5. AGRICULTURAL CREDIT MANAGEMENT

Capital accumulation plays a pivotal role in almost all the models of growth and development because it raises the productive capacity of the sector where it takes place. The capital accumulation depends on the rate of investment, which in turn depends on the rate of savings. The financial institutions play a dominant role in mobilizing savings and then channelizing those savings into productive economic activities. Therefore, role of financial institutions is crucial in the development of any sector and agriculture is no exception to it. Rather, the development of agriculture sector is more dependent on banking sector because 80 percent of farmers are small and marginal, who are unable to save and invest due to their low levels of income. Further, about 70 percent of the population of India lives in rural areas contributing about 24.2 per cent to gross domestic product (GDP) and forms the largest consuming market leading to income and employment generation through multiplier effects.

Banking sector helps in the monetization of the economy. Agriculture is the most crucial sector of the country because the main policies of output growth, poverty alleviation, social justice and equity are best served in this sector. Thus there is a need to increase the credit flow to agriculture, raise productive capacity of land and enhance the potential of water resources as well as its use efficiency for agricultural production.

When the country faced the problem of food shortages in the early sixties, agricultural public policy aimed at increasing productivity and production of food grains to meet this challenge. The cultivation of dwarf wheat and rice varieties which were highly responsive to purchased inputs like fertilizers, agro-chemicals and irrigation required capital at the farm level. Agricultural credit scenario was largely dominated by private informal sources of credit i.e. professional money lenders and traders. The participation of commercial banks was negligible in agricultural loans. Farmers’ level of income was low and they were hesitant to use modern technology. Therefore, agricultural credit policy aimed at increasing the flow of institutional credit at reasonable rates of interest to agriculture sector. The cooperative credit structure was strengthened by reorganizing and merging weak societies with strong societies. The number of village level co-operative societies also increased. Presently, more than
92,000 primary agricultural cooperative credit societies are working in villages. Commercial banks (CBs) were nationalized in 1969 and mandated to increase their geographical and functional presence in the rural areas. Consequently, the number of rural branches of CBs increased from just 1833 in 1969 to 32,121 in 2004. Another credit institution lending exclusively to the weaker sectors of the rural areas, known as Regional Rural Banks (RRBs), was set up in 1975. To meet the challenges of institutional credit and refinance needs, an apex institution called National Bank for Agricultural and rural Development (NABARD) was setup in 1982. In order to increase the flow of credit new approaches such as Service Area approach, Microfinance and Kisan Credit Cards were also initiated. There is now a very strong network of rural and semi-urban branches catering to requirements of agriculture sector and rural areas. The growth of agricultural advances has also been significant over the years. The direct agricultural advances has increased form Rs. 4,361 crores in 1980-81 to Rs. 17,762 crores in 2000-01 at an annual growth rate of 6.6 per cent at 1990-91 prices. If we compare the growth of agricultural credit in real terms since 1980s, it was noted that growth was very high in the period of 1980-81 through 1989-90, when Green Revolution technology was in full bloom. The new technology was widely adopted and capital investments on developing irrigation structures, farm mechanization and land reclamation were made to realize the full potential of new high yielding technology. However, during the period of deceleration in growth of agricultural productivity, the growth of institutional credit also slowed down significantly from around 10.6 per cent in the earlier period (1980-81 through 1989-90) to 6.8 per cent in the later period (1989-90 through 2000-01). A target of 18 percent of net bank credit has been set for advancing credit to agriculture by scheduled commercial banks (SCBs). Despite significant growth in agricultural advances, only 5 SCBs have achieved this target showing that still greater effort for increasing agricultural credit is required from SCBs.

**SOURCES OF AGRICULTURAL CREDIT**

The sources of agricultural finance are broadly classified into two categories:

(A) Non institutional Credit Agencies or informal sources, and
Agricultural Credit Management

(B) Institutional Credit Agencies or Formal Sources.

A. Non-institutional Credit Agencies

i) Traders and Commission Agents: Traders and commission agents advance loans to agriculturists for productive purposes against their crop without completing legal formalities. It often becomes obligatory for farmers to buy inputs and sell output through them. They charge a very heavy rate of interest on the loan and a commission on all the sales and purchases, making it exploitative in nature. It an important source of finance in case of cash crops like cotton, tobacco and groundnut.

ii) Landlords: Mostly small farmers and tenants depend on landlords for meeting their financial requirements.

iii) Money lenders: Despite rapid development in rural branches of different institutional credit agencies, village money lenders still dominate the scene. Money lenders are of two types- agriculturist money lenders who combine their money lending job with farming and professional money lenders whose sole job is money lending. A number of reasons have been attributed for the popularity of moneylenders such as: (a) they meet demand for productive as well as unproductive requirement; (b) they are easily approachable at odd hours; and (c) they require very low paper work and advances are given against promissory notes or land. Money lenders charge a very high rate of interest as they take advantage of the urgency of the situation. Over the years a need for regulation of money lending has been felt. But lack of institutional credit access to certain sections and areas had facilitated unhindered operation of money lending. Cooperative credit and self-help groups can play a major role in control of money lending.

B. Institutional Credit Agencies

i) Government: These are both short term as well as long-term loans. These loans are popularly known as “Taccavi loans” which are generally advanced in times of natural
calamities. The rate of interest is low. But it is not a major source of agricultural finance.

ii) Cooperative Credit Societies: The history of cooperative movement in India dates back to 1904 when first Cooperative Credit Societies Act was passed by the Government. The scope of the Act was restricted to establishment of primary credit societies and non-credit societies were left out of its purview. The shortcomings of the Act were rectified through passing another Act called Cooperative Societies Act 1912. The Act gave provision for registration of all types of Cooperative Societies. This made the emergence of rural cooperatives both in the credit and noncredit areas, though with uneven spatial growth. In subsequent years a number of Committees were appointed and recommendations implemented to improve the functioning of the cooperatives.

Soon after the independence, the Government of India following the recommendations of All India Rural Credit Survey Committee (1951) felt that cooperatives were the only alternative to promote agricultural credit and development of rural areas. Accordingly, cooperatives received substantial help in the provision of credit from Reserve Bank of India as a part of loan policy and large scale assistance from Central and State Governments for their development and strengthening. Many schemes involving subsidies and concessions for the weaker sections were routed through cooperatives. As a result cooperative institutions registered a remarkable growth in the post-independence India.

iii) Commercial Banks:

Previously commercial banks (CBs) were confined only to urban areas serving mainly to trade, commerce and industry. Their role in rural credit was meager i.e., 0.9 per cent in 1951-52 and 0.7 per cent in 1961-61. The insignificant participation of CBs in rural lending was explained by the risky nature of agriculture due to its heavy dependence on monsoon, unorganized nature and subsistence approach. A major change took place in the form of nationalization of CBs in 1969 and CBs were made
to play an active role in agricultural credit. At present, they are the largest source of institutional credit to agriculture.

**Box 5.1: Lead Bank Scheme**

The National Credit Council (NCC) had appointed a Study Group in 1969 under the Chairmanship of Prof. D. R. Gadgil to suggest an appropriate organizational framework for effective implementation of social objectives. The Study Group recommended an ‘Area Approach’ for the development of financial structure through intensive efforts. The same year, RBI appointed Nariman Committee to study this recommendation. The Committee endorsed the views of the Study Group on ‘Area Approach’ and recommended the formulation of ‘Lead Bank Scheme’. The RBI accepted the recommendation and ‘Lead Bank Scheme’ came into force from 1969. As per this scheme a particular district is allotted to a specific bank which takes a lead role in identifying the potential areas for banking and banking development and in expanding credit facilities in the district. Functions of Lead Banks are:

(i) Surveying of potential areas for development of banking in the district

(ii) identifying business establishments which were hitherto dependent on non institutional agencies and financing them so as to enable them to raise their resources and surpluses from the advances made by the bank.;

(iii) examining the marketing facilities available for disposal of agricultural and industrial commodities and linking credit with marketing;

(iv) assisting other lending agencies;

(v) developing contracts and maintaining liaison with Government and other agencies;

(vi) Preparing district credit plans much ahead of the season with the help of technical committee.

The lead bank is not a monopolist in banking business in the district but acts as a consortium leader for coordinating the efforts of all financial institutions operating in the district. By June 1992, all the districts of the country were covered under this scheme.
iv) **Regional Rural Banks (RRBs):** RRBs were set up in those regions where availability of institutional credit was found to be inadequate but potential for agricultural development was very high. However, the main thrust of the RRBs is to provide loans to small and marginal farmers, landless laborers and village artisans. These loans are advanced for productive purposes. At present 196 RRBs are functioning in the country lending around Rs 9,000 crores to rural people, particularly to weaker sections. Table 1 shows the relative share of different agencies in institutional credit flow to agriculture:

**Table 5.1: Share of different agencies in flow of institutional credit for agriculture**

(Rs. Crores)

<table>
<thead>
<tr>
<th>Institution</th>
<th>1999-00</th>
<th>2000-01</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Banks</td>
<td>18,363</td>
<td>20,801</td>
<td>23,604</td>
<td>24,296</td>
<td>26,959</td>
<td>24,471</td>
</tr>
<tr>
<td>Share (%)</td>
<td>40</td>
<td>39</td>
<td>38</td>
<td>34</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>3,172</td>
<td>4,219</td>
<td>4,854</td>
<td>5,467</td>
<td>7,581</td>
<td>9,176</td>
</tr>
<tr>
<td>Share (%)</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>24,733</td>
<td>27,807</td>
<td>33,587</td>
<td>41,047</td>
<td>52,441</td>
<td>52,038</td>
</tr>
<tr>
<td>Share (%)</td>
<td>53</td>
<td>53</td>
<td>54</td>
<td>58</td>
<td>60</td>
<td>61</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46,268</strong></td>
<td><strong>52,827</strong></td>
<td><strong>62,045</strong></td>
<td><strong>70,810</strong></td>
<td><strong>86,981</strong></td>
<td><strong>85,686</strong></td>
</tr>
</tbody>
</table>

Note: * upto Dec 2004

Box 5.2: Kisan Credit Card Scheme

In spite of various measures to rejuvenate farm credit, the flow of credit remained quantitatively and qualitatively poor. The institutional sources of credit meet only 51 per cent of the credit requirements of farm sector. The non-institutional sources were mainly reached by farmers due to lack of collaterals, frequent needs, undue delays, complicated procedures and malpractices adopted by institutional lending agencies.

With a view to inquire into the reasons for the problems of the farm credit and suggest measure for improving the delivering system, RBI set up a one man Committee of Shri R. V. Gupta to in December 1997. The Committee submitted its report in April 1998. It was against this background that RBI directed all Public Sector Banks (PSBs), RRBs and cooperative banks to introduce “Kisan Credit Card Scheme (KCCS)” on the lines of the model scheme formulated by NABARD and in due course of time the KCCS was adopted by all the directed agencies.

The KCCS aims at adequate and timely support from banking system to the farmer for crop production and ancillary activities. The credit limit (loan) is sanctioned in proportion to the size of the owned land but some flexibility is provided for leased-in land in addition to owned land. The borrowing limit is fixed on the basis of proposed cropping pattern. Most of the banks are adhering to Scales of Finance (SOF) decided by the State Level Bankers Committee (SLBC) but some banks have fixed their own SOF. The nature of credit extended under KCCS is revolving cash credit i.e., it provides for any number of withdrawals and repayments within the limit. This feature would provide flexibility and reduce the interest burden upon KCCS beneficiary. Security and margin norms would be in conformity with the guidelines issued by RBI and NABARD from time to time. With effect from 2001-2002, it was made obligatory for the implementing agencies to operate the KCCS with an in-built component of life-insurance for KCCS beneficiary. The KCCS as envisaged has substituted all other existing institutional modes of short term credit delivery.
v) Micro financing: Micro financing through Self Help Groups (SHG) has assumed prominence in recent years. SHG is group of rural poor who volunteer to organize themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a common fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management.

Generally, a self-help group consists of 10 to 20 persons. However, in difficult areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this number may range from 5-20. As soon as the SHG is formed and a couple of group meetings are held, an SHG can open a Savings Bank account with the nearest Commercial or Regional Rural Bank or a Cooperative Bank. This is essential to keep the thrift and other earnings of the SHG safely and also to improve the transparency levels of SHG’s transactions. Opening of SB account, in fact, is the beginning of a relationship between the bank and the SHG. The Reserve Bank of India has issued instructions to all banks permitting them to open SB accounts in the name of registered or unregistered SHGs.

By initially managing their own common fund for some time, SHG members not only take care of the financing needs of each other, but develop their skills of financial management and intermediation as well. Lending to members also enhances the knowledge of SHG members in setting the interest rate and periodic loan installments, recovering the loan, etc.

The SHG-bank linkages programme has emerged as the major micro-finance programme in the country. NABARD has played a major role in development of SHG-Bank linkages with involvement of Non Governmental Organizations (NGOs) in the process. There are three models of SHG-bank linkages that have evolved over time:

*Model I. SHGs formed and financed by banks:* In this model, the bank itself takes up the work of forming and nurturing the groups, opening their bank accounts and
providing them with bank loans after satisfying itself as to their maturity to absorb credit. In case the bank is also the programme implementing agency.

Model II. SHGs formed by NGOs and formal organizations but directly financed by the banks: In this model, groups are formed by NGOs (in most cases) or by government agencies. The groups are nurtured and trained by the agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, where NGOs play a major role. The model has also been popular with and more acceptable to banks, since some of the difficult functions of social dynamics are externalized. Around 75 percent of the total number of SHGs is financed under this model.

Model III. SHGs financed by banks using NGOs and other agencies as financial intermediaries: For various reasons, banks in some areas are not in a position even to finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance intermediaries. First, they promote the groups, nurture and train them and then they approach banks for bulk loans for on lending to SHGs.

While 563 districts in all the States/UTs have been covered under this programme, 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks along with 3024 NGOs are now associated with this initiative. The number of SHGs linked to the banks aggregated 1,276,035 as on December 30, 2004. Cumulative disbursement of bank loan to these SHGs stood at Rs. 5,038 crore as on the same date.
1. Primary Agricultural Cooperative Societies (PACS)

Following the ‘Raiffeisen Model’, PACS came to existence after the enactment of Cooperative Credit Societies Act 1904. PACS functions on the basis of cooperative principles of voluntary participation, democratic control, limited area of operation and limited liability. These societies work at the village level and are meant for the farmers regarding provision of requisite short term and medium term loans. Supply of agricultural inputs and other essential commodities is also taken up by these societies. In addition to these PACS also helps in formulation and implementation of agricultural development plans for the welfare of its members. The PACS are associated with following functions:
(i) They borrow adequate and timely funds from DCCBs and help the members in financial matters;

(ii) they attract local savings in the form of share capital and deposits from the villagers, thereby inculcating the habit of thrift;

(iii) they supervise the end use of credit;

(iv) they make available fertilizers and insecticides etc. to the needy farmers;

(v) they provide machinery on hire basis to the farmers;

(vi) they associate with the programmes and plans meant for the socio-economic development of the village;

(vii) they are also involved in the marketing of farm produce on behalf of the farmer-borrowers;

(viii) they provide storage facilities and marketing finance; and

(ix) they supply certain consumer goods like rice, wheat, sugar, kerosene, cloth etc. at fair prices.

2. **District Central Cooperative Banks (DCCBs)**

DCCBs function as a link between the PACS and State Cooperative Banks (SCBs). They are basically meant for meeting the credit requirement of PACS. They also undertake banking business such as accepting deposits from public, collecting bills, cheques, drafts etc. and providing credit to the needy persons. The area of operation varies from taluka to district but in most of the states their operations are confined to the taluka level. Membership of the DCCBs is open to individuals and societies working in its area of operation. Marketing societies, consumer societies, farming societies, urban banks and PACS are usually enrolled as members of this bank. The specific functions of the bank are:

(i) to supervise and inspect the activities of PACS and help the credit societies run smoothly;

(ii) to maintain close and constant contact and guide the primary societies and provide leadership to them;
(iii) to undertake non-credit activities like supply of seeds, fertilizers besides sugar, kerosene and other consumer goods;
(iv) to provide requisite funds to societies under their control; and
(v) to accept deposits from the member societies as well as from public.

3. State Cooperative Bank (SCB)

SCBs are at the apex of the cooperative credit organization present at the state capitals. They perform the same functions for the DCCBs as the latter does for the PACS. The membership comprises of DCCBs and individuals. Being at the apex level, this bank mobilizes and deploys financial resources among the various sectors. It finances and controls the working of the DCCBs in the state. It also serves as a link between the RBI and DCCBs. The Specific functions of SCBs:

(i) SCBs perform as the banker’s bank for the DCCBs;
(ii) SCBs banks facilitate the respective Sate Governments to draw up cooperative and other development plans as well as their implementation;
(iii) they act as a link between the DCCBs and the RBI;
(iv) they supervise, control and guide the activities of DCCBs;
(v) these banks also perform normal banking operations;
(vi) they grant subsidies to DCCBs for development of cooperative activities;
(vii) they formulate and implement uniform credit policies; and
(viii) these banks coordinate their own policies with those of the cooperative movement of the government.

4. Primary Land Development Banks (PLDBs)

The establishment of the Land Mortgage Bank (LMBs) on cooperative lines dates back to the year 1920 in Punjab. Later during the period 1920-29, a number of LMBs were established in the states of Punjab, Madras, Mysore, Assam and Bengal. After that not much growth was observed in the number of LMBs till 1945. However, during 1945-53 a rapid growth was observed in the number of these banks. During
this period only rich and affluent farmers derived benefits of these banks and small and marginal farmers remained untouched of the developments. LMBs got massive support from the RBI, SBI, LIC and Agricultural Refinance Corporation. As a result LMBs had to reorient its lending policies in favour of marginal and small farmers. LMBs were renamed as Land Development Banks (LDBs) in 1974. Primary LDBs are generally organized to serve the farmers at Taluka level. Its specific functions are:

(i) to provide long term finance to the needy farmers for the development of land, increasing production and productivity of land;
(ii) to provide long term loan for minor irrigation and for redemption of old debts and purchase of land;
(iii) to provide long term finance for purchase of tractors, machinery and equipments and construction of farm structures; and
(iv) to mobilize rural savings.

5. Central Land Development Bank (CLDBs)

In many states PLDBs are federated into CLDBs. Branches of CLDBs, PLDBs and individual entrepreneurs are the members of the CLDB. NABARD and LIC subscribe for its debentures in large amounts. In fact, NABARD is the refinance agency of CLDBs. It acts as a link between NABARD and the Government in long-term business transactions. It supervises and guides the PLDBs. It inculcates the practice of thrift among member banks by mobilizing savings and stimulating capital formation. The CLDBs provides loans to member banks for the redemption of old debts, improvement, reclamation and development of land, purchase of agricultural machinery and equipment and development of minor irrigation.

6. Large-sized Adivasi Multi-purpose Cooperative Societies (LAMPS)

LAMPS were organized for the first time in December 1971 on the lines of FSS on the recommendation of Bawa team appointed by the Government of India to look into the credit problems of tribal areas. According to its framed objectives, these societies
are expected to provide all types of credit including consumption credit through a single window. Intensification and modernization of agriculture with appropriate technical guidance and improving the marketing of agricultural and forest products in the tribal areas, are their other objectives.

**Membership and Area of Operation:** All tribes can become members of this society on voluntary basis. It can cover an area of a block to a taluka.

**Sources of Capital:** Share capital of members and state governments, entrance fee, reserve fund, deposits collected from members and non-members and loans taken from cooperative institutions, Government are the various sources of capital.

**Management:** These are managed by a Board of Directors comprising 11 members. Five directors come from tribal members, two from non-tribal members, two nominated by the Registrar of cooperatives and two nominees from the lead bank of the district. One of the nominees acts as the Managing Director of LAMPS.

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**Box 5.3: Farmers Service Societies (FSS)**

Farmers Service societies are registered cooperative bodies based on the principles of cooperation and governed by cooperative by-laws. Since the PACS are biased towards affluent sections of rural areas, a need for a special body to serve weaker sections was felt. FSS were organized in 1971, on the lines of Cooperative to provide integrated credit services to the weaker sections of rural areas i.e., small and marginal farmers, rural artisans and agricultural laborers.

The specific function of the FSS is:

i) to supply all types of loans to weaker sections viz. crop loans, medium term loans and long term loans;

ii) to provide adequate supply of requisite inputs and technical guidance for the development of agriculture on timely and regular basis;

iii) to encourage dairy, fisheries, poultry, farm forestry and other subsidiary occupations in rural areas;
iv) to make arrangements for bringing about improvements in agricultural markets; and
v) to mobilize deposits and small savings from weaker sections through incentives.

**Area of operation:** The societies have been launched in selected districts. Each society has a jurisdiction of a block or a portion thereof. A district union of these societies is there at the district level to suggest ways and means for improving and organizing these societies for executing specific activities. The membership of these societies is open to those who are eligible to get assistance under Small Farmers Development Agency (SFDA) and Marginal and Small Farmers Development Agency (MFAL) programmes. Others may be associate members without any voting rights.

**Sponsorship:** The lead bank of the district generally sponsors the FSS in financial matters

**Capital Structure:** The various sources for funds are: share capital, loans, funds contributed by commercial banks, cooperative societies, subsidies from SFDA and MFAL and commissions accrued to the society through supply of essential inputs and interest on advances. Share capital is contributed by its members, lead bank and the State Government.

**Management:** The number of the members of the Board of Directors varies from 9 to 13 depending upon the size of the society. One full-time managing director is deputed by the lead bank. Five directors will be elected from the members of the society of which three are from small and marginal categories and two from other farmers. The remaining directors are representatives of financial institutions. Block Development Office, Department of Agriculture and Cooperative societies.
REGIONAL RURAL BANKS

The establishment of Regional Rural Banks (RRBs) has been a landmark in the history of rural banking. Till 1968, the official policy was in favour of developing cooperative credit system. In 1969, All India Rural Credit Review Committee found that over large parts of the country small farmers had been lacking access to cooperative credit. Further, the quantum of credit from the cooperative system was too little to meet the credit requirements of agriculture. In 1969 a major effort was made to improve rural credit delivery system through nationalization of 14 commercial banks which emphasized on opening of rural branches. But rural branches of commercial banks (CBs) proved to be a source of channelizing savings from rural areas to urban areas. They also lacked trained personnel to handle rural issues and acted more as a competitor to the cooperative credit system rather than supplementing it. As CBs worked more for profit earning, they failed to include the disadvantaged sections of the society in their banking domain.

Thus keeping these shortcomings in view, Banking Commission 1972 recommended that a chain of rural banks be set up in addition to the regular branches of commercial banks. A Working Group was set up under the chairmanship of Mr. M. Narasimham to give suggestions to improve the rural credit delivery system. The Group suggested institution of Regional Rural Banks as a means to provide low cost credit to rural artisans, landless laborers and small and marginal farmers. The 20 point programme of the Government also envisaged making credit available to weaker sections of the society. Thus the Regional Rural Banks ordinance was promulgated by the president on 26th September, 1975 which came into force with immediate effect. On October 2, 1975 five RRBs were set up at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The Ordinance of 1975 was replaced by the Regional Rural bank Act 1976.
RRBs were expected to play a vital role in mobilizing the savings of the small and marginal farmers, artisans, agricultural laborers and small entrepreneurs and inculcate banking habit among the rural people. These institutions were also expected to plug the gap created in extending the credit to rural areas by largely urban-oriented commercial banks and the rural cooperatives, which have close contact with rural areas but fall short in terms of funds.

a. Objectives

The RRBs have following objectives:

1. to develop rural economy;
2. provide credit for agriculture and allied activities;
3. to encourage village industries, artisans, carpenters, craftsmen, etc.;
4. to reduce dependence of weaker sections on money-lenders;
5. to identify a specific and functional gap in the present institutional structure;
6. to supplement the other institutional agencies in credit delivery to rural areas, and
7. to make backward and tribal areas economically better by opening new branches.

b. Characteristic features of Regional Rural Banks

1. Sponsorship: Every RRBs is sponsored by a commercial bank, usually the lead bank of the district. In some areas State Cooperative Banks and Private Banks are allowed to sponsor RRBs.

2. Jurisdiction: The operational area to be covered by each RRB varies from one to two districts for efficient functioning. The number of branches in the area covered by each RRB may range from 50 to 60 keeping in view the operational and financial efficiency. Each branch of a RRB is expected to
serve a population of approximately 20,000. However, these are subject to change as per the direction of the Central Bank of the country.

3. **Management**: The management of the bank is in the hands of a Board of Directors numbering eight, headed by a Chairman, who is an Officer of the sponsoring bank. Of the eight Directors, three are nominees of the sponsoring bank, two from State Government dealing with district development programmes and three from the Central Government. The sponsoring bank provides assistance to RRBs for the first five years in recruitment and operational matters.

4. **Share Capital**: The authorized share capital of a RRB has been fixed at Rs 1 Crore and issued capital at Rs 25 lakhs. This is contributed by the Central Government, State Government and the sponsoring Bank in the ratio of 50, 15 and 35, respectively. On the recommendation of working group of 1986, the Government has increased the authorized capital to Rs 5 Crores and issued capital to Rs 1 Crore to improve their viability.

5. **Functions**: The main functions of RRBs are to grant loans and advances particularly to small and marginal farmers, agricultural laborers, cooperative societies, artisans and small entrepreneurs within its operational area. They extend other banking facilities also such as issuing of drafts, collection of cheques etc. They also play a vital role in the rural developmental programmes of the Government.

6. **Rate of Interest**: The rate of interest on the loans charged is the same as collected by PACS. They have been allowed to offer 0.50 per cent higher interest on deposits than offered by CBs.

i) **Special Concessions to RRBs**:

a. Statutory Liquidity Ratio(SLR) to be maintained is fixed at 25 per cent as against 38 per cent by CBs;
b. RRBs are allowed to pay 0.5 per cent higher interest rate to its depositors over the interest rates paid by CBs;

c. Cash Reserve Requirement (CRR) of 3 per cent to be maintained with RBI as against 10 per cent by CBs;

d. They are allowed to draw refinance from NABARD to the extent of 50 per cent or more depending upon the type of advance of the eligible outstanding loans at a concessional interest rate of 7 per cent per annum; and

e. The RRBs are registered as insured banks with Deposit Insurance and Credit Guarantee Corporation of India (DICGC). All deposits up to 30,000 in each bank are accordingly insured with the DICGC thus providing protection to the depositors.

c. Performance of RRBs

The Narasimham Committee (1991) made a number of observations on the functioning of RRBs. According to him RRBs had low earning capacity. They had not been able to earn much profit in view of their policy of restricting their operations to target groups. The recovery position of RRBs was not satisfactory. There were a large number of defaulters. Their cost of operation was high on account of the increase in the salary scales of the employees in line with the salary structure of the employees of commercial banks. In most cases, these banks followed the same methods of operation and procedures as followed by commercial banks. Therefore, these procedures did not found favour with the rural masses. In many cases, banks were not located at the right place. For instance, the sponsoring banks were also running their branches in the same areas where RRBs were operating. The Committee also made remedial measures for better performance of these banks. The Committee also suggested ways and means to improve the functioning of RRBs. It included streamlining if interest rates at par with CBs and alternative to merge with the sponsor banks in case of non-viable RRBs.
However, in period following this report RRBs made impressive strides on various business indicators. For instance, deposits of RRBs have grown by 18 times and advances by 13 times between 1980 and 1990. Between 1990 and 2004, deposits and advances grew by 14 times and 7 times, respectively (Table 2). Between the year 2000 and 2004, loans disbursed by RRBs more than doubled reflecting the efforts taken by the banks to improve credit flow to the rural sector. The average per branch advances also increased from Rs.25 lakh in March 1990 to Rs.154 lakh in March 2003. When one considers the deployment of credit relative to the mobilization of resources, the credit-deposit (C-D) ratio of RRBs were more than 100 per cent during the first decade of their operations up to 1987. Though the C-D ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 per cent in March 2000 to 44.5 per cent in March 2004.

**Table 5.2: Evolution of RRBs: Select Indicators**

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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of RRBs</td>
<td>85</td>
<td>188</td>
<td>196</td>
<td>196</td>
<td>196</td>
<td>196</td>
</tr>
<tr>
<td>Capital</td>
<td>21</td>
<td>46</td>
<td>91</td>
<td>166</td>
<td>1959</td>
<td>2221</td>
</tr>
<tr>
<td>Deposits</td>
<td>222</td>
<td>1315</td>
<td>4023</td>
<td>11141</td>
<td>32226</td>
<td>56295</td>
</tr>
<tr>
<td>Advances</td>
<td>262</td>
<td>1405</td>
<td>3384</td>
<td>5987</td>
<td>12427</td>
<td>25038</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>NA</td>
<td>NA</td>
<td>480</td>
<td>1158</td>
<td>3938</td>
<td>5535</td>
</tr>
<tr>
<td>Total Income</td>
<td>NA</td>
<td>NA</td>
<td>53</td>
<td>1230</td>
<td>4145</td>
<td>6231</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>NA</td>
<td>NA</td>
<td>12</td>
<td>-280</td>
<td>524</td>
<td>1044</td>
</tr>
</tbody>
</table>

Source: Mishra (2006)
### TABLE 5.3: Direct Institutional Credit For Agriculture And Allied Activities - Total (Short-Term And Long-Term)

(Rs. crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Issued</th>
<th></th>
<th></th>
<th>Loan Outstanding</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coop.</td>
<td>S.G.</td>
<td>SCBs</td>
<td>RRBs</td>
<td>Total (2 to 5)</td>
<td>Coop.</td>
<td>SCBs</td>
<td>RRBs</td>
<td>Total (7 to 9)</td>
<td></td>
</tr>
<tr>
<td>1972-73</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>1156</td>
</tr>
<tr>
<td>1980-81</td>
<td>2479</td>
<td>153</td>
<td>1496</td>
<td>168</td>
<td>4296</td>
<td>4821</td>
<td>3541</td>
<td>273</td>
<td>8635</td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>4819</td>
<td>359</td>
<td>4676</td>
<td>335</td>
<td>10188</td>
<td>10531</td>
<td>17032</td>
<td>1753</td>
<td>29316</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>27295</td>
<td>487</td>
<td>16440</td>
<td>3966</td>
<td>48187</td>
<td>46135</td>
<td>38270</td>
<td>7249</td>
<td>91654</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>58787</td>
<td>-</td>
<td>160690</td>
<td>26499</td>
<td>245976</td>
<td>64045</td>
<td>256119</td>
<td>37367</td>
<td>357531</td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>74938</td>
<td>-</td>
<td>34640</td>
<td>-</td>
<td>-</td>
<td>76480</td>
<td>-</td>
<td>46282</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>


**Note:**
1. Data up to 1990-91 pertain to the period July-June and April-March thereafter. In case of SCBs, data for all the years pertain to July-June period.
2. RRBs came into existence in 1975-76.
3. The data since 1999-2000 are strictly not comparable with the earlier years as it covers not only PACS but also SCARDBs and PCARDBs, while the earlier period covers PACS only.

**Source:**
1. Reserve Bank of India.
I. Genesis

Prior to independence, long term credit requirement for agriculture were met by money lenders and to a small extent by state governments. Considering this, All India Rural Credit Survey Committee (1951) and Committee on Cooperative Credit (1960) emphasized the need for arrangements for long-term finance for investment in agriculture and suggested the establishment of an institution at the apex level. The Standing Advisory Committee of RBI on Agriculture Credit had also supported the recommendations. Consequent to their recommendations, Parliament through an Act of 1963 provided for the establishment of Agriculture Refinance Corporation (ARC) from July 1, 1963. It was basically a refinancing agency, meant for promotion and development of agriculture through long-term financial assistance. Considering its developmental and promotional role, it was renamed as Agricultural Refinance and Development Corporation (ARDC). Ever since its inception, it financed term finance which included medium term and long term loans for major agricultural development projects, which were so far neglected by existing financial institutions.

ARDC could not make much headway in the field of direct financing and delivery of rural credit against the massive credit demand for rural development. Its role to meet the challenges in integrated rural credit through institution building, training, research, policy making, planning and providing expertise in the diverse disciplines of finance was inadequate and insufficient. As a result many committees and commissions viz. Banking Commission (1972), National Commission on Agriculture (1976) and Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1979 under the chairmanship of B. Shivaraman, former member of planning Commission recommended the setting up of a National Level Institution called National Bank for Agricultural and Rural Development (NABARD) for providing all types of production and investment credit for agriculture and rural development. In pursuance to their recommendations, NABARD came into
existence in July 1982. The erstwhile ARDC, the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI were merged with NABARD.

II. Objectives

As an apex refinancing institution NABARD purveys all types of credit needed for the farm sector and rural development. It is also vested with the responsibility of promoting and integrating rural development activities through refinance. The bank is also providing direct credit to an institution or agency or an individual subject to the approval of the Central Government. It has close links with RBI for guidance and assistance in financial matters. As an effective catalytic agent for rural development and in formulation of appropriate rural development plans and policy, its role is remarkable.

III. Functions

i) It helps in planning and operational matters related to credit for agriculture and allied activities, rural artisans, village industries and other rural development activities;

ii) It extends refinance to commercial banks for term loans in relation to agriculture and rural development;

iii) It provides short term credit to state cooperative banks, RRBs, and any other financial institution notified by RBI for a period not exceeding 18 months by way of refinance for agricultural operations, marketing of crops and marketing and distribution of agricultural inputs.

iv) It makes direct loan by way of refinance to all eligible institutions for a period not exceeding 25 years.
v) It provides finance for production and marketing activities of rural artisans, cottage industries, small-scale industries, handicrafts etc. in the rural areas.

vi) It facilitates all eligible financial institutions for conversion of production loans into term loans in the times of natural calamities.

vii) It contributes to share capital and securities of eligible institutions and State Governments concerned with agriculture and rural development. It also helps State Governments to contribute to the share capital of eligible institutions working for rural development.

viii) It offers advice and guidance to State Governments, co-operative federations and National Cooperative Development Corporation (NCDC) and functions in close contact with Central Government in matters related to agriculture and rural development.

ix) It coordinates and monitors all agricultural and rural lending activities with a view to tie up with extension and planned development activities in rural areas; and

x) It conducts training, consultancy and research relating to agricultural finance and agricultural and rural development.

IV. Management

The management of NABARD is vested in the Board of Directors which consists of a Chairman, two directors from amongst experts in rural economics, three directors out of whom two be persons with experience in cooperative banking and one with experience in commercial banking, three directors from among the officials of the State Governments, and a Managing Director. Directors of the Board of Management
are appointed by the Central Government in consultation with the Reserve Bank of India (RBI).

V. Sources of Funds

Authorized share capital of NABARD is Rs 500 crores and issues and paid up capital is Rs 100 crores. NABARD accrues additional funds from borrowings from the Government of India and any institution approved by the Government of India, issue and sale of bonds i.e. Rural Infrastructural Development Bond, borrowings from RBI, deposits from State Governments and local authorities and gifts and grants received.

VI. Performance of NABARD

In the last two decades of its existence NABARD has taken many initiatives to meet the credit requirement for the development of agriculture and rural areas. The Government has established Rural Infrastructural Development Fund within NABARD from April 1995. The fund will provide loans to State Governments and State Owned Corporations for completing on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms and rural infrastructure. NABARD has also implemented a “Partnership Model” of linking of self-help groups to CBs along with involvement of a NGO. The model has been largely successful in delivering financial services to rural poor. NABARD has also introduced a rehabilitation programme for the weak DCCBs and SCBs.
Table 5.4: National Bank for Agriculture and Rural Development - Financial Assistance

(Rs. crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Schemes Sanctioned</th>
<th>Total Financial Assistance Sanctioned</th>
<th>NABARD's Commitment</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976-77</td>
<td>4487</td>
<td>1713</td>
<td>1465</td>
<td>815</td>
</tr>
<tr>
<td>1980-81</td>
<td>16574</td>
<td>4629</td>
<td>3860</td>
<td>2223</td>
</tr>
<tr>
<td>1990-91</td>
<td>89513</td>
<td>23164</td>
<td>18299</td>
<td>14310</td>
</tr>
<tr>
<td>2000-01</td>
<td>121097</td>
<td>71241</td>
<td>56032</td>
<td>50882</td>
</tr>
<tr>
<td></td>
<td>(724)</td>
<td>(7096)</td>
<td>(6415)</td>
<td>(6158)</td>
</tr>
<tr>
<td>2009-10</td>
<td>130595</td>
<td>156706</td>
<td>135773</td>
<td>130173</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>(12308)</td>
<td>(12009)</td>
<td>(12009)</td>
</tr>
<tr>
<td>2010-11</td>
<td>130598</td>
<td>171444</td>
<td>149259</td>
<td>143659</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>(14738)</td>
<td>(13486)</td>
<td>(13486)</td>
</tr>
</tbody>
</table>

Note: 1. Data for 2010-11 are provisional.
3. Data for the period 1980-81 to 1987-88 are on July-June basis.
4. Data relate to financial assistance on a cumulative basis at the end of each year and data in parentheses indicate financial assistance during the year.

Source: National Bank for Agriculture and Rural Development.

AGRICULTURAL FINANCE CORPORATION (AFC)

Agricultural Finance Corporation (AFC) was incorporated on April 10, 1968 by the Indian Banks’ Association in order to provide advisory services to commercial banks in matters related to financing agriculture. Basically, AFC is a consortium of commercial banks established under the Indian Companies Act 1956 to provide
consultancy services to member banks in matters related to projects for agriculture and rural development. Scheduled commercial banks numbering 37, notified under RBI Act of 1934 had subscribed to the share capital of the corporation. The authorized share capital of AFC was Rs 100 crores and the issued share capital was Rs 10 Crores.

The Corporation has two distinct roles: financing the individual institutions/organizations/individuals involving agricultural development and promoting commercial bank advances for agricultural development. The financing roles included – (a) sinking, deepening and energizing of irrigation wells; (b) production, distribution and marketing of agricultural inputs such as seeds, fertilizers, insecticides, machinery and implements; (c) construction of storage structures for food grains and fertilizers; and (d) establishments of agricultural service units. The promotional role included– (a) commercialization and industrialization of agriculture (b) formulation of potential projects to be financed by banks and removal of various handicaps and difficulties experienced by commercial banks and farmer-borrowers; and (c) development of cooperation, coordination and consortium arrangement among different lending agencies and co-operatives involved in agricultural financing.

In recent years AFC has assumed only consultancy roles extending project consultancy services to banks, Central/State Governments, NABARD, cooperatives, private sector and international funding agencies. It also undertakes surveys and research studies including, socio-economic, market, baseline, concurrent and impact evaluation surveys, credit demand studies, farm management studies, MIS studies and resource management studies both at national and international levels

**PROBLEMS IN AGRICULTURAL CREDIT SYSTEM**

Agricultural credit system in the country is faced with many problems, which restrict its outreach to different areas and sections of farming classes as well as hindering its
growth and contribution towards agricultural growth to the optimum level. These problems can be discussed under following heads:

(i) **Transaction Costs of Agricultural Credit**

Two issues are involved in agricultural lending in India. The banking sector has to cater a very large number of small borrowers spread over a very large area. Secondly, size of the loan is very small. The small and marginal farmers constitute more than 80 per cent of the farmers and some of the areas are remotely located. Catering to their requirements of farmers of such areas becomes very difficult and costly. From borrowers’ point of view, access to intuitional credit especially for small, resource poor and illiterate farmers gets inhibited as the procedural and documentation requirements are cumbersome, time consuming and increase the cost of borrowing for the farmers. On the other hand, access to non-institutional credit is regarded to be very simple where transaction cost is negligible and involve no procedural complications. Empirical studies show that transaction cost in case of non-institutional loans was negligible whereas it ranged from 3 to 5 per cent in case of CBs, 1.4 to 3 per cent in case of cooperatives and more than 8 per cent in case of RRBs.

(ii) **Loan Overdue**

Recovery of loans is an important aspect in the economic viability of rural financial institutions as the range of services provided by them is limited and focused on advancing of loans only. Some empirical studies have suggested poor recovery performance of agricultural loans. Major reasons for high level of loan default are low level of income generation, particularly on small farms, diversion of loans for unproductive purposes, inadequacy of loans leading to their diversion and willful default under the hope that they will be waived in future. Though the average rate of loan default in agriculture is 37 per cent, the recovery performance varies greatly across states/regions and financial institutions. The recovery performance has been more than 80 per cent in relatively developed states like Punjab, Kerela, Haryana and Tamil Nadu, It has been 60-80 per cent in case of Andhra Pradesh, Gujarat,
Karnataka, Maharashtra, Rajasthan, Madhya Pradesh and Uttar Pradesh. The recovery performance is poor in eastern and north-eastern states except West Bengal. There is one good feature that where the use of institutional credit was higher, the recovery performance was also better.

(iii) Economic Viability of rural Credit Institutions

Agricultural loans were considered to be unviable by rural financial institutions due to low rates of interest and high risk and transaction cost in the pre-reform period. The interest rate structure started undergoing changes after the financial sector reforms of 1991 in order to improve the economic viability of rural credit and provide more flexibility to banking institutions to decide the interest rate structure for agriculture and other sectors. The interest rates were further rationalized after the exchange rate mechanism was made more flexible and foreign capital was allowed in the Indian economy. Recently, agricultural loans up to Rs. 50,000 have been made available at a rate of 9 per cent. However, sharp rise in interest rates for different sectors of economy has put a pressure for upward revision in the interest rates of agricultural loans as well. Still the economic viability of rural financial institutions is not good due to high transaction and risk cost. It was noted that the net margins (as per cent of working capital) in the case of DCCBs was negative at All-India level while the economic position of RRBs has improved. The cooperative loans have become more costly due to some margins getting added at every level of its three-tier structure.

(iv) Access to Institutional Credit of Small Farmers

The small and marginal farmers constitute 80 per cent of operational holdings and cultivate around 36 per cent of area in India. Their number is expected to grow in future due to subdivision of holdings and lack of employment opportunities in the non-farm sector. Due to their small holding they are disadvantageously placed with respect to access to technology, credit and other institutional supports. The information on distribution of institutional agricultural credit shows that their access
to credit to meet their short term and long term capital requirements has not improved over the years.

There are some disquieting features of lending to small borrowers. The number of ‘small borrower accounts’ in case of commercial banks has come down over time indicating shifting of their focus to large borrowers. The rate of growth in agricultural advances to small and marginal farmers (less than 2 ha) by scheduled commercial banks in the 1990s has come down as compared to other farm size categories due to which their share declined from 54 percent in TE 1993 to 51 per cent in total agricultural credit in TE 2002. The All India Debt and Investment Survey (AIDIS) showed that rural households with assets less than Rs 20,000 had access to institutional loans for their credit needs only up to 35 to 37 per cent while the share of non-institutional agencies in the outstanding debt was as high as 52 to 62 per cent. In case of higher asset households, 70 per cent of the outstanding debt came from institutional sources. Therefore, in spite of strong network of rural branches and strong emphasis on target lending under poverty alleviation programmes, creating self-employment opportunities, etc, a large number of rural poor remain outside the fold of formal banking system for their credit needs. The important factors impeding the access of disadvantaged sections to institutional credit are higher transaction costs due to large numbers and small borrowings, higher risk cost, complicated procedures and large documentation required, inability of small borrowers to provide tangible collaterals, non-availability of tenancy agreements, loan waivers affecting recovery performance, poor risk mitigation mechanism for farmers in the wake of natural calamities and crop failure and mind set of bankers against small loans viewing them as unprofitable.

(v) **Indebtedness among the Farmers**

Indebtedness of Indian farmers has a long history. The Deccan Riots Commission of 1875 reported that one third of the occupants of government land were under debt. The Famine Commission of 1880 reported that one third of the land holders of the country were under deep debt and another one third were also under debt but in
position to redeem it. The Famine Commission of 1901 estimated that more than 80 per cent of farmers were under debt. The Great Depression of 1929-30 also worsened the debt situation. The problem of indebtedness of Indian farmers in the post-independent India continues (Table 5.5) with varying degrees. After 1981, indebtedness has shown an increasing trend over the years with 57.2 per cent of cultivators indebted in 2003. According to the 50th round of the National Sample Survey Organization (NSSO) in 2005, if farmers engaged in allied agricultural activities (going by principal source of income) are added to the cultivators then the proportion of indebted farmers at all India level is 48.6 per cent. Deceleration in agricultural growth in the 1990s is regarded as one of the most important factors responsible for increasing indebtedness.

There is a wide variation in the number and proportion of indebted farmers across the states and union territories (UTs) of India. At all India-level 48.6 per cent of the total farmers are reported to be indebted. The incidence of indebtedness is the highest in Andhra Pradesh (82.0) percent followed by Tamil Nadu (74.5 per cent), Punjab (65.4 per cent), Karnataka (61.6 per cent) and Maharashtra (54.8 per cent). The states of Haryana, Rajasthan, Gujarat, Madhya Pradesh and west Bengal and group of UTs have reported indebtedness among the farmers to the extent of 50-53 per cent. The states of Meghalaya (4.1 per cent), Arunachal Pradesh (5.9 per cent) and Uttarakhand (7.2 per cent) have reported very low incidence of indebtedness among farmers. The rest of the states have reported indebtedness in the range of 18.1 per cent in Assam to 49.2 per cent in Tripura. The states with high level of agricultural development are reported to be home of a higher proportion of indebted farmers. The outstanding debt also varies considerably according to the amount across states and farm sizes.

Table 5.5: Indebtedness among Cultivators in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Indebted Cultivators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>46.1</td>
</tr>
<tr>
<td>1981</td>
<td>22.3</td>
</tr>
<tr>
<td>1991</td>
<td>25.9</td>
</tr>
<tr>
<td>2003</td>
<td>57.2</td>
</tr>
</tbody>
</table>

Source: NSSO (2005)
The states with high level of agricultural development and with commercial farming report high level of per farmer debt. Crop failure due to droughts/floods, pest attacks and use of spurious insecticides and productive loans also add to high incidence of indebtedness.

The prevalence of informal loans generates interlinked transactions in the market. The farmers borrowing from informal sources generally use their crop as collateral and commit to sell the output to the lender. The loans are also used to acquire modern inputs like herbicides, insecticides, seeds, fertilizers and also consumer goods from the lenders. In some of the cases farmers buy inputs as well as sell output via lenders. The interlinked transactions take place because lenders are engaged in marketing of agricultural inputs, consumer goods and agricultural output along with money lending. The professional money lenders/commission agents charge high interest rates generally between 18-36 per cent per annum and also exploit the farmers in supply of inputs and marketing of agricultural output. This has negative implications for agricultural development and cripples the farmers’ capacity to return loans and come out of debt trap.

Farmers’ suicide in India has been reported regularly for period of a decade and half. The states of Andhra Pradesh, Karnataka, Maharashtra, Kerala and Punjab are the major states where such incidents have been experienced. The emergence of this phenomenon has also become a subject of debate among the scholars, social organizations and policy makers. Studies have shown that mainly economic and in scattered cases non-economic factors have been responsible for farmers’ suicide. Among economic factors, the failure of crop (mainly cotton) and failure of investment in bore wells are responsible for involvement of farmers in debt trap. Stagnant agricultural yields among Punjab farmers have been found to a cause of their stress. In the wake of limited access to institutional credit, the small farmers are forced to borrow from non-institutional sources. At times they rotate credit from non-institutional to institutional sources and vice versa leading to their exploitation by multiple agencies. There are a large number of factors which operate simultaneously
and cause unbearable distress to the farmer. The resource poor farmers in all the major states reporting suicides constitute the largest proportion of suicide victims. Thus it can be concluded that farmers’ suicides are more common in states which are forerunner of commercial agriculture. They are Andhra Pradesh, Karnataka, Kerala, Maharashtra and Punjab. These are the states which show high proportion of the farmers under outstanding debt. With the exception of Kerala and Maharashtra, these are the states where farmers’ dependence on informal sources of credit is very high. In majority of the cases, the suicide victim farmers have used loans for investment in agriculture and they belong to the category of small and marginal farmers. The resource poor farmers’ suicides indicate that there is breakdown of the community sense and social support mechanism in areas of highly commercialized and competitive agriculture.

**ISSUES IN RURAL CREDIT**

Broadly speaking, there are three major issues before the rural financial institutions which need attention for making the agriculture sector make a significant contribution to the economic growth of the country – (1) The quantum of flow of institutional credit to agriculture has to be increased; (2) The access to formal credit for the rural poor and disadvantaged and agriculturally less developed regions has to be improved; and (3) the economic viability of rural banking system has to be ensured over time.

First, the flow of credit to agriculture sector has to be increased. Productive agriculture requires investment in complementary assets like irrigation, farm machinery, and livestock. However, irrigation development is pivot to all aspects of agricultural development. Sixty per cent of the net area sown in the country is rain fed and un irrigated. Further, exploitation of irrigation potential through investments in watershed development, developing minor irrigation sources like tanks and wells and development and promotion of technology for efficient water management should receive priority in formal lending.
The credit delivery system has been found wanting with respect to meeting adequately credit requirements of high-tech and high-value agriculture, value addition, processing and marketing activities of the farmers. Apart from crop sub-sector, the financing of activities like animal husbandry, fisheries, agricultural services will require vast credit support. New loan products such as pledge financing, marketing credit, loan against warehouse receipts, export credit and venture capital for agricultural entrepreneurship shall have to be promoted to meet the challenges posed by globalization. The present credit delivery system only emphasizes production credit. Thus the imbalance between production and post-production credit needs to be rectified.

Secondly, the outreach of formal agricultural credit is not adequate to rural poor, small and marginal farmers and agriculturally less developed areas. Linking of self-help groups (SHGs) with financial institutions with the help of non-governmental organization (NGOs) has yielded positive results in the form of asset creation, increased income and greater employment for these disadvantaged sections of the society. Such successful examples of forming SHGs encouraging them to save and provide micro-finance have to be replicated. The consumption requirements of the poor's need to be integrated with production requirements. Crop insurance programmes need to be more effective for taking care of risks arising out of crop failure. Tenants lack access to credit because tenancy agreement is not in written form. If the land-lease market is made free, it would help such farmers in procuring formal credit.

Finally, the cost of borrowings to the farmers is also an important issue affecting the flow of credit to agriculture sector. The rate of interest to agriculture has been recently brought down to 9 per cent for loans less than Rs 50,000 and 10.5-12.5 per cent on loans above Rs 50,000. The cost of credit from cooperative institutions is still high because at every tier of the three tier structure some costs and margins are added and secondly, cooperatives offer higher interests on deposits. The NABARD has amended its 1981 act to provide refinance directly to DCCBs. Yet the transaction cost is high, which need to be reduced by introducing new products like group lending,
strengthening of SHGs-Bank linkages and improving efficiency of the staff through information technology (IT) tools and increasing the volume of business and providing multi-purpose credit facility. Kisan Credit Card scheme has helped reducing transaction costs by providing access to all types of short term credits. Some procedural modifications are also required to reduce the cost of transaction cost, such as simplification of forms, delegation of more powers to branch managers, introduction of composite cash credit limit, cash disbursements of loans without tying it with kind components, dispensation of ‘No Due Certificate’, lending through non-bank financial companies etc. Flexibility in the loans with regard to use and repayment can also increase the flow of agricultural credit and reduce transaction costs.

The globalization of agriculture is underway with a number of changes such as changes in livelihood pattern, pattern of holdings, high-value agriculture, agribusiness development and food retailing. The rural credit institutions must shed their inhibitions to support the process of agricultural diversification and commercialization. A progressive integration of financial markets with emphasis on self regulation, accountability and autonomy of the institutions with social responsibility will be required.
Box 5.4: Mahatma Gandhi National Rural Employment Guarantee Act (Mahatma Gandhi NREGA)

VISION
Mahatma Gandhi NREGA seeks to enhance the livelihood security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work.

MISSION
To augment wage employment opportunities by providing employment on demand and thereby extend a security net to the people and simultaneously create durable assets to alleviate some aspects of poverty and address the issue of development in the rural areas.

Brief History
Mahatma Gandhi NREGA was launched in 200 select districts on 2.2.2006 and was extended to 130 additional districts during 2007-08. All the remaining rural areas in the country have been covered under the Act w.e.f. 1.4.2008. Presently, Mahatma Gandhi NREGA is being implemented in all the notified rural areas of the country.

Duties/Main activities/functions and List of services being provided
The Ministry of Rural Development is the nodal Ministry for the implementation of Mahatama Gandhi NREGA. It is responsible for ensuring timely and adequate resource support to the States and to the Central Council. It has to undertake regular review, monitoring and evaluation of processes and outcomes. It is responsible for maintaining and operating the MIS to capture and track data on critical aspects of implementation, and assess the utilization of resources through a set of performance indicators. MORD will support innovations that help in improving processes towards the achievement of the objectives of the Act. It will support the use of Information Technology (IT) to increase the efficiency and transparency of the processes as well as improve interface with the public. It will also ensure that the implementation of Mahatama Gandhi NREGA at all levels is sought to be made transparent and accountable to the public.
A Central Employment Guarantee Council (or „Central Council“) has been set up under the chairmanship of the Minister of Rural development. The Central Council is
responsible for advising the Central Government on Mahatama Gandhi NREGA-related matters, and for monitoring and evaluating the implementation of the Act. It will prepare Annual Reports on the implementation of Mahatama Gandhi NREGA for submission to Parliament.

**Organizational Structure Diagram at various levels namely State, directorate, region, district, block etc**

The Panchayats at district, intermediate and village levels are the principal authorities for planning and implementation of the Schemes made under this Act. Key stakeholders are:- wage seekers, Gram Sabha, PRIs specially the Gram Panchayats, Programme Officer at the block level, District programme Coordinator, State Governments and Ministry of Rural Development.

**Expectations from the public for enhancing the effectiveness and efficiency**

To be aware of their rights enshrined under the Act and actively exercise them.

**Arrangements and methods made for seeking public participation /contribution**

Awareness generation through intensive IEC activities using electronic media, print, press advertisements, workshops, outdoor through DAVP and interpersonal communication through DFP and S&DD have been taken up.

**Mechanism available for monitoring the service delivery and public grievance resolution**

Periodic reviews in the Performance Review Committee (PRC) meetings are held on quarterly basis. State specific reviews are also undertaken. Independent Monitoring and verification is done by National Level monitors and eminent citizens. Visit by members of Central Employment Guarantee Council. State and district level Vigilance and Monitoring Committees have been set up. Ministry also sends Area Officers to monitor the progress.

In order to have an effective and speedy grievance redressal mechanism, instructions dated 7.9.2009 have been issued to all States for setting up of district level Ombudsman. National HELPLINE has also been setup in the Ministry and instructions have been issued to all the States for opening their states HELPLINES.