CHAPTER –III

AN OVERVIEW OF AGRICULTURAL SECTOR, FINANCIAL REQUIREMENTS, AVAILABILITY AND PROFILE OF THE STUDY AREA

This chapter gives an overview about the Agricultural sector in India its importance in the economy of the Nation and particularly the finance requirements and schemes available. This chapter also outlines the profile of the study area.

3.1. PROFILE OF AGRICULTURAL INDUSTRY

In developing countries like India, the agriculture sector assumes significance for a variety of reasons. It is still a source of livelihood for a majority of people in rural areas and there is a need for ensuring sustainability in these livelihoods. Recent Population Census (2011) reveals that there are 18.20 crore cultivators and agricultural workers. It is noteworthy that the agriculture/ rural sector provide demand for industrial goods and in India whenever agriculture sector has grown at the annual rate of 3-4 percent; other sectors have shown healthy growth. In fact, the required growth of productivity in agriculture means that more capital must be invested in it. Farmers’ need much more capital than they can afford to save and small and marginal farmers with meagre savings require a higher input of capital. Credit is a condition that enables a person to extend his control over his ownership of resources. Indian agriculturist is not only capital starved, but faces vagaries of nature too; irrigated agriculture is roughly 33 percent of total cropped area. Agriculture, thus is, a high-risk area.

It is also observed that Indian agricultures’ investments requirements fluctuate as incremental output ratios have varied significantly. In fact, it is not only the availability of credit but also the access to adequate institutional credit that matters, since most of those
who are engaged in agriculture belong to the marginal and small farmer categories.

Agriculture sector credit flow has been influenced by fallout of implementation of various accounting and statutory norms without taking into account the ground level realities, which led to irreparable damage to the rural financial architecture in the post liberalization era. The agriculture finance is being viewed as a risky proposition now. This has led to piquant situation where the share of small and marginal farmers in total credit flow has declined when share of this group of farmers in operational holdings over the period has increased. Besides, dalit and tribal farmers are largely observing declining share in credit flow. We encounter a situation when these farms have increased their contribution in agricultural production thereby immensely contributing to food security and attaining food self-sufficiency, the share in total credit has declined

3.2. NEED FOR AGRICULTURAL CREDIT

![Diagram]

Figure – 3.1 The agricultural credit cycle.
The role of an efficient system of rural credit is of utmost importance in a developing economy because of the following reasons:

1. Indian Agriculture is mostly in the hands of small peasants who are too poor to finance even their traditional agricultural operations, out of their own resources.

2. The adoption of new technology requires larger cash outlays which beyond the capacity of the majority of the farming population (besides the small farmers). Therefore, credit system should be improved further to meet the demands of farmers.

3. Artisans and agricultural labourers constitute the bulk of our rural population. They are also in the grip of poverty and have to heavily depend on outside borrowing for expanding their trades or for setting up new productive enterprises.

4. It is an accepted fact that the best way to reduce unemployment in the country, on a permanent basis, is to provide opportunities for self-employment to the unemployed people. Self-employment invariably requires the use of some productive physical assets for which the unemployed people will generally need financial assistance.

4. Marginal farmers constitute a significant part of the farming community in India.

The Government of India has initiated several policy measures to improve the accessibility of farmers to the institutional sources of credit. The progress with regard to flow of agricultural credit is given in the Table 3.1
TABLE 3.1

Progress in regard to flow of agricultural credit is given below: (Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>105000</td>
<td>125309</td>
</tr>
<tr>
<td>2005-06</td>
<td>141000</td>
<td>180486</td>
</tr>
<tr>
<td>2006-07</td>
<td>175000</td>
<td>229400</td>
</tr>
<tr>
<td>2007-08</td>
<td>225000</td>
<td>254658</td>
</tr>
<tr>
<td>2008-09</td>
<td>280000</td>
<td>287149</td>
</tr>
<tr>
<td>2009-10</td>
<td>325000</td>
<td>384514</td>
</tr>
<tr>
<td>2010-11</td>
<td>375000</td>
<td>468291</td>
</tr>
<tr>
<td>2011-12</td>
<td>475000</td>
<td>511029</td>
</tr>
<tr>
<td>2012-13</td>
<td>575000</td>
<td>308025</td>
</tr>
</tbody>
</table>

Year Target Achievement * 2013-14 700000 * As on 31 October, 201

Attempts should be made to meet the credit requirements of the farmers and artisans through institutional sources. Otherwise, they would approach private money lenders for loan and suffer from undue exploitation. The amount of credit required by farmers varies and depends upon various factors like types of crops raised, size of holdings and the number of family members.
3.3 GOVERNMENT POLICY TOWARDS PROVIDING FINANCIAL ASSISTANCE TO FARMERS

3.3.1 Development of Farm Sector

The Reserve Bank has been playing an important development role to ensure flow of institutional credit to the farm sector. Over the years, several innovative schemes have been formulated with this objective.

3.3.2 Committee of Flow of Credit to Agriculture

The one-man Committee (under the Chairmanship or SIM, R.V. Gupta, Deputy Governor Retd.) of the bank appointed by Reserve Bank of India submitted its report during 1997-98. The committee's recommendations relating to several procedural modifications in respect of agricultural credit were advised to banks for implementation. These included greater flexibility and discretion to the lending banks in matters of collateral, margin, security, dispensing with no dues certificate, introduction of a composite cash credit limit to cover farmer's production, post-harvest and household requirements, etc.

3.3.3 Rashtriya Krishi Bima Yojana (RKBY)

From the 1999 crop season, the Government has introduced the RKBY Scheme.

The main objectives of the scheme are to provide:

- Insurance cover and financial support to farmers in the event of failure of any of the notified crops as a result of natural calamities, pests and disease.
  - To encourage farmers to adopt progressive farming techniques, high value inputs and higher technology in agriculture.
  - To stabilize farm incomes, particularly in disaster years.
3.3.4 Agricultural Projects

Corporate have evinced interest in the development of high-tech activities like aquaculture, floriculture, tissue culture, horticulture, bio-technology, etc. and demand is being made on banks to finance them. Though profitable, these projects involve high risk and require a higher level of appraisal and monitoring skills on the part of banks. In order to adequately deal with such schemes, banks have been asked to set up at least one specialized Agricultural Finance Branch in each State.

3.3.5 Special Agricultural Credit Plans (SACPs)

In order to show a distinct and marked improvement in the flow of credit to agriculture, public sector banks were advised in 1994-95 to prepare Special Agricultural Credit Plan on an annual basis. Targets under these are fixed by the banks on an annual basis and progress in achievement reviewed by Reserve Bank of India.

3.3.6 Priority Lending-Non-Farm Sector

The Bank formulates operational policies, strategies and procedures and issues instructions / guidelines to banks regarding providing credit for manufacturing, production, processing, marketing and distribution in regard to various segments of the priority sector.

3.3.7 Rural Planning and Credit Department

Consequent upon the transfer of some functions of the Reserve Bank of India relating to rural credit to the National Bank for Agricultural and Rural Development (NABARD) the Rural Planning and Credit Department (RPCD) was set up with effect from July 12, 1982.

The Rural Planning and Credit Department looks after the work and responsibilities arising as a result of amended section 54 of the Reserve Bank of India Act, 1934.
The core activities of Rural Planning and Credit Department include

- Formulation of policies relating to priority sector advances
- Assessment of quantitative and qualitative performance of commercial banks in lending to priority sector and weaker sections and under special poverty alleviation programmes.
- Monitoring the implementation of Land Bank Scheme and Services Area Approach
- Providing financial support to National Bank for Agricultural and Rural Development and generally guiding and advising it on matters concerning rural credit and
- Ensuring that the State and Central Co-operative Banks as well as Regional Rural Banks (RRBs) comply with the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and the rules framed under these Acts.
- The policies governing commercial banks lending to the priority sectors of the economy and the definitions of priority sectors are laid down by the Department in coordination with the Government of India as also in consonance with the general credit policy pronouncements made by the Reserve Bank. The Department closely monitors the banks' performance sector-wise to ensure that they meet the targets fixed by the Bank.

The Rural Planning and Credit Department has 16 regional offices and a cell at Nagpur under the Mumbai regional office.

The small farmers cultivate viable farms, and the marginal farmers cultivate non-viable farms. Many empirical studies suggest that the cultivation in non-viable farms will result in many difficulties in adopting the latest agricultural technology. With the advent of
new farm technology, the need for external finance on the part of various farmers, especially the marginal and small ones, has immensely increased. The Government came out with minimum support prices and procurement of agricultural commodities and expanded the storage, marketing and distribution of food grains at the national level. The National Commission for farmers has suggested a five point action plan for the revival of agriculture.

The commission emphasizing the importance of agriculture and farmers in our economy states: "Agriculture in our country is based on the technology of production by the masses. As a consequence, it is the backbone of the national livelihood security system."

Credit needs of the farmers can be examined from two different angles.

(i) On the basis of time

(ii) On the basis of purpose.

The Reserve Bank of India has been playing an important development role to ensure flow of institutional credit to the farm sector. Over the years, several innovative schemes have been formulated with this objective. The innovative schemes are dealt at length.

![Figure 3.2: Traditional and modern lending approaches.](image-url)
3.4. AGENCIES OF RURAL CREDIT

Sources of agricultural finance can be categorized to two groups namely the
(a) institutional sources and
(b) the non-institutional sources.

Institutional sources include the government, the commercial banks, the cooperative
credit institutions, various agricultural finance corporations. Regional Rural Banks, the
National Bank for Agricultural and Rural Development etc. Non-institutional sources, on the
other hand, consist of the private money lenders-professional and agriculturists, commission
agents, relatives, land-lords, etc. the relative position of various institutions or individuals, as
a source of lending has been changing over time as has been shown in table 3.2.

Table 3.2 shows that the institutional finance has become relatively more important
with the passage of time so far as rural borrowers are concerned. In 1961-62, the non-
institutional sources occupied a very significant position as lenders to rural people, having
83% of the total amount advanced as their share. Their share, however, declined to 71% in

3.4.1. Money-Lenders

There are two classes of money-lenders in rural areas — professional as well as
agricultural money-lenders. Agricultural moneylenders combine farming with money-
lending but farming is their primary business and money-lending, a side business.
Professional moneylenders, as their name implies, have money-lending as their major
profession. Till independence money-lenders dominated the rural scene in the sphere of
agricultural credit. Farmers borrowed for both productive and non-productive purpose from
them. In recent years, the important of money-lenders has declined in the sphere of rural finance. In 1951-52, money-lenders supplied 70 percent of the total amount borrowed by farmers. According to survey conducted by Reserve Bank of India in 1961-62, money-lenders provided nearly 61 percent of rural credit. By 1971, however, the share of the money-lenders in rural finance had fallen further to 42%. It went down to 23% in 1981 and declined further thereafter. It was only 17.6% in 1991. However, their share in rural credit in the year 2001, was found to have increased again to 29%. The main reason for this was that commercial banks closed many of their branches in the rural sector during 1990s because of their unprofitable operations.

There have been many reasons for the predominance and popularity of the money-lenders in rural areas, especially before independence. The major reason for the predominance of the money-lenders in the pre-independence and for a pretty long time, in the post-independence era was the fact that the institutional sources of rural credit were not well developed. In the absence of commercial banks and the co-operatives in the field, the money-lenders were bound to be approached as the major source of credit.


**TABLE 3.2**

PERCENTAGE OF DEBT OWED TO DIFFERENT AGENCIES BY RURAL HOUSEHOLD (AS ON 30TH JUNE)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
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<tr>
<td><strong>Institutions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Co-operatives</td>
<td>0.3</td>
<td>2.2</td>
<td>28.0</td>
<td>33.7</td>
<td>38.2</td>
<td>41.6</td>
</tr>
<tr>
<td>2) Commercial</td>
<td>82.7</td>
<td>70.8</td>
<td>38.8</td>
<td>36.0</td>
<td>34.5</td>
<td>33.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non institutions</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Money lenders</td>
<td>60.8</td>
<td>36.9</td>
<td>23.4</td>
<td>17.6</td>
<td>12.2</td>
<td>10.8</td>
</tr>
<tr>
<td>2) Others</td>
<td>21.9</td>
<td>33.9</td>
<td>15.4</td>
<td>18.4</td>
<td>19.8</td>
<td>20.1</td>
</tr>
</tbody>
</table>

It has been suggested that in order to save the farmers, especially the small and marginal farmers from the socio-economic grip of the money lenders as well as of the commission agents, the institutions concerned with rural finance, should pay off the loans advanced to these farmers by the money-lenders/commission agents and then get back these loans from these farmers on easy terms. The suggestion needs due consideration.

In July, 2007, a panel set up by the Reserve Bank of India, pointed out that the money-lenders was charging an extremely high rate of interest ranging from 24% to 48% per annum, from the farmers. It recommended that this rate should be linked to 11% rate of interest charged by the commercial banks and the money lenders should be allowed a reasonable mark up over this rate. It also recommended that the money lenders may be advanced loans by the commercial banks, at the rate of 11% of interest per annum and that they may be permitted to advance these loans to farmers as a fixed higher rate of interest.
3.4.2. Co-Operative Credit Institution

Co-operative finance is the best and the cheapest source of agricultural credit because loans are advanced for productive activities and also at very low rates of interest as compared to those charged by the money-lenders and various other institutions. There are separate co-operative institutions for advancing short-term and medium-term loans not only the Co-operative Credit but also the long-term loans on the other. Whereas the primary agricultural co-operatives credit societies generally advance short-term and medium term loans to the farmers, the primary land development banks look after long-term financial requirements of the farmers. The performance of Co-operative credit institutions is shown in detail in the following paragraphs:

(i) **Primary Agricultural Co-operative Credit Societies (For Short-term and Medium-term loans)**

These societies act as the foundation of the co-operative structure for short and medium-term loans. These are located in the villages. At the district level, their activities are supervised and co-coordinated by the central co-operative banks. The State co-operative bank acts as the apex body of the co-operative structure at the State level.

Under the present situation when demand for agricultural credit has immensely increased due to new agricultural strategy, the co-operatives happen to be one of the major sources of institutional finance for the rural sector.

According to Vaidyanathan Committee report (2006), there are, at present, 112309 primary agricultural co-operative credit societies, 367 district co-operative banks and 30 state co-operative Banks in India. Total membership of the cooperative societies is estimated
to be about 120 million. Only 50% of the members have actually availed themselves of the credit facilities provided by these societies.

(ii) Land Development Bank (For Long-term Co-operative Credit)

The agriculturists require not only short-term credit to meet his current financial needs but also long-term credit for land development, purchase of machinery and the repayment of old debts. Of late, in the context of agricultural development, the simply of long-term credit to the agriculturists. Like the short-term finance provided by agricultural credit co-operative societies, loans advanced by land development banks are cheaper and their repayment is spread over a number of years. These banks were formerly known as Land Mortgage Banks. These, too, are organized on co-operative basis.

The Land development banks have a two-tier structure with central land development banks at the state level and primary land development banks at block / district levels. The primary land development banks get necessary funds for lending onwards to the farmers, from the central Land Development Banks, which in turn get their financing funds through sale of debentures to various institutions like State Governments, Reserve Bank of India, L.I.C., Commercial Banks etc. The Central Land Development Banks also get loans from NABARD for purposes of refinance. In recent years, these banks have registered considerable progress.

During the year 2005-2006, the co-operatives (agricultural primary societies and the Land Development Bank taken together) had advanced a total of Rs.39404 crores as short-term, medium-term and long-term loans to the agriculturists.
3.4.3. National Co-operative Development Corporation

This institution was set up in 1963 with the objective of promoting various economic programmes in the co-operative sector. These programmes include poultry farming, fisheries, sericulture, dairy farming etc. It provides financial assistance to the co-operative societies for this purpose.

3.4.4. Government

The Government, both at the Centre and in the States, has been an important source of rural finance for short period as well as for long period. The government provides finance to farmers directly as well as indirectly. The loans which are advanced by government to farmers directly are called "Taccavi" loans and are advanced by Government in times of distress or emergency such as wears, floods, earthquakes or famine. These loans are advanced through the agency of community development or revenue departments or co-operatives. The Government also provides finance to farmers indirectly for short as well as for long period through the co-operative credit societies and primary land development banks. It guarantees the debentures issued by Central land development banks and gives subsidies to state co-operative banks to enable them to meet the credit requirements of farmers.

The loans directly advanced by the government not very popular among the farmers because of inadequacy of amount, inequality in distribution, delay in grant of loans, inconvenient time for recovery, inefficient administration and the strictness with which such loans are recovered.

3.4.5. Commercial Banks

Before the nationalization of 14 major commercial banks in 1969 agriculture was an unknown field to the commercial banks. (Incidentally 6 more banks were nationalized in
April 1980). Since nationalization, special efforts have been made to increase the involvement of public sector banks in the development of agriculture and other activities in the rural areas.

In 1969, the commercial banks were providing only 1.6% of the rural institutional credit. Since then, their share has been consistently rising. In fact, since 1990-91, their share in the institutional finance for the agricultural sector has been quite often higher than the share of the co-operatives. In 2005-06, the commercial banks had directly advanced Rs.125859 crores as short-term, medium-term and long-term loans to the agriculturists.

At present, the commercial banks are mandated to earmark 18% of their total annual lending, to agricultural sector, as part of priority sector lending.

3.4.5. (a) Regional Rural Banks (sponsored by commercial banks)

A working group which was set up by the R.B.I. to assess the extent of requirement of rural credit, pointed out that in spite of the commendable performance of commercial banks in extending credit to agriculture, it was not more than 6 per cent of total commercial credit and that non-institutional credit accounted for nearly two-thirds of total agricultural credit in 1974. It was also brought to notice that the benefits of co-operatives have not been extended to 'small and marginal farmers. It is for these reasons the Government decided to set up Regional Rural Banks.

The Government of India proposed to set up 50 regional rural banks in various parts of the country by April 1, 1977, subject to manpower constraints. Each regional bank was to have an authorized capital of Rs.1 crore and a paid-up capital of Rs.25 lakhs. The share capital was to be raised by the government of India, the concerned State government and the sponsoring bank in the ratio of 50:15:35. There was to be no participation of other
institutions and individuals in the equity capital of regional rural banks. On Oct 2, 1975, five regional rural banks were set up. These banks were set up in a backward or a tribal area where the coverage by commercial or co-operative banks was rather poor.

In 1977, Reserve Bank of India set up a Committee under the chairmanship of M.L. Dantwala to review the working of the regional rural banks. The committee felt that the setting up these banks was a step in the right direction.

Mostly, these banks grant loans for productive purposes but a small proportion can also be earmarked for consumption purposes like education or medical expenses. Since 22.3.1997 these banks have been allowed to lend outside the target group also. A few years back, it was found that the profitability of the RRBs had been going down. There was over staffing and huge amount of overdues. More than 80% of these banks were suffering losses. A World Bank study also points out that the RRBs (and also the Co-operatives) have been severely weakened by excessive costs and regulations and have deep-seated problems of asset quality of capital adequacy.

In this regard, we may point out that the All India Rural Credit Review Committee which submitted its report in 1989 had even suggested that these banks should be merged with the parent banks sponsoring them. However, the Government did not accept this recommendation. On the other hand, it tried to improve their working in various ways. In the budget for 1998-99, Rs.265 crores was provided for the rehabilitation of the Regional Rural Banks. Many of these banks are reported to have shown much better performance, as a result of this step.

During 2005-06, the Regional Rural Banks had advanced a total of Rs.15223 crores as short term, medium and long term loans to the agriculturists.
Some time before 2005, there were 196 Regional Rural Banks in the country and these had about 14500 branches. Of course, since then, many of these banks have been merged with each other and at present (July 2007), their number has come down to 96. Even out of these 96 banks, 29 are still suffering losses. The Government proposes to provide these banks with extra capital of Rs.1850 crores in order to improve their working.

3.4.5. (b) Other measures adopted by the Commercial Banks for Rural Finance

(i) The Lead Bank Scheme

This scheme was started at the instance of the Reserve Bank of India in Dec 1969. The scheme applies to districts which are identified to be 'under-banked'. One of the Banks carrying on its operations in the under-banked district is assigned the role of the 'Lead Bank'. The lead bank is expected not only to provide more banking facilities to agriculture and other priority sectors in the district but also help in its over-all development.

A lead bank has a district consultative committee consisting of the representatives of (a) the State Government (b) the scheduled banks and (c) other financial institutions working in the district. The consultative committee decides about the various financial schemes pertaining to agriculture and other priority sectors.

(ii) Village Adoption Scheme

This scheme was started some time after the lead bank scheme was introduced. A review of the working of Lead Bank Scheme revealed that it was not working properly. The credit facilities had hardly reached the small and marginal farmers. So, a techno economicsurvey of the areas under the jurisdiction of the branches of the lead Banks in various districts was conducted. The lead banks were then asked to select a needy village or
a cluster of villages and extend need-based credit facilities to all the viable and potentially viable farmers of the selected village or the area.

(iii) Service Area Plan

This scheme aims at micro level credit planning. Under this approach, the entire responsibility of assessing and meeting the credit needs of all the approximate 6 lakhs villages in the country was assigned to the branches of commercial banks and the co-operative banks. Fifteen to twenty villages are assigned to each bank. This approach also aims at the coordination of commercial bank credit and the co-operative credit for each service area.

(iv) Intensive Centre Scheme

Besides the village adoption scheme as described above, the State Bank of India (not other commercial banks) evolved a scheme of 'Intensive centre banks'. Under this scheme, the State Bank of India selects compact areas (generally backward areas) where the financial needs of all the aspects of its economy are looked after.

(v) Agricultural Finance Corporation

An agricultural Finance Corporation was set up in 1968 by a group of commercial banks for providing credit facilities for agricultural development. This corporation approves various schemes of agricultural development, and the financial aid for these schemes is jointly provided by the corporation as well as its member banks.

On the recommendations of V.S.Vyast committee, the RBI directed the commercial banks to treat all loans to be advanced to storage units set up for storing agricultural products, as indirect loans to agriculture, thereby, ensuring some concessions for such loans.
Margin/security and requirements for agricultural loans up to Rs.50,000 and for agribusiness and agencies up to Rs.5 lakhs were dispensed with. Repayment dates of agricultural loans in some special cases were aligned with the harvesting of crops.

**Role of Commercial Banks in Rural Finance — A review**

A review of the working of the commercial banks in the field of rural finance shows that the commercial banks have been helping the farmers in various spheres of agricultural development e.g., promotion of dry land farming. Purchase of agricultural machinery and other inputs, for dairy farming, lift irrigation, electrification of tube well etc.

Despite the increasing role of commercial banks in rural finance in recent years, it has been found that the non-institutional credit still accounts for more than 30% (2002) of the total rural credit. The commercial banks have still to cover too much to establish themselves as the major sources of institutional finance in the rural areas.

**3.4.6. AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION**

There had been satisfactory progress in co-operative credit for short period. The land development banks which deal with long-term credit have been lagging behind. Their resources were scanty. As such, there was a need to have a refinance corporation to provide refinance facilities. To meet this demand, the Agricultural Refinance Cooperation Act was passed on March 21, 1963 and it came into force on May 1, 1963. The corporation (latter called Refinance and Development Corporation) started with a paid-up capital of Rs.5 crore subscribed by the Reserve Bank and the member institutions. Its I Reserve Bank of India constituted a committee on the flow of credit to agriculture and related activities in Nov.2008.Agricultural refinance development corporation was wound up in 1982; its work was taken over by the newly started NABARD.
The authorized capital was Rs.25 crores. It could also borrow from the Reserve Bank and the Central Government to raise funds. Credit extended by the world Banks for its projects was also channeled through it. The corporation was meant to provide medium and long-term credit to central and development banks, state co-operative banks, scheduled banks and approved cooperative societies by way of refinance for the development of agriculture. The schemes for agricultural development included land reclamation, growing of special crops, development of mechanized farming, development of animal husbandry, dairy farming etc. the total number of schemes sanctioned by the Corporation stood at 16574 on June, 1981, involving ARDC's financial assistance of Rs.3860 crores.

3.4.7 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

The NABARD was set up by the Government on 12 July, 1982 with an authorized capital of Rs.500 crores and a paid-up capital of Rs.100 crores. The capital was contributed by the Government of India and the Reserve bank of India. During 1998-99, the share capital of NABARD was increased by another Rs.500 crores.

Functions of NABARD

Following are the main functions of NABARD

(i) To act as an apex body to look after the credit requirements of the rural sector.

(ii) To oversee the functioning of the co-operative sector through its Agricultural Credit Programme.

(iii) To provide long term finance to Land Development Banks, Co-operative Banks, Commercial Banks and Regional Rural Banks.
(iv) To extend short term credit to agriculture rural small scale & cottage industries, rural handicrafts and for other economic activities for promoting integrated rural development.

(v) To provide loans (like RBI) to the State Government for agricultural development.

(vi) To look after the performance of Co-operative Banks and the Regional Rural Banks.

(vii) To take over all the functions, so far as performed by the Agricultural Refinance and Development Corporation. (ARDC has, therefore, been wound up for all practical purposes.)

(viii) To maintain and strengthen a research and development find to be used for promoting research in agricultural development.

It should be noted that being an apex body, NABARD, does not deal directly with farmers and rural people. At present NABARD is working through 28 regional offices at the state capitals, one sub-office at Port Blair and 376 district development offices.

**Performance of NABARD**

As soon as NABARD was set up, loans and advances issued by the R.B.I. to Regional Banks and State Co-operative Banks were transferred to NABARD. These loans (in total) were of the order of Rs.750 core. Up to 4 June, 1983, further loans, amounting to Rs.222 crores and Rs.1574 crores were issued to these banks respectively. In its first year of operations, i.e., during 1982-83, NABARD sanctioned 4957 schemes involving a commitment of Rs.1019 crores. Since then, a large number of schemes are being sanctioned every year. These schemes relate to minor irrigation projects, land developments, farm mechanization, plantation, poultry, dairying, sheep breeding etc. such types of schemes were formerly financed by ARDC.

A few years back, the banks started sanctioning loans for some other schemes also. These include purchase of harvester combines, running of agro services centers, and
purchase of milk tankers, coffee processing, packaging and purchase of pollution control equipment. NABARD sanctions loans for seasonal agricultural operations also. These loans are provided at a concessional rate which is always below the Bank rate. It has also directed the banks to advance a specific share of loans to the weaker section of the society.

The loans for seasonal agricultural operations are not directly advanced to the beneficiaries. Rather these are advanced to the State Co-operative Banks Schedule Commercial Banks and Regional Rural Banks for refinance purposes. The Bank also advances long-term to State Land Development Banks for refinance purpose.

Since 1995-96, NABARD has been sanctioning loans to the State Governments for completion of ongoing/for taking up new rural infrastructure projects relating to major/minor irrigation, rural roads and bridges, flood protection, watershed management, reclamation of water logged areas, forest development, market yards / godowns, cold storage, testing and certifying laboratories for grading of crops, Etc. till the end of 2005-06, eleven branches (I to XI) of Rural Infrastructural Development Fund were completed. At present, RIDF (XII) is under implementation. Up to 25.1.07, the Bank had accorded sanctions up to the tune of Rs.58795.36 crores, to 28 states for various projects covered by (1-XI RIDF) branches and had actually disbursed Rs.34643.87 crores for the purpose.

A perusal of the operation of NABARD over time clearly shows the growing role of NABARD in rural finance. The number of schemes sanctioned under various heads, as well as the financial assistance extended by the Bank for these schemes has been constantly increasing. With the setting up of NABARD, the institutional source of rural credit has been sufficiently strengthened. NABARD has been paying special attention to the strengthening of institutions, extending credit in less developed/under banked areas like U.P., Bihar, M.P.,
Rajasthan and Orissa. It has started playing an effective role in revamping the co-operative credit institutions in those areas where their progress has been rather slow. It started in 1986-87, a pilot project for strengthening credit delivery system in selected districts. An easy disbursement and a proper recovery of loans were the mainstay of this scheme. The project has shown good results. During the fast few years, it has paid special attention to the improvement in the working of the Regional Rural Banks, most of who have been incurring losses for quite some time.

Of late, the bank has been taking special steps for augmenting credit flow to the North-East region. In 1992, NABARD introduced the micro-finance programme for improving the access of the rural poor to formal institutional credit. The Self-Help Group (SHG) — Bank Linkage Programme was introduced in 1992, as a mechanism to provide the poor in rural areas, at their door step, easy and self-managed access to formal financial services, on a sustainable basis' This scheme is also called a scheme of micro fiancé. By Dec, 31, 2006, 2476492 self-help groups had been financial or refinanced under this scheme.

By December 31, 2006; these groups had been provided credit to the extent of Rs.13512 crores by various financial institutions. Ninety percent of these self-help groups were exclusively of women. This scheme has been claimed to the biggest scheme of its kind in Asia. At present (March, 2007), 46 Commercial Banks, 177 Regional Rural Banks (as per their pre-merger status) and 342 Co-operative Banks are involved in this programme. A few years ago, the bank prepared a model scheme for the cooperative and the commercial banks to issue 'Kissan Credit Cards' to the farmers. The farmers, possessing this card could draw cash from the concerned bank for their production needs.
The implementation of Kissan Credit Card Scheme has been taken up by various Commercial Bank, Central Co-operative Banks and Regional Rural Banks w.e.f. August, 1998. These institutions had, by 31 December, 2006, issued 642.49 lakhs such cards. A recent survey by NCAER has pointed out that as a result of these cards, more bank credit has started flowing to the agricultural sector; there is saving in time, spent on obtaining loans from the banks and there is a reduction in the cost of delivery of credit.

Recently, the scope of the kissan cards has been increased. Now, the farmers can get, besides crop loans, terms loan for agriculture as well as for some consumption purposes. Moreover, the Government has directed the banks to ensure that hence forth, (2006), the crop loans are routed only through kissan credit cards. Besides the above, NABARD is, at present, also financing some other projects like Watershed Development Programme, Tribal Development Programme, Assistance to Rural Women in Non-farm Development Programme, Development of Women through Area Programme, District Rural Industries Project, Rural Enterprise Development Programme and a project for the promotion of marketing of non-farm product, Cluster Development Programme, etc. In addition to this, NABARD has, in association with Swiss Agency for Development and Co-operation, constituted the NABARD-SDC Rural Innovation Fund, to support innovative projects in farm, non-farm and micro-finance sectors, leading to creation of livelihood opportunities for the poor.

Though the All India Agricultural Credit Review Committee (1989) had expressed its disappointment with the performance of NABARD (see XI) of this report), by now, its performance has considerably improved. Many of the shortcomings, as pointed out by the Committee, have been overcome.
3.4.7 THE STATE BANK OF INDIA

The State Bank of India has been playing an important role in the field of agricultural finance. It played an advance role in the field of agricultural finance. It advances loans to farmers directly as well as indirectly for short and long periods. The main contributions of the State Bank of India, in the field of rural finance have been as follows:
(a) It has opened branches in unbanked centers to stimulate banking habit among rural people.
(b) It provides remittance facilities to all State co-operative banks and their affiliated units.
(c) The State bank of India grants relatively easy loans to the Apex and Central Co-operative Banks against Government securities and to Central land development banks for increasing their liquid resources.
(d) It also provides financial assistance to marketing and processing societies, both directly as well as indirectly.
(e) It gives loans against warehouse receipts.

3.4.8 THE RESERVE BANK OF INDIA AND RURAL CREDIT

Since its inception, the Reserve Bank of India has been playing an important role in rural finance. In 1951, R.B.I. set up a committee to assess the sources of rural finance National Banks for Agricultural and Rural Development was set up in July 1982, all functions of the RBI pertaining to rural finance taken over by the bank and to make necessary recommendation for the re-organization of rural credit.

The Committee surveyed 600 villages in 75 districts of the country and submitted its report in 1954. It estimated that about 3% of rural credit came from the co-operatives. But the Committee believed that co-operatives credit was the best and the cheapest.
3.4.8.(a) Reserve Bank and Short-Term Credit

Reserve Bank advanced short term credit to State Co-operative banks for financing seasonal agricultural operations and marketing of agricultural produce at confessional rate of 3 per cent below the bank rate. The advances by R.B.I. were made to State co-operative banks against the guarantee of the State Government or against the securities of the Government in 1980-81, R.B.I had sanctioned short-term credit of Rs.11441 core. These loans were advanced for 12 months at confessional rates.

3.4.8.(b) Reserve Bank and Medium-Term and Long-Term Credit

(b.i) The Medium Term Loan

The medium term loan was provided for a period of 3 to 5 years. The National Agricultural Credit (Long term operation) Fund for:

(a) Reclamation of land
(b) Construction and maintenance of small irrigation works.
(c) Purchase of machinery and livestock.
(d) Construction of farm houses and cattle sheds etc.

During 1954-55, R.B.I. provided medium term credit of Rs.27 lakhs. But there was tremendous rise in such loans and by June, 1981 the outstanding medium loans granted by Reserve Bank were of the order of Rs.132 crores. The R.B.I also advanced loans out of the National Agricultural Credit (Stabilization) Fund for converting short term loans into medium term loans in circumstances of distress. The amount mentioned above included this loan as well.
(b.ii) **Long Term Loans**

Long-term loans were provided by the **R.B.I** for a ranging from 5 to 20 years.

Such loans were provided by the bank in many ways. These were as follows:

1. It subscribed to the debentures of Central Land Development Banks.
2. It advanced loans to such banks.
3. It granted loans to State Governments to enable them to subscribe to the share capital of co-operative credit institutions, out of the National Agricultural (Long term operation) Fund.
4. It is also advanced loans to Agricultural Refinance and Development Corporation which, as pointed out earlier, has how been wound up.

The R.B.I. took special measures for giving a proper direction to the flow of rural credit. For example, during the seventies, some decisions taken in this regard were as follows: It permitted medium-term loans up Rs.2000 to be provided to members of the co-operatives for dairy and poultry purposes on personal surety, provided adequate facilities existed for marketing of dairy and poultry products. It also lay down that at least 20% of the borrowings of the central co-operative banks from the concerned State co-operative banks should be earmarked for financing small or marginal farmers.

Co-operative was also allowed to sanction medium term loans up to Rs.3500 minor irrigation purposes. During the year ending June, 1981, the Reserve Bank of India advanced Rs.95 crores to the Agricultural Re-finance and Development Corporation and Rs.128 crores to the State Governments for subscribing to the share capital of various co-operative institutions.
The Reserve Bank of India had also carried on extensive research in the field of rural finance. In 1952, as already pointed out, the Reserve Bank of India arranged for the conduct of a comprehensive rural credit survey. Rural credit follow-up surveys were also organized by Reserve Bank of India. Besides, the Bank had tendered very useful advice to the State Governments and various co-operative institutions in masters of rural finance. It had also set up a department called Department of banking operation and Development (DBOD) meant for assisting the development of State Co-operative Banks and the Central co-operative Banks especially in the states where the co-operative movement was not successful. It had also set up inspection machinery for examining the working of the co-operative banks. The defects found in their working were conveyed to the Registrar of co-operative societies.

The Reserve Bank of India also subsidized the working of All India Training College for co-operative personnel set up at Poona in 1952. Since 1979, a cell called, 'Rural Planning and Cooperative Cell', set up by the Reserve Bank of India had been looking after the functioning of the Regional Rural Banks.

3.4.9 THE SMALL FARMERS DEVELOPMENT AGENCY AND THE MARGINAL FARMERS' AND AGRICULTURAL LABOURERS' AGENCY

It is a fact that a lion's share of the institutional credit has gone to medium and large farmers. The 'the big farmer's bias' in our agricultural credit policy was the result of the socio-economic conditions and the power structure in rural India. Small farmers and agricultural labourers could not borrow from co-operatives and, therefore, mainly remained dependent upon non-institutional agencies like money-lenders and commission agents who charged exorbitant rates of interest.
One of the objectives of the fourth plan was to extent the benefits of development to smaller cultivator and the under-privileged sections of the rural population. The objective was based upon both social and economic considerations. The marginal and small farmers represented about 51% and 19% respectively of total cultivators. On the other hand, the pattern of agricultural holding was such that only about 20 percent of the cropped area was covered by the marginal and small holdings taken together. In this situation, the new agricultural technology was likely to add further to the disparity between the income of those who had the resources to make use of the m and those who had not. To check this tendency of polarization between the more privileged and less privileged classes in the rural sector, the All India Rural Credit Review Committee (1969) recommended the establishment of small farmers' development agencies as well as of marginal farmers' and agricultural labourers' agencies in every district of the country to provide credit facilities to them.

The small farmers were taken to be those, who with the help of irrigation, credit and marketing facilities and application of modern technology, could be made viable. Farmers having land holdings between one to two hectares of land were identified as small farmers. Farmers with holdings below one hectare were called marginal farmers.

Agricultural labour was defined to cover those rural households who derived more than 50 percent of their income from agricultural wages. The main problems of small farmers are fragmentation of holdings, insecurity of tenure, in case, they are tenants, inadequate and untimely supply of inputs and water, lack of credit facilities and unsatisfactory arrangements for marketing and storage. Various studies conducted by
Planning Commission and other agencies show that small farmers are not less progressive than the large and medium farmers in their willingness to use modem inputs.

Accepting the recommendation, of All India Rural Credit Review Committee, the Central Government initially set up 46 Small Farmers' Development Agencies and 41 Marginal Farmers' and Agricultural Labourers' Agencies and 1971-72 was the first full year of the working of these agencies. The main objectives of an SFDA were to identify the problems and needs of small farmers in their areas, to prepare appropriate programmes and implement them with the necessary inputs, services and credit and to evaluate their progress from time to time.

The existing credit institutions were utilized for this purpose. To stimulate the flow of credit to small farmers, Small Farmers' Development Agencies provided grants to central co-operative banks, primary co-operative credit societies and land development banks for building up special risk funds. The Small Farmers' Development Agency was also expected to extend assistance to small farmers in respect of other services such as land leveling, machinery and marketing. Wherever necessary, the agency was itself expected to undertake these services for the benefit of small farmers.

Marginal Farmers' and Agricultural Labourers' agency was expected to help the marginal farmers and agricultural laborers mainly by providing financial help for setting up project like poultry farming, dairying, fisheries, piggeries etc. Besides the setting up of Small Farmers' Development Agency and the Marginal Farmers' and Agricultural Labourers' Agency the two agencies were later combined into one-called District Rural Development Agency by the Central Government, to extend financial assistance to the weaker sections of
the rural society. It had, for instance, opened a separate 'Small Farmers Window' for extending refinance facilities to the small farmers.

In the Sixth Five Year Plan document, it was proposed to increase the share of co-operative finance for the weaker sections from 173 in the beginning of Sixth Plan to 1/2 at its end. The Plan also proposed to charge confessional rates for the loans advanced to weaker sections of the rural community. The later plans were equally ambitious in diverting more credit to the weaker sections of the society.

A recent review of the working of the Rural Development Agencies for various districts has shown that the identification of small and marginal farmers is defective in many cases.

3.5 AGENCIES PROVIDING AGRICULTURAL AND RURAL CREDIT: A REVIEW

According to a well-known saying, the Indian peasant is born in debt, lives in debt and dies in debt. Indian agriculture was extremely backward and as a result, had failed to provide even for the basic necessaries for majority of the farmers. Now, the times have changed and debt is no longer regarded as something undesirable — something which must be eliminated. Credit serves as an instrument for agricultural development. It injects life into lifeless agriculture. The recent green revolution in India has clearly demonstrated that in the light of the available technology, there is an immense scope for developing Indian agriculture and those loans and advances from various agencies are quite essential for the farmers for these purposes. Liberal rather than restricted flow of funds to the agriculturists became the desired objective. It is obvious under the present circumstances; the income of the farmers will rise significantly, if they choose to adopt the new agricultural technology.
But for adopting the new technology, farmers need to purchase improved agricultural inputs from the market. This can be done, in most cases, only if they are provided funds for purchasing these inputs, through an efficient rural credit system. As such, an attempt has been made in this chapter to make a review of the role of various agencies in providing agricultural and rural credit.

3.6. ESTIMATES ABOUT CREDIT REQUIREMENTS

The All India Rural Credit Review Committee (1969) estimated that the short-term credit requirements in 1973-74 were likely to be of the order of Rs.2000 crores while the medium and long term credit needs for the fourth plan period were estimated to be of the order of Rs.500 crores and Rs.2000 crores respectively. Desai also had estimated the requirements of short-term credit for agricultural production in India for various years. He made alternative assumption about the credit needs of the farmers. On the basis of conservative assumptions, the short-term credit requirements of the farmers of agricultural production were estimated to be of the order of Rs.29694 core in 1984-85. These were expected to go up to Rs.34156 crores to Rs.40567 crores and to Rs.49356 crores in the years 1990, 1995 and 2000 A.D respectively.

Dantwala, with still more conservative assumptions, estimated the total short-term credit requirements for agricultural production to be of the order of Rs.35889 crores for the year 1999-2000 (at 1984-85 prices).

According to the Agricultural Credit Review Committee (1989), the total short-term credit requirements for agricultural production for the year 1999-2000, were expected to be of the order of Rs.39834 crores. The planning Commission estimated that for the full period covering 10th Five Year Plan, institutional credit amounting to Rs.7,36,570 crores was
required for the agricultural sector. However, the actual amount of institutional credit provided, was much less than the estimate amount.

3.7 TYPES OF CREDIT

The financial needs of the farmers are classified, according to time duration for which credit is needed, as follows:

1. **Short-term Credit**

   Farmers need short-term credit to meet the production and family expenses. For example, they have to buy seeds, fertilizers, fodder for animals, diesel or to make payment to workers. They also have to borrow to support their families when crops fail either due to floods or due to drought. Such loans are paid back out of the sale proceeds of the next harvest.

2. **Medium-term Credit**

   The medium-term credit required by farmers to purchase implements livestock and for carrying out some improvements on land. Such loans are expected to be repaid in instalments spread over two to five years.

3. **Long-term Credit**

   The farmers need long-term credit for the purchase of land, costly machines like tractors, harvesters, for effecting permanent improvements on land like sinking of wells, construction of houses or bunds and for the liquidation of old debts.

3.8 AGRICULTURAL DEPARTMENT AND ITS FUNCTIONS

   Agriculture is the mainstay of this district as about 70 % of the population is engaged in Agriculture. Joint Director of Agriculture is the district head for the Agriculture Department in Salem District. In relation to Agricultural Department Administration, Salem
district is divided into 5 agricultural divisions namely Salem, Attur, Sankagiri, Mettur and Omalur. Agricultural divisions include Agricultural Extension Centres at block level. Agricultural division is administered by Assistant Director of Agriculture whose office is located in the agricultural communication centres in the above five centres. Agricultural Extension Centre at Block level is managed by Agricultural Development Officer. Certification of seed and enforcement of seed act is undertaken by the separate wing of Seed Certification Department.

The services of Grading and Marketing of Agricultural produces and stamping of Agmark are managed by the Assistant Director of Agriculture (Agricultural Marketing) at District headquarters. Under Research Wing, the testing laboratories and bio-fertilizer production unit is functioning at District headquarters.

**Activities of the agriculture department:**

- To increase agricultural production and productivity through technology transfer and adoption.
- Production and distribution of agricultural inputs like Seeds, Bio-fertilisers, Bio-pesticides and Micro-nutrient Mixtures etc.,
- Implementation of various agricultural schemes including subsidy oriented Centrally Sponsored Schemes.
- Enforcement of quality control measures of agricultural inputs viz. Fertilisers, Pesticides and regulation of its trade.
- Providing support services like trainings, trials, demonstrations for easy adoption and fast spread of new technologies.
• Involved in accounting of crop area coverage and assessment of crop productivity by conducting crop cutting experiments.
• Certification of seed and enforcement of seed act
• Grading of Agricultural produces and stamping of Agmark seal
• Analysis of samples of Soil, Water, Fertiliser and Pesticides.

Public Utilities:
Agricultural support services and Extension services are delivered through the following utilities in this department.

a. Agricultural extension centre:
• Agricultural Extension Centre is the main public utility in the agricultural department.
• Agricultural Extension Centre is located in the Union Office complex at block head quarters.
• Agricultural schemes are implemented at block level through the Agricultural Extension Centres.
• Agricultural inputs like Seeds, Bio-fertilisers, Micro-nutrients and Bio-pesticides are being marketed and distributed through Agricultural Extension Centres.
• Extension Services like training, campaigns, demonstrations and trails are conducted to enlighten the farmers on the new technologies through Agricultural Extension Centres.
• Production of procurement of seeds are being done through Agricultural Extension Centres.
• Serves as a collection point for soil and water sample for analysis.
• Providing of Agricultural technology advisory service to the farmers.

b. Soil Testing laboratory

c. Fertiliser Testing Laboratory

d. Mobile Soil Testing Laboratory

Objective: Collection and analysis of soil, fertiliser and water samples.

e. Farmers Training Centre-

• Providing agricultural technology advisory service, study tours, village level trainings.

f. Pesticides Testing Laboratory - Analysis of pesticides samples

g. Bio-fertilizer Production Unit - Production of bio-fertilizers for the application to the crops

ALTERNATE CROPPING PROGRAMME:

Due to very poor water resources, an alternate cropping programme has been formulated as per the guidance of Hon’ble Chief Minister of Tamil Nadu. It is programmed to avoid cultivation of hydrophilic crops like Paddy & Sugarcane and encouraged the cultivation of less water required crops like Millets and Pulses. It is programmed in such a way that there is no deficit in cultivation area of agricultural crops during 2003-2004 by the way of proper implementation of alternate cropping programme.

3.9 MAJOR STEPS TAKEN TO EXPAND THE BASIS OF INSTITUTIONAL CREDIT

The Reserve Bank of India set up in the year 1952, a committee for suggesting measures to improve the system of rural credit in India. The committee surveyed 600 villages in 75 districts of the country and came to the conclusion that the co-operative credit was the best and cheapest source of rural credit, even though, at that time, the co-operatives
were providing credit to only 3% of the total rural borrowers. As a result of the efforts of the Reserve Bank of India to improve the working of the co-operative credit institutions, the share of the co-operatives in total rural credits, rose from about 3% in 1952 to 10.4% in 1961. The co-operatives, in 1961, had advanced Rs.303 crores as loans to the rural sector.

Till 1969, these were the co-operatives which continued to be the major, (or, we may say, the sole) source of institutional credit to the rural people. The commercial banks, on their own, were not favourably inclined to extend their operations to the rural areas because of various reasons. In 1969, The Government nationalized 14 commercial banks (later or, six more in 1980) and directed them to provide credit to farmers and other sections of the rural society on a more liberal basis. In the year 1949, the share of commercial banks in the total rural credit was only 1.6%. In December of that very year, the Lead Bank Scheme was introduced. Under this scheme, in each under responsibility of taking various steps, in association of their institutions, for meeting the credit requirements of agricultural and other priority sectors in that district. However, it was all long time before the commercial banks began to participate actively in the programme concerning expansion of credit facilities to the rural sector. Even in 1971, the share of the commercial banks in total credit was only 2.2%. Even in 1975-76, they had extended credit to the rural sector to the tune of Rs.212 crores only.

The next stage concerning the efforts to increase the share of institutional credit in total rural credit appeared with the setting up of five Regional Rural banks on Oct. 2, 1975. These banks were expected to provide credit to the weaker section of the rural society, like small and marginal farmers, agricultural labourers and artisans. A major push for the expansion of rural credit came with the setting up of National Bank of Agricultural and
Rural Development in July, 1982. This Bank took over all the functions which were so far being performed by the Reserve Bank of India, with regard to the rural credit. Its establishment gave a great fillip to the expansion of institutional sources of rural credit.

It was felt that the commercial banks should extend credit to cultivators, especially the small and marginal farmers, on concessional rates because of the low income of the latter. As this policy adversely affected the profitability of the banks, a policy of cross subsidization and refinance was started by the Reserve Bank of India and later on, continued by the NABARD. The same policy was followed in respect of the co-operatives and the Regional Rural Banks. After the economic reforms in 1991, this policy was further liberalized. At the same time, those Regional Rural Banks which were suffering losses were restructured and their capital was increased.

During nineties, some new schemes were introduced for the expansion of institutional credit in the rural sector. These schemes, of course, did not imply the setting up of new financial institutions. Rather, the existing institutions like the co-operatives, commercial banks, and the regional rural banks were to implement these schemes. The schemes were the Service Area Approach, the credit linked self-help groups scheme (micro-finance) and the Kissan Credit Card Scheme. There is also a proposal to disburse the bank credit through the village post offices. During the year 2005, the Government expressed its intention to allow banks to use the infrastructure of civil society organizations, rural kiosks, village knowledge centers, to provide credit support to rural and farm sector.

The Government also has now made it compulsory for the Scheduled banks to extent 18% of their total credit to the agricultural sector. In 2004, The Government asked the commercial banks to lend every year, on a continuous basis, to 100 new borrowers per
branch, in the rural sector. The object of this instruction was to double the flow of institutional credit to the rural areas during the next three years.

3.10. THE ACHIEVEMENTS MADE BY THE AGENCIES PROVIDING RURAL CREDIT

The result of the measures described above, have been quite encouraging. At present (2006), there are 1,12,309 primary agricultural co-operative credit societies in India. The number of branches of the commercial banks in rural areas, increased from 1833 in 1969 to 397454 in June 2006. (As a matter of fact, the number of these branches was higher in earlier years. During the last few years, the commercial banks have closed down quite of number of their branches because of their non-viability.) The number of Regional Rural Banks also increased from 5 in 1975 to 196 in 2004. It may be noted that some time back, in order to strengthen the structure of RBBS, the government started the amalgamation of various RRBS. As a result their number has now (July, 2007) come down to 96 only. The process of an amalgamation still continues.

Greater flow of institutional credit

The efforts to expand the basis of institutional credit yielded satisfactory results. Whereas the co-operatives had advanced loans, to the agricultural sector, to the extent of Rs.203 crores in 1961, these increased to Rs.39404 crores by the end of 2006. A similar progress was witnessed in the flow of credit from the commercial banks to the agricultural sector. While these banks advanced loans to the agricultural sector, to the tune of Rs.212 only in 1969, these increased to Rs.125859 crores, in 2005-06. The Regional Rural Banks too, have increased their operations in terms of financial assistance to the rural people. During 2005-06, the loans advanced by them amounted to Rs.15233 crores.
Here, we may point out that though the expansion of institutional credit extended to the agriculturists has been a continuous one after the setting up of NABARD, it has not been consistent through out. Its rate of growth in real terms (at 1990-91 prices), was much higher in 1980-90 when compared with period 1990-2001. Its (both short and long-term credit, taken together) rate of growth was 10.56% per annum during the former period while it fell to 6.76% during the latter period. According to Sidhu and Gi114, while the full bloom in green revolution was the main reason for higher growth rate of institutional credit during the eighties, the deceleration of agricultural growth during the nineties was the main reason for the fall in its growth rate during that period. As a mater of fact, the populist measures like loans melas which were followed during the 1980s were also responsible for a greater flow of institutional credit to rural areas during that period.

Another fact about the flow of credit to the rural sector may be noted. Though till 1990, the co-operatives were the main source of institutional finance in the rural areas, during 1990s, at some point of time, the amount of credit extended by the commercial banks surpassed that extended by the co-operatives.

In 2003, there was an annual growth of 15% in bank credit extended to the rural sector, there was a quantum jump of 55.5% in it, it increased further by 54.5% in the year 2005-06. This was because of the policy of Government to double the flow of rural credit during the next three years. The fact of the matter is that in recent years, the progress of co-operatives credit has become rather disappointing. The annual rate of growth for co-operatives which was about 20% during 1990-95, fell to 10.10% in the period 2000-01 to 2004-05. During this period, even the growth rates of credit extended by the RRBs become higher than that extended by the cooperatives. It was 29.10% per annum.
Many economists have termed such an expansion of total institutional credit in rural areas, after independence, as quite praiseworthy. For example, According to Y.S.P. Thorat6, chairman NABARD, during the period 1970-95, the annual growth rate of institutional credit in rural areas was 7% and it exceeded not only the annual growth rate of GDP during this period but also exceeded the real annual rate of growth of public agricultural capital formation rate of growth of public agricultural capital formation (3%) ,Real rate of growth of private agricultural capital formation (4%) and real rare of growth of agricultural input spending (6%). The implicit object of these comparisons, as given by Throat, is to emphasize the fact that growth of institutional credit in rural India has definitely strengthened those factors which are basically responsible for the growth of agriculture.

The Planning commission estimated that for the full period covering 10th Five year plan, institutional credit amounting to Rs.736570 crores was required for agricultural sector. Attempts should be made to meet the credit requirements of the farmers through institutional sources. The amount of credit required by farmers varies and depends upon various factors. The financial needs of the farmers are classified, according to time duration for which credit is needed. Farmers need short-term credit to meet the production and family expenses.

Agricultural finance can be categorized to two groups namely the a) institutional sources and b) the non- institutional sources. Farmers borrowed money from money-lenders for both productive and non-productive purposes. Co-operative finance is the best and the cheapest source of agricultural credit.

The Government, both at the center and in the states has been an important source of rural finance for short period as well as for long period. The loans which are advanced by the Governments to farmers directly are called "Taccavi" loans and are advanced by
Government in times of distress or emergency. At present, the commercial banks are
mandated to earmark 18% of their total annual lending, to agricultural sector, as part of
priority sector lending. During 2005-06, the Regional Rural Banks had advanced a total of
Rs.15223 crores as short term, medium and long term loans to the agriculturists.Service area
approach also aims at the co-ordination of commercial bank credit and co-operative credit
for each service area. The Reserve Bank of India has been playing an important role in rural
finance. Reserve Bank advanced short-term credit, medium term credit and long-term loan
to the farmers through financial institutions. The RBI took special measures for giving a
proper direction to the flow of rural credit. All India Rural Credit Review Committee (1969)
recommended the establishment of small farmers' development agencies as well as of
marginal farmer's and agricultural labourer's agencies in every districts of the country to
provide credit facilities to the farmers.

The Small Farmers Development Agency was also expected to extend assistance to
small farmers wherever necessary, the agency was itself expected to undertake these
services for the benefit of small farmers. Marginal Farmers and Agricultural Labourer's
agency was expected to help the marginal farmers and agricultural labourer's mainly by
providing financial help for setting up projects. NABARD sanctions loans for seasonal
agricultural operations. These loans are provided loans at a concessional rate which is
always below the bank rate.

The Government also has now made it compulsory for the scheduled banks to extent
18% of their total credit to the agricultural sector. In 2004, the Government asked the
commercial banks to lend every year, on a continuous basis, to 100 new borrowers per
branch, in the rural sector. It may be pointed out here that though private investment in
agriculture has been much higher than the public investment, it has been mainly concentrated on ground water exploitation i.e., deepening of wells and installing more powerful pumps (submersible) and mechanization. These investments do not enhance production capacity. Mechanization replaces human and animal labour; their contribution to increasing productive capacity is very limited. Besides the other factors, the deceleration in input use growth has also contributed towards deceleration in yield growth though the potential for yield growth with dissemination and application of known technologies is not yet exhausted.

**Table 3. 3: Growth in Loans and Agricultural Production**

<table>
<thead>
<tr>
<th>Period</th>
<th>Food grains</th>
<th>Non food grains</th>
<th>All crops</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term loans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-81 to 1990-91</td>
<td>11.31</td>
<td>11.72</td>
<td>11.48</td>
</tr>
<tr>
<td>1990-91 to 2003-04</td>
<td>18.61</td>
<td>16.89</td>
<td>17.93</td>
</tr>
<tr>
<td>2004-05 to 2006-07</td>
<td>34.92</td>
<td>35.89</td>
<td>35.3</td>
</tr>
<tr>
<td><strong>Growth in Agricultural production</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-81 to 1990-91</td>
<td>2.85</td>
<td>3.77</td>
<td>3.19</td>
</tr>
<tr>
<td>1990-91 to 2003-04</td>
<td>1.16</td>
<td>1.2</td>
<td>1.58</td>
</tr>
<tr>
<td>2004-05 to 2006-07</td>
<td>3.08</td>
<td>12.83</td>
<td>9.07</td>
</tr>
</tbody>
</table>

Table 2.3 shows that crop loans during eighties observed an annual growth of 11.31 percent, which increased to 18.61 percent during 1990-91 and 2003-04 and almost doubled during 2004-05 and 2006-07. On the other hand, term loan grew at an average annual rate of 11.72 percent and improved during 1990-91 and 2003-04 and further jumped to 35.89 percent during 2004-05 and 2006-07. The overall credit grew at 11.48 percent, 17.93 percent and 35.30 percent respectively during the three periods under study. The food grain growth during the three periods has been low at 2.85 percent, 1.16 percent and 3.08 percent respectively. On the other hand, growth of non-food grains has been higher in all the periods. For all crops, annual growth of 3.19 percent was observed during the eighties that declined to 1.58 percent during 1990-91 and 2003-04 to rise again to 9.07 percent during 2004-05 and 2006-07. Thus, increasingly higher doses of credit both crop and term loan are required to enhance and get incremental increases in agricultural production.

**Banking Experience**

India has long experience of using development banks and cooperative institutions to deliver agriculture credit to farmers. Cooperative credit for crop production is being administered through primary cooperative societies, which have farmers as members. Credit, as one of the critical non-land inputs, has two dimensions in the context of its contribution to the augmentation of agricultural growth. These are availability of credit (quantum) and the distribution of credit. In this section, we look at sources of agriculture credit.

**3.11. AN OVERALL REVIEW OF THE PROGRESS OF INSTITUTIONAL FINANCE IN RURAL INDIA SINCE INDEPENDENCE**

There is no doubt that the rural credit is not synonymous with agricultural credit. Yet the review in this section is mainly concerned with the progress of institutional credit as
extended to the farmers only. This is simply, because complete time series data are available for purposes of such a review, only for the cultivating farmers. At the same time, we feel that the exclusion of the non-farm rural sector for purposes of review of the progress of institutional credit will not affect the main conclusion of this review as the nonfarm rural users of institutional credit, form only a minor proportion of the total borrowers.

Priority Sector Lending

The financial sector reforms have observed changes in priority sector lending across states. Over the years the stipulation for lending to the priority sector has been retained though its scope and definition has been fine-tuned by including new items. Based on the recommendations of the Working Group set up by the RBI2, the priority sector norms were revised in April 2007. As per the revised norms, the sectors of the society economy that impact large segments of the population, the weaker sections and the sectors which are employment-intensive such as agriculture and micro and small enterprises, have been retained as priority sector in the revised guidelines, which came into effect from April 30, 2007. Agriculture, small enterprise, micro credit, retail trade, education loans and housing loan up to Rs.20 lakh are the broad categories included in the priority sector.3 However, under the revised norms effective since April 30, 2007, priority sector lending proportion is calculated as a percentage of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (OBE), whichever is higher, instead of net bank credit (NBC). ANBC includes NBC plus

1 Ministry of Agriculture (GoI) set up a task force to look into issues of private moneylenders on October 6, 2009. It was also to look into the issue of large number of farmers, who had taken loans from private moneylenders, not being covered under the loan

2 RBI (166), All India Rural Credit Review Committee (Chairman: B. Venkatappaiah).

3 RBI, Report on Currency and Finance 2006-08, Volume II, The Banking Sector in India: Emerging Issues and Challenges, Mumbai. investments made by banks in non-SLR bonds held in HTM category4. Narasimham committee had recommended a reduction in priority sector lending, but political compulsions did not allow the government to reduce the lending from existing 40percent and that of agriculture of 18 percent. Under the priority sector lending, direct institutional credit to agriculture sector includes loans sanctioned for small and marginal farmers for purchase of land for agricultural purposes. Distressed farmers indebted to non-institutional lenders can obtain loans against appropriate collateral and group security. As per the new guidelines, individual farmer can avail of loans up to Rs.10 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not. This policy is exclusionary as small and marginal farmers get excluded. They are not in a position to pledge produce.
Table 3.4: Share of States in Priority Sector Lending (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>40.1</td>
<td>44.3</td>
<td>46.9</td>
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<td>56.5</td>
<td>47.4</td>
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<td>Bihar</td>
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<td>58.8</td>
<td>53.7</td>
<td>64.2</td>
<td>68.8</td>
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<tr>
<td>Gujarat</td>
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<td>36.6</td>
<td>34.6</td>
<td>33.9</td>
<td>36.7</td>
</tr>
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<td>Haryana</td>
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<td>67.2</td>
<td>62.1</td>
<td>61.2</td>
<td>54.8</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
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<td>55.1</td>
<td>57.6</td>
<td>55.7</td>
<td>56.8</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
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<td>27.4</td>
<td>61.7</td>
<td>45.2</td>
<td>55.8</td>
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<tr>
<td>Karnataka</td>
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<td>41.1</td>
<td>43.5</td>
<td>49.8</td>
<td>40.8</td>
</tr>
<tr>
<td>Kerala</td>
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<td>43.6</td>
<td>45.9</td>
<td>47.7</td>
<td>68.7</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
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<td>47.2</td>
<td>49.7</td>
<td>53.3</td>
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</tr>
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<td>Maharashtra</td>
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<td>24.1</td>
<td>25.8</td>
<td>17.2</td>
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<td>73.7</td>
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<td>55.0</td>
<td>54.8</td>
</tr>
<tr>
<td>Meghalaya</td>
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<td>45.7</td>
<td>44.5</td>
<td>20.2</td>
<td>39.8</td>
</tr>
<tr>
<td>Nagaland</td>
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<td>71.4</td>
<td>61.7</td>
<td>59.1</td>
<td>38.5</td>
</tr>
<tr>
<td>Orissa</td>
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<td>54.5</td>
<td>56.1</td>
<td>51.1</td>
<td>49.5</td>
</tr>
<tr>
<td>Punjab</td>
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<td>49.8</td>
<td>53.5</td>
<td>53.5</td>
<td>49.9</td>
</tr>
<tr>
<td>Rajasthan</td>
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<td>53.1</td>
<td>54.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Tamil Nadu</td>
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<td>35.8</td>
<td>36.1</td>
<td>39.5</td>
<td>40.2</td>
</tr>
<tr>
<td>Tripura</td>
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<td>65.2</td>
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<td>56.9</td>
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<td>69.3</td>
<td>61.9</td>
<td>61.0</td>
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<td>33.6</td>
</tr>
<tr>
<td>Chandigarh</td>
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<td>11.3</td>
<td>27.8</td>
<td>17.0</td>
<td>32.3</td>
</tr>
<tr>
<td>Delhi</td>
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<td>12.8</td>
<td>14.9</td>
<td>18.5</td>
<td>16.8</td>
</tr>
<tr>
<td>Pondicherry</td>
<td>41.8</td>
<td>36.9</td>
<td>37.3</td>
<td>32.6</td>
<td>48.2</td>
</tr>
<tr>
<td>All India</td>
<td><strong>40.4</strong></td>
<td><strong>36.6</strong></td>
<td><strong>35.4</strong></td>
<td><strong>37.1</strong></td>
<td><strong>34.4</strong></td>
</tr>
</tbody>
</table>

Source: Various issues of Economic Surveys. 4 RBI, Report on trend and Progress of Banking in India, 2008-09.
Table 3.4 shows the share of states in priority sector lending. It shows that in 1990 priority sector lending at all India level stood at 40.4 percent, which declined to 34.4 percent in 2009. At the state level, in 1990, Manipur recorded the highest priority sector lending of 68.5 percent and Maharashtra recorded the lowest priority sector lending at (excluding Delhi) 24.0 percent. Gujarat, Maharashtra, West Bengal, Chandigarh and Delhi did not achieve 40.0 percent target of priority sector lending in 1990. In 1995, Gujarat, J&K, Maharashtra, Tamil Nadu and Pondicherry did not touch 40.0 percent target of priority sector lending; this probably is the impact of prudential banking norms. Also except for Assam, Haryana, Manipur, Nagaland, Tripura and Uttar Pradesh all other states recorded a decline in priority sector lending share. Gujarat, Maharashtra, Tamil Nadu, West Bengal, Chandigarh, Delhi and Pondicherry did not achieve the 40.0 percent target of priority sector lending in 2000.

A large number of states, however, showed improvement in priority sector lending over 1995. In 2009, Gujarat, Maharashtra, Meghalaya, Nagaland, West Bengal, Chandigarh and Delhi were poorly performing states. Madhya Pradesh tops with 69.1 percent priority sector lending. Thus, over the years, the performance of states in 23 priority sector lending is mixed. It is strange that even during the period of doubling of credit flow to agriculture sector did not boost priority sector lending. The new guidelines on priority sector lending also failed to improve the situation.

The non-fulfilment of priority sector lending is the result of cautious approach adopted by bankers to avoid bad loans, which may affect their non-performing assets. The scope of priority sector lending has also been widened over the years. The interest deregulation has imparted more flexibility to priority sector lending and the bankers have
really used it to direct credit to sectors that reduce their cost of delivery rather than follow the dictum of timely credit delivery. The new guidelines are supposed to aim at overcoming the crowding out effect against small loans, particularly to agriculture, only one-third of amount of the big-ticket loans/ advances can be classified as direct agriculture.

**Total Credit Extended: Competing Sectors**

One of the principal objects of nationalization of commercial banks was to bring about certain structural changes in the credit deployment. To begin with we look at the trends in the credit disbursement across sectors. The total credit extended by scheduled commercial banks grew by 17.2 percent during the eighties while during the nineties it fell to 16 percent (table 2.8). This decline was due to both demand and supply factors. The tight monetary policy during the first half of the nineties had led to decline in demand for credit. On the supply side, introduction of prudential norms relating to income recognition, asset classification and provisioning in early 1990s made banks cautious. It recovered to touch 22.9 percent during 2000-01 and 2006-07. In the case of agriculture sector, the credit grew at the rate of 18.1 percent during the eighties while during the nineties, it fell drastically to 10.6 percent. However, during 2000-01 and 2006-07, the growth has been healthy at 26.0 percent. This period also saw effort to boost agriculture credit deployment though doubling of credit to agriculture as per the budget announcement of 2003-046. The downward trend in interest rates also contributed to this growth. The table also shows a significant shift towards personal loans7 and finance sectors, which observed healthy growth during the three phases under study8. Overall, financial deepening from low base, structural shifts in supply elasticity, rise in efficiency of credit markets and policy initiatives to improve credit flow to sectors like agriculture and SMEs. The policy directions over the period have thus favoured
few sectors like agriculture, small industries, weaker sections of the society etc. Thus structural change has occurred in credit deployment due to policy directions.

Sector-wise deployment of gross bank credit reveals that the share of agriculture since the second half of the 1990s has ranged between 11-12%. As on March end 2009, the share stood at around 12.79%. On the other hand, the share of industry in total credit deployed stood at 39.81% as on March end 2009. Since the mid-1990s, the share of industry has been in the range of 32.11% and 40.45%.

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years. The surge in retail lending has certain limitations. Retail lending may accentuate indebtedness of households, with implications for sustainability of private consumption and saving in the medium to longer horizon. Rapid increase in retail loans may impinge on bank credit for investment activities with implications for economic growth.

There are many competitors for credit and when resources are mobilized at a cost then many considerations arise. In India, agriculture and industry have been the two major clients, but now other sectors like housing, trade, etc.

It is argued that it is essential to allow for difference between the credit requirements of agriculture and commodity industry because the latter has relatively smooth flow of purchases of inputs and sales of outputs over the year. Agriculturists, on the other hand, systematically require to buy inputs and to commit themselves to payments several months before their products are harvested. This latter feature renders it inappropriate to view the ratio of inputs to outputs in commodity industry than in agriculture as justifying a larger ratio of credit to net product. It also suggests that even the criterion of same ratio of credit to
net national product (NNP) in each sector is too kind to commodity industry. Commodity industry, besides this, needs less credit per unit of output than agriculture because both input and output flows are smoother over the year9. It is also organized in larger units with more access to internal savings and to the private capital market. It is also less liable to the draining of production credit towards the funding of slack season family consumption. Unlike agriculture, it seldom turns credit-financed inputs into subsistence products which are consumed by the family that owns the firm and which thus- however efficiently produced- do little to help repay trade credit.

Developing countries like India still have dominance of agriculture in their economy in terms of revenue generation as well as manpower employment. About 60% population engage in agriculture in India contributes 18% of GDP whereas the developed countries get only 2% of their GDP from agriculture. About 10% of the national exports originate in this sector it shows clearly that economic growth and development of India is closely tied to the development of agriculture. The agriculture sector, as such has been growing at a relatively low rate in comparison to other sector of the economy. Following data shows the sector wise growth rate of economy.

**Table 3.5** Year on year growth rate in percent

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>5.1</td>
<td>4.2</td>
<td>5.8</td>
<td>-0.1</td>
<td>0.4</td>
<td>6.6</td>
<td>3.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Industry</td>
<td>9.7</td>
<td>12.2</td>
<td>9.7</td>
<td>4.4</td>
<td>8.0</td>
<td>7.9</td>
<td>7.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Services</td>
<td>11.0</td>
<td>10.1</td>
<td>10.3</td>
<td>10.1</td>
<td>10.1</td>
<td>9.4</td>
<td>10.0</td>
<td>10.3</td>
</tr>
<tr>
<td>Non-agriculture</td>
<td>10.5</td>
<td>10.8</td>
<td>10.1</td>
<td>8.2</td>
<td>9.4</td>
<td>8.9</td>
<td>9.0</td>
<td>9.5</td>
</tr>
</tbody>
</table>
Disguised unemployment and low productivity is the negative feature of this sector. Credit plays a vital role for the development of agriculture. As this sector generates low income or surplus due to increasing cost of inputs and implements. It results, Indian agriculture a way of sustenance not a surplus yielding work. Use of technology and high yielding varieties of seeds is still cry for mars for marginal and small farmers. Credit needs is beneficiary for all types of farmers. However it is inevitable for small and marginal farmers which constitute 78% of the total farmers. Small farmers having holding less than 2 hectares and marginal farmers having holding less than 1 hectares. Economy of Indian farmer is dualistic where existence of two different segments. One segment of the economy is developed, makes use of modern technique of production and is usually market oriented and have a few problems regarding bank finance. The other segment is subsistence type of economy that makes use of primitive methods of production and has lot of problems in financing agriculture credit.

Agricultural credit needs can be classified in three categories:

1. Short term
2. Medium term
3. Long term

Short term needs varies between 3 months to 15 months it is seasonal and for purchasing of seeds, fertilizers, pesticides and payment of wages and operational expenses. This type of need is mostly required by all farmers.

Medium term needs varies between 15 months to 5 years for the purchase of cattle, small agricultural implements, repairs and constructional wells etc.

Long term needs are required for the permanent improvement on lands, digging tube wells, purchase of larger agricultural implements and machinery like tractor, harvesters etc and
repayment of old debts. The period of such credit extends beyond 5 years. Commercial banks provide two types of loan i.e. crop loan and investment loan. Crop loan is a short term loan, stands due for repayment immediately after the harvesting of the crop whereas investment loan is a long term loan required for the purposes of capital formation on land.

Sources of agricultural credits

The various sources of agricultural credit can be classified in two groups.

1) Non Institutional Agencies

2) Institutional Agencies

Non institutional agencies include the local village money lender and their agents and landlords. Institutional agencies includes cooperatives societies, commercial banks regional rural banks and NABARD

Table 3.6 Sources of agricultural credit (In %)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>3.3</td>
<td>2.6</td>
<td>3.6</td>
<td>4</td>
<td>6.1</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Cooperative Societies</td>
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<td>22.7</td>
<td>28.6</td>
<td>21.6</td>
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<td>24.9</td>
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<td>Commercial Banks</td>
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<td>.6</td>
<td>4.0</td>
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<td>33.7</td>
<td>27</td>
<td>43.1</td>
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<td>Moneylenders</td>
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<td>67.4</td>
<td>68.4</td>
<td>38.8</td>
<td>32.7</td>
<td>41</td>
<td>21.9</td>
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<td>Others</td>
<td>1.8</td>
<td>13.9</td>
<td>1.3</td>
<td>.6</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Policy developments in respect of agricultural credit

Government and RBI views in respect of agricultural credit policy, can be divided into two phases

1. Period before 1970

Before 1970 the government was committed to the exclusive development of cooperatives as major source of institutional credit in rural areas. This period is called cooperative period.

2. Period since 1970

Two major developments occurred; the first was the green revolution in the wake of adoption of the new agricultural technology. The second was the nationalization of 14 major commercial banks in July 1969(six more commercial banks was nationalize in April 1980) .Multi agency Approach (MAA) was started regarding agricultural and rural credit. Commercial banks begin to participate with full heart in agriculture finance. Two new institutions known as regional rural banks and the farmers service societies were also establish during this period. The following table shows the share of commercial banks and cooperatives in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-operatives</th>
<th>Commercial Banks</th>
<th>Regional Rural</th>
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<tbody>
<tr>
<td>1970-71</td>
<td>100.0</td>
<td>-</td>
<td>-</td>
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<tr>
<td>1980-81</td>
<td>61.6</td>
<td>38.4</td>
<td>3.4</td>
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<tr>
<td>1990-91</td>
<td>49.0</td>
<td>47.6</td>
<td>8.0</td>
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<td>2000-01</td>
<td>39.4</td>
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<td>7.9</td>
</tr>
<tr>
<td>2001-02</td>
<td>38.0</td>
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<td>8.7</td>
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<tr>
<td>2002-03</td>
<td>34.1</td>
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<td>8.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>31.0</td>
<td>60.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Year</td>
<td>% of M</td>
<td>% of L</td>
<td>% of E</td>
</tr>
<tr>
<td>---------</td>
<td>--------</td>
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<td>--------</td>
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<tr>
<td>2004-05</td>
<td>25.0</td>
<td>65.0</td>
<td>8.5</td>
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<tr>
<td>2005-06</td>
<td>21.8</td>
<td>69.7</td>
<td>8.6</td>
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<td>2012-13</td>
<td>19.6</td>
<td>71.8</td>
<td>8.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>21.3</td>
<td>78.4</td>
<td>8.9</td>
</tr>
</tbody>
</table>

**Source:** Economic survey of India

### 3.12. INTRODUCTION ABOUT STUDY AREA - SALEM DISTRICT

Salem is a city of Tamil Nadu state in southern India. Salem located in the north central part of the southernmost state of India and also fifth-largest city of Tamil Nadu, area of over 5,205 sq km. Salem city is known for its mangoes, steel and Mettur dam, which is a major source of irrigation and drinking water for the state of Tamil Nadu. Salem is a Geologist paradise, surrounded by hills and the landscape dotted with hillocks. Yercard is one of important tourist place in Salem.

Salem got its name from the San skrit word ‘Sailam’ which means mountain. As this area is surrounded by hills, it is apt to be called Salem. Local folklore believes Salem to be the birthplace of the Tamil poetess Avvaiyar. It is a land of minerals. The hills around Salem have iron ore, bauxite, limestone, precious stones etc. Salem is the fifth largest city of Tamilnadu. This district was later divided into three: Dharmapuri, Namakkal and Salem. Another specialties:

S- for steel,
A – for aluminum,
L – for Limestone,
E- for electricity (There is hydro – electric power generation in Mettur) and
M – for mango (Salem mangoes are famous).
Yercaud, a beautiful hill station, is located here. Since Salem is a city with infrastructures well developed, tourists can stay in this place and visit the places in the neighboring districts of Namakkal and Dharmapuri.

**The Salem Steel Plant**

This was an ambitious project started with a view to utilise the locally available iron ore – from Kanchamalai to produce steel. Now it is a public sector company engaged in rolling outcast steels blocks into sheets of required dimensions by cold and hot extrusion methods.

**Mineral deposits:**

The district is rich in Mineral deposits like Magnasite, bauxite, granite, limestone, quartz, and iron ore. Allied industries like magnasite mining, cement manufacture, refractory bricks manufacture, aluminium smelting etc thrive well.

**Mettur Dam**

Mettur about 30 km From Salem is connected by rail. Buses also ply from Salem to Mettur. Mettur dam is one of the largest of its kind in the world. It is constructed in a gorge where the river Cauvery enters the plains. It was completed in 1934. Its height is 65 metre, length 1616 metre, are 15,540 hectare and capacity 2648 cubic metre. This is a hydro-electric power station producing 240 mega watt powers. Water is stored here during floods and rains and let out for irrigating to the deltaic regions of the Cauvery. There are a number of factories here like soaps and detergent manufacturing factories, galvanizing plants, Vanaspathi units etc. and with permit, visitors could see them. With permit, visitors could also enter the tunnel of the dam and also witness the hydro electric power station. The dam,
the park, the major Hydro Electric power stations and hills on all sides make Mettur a good tourist attraction.

**Agricultural produces:**

Many agricultural products from Salem have a wide spread market through out the country. Mango fruits from Salem are enjoyed and much sought after, specially the variety Malgova, which is the pride of Salem, besides a number of other newly introduced hybrid varieties. Tapioca, locally known as Maravalli or kuchi kilangu is extensively cultivated by the farmers of Salem. Salem holds a monopoly in tapioca production. The tubers are used primarily to produce starch. A variety of food items like chips, fryums, papads, noodles and vermicelli are also produced from tapioca. Tapioca and castor research centre functioning in Salem is engaged in research and development activates to produce high yielding and disease resistance varieties.

Sago Serve the largest co-operative society in Asia dealing in a single commodity, is located in Salem, run by the Government to provide a competitive market for the farmers gain a broader profit margin without hassle of the middle men

**Animal husbandry:**

The sheep research station located at Mecheri in Mettur, developed and produced the popular Mecheri breed. This breed is popular among the farmers and is mainly reared for meat purposes.

**Dairy:**

Salem Dairy has an impressive milk production and the district stands first in the production. A variety of milk products have been introduced by the dairy recently and are effectively marketed.
Tourism:

Salem is famous for its tourism attraction –Yercaud a summer hill resort. Its quite inexpensive yet exquisitely picturesque. The cool and milk climate prevailing here makes it an ideal summer retreat.

The shervarayan cave temple with a rivulet behind the idols is one the main spots of the tourists. Yercaud is also a good place or spices like coffee, cardamom, pepper, fruits like butter fruit, orange and butter fruit.

Apart for these Salem is famous for forts and monuments. Omalur and Sankagiri there are impressive forts with its elaborate and massive ramparts running all the way up the hill. These forts were said to have been the holding of King Tipu Sultan and “Theeran Chinnamalai” –a warrior who fought against British.

Population:

The population details of Salem are given below:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>1452713</td>
</tr>
<tr>
<td>Male</td>
<td>1563633</td>
</tr>
<tr>
<td>Rural</td>
<td>162612</td>
</tr>
<tr>
<td>Urban</td>
<td>1390184</td>
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<tr>
<td>Total</td>
<td>3016346</td>
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Animal Husbandry:

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Livestock</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cattle</td>
<td>560790</td>
</tr>
<tr>
<td>2</td>
<td>Buffaloes</td>
<td>126386</td>
</tr>
</tbody>
</table>
Agriculture in Salem

The Krishi Vigyan Kendra - Salem District & TamilNadu Agricultural University (TNAU) Coimbatore, Government of Tamilnadu, Welcomes you to the Official website with detailed information about our Departments and our official activities.

The Krishi Vigyan Kendra (KVK) sponsored by Indian Council of Agricultural Research (ICAR), Government of India was established in Sandhiyur, Salem District, Tamilnadu, India in the year 1994 with the major objective of Transfer of Technology in agriculture and allied fields. It is a multidisciplinary hub catering to the needs and aspirations of different farmers and stake holders.

The Krishi Vigyan Kendra is a District Knowledge Resource Centre functioning under Tamil Nadu Agricultural University with sponsorship of ICAR at Sandhiyur, Salem district. The focus of the Kendra is to provide district specific technical backstopping to the stakeholders to bridge the yield gaps through various innovative transfers of technology interventions. The main aim is to increase the agriculture output and thereby improve the socio-economic level of Salem District Agriculturists. The Kendra is implementing activities in different disciplines viz., Agronomy, Plant protection, Horticulture, Seed Technology, Agricultural Engineering, Social Sciences, Animal Husbandry, Home Science and Soil Science in form of technology assessment, refinements, demonstrations, trainings and entrepreneurs development programmes as per the mandates laid out by TNAU and ICAR

- On-farm testing to identify the location specificity of agricultural technologies under various farming systems
• Organize Frontline Demonstrations to establish production potential of technologies on the farmers’ fields

• Training of farmers to update their knowledge and skills in modern agricultural technologies

• Training of extension personnel to orient them in the frontier areas of technology development

• To work as resource and knowledge centre of agricultural technology for supporting initiatives of public, private and voluntary sector for improving the agricultural economy of the district

**Mandate and functions of KVK**

• Conducting On Farm Testing (OFT) to identify the location specificity of agricultural technologies in terms of location specific sustainable land use under various farming systems.

• Organizing Front Line Demonstrations (FLD) to establish production potential of various crops and enterprises on the farmer's field to generate production data and feedback information.

• Organizing need based training to farmers to update their knowledge and skills in modern agricultural technologies related to technology assessment, refinement and demonstration, and training of extension personnel with emerging advances in agricultural research on regular basis, to orient them in the frontier areas of technology
development.

- Organizing short term and long term vocational training courses in agriculture and allied vocations for the farmers, farm women, rural youths and self help groups with emphasis on learning by doing for higher production on farms and generating self employment.

- Creating awareness about improved technologies to larger masses through appropriate extension programmes.

- Production and supply of good quality seeds and planting materials, livestock, poultry and fisheries breeds and various bio-products to the farming community.

- Work as resource and knowledge centre of agricultural technology for supporting initiatives of public, private and voluntary sector for improving the agricultural economy of the district

- Providing farm advisory services

**Thrust area**

- Popularization of new high yielding varieties and hybrids

- Popularization of labour saving farm implements

- Sustainable sugarcane initiative and System of Rice Intensification

- Precision farming technology
• Seed Production technologies

• Protray nursery techniques in vegetable crops

• Propagation techniques in horticulture crops

• Value added products in fruits and vegetables

• Micro irrigation & fertigation

• Soil & moisture conservation

• Integrated weed management

• Integrated nutrient management for Agricultural and Horticultural Crops

• Rejuvenation of old & unproductive orchards of fruit crops

• Organic farming

• Improved Agricultural Practices in Mango

• Integrated Pest and Disease management

• Integrated Nutrient Management

• Natural Resource Management

• Soil health and nutrient status

• Feeding management in Livestock and Poultry
- Reproductive management in ruminants and small ruminants

- Disease management in Livestock

- Japanese quail and Turkey rearing

- Fodder cultivation and feeding management in dairy cattle

**Location specific objectives**

- Popularization of high yielding varieties and hybrids in agricultural and horticultural crops

- Introduction of new production technologies for increasing yield in agricultural and horticultural crops

- Integrated nutrient management for agricultural and horticultural crops

- Integrated weed management

- Promotion of organic farming

- Balanced and economic nutrient management for agricultural crops.

- Promoting IPM techniques and creating awareness on the use of biocontrol agents in pest management

- Popularization of labour and time saving farm implements

- Use of efficient water management systems