders, various legislations
were enacted. The most important move to free the agriculturists from the
clutches of the moneylenders was the expansion of institutional credit to
agriculture. For this purpose, the government has helped the cooperatives in a
number of ways to expand their operations. In an important move, 14 major
commercial banks were nationalized in 1969 and this was followed by the
nationalization of 6 more banks in 1980. In 1975, the government established
Regional Rural Banks (RRB) to meet specifically the requirements of rural
credit. The setting up of the National Bank followed this for Agricultural and
Rural Development (NABARD) in 1982, to play a proactive role in promotion
of rural credit and support the institution providing agricultural finance.
Under the multi-agency approach, the country’s rural and semi-urban centres now have more than 1,50,000 credit outlets (consisting of branches of commercial banks, rural regional banks, co-operative banks etc.). With banking so widely accessible, rural households are now in a position to secure all kinds of loans. On an average, there has been one branch for three to four villages, serving about 14,000 persons.

As shown in Table 3.1, moneylenders meet even now approximately one-third of the credit requirements of agriculture. The question arises as to why despite the efforts of the government developing and strengthening the institutional sources of credit, farmers continue to depend on moneylenders. The basic reason perhaps is that even though the institutional credit agencies have expanded rapidly, they are yet insufficient to meet all the credit needs of the farmers. There are other reasons as well. For instance, institutional credit agencies grant loans only for productive purposes. Since farmers require loans for marriages, social and religious purposes (which are unproductive) they have to fall back upon the moneylenders. Also, because for the seasonal nature of employment in agriculture, a large number of landless labourers are rendered unemployed for a certain period of the year and they have to seek loans from the moneylenders to meet their basic needs of life.
Another reason is that institutional agencies generally grant credit only to those people who are credit-worthy. Since small farmers do not satisfy this criterion, they are generally left out of the network of institutional credit even though their needs for credit are greatest. The functioning of credit agencies is also far from satisfactory. The net result of all this is that moneylenders are still able to rule the roost.

3.2.2. Institutional Agencies in Agriculture Credit:

There are many institutional agencies providing credit to agriculture such as Co-operatives, Commercial Banks, Regional Rural Banks.

3.2.2.1. Cooperative Credit Societies:

The cheapest and best source of agricultural credit in India is co-operative credit societies.

3.2.2.2. Historical Development Co-operative Credit in India

History of co-operative credit in India started with the establishment of the first agricultural bank in 1882. The government took initiative by setting up its own machinery for meeting the credit needs of farmers from state funds under the Land Improvement Loans Act in 1883. Subsequently, the
Agricultural Loans Act was passed in 1884 under which the agriculturist could borrow public money for production purposes at lower rates of interest\(^{83}\).

3.2.2.3 Recommendations for Co-operative Credit Societies

In 1982, Sir Frederick Nicholson suggested to the Madras Government, organization of co-operative credit societies in India on Raiffeisen model.

Sir Edward Law Committee (1901) also recommended the establishment of co-operative societies on the Raiffaisen model. The Famine Committee of 1901 recommended the setting up of Mutual Credit Association. Accordingly, the first Co-operative Credit Societies Act was passed in 1904.

The Act of 1912 recognized the formation of non-credit co-operative societies, and the Central Co-operative organizations. A number of societies for the sale of agricultural produce, purchase of manures, implements and other necessaries emerged but their growth was spatially uneven. This led to the appointment of a committee under the chairmanship of Sir Edward Mac Lagan in October 1914 to study the performance of the societies. The committee recommended limited area of operation for each society and suggested

classification of co-operative societies into Primary societies, Co-operative unions, Central Co-operative Bank, Provisional Co-operative Bank.\textsuperscript{84}

The first co-operative Land Mortgage Bank at Jhang in Punjab province was established in 1920. The setting up of RBI with a department dedicated specifically to agriculture credit in the year 1935 gave further fillip to co-operative movement. In 1954, the RBI, for the first time, carried out All India Rural Credit Survey in the country. The All India Rural Credit Survey Committee (AIRCSC) 1954 had stated, “co-operation has failed, but co-operation must succeed”. It was true that the movement had not recorded much of a success before the year 1954. Since 1954\textsuperscript{85}, the Co-operative Credit Societies have been meeting the requirement of the farmers in an increasing way. More than 50 per cent of the agricultural credit was provided by the co-operative societies.\textsuperscript{86}

In respect of the long-term credit structure, the Bawa Committee on co-operative credit suggested in 1960, inter-alia, arrangements of a permanent nature and on a sizable scale for long term and medium term loans for

\textsuperscript{84} Hajela, T.N., op.cit., pp.221-223.

\textsuperscript{85} National Research Center of Indian Co-operative Movement: National Co-operative Union of India, A profile (2000), New Delhi, P. 90.

promoting agricultural development. The Committee on Tacavi Loans and Co-operative Credit in 1962 advocated, inter-alia, the federal structure for the co-operative credit system. This paved the way for setting up of Primary Land Mortgage Banks at the Tehsil Taluka Block headquarters level.

The National Commission on Agriculture in 1961 recommended for a fresh approach to entire problem of rural credit so as to develop on integrated agricultural credit system. The Multi State Co-operative Societies Act was passed replacing the Multi Unit Co-operative Societies Act 1942. The entire co-operation movement in the country, thus, comes to be guided by two Acts of legislature viz. The Multi State Co-operative Societies Act 1984 which is a Central Act covering the co-operative societies having their presence in more than one state and the State Co-operative Societies Acts which are generally based on guidance of Government of India but enacted and operated by respective state governments. This Act has been amended in 2002 to meet various aspirations and essential features of model Co-operative Act.

Hazari Committee (1985) recommended for integration of the two structures at all levels. It was Government of Andhra Pradesh only that took initiative to appoint a committee to look into the integration on the recommendations of which the government of A.P. formulated a scheme of Single Window Credit Delivery System (SWCDS), which was examined by
Ardhanareeswaran Committee. The Government of India recommended for integration of short term and long-term co-operative credit structures at primary level in the first instance and then in a phased manner at state level. Thus integrated structure started functioning in Andhra Pradesh with effect from 1st April 1987 but it is still a moot point as to whether the integration could be achieved in real terms as envisaged by Hazari Committee.

3.2.2.4 Co-operative Credit Structure:

The Co-operative Credit structure is Pyramidal or Federal in character. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organized at the village level. At the second tier are the District Central Co-operative Banks (DCCBs) or Central Co-operative Banks (CCBs) organized at the district level. At the third and upper most tiers are the State Co-operative Banks (SCBs) organized at the State level. So, SCB forms the APEX of the co-operative credit structure in each state.

3.2.2.5 State Co-operative Bank (SCB):

State Co-operative Banks from the apex of the Co-operative Credit Structure in each state. SCB finances and controls the working of District Central Co-operative Banks (DCCB) or Central Co-operative Bank (CCBs) in the state. SCB serves as a link between NABARD and Central Co-operative Banks and Village Primary Societies. SCB obtains its working funds from its
own share capital and reserves, deposits from the general public and loans and advances from NABARD. SCB gives loans to District Co-Operative Banks for agricultural credit purpose.

CHART 2

CO-OPERATIVE CREDIT STRUCTURE

Agricultural Credit Societies

- Short term and Medium
  - State Co-operative Banks
  - Central Co-operative Bank
    - Primary Agricultural credit societies
    - Grain Banks

- Long-term
  - Central land Mortgage/Development Banks
  - Primary Land Mortgage/Development Banks
    - Central Co-operative Banks
      - Primary Non-agricultural Credit Societies
        - Of which
          - Employer’s Co-operative credit societies
          - Urban Co-operative Banks

Non-agricultural Credit Societies

- State Co-operative Banks
- State Industrial Co-operative Banks
  - Central Industrial Banks
The specific functions of the State Cooperative Banks are

1. They help the state governments in formulating development plans with regard to cooperative institutions.
2. They coordinate the policies of the cooperatives with the governments
3. They formulate and implement uniform credit policies regarding cooperative development in the state.
4. They act as bankers bank to DCCBs, supervise, control and guide the activities of DCCB.
5. They grant subsidies to DCCBs for the smooth functioning of cooperatives and
6. Similar to any commercial bank, they also perform normal banking operations.\textsuperscript{88}

It is observed that there is an increase in the amount of deposits of the apex banks. These deposits increased from Rs.7.24 billion in 1975-76 to Rs.374.4 billion in 2002-03.

Borrowings constitute the most important source of the working capital of the state co-operative banks. In most states they form a major constituent of

the working capital. The borrowings increased from Rs.3.44 billion in 1975-76 to Rs. 120.8 billion in 2002-03. So 35.11 times increase over 2002-03.

The State Co-operative Banks advance loans to the affiliated Central Co-operative Banks and to societies mostly through its branches. However it has a phenomenal increase in the amount of loan operations of the State Co-operative banks. The loan amount issued by these banks increased from Rs.101.21 billion in 1992-93 to Rs.383.2 billion in 2002-03, though the amount outstanding moved from Rs.8.94 billion in 1975 – 76 to Rs. 348.6 billion in 2002 – 03.

The State Co-operative banks advance short-term loans for seasonal agricultural operations and marketing of crops, while medium-term loans for purchase of cattle and machinery, sinking of well etc. The rate of interest charged by the state Co-operative banks on its loans and advances shows considerable variations from state to state.89

3.2.2.6 District Central Co-operative Banks (DCCB):

District Central Co-operative Banks are federations of PACS and cover the whole district. These banks co-ordinate top level State Co-Operative

Banks and lower level Primary Credit Societies. Their main task is to lend to village societies and to attract deposits from the general public. The specific functions of the DCCBs are

1. They supervise and inspect activities of PACS and help the credit societies run smoothly.
2. They maintain close and continuous contact and guide the primary societies and provide leadership to them.
3. The undertake non-credit activities like supply of seeds, fertilizers besides sugar, kerosene and other consumer goods.
4. They provide requisite fund to the societies under their control. And
5. They accept deposits from the member societies as well as from public.

The owned funds of these banks consist of the share capital and other reserves. Since both share capital and other reserves have shown an increase, the funds were bound to increase. It is observed that the owned funds of the banks increased by 39 times from Rs. 3.60 billion in 1975-76 to Rs.141.48 billion in 2001-02.

In 1975-76 the total deposits with these banks were Rs.9.85 billions only. By the end of 2002-03, the position was not much different. The deposits had increased to Rs.729.83 billions. Since then the position, had shown much improvement.
The DCCBs advance loans to the PACS both for the short-term and medium-term period. Bulk of the short-term loans are for agricultural purposes such as seasonal agricultural operations, purchase of agricultural implements, marketing of crops, processing of agricultural produce, industrial and other purpose, and consumption purpose. Short-term loans are given for 12 to 18 months, while; medium-term loans are given for 2 years for effecting improvement on land such as sinking or repair to wells, purchase of cattle and machinery, making minor improvements on land and other agricultural purposes. The member societies are entitled to draw funds under the limits sanctioned from time to time according to their requirements.

It is observed that loans issued by the banks increased year by year i.e. Rs. 17.22 billions in 1975-76 to Rs. 504.82 billions in 2002-03. It is observed that the loans increased by 29 times. And also loan outstanding increased from Rs. 14.28 billions in 1975-76 to Rs. 593.38 billions in 2002-03. Moreover loans overdue increased from Rs. 4.60 billion in 1975-76 to Rs. 78.35 billion in 1995-96. (From 1999-2003 not available of the loans overdues).90

90 Mamoria, C.B., *Rural Credit and Agricultural Co-operation in India* Kitabmahal, Alahabad. PP. 132-139
3.2.2.7 Primary Agricultural Credit Society (PACS)

Today a PAC covers every Indian village. One-lakh village co-operatives directly or indirectly serve more than 70 per cent of the rural households. Those who derive benefits from them include small and marginal farmers, rural artisans, womenfolk, and segments of weaker section population.

Strength of the village co-operative is its omni presence, coverage and percolation. It is versatile in the sense that it can take up any type of rural financing and rural service activity at short notice, at the lowest transaction cost. It has perfected the skill to operate amidst the imperfections of rural economy.

The specific functions of the PACS are

1. They borrow adequate and timely funds from DCCBs and help the members in financial matters.
2. They attract local savings in the form of share capital and deposits from the villagers, thereby inculcating the habit of thrift.
3. They supervise the end use of credit.
4. They distribute fertilizers, insecticides etc. to the needy farmers.
5. They provide machinery on hire basis to the farmers.
6. They associate with the programs and plans meant for the socio-economic development of the villages.
7. They also involve in the marketing of farm produce on behalf of the farmer borrowers.

8. They provide storage facilities and marketing finance. And

9. They supply certain consumer goods like rice, wheat, sugar, kerosene, cloth etc. at fair prices.91

Their identified areas of weakness are many. Almost 30 per cent of them are not viable. Primary Co-operative needs to be nursed for better capital adequacy, business diversification, HRD etc. they have need to improve margins to cover their tractions and risk costs of various services they provide. 41 per cent of these institutions are running in loss.

During 1950s, the Government of India piloted State partnership, through model byelaws and model rules for state assistance to co-operatives. State partnership was conceived as an enlightened concept, meant for facilitation and growth, through government funds, government guarantee and warmth of the State. Reversal of policy again through Model Co-operative Act (Multi-State Co-operative Societies Act) of Government of India, with spin-off in the form or Self-reliant Co-operative Societies Act at state level has set the trend of state neutrality.92

The growth of PACS in terms of number, membership, deposits, borrowings, loans issued etc. is presented in table 3.1. Table 3.1 shows that there are 1,34,888 PACS in 1975-76 the number declined to 99,000 in 2000-01. It indicates that co-operative movement is weakened over a period of time that is during last three decades. This has happened in spite of a fact that several efforts were made by the government to strengthen the co-operative movement in India.

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<tbody>
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<td>1</td>
<td>Number of PACS</td>
<td>1,34,838</td>
<td>92,408</td>
<td>84,000</td>
<td>93,000</td>
<td>1,01,000</td>
<td>99,000</td>
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<td>2</td>
<td>Membership (000’s)</td>
<td>39,521</td>
<td>72,117</td>
<td>88,539</td>
<td>96,600</td>
<td>1,08,500</td>
<td>99,900</td>
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<td>3</td>
<td>Own Funds</td>
<td>NA</td>
<td>NA</td>
<td>20.32</td>
<td>29.12</td>
<td>51.99</td>
<td>55.94</td>
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<td>4</td>
<td>Deposits</td>
<td>1.13</td>
<td>5.72</td>
<td>18.63</td>
<td>36.04</td>
<td>122.84</td>
<td>134.81</td>
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<td>5</td>
<td>Borrowings</td>
<td>11.54</td>
<td>39.27</td>
<td>78.96</td>
<td>111.71</td>
<td>223.43</td>
<td>258.90</td>
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<td>6</td>
<td>Loans Issued</td>
<td>10.23</td>
<td>31.40</td>
<td>67.93</td>
<td>110.23</td>
<td>232.98</td>
<td>256.98</td>
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<td>7</td>
<td>Loans Outstanding</td>
<td>12.99</td>
<td>43.23</td>
<td>81.16</td>
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<td>8</td>
<td>Loan Overdues per cent</td>
<td>5.61</td>
<td>18.06</td>
<td>32.56</td>
<td>44.55</td>
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Source: RBI, Report on Trend and Progress of Banking in India, various issues.

Table 3.2 indicates that membership of PACS gradually increased from 39,521,000 in 1975-76 to 99,900,000 in 2000-01. The membership has almost tripled during last three decades.
3.2.2.7.1 Deposits:

Table 3.2 reveals that deposits mobilized by PACS, stood at 1.13 billion in 1975-76 and it rose to Rs.135 billion by 2000-01. These deposits do not merely imply the presence of thrift among the villages. They as well signify a living interest on their part, in the management of the societies. In fact, one of the most important objectives with which the co-operative movement was ushered in India was the promotion of thrift and savings in rural areas. This was the main reason why the Primary Co-operative Societies were called ‘Thrift and Savings Societies’. However, this cherished and much desired objective has remained a distant desideratum.

3.2.2.7.2 Borrowings:

Table 3.2 reveals that the borrowings of these PACS increased from Rs.11.54 billion in 1975-76 to 258.90 billion in 2000-01. The increase is 22.43 per cent. The table indicated that the borrowers had gradually increased year by year and the purpose of the societies is also to provide finance to large number of farmers. Preponderance of borrowed capital as distinguished from owned capital has always been a chief characteristic feature of agricultural credit societies in India. These borrowings come from Central Co-operative Banks, State Governments and Commercial Banks etc. these outside borrowings, which were envisaged to be resorted to in times of financial
strengthening or supplementing their resources, have now become the most significant source of finance for agricultural credit societies in India.

3.2.2.7.3 Co-operative Credit to Agriculture

TABLE 3.3

CO-OPERATIVE CREDIT TO AGRICULTURAL (Rs. Crores)

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<td>1</td>
<td>Co-operative Banks</td>
<td>14,085</td>
<td>15,957</td>
<td>18,363</td>
<td>20,784</td>
<td>27,080</td>
<td>35,111</td>
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<tr>
<td>2</td>
<td>Percent Share</td>
<td>44</td>
<td>43</td>
<td>40</td>
<td>39</td>
<td>42</td>
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<tr>
<td>3</td>
<td>Short – term,</td>
<td>10,895</td>
<td>12,571</td>
<td>14,845</td>
<td>16,564</td>
<td>21,542</td>
<td>24,711</td>
</tr>
<tr>
<td>4</td>
<td>Percent</td>
<td>77.45</td>
<td>78.8</td>
<td>88.4</td>
<td>79.69</td>
<td>79.54</td>
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<td>Medium and Long</td>
<td>3190</td>
<td>3386</td>
<td>3781</td>
<td>4209</td>
<td>5538</td>
<td>NA</td>
</tr>
<tr>
<td>6</td>
<td>Percent</td>
<td>56</td>
<td>57</td>
<td>60</td>
<td>61</td>
<td>58</td>
<td>NA</td>
</tr>
<tr>
<td>7</td>
<td>Sub-total</td>
<td>14085</td>
<td>15957</td>
<td>18429</td>
<td>21909</td>
<td>27080</td>
<td>NA</td>
</tr>
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</table>

Source: NABARD

An analysis of table 3.3 shows that there are 14,085 co-operative banks in 1997-97 and this number had increased to 35,111 in 2000-03. The co-operative banks provided 44 per cent of agricultural loans 1997-98 and it share declined to 39 in 2001 and again increased to 43 in 2000-03. During 1997-98 the short-term loans provided by the bank are Rs. 10,895 crores and it increased to Rs. 24, 711 crores in 2000-03. The percentage of short-term loans to the agricultural loans was 77.45 per cent in 1997-98 and increased to 88.4 per cent in 1999-2000 and again declined to 70.37 per cent in 2002-03. The
medium and long-term loans are less than the short-term loans. They constituted 56 per cent in 1997-98 and 57 per cent in 2000-03.93

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<tr>
<td>1</td>
<td>Commercial Banks</td>
<td></td>
<td>56.0</td>
<td>57.0</td>
<td>62.0</td>
<td>63.3</td>
<td>66.1</td>
<td>66.8</td>
<td>NA</td>
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<tr>
<td>2</td>
<td>Co-operative Banks</td>
<td></td>
<td>57.0</td>
<td>62.0</td>
<td>61.0</td>
<td>61.0</td>
<td>60.0</td>
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<td>NA</td>
</tr>
<tr>
<td></td>
<td>State Coop. Agriculture. &amp; RDBs</td>
<td></td>
<td>59.0</td>
<td>67.0</td>
<td>61.0</td>
<td>61.0</td>
<td>56.0</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>Primary Coop. Agriculture. &amp; RDBs</td>
<td></td>
<td>89.0</td>
<td>90.0</td>
<td>90.0</td>
<td>86.0</td>
<td>81.0</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>District Central Coop. Banks</td>
<td></td>
<td>64.0</td>
<td>70.0</td>
<td>69.0</td>
<td>70.0</td>
<td>70.0</td>
<td>70.0</td>
<td>69.24</td>
</tr>
<tr>
<td>3</td>
<td>Regional Rural Banks</td>
<td></td>
<td>46.0</td>
<td>51.0</td>
<td>55.0</td>
<td>57.0</td>
<td>61.0</td>
<td>64.0</td>
<td>NA</td>
</tr>
</tbody>
</table>


An analysis of table 3.4 shows the recovery of agricultural loans issued by various financial institutions during 1993-94, 1998-99. The table reveals that the loan recovery by co-operative banks was 57 per cent in 1993-94 and it improved to 60 per cent in 1997-98. The state co-operative agriculture and rural development banks recovered 59 per cent in 1993-94 and 56 per cent in 1997-98.

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The performance is better with the regard to primary co-operative agriculture and rural development banks. It was 89 per cent in 1993-94 but it has declined to 81 per cent in 1997-98. The recovery was 64 per cent in the case of district central co-operative banks in 1993-94 and 70 per cent in 1998-99. When we compare the recovery situation of co-operative institutions with commercial banks and RRBs, we observe that commercial banks recovered better followed by RRBs. Commercial banks recovery was 56 per cent in 1993-94 but 66.8 per cent in 1998-99. Similarly RRBs recovery was 46 per cent in 1993-94 but 64 per cent in 1998-99. So RRBs and commercial banks performed well with regard to recovery of loans in the recent times where as co-operatives are lagging behind.

3.2.2.8 Growth and Working of Co-operatives In Andhra Pradesh

Basing on Hazari committee (1985) and Ardhanareeswaran committee on the integration of the two wings of the co-operatives credit system, the Government of Andhra Pradesh with the approval of the Government of India recognized the co-operatives under Single Window Co-operative Credit Delivery System (SWCCDS) during April 1987.

In A.P. there exists a three – tier structure consisting of Primary Agricultural Credit Societies (PACSs) at the village level, Co-operative Central Banks (CCBs) at the district level and Andhra Pradesh State Co-operative
Bank (APSCB) at the apex level, L.T credit is provided by the Land Development Banks (LDBs), which have federal structure.

The SWCCDS had mitigated the problems of farmers and to strengthen the co-operative agricultural credit structure in the state. The then existing 6,5,62 PACSs were reorganized into 4565 viable but now 4,678 (1998-1999) societies. The 27 DCCBs were reorganized into 22. The PCCADB was merged with the APSCB in April 1994 only with the approval of the Government of India.

The reorganized credit and marketing structures under the SWCCDS started functioning in right earnest and substantial progress has been achieved in the advancement of Short-term, Medium-term & Long-term loans through DCCBs and PACSs. There is now complete fusion of Short-term, Medium-term and Long-term credit structures up to the district level legally, financially and operationally. The personal of both the streams are now working under one roof in the integrated DCCBs.
3.2.2.8.1 Performance of PACSs in Andhra Pradesh

The PACSs are the vital rural financial institutions in meeting the credit requirements of farmers for agriculture and allied activities. As per table 3.4 the number of PACSs increased from 28,675 in 1998-1999 to 31,233, 2001-02.
Membership increased from 20.20 per cent in 1998-99 to 18.16 per cent 2002-03. The Paid up capital increased from 73,158,00 to 68,76,500 in 2002-03. Loan advances increased from 6,61,797 to 3,955,080 lakhs in 2002-03. The loan outstanding was 9,52,130 lakhs and 5,52,159 lakhs in 2002-03. The loan outstanding is seems to be low.

The DCCBs provide the key linking in the three-tier co-operative credit structure in state. The success of PACSs and the apex banks depends on the strength and the efficiency of operations of DCCBs. A sound and strong DCCB is capable of providing the required financial assistance to PACSs and also support the apex banks in ensuring greater flow of credit from the NABARD.

As federating institutions of PACSs, the DCCBs have an important role to play in guiding, supervising and even directing the financial operations of PACSs. The responsibility of providing timely and adequate credit to members through PACSs, both crop and investment loans and promoting and funding for storage and marketing facilities rests with DCCBs. The flow of the NABARD funds depends primarily on the fulfillment of financial discipline by the ADCCB and its capacity to absorb at least a certain amount of verdures from its own resources. As the success of co-operative credit in a district depends on
the success of the DCCS, it is essential to ensure that its financial base is strong and the operations are efficient.

TABLE 3.5
Working Of Primary Agricultural Credit Societies Including Farmers Service Societies In Andhra Pradesh (Rs. In Lakhs)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1</td>
<td>Number of co-operative societies</td>
<td>28,675 (19.20)</td>
<td>30,021 (20.09)</td>
<td>30,621 (20.49)</td>
<td>31,233 (20.90)</td>
<td>28,882 (19.32)</td>
</tr>
<tr>
<td>2</td>
<td>Membership (000’s)</td>
<td>22,104 (20.20)</td>
<td>22,058 (20.14)</td>
<td>22,499 (20.54)</td>
<td>22,949 (20.90)</td>
<td>19,889 (18.16)</td>
</tr>
<tr>
<td>3</td>
<td>Paid of Capital</td>
<td>73,158 (15.56)</td>
<td>1,07,801 (22.93)</td>
<td>1,09,956 (22.39)</td>
<td>1,10,406 (23.49)</td>
<td>68,765 (14.63)</td>
</tr>
<tr>
<td>4</td>
<td>Working Capital</td>
<td>11,81,878 (18.50)</td>
<td>14,67,480 (23.00)</td>
<td>14,96,830 (23.43)</td>
<td>15,26,767 (23.90)</td>
<td>7,15,396 (11.27)</td>
</tr>
<tr>
<td>5</td>
<td>Loans Advance</td>
<td>6,61,797 (21.05)</td>
<td>6,81,650 (21.70)</td>
<td>6,95,283 (22.12)</td>
<td>7,08,989 (22.55)</td>
<td>3,95,508 (12.58)</td>
</tr>
<tr>
<td>6</td>
<td>Loan Out Standings</td>
<td>9,52,130 (21.13)</td>
<td>9,80,694 (21.77)</td>
<td>10,00,308 (22.20)</td>
<td>10,20,314 (22.65)</td>
<td>5,52,159 (12.25)</td>
</tr>
</tbody>
</table>

Source: Co-operative Societies Department.
Note: Percent in Bracket.

There were two apex co-operative banks in Andhra Pradesh prior to 1963. They are

1. The Andhra State Co-operative Bank (ASCB) with its headquarters at Vijayawada with 15 DCCBs in Andhra area (Rayalaseema & Circar areas)

2. The Hyderabad Co-operative Apex Bank with its headquarters at Hyderabad with 11 DCCBs affiliated to it in Telangana area.
However the RBI considered the effect of the states Reorganization Act, 1956 on the jurisdiction of the apex societies, and decided to have only one apex bank for each reorganized state. Accordingly, the aforesaid banks were amalgamated on 4th August 1963 and formed into the Andhra Pradesh State Co-operative Bank (APSCB) with its headquarters at Hyderabad. The APCCADDB was merged with APSCB in April 1994.94

3.3 Commercial Banks and Agricultural Credit

In spite of the fact that agriculture plays a crucial role in the development process, we could not achieve desired progress even after five decades of developmental process. It is unfortunate to note that the agricultural performance is in utmost depressed conditions due to several severe problems. One such problem is inadequacy of capital input. Even the capital that is available meagerly available, is not properly and timely distributed to the farmers. Whatever capital is supplied to the farmers is at abnormal rates of interest. One of the reasons for the ongoing increase of suicides year after year, is the vicious circle of debt.

It is true that there are large numbers of moneylenders in the country who provide capital for agriculturalists in the rural areas. But they charge very abnormal rate of interest. In order to save the farmers from the clutches of these moneylenders, financial institutions such as commercial banks, cooperative banks came into existence. Cooperative bank is one of the financial institutions that provide finance through the system of cooperative banks.

For a long period of time the share of CBs in agricultural credit was meager. For instance, it was only 0.9 per cent in 1951-52 and 0.7 per cent in 1961-62. The insignificant participation of CBs in rural credit in India is partly explained by the subsistence unorganized nature of agriculture. Moreover, the heavy dependence of agriculture on monsoons makes it an uncertain and risky venture. As against this, the industrial sector is relatively more organized and less dependent on natural factors. Consequently the commercial banks tended to concentrate on the industrial sector and even diverted the funds mobilized from rural areas to meet the demand for credit of the industrial sector raised the incomes of farmers. Commercial Banks developed confidence in the repayment capacity of farmers. However with the introduction of the social control measures, there came the realization in the part of the commercial banks that it was no longer possible for them to keep away from agriculture, a prominent sector in Indian economy. They provided various schemes to provide assistance to agriculture. Gradual shift of Indian farming to
commercial farming, growth of allied activities 14 major CBs were nationalized in 1969. This was followed by the nationalization of 6 more banks in 1980. Commercial banks provide financial assistance to agriculture directly as well as indirectly. In an indirect way, they provide funds to cooperative credit societies, processing and marketing societies. Direct finance is provided to the farmers for agricultural operations for short and medium periods.

3.3.1 Village Adoption Scheme

State Bank of India conceived "village adoption scheme" as per the guidelines of RBI. The intention was to do intensive financing in the rural areas. The scheme was meant to cover all the farmers without exception in a phased manner.

3.3.2 Lead Bank Scheme (LBS)

In October 1968, the Govt. of India constituted a study group under the chairmanship of Dr. Gadgil to recommend an appropriate organizational framework for the effective implementations of social objectives of the banking system. The study group suggested area approach with the district headed by F.K.F. Nariman as a unit. In August 1969, RBI appointed a committee of bankers headed by F.K.F. Nariman to suggest a coordinated program to establish adequate banking facilities in the unbanked districts of the country. As recommended by the Nariman Committee, the RBI evolved the
Lead Bank Scheme, which came into force in 1969. As per this scheme, specific districts are allotted to each bank which would take a lead role in identifying the potential areas for banking development and in expanding the credit facilities.

The lead bank is not a monopolist in the banking business but acts as a consortium leader for coordinating the efforts of all financial institutions operating in the district. Lead banks played a vital role in achieving expansion of the branches of commercial banks in each district. The participated actively in the meetings of the district consultative committees in preparing the district credit plans which were blue prints for action by banks with focus on overall development of the district. Where as 1832 were rural branches out of 8262 total branches in 1969, it increased to 32200 rural branches out of 67062 total branches i.e., 48 per cent in June 2004. Similarly, direct credit to agriculture was only Rs.40 crores in 1969, which was increased to Rs.52441 crores in 2003-04.

Increased credit increased purchase of agricultural inputs and adoption of new agricultural technology on an increasing scale, expansion of activities in the non-farm sector in rural areas and also accelerated the pace of private agricultural investment. For eg. A study by Binswanger et.al shows that rapid branch expansion in India increased the fertilizer demand by about 23 per cent, investment on tractors by 13 per cent, investments in pumps by 41 per cent,
milk animals by 46 per cent and draft animals by 38 per cent\textsuperscript{95}. Under the Reserve Bank's Service Area Approach too rural lending in operation since April 1989, individual bank branches are expected to serve the credit needs of 15 to 25 villages each. After carrying out surveys and preparing village wise economic profiles, bank branches have been preparing credit plans for their villages in service areas. Block level bankers' committees have been constituted for coordination among credit institutions and developmental agencies and for monitoring the implementation of the credit plan. Each bank has also been preparing Special Agricultural Credit Plan, segregated in to quarterly targets, which is monitored by the Reserve Bank of India.

3.4 Regional Rural Banks

The 20-point economic program aimed at inter alia, devising alternative agencies to provide institutional credit to lenders laborers, rural mall and marginal farmers and agricultural laborers etc. responding to this, the Govt. of India set up a committee on July, 1975 under the chairmanship of Sir M. Narasimham. The committee recommended setting of the state sponsored, region based and rural oriented commercial bank, called regional rural banks. Accordingly the E-net established through an ordinance on September 26, 1975 five regional rural banks in five select districts.

The five RRBs opened at Moradabad (UP), Ghorakpur (UP), Malda (WB), Bhiwani (Haryana) and Jaipur (Rajastan) were sponsored by Syndicate Bank, State Bank of India, United Bank of India, Punjab National Bank and United Commercial Bank.

The objectives of RRBs are:

1. To develop rural economy
2. To provide credit for agriculture and allied activities
3. To discourage village industries, artisans, carpenters, crafts men etc.
4. To reduce dependence of weaker sections on moneylenders
5. To fill up the gap created by moratorium on borrowings from moneylenders.
6. To help the poor financially for their consumption needs; and
7. To make backward and tribal areas economically better by opening new branches.

RRBs are sponsored by commercial banks. The operational area to be covered by each RRB varied from one to two districts and each RRB covers about 50 branches, keeping in view the operational and financial efficiency.
The authorized share capital of each RRB was Rs. 1 crore and issued capital was fixed at Rs. 25 lakhs. The central government, the state government and the sponsoring bank contribute capital in the ratio of 50:15:35 respectively. The authorized capital was increased to Rs. 5 crores. And the issued capital was raised to Rs. 1 crore to improve viability.

The RRBs collect interest at the rates charged by PACs. They are permitted to offer 0.50 per cent more interest than the commercial banks.

The RRBs were granted certain concessions in order to conduct smooth business in the initial stages of their development. Some important concessions are:

1. They were allowed to maintain CRR and SLR at lower rates than the commercial banks.
2. They are provided refinance facility through NABARD.
3. They are allowed to offer interest on deposits half per cent more than the rate offered by commercial banks.
4. They are permitted to charge interest on loan at the rate charged by the PACs.
5. The Deposit Insurance Corporation of India extended an insurance cover up to Rs. 10,000 on deposits with RRBs.
The working group on rural banks (1975) recommended the establishment of regional rural banks (RRBS) to supplement the efforts of the commercial banks and the co-operatives in extending credit to weaker sections of the rural company – small and marginal farmers, land less labour, land less labour, artisans and other rural residents of small means. The intention in having these new banks was there should, in the Indian context, be an institutional device, which combined the local feel and familiarity with the rural problems, which the co-operatives possessed, and the degree of bossiness organisation and modernizations out look

At present (2003-04) there are 196 RRBs providing Rs.7581 crores as credit to the agricultural sector. This was 8.7 per cent of the total institutional credit to agriculture in that year.

3.4.1 Problems of RRBs

There are many problems associated with RRBs with regard to organization, recovery, non-availability, management etc., Each RRB is sponsored by CB and hence lacks uniformity in their functioning. Also it lacks support from the state govt. It is restricted to specific target groups and the lending procedures to vary very widely. Unplanned and unwieldy growth of bank branches compounded organizational problems. The recovery position of RRBs is very bad ranging from 51 to 61 per cent. The overdues varied between
39 to 49 per cent. Many RRBs had shown losses also. Since the profit margins coupled with the service is very small, non-availability of competent and trained staff also posed serious problems.

The RRBs have an important role to play as a part of multi agency approach and as an instrument of income distribution in rural areas. They are the fruit full exercise in banl led rural growth. To solve the problem of losses of RRBs and improve their viability, efforts have been made in recent years to restructure their operation and infuse fresh capital into them.

3.4.2 Vyas Committee Report

The credit flow to agriculture and allied activities during the 10th plan period is projected at Rs.7,36,570 crore which is more than the credit flow of Rs. 229956 crores in the 9th plan. The total credit flow to agriculture during the first 3 years of 10th plan was 2,66,291 crore. Hence there is a big gap to be achieved in the remaining two years of the plan. In order to push up agriculture credit, the RBI constituted an advisory committee on flow of credit to agriculture and related activities from the banking system under the chairmanship of VS Vyas, which submitted its final report in June 2004. The committee recommendations are as follows.

96 TK. Vaidyanadham and V Sankara narayanan (1990), “regional rural banks and rural credit: some issues, epw, September 22nd
• To review mandatory lending to agriculture by CBs to enlarge direct lending programmes.

• To increase direct agriculture lending to 12 per cent to 13.5 per cent for next two years and there after to 18 per cent

• To increase disbursements to small and marginal farmers under special agriculture credit plan to 40 per cent at the end of March 2005 by the banks

• SACP to be restricted to direct lending and extended to private sector banks

• To enhance the cost effectiveness of agriculture loans.

• Non-Performing asset norms for agriculture credit to be aligned with crop seasons.

• Credit flow to small borrowers too be improved thru reduction in cost of borrowing, recovering credit packages adopting implication procedures and involving Panchayath raj institutions

• The Service Area Approach to be modifies to remove rigidities making it mandatory only for govt sponsored programmes
The following steps taken by RBI in June 2004 to enhance agriculture credit:

1. Increase agriculture credit to 105000 crores in 2004-05 as against 86981 in 2003-04, out of which CBs – 57000 crores, coops- 39000 and RRBs – 8500 crores.
2. Energizes branches of coops and RRBs to enhance the flow agriculture credit.
3. To increase the target of 50 lakh new borrowers under special agriculture credit plan during 2004-05.
4. Financing at least 2 to 3 investment projects by each branch in plantation, horticulture, fisheries, organic farming etc.,
5. Financing of at least 10 agro clinics in each district during 2004-05.
6. Providing credit to tenant farmers and oral lessees.
7. Revisiting of scale of finance and re-alleging the same to meet the realistic needs of the farmers.
8. Special packages to promote technological upgradation in agriculture agro process and agric-bio tech.
9. Debt restructuring as opposed to debt write offs.

In the union budget 2005—06 the finance minister proposed an increase of another 30 per cent in flow of agriculture credit from CBs, RRBs and coop

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banks for the year 2005-06. The public sector banks were also asked to increase the number of borrowers by another 50 lakhs.

As per the agenda of its Common Minimum Program (CMP), the UPA Government planned to double agricultural credit by 2007. The agricultural credit has been growing at a healthy 17-18 per cent in the last three years. Rs1,085 bn would be disbursed in the current fiscal - a growth of 25 per cent over the previous year. The credit flow has targeted to be increased by another 30 per cent for 2005-06.

3.5 NABARD

National Bank for Agriculture and Rural Development (NABARD) or National bank was set up in July 1982 by an Act of Parliament. The National Bank took over the functions of ARDC and the refinancing functions of RBI, in relation to co-operative banks and RRBs. The NABARD is linked organically with the RBI.

The authorized share capital of NABARD was Rs. 500 crores and its paid up capital was Rs. 100 crores. RBI and the Government of India contributed equally. The paid up capital was raised to Rs. 2000 crores. It raises funds from Government of India, World Bank and other agencies, market and also uses the resources of National Agricultural (long term operations) and stabilization funds.
3.5.1 Functions:

As an Apex Institutions, NABARD performs all the functions performed by the RBI with regard to agricultural credit. At the same time it performs the functions of ARDC. Thus it plays a dual role.

The functions of NABARD can be stated as follows:

1. It serves as refinancing institutions with a view to promoting integrated rural development.

2. It provides short-term, medium-term and long-term credit to co-operative banks, RRBs, LDBs and other financial institutions approved by RBI.

3. It gives long-term loans to any institutions approved by the central government or contributes to the share capital or invests in securities of any institutions concerned with agriculture and rural development.

4. It gives long-term loan (up to 20 years) to state governments so as to enable them to subscribe to the share capital of co-operative credit societies.

5. It coordinates the activities of central and state governments, the planning commission and other all India and state level institutions entrusted with the development of small scale industries, village and cottage industry, rural crafts, industries in the tiny and decentralized sectors etc.
6. It has the responsibility to inspect RRBs and cooperative banks, other than primary cooperative banks and

7. It maintains a Research and Development Fund to promote research in agriculture and rural development to formulate and design projects and programs to suit the requirements of different areas and to cover special activities.

The purposes for which refinance is made available by the NABARD are;

1. Pilot rainfed forming projects (100per cent)
2. Waste land development schemes (100per cent)
3. Non-farm sector scheme (outside the purview of IRDP) (100per cent)
4. Agro-processing units (75per cent)
5. Bio-gas (75per cent)
6. All other schemes include IRDP (70per cent)
7. Farm mechanization (50per cent)

3.5.2 Sources of Funds:

The authorized share capital of NABARD was Rs. 500 crores and its paid up capital was Rs. 100 crores; contributed equally by the central government and the reserve bank. The paid up capital of NABARD was raised to Rs. 500 crores and then to Rs. 2000 crores by the year 1999-2000. The resources of National Agricultural (long term operations and stabilizations) Fund stand transfers to NABARD. World Bank and IDA have been providing
funds to NABARD for implementation of the projects financed by them. In recent years there has been considerable improvement in the resource position of NABARD mainly due to

(a) Significant raise in the deposits under Rural Infrastructure Development Fund (RIDF) by commercial banks.
(b) Use of tax-free bonds through the issue of capital gains bonds and priority sector bonds.
(c) Acceptance of Priority sector deposits from private banks.

NABARD provides two types of refinance. The first is extended to RRBs, Apex Rural Credit Institutions, viz., and State cooperative banks. Second type of refinance is extended to provide resources from ground level deployment of rural credit. The second type is meant to increase ground level credit to finance short-term seasonal agricultural operations through credit cooperatives. Apart from short-term seasonal agricultural operations, NABARD provides refinance facilities for buying, stocking, and distribution of fertilizers and other inputs and for production and marketing activities of weavers' societies, industrial cooperative societies etc. during 2001-02 the aggregate refinance for these purposes was Rs. 12,000 crores.

Farm mechanization has been a major area of refinancing by NABARD. It is around 28 per cent of total refinance. NABARDs refinance assistance
under IRDP is specifically to help weaker sections of the rural community to undertake minor irrigation, dairy development, sheep, goat/piggery rearing, fisheries and small business etc. Land development, command area development (CAD), plantations and horticulture, poultry, sheep breeding etc. are more important schemes which are financed by the NABARD.

NABARD is playing an energetic role in strengthen and reorganizing the cooperative credit structure in the country. NABARD is also working towards an effective integration of cooperative credit institutions. NABARD has set up a cell to monitor implementation of functional coordination spheres. NABARD is constantly reviewing the rehabilitation program of those central cooperative banks which have been identified as weak and which were helped to rehabilitate themselves.

3.5.3 NABARD and Rural Infrastructure and Development Fund:

The union budget for 1995-96 proposed recreation of RIDF in NABARD with a corpus fund of Rs. 2,000 crores. With every successive budget RIDF was continued NABARD has initiated several measures to make the loans under RIDF more attractive and to increase the reach of such loans. This scope of projects eligible for IRDF loans has also been enlarge.
National Bank for Agricultural and Rural development (NABARD) was established on 12th July 1982 by an Act of parliament to promote sustainable and equitable agricultural and rural prosperity through effective credit support for related services, institutional development and other innovative initiatives. It is playing major role in facilitating credit flow for agricultural advancement and rural development. It promotes through supportive policies and innovations conducive to rural development. It is strengthening rural credit system through institutional development. It provides short-term credit to seasonal agricultural operations, medium term credit to crop losses due to natural calamities thru banks and co-operatives and Regional Rural Banks and direct credit to state governments for rural infrastructure development. It provides bulk lending for micro finance activities and promotional activities thru NGOs.

NABARD has developed several refinance and promotional schemes over the year that has been making constant efforts to liberalize and rationalize the schemes. The focus has been on greater flow of credit to small cottage, village industries, handicrafts and other rural crops. It provides both investment credit and production credit.

The success of planning largely depends on sound agricultural base. Indian planning commission has been giving priority and preference for
agricultural and rural development. During several plan periods, agriculture was given priority but unfortunately in spite of spending crores of rupees on agriculture it could not give the desired results. Both agriculture production as well as productivity remained at a very low level requiring immediate attention and priority.

The low agricultural production is associated with low investment in Agriculture. This led to less application of fertilizer, irrigation and other inputs. Because of low production purchasing power of the farmer is very low. Because of meager income the farmer cannot invest more and often forced to borrow money both from financial and non-financial institutions. Indian agriculture is unable to save much because of its subsistence level of living. He could not invest much for the development of crops, which will help him in increasing his income level. Indian farmer needs more credit so as to invest it and increase the yield. There are studies to show that the increase in the credit needs of the farmers will help to increase the output by 100 per cent or even more. There is every need for adequate credit facility in order to make investment adequately and make use of new implements, apply fertilizer but it cannot be just done with shortage of capital.

One of the main causes for the sorry state of affairs in agriculture is a lack of agricultural credit and credit providing agencies as compared to India n
industry. Even after five and half decades of developmental efforts the traditional moneylender is still the main source of credit for the Indian agriculture. Even though the institutional agencies providing agricultural finance since nationalization of banks in 1969 their role has not increased to the expected level. So there is need for providing credit by other agencies such as co-operative institutions, banks and government departments.

Credit is an important input for the development of agriculture. It is required in every type of business including agriculture. Agriculture is no exception in this case. Indian agriculture has got some special characteristics. India is a poor country and a large number of people lack the basic necessities of life such as food, shelter and clothing. The backward and subsistent economy forces them to borrow even to make a reasonable level of living. The credit has much importance at the present state of development since agricultural conditions are improving slowly and the economy is moving step forward. The new techniques and methods of cultivation are being applied. The high variety of input has increased. Both the fertilizer and pesticides are being used intensively. Intensive cultivation requires the adequate finance to get the maximum of the available resources. There is a need to turn Indian agriculture on commercial lines. The studies had proved that liberal credit has contributed a lot to increase productivity and productive efficiency. By over coming the problem of lack of investment in agriculture due to non availability
of credit facilities at a reasonable terms and conditions, agricultural
development suffered a lot and over coming this problem will help a lot in
taking the economy towards progress and development.

An observation of the characteristics of the Indian farmer shows that
they are in the vicious circle of poverty and low production. Liberal credit is
required to break this vicious circle. Investment in agriculture at the time of
sowing a development of the crops is needed since the farmer does not have to
meet the agricultural needs out of his own funds. The farmer needs credit that
can fulfill the productive and unproductive needs of farmers.

The Indian economy is backward and subsistence in nature. It is
difficult for the Indian farmer to invest from his own pocket especially for the
projects like installation tube well, purchase of tractor and other costly
machinery or making some other improvements on his farms. But on other
hand if he is given an adequate finance to invest for the development of
agriculture will show good results.
3.6 National Agricultural Policy:

The union government announced a national agricultural policy on July 28, 2001. The objective of the policy is to achieve the growth rate of over 4 per cent per annum. It aims at technological transformation of agriculture; remove bottlenecks in agriculture and institutional reforms. Some of the salient features of the policy are crop incurrance, seed crop incurrance scheme, status

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Table 3.6
Institutional credit to agriculture

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<td>Share (per cent)</td>
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<td>38</td>
<td>34</td>
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<td>28</td>
</tr>
<tr>
<td>3</td>
<td>RRB</td>
<td>3,172</td>
<td>4,219</td>
<td>4,854</td>
<td>5,467</td>
<td>7,581</td>
<td>9,176</td>
</tr>
<tr>
<td>4</td>
<td>Share (Per cent)</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>Commercial bank</td>
<td>24,733</td>
<td>27,807</td>
<td>33,587</td>
<td>41,047</td>
<td>52,441</td>
<td>52,038</td>
</tr>
<tr>
<td>6</td>
<td>Share (per cent)</td>
<td>53</td>
<td>53</td>
<td>54</td>
<td>58</td>
<td>60</td>
<td>61</td>
</tr>
<tr>
<td>7</td>
<td>Total</td>
<td>46,268</td>
<td>52,827</td>
<td>62,045</td>
<td>70,810</td>
<td>86,981</td>
<td>85,686</td>
</tr>
<tr>
<td>8</td>
<td>Per cent increase</td>
<td>26</td>
<td>14</td>
<td>17</td>
<td>14</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

Source: NABRAD

Diagram 3.1
Expected growth in agricultural credit

Source: RBI, India Infoline Estimates
paper on farm credit, self help groups, one time settlement scheme, Kissan credit scheme, scheme for agri-cinices, land purchase scheme for small and marginal farmers and produce pledge scheme.

There has been a steady increase in the flow of institutional credit to agriculture over the years. If the credit flows till December 2004 of the current year 2004-05 is any guide (the credit flow till December 2004 being only marginally less than the same for the whole of 2003-04), the institutional credit given by the banks to the agriculture sector in 2004-05 may substantially exceed the last.

Besides the existing facilities of providing crop loan, the scope of KCC scheme has been enlarged to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs. Further, to provide adequate and timely credit support from the banking system to the farmers for their cultivation needs and to improve farmers’ accessibility to bank credit for production purposes, the credit delivery mechanism is being simplified and more flexibility in the use of credit Kisan Credit Card (KCC) is being introduced.
3.6.1 Self-Help Group (SHG) Bank Linkages Programme

The SHG-Bank Linkages Programme has emerged as the major microfinance programme in the country. While 563 districts in all the States/UTs have been covered under this programme, 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks along with 3024 NGOs are now associated with this programme. The number of SHGs linked to the banks aggregated 1,276,035 as on December 30, 2004. Cumulative disbursement of bank loan to these SHGs stood at Rs. 5,038 crore as on the same date.

<table>
<thead>
<tr>
<th>Table 3.7</th>
<th>Number of Kisan Credit cards and amount sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sl. No</td>
<td>2001-2002</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>1</td>
<td>Agency</td>
</tr>
<tr>
<td>2</td>
<td>Coop. Banks</td>
</tr>
<tr>
<td>3</td>
<td>RRBs</td>
</tr>
<tr>
<td>4</td>
<td>Comm. Banks</td>
</tr>
<tr>
<td>5</td>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Computed
Table 3.8
Relative share of Borrowing of Cultivator Households from different sources (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-institutional</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>30.6</td>
</tr>
<tr>
<td>Of which moneylenders</td>
<td>69.7</td>
<td>49.2</td>
<td>36.1</td>
<td>16.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Institutional</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
<td>66.3</td>
</tr>
<tr>
<td>Of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-operative societies/banks</td>
<td>3.3</td>
<td>2.6</td>
<td>22.0</td>
<td>29.8</td>
<td>35.2</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>35.2</td>
</tr>
<tr>
<td>Unspecified</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: All India Debt and Investment Survey and RBI Bulletin, February 2000

3.6.2. Crop Insurance:

The national agricultural insurance scheme was introduced in 1999-2000, replacing the world comprehensive crop insurance scheme. This scheme aims at protecting farmers from crop failure on account of national calamities like drought, flood, cyclone, fire, pests, and diseases etc. and restore his credit worthiness for ensuring crop season. All farmers are eligible under this scheme.

3.6.3. Seed Crop Insurance Scheme:

The seed crop insurance scheme was introduced during 1999-2000. The scheme provides financial assistance to seed breeders to recover the risk factors in producing seeds, which could be damaged by unforeseen situations.98

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3.6.4. Status Paper on form Credit

The Union Agriculture Ministry prepared a status paper on form credit. It reveals that the efforts made to increase institutional share and reduce the share of informal sources such as moneylender, commission agency etc. But it remained more or less is same. It has called for several measures to strengthen the agricultural credit delivery system like rationalization of interest rates, further relaxation in collateral security and margin money, provision for risk mitigation, attention to credit starred sectors and rationalization of lending policies and procedures. The paper also called for diversification of credit portfolio to cover all crops, post harvest management, processing, marketing, storage, waste land development, minor irrigation, excercitation of agriculture, dryad forming, bio-technology, financing of small and marginal farmers, women, schedule castes and schedule tribes.

3.6.5. Self Help Groups:

The Self Help Group scheme is popular at present. As on March 31\textsuperscript{st} 2002, various banks in the country had dispersed Rs. 1,026 crores to more than 4.6 lakh self help groups with average dispersed of Rs. 22,240 per group. Since the introduction of the scheme by NABARD in 1992, repayment rate has been consistently above 95 per cent. The scheme has benefited 78 lakh families or about 4 crore poor people. The average loan per family was Rs.1316, 2001-02.
3.6.6 Kissan Credit Card Scheme (KCCS)

Kissan credit card scheme, very popularly called green card, was launched by NABARD in 1998-1999 to cover short and medium term credit needs. Green card was designed to follow simplified procedures to enable farmers to avail themselves of crop loans, as and when need arises.

The scheme is administered through a trio of Commercial Banks, Co-operative Banks and Regional Rural Banks. However, 37 Central Co-Operative Banks (CCBS) have all over the India in terms of total sanctioned through the KCCS. They envisaged coverage of all the short-term credit needs of the farmers including crop loan and other items of production credit and short-term requirements for non-farm activities. The idea behind this approach is to ensure that farmers get adequate credit to meet all their short-term needs through the single window of green card.

3.6.6.1. Salient features of the KCCS

1. Eligible farmers to be provided with Kissan card and a passbook or card – cum – pass book.

2. Revolving cash credit facility involving any number of withdrawals and repayments with in the limit.

3. Limit to be fixed on the basis of operational land holding, cropping pattern and scale of finance.

4. Card valid for 3 years subject to annual review.
5. As incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern etc.

6. Security, margin, rate of interest as per RBI norms.

7. Operations may be through issuing branch or at the discretion of bank, through their designated branches.

8. Withdrawals through slips or changes occupied by card and passbook.

3.6.6.2. Advantages of the KCCS

1. All eligible farmers could make of KCC.

2. Full year’s credit requirement of the borrower is taken care of.

3. Minimum paper work and simplification of documentation for drawl of funds from the bank.

4. Flexibility to draw cash and buy inputs from any source of choice.

5. Assured availability of credit at any time resulting in reduced interest burden on the farmer.

6. Sanction of the facility for 3 years subject to annual review and satisfactory operations and provision for enhancement.

7. Access to adequate and timely credit to farmers is the need of the hour.

8. Flexibility of drawing cashes from a branch other than the issuing branch at the discretion of the bank.

The numbers of Kissan credit cards issued and the amount sanctioned under the scheme have increased in each successive year since its inception of KCCS. The amount issued increased from Rs.3,606 crores in 1999-2000 to 10,537 crores in 2002-03. 99

3.6.7. Farmer Service Societies (FSS):

Since PACs were providing finance to affluent farmers and the small and marginal farmers were not very much benefited, the National Commission on Agriculture (NCA) strongly felt that separate societies for meeting the special needs of worker sections in rural areas were needed. It recommended constitution of Farmers’ Service Societies and the FSS were organized in the year 1971, on the line of cooperatives to provide integrated credit service to the weaker sections such as small farmers, marginal farmers, agricultural laborers and rural antigens. FSS are well-organized registered cooperative bodies. They supply all types of loans to weaker sections, supply requisite inputs and technical guidance and also encourage allied activities such as dairy, poultry, fisheries, farm forestry and other subsidiary occupations in rural areas. They also mobilize deposits and small savings through incentives.

3.6.8. Large sizes Adivasi Multipurpose Co-operative Societies (LAMPS)

LAMPS were organized for the first time in December 1971 based on the recommendation of the BAWA team appointed by the Govt. of India, in the tribal areas of the country. These societies were expected to provide through single window, all types of credit including consumption credit.