Agricultural Finance & Cooperation

Author: Faculty TNAU
Email: kat@tanu.ac.in

AGRICULTURAL FINANCE: NATURE AND SCOPE

Introduction

Farm finance has become an important input due to the advent of capital intensive agricu1tural technologies. Farmers require capital in order to enhance the productivities of various farm resources. Indian agriculture, in general, is characterized by low and uncertain returns. In order to break the vicious cycle of low returns → low savings → low investment → low returns, provision of external finance to farmers becomes inevitable.

Organized and unorganized credit agencies in rural area provide credit for both development and consumption purposes. Provision of credit by these agencies involved many obstacles to both bankers and borrowers due to differences in banking system followed by bankers, socio-economic conditions of borrowers and infra - structural facilities and institutional support offered to the borrowers. Besides, the government also frequently changes its agricultural credit policies regarding institutional credit set-up, credit rationing, rates of interest, subsidy and the functioning of markets and other developmental agencies which would influence the extent of credit available to farmer-borrower. All these factors, therefore, ultimately have a bearing on farm returns. Hence, problems regarding capital could be well understoood, if one could realise the theoretical basis of agricultural credit system in India, bottlenecks faced by bankers and borrowers, and the governments' efforts in solving the problems involved in the agricultural credit system in India.

Importance of Agricultural Finance

Credit is essential for agricultural development and also for the development of the economy as a whole. The agricultural finance is required for the following reasons:

i) The scope for extensive agriculture in India is limited. Therefore, increase in agricultural production is possible only by intensification and diversification of farming. Intensive agriculture needs huge capita1.

ii) Extreme inequalities exist in the distribution of operational holdings and operational area. 74.5 per cent of the total number of farm households which own less than 2 hectares operate only 26.2 per cent of the total operated area whereas only 2.4 per cent of total number of farm households which own more than 10 hectares each operate 23 percent of the total operated area in 1980-81 (In India, there were 88.883 million farm households which operated 163.797 million hectares in 1980-81). The purchasing power of these small and marginal farmers is limited to their subsistence farming. Hence, they have to depend on the external financial assistance to use the costlier (modern) inputs.

iii) Farmers economic condition is subject to frequent onslaught of flood, drought, famine etc. Therefore, either the continuance of cultivation of crops or making improvements on the farms depends on the nature and availability of finance.

iv) In recent years, more area is brought under irrigation which in turn would increase the use of inputs like fertilizer and plant protection chemicals. In order to accomplish this, external finance is needed.

v) In order to sustain the development of agro-based industries, there should be a substantial increase in the supply of raw materials needed for such industries. Therefore, for the development of farm sector, a constant flow of credit is essential and it would enhance over all growth of the economy.

vi) In agriculture, fixed capital is locked up in permanent investments like land, well, buildings, etc. Moreover, it takes a long time to get returns from farm. Hence, farmers need finance to continue their farm operations.

vii) The weaker sections of the farming community should be motivated to participate in development programmes by giving financial assistance to acquire productive assets.

viii) Small and marginal farmer's are trapped in the vicious cycle of poverty i.e., low returns → low saving → low investment → low return. To break this cycle, credit has to be injected in agricultural sector.

Differences between Financing of Agricultural and Other Sectors

Financing agriculture requires a thorough understanding of farming conditions as it is different from lending to other sectors. The important factors which differentiate farm finance from other lending are as follows:

Financing Agriculture	Financing other sectors
(i) Farmers are not aware of credit policies and procedures	They are aware of banking procedures.
(ii) Difficult to estimate the efficiency of farming in the absence of farm records.	Efficiency can be assessed as all returns are recorded.
(iii) Farming is exposed to natural calamities and uncertainties.	Risk and uncertainties involved in an enterprise can be foreseen and managed.
(iv) Frequent supervision and follow-up after loan disbursement are difficult as farms are scattered.	Monitoring is easy and less time consuming.
(v) Land as major security being immovable is not highly liquid.	Apart from immovable assets, movable assets are also taken as security which can be easily liquidated.
(vi) Ownership of land is difficult to verify as land records are not updated.	Identification of ownership can be easily done by verifying records.
(vii) As farm products are perishable, they are subjected to distress sales.	As industrial products are non-perishable, producers can fix prices.
(viii) Long gestation period between investment and returns.	Very short gestation period.
(ix) Since income is seasonal, repayment schedule is drawn in accordance with income generation from investment.	As income generation is a continuous process, repayments will be made continuously.
(x) Adequate infrastructural facilities are not available to implement new technologies.	Sufficient infrastructure is available to implement their schemes.
(xi) Farmers are susceptible to external influence and hence some vested interests exploit them and guide them in wrong direction.	Entrepreneurs are not usually misled by external influence as they are well organized.

TIME VALUE OF MONEY

A farm manager has to take decisions over varying horizons of time. Two aspects of such decisions are important, i.e., i) differences in profitability growing out of time alone and ii) differences in the desirability of investments due to risk and uncertainty factors. Time has a very significant influence on costs and returns. There are many decisions where this time comparison principle finds application, such as: soil conservation programmes which bear fruits over a long time; putting land under an orchard which may not give returns for 5-10 years; and so on. Two aspects of the problem are considered under such situations: a) growth of a cash outlay over time and b) discounting of future income.

Growth of a Cash Outlay or Compounding Present Costs

The cash outlay grows over time due to the compounding of interest charges or opportunity costs involved in using the capital; if Rs.100 are put in a saving account with an annual interest at 12 per cent compounded, it will increase to Rs.125.44 by the end of second year. In symbolic terms, you now have the amount earned at the end of the first year. P + Pi, plus the interest that amount earned during the second year (P + Pi) i which could be expressed as: (P + Pi) + (P + Pi) i (or) P (1 + i) + Pi (1 + i) which after factorising (1 + i), results in

Compounding the Present Value

(Amount in Rs.)

Year	Beginning Amount	Interest Earned by the End of Year	Beginning Amount + Interest
1	100.00	100.00(0.12)=12.00	112.00
2	112.00	112.00(0.12)=13.44	125.44
3	125.44	125.44(0.12)=15.05	140.49
4	140.49	140.49(0.12)=16.86	157.35
5	157.35	157.35(0.12)=18.88	176.23

(P + Pi) (1 + i). Factorizing P from the left term gives: P (1 + i) (1 + i) = $P (1 + i)^2$. In general, the compounded value, F (future value), of a present sum (P) invested at an annual interest rate (i) for 'n' years is given by $F = P (1 + i)^n$ .This procedure is called compounding.

Discounting Future Revenues

Costs incurred at one point of time cannot be compared with validity to revenues forthcoming at a later date. The future value of the present sum is estimated through: $F = P(1 + i)^n$ ·Dividing both sides of this equation by $(1 + i)^n$, the following equation is obtained:

$$P = \frac{F}{(1 + i)^n}$$

Thus, if a pay-off, F, is due in ‘n’ years in future, its present value, P, can be determined using the above expression where ‘i’ is the interest rate. This procedure is known as discounting future returns. The present value of Rs.176.23 that could be at the end of 5 years if the appropriate discount rate is 12 per cent, is:

$$P = \frac{176.23}{(1.12)^5} = \text{Rs.}100.00.$$

Discounting can be used to determine th future income stream earned by a durable input (asset).

Discounting t

(Amount in Rs.)

Year	Value at the End of the Year (Rs)	Present Value, if Discount Rate is 12 Per Cent per Annum (Rs)
1	100	89.29
2	100	79.72
3	100	71.18
4	100	63.55
5	100	56.74
Total	500	360.48

The interest rate used to discount or compound sums of money should be at least as large as the current or market rate of interest. How much higher it might be depends upon the manager’s opportunity costs. The important variables determining present and future values of a single payment or series of payments are: i) the number of years and ii) size of interest rate. Both factors interact to determine the total effects of discounting or compounding on present or future values.

AGRICULTURAL CREDIT-MEANING, DEFINITION, NEED AND CLASSIFICATION

Definition

Credit is obtaining control over the use of money at the present time in exchange for a promise to repay it at some future time.

Credit is also defined as a device for facilitating the temporary transfer of purchasing power from those who have surpluses of it to those who are in need of it. Thus, credit involves a temporary transfer of wealth.

Agricultural Credit is the amount of investment funds made available for agricultural production from resources outside the farm sector.

Agricultural Finance is considered as separate field of study dealing with lending and borrowing by organizations and farmers.

Hopkin et al referred agricultural finance as the means of acquiring and control of assets, ownership by cash purchase or borrowing or leasing or custom-hiring.

Warren F.Lee et al defined Agricultural Finance as the economic study of the acquisition and use of capital in agriculture. It deals with the supply of and demand for funds in the agricultural sector of an economy.

According to William G. Murray, agricultural finance is the economic study of borrowing of funds by farmers; of the organization and operation of farm lending agencies; and of society's interest in credit for agriculture.

Farm Finance is a branch of agricultural economics which deals with the provision and management of services of financial resources related to the individual farm units.

Farm finance can also be defined as the amount of funds obtained from off-farm sources for use on the farm, repayable in future with an interest agreed to either explicitly or implicitly.

Farm Finance

i. is not meant merely for more production but also to raise the productivity of farm resources;
ii. not a mere loan or advance , but it is an instrument to promote the well being of the farming community;
iii. is not just a science to manage the money, but is an applied science of allocating scarce resources to derive optimum output; and
iv. not a mere social obligation on the society; but it is a lever with backward and forward linkages to the economic development both at toe micro and macro level.

At macro level, farm finance may be defined as the study of impact of finance (extended to the farmers by the intermediaries) on agricultural sector and also on the economy as a whole. At micro level, farm finance may be defined as the study of these intermediaries who extend finance to the farming sector and obtain their loanable funds from financial markets.

Thus, farm finance should have the following features:

i. finance should be extended to farmers for farm activities;
ii. finance should stimulate tie productivities of farm resources resulting in higher economic returns for the investment;
iii. finance should promote economic development of farm households; and
iv. finance should be provided by an external agency for strengthening the backward and forward linkages with country's economic development.

Further, farmers and bankers view farm finance in different ways as detailed below:

Farmers	**Lending Agencies**
i) acquire finance for farm needs at proper time.	extend finance which can be easily collected.
ii) try to get finance at a reasonable cost	try to get a reasonable rate of return for capital.
iii) ensure that their own assets are not exposed to high risks.	ensure proner degree of liquidity of securities for safety.

Classification of Agricultural credit

Agricultural credit can be classifified based on purpose, time (repayment period), security, generation of surplus funds, creditor and number of activities for which credit is provided.

i) Purpose: Based on the purpose for which loan is granted, agricultural credit is categorized into:

a) Development credit or Investment Credit: This is provided for acquiring durable assets or for improving the existing assets. Under this, credit is extended for:

- purchase of land and land reclamation.
- purchase of farm machineries and implements
- development of irrigation facilities
- construction of farm structures
- development of plantation and orchards

- develonment of dairy, poultry, sheep/goat, fisheries, sericulture, etc.

b) Production credit: is given for crop, production: Here, the loan amount is used for purchasing inputs and for paying wages.

c) Marketing credit: It is essential to carry out the marketing functions and to get higher prices for the produce.

d) Consumption credit: It is the credit required by the farmer to meet his family expenses.

ii) Repayment Period: Based on the period for which the borrower require credit, it is divided into:

a) Short-Term Credit: It is given to farmers for periods ranging from 6 to 18 months and is primarily meant to meet cultivation expenses viz., purchase of seed, fertilizer, pesticides and payment of wages to labourers. It serves as the working capital to operate the farm efficiently and is expected to be repaid at the time of harvesting / marketing of crops. It. should be repaid in one instalment.

b) Medium-Term Credit: Repayment is for the period of 2 to 5 years, It is for the purchase of pump-sets, farm machineries and implements, bullocks, dairy animals and to carry out minor improvement in the farm. It can be repaid either in half yearly or annual installments.

c) Long-Term Credit: It is advanced for periods more than 5 years and extends even unto twenty five years against mortagage of immovable property for undertaking development works viz., sinking wells, purchase of tractor, and rnaking permanent improverments in the farm. It has to be repaid in half-yearly or annual instalments.

iii) Secutirty: Credit is provided to farmers based on the security offered by them.

a) Farm Mortgage Credit: It is secured against mortgage of land.

b) Collateral Credit or Chattel Credit: It is given against the security of livestock, crop or warehouse receipt.

c) Personal Credit: It is given based on the character and repaying capacity of the person and not on any tangible assets. In general, LT credit is usually advanced against security of land while MT and ST loans are sanctioned against personal and. collateral security.

iv) Generation of Surplus Funds: Based on generation of surplus funds, credit can be classified as self-liquidating and non-self -liquidating credit.

a) Self Liquidating Credit: In this case, loan amount gets absorbed in the production process-in one year or production period and the additional income generated is sufficient to repay the entire loan amount.

b) Non-Self Liquidating Credit: Here the resources acquired with the borrowed funds are not consumed in the production process during the project period. The investment is spread over a period of several years. The additional income generated in one year is not sufficient to repay the entire loan amount and hence the repayment is spread over to number of years.

v) Creditor or Lender wise Credit: Credit can be classified from the point of view of creditor.

a**) Non - Institutional Agencies:** They include money lenders, traders, commission agents, friends and relatives. This kind of loan is generally exploitative.

b) Institutional Agencies: They include co-operative's, commercial bank and regional rural bank.

vi) Number of Activities Served: Based on the number of activities for which amount the loan can be used, credit can be categorized into a) single purpose loan and b) composite loan.

CREDIT ANALYSIS

4RS, 5CS AND 7PS OF CREDIT, REPAYMENT PLANS

The principles of farm finance are stated as 'three Cs', viz,

1) Character
2) Capacity, and
3) Capital.

The application of these principles facilitate largely the lending agencies, in the sense that the character of the borrower is a dominant factor for consideration before a lending agency decides to advance loan. Although the farm more net income, create good finance extended to a farmer may yield repaying capacity and buildup risk bearing ability he will not repay the loan unless he has good character. The second principle deals with the capacity of the borrower who not only produce more but also has to repay the loan in time. The third principle is intended to safeguard the interest of the lending agency. When the first two intangible assets prove inadequate during distress periods, the third, asset or capital will come to the rescue of the lending agency.

The principles of farm credit can also be stated as 'three Rs'. They are:

i) Returns from the proposed investment,
ii) Repaying capacity
iii) Risk-bearing ability of the borrower

To find out the feasibility of a project or a scheme or a farm plan, these principles can the applied as economic feasibility tests.

i) Returns

The economic viability of a project indicates whether the proposed project is likely to contribute reasonable returns on the investment which in turn will lead to economic development of the farmer.

The economic viability can be measured by

1) Net Present Worth (NPW)
2) Benefit-Cost Ratio (BCR)
3) Internal Rate of Return (IRR)

1. Net Present Worth

The NPW of the project can be estimated using formula as given below:

$$NPW = \sum_{t=1}^{n} \frac{Bn - Cn}{(1+i)^n}$$

Where,

Bn = Benefits in n'th Year.

Cn = Costs in n'th Year.

n = life span of the proect

i = interest or discount rate.

If the NPW of a project is positive, then it is considered that the project is economically feasible.

2. Benefit-Cost Ratio (BCR)

The BCR can be calculated using the following formula:

$$BCR = \frac{\sum_{t=1}^{n} \frac{Bn}{(1+r)^n}}{\sum_{t=1}^{n} \frac{Cn}{(1+r)^n}}$$

To compute the NPW and BCR, the opportunity cost of capital (normal/market lending rate) may be used as a discount rate. If the BCR is greater than 1, then it is worth wile to invest on the project.

$$IRR = r \left| \sum_{t=1}^{n} \frac{Bn - Cn}{(i+r)^n} = 0 \right.$$

IRR is that rate of discount which makes the present worth of benefits and costs equal or the net present worth of cash flow equal to zero. If IRR is greater than the opportunity cost of capital, the project is feasible.

ii) Repaying capacity

The repayment of loan depends on the amount of surplus income available with the farm household after providing some amount for the family expenses and pre-existing liabilities, besides keeping a margin for the risk factor. As the farming family is likely to get income from the farm business as well as from off-farm activities, the repaying capacity of the borrower should be judged by taking into account their total income.

The concept of repaying capacity can be expressed symbolically as:

$Rc = ((Y2\text{-}rf) + (Y_1\text{-}rf) + Y) - ((X_2\text{-}X_1) + Fe\text{+}OL)) \geq I\text{+}i$

Where,

Rc = Repaying capacity

Y = Income from other sources.

Fe = Family expenses

OL = Other liabilities

rf = risk factor margin

I = Loan installment

i = interest on investment and working capital.

If the surplus is greater than or equal to loan installment plus interest, the borrower may be judged as having the capacity to repay the loan. If the surplus is more, the repayment period of loan may be reduced and it is less than (I+i) either the period for the repayment of loan may be extended or the project can be modified.

iii) Risk Bearing Ability

The beneficiaries of the project should have risk bearing ability (for repaying the loan amount promptly), ie., they should withstand the shocks of probable financial losses irrespective of the fact that the project appraisal has taken care of all precautions to prevent such losses. While the technical feasibility test reveals the productivity of the investment, the economic viability test indicated the returns to the investment. How far the beneficiaries of the project are having the capacity to repay the loan promptly is revealed by repaying capacity test. However, the farm income is subject to variations and it is essential to account for this variations in farm income. The output and price are the factors which determine the farm income fluctuations in output may be due to:

1) Natural causes like floods, droughts, pests and diseases etc.
2) Technical causes like break down of machinery, non-availability of inputs, availability of defective inputs etc.
3) Social causes like theft, labour strike etc.

Fluctuation in prices is due to demand and supply factors besides lack of storage, transport and communication facilities, failure of government to control/regulate prices etc. The variation in farm income over a period of years is measured by coefficient of variation. The coefficient of variation is measured by the formula:

$$C.V = \frac{S\tan dard\ \ Deviation}{Mean}$$

Where,

Standard Deviation (SD) = $\sqrt{\frac{\sum_{t=1}^{n} (Xi - X)^2}{n}}$

Estimation of Standard Deviation

Year	Farm Income (Rs./year) (X_i)	$(X_i - \bar{X})$	$(X_i - \bar{X})^2$
1988-89	4,600	-3,646	132,93,316
1989-90	6,150	-2,096	43,93,216
1990-91	7,900	-346	1,19,716
1991-92	9,880	1,634	26,69,956
1992-93	12,700	454	198,38,116
Total	41,230	0	403,14,320

$$SD = \sqrt{\frac{40314320}{5} = 2839.518269}$$

$$CV = \frac{2839.518269}{8246}$$

= 0.34 (or) 34.44%

Since the coefficient of variation is 34 percent for this farm, to determine the repaying capacity of the farmer, the gross income should be deflated by 34 percent. Suppose, if the farm income is Rs.10,000 and the coefficient of variation is 34 per cent, the real farm income is Rs.6,600 only.

7 Ps

The modern rural financing institutions have to follow principles of farm finance not only to achieve commercial gains but also to bring about social benefits. By the combination of principles of economics, banking and farm management along with the existing principles, the following principles of farm finance have been evolved, on the basis of the definition adopted for the concept of farm finance for development:

1) Principle of Productive Purpose,
2) Principle of Personality,
3) Principle of Productivity,
4) Principle of Phased disbursement,
5) Principle of Proper utilization,
6) Principle of repayment, and

7) Principle of protection

1. Principle of Productive Purpose

While there is encouragement for production finance, consumption credit is discouraged at all levels. The CRAFICARD (1981) recommended consumption credit if it is meant to increase family labour productivity. Only the unproductive consumption credit needs such as loan for litigation, social functions, etc., of the farmers may be excluded from the purview of farm finance. The resource being scarce even for productive purposes, the most important and indispensable purpose should be served first. Though a scheme may be technically feasible, the economic viability, repaying capacity and risk bearing ability of the farmer should also be taken into consideration before accepting the scheme. Therefore, even among the productive purposes, the most important one like sinking of well or installation of pumpset may be considered on a priority basis for providing finance.

2. Principle of personality

This emphasizes that the criteria to extend farm finance is not only credit worthiness, but also trust-worthiness of the borrower. The farmer should be a man of character having entrepreneurship, capable of keeping up his promises, agreeable to adopt modern technology in farming and inclined to co-operate with the financing institutions in all aspects. One of the reasons attributed for the mounting overdues is the willful default of the borrowers, majority of whom are credit worthy-affluent farmers.

3. Principle of Productivity

In short, productivity can be defined as output per unit of input. Farm finance is used by a farmer to increase the 'marginal efficiency of capital' which is a ratio between increase in expected future returns of the investment and increase in the cost of investment. Farm finance aims not only at mere production, but also intends to increase the productivity of farm resources, viz., land, labour, capital and management. Apart from productive purpose for which the loan is disbursed and good character as emphasized under principle of personality, the economic returns that would be generated by the scheme is also very important. The economic viability of the scheme is measured by Benefit-cost ratio, Internal Rate of Return and Net Present Worth.

4. Principle of phased disbursement

The finance should be disbursed not only in time but also in a phased manner, because no project needs the entire finance at the initial stage itself. Phased disbursement enables the borrower to make use of the finance far the purpose far which it is granted and aids the financing institution to ensure the end-use of it. Disbursement has three facets, viz., i) disbursement in cash, ii) disbursement in kind and iii) disbursement to suppliers of inputs directly. The institution itself may supply the needed inputs such as seeds, fertilizers, pesticides, etc., to the farmers as is being done by co-operatives. A portion of the finance may also be disbursed to the farmer in cash to meet out labour expenses. In case of machinery the institution may directly make payments to the suppliers after receiving the margin money from the borrowers.

5. Principle of Proper Utilization

The finance so extended to a farmer should be utilized far the purpose far which it is granted. The finance should be put into optimum use through backward and forward linkages which need basic infrastructure and supervision. When finance is provided for the cultivation of crops, inputs like seeds, fertilizers, pesticides, labour, etc., must be made available to him in time. Apart from technical guidance for production, marketing facilities will help him to realise mare returns. Farmers also divert the finance to meet their urgent needs, as a result they could not generate adequate returns for loan repayment. Thus, proper appraisal of the overall financial needs of the farmer and adoption of supervisory credit system in farm financing operations will bring the desired results.

6. Principle of payment

This helps to draw proper repayment schedule and emphasizes how and when the finance extended to the farmer should be repaid. Unrealistic repayment plan makes the farmer become a defaulter, even though he may have good repaying capacity. The repayment schedule should synchronize with the time of generation of income from the project. The repayment should be drawn in such a way that the principle and interest can be repaid out of the incremental income generated from the project, after setting aside a portion to meet his family expenses.

7. Principle of protection

This emphasis that all possible precautions should be taken to safeguard the funds which the financing institutions lend to the farmers. Some of the safety measures taken are:

i) Insurance cover

Insurance cover is available for machines, animal husbandry projects and crops to some extent.

ii) Linking credit with marketing

Linking credit with marketing enables the financing institutions to ensure the end use of credit and to receive repayments regularly. A few examples are given below to indicate agencies with whom marketing arrangements can be made.

Finance for	Tie-up arrangements with
a) Growing sugarcane	Sugar factories
b) Growing crops	Co-operative Marketing Societies.
c) Growing coffee, tea, cardomom, rubber, etc.	Respective commodity boards. Co-Operative Milk Producers' Societies
d) Establishment of dairy unit	Poultry Development Corporation.

iii) Provision of infrastructure

One of the factors for the success of farm finance is the availability of infrastructural facilities like input supply, storage facilities, transport and communication facilities, good marketing system, availability of technical guidance, etc.

iv) Covering credit under small Loans Guarantee Scheme of DI and CGC

The loans extended to the weaker sections can be covered under small Loans Guarantee Scheme of Deposit Insurance and credit Guarantee Corporation (DI and CGC).

v) Taking Securities

Neither the secured loans are invariably repaid, nor the unsecured loans completely remain unpaid. However, as a measure of caution, the loans maybe secured by mortgage / hypothecation of assets. But no project need be rejected merely for want of security, if it is considered feasible.

Knowledge of these principles enables the lending agencies to arrive at a correct judgment of the project/ scheme, to assess the financial requirements of the farmers, to determine the risk involved in such financing and to evaluate the extent of benefit that accrues to the farmers.

HISTORY OF FINANCING AGRICULTURE IN INDIA

Finance in agriculture is as important as other inputs being used in agricultural production. Technical inputs can be purchased and used by farmer only if he has money (funds). But his own money is always inadequate and he needs outside finance or credit. Professional money lenders were the only source of credit to agriculture till 1935. They used to charge unduly high rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. With the passing of Reserve Bank of India Act 1934, District Central Co-op. Banks Act and Land Development Banks Act, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them. Although the co-operative banks started financing agriculture with their establishments in 1930's real impetus was received only after Independence when suitable legislation were passed and policies were formulated. Thereafter, bank credit to agriculture made phenomenal progress by opening branches in rural areas and attracting deposits.

Till 14 major commercial banks were nationalized in 1969, co-operative banks were the main institutional agencies providing finance to agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension. Development and adoption of new technologies and availability of finance go hand in hand. In bringing "Green Revolution", "White Revolution" and "Yellow Revolution" finance has played a crucial role. Now the agriculture credit, through multi agency approach has come to stay.

The procedures and amount of loans for various purposes have been standardized. Among the various purposes "Crop loans" (Short-term loan) has the major share. In addition, farmers get loans for purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe lines, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises.

Agricultural Credit System in India

Farmers get external financial assistance from two sources namely, i) non-institutional or unorganized agencies, and ii) institutional or organized agencies. It is a fact that agriculture has been financed by non-institutional agencies for a long time and institutional agencies were started functioning only during the early part of this century.

Non-Institutional Sources of Finance in India

Non-institutional sources include money lenders, land lords, traders, commission agents, friends and relatives.

i) Money Lenders

There are two types of money lenders in rural areas. a) agricultural money lenders and b) professional money lender. Agricultural money lender's main occupation is farming and money lending is secondary one. Professional money lender's main profession is money lending. Although the reliance on money lender by rural poor declined over the years, the credit disbursed by money lenders still forms a major portion of the total credit obtained by the farmers.

Agricultural money lender's main occupation is farming and money lending is secondary one while the Professional money lender's main profession is money lending. Although the reliance on agricultural and professional money lenders by rural poor declined over the years, i.e., from 80 per cent of their total credit requirement in 1951 to 30 per cent in 2002, the credit disbursed by money lenders still forms a major portion of the total credit obtained by the farmers.

Advantages

i. Unrestricted supply of credit for any purpose..
ii. Easy access by farmers as money lenders maintain close relationship with rural families.
iii. Method of business adopted are simple and flexible.
iv. Timely availability of credit without much formalities.
v. Knowledge on local conditions and experience of money lender facilitate his business.
vi. Money lenders do not insist upon any particular type of security for the grant of loans.

Unfair Practices of Money Lenders

Money lenders deceive the farmers through many ways such as:

a. They manipulate bonds and promissory notes obtained from debtors and enter large sum than actually lent.
b. They give no receipt for repayments and often they deny such repayments.
c. They charge very high rate of interest
d. They give loans for both productive and unproductive purposes which results in indebtedness

Proportion of Borrowing* by Farmers from Organized and Unorganized Lending Agencies

(percentages)

Lending Agencies	**1951**	**1961**	**1971**	**1981**	**1991**	**2002**
I Organized Agencies						
1.Government	3.3	6.7	7.1	4.0	6.1	2.3
2. Co-operatives	3.1	11.4	22.0	29.0	21.6	27.3
3.Commercial Banks	0.9	0.3	2.4	28.0	33.7	24.5
4. Insurance, Provident Fund and Other Institutions	-	-	0.2	-	2.6	3.0
Sub-Total	**7.3**	**18.4**	**31.7**	**61.0**	**64.0**	**57.1**
II Unorganized Agencies						
1. Land Lords	1.5	0.9	8.1	4.0	4.0	1.0
2. Agricultural Money lenders	24.9	48.1	23.0	9.0	7.0	10.0
3. Professional Money lenders	44.8	13.8	13.1	8.0	10.5	19.6
4. Traders and Commission Agents	5.5	7.1	8.4	3.0	2.2	2.6
5. Friends and Relatives	14.2	5.2	13.1	9.0	5.5	7.1
6. Others	1.8	6.5	2.6	6.0	6.8	2.6
Sub-Total	**92.7**	**81.6**	**68.3**	**39.0**	**36.0**	**42.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Borrowing refers to outstanding cash dues.

Sources: a) Reserve Bank of India, All India Rural Credit Survey Committee Report, 1951-52.

b) Reserve Bank of India, All India Debt and Investment Survey Report, 1961-62,1971-72, 1981-82, 1991-92 and 2003.

ii) Land Lords

Small farmers and tenants rely on land lords for finance to meet out their productive and unproductive expenses. This source of finance has all the defects associated with money lenders. Interest rates are exorbitant. Often small farmers are forced to sell out their lands to these land lords and they become land less labourers. Landless labourers bonded labourers. The reliance on this agency by farmers has been decreased over years, i.e., from 1.5 per cent in 1951 to 1.0 per cent in 2002.

iii) Traders and Commission Agents

They are functioning either to get regular supply of products for their trade or to have a control over the provision of credit by other creditors. Though the rate of interest charged by them is not as high as charged by the money lenders, they charge more in the form of concessions and service chages, They mostly finance for the cultivation of commercial crops like sugarcane, cotton, ground-nut, tobacco, onion, etc. The share of credit provided by these agencies to total credit decreased from 5.5 per cent in 1951 to 2.5 per cent in 2002.

iv) Relatives

Farmers borrow from their relatives for temporary exigencies. It is simply a mutual help. Since all farmers are living under similar conditions, they can not lend large sums as loans. Normally, no interest is paid on such loans. Although, the private agencies satisfied some of the criteria of a good system of credit,their loan were not related to production purposes, they never cared for the end use of the loan extended and the loan is often used for wasteful purposes. However, institutions adopt a productive and purpose oriented credit policy while providing credit. So this policy made the institutions to discourage the provision of credit to consumption purpose. But it is evident that the need for consumption loan in rural households continues to persist. As the institutions deny consumption loans to farmer's, the non-institutional agency continues to dominate the rural credit system. Moreover, the institutional agencies could not provide more than 60-65 per cent of the total credit needs of the farmers. Therefore, the private credit agencies should be brought under a more realistic system of state regulation. Otherwise, the rural people would continue to suffer from indebtedness in spite of various efforts taken by the government to uplift their economic conditions. Their share has declined from 14.2 per cent in 1951 to 7.1 per cent in 2002.

Institutional Credit Agencies

As compared to the quantum of credit requirement and the capacity of institutions to meet these credit demands under multiagency system, it is impossible to completely wipe out the private agencies from the rural scene. The Banking committee, (1931) and the Banking Commission (1972) offered suggestions toget over the evil aspects of private lending agencies and bring them under sound credit system.These suggestions may be adopted till the institutional agencies attain the capacity to meet the full demand for credit.

The major institutions supplying credit to agricultural sector are : i) Government, ii) Co-operatives, iii) Commercial Banks, iv) Regional Rural Banks, v) Reserve Bank of India (National Bank for Agricultural and Rural Development)

i) Government The Government provides both direct and indirect finance to farming sector.

Direct Finance The government provides taccavi loans in times of distress like famine, flood, drought etc. Land Improvement Act of 1883 and the Agriculturists Loans Act of 1984 were enacted to extend long and short term financial assistance to farmers for agricultural development and also an relief measures during distress times.

Merits

1. They are granted for long period of time.
2. Low interest is charged.
3. The repayment plan is convenient, i.e., repayment in equal annual installments.

Demerits

1) Quantum of loan is determined an the basis of value of security offered, by which, large farmers receive more credit than small and marginal farmers.
2) As these loans are not production oriented, they do not satisfy the standard needed for sound system of form credit.
3) The loan amount is inadequate.
4) The land less labourers were left out in the lurch at the time of distress.
5) The taccavi loans are not popular among farmers due to

- inordinate delay in sanctioning of loan.
- imposition of irrelevant conditions.
- incompetent supervision
- in convenient recovery methods.

In view of these demerits, it was recommended to channalise these loans through co-operatives.

a) Indirect Finance to Agriculture by Government

1) It allocates subsidized fertilizer to states according to their needs.
2) It provides technical assistance to farmers through Tamil Nadu agricultural Development Programme.
3) It implements price stabilization schemes for various crops.
4) In consultation with the RBI, the government prescribes the rates of interest to be charged on loans granted to weaker sections of rural areas.
5) It contributes to the share capital and debentures of co-operatives.

Instead of playing direct role in providing form credit, the government may play a vital role in creating conditions or infra-structural facilities to the promotion of institutional credit.

COMMERCIAL BANKS

The industrial sector is relatively more organized and less dependent on natural factors than agricultural sector. Hence, the commercial banks tended to concentrate more on industrial sector than agricultural sector. The Indian Central Banking Committee (1931), the Agricultural Finance Sub-committee (1945), the Rural Banking Enquiry Committee (1950), the All India Rural Credit survey committee (1951), the All India Rural Debt and Investment Survey (1961-62) and the Informal Group on Institutional Arrangements for Agricultural Credit (1964) - all these expert committees were of the opinion that co-operatives and not the commercial banks were the suitable credit agencies for agriculture.

Financing agriculture by commercial banks was not significant until 1950. However, the Rural Banking Enquiry Committee (1950) recommended that banking facilities should be extended to rural areas. The commercial banks were reluctant to enter the field of agricultural finance as they felt that it would be risky and costly. The Imperial Bank of India was established in 1921 by the amalgamation of the Presidency Banks (Bank of Bengal, Bank of Bombay and Bank of Madras). Until the establishment of the Reserve Bank of India in 1935, the Imperial Bank of India was the sole banker to the government. As there was no branch for RBI, the Imperial Bank of India acted as an agent of the RBI for the purpose of transacting businesses of government.

In 1955, the state Bank of India Act was passed and Imperial Bank India was named as the State Bank of India. In 1959, State Bank of India (Subsidiary Banks) Act was passed and seven Associate Banks or Subsidiary Banks of SBI were started functioning. They are:

State Bank of Mysore
State Bank of Travancore
State Bank of Sowrashtra
State Bank of Hydrabad.
State Bank of Bikanir and Jaipur.
State Bank of Patiala.
State Bank of Indore.

The role of commercial banks in rural credit was negligible until the sixties as is evident from the All India Debt and Investment survey Report, 1961-62 and 1971-72. They had shown little interest in direct financing of agriculture and had confined their financing activities to the movement of agricultural produces only.

To serve better the credit needs of rural society, fourteen commercial banks with deposits worth Rs.50 crores or more were nationalized on July 19, 1969. In her broadcast address of July 19, 1969 on bank nationalization, Prime Minister Mrs. Indira Gandhi stated that nationalization was meant for an early realization of the objectives of social control which were spelt out as:

i) removal of control of money market by a few,

ii) provision of adequate credit for agriculture, small industry and export,

iii) encouragement of a new class of entrepreneurs and

iv) strengthening the professional banking management system.

The nationalized banks were:

1. Central Bank of India
2. Bank of India.
3. Punjab National Bank
4. Bank of Baroda.
5. United Commercial bank.
6. Canara Bank.
7. United Bank of India
8. Dena Bank
9. Syndicate Bank.
10. Union Bank of India
11. Allahabad Bank
12. Indian Bank
13. Bank of Maharashtra
14. Indian Overseas Bank

This was followed by nationalization of six more commercial banks in April 1980. They were:

1. New Bank of India.
2. Vijaya Bank.
3. Corporation Bank.
4. Andhra Bank.
5. Punjab and Sind Bank.
6. Oriental Bank of Commerce.

This institutional change was effected to pursue the goals of growth and social justice.

Functions of Commercial Bank

The objectives of the changes in the banking structure and the main policies since the nationalization of commercial banks were:

i) wider territorial and regional spread of branch net work;
ii) faster mobilization of savings through bank deposits; and
iii) deployment of bank credit in favour of neglected sectors the economy.

In order to achieve these objectives, the commercial banks involved in the following activities:

i) Commercial banks provide both direct and indirect finance to farmers. Banks provide direct finance to farmers for the purchase pump-sets, tractors and other agricultural machineries, for sinking and deepening wells, for land development, for raising crops, and for setting up of dairy, sheep / goat, poultry, fishery, piggery, sericulture units. Commercial banks also provide indirect finance, which includes loan for distribution of fertilizers and other inputs, loan to electricity boards, loan to Primary Agricultural Credit Societies and subscribing to debentures of Land Development Banks.
ii) They extend financial assistance to small / marginal farmers identified by District Rural Development Agency (DRDA)
iii) They established specialized branches exclusively for rural lending
iv) They finance Primary Agricultural Credit Societies ceded to them and organize Farmers' Service Societies since 1973-74
v) They have set-up Regional Rural Banks, F.S.S and LAMPS in selected areas to cater to the credit needs of the weaker sections.

Policies and Performance of Commercial Banks

i) Branch Expansion

The branch expansion policy for 1982-83 aimed at achieving a coverage of one bank office, on an average, for a population of 17000 in the rural and semi-urban areas (as per 1981 census) in each block and also to eliminate spatial gaps in the availability of banking facilities so that a rural branch was available within a distance of 10 km and would serve an area of about 200 square kilometres. The population norm has been relaxed from March 31, 1990 to 10,000 with regard to tribal / hilly areas and sparsely populated regions.

Southern Region followed by Central Region had more number of commercial bank branches during 2008-09 accounting for 28.1 and 19.9 per cent respectively. However, in terms of coverage of population per branch Southern and Northern regions have topped the list with 11 thousand, the all India average being 15 thousand. North Eastern Region had lesser number branches when compared to all other regions.

The number of rural branches rapidly increased from 22 percent of the total number of branch offices in 1969 to 57 percent in 1989 and 40 per cent in 2008-09. The Population per branch office came down from 65,000 in 1969 to 12,000 in 1989 and 15,000 in 2009. The share of rural branches in case of RRBs and scheduled banks was 77 and 40 per cent respectively.

Regional Distribution of Commercial Bank Branches

Region	**No. of Branches**	**Average Population (in `000) per bank as at end-June, 2009**
NORTHERN REGION (Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab & Rajasthan)	13,800 (17.2)	11
NORTH-EARSTERN REGION (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland & Tripura)	2,133 (2.6)	21
EASTERN REGION (Andaman and Nicobar Islands, Bihar, Jharkhand, Orissa, Sikkim & West Bengal)	13,406 (16.7)	19
CENTRAL REGION (Chhatisgarh, Madhya Pradesh, Uttar Pradesh & Uttarakhand)	16,027 (19.9)	19
WESTERN REGION (Dadra and Nagar Haveli, Daman and Diu, Goa, Gujarat & Maharashtra)	12,440 (15.5)	14
SOUTHERN REGION (Andhra Pradesh, Karnataka, Kerala, Lakshadweep, Puducherry & Tamil Nadu)	22,563 (28.1)	11
ALL INDIA	80,369 (100.0)	15

Number of Rural and Semi Urban Bank Branches in India

Area	Number of bank offices		
	1969	1989	2009
Rural	1833 (22.2)	33014 (57.2)	31,796 (39.6)
Semi-urban	3342 (40.4)	11166 (19.4)	19,119 (23.8)

Urban	3087 (37.4)	13519 (23.4)	29,454 (36.4)
Total	8262 (100.0)	57699 (100.0)	80,369 (100.0)

Source: Reserve Bank of India bulletin, March 1991, 2009

(Figures in Parentheses indicate percentages to total)

Branch Expansion of Commercial Banks and Regional Rural Banks

Bank Group	Number of offices as on June 30		% of Rural Branches as on 30-6-09
	1969	2009**	
Nationalized Banks	4,553	39703	33.81
Regional Rural Banks	14,472*	15199	76.61
All Scheduled Banks	8,045	80470	39.54
All Commercial Banks	8,262	80514	39.53

* Pertains to 2004; ** - Provisional; Source: Reserve Bank of India.

ii) Sectoral allocation

Lending to Priority Sector

At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small-scale industries. The description of the priority sectors was later formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by March 1985. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

On the basis of the recommendations made in September 2005 by the Internal Working Group set up in Reserve Bank to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the comments / suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA), it has been decided to include only those sectors as part of the priority sector, which impact large segments of population and the weaker sections, and which are employment-intensive. Accordingly the broad categories of priority sector for all scheduled commercial banks will be as under:

Categories of Priority Sector

(i) Agriculture (Direct and Indirect finance): Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporates, partnership firms and institutions) up to Rs. 20 lakh, for taking up agriculture / allied activities. Indirect finance to agriculture shall include loans given for agriculture and allied activities as specified in Section I, appended.

(ii) Small Enterprises (Direct and Indirect Finance): Direct finance to small enterprises shall include all loans given to small (manufacturing) enterprises engaged in manufacture/ production, processing or preservation of goods, and small (service) enterprises engaged in providing or rendering of services, and whose investment in plant and machinery and equipment (original cost excluding land and building and such items as mentioned therein) respectively, does not exceed the amounts specified in Section I, appended.

Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(iii) Other Small Business / Service Enterprises: Other Small Business / Service Enterprises shall include small business, retail trade, professional & self-employed persons, small road & water transport operators and all other service enterprises, as per the definition given in Section I appended.

(iv) Micro Credit: Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor, either directly or indirectly through a SHG / JLG mechanism or any intermediary (including NBFC / NGO / MFI), or to an NBFC / NGO engaged in provision of credit to the poor up to Rs. 50,000 per borrower will constitute micro credit. The poor for this purpose shall include persons below the poverty line in the respective areas.

(v) Education loans: Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;

(vi) Housing loans: Loans up to Rs. 15 lakh per family, for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban areas.

(2) Investments by banks in securitized assets, representing loans to agriculture (direct or indirect), small enterprises (direct or indirect) and housing, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitized assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitization. This would mean that the banks' investments in the above categories of securitized assets shall be eligible for classification under the respective categories of priority sector only if the securitized advances were eligible to be classified as priority sector advances before their securitization.

(3) Outright purchases of any loan asset eligible to be categorized under priority sector, shall be eligible for classification under the respective categories of priority sector (direct or indirect).

(4) The targets and sub-targets under priority sector lending would be linked to Adjusted Net Bank Credit (ANBC) (Net Bank Credit plus investments made by banks in non-SLR bonds held in HTM category) or Credit Equivalent amount of Off-Balance Sheet Exposures (as defined by Department of Banking Operations and Development of Reserve Bank of India from time to time), whichever is higher, as on March 31 of the previous year. Investments made by banks in the Recapitalization Bonds floated by Government of India will not be taken into account for the purpose.

(5) In order to encourage banks to increasingly lend directly to the priority sector borrowers, the banks' deposits placed with NABARD / SIDBI on account of non-achievement of priority sector lending targets would not be eligible for classification as indirect finance to agriculture/SSI, as the case may be.

Targets / Sub-Targets

The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are furnished below:

Purpose	**Domestic commercial banks**	**Foreign banks**
Total Priority Sector Advances	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total Agricultural Advances	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
	Of this, indirect lending in excess of 4.5 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	
Small Enterprises Advances	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Micro Enterprises Within Small Enterprises	40 per cent of total advances to small enterprises should go to micro (manufacturing) enterprises having investment in plant and machinery up to	Same as for domestic banks.

Sector	Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh; ii) 20 per cent of total advances to small enterprises should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. (Thus, 60 per cent of small enterprises advances should go to the micro enterprises).	
Export Credit	Export credit is not a part of priority sector for domestic commercial banks.	12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Advances to Weaker Sections	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
Differential Rate of Interest Scheme	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.	No target.

[ANBC or credit equivalent of Off-Balance Sheet Exposures (as defined by Department of Banking Operations and Development of Reserve Bank of India from time to time) denotes the outstanding as on March 31 of the previous year. For this purpose, outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of NBC for priority sector lending purposes. For the purpose of priority sector lending, Adjusted NBC (ANBC) denotes NBC plus investments made by banks in non-SLR bonds held in HTM category. Investments made by banks in the Recapitalization Bonds floated by Government of India will not be taken into account for the purpose of calculation of ANBC.]

The detailed guidelines in this regard are given hereunder.

1. Agriculture

Direct Finance

1.1. Finance to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such finance] for Agriculture and Allied Activities.

- Short-term loans for raising crops, i.e., for crop loans. This will include traditional/non-traditional plantations and horticulture.
- Advances 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.
- Short-term loans under tie-up arrangements with sugar mills, agro-processing units and agri-exporters.
- Working capital and term loans for financing production and investment requirements for agriculture and allied activities.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.
- Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading, sorting, processing and transporting undertaken by households or groups/cooperatives of households.

1.2 Finance to others up to an aggregate amount of Rs. 20 lakh per borrower for the purposes listed at 1.1.1 to 1.1.4 above.

Indirect Finance

Finance for Agriculture and Allied Activities

- Loans to entities covered under 1.2 above in excess of Rs. 20 lakh in aggregate per borrower for agriculture and allied activities. In such cases, the entire amount outstanding shall be treated as indirect finance for agriculture.

- Loans to food and agro-based processing units with investments in plant and machinery up to Rs. 10 crore, undertaken by other than households.

- Loans to Non-Banking Financial Companies (NBFCs) for on lending to individual farmers.

- Credit for purchase and distribution of fertilisers, pesticides, seeds, etc.
- Loans up to Rs. 40 lakh granted for purchase and distribution of inputs for the allied activities such as cattle feed, poultry feed, etc.

- Finance for setting up of Agri-clinics and Agribusiness Centres.

- Finance for hire-purchase schemes for distribution of agricultural machinery and implements.

- Loans to farmers through Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS).

- Loans to cooperative societies of farmers for disposing of the produce of members.

Financing the farmers indirectly through the co-operative system (otherwise than by subscription to bonds and debenture issues) provided a certificate from the State Co-operative Bank/State Cooperative Agriculture and Rural Development Bank (SCARDB), as the case may be, is produced, certifying the end use of such loans.

Investments by banks in special bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities (not eligible for classification under priority sector lending with effect from April 1, 2007).

Loans for construction and running of storage facilities (warehouse, market yards, godowns, and silos), including cold storage units designed to store agriculture produce/products, irrespective of their location.

If the storage unit is registered as SSI unit, the loans granted to such units may be classified under advances to SSI, provided the investment in plant and machinery is within the stipulated ceiling.

Advances to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake work for farmers on contract basis.

Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location, subject to the following conditions:

(a) The dealer should be dealing exclusively in such items or if dealing in other products, should be maintaining separate and distinct records in respect of such items.

(b) A ceiling of up to Rs. 30 lakh per dealer should be observed.

Loans to Arthias (commission agents in rural/semi-urban areas functioning in markets / mandies) for extending credit to farmers, for supply of inputs as also for buying the output from the individual farmers/ SHGs / JLGs.

Fifty per cent of the credit outstanding under loans for general purposes under General Credit Cards (GCC).

Loans already disbursed and outstanding as on the date of this circular, to State Electricity Boards (SEBs) and power distribution corporations/companies, emerging out of bifurcation/restructuring of SEBs, for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energizing their wells and for Systems Improvement Scheme under Special Project Agriculture (SI-SPA), are eligible for classification as indirect finance up to March 2009.

2. Small Enterprises

Direct Finance

2.1 Direct Finance in the small enterprises sector will include credit to:

Small (manufacturing) Enterprises

Enterprises engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated October 5, 2006] does not exceed Rs. 5 crore.

Micro (manufacturing) Enterprises

Enterprises engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery [original cost excluding land and building such items as in 2.1.1] does not exceed Rs. 25 lakh, irrespective of the location of the unit.

Small (service) Enterprises

Enterprises engaged in providing/rendering of industry related services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs. 2 crore.

Micro (service) Enterprises

Enterprises engaged in providing/rendering of industry related services and whose investment in equipment (original cost excluding land and building and furniture, fittings and such items as in 2.1.3) does not exceed Rs. 10 lakh.

Khadi and Village Industries Sector (KVI)

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such advances will be eligible for consideration under the sub-target (60 per cent) of the small enterprises segment within the priority sector.

Indirect Finance

Indirect finance to the small (manufacturing as well as service) enterprises sector will include credit to:

Persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

Advances to cooperatives of producers in the decentralized sector viz. artisans village and cottage industries.

Subscription to bonds issued by NABARD with the objective of financing exclusively non-farm sector (not eligible for classification under priority sector lending with effect from April 1, 2007).

Loans granted by banks to NBFCs for on lending to small (manufacturing as well as service) enterprises sector.

3. Other Small Business / Service Enterprises

Loans granted to other small business and service enterprises such as, small road and water transport operators, small business, professional & self-employed persons, and other enterprises, engaged in providing/rendering of services and whose investment in equipment (original cost and excluding land and building) does not exceed Rs. 2 crore.

(i) Advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores, and;

(ii) Advances granted to private retail traders with credit limits not exceeding Rs. 20 lakh.

4. Micro Credit

Loans of very small amount not exceeding Rs. 50,000 per borrower provided by banks to the poor, either directly or through a group mechanism or through any intermediary (as approved by Department of Banking Operations and Development of Reserve Bank of India for the Banking Correspondent model), or to an NBFC/NGO for providing credit to the poor up to Rs. 50,000 per borrower.

Loans to poor indebted to informal sector

Loans to distressed poor to prepay their debt to lenders in the informal sector would be eligible for classification under priority sector.

Poor for this purpose may include those families who are below the poverty line in the respective areas. Such loans to poor may also be classified under weaker sections within the priority sector.

State Sponsored Organizations for Scheduled Castes/Scheduled Tribes

Advances sanctioned to State Sponsored Organizations for Scheduled Castes / Scheduled Tribes for the specific purpose of purchase and supply of inputs to and / or the marketing of the outputs of the beneficiaries of these organizations.

Education

Educational loans granted to individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad. Loans granted to institutions will not be eligible to be classified as priority sector advances.

7. Housing

Loans up to Rs. 15 lakh, irrespective of location, for construction of houses by individuals, excluding loans granted by banks to their own employees.

Loans given for repairs to the damaged houses of individuals up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.

Assistance up to Rs. 1.25 lakh per housing unit given to any governmental agency/ non-governmental agency (other than Housing Finance Companies) for construction/ reconstruction of houses or for slum clearance and rehabilitation of slum dwellers.

Assistance up to Rs. 5 lakh per housing unit given to Housing Finance Companies for construction/ reconstruction of houses or for slum clearance and rehabilitation of slum dwellers.

8. Weaker Sections

The weaker sections under priority sector shall include the following:

(a) Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;

(b) Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000;

(c) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY);

(d) Scheduled Castes and Scheduled Tribes;

(e) Beneficiaries of Differential Rate of Interest (DRI) scheme;

(f) Beneficiaries under Swarna Jayanti Shahari Rozgar Yojana (SJSRY);

(g) Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS);

(h) Advances to Self Help Groups;

(i) Loans to distressed poor to prepay their debt to informal sector, against appropriate collateral or group security.

9. Export Credit

This category will form part of priority sector for foreign banks only.

Penalties for Non-Achievement of Priority Sector Lending Target / Sub-Targets

1. Domestic scheduled commercial banks – Contribution by banks to Rural Infrastructure Development Fund (RIDF):

1.1 Domestic scheduled commercial banks having shortfall in lending to priority sector target (40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) and / or agriculture target (18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD. The concerned banks will be called upon by NABARD, on receiving demands from various State Governments, to contribute to RIDF.

1.2 The corpus of a particular tranche of RIDF is decided by Government of India every year. Fifty per cent of the corpus shall be allocated among the domestic commercial banks having shortfall in lending to priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, on a pro-rata basis. The balance fifty per cent of the corpus shall be allocated among the banks having shortfall in lending to agriculture target of 18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, on a pro-rata basis. The amount of contribution by banks to a particular tranche of RIDF will be decided in the beginning of the financial year.

1.3 The interest rates on banks' contribution to RIDF shall be fixed by Reserve Bank of India from time to time.

1.4 Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits etc., will be communicated to the concerned banks separately by August of each year to enable them to plan their deployment of funds.

2. Foreign Banks – Deposit by Foreign Banks with SIDBI

2.1 The foreign banks having shortfall in lending to stipulated priority sector target/sub-targets will be required to contribute to Small Enterprises Development Fund (SEDF) to be set up by Small Industries Development Bank of India (SIDBI).

2.2 The corpus of SEDF shall be decided by Reserve Bank of India on a year to year basis. The tenor of the deposits shall be for a period of three years or as decided by Reserve Bank from time to time. Fifty per cent of the corpus shall be contributed by foreign banks having shortfall in lending to priority sector target of 32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, on a pro-rata basis The balance fifty per cent of the corpus shall be contributed by foreign banks having aggregate shortfall in lending to SSI sector and export sector of 10 per cent and 12 per cent respectively, of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, on a pro-rata basis.

2.3 The concerned foreign banks will be called upon by SIDBI, as and when required by them, to contribute to SEDF, after giving one month's notice.

2.4 The interest rates on foreign banks' contribution to SEDF, period of deposits, etc. shall be fixed by the Reserve Bank of India from time to time.

3. Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

As at present, RRBs will have a target of 60 per cent of their outstanding advances for priority sector lending. Further, of the total priority sector advances, at least 25 percent (i.e. 15 percent of the total advances) should be advanced to weaker sections of the society.

As per the credit policy of RBI, the direct finance to agriculture should be to the extent of 18 per cent of the total credit by the end of March 1990. The percentage of direct finance extended to agriculture to the net bank credit was only 1.3 in 1969 and it rose 16.7 in 1990 and 12.7 per cent in 2008-09. However, the percentage of both direct and indirect finance to agriculture to the net bank credit put together, constituted 17.6. The priority sector advances should be at least 40 per cent of the net bank credit. In 1969, the share of priority sector was only 15 per cent of the net bank credit and it increased to 42 per cent in 1990 and 42.5 per cent in 2008-09. The sub sectors, viz., retail trade, micro – credit, education and housing were added to priority sector recently and their share to net bank credit was 13.6 per cent which was more than that of direct agricultural finance during 2008-09.

Priority Sector Lending

The objective of priority sector lending guidelines is to channelize credit to some of the vulnerable sectors of the economy, which may not be attractive for the banks from the point of view of profitability but are important for economic development. Loans granted to agriculture, micro and small (manufacturing and service) enterprises, micro credit, education and housing fall under the ambit of priority sector lending by the Indian banks. Apart from these sectors, the export credit also forms a part of the priority sector lending in case of foreign banks. In 2007, the guidelines on lending to priority sector were revised based on the Report of the Internal Working Group on Priority Sector Lending (Chairman: Shri C. S. Murthy) and feedback received from the governments, banks, financial institutions, NBFCs, associations of industries, media, public and Indian Banks' Association. As per the extant guidelines, the domestic banks and foreign banks have to extend 40 per cent and 32 per cent, respectively of the adjusted net bank credit1 (ANBC) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31st of the previous year to the priority sectors.

In December 2008, the Reserve Bank widened the scope of priority sector lending by allowing the banks to classify loans granted to Housing Finance Companies (HFCs), which are approved by National Housing Bank (NHB) for the purpose of refinance, for on-lending to individuals for purchase/construction of dwelling units. However, in such cases, the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. Further, the eligibility under this measure shall be restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. This special dispensation shall apply to loans granted by banks to HFCs up to March 31, 2010.

In order to ensure that the sub-target of lending to the weaker sections is achieved, the domestic SCBs were advised that the shortfall in lending to weaker sections as on the last reporting Friday of March of each year, would also be taken into account for the purpose of allocating amounts to the Rural Infrastructure Development Fund (RIDF) maintained with National Bank for Agriculture and Rural Development (NABARD) or funds with other Financial Institutions, as specified by the Reserve Bank, with effect from April 2009.

Credit to Agriculture and Allied Activities

Several measures were taken during the year to increase the flow of credit to agriculture and allied activities. The Union Budget for 2009-10 set a target of Rs.3,25,000 crore for agricultural credit for the year. Against this, banks (including co-operative banks and RRBs) disbursed Rs.92,070 crore forming 28.3 per cent of the target during April-July 2009.

In December 2008, the Reserve Bank modified the facility of temporary liquidity support for financing agricultural operations. The limits of the liquidity support availed by scheduled banks under Section 17 (3-B) of RBI Act 1934 and by NABARD under Section 17 (4-E) of RBI Act 1934 was Rs.7,500 crore and Rs.17,500 crore, respectively with effect from December 6, 2008. This facility was extended up to December 16, 2008.

Relief Measure for Agriculture – Interest Rate Subvention

The Union Budget for 2009-10 proposed to continue the interest subvention scheme to farmers for short term crop loans up to Rs.3 lakh per farmer at the interest rate of 7 per cent per annum. The budget also announced an additional subvention of 1 per cent as an incentive to those farmers who repay their short term crop loans on schedule. Thus, the interest rate for these farmers will come down to 6 per cent per annum. Net bank credit plus investments made by banks in non-SLR bonds held in the held-to-maturity (HTM) category.

Loan Amount Outstanding under Priority Sector by Public Sector Banks

(Rs.Crores)

S.No.	Sectors	June, 1969	June, 1990	June, 2009
1.	Agriculture	162 (5.4)	16,434 (18.0)	2,98,211 (17.6)
	(a) Direct Finance	40 (1.3)	15,283 (16.7)	2,15,643 (12.7)
	(b) Indirect Finance	122 (4.1)	1,151 (1.3)	82,569 (4.9)

2.	Small-scale industries	257 (8.5)	14,127 (15.5)	1,91,307 (11.3)
3.	Other priority sector advances (Transport Operators, Self – Employed Persons, Rural Artisans and so on)	22 (0.7)	8,089 (8.8)	-
4.	Retail Trade*	-	-	43,061 (2.5)
5.	Micro - Credit*	-	-	3,943 (0.2)
6.	Education*	-	-	26,913 (1.6)
7.	Housing*	-	-	1,56,590 (9.3)
8.	Total priority sector advances #	441 (14.6)	38,650 (42.3)	7,20,083 (42.5)
9.	Net Bank Credit	3016 (100.0)	91302 (100.0)	16,93,437 (100.0)

- The new guidelines on priority sector advances take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

* - In terms of revised guidelines on lending to priority sector, broad categories of advances under priority sector include agriculture, small enterprises sector, retail trade, Micro credit

Note: Figures in parentheses represent percentages to net bank credit.

Source: Report on Trend and Progress of Banking in India, 2008-09, RBI.

Direct Institutional Credit for Agriculture and Allied Activities - Total (Short-Term and Long-Term)

(Rupees crore)

Year	Loans Issued					Loans Outstanding			
	Co-operatives	State Governments	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1971-72	744	74	-	-	818	-	-	-	-
1981-82	2029	144	1263	-	3436	4315	3043	180	7539
1991-92	5797	339	4806	596	11538	12176	16981	1984	31142

2000-01	27295	487	16440	3966	48187	46135	38270	7249	91654
2005-06	48123	-	80599	15300	144021	82327	135603	21510	239439

Indirect Institutional Credit for Agriculture and Allied Activities in India

(Rupees crore)

Year	Loans Issued					Loans Outstanding				
	Co-operatives	SCBs	RRBs	REC	Total	Co-operatives	SCBs	RRBs	REC	Total
1971-72	325	-	-	36	361	135	172	-	62	369
1981-82	1497	-	9	192	-	840	1158	21	1089	3109
1991-92	2002	198 *	7	588	2795	2487	1433 #	39	4875	8834
2000-01	91337	3967 *	.	4109	99413	79567	18825 #	.	14185	112578
2006-07	135740	.	.	10733	146473	136392	82564 #	.	31262	250218

SCBs: Scheduled Commercial Banks; RRBs: Regional Rural Banks; and

REC: Rural Electrification Corporation Ltd.

* : Disbursements to priority sectors as at end-June.

: Priority sector advances as at the end-March.

Source : Reserve Bank of India (in case of SCBs); and National Bank for Agriculture and Rural Development (in case of RRBs and co-operatives).

Scheduled Commercial Banks' Advances to Agriculture

(Rupees crore)

Year (As at end - March)	Total direct finance	Indirect finance					Total direct and indirect finance (2+7)
		Distribution of fertilizers and other inputs	Loans to Electricity Boards	Loans to farmers through PACS/FSS/LAMPS	Other type of indirect finance	Total indirect finance (3+4+5+6)	
1	2	3	4	5	6	7	8
1970-71	235	64	41	–	38	143	378
1971-72	259	41	58	7	29	135	394
1972-73	313	56	79	12	25	172	485
1973-74	418	50	99	16	32	197	615

1974-75	543	78	98	20	59	255	798
1975-76	751	97	88	30	90	305	1056
1976-77	1006	108	88	46	95	337	1343
1977-78	1285	131	84	62	178	455	1740
1978-79	1729	109	93	86	292	579	2308
1979-80@	2789	206	145	117	316	784	3573
1980-81	2888	213	180	113	374	883	3771
1981-82	4061	301	265	155	505	1227	5288
1982-83	4903	267	355	168	541	1330	6233
1983-84	6136	307	430	178	570	1486	7622
1984-85	7612	401	393	193	434	1420	9032
1985-86	9160	435	372	203	415	1425	10585
1986-87	10607	387	478	237	418	1520	12127
1987-88	12401	390	472	266	426	1555	13956
1988-89	13844	447	330	260	503	1541	15385
1989-90	15500	335	495	267	331	1429	16929
1990-91	16145	329	363	199	299	1189	17334
1991-92	17397	241	655	177	360	1433	18830
1992-93	18949	268	708	183	392	1552	20501
1993-94	19465	364	896	205	635	2099	21564
1994-95	21334	536	1165	224	940	2865	24199
1995-96	23814	756	1058	285	1575	3674	27488
1996-97	27448	968	1233	285	2500	4986	32434
1997-98	29443	1200	1417	363	3355	6335	35778
1998-99	33094	1491	1627	407	4592	8117	41211
1999-00	36466	1675	1723	449	9121	12968	49434
2000-01	40485	2304	1697	377	14447	18825	59310
2001-02	46581	3303	1841	928	12166	18238	64819
2002-03	56857	3241	2966	949	16534	23690	80547
2003-04	70781	4118	3533	723	20146	28520	99301
2004-05 P	94769	-	-	-	-	39177	133946

P : Provisional.

@ : Data relate to end-December.

PACS : Primary Agricultural Credit Societies.

FSS : Farmers' Service Societies.

LAMPS : Large-sized Adivasi Multipurpose Societies;

Source: RBI. Mumbai.

Source-wise Percentage Share of Short and Medium Term Credit to Total Agriculture Credit Flow: 1975-76 to 2005-06 (per cent)

Agency	A. Short-Term			Medium & Long-Term		
	1975-76	2001-02	2005-06	1975-76	2001-02	2005-06
Cooperatives	74.3	79.9	88.6	25.7	20.1	11.4
Regional Rural Banks (RRBs)	100.0	77.8	83.5	0.0	22.2	16.5
Scheduled Commercial Banks	52.6	53.3	45.9	47.4	46.7	54.1
Other Agencies	0.0	51.3	17.8	0.0	48.7	82.2
Total	70.3	65.3	58.4	29.7	34.7	41.6

Source: For Commercial Banks from Reserve Bank of India (RBI); for Cooperatives and RRBs from National Bank for Agriculture and Rural Development (NABARD).

Institutional Credit Flow to Agriculture Sector

(Rs. crores)

Agency	1991-92	2001-02	2003-04	2004-05	2005-06	2006-07	2007-08
Cooperatives	5,800 (51.8)	20,801 (39.4)	26,959 (31.0)	31424 (25.1)	39404 (21.8)	42480 (20.9)	33070 (24.0)
RRBs	596 (5.3)	4,219 (8.0)	7,581 (8.7)	12404 (9.9)	15223 (8.4)	20435 (10.0)	15925 (11.6)
Commercial Banks	4,806 (42.9)	27,807 (52.6)	52,441 (60.3)	81481 (65.0)	125859 (69.8)	140382 (69.1)	88765 (64.4)
Total	11,202 (100.0)	52,827 (100.0)	86981 (100.0)	125309 (100.0)	180486 (100.0)	203297 (100.0)	137760 (100.0)
Target*			80,000	1,05,000	1,75,000		

* Target was fixed under doubling of agricultural credit initiative

iii) Credit-Deposit Ratio

Credit-Deposit Ratio (C-D Ratio) as per sanction gives an idea as to how much of credit is being sanctioned per unit of deposit mobilized in a particular state or region. With the objective of reducing the rural - urban disparities in the deployment of resources mobilized in the region and for achieving a balanced economic development especially in the backward rural and semi urban areas, the Government of India had advised the public sector banks that they should achieve, by the end of March 1984, a credit-deposit ratio of at least 60 per cent in both rural and semi-urban areas.

Credit-Deposit Ratio and Investment plus Credit-Deposit Ratio of Scheduled Commercial Banks – Region- wise in 2008

Region	Credit-Deposit Ratio	Investment *plus* Credit-Deposit Ratio	Investment *plus* Credit plus RIDF-Deposit Ratio @
Northern region	70.1	73.8	75.1
North-Eastern region	48.3	58.0	60.1
Eastern region	58.2	65.7	66.7
Central region	54.6	62.2	63.6
Western region	76.0	78.8	79.3
Southern region	96.8	102.8	103.8
All india	74.4	79.2	80.2

Note: @ : Bank's State-wise investment represent their holdings of state-level securities, such as, state Government loans and shares, bonds, debentures, etc. of regional rural banks, co-operative institutions, state electricity boards, municipal corporations, municipalities and port trusts, state financial corporations, housing boards, state industrial development corporations, road transport corporations and other government and quasi-government bodies.

All-India investments plus credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

Source: Report on Trend and Progress of Banking in India 2008-09.

iv) Specialized Branches for Agricultural Lending

The nationalized banks have set up specialized branched to deal with rural credit. These branches were established to overcome the practical difficulties relating to man power, high cost of operation and follow up of loans given to the farmers. A few examples of specialized branches are:

a) Agricultural Development Branches (ADB) -State Bank of India.

b) Gram Vikas Kendra (GVK) - Bank of Baroda.

c) Gramodaya Kendra (GK) - Indian Bank.

d) Rural Service Centres (RSC) - Dena Bank.

e) Farm Clinic Centre - Syndicate Bank.

f) Rural Credit and Development Division - Indian Overseas Bank.

v) Schematic Lending

Under Schematic Lending, credit is extended directly under Government schemes such as Integrated Rural Development Programme (IRDP), Special Rice production Programme (SRPP), Biogas Scheme, Massive Agricultural Production Programme (MAPP), etc. The subsidy portion under these loans was reimbursed to the banks by the government. Loans under schematic lending may either be a short or a term loan.

vi) Multi-Agency Approach

The Multi-Agency Approach was adopted as an over all national policy since 1970 as no single agency had the necessary organizational structure or financial strength to meet the total credit requirements of farmers.

Multi-agency approach to finance agriculture was accepted based on the recommendation of All India Rural Credit Review Committee (1969). The committee observed that the co-operatives alone though they had increased their coverage since 1950 both in terms of membership and finance provided, would not be in a position to meet the increasing requirements of credit. The committee also pointed out that a large number of PACS are not viable and therefore these could be regarded as inadequate and unsatisfactory agencies for the distribution of production credit. It was of the view that both commercial banks and co-operative credit societies can play a complementary role without getting into conflict with each other. At present, many agencies, viz., commercial banks, co-operative credit societies and Regional Rural Banks, are significantly operating in the field of agricultural finance.

Problems

RBI constituted a working group in 1976 under the chairmanship of C.E.Kamath to go into the problems of inefficiency in disbursal of credit under multi-agency approach in agricultural financing. The main findings were:

a. The existence of a number of financing agencies in a common area of operation and disbursement of credit in an uncoordinated manner has resulted in multiple financing, over- financing, under financing and diversion of loan amount to unproductive purposes.

b. Credit agencies could not formulate a meaningful agricultural development plan on an area basis.

c. Recovery of loans becomes difficult as more than one credit agency claim, on the same income / security.

d. Problems arise due to different systems, procedures and policies in lending by different agencies. Differences exist in the spheres of timelines in sanctioning credit, sanctioning powers, security norms, service and supervisory charges, recovery performance and procedures, etc.

vii) Area Approach

The National Credit Council was set up in December 1967 to determine the priorities of bank credit among various sectors of the economy. The NCC appointed a study group on the organizational framework for the implementation of social objectives in October, 1968 under the Chairmanship of Prof. D R Gadgil. The study group found that the Commercial Banks had penetrated only 5000 villages as of June, 1967 and out of the institutional credit to agriculture, at 39 per cent, the share was negligible at 1per cent, the balance being met by the co-operatives. The Banking needs of the rural areas in general and backward in particular were not taken care of by the Commercial Banks. Besides, the credit needs of Agriculture, SSI and allied activities remained neglected. Therefore, the group recommended the adoption of an area approach for bridging the spatial and structural credit gaps (www.slbckerala.com/pdf/leadbank28_7_09.pdf).

Later, All India Rural Credit Review Committee 1969 endorsed the view that commercial banks (CBs) should increasingly come forward to finance activities in rural areas. RBI accepted the recommendation and formulated the Lead Bank Scheme (LBS) in December, 1969 Under the Scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning. The LBS did not envisage a monopoly of banking business to Lead Bank in the District. The Lead Bank was to act as a consortium leader for co-coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy. In the meanwhile, nationalization of 14 major Commercial Banks in July 1969 (and another 6 banks in 1980), paved the way for bringing about dramatic changes in their operations. One of the important changes ushered in immediately, was the expansion of the branch network in the unbanked areas with a view to bridge spatial gaps. Banks were directed to open a large number of branches in unbanked rural and semi-urban areas.

i) Allotment of Districts among the Lead Banks

All the districts in the country excepting the metropolitan cities of Mumbai, Kolkata, Chennai and Union Territories of Chandigarh, Delhi and Goa were allotted among public sector banks and a few private sector banks. Later on, the Union Territories of Goa, Daman and Diu as also the rural areas of the Union Territories of Delhi and Chandigarh have been brought within the purview of LBS.

ii) Impressionistic Surveys and Branch Expansion

The Lead Banks conducted impressionistic surveys during 1969 – 70 in their districts to identify the potential for branch expansion and invoke the co-operation of other banks operating in the district for branch expansion and financing the various union industries. This has resulted in massive branch expansion in the unbanked and under banked areas.

iii) Formation of District Consultative Committees (DCCs)

The next important development in the history of LBS was the constitution of DCCs in all the districts, in the early seventies to facilitate co-ordination of activities of all the Banks and the financial institutions on the one hand and Government departments on the other. The DCCs were constituted in the lead districts during 1971 – 73.

iv) Study Groups on Lead Bank Scheme in Gujarat and Maharashtra

RBI constituted two study groups to study the working of the LBS in Gujarat and Maharashtra as per the decision taken in the Regional Consultative Committee (Western Region) held in August 1975. The group submitted a common report in December 1975 in view of the similarity of the problems. The group made several important recommendations regarding composition and functioning of DCCs, training needs of the staff of banks and state governments constitution of a standing committee in RBI for reviewing the overall progress of LBS etc. RBI constituted the "High Power Committee on the working of LBS" in 1976 as per the recommendation of the Committee. As rapid branch expansion had taken place by then, the group recommended implementation of the next phase of the LBS – viz., formulation and implementation of area development programme covering activities in priority sectors to fill the sectoral credit gap. This marked the beginning of a crucial phase in LBS.

v) District Credit Plan (DCP)

The second and most important phase of the LBS was formulation of DCPs and their implementation. Although certain structural credit gaps were identified earlier, positive measures were introduced only after nationalization of the banks. Certain sectors which were hitherto neglected were given a priority status and banks were asked to provide credit to these sectors in a more concerted way. Priority sector included agriculture, small scale industries (SSI), small road and water transport operators, retail trade and small business, education, self-employed persons, etc. It was made mandatory for the CBs to deploy a stipulated percentage of credit for priority sector. It was fixed at 33.30 per cent of outstanding credit by March 1979 and 40 per cent by March 1985 onwards. Within the priority sector, sub-targets were prescribed for agriculture and allied activities and weaker sections.

The credit planning exercise under the LBS primarily aimed at overall development of a district through the coordinated efforts of banks acting in unison with the developmental organs of the State Government at the district level. The first set of DCPs were prepared and launched in 1978. In the second round of DCPs (1980 – 82) further refinements were brought out. The credit outlays under DCPs were now required to be prepared not merely sector-wise but also bank-wise and block-wise. Besides, within the plan period, outlays were required to be worked out annually to be Annual Action Plans (AAP) for each block, bank and sector/sub-sector. The third (1983-85) and fourth round (1988 - 90) of DCPs and AAPs further contributed to the familiarity of banks in the mechanism of credit planning. The cooperatives were also involved in the preparation of DCPs. They too were allotted their share of targets under priority sector / Government sponsored programmes.

vi) Standing Committee of DCC

A task force comprising representatives of DCCBs, CBs having wide network of branches in the district and District Planning Officials was set up to assist the lead bank in the preparation of operationally meaningful DCP and AAP. This task force was converted into a Standing Committee of DCC for associating it in implementation of the plans. Its membership was enlarged to include the LDO of RBI, representative of ARDC (now District Development Managers DDM, NABARD), the Chief Executive of DRDA/ (Zilla Parishads also) and an official from the Co-operative Department, etc.

Vii) Lead Bank Officers and Lead District Officers

The organizational base of the Lead Banks was strengthened for preparation of DCPs and for its monitoring and implementation. RBI advised them in 1979 to appoint Lead Bank Officer (normally called Lead District Manager (LDM) in each district for the purpose. Simultaneously, RBI appointed Lead District Officers (LDOs) who were allotted 4 or 5 districts each and were entrusted with the responsibilities of overseeing the preparation and implementation of DCPs in the allotted districts.

Forums under Lead Bank Scheme for Co-ordination and Monitoring

Lead Bank Scheme (LBS) was evolved as a framework to be more responsive to the needs of the rural economy. The objectives of the scheme cannot be achieved unless rural lending is properly tied to well designed programmes of development. This calls for effective co-operation and co-ordination not only between credit institutions but also between the credit institutions but also between the credit institutions on the one hand and the concerned Government and other development agencies on the other. Appropriate forums had to be created where these two agencies can meet periodically to discuss operational issues arising from the implementation of scheme evolved by both Government and the Banks. Initially forums were set up at the District and State Level.

State Level Banker's Committee (SLBC)

Status of the Committee

The State Level Bankers' Committee (SLBC) is an inter-institutional forum for co-ordination and joint implementation of development programmes and policies by all the financial institutions operating in a State. Although SLBC is envisaged as a Bankers' forum, Government officials are also included. The Committee is expected to discuss issues, consider alternative solutions to the various problems in the field of balanced development and evolve a consensus for coordinated action by the member institutions. All the member institutions are therefore expected to approach the Committee's task in a spirit of co-ordination and intimate involvement without which the Committee is likely to lose its utility. These committees are to consider all problems requiring inter-bank coordination at the policy and implementation level. SLBCs are also expected to recommend to State Government, measures which would facilitate intensive involvement of banks and effective co-ordination with extension agencies for all round banking development. Based on the guidelines issued by Government of India, RBI designated in 1976-77 one of the Lead Banks to act as State Level Conveners of the SLBC.

Functions of the Convener Bank

- Maintain co-ordination in the functioning of different financial institutions operating in the State in implementation of various developmental programmes (both Central and State).
- Consider problems requiring inter-bank co-ordination, matters relating to banking development, etc., requiring State Level attention.
- To conduct SLBC meetings, Steering Committee meetings and annual SLRM depending upon the requirement.
- To take up for consideration the issues raised by member banks and the State authorities which remain unresolved in the District Consultative Committees (DCCs)/ District Level Review Committee meetings (DLRCs).

- To serve as a focal point for the banking system as a whole in the State in order to secure better liaison with the State Government authorities and apex institutions like RBI / NABARD / SIDBI, etc.
- To disseminate guidelines and policy matters to all the member banks and others concerned regularly.
- To allocate targets in co-ordination with State Government under different Government sponsored schemes.
- To collect and consolidate feed back reports from Banks/State Government departments and Lead Dist. Managers for preparing agenda notes for SLBC / Steering Committee / SLRM.
- To attend State Level Meetings convened by various departments / organization on behalf of Banks as Convener of SLBC and to initiate necessary follow up thereof.

Liaison with State Governments

The SLBC is expected to serve as a focal point for the Banking system in every state for securing better liaison with State Government authorities. The State Governments have been advised of the constitution of these committees and it is desired that the convener Banks approach State Government authorities and apprise them of the activities of these Committees.

Review of the Functioning of District Consultative Committees

The problems should be brought before the State Level Bankers' Committees by the Lead Banks concerned. Agreed decisions could then be communicated by all the participating institutions to their respective field for action in the concerned districts.

District Credit Plans (DCP)

Inter-institutional co-ordination is of critical importance in the formulation and implementation of the District Credit Plans. This aspect may, therefore, be regularly examined by the SLBCs. Allocation of shares in the District Credit Plans should invariably be ratified by the Regional / Zonal Managers of the Banks participating in the district plans concerned.

Uniformity in Terms and Conditions of Lending

While the terms and conditions governing the advances are determined by each bank keeping in view various factors such as cost of mobilizing resources, operational costs, security requirements, etc. wide variations in these conditions from bank to bank creates avoidable confusion and resentment in the minds of the borrowers. This is particularly so where several institutions are participating, if at least in respect of advances to be granted under specific schemes the banks strive to achieve certain uniformity in terms and conditions governing their advances.

Review of Credit Flows

The State Level Bankers' Committees could become a very useful forum for reviewing the trends in the flow of credit into rural areas and to the small borrowers in the neglected sectors. An important prerequisite for such reviews is the availability of data. Recently, a system of statistical reporting for the use of the District Level Consultative and the state Level Co-ordination Committees, evolved by a Study Group, has been introduced. The State Level Bankers' Committees could also purposefully review the picture revealed by the data compiled in accordance with the new system of returns and take follow up measure to secure speedy disposal of loan applications, to improve the pace of credit assistance under specific programmes.

District Consultative Committee (DCC)

Constitution

The DCC has been constituted at the instance of Banking Commission (1972) and is a common forum for bankers as well as Government officials to find solution to problems in implementing schemes under LBS. The DCC came into existence more or less voluntarily because of the felt need for consultation in the matter of District development schemes. Over the years, it has evolved as an integral part of the LBS.

Chairman District Collector / Deputy Commissioner

Convener Lead District Manger

Members

• Chief Executive Officer, ZP
• District Planning Officer
• Project Director, DRDA
• General Manager, DIC
• Executive Officer, State SC & BC Corporations, District Level functionaries of Agriculture, Veterinary, Animal Husbandry, Sericulture, Fisheries and Irrigation Department, etc.
• Lead District Officer, RBI
• Representative of NABARD
• Regional Managers/District Coordinators of 5/6 commercial banks having a large commitment under credit plan, priority sector lending and branch network
• Representative of RRB
• District representatives of State Financial Corporation KVIC & KVIB

• Representatives of District Central Co-operative Bank and other Co-operative Banks having large commitment under credit plans, Other Government departments, Corporations, Boards, Universities and Banks, which are not permanent members, may be invited to specific meetings, whenever considered necessary, on the basis of agenda items. Each member should be represented only by one official of an appropriate level at DCC meeting. The overall strength of DCC should be maintained at a compact level of 20 to 25 members so that the discussion at this forum are meaningful and result oriented.

Periodicity of meeting Once a quarter

Functions

1. Identification of potential and formulation of bankable schemes.
2. Finalization of Annual District Credit Plan based on the block plans approved by BLBCs.
3. Allocation of physical and financial targets of various Government and other agencies credit linked programmes / schemes to the financial institution in the district.
4. Monitoring overall progress/performance in physical and financial terms of the implementation of ACP, Govt. Sponsored Schemes and all other programmes / schemes.
5. To solve operational problems in implementation of Service Area Approach, Credit Plans, Government and other agencies programmes / schemes, etc.
6. Reviewing/Monitoring of the support forthcoming from Government Departments.
7. Identifying problem / bottlenecks in provision of credit as also of infrastructure, inputs, etc. and taking steps to overcome these.
8. Reviewing bank-wise and sector/activity-wise position of credit disbursement under ACP and Government and other agencies programmes / schemes, etc., and initiating necessary action.
9. Reviewing the progress in disposal of loan applications and ensuring that applications are sent in a phased manner and not bunched in the last quarter of the financial year.
10. Overseeing and ensuring smooth release of subsidies.
11. Monitoring the recovery position of financial agencies and rendering necessary help for recovery of overdues.
12. Taking up with State Government/SLBC/SLCC items/issues which cannot be tackled at the district level and ensuring proper follow up thereof.
13. Consideration of security arrangements and other infrastructural facilities for rural branches.
14. Evaluation of the ground level implementation of various schemes and benefits accruing there under to the identified beneficiaries.

15. Monitoring the position in regard to Credit Deposit ratio (CD Ratio) in the light of RBI stipulations in this regard.
16. Discussing the follow up of DLRC's decisions.
17. Identifying activities / programmes / schemes suited to local circumstances.
18. Recommending to SLBC to request State Government to devise suitable polices for inputs, services and marketing and in building suitable supporting organizations for all the three items.
19. To deliberate on broad planning and operational aspects and not to deal with individual cases.
20. To review Credit Deposit ratio, priority sector advances, advances to weaker section, etc.
21. Confirming/ratifying the action initiated by the Standing Committee.

Functions of the Convener

1. Obtaining necessary background notes and data from financial institutions, Government departments and other agencies to prepare comprehensive agenda notes for DCC meeting.
2. Convening the meeting by issuing notice and agenda notes to the members sufficiently in advance, say, 15 days.
3. Recording the proceedings of the meeting. The proceedings should bring out clearly the discussions and decisions arrived at. The agencies responsible for taking further action on the decisions together with the time schedule for such action should be indicated in the proceedings. The concerned agencies should provide necessary feedback to DCC regarding the action taken on the decisions. The items not advised before hand but raised in the meeting should be listed separately in the proceedings.
4. Circulating minutes to the member of DCC, all banks, financial institutions, Government departments, etc., within a fortnight.
5. Following up issues requiring action by banks, other financial agencies and Government departments.
6. To act as resource person for the entire banking sector in the lead district so far as the implementation of credit plan is concerned.
7. While ensuring that DCC becomes a compact forum for meaningful discussions, it is necessary to secure an arrangement for adequate rapport between DCC and those institutions which are not represented on it on a permanent basis. The LDM should function as the focal point of such co-ordination by convening regularly, meetings with the District co-ordinators of all non-lead banks and other financial institutions. These meetings could be held well in advance of DCC meetings so that the problems thrown up could be takes up at the DCC forum. LDOs of RBI and representative of NABARD may also be invited for such meetings.

Block Level Bankers' Committee (BLBC)

Block Level Bankers' Committee is a body comprising of development departments headed by Block Development Officer and Branch Mangers of all the branches of the Block. The BLBC is constituted for discussing in detail the different aspects of the Lead Bank Scheme / implementation of the Credit Plan and to review progress in implementation of the various Govt. Sponsored Schemes.

Chairman Lead District Manager.

Convener

Branch Manger of the Branch of the Lead Bank in the Block Head quarters In case the Lead bank has no Branch in the Block Head Quarter then the Branch Manager of the Bank having major share in the branch network with branch in Block Head quarters and designated for the same

Members

- Block Development Officer
- Technical Officers (Agriculture)
- Technical Officer (Industries)
- Technical Officer (Animal Husbandry)
- Branch Manager of all Commercial Banks, Regional Rural Banks, District Central Co-operative Banks and Land Development Banks
- Lead District Officer of RBI, wherever possible
- DDM of NABARD, wherever possible.

Periodicity of meeting Quarterly.

The joint forum for consultation and monitoring of DCPs under LBS had been created only upto district level and not block level. But some of the states Governments had set up block level committees or Task Forces for monitoring implementation of special programme like SGSY, SJSRY, PMRY, SLRS, 20 Point Programme, etc. Commercial Banks extended necessary co-operation and participate in the discussion but do not convene the meetings/act as conveners; this being done by BDO in some states. State Governments have advised that meeting may be held at Block and Branch premises alternatively to invoke better co-operation. Matters of policy issues, case of individual borrowers are not discussed / decided in such meetings but are referred to higher ups/DCC. However, with the adoption of service area approach RBI has advised formation of a Block-Level Bankers' Committee (BLBC) to co-ordinate the activities of the banks and the Government officials. All the banks operating in the block, including DCCB, LDB and RRB would be members of this committee. In addition, the Block Development Officer and the Technical officers in block looking after agriculture, industries, animal husbandry, etc., would also be the members.

Functions

1. To discuss the credit plans of different branches and their aggregation into Block Credit Plan.
2. To review the progress in implementation of Block Credit Plan and the performance of each branch in relation to its branch credit plan.
3. To consider operational problems in implementation of credit plans with special reference to enlisting the co-operation of State Governments, etc., in provision of inputs, infrastructure and linkages.]
4. To review the progress in implementation of government sponsored programmes, i.e., SGSY, SJSRY, PMRY, SLRS, etc., including their impact on the beneficiaries.
5. To allocate service areas to new branches opened in the block and
6. To monitor the recovery programmes and the adequacy of the steps taken in this regard, including the support available from the State Government machinery.

Constraints in the Lead Bank Scheme

i) The district credit plan is formulated on the basis of existing infra-structural facilities and on the assumption of future development plans as envisaged in the five year plans (FYP). But there is delay in the development of such infrastructural facilities.

ii) Non-availability of raw materials and escalation of their costs affect the technical and economic feasibilities.

iii) The execution of this programme is not the exclusive responsibility of the Lead bank. Other banks are equally responsible for the implementation of the programme. Under such circumstances, lack of co-ordination among lending and other development agencies affect the implementation of various programmes.

vii) Village Adoption Scheme (VAS)

Concomitant to LBS, the other form of area approach in operation was VAS, under which bank adopted some villages in their command area for intensive lending. The area approach was not so much aimed at development of a chosen area as for avoiding the pitfalls of scattered and unsupervised lending. In the initial stages of VAS, RBI has encouraged banks to adopt villages as well as to avoid scattered lending. A study carried out by the RBI in 1980 revealed that the VAS as practiced mainly served to exclude other banks from going to the adopted villages of one bank for financing, without ensuring that the branch adopting the villages paid adequate attention for meeting their credit needs. The RBI, therefore, issued guidelines in December 1980 spelling out that adoption of villages by a bank essentially should amount to a declaration of its intention to intensify its efforts therein and should not mean that other banks are precluded from financing in the area.

Village Adoption Scheme was first conceived by State Bank of India with an intension to finance small farmers under the area approach strategy. The scheme aims at deriving, in full, the advantages accruing from concentrated and coordinated efforts in areas with significant agricultural development potential and having a large number of small and marginal farms. It is for the bank to take special interest in the development of the village it has adopted, in co-ordination with other agencies functioning in that area.

The banks have to undertake detailed survey of the village and prepare development plans. These plans have to be implemented with constant follow-up action. And the banks have to evaluate the performance of productive activities for which loan are given.

Constraints

i) Banks treat and publicize a village as 'adopted' even though only a few of its residents had been granted loan

ii) In practice, banks do not adopt a remote village **or** poorly developed village.

Performance

At the end of June 1983 banks had adopted 141, 042 villages and financed 5.10 lakh direct agricultural loan accounts involving an amount of Rs1,557 crores (outstanding).

Emergence of Service Area Approach

There was a need to have a close look at the quality of lending. It has been observed that during the five years ended 1985-86, the gross value added in agricultural sector registered a growth rate of 2.70per cent per annum. The share of agriculture in the total net domestic product at factor cost (at 1970-71 prices) declined from 39.80 per cent 35.40 per cent. The production of food grains increased marginally from 133.30 million tonnes to 150.50 million tonnes, an increase by 18per cent with considerable regional disparities. The rate of growth in the consumption of fertilizers was also similar. In contrast, there was 41 per cent increase in the outstanding level of credit for agriculture from all the three rural lending agencies viz., Co-operatives, RRBs and CBs between June 1981 and June 1986. State-wise comparison of production of food grains vis-à-vis outstanding bank credit showed wide disparities. The share of Haryana, Punjab and U.P. in total food grains production was around 38per cent. These States accounted for as much as 75 per cent increase in the food grains output. However, their share in the total institutional credit was 22 per cent only. While some of the states in the Eastern Region and also Madhya Pradesh have done well in recent years, stagnation or decline in food grain production was noticed in Himachal Pradesh, Rajasthan, Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Kerala which account for 41 per cent of the area under food grain crops and comparatively a high proportion of institutional credit for agriculture.

In the context of these variations, the massive increase in rural lending, as also the further increase in such credit deployment in the years to come, it was considered opportune to assess the impact which credit from banks has had on the overall economic development of the rural sector in general and agricultural production and in productivity in particular, through a study. With this objective in view, the Governor of RBI suggested to the Chief Executives of Public Sector Banks at a meeting held on 17.10.87 that a field study should be carried out in different districts all over the country. Accordingly, studies were conducted in 88 districts spread over 21 states in November / December 1987and reports were submitted to RBI. The findings of the field studies were discussed in a seminar convened by RBI on 9th and 10th January 1988. It was attended by the Chairman of Public Sector Banks, top executives from the Government of India and the national level institutions. Honourable Finance Minister and Minister of State for Finance addressed the Seminar. The findings of these studies threw up a major deficiency in the rural credit system viz., weak link between bank credit and production, productivity and income levels. Scattered lending over wide area diluted the quality of lending. Post disbursement supervision was paid little or no attention. Several suggestions were made at the seminar for strengthening the existing rural credit delivery system with a view to improving the quality of lending in rural areas.

The most important suggestion by all the participants was the endorsement of the new approach to rural lending viz., **SERVICE AREA APPROACH,** whereby each rural and semi-urban branch of a Commercial Bank (including RRB) would be assigned a designated area in which it could make planned efforts towards area development in co-ordination with all the extension and development agencies of the State Government. Large scale expansion of branches in rural and semi-urban areas facilitated the shift.

Manifestation of area approach began in the form of Lead Bank Scheme under which a particular commercial bank was expected to assume a lead role in a particular district. Other financial institutions and developmental agencies were expected to work in co-ordination with the designated lead bank.

Another manifestation of area approach at a comparatively micro level has been in the form of ‘Adoption of villages’ for intensive lending. By mutual understanding amongst banks operating in the area, it was usually agreed that the bank adopting the particular village will meet the entire credit needs of the village.

Yet another manifestation of area approach which many of the banks have evolved more or less spontaneously is the formulation of area specific projects. Project formulation is undertaken keeping in view the credit potential and compactness of the area around one or more of the branch offices of the bank for effective implementation of the programme of lending.

With a view to improve the linkage between the bank credit and its objectives viz., increasing the production, enhancing the productivity of resources and raising the income of rural population, the RBI advised the Chief Executives of public sector banks to personally carry out field visits in rural areas of different districts all over the country. A seminar by the top executives of banks and GOI was held in January 1988 wherein it was decided to launch the Service Area Approach (SAA) and hence SAA was commenced from April 1, 1989.

Stages of Implementation of SAA

SAA comprises of the following stages:

i) Identification of the service area for each bank branch

The rural and semi-urban branches of commercial banks and RRBs will be allotted with all the 5.67 lakh villages in the country. Each branch will cover 15 to 25 villages. Proximity to the branches and contiguity of the villages are the main criteria for the allotment of villages. Where more than one branch qualifies for allotment of a particular village, allotment is made to the branch which has a dominant share in lending for the particular village.

ii.) Survey of the villages in the Service Area

The branch managers should undertake survey of villages in order to assess lending potential for different activities and identification of beneficiaries for assistance. The survey should also cover infrastructural facilities and linkages available in the area. It should be completed within four months from the date of allotment of service area.

iii) Preparation of credit plan on an annual basis for the service area by each branch

An Annual credit plan has to be prepared based on the survey report. The RRBs prepare credit plan for the target group and the designated bank branch will prepare for non-target group. Branches should take note of the lending programmes of PACS and PLDBs while finalizing the plan. They should get a list of borrowers from co-operatives to avoid double financing. Programmes such as Integrated Rural Development Programme (IRDP), Self-Employment for Educated Unemployed Youth (SEEUY) and Self Employment for Urban poor (SEPUP) form a part of credit plan.

iv) Co-ordination between credit institutions and development agencies for effective implementation of credit plans.

v) A continuous system of monitoring the progress in the implementation of plans and individual schemes.

SAA has the following advantages

a. it facilitates intensive deployment of credit for development purposes, keeping in view the local needs and problems;

b. it facilitates identification of borrowers and activities needing of credit;

c. it facilitates supervision of use of credit and recovery of credit;

d. it facilitates co-ordination with the other financial and developmental institutions operating in the area, in the interest of development of that area;

e. it facilitates monitoring of impact of credit on the living standards of the area, which is the ultimate objective of rural development.

f. The service area approach allocates each and every village for adoption irrespective of its existing socio-economic condition which was the main consideration in the earlier village adoption approach with the result that the villages which were potential for increasing branch business profitably, were got adopted. Under SAA, there is village adoption under *compulsion* through committee intervention for rural development while in the village adoption approach there was optional village adoption without outside intervention. In SAA, there is equity and in VAS there was discrimination.

The village profile has to be updated once in a year by means of periodic visits of the villages and establishing a continuous contact with the extension and development agencies. The credit plan should reflect both the needs and potentials of the area. In drawing up a credit plan, the branch manager should keep in view the essential aspects such as the extent to which credit deposit ratio should be improved during the year, number of units to be financed under different activities under various schemes, credit targets to be fulfilled, the availability of required physical inputs etc. The branch manager is advised to arrange funds for implementing the credit plan by mobilizing savings, by effecting recovery of dues and over dues, by setting refinance and by borrowing funds from other inter bank branches. SAA ensures planned credit deployment and prevents duplication of financing.

Constraints of SAA

a) All the demands of the villages may not be met by the designated bank branch due to financial constraints

b) Branches located in areas where co-operatives are very strong, will have to restrict their lending.

c) Because of larger area of operation, banks officials could not concentrate on lending, supervising and recovery of loans.

d) Rural people lose their right of choosing their own bank. If the service area bank could not lend, farmers could not get loan elsewhere.

The operational aspects of implementing this approach were examined in depth by a Committee appointed for the purpose under the Chairmanship of Dr. P.D Ojha, Deputy Governor of RBI. The members of the Committee, among others were the Chairmen of some public sector banks. In the absence of sufficient knowledge about the potential within command area, these targets tended to be unrealistic.

Important Recommendations of Dr. Ojha Committee

The Committee opined that the Lead Bank Scheme has helped in bringing a great deal of co-ordination between Banks and Government departments through forums established at the district and state levels. But, as the district development plans and branch performance budgets could not be dovetailed with the DCPs and AAPs prepared under the scheme, they could not acquire the full status of operationally relevant plans for implementation. The lack of involvement of Branch Mangers in the preparation of plans was also responsible for the plans not becoming meaningful to them. Under these circumstances, an alternative system as suggested in the Seminar appears to be more conducive to develop productive lending.

The issue of demarcation of area as advocated by the working group on multi-agency approach on Agricultural Finance was formalized with the advent of SAA. The committee also expressed that such an approach would have distinct advantages in the dispensation of credit. Firstly, it enables the branches to pay concentrated attention on the development of the area. Secondly, as the multi-agency approach has to some extent, resulted in duplication of efforts, a new approach may help in avoiding the same. Thirdly, the scattered lending over wide areas would give way to organized lending. Fourthly, it would make it easier for the Branch Managers to effectively monitor the end-use of credit and assess the impact on increase in the levels of production, productivity and incomes of the beneficiaries. Fifthly, as the plans would be drawn up by the branch manager, he would develop a sense of pride, motivation and involvement in the success of this
plans.

Capital Rationing

Capital Rationing refers to allocation of scarce capital resources among competing ends. The concept of credit rationing is applicable to borrower and. lender. The tendency of the lender to limit the amount of credit provided to the farm business is known as external capital rationing. Likewise, the borrower also adopts capital rationing with his limited capital to derive maximum returns from the alternative investment choices. This is called internal capital rationing.

Instant Credit Scheme

This scheme was introduced during 1991 with the aim of providing credit without any delay to the persons who repay the loans regularly. Under this scheme, green card is issued to those members who had repaid the loan promptly in the last three years. By showing the green card, the member can avail the credit immediately without waiting for the sanction of loan by the concerned officials. It is expected that this system will induce the farmers to repay the loan promptly and avail fresh loans without any delay. The possession of the green card will also give a social status.

Crop Production Loan

Crop Production loans are granted by the financing institutions for growing crops. This loan amount depends on the input requirements of the crop and hence it varies with the crop. The loan was first introduced in 1950 in the erstwhile Bombay State. Later it was introduced throughout the country based on the recommendations of All India-Rural Credit Survey Committee (1954) and the Committee on co-operative credit (1960). At present, all financing, institutions provide crop loan.

Features

The disbursement of loan is made in cash and kind. A major part of the loan is disbursed in the form of inputs such as improved seeds, fertilizers and pesticides which ensures its proper utilization. The repayment of loan is so fixed as to enable the farmer to repay the loan after marketing the produce. Wherever facilities are available the credit is linked with marketing to enable the farmer to get better price for his produce. The banker could also easily recover the loan. The crop loan is issued either by hypothecating the crop to the lending institution or based on the personal security of the farmer.

Scale of finance

Scale of finance is the credit limit fixed for each crop based on its cost of cultivation. The DCCB has a major responsibility in convening the "District Level Technical Committee" on scales of finance (SOF) for the district. A scale of finance per acre for different crops is determined on the basis of cost of cultivation. If includes both cash and kind. These are fixed once a year before the major crop season in consultation with all the stakeholders. The key inputs in the exercise are identifying all major crops in the district, determining their cost of cultivation and the returns that are coming from the crop and fixing the scale of finance. Since the cost of cultivation varies with the region and time uniform scale of finance could not be adopted. The scales of finance are averages and therefore, banks have the flexibility to offer larger loans than the scales fixed for enterprising farmers. The process of fixing a scale of finance is very useful as, it harmonizes the rates across different banks and each bank need not independently arrive at the SOF.

REGIONAL RURAL BANKS

The need for evolving a hybrid type of credit agency which combines the resource orientation of the commercial banks and the rural orientation of the co-operatives has been expressed in the reports of a few of the committees which have looked into rural credit problems.

To review the flow of institutional credit especially to the weaker sections of the rural community, the Government of India appointed a Working Group in 1975 under the chairmanship of Narasimhan. The Group identified certain deficiencies in the functioning of co-operatives and commercial banks and recommended the setting up of state-sponsored, regionally based and rural oriented banks called Regional Rural Banks (RRBs) which would encompass local feel and familiarity with several problems which the co-operatives possess and the degree of business organization, ability to mobilize the deposits, access to central money markets and a modernized outlook which the commercial banks have. The Government of India accepted this recommendation and RRBs were established in 1976.

The main objective of RRB is to provide finance to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs whose annual income is less than Rs.10,000.

Features

The idea behind the establishment of RRBs is to develop a comparatively backward area where the commercial bank and co-operative is relatively poor. The main difference from the commercial bank is that the area of operation of RRB is confined to a region comprising one or two contiguous districts. One of the tasks envisaged for the RRBs is to maintain their cost of operations at a lower level than that of the commercial banks. So the salary structures of the staff were comparable to that of the State government employees.

RRBs are sponsored by schedule commercial banks. A few non-public sector commercial banks and state co-operative Banks are also allowed to sponsor RRBs. The sponsoring bank provides managerial assistance to RRBs for the first five years. The management of RRB is through a nine member Board of Directors headed by a chairman who is an officer of the sponsor bank. The Board consists of three nominees of Government of India, two nominees of the concerned State government, four including the chairman by the sponsor commercial bank.

The authorized share capital of a RRB has been fixed at Rs.5 crore and issued capital is Rs. one crore. Of this, 50 per cent is subscribed by the central government, 15 per cent by the concerned state government and 35 per cent by the sponsor bank.

Progress of RRBs in India

S. No.	Particulars	1976	1980	1990	2000	2009
1.	Number of RRBs	40	85	196	196	86
2.	Number of branches	489	3,279	14,444	14,301	15,199
3.	Deposits (Rs.in crores)	7.72	199.83	4,150.52	32,204	1,17,984
4.	Advances (Rs.in crores)	7.02	243.38	3,554.04	13,184	69,030
5.	Number of loss making banks	23	60	NA.	34	6

Purpose-wise Break up of RRB advances

(Amount Rs. in crores)

Sl.No.	Purpose	1990		2009	
		Amount	Per cent	Amount	Per cent
1.	Short term (crop loan)	615	17.3	24,986	36.2
2.	Term loans for agriculture	669	18.8	11,480	16.6
3.	Advances to activities allied to agriculture	555	15.6		0.0
4.	Indirect Advances	43	1.2	-	0.0
4.	Rural artisans, village and cottage industries	277	7.8	2220	3.2
5.	Retail trade and self employment	1052	29.6	5,015	7.3
6.	Consumption loans/other purposes	344	9.7	25,329	36.7
	Total	3555	100.0	69,030	100.0

Source: Report on Trend and progress of Banking in India, 1990-91 and 2008-09.

Performance

As scheduled banks, they mobilize deposits and they have been allowed to offer slightly higher rate of interest, i.e., 0.5 per cent per annum, on their deposits upto five years. RRBs have been advised to render other banking services like collection of cheques and bills, issue of drafts, collection of'-insurance premia, safe custody etc. About 60 per cent of the total advances made by RRBs were claimed by agriculture and allied activities.

The Committee set up by the RBI in 1977 under the chairmanship of M.L.Dantwala to review the working of the RRBs recommended that RRBs should be extended to such areas where DCCBs are not able to adequately serve the PACS under their jurisdiction. The CRAFICARD (1981) recommended that the RBI may transfer the business of commercial banks rural branches to RRBS when such proposals are presented.

The Kalyanasundaram committee (1986) was appointed to study the wage structure and service conditions of the RRB staff.

The Agricultural credit Review committee (ACRC) headed by Prof. Khusro in 1989 recommended that the RRBs and their branches can be merged with their sponsor banks due to the following reasons:

a) The performance of commercial banks in rural lending in terms of branch expansion and recruiting technically qualified staff for rural branches is better than RRBs.

b) The accumulated loss and over dues of RRB were very heavy.

However, the Government of India has decided not to merge the RRBs with sponsor banks.Instead, the government has decided to implement the recommendations of the Kelkar committee (1986) in- a bid to revive these banks.

The steps proposed for strengthening the RRBs include:

i) Enhancing their authorized capital from Rs.1 crore to Rs.5 crores and the issue (paid-up share capital from Rs.25 lakhs to 1 crore)
ii) Reducing the interest rates from 8.5 per cent to 7 per cent on the refinance loans provided by the sponsor banks, and
iii) Channelising their surplus funds into more profitable investments, such as the government securities.

Problems

i) There is a lack of managerial efficiency due to larger area of operation. Some RRB cover 10-15 lakh population

ii) Lack of uniform guidelines for recruitment and promotion.

iii) The number of loss making banks in 1976 was 23 and it rose to 149 in 1988 but declined to 6 in 2009. The accumulated loss of RRB was Rs.550 crores (1991) which was more than their entire paid up capital and reserves. However, the loss declined to Rs.36 crorein 2008-09.

iv) Lack of both the .expertise of commercial banks and local feel of the co-operatives.

v) RRBs could not meet the credit needs of non-farm sector effectively.

Factors influencing the performance of RRBs

Since their inception, the financial health of RRBs has been indifferent. A host of factors, both internal and external, has had a bearing on the performance of RRBs. Some of the major factors that had a bearing on the performance of RRBs are as follows:

i) Area of operation: The RRBs are constrained in their operations by their limited area of operation. This coupled with their narrow base of business activities and the low clientele base, has resulted in high risk exposure of RRBs.

ii) Clientele base: The customers of RRBs comprise small and marginal farmers, small scale sector, small transport operators, SHGs, etc., whose credit requirements are mostly small. RRBs are unable to cross-subsidize their lending business as they do not generally provide credit to wealthy borrowers with large needs, thereby affecting their capacity to earn higher incomes.

iii) Capital base: RRBs as a group have a low capital base, and their authorized capital of Rs.1 crore places serious limitations on their business size. Furthermore, in the case of some of the RRBs their deposit liabilities are very large compared to their capital base. For instance, as as on March 31, 2004 while 2 RRBs had deposit liabilities of over Rs 1,000 crore, 24 RRBs had a deposit base ranging between Rs.500 to Rs.1,000 crore, and 146 RRBs had deposit liabilities between Rs.100 to Rs.500 crore. In view of their low capital base, in the event of inefficient use/misuse of funds resulting in a financial problem, the stakeholders would have to bail out the bank.

iv) Organizational structure: The size of financial assets, as well as linkages which are necessary for effective banking services has been limited by the small organizational structure of RRBs. This has also come in the way of growth in business volumes and garnering a larger share of the rural financial market.

v) Loan delinquencies: RRBs loan recovery rates have declined over the years, resulting in a large over hang of NPAs (around Rs.3,200 crore) which has come in their way of recycling funds and increasing the flow of credit to the rural sector. The directed lending policy for RRBs has resulted in low quality of assets. This coupled with high cost of funds and below cost interest rates on loans has led to high accumulated losses and piling up of bad assets in the case of many RRBs.

vi) Cost structure: RRBs are characterized by high cost of servicing numerous small accounts and high wage cost. Furthermore, RRBs get credit from sponsor banks and refinance from NABARD at rates of interest higher than the market rates. This places limitations on their ability to reduce the rates they charge to their ultimate borrowers, although they are compelled to do so on account of competition from banks.

vii) Perceived as specialized bank: There has been an uneven growth of RRBs due to the diffusion in the perceived objectives of RRBs over time. Despite the pressures of credit expansion, improvement in recovery performance, profit orientation and strict compliances to banking norms, the general perception has been that RRBs have got only social objectives, without any viability consideration, which has to be changed.

viii) Financial management skills: Poor financial management skills, coupled with pressures from various quarters (like sponsor banks) appears to have resulted in inefficient allocation of resources by RRBs which in turn is reflected in the high incidence of NPAs and parking of large funds with sponsor banks (policy changed in 2002-03) .

ix) Staff structure: Limited exposure and lack of appropriate training, has resulted in RRBs staff lacking the necessary skills and capacity to cater to the changing requirements of the rural sector. Furthermore, the ban on recruitment has also resulted in ageing staff structure constraining efficiency in operations. Uniform norms and personnel policies have been applied to RRBs through out the country ignoring local touch thereby causing staff unrest, poor industrial relations, innumerable litigations and lowering of staff morale as also their involvement with the development tasks (Rao Committee, 2002).

x) Dependence on sponsor banks: Another weakness observed in the case of RRBs is their failure to adequately integrate with the financial markets of the country due to their heavy dependence on sponsor banks for financial/ business initiatives. RRBs are also some times perceived as potential competitors, due to the presence of the sponsor banks in the same area of operation. Despite the best intentions at the policy levels in sponsor banks, the RRBs have suffered at the ground level wherever there has been any conflict of business interests of RRBs and their sponsor banks. RRBs have therefore, not been able to establish systems and procedures required for providing efficient services to their clients, as also for efficient management of their financial resources.

xi) Professionalism in management: The Chairmen of most of the RRBs are from sponsor banks, which limits the freedom and decision making capacity of the RRBs. Even for small matters RRBs have to refer to their sponsor banks, which lead to delay in decision-making and reduce efficiency. Furthermore, the Board of Directors of RRBs may not always function effectively as some of the members do not have necessary skills and expertise to take important financial decisions.

xii) Erosion of deposits: In the case of few RRBs, there has also been an erosion of public deposits, besides capital.

HIGHER FINANCING INSTITUTIONS

RESERVE BANK OF INDIA

The Reserve Bank of India (RBI) war established in April 1, 1935, in accordance with the provisions of the RBI Act, 1934. The Agricultural Credit Department (ACD) was organized 1935 to co-ordinate the Bank's operations with State Co-operative Banks and other banks and organization dealing with agricultural credit., Financing agriculture by commercial banks is looked after by the Department of Banking Operations and Development (DBOD) while ACD continued to take care of co-operative credit may be viewed from three aspects:

a) Provision of finance.

b) Promotional Activities, and

c) Regulatory functions.

a) Provision of Finance

RBI extends short, medium and long-term credits to agriculture through co-operative channels. The bulk of the credit granted by the RBI related to short-term to meet Seasonal Agricultural Operations (SAO). The RBI Act was amended in 1955 to provide for the establishment of two funds, viz., National Agricultural credit (Long Term Operations) Fund and National Agricultural Credit (Stabilization) Fund. The three components of medium-term credit are: a) loans for purchasing shares in co-operative processing societies, b) loans for agricultural and other allied purposes, including animal husbandry and pisciculture and c) conversion of short-term agricultural loans into medium term loans when repayment becomes difficult due to natural calamities. While ' the first two ((a) and (b)) are financed out of the NAC (LTO) fund and the (c) (Last one) is out of NAC (stabilization) fund.

The RBI provides long-term credit as loans to the state governments for contribution to the share capital of the co-operative credit institutions and to NABARD. The RRBs get refinance facility from the RBI up to 50 per cent of their out standing advances.

b) Promotional Activities

Under rehabilitation programme, most of the cooperative banks have attained viable status. The Study Teams appointed by the RBI have given constructive suggestions to reorganize the co-operative structure on sound lines. The following need special mention: the Committee on Co-operative Land Development Banks (1974), the Committee on Integration of Co-Operative Credit Institutions (1976) committee to study the Interest Rates Spreads in Agricultural Lending Sector etc.

RBI introduced production-oriented credit by means of crop loan system. It has evolved norms to extend medium term finance. It has been issuing appropriate guidelines to Land Development Banks for purposeful and productive utilization of resources. The benefit of deposit insurance cover has been extended to the co-operative banks operative banks so as to facilitate mobilization of deposits.

The RBI evolved a scheme to finance the weak PACS by commercial banks. It initiated the Lead Bank Scheme in 1969 and its impact is seen in branch expansion and other activities of the commercial banks. It advised the banks to participate effectively in the Integrated Rural Development Programme and extend loans to the weaker sections.

c) Regulatory Functions

As a lender, the RBI not only concerned itself with the quantity of credit but also attempted to improve the quality of credit extended and also the efficiency of the channels through which it is provided to the rural sector. The cooperative banks were brought under certain provisions of the Banking Regulation Act and of the RBI Act in 1966. This enabled the RBI to effectively supervise the co-operative banks as it does over the commercial banks. Under the Credit Authorization Scheme (1976), the co-operative banks should get prior authorization from RBI for providing finance beyond a limit. The RBI frames the overall credit policy on the basis of the credit needs of agriculture. Limits to credit institutions are fixed by taking into account the demand for credit and not just arbitrarily.

The cash / liquidity ratios applicable to co-operatives are lower than those fixed for commercial banks. The co-operatives are enabled to borrow from the RBI at an interest rate which is three per cent below the bank rate in respect of crop loans. They are also permitted to pay slightly higher rates of interest on their deposits. The refinancing functions of RBI relation to rural credit were function of RBI relation to rural credit was taken over by NABARD after its formation in 1982.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

On the basis of the views expressed by the All India Rural credit Review Committee (1969), the Administrative Reforms Commission (1970) , the banking Commission (1972), and the National Commission on agriculture (1976), the Committee to Review the Arrangements for Institutional credit for Agriculture and Rural Development (CRAFICARD) appointed by the RBI under the chairmanship of B. Sivaraman in 1979 considered the desirability and the feasibility of establishing a national bank for rural development in the context of integrated rural development. While examining the activities of the ARDC and the RBI in the delivery of rural credit against massive credit needs for rural development over the coming years, the

CRAFICARD felt that the present national level institutions had certain deficiencies affecting their capacity to meet the stupendous task of integrated rural development aimed at the uplift of the weaker sections in the rural areas within a given time horizon.

The CRAFICARD considered that the ARDCIL was unable to ensure the necessary supporting short-term credit and also the ARDC could not support non-land based activities which are also to be promoted in the context of implementation of IRDP. The committee considered whether the top management of the RBI in the midst of its multifarious functions could devote sufficient attention to the complex credit problems involved in the integrated rural development. The committee also felt that the Agricultural Credit Board (ACB) which was established in 1970 in the place of the then Standing Advisory Committee on Rural Co-operative Credit could not solve the complex issues of rural credit by holding a few meetings in a year. For all these reasons, the committee recommended for the establishment of NABARD and hence it was started, functioning since 12th July 1982.

As such it has replaced by merging in itself, the ARDC and the two credit related constituents of the RBI, namely, Agricultural Credit Department and the Rural Planning and Credit Cell (RPCC) (The RRBs which were initially, dealt with by DBOD, was placed under the charge of the RPCC in 1979). Thus, NABARD is conceived as an exercise of decentralization of the RBIs functions relating rural credit and that it would take over the ARDC and the refinancing functions of RBI in relation to State Co-operative Banks and RRBs.

Resources

The share capital of NABARD is Rs. 100 crores and is held by the RBI and GOI in equal proportion. The NABARD draws funds from the RBI for its short-term operations, and for long-term operations, it draws funds from the Government of India, floats bonds in the open market and also draws from its National Agricultural Credit (Long Term operations) Fund and National Agricultural Credit (Stabilization) Fund. The NABARD is also authorized to accept deposits with maturity period of not less than twelve months from the central and state Governments, local authorities, scheduled banks etc. and also to borrow foreign currency with the approval of central government.

Management

The management of NABARD is vested with a 15 member Board of Management which consists of a Chairman, a Managing Director and 13 Executive Directors. The chairman is the ex-officio Deputy Governor of RBI. The Managing Director is the Chief Executive of the Bank with operational responsibility for the performance of various tasks. The Executive Director will be in charge of each of the major functional divisions i.e., two Directors from central government, three sitting Directors from co-operatives and commercial Banks and two experts on rural economy and rural development. The Board of Directors can constitute an Advisory Council.

The two Directors from state Governments will be appointed by rotation to give representation to five Zones, viz., Northern, Southern, Eastern, Western and North-Eastern. NABARD will be, thus, broadly divided into five zones with its head quarters at Bombay Mumbai and 16 regional offices located in i) Jammu, ii) Chandigarh, iii) Lucknow, iv) Patna, v) Gauhati, vi) KoCalkacutta, vii) Bhubaneshwar, viii) Hydrabad, ix) Bangalore, x) Madras (Chennai), xi) Trivandram, xii) Mumbai (Bombay), xiii) Iindore, xiv) Ahamadabad, xv) New Delhi and xvi) Jaipur.

"National Bank for Agriculture and Rural Development is established as a Development Bank for providing and regulating credit and other facilities for the promotion and development of agriculture, small industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto".

1. Mission

Promoting sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

2. Types of Services

In order to achieve this mission, NABARD undertakes a number of inter-related activities / services which fall under three broad categories viz., credit dispensation, developmental and promotional and supervisory.

A. Credit Dispensation

- Prepares for each district annually a potential linked credit plan which forms the basis for district credit plans
- Participates in finalization of Annual Action Plan at block, district and state levels
- Monitors implementation of credit plans at above levels.
- Provides guidance in evolving the credit discipline to be followed by the credit institutions in financing production, marketing and investment activities of rural farm and non farm sectors
- Provides refinance facilities to the institution as under

Types of Refinance Facilities

Agency	Credit Facilities
Commercial Banks	Long Term credit for investment purposes, financing the working capital requirements of Weavers' Cooperative Societies (WCS) and State Handloom/Handicraft Development Corporations
Short Term Cooperative structure (State Cooperative Banks, District Central Cooperative Banks, Primary Agricultural Credit Societies)	Short Term (crop and other loans), medium term (conversion) loans, term loans for investment purposes, financing weavers' cooperatives - State Handloom Development Corporations for working capital by State Cooperative Banks
Long Term Cooperative structure (State Cooperative Agriculture and Rural Development Banks, Primary Cooperative Agriculture and Rural Development Banks)	Term loans for investment purposes
Regional Rural Banks (RRBs)	Short Term (crop and other loans) and term loans for investment purposes
Urban Cooperative Banks (Scheduled)	Long term investment activities both in farm and non-farm sectors in rural areas.
State Governments	Long Term loans for equity participation in Co-operatives, Rural Infrastructure Development Fund (RIDF) loans for rural infrastructure projects
Non-Governmental Organizations (NGOs) - Informal Credit Delivery System	Revolving Fund Assistance for Micro Credit Delivery Innovations and Promotional Projects

B. Developmental & Promotional

The developmental role of NABARD can be broadly classified as:- Nurturing and strengthening of - the Rural Financial Institutions (RFIs) like SCBs/SCARDBs, CCBs, RRBs etc. by various institutional strengthening initiatives.

- Fostering the growth of the SHG Bank linkage programme and extending
- essential support to SHPIs NGOs/VAs/ Development Agencies and client banks.
- Development and promotional initiatives in farm and non-farm sector.
- Extending assistance for Research and Development. Acting as a catalyst for Agriculture and rural development in rural areas.

C. Supervisory Activities

As the Apex Development Bank, NABARD shares with the Central Bank of the country (Reserve Bank of India) some of the supervisory functions in respect of Cooperative Banks and RRBs.

Special Focus

- Removal of regional / sectoral imbalances
- Poverty Alleviation and Employment Generation
- Development of rural micro-enterprises
- Strengthening Rural Financial Institutions (RFIs)
- Encouraging prudential financial standards in RFIs
- Encouraging capital formation in agriculture
- Promotion of micro-finance/ development
- Rural Infrastructure Development
- Hi-tech and export oriented projects
- Creating policy environment for flow of rural credit
- Experimenting with new models, products and innovative practices in rural credit
- Thrust on rural awareness and financial services

3. Customers of the Bank

The customers of NABARD are Cooperative Banks, State Land development Bank, Scheduled Commercial Banks, Urban Cooperative Banks and such financial institutions as may be approved by RBI. Further, NABARD also deals with voluntary agencies/NGOs besides various State Governments. While discharging various credit functions, NABARD has no direct business dealings with public at large, although all the functions are directed at securing and promoting integrated rural development and prosperity of rural areas. The interaction between NABARD staff and the ultimate borrowers i.e., farmers, artisans, craftsmen and entrepreneurs, takes place while conducting a number of field level studies, fostering the growth of the SHG bank linkage, developing Vikas Volunteer Vahini (VVV) and sanctioning/monitoring the various promotional schemes under NFS/FS. NABARD has recently introduced the Capital Gains Bonds and these bonds are subscribed by publics

4. Quality of Service

4.1 NABARD has a complement of suitably qualified and experienced staff in the following areas:

- General Banking
- Agriculture and related services such as Irrigation, Plantation and Horticulture, Land Development, Agriculture Engineering, Bio-technology, Fisheries, Forestry, etc.
- Agriculture Economics
- Information Technology

The staff provide need-based services to its client banks, state governments, SHGs / NGOs which ultimately serve the interest of agriculture and rural development. NABARD through its District Development Managers and Regional Offices deals with client banks, State Governments and voluntary agencies. It has been the endeavour of NABARD to provide various credit and financial services to the RFIs timely and efficiently. The above customers of NABARD, in turn, have public at large, as their customers. Thus, indirectly NABARD is responsible for giving timely services to these clients to enable them to act timely with their customers i.e., general public at large.

4.2 To improve the quality of service as well as keeping in tune with the emerging developments in Information Technology, NABARD has launched an Action Plan on information technology and its implementation has been vigorously pursued. Networking environment has been introduced in NABARD phasing out the earlier mini computer systems. Advanced version and custom-made software packages have been introduced for computerizing additional functional areas. Flow of information and data between RO and HO as also between departments of HO through electronic media is being progressively adopted facilitating faster promotion of information and data, e-mail and related facilities. Upgrading the skills and imparting knowledge is the theme of our training efforts for staff so as to improve productivity, make the Organization efficient and emerge as a learning organization.

5. Performance Standards

NABARD has always maintained high standards of performance and made efforts to bring about similar performance standards for its client banks/institutions. To supervise its operations and performance, NABARD has its own internal Inspection Department which periodically undertakes inspection of its all HO Departments and ROs. A system of concurrent audit of the financial transactions is also in place. The Bank is also audited by the statutory auditors appointed by GOI and inspected by RBI every year. Innovation and creativity are encouraged through participative management practices and a Staff Suggestion Scheme is in place to share their ideas for better products and customer satisfaction.

6. Grievance Redressal

NABARD has its own internal redressal machinery viz. Central Vigilance Cell which has been established as per the directions of Central Vigilance Commission of GOI. It has appointed Chief Vigilance Officer at HO and Vigilance officer at ROs. The internal systems and Procedures are well laid down and under constant scrutiny of Concurrent Audit and Vigilance Cell. A strong Internal Audit and Inspection mechanism is in place besides the Statutory Audit by Professional Auditors and inspection by RBI. A notice board is kept for public at large in all NABARD office premises indicating the names of Chief Vigilance Officer/Vigilance officer to be contacted by the public in case of need. As far as client banks (SCBs, SCARDBs, RRBs, CCB and commercial banks) are concerned, the complaints against their staff when made to NABARD are attended effectively and it is ensured at various levels that no complaint is left unattended.

7. Access to information

NABARD has its own website and its address is www.nabard.org. The website highlights all major areas of its functioning and broadly indicates all matters relating to organization, role and functions, operations, rural economy, international associates, addresses of its offices, etc. The general public at large may, if required on matters relating to credit for agriculture and rural development approach HO, ROs or DDMs of NABARD whose addresses are given in the above website. The National Bank Home Page is updated periodically to provide latest information on the policy changes, operations, etc. Apart from the website NABARD has its own Public Relation Officer to disseminate any information relating to the Organization, agriculture and rural development and related policies adopted by the Organization. The information relating to agriculture, rural development, banking, etc. are also published by NABARD through its various publications such as books, periodicals, booklets, etc. in both Hindi and English and some periodicals even in local languages. The Annual Report of NABARD including its Balance

Sheet/Profit and Loss Accounts is published / circulated giving necessary details/disclosures about its performance.

8. Important Initiatives by NABARD

8.1 Institutional Strengthening Initiatives

- Preparing Institution Specific Development Action Plans (DAPs) and entering into MoUs with Cooperative Banks and RRBs
- Facilitating State-specific reform packages for Cooperative Banks
- ODI Intervention and Training and capacity building in RFIs
- Support for improvement of business, system, HRD, etc. of cooperatives
- Social Re-engineering through Vikas Volunteer Vahini (VVV)
- Institution of Awards for good performing Cooperative Banks
- Assistance for Business Development Cells (BDC) in Co-operative and RRBs

8.2 micro Finance Innovations and Strategies

- Grant support to Self Help Promoting Institutions (SHPIs) to improve access to credit for rural poor
- Capacity Building of partner institutions in micro Finance
- Supporting and up scaling of SHG-bank linkage programme

8.3 Development Initiatives

- Introduction and popularization of Kisan Credit Card Scheme
- Support for watershed development programmes from Watershed Development Fund
- Supporting & promoting Dry land farming practices
- Promoting investment in NFS including rural housing, communication and service sector
- Credit intensification through area programmes like DRIP and Cluster Development
- Strengthening rural Haat / marketing pursuits
- Support for REDPs - Institutionalization
- Support for women entrepreneurs and addressing gender issues in credit
- Assistance for environmental awareness/protection
- Support for Agri business, Agri-clinic and extension activities

8.4 Research and Development Initiatives

- Support to Research activities in areas of agriculture and rural development
- Support for seminars, conferences and workshops
- Conducting institution/area/sector/project-specific studies
- Dissemination of findings of studies and research and innovative models and practices

8.5 Supervision

- On-site inspection and off-site surveillance of RFIs
- Issue of warning signals to banks showing deterioration in financial position and adverse features
- Taking preventive and revival measures for weak banks

8.6 Institution of purpose-specific funds in NABARD

- Watershed Development Funds (WDF)
- Co-operative Development Funds (CDF)
- Rural Promotion Corpus Fund (RPCF)
- Credit and Financial Services Fund (CFSF)
- Micro-Finance Development Fund
- Soft Loan Assistance for Margin Money Fund
- National Rural Credit Operation Fund
- National Rural Credit Stabilization Fund
- Agriculture and Rural Enterprises Incubation Fund

Functions of NABARD

i) Provision of Finance: NABARD provides different types of refinance to the following eligible institutions:

a) Short term credit: The Eligible Institutions are **:** State Co-operative Banks, Regional Rural Banks and other financial institutions approved by RBI.

Purposes

- Seasonal Agricultural Operations and marketing of crops
- Marketing and distribution of inputs like fertilizers, pesticides, etc.,
- Production and marketing activities of artisans, small-scale industries, village and cottage industries,
- Any other activity connected with agricultural / rural sector.

Period: Up to 18 months

b). Medium term credit: The Eligible institutions are: State cooperative banks, State Land Development Banks, Regional Rural Banks and other financial institutions approved by RBI.

Purposes: Any investment connected with agriculture and rural sector requiring MT credit assistance.

Period: Between 18 months and 7 years

c) Long term credit: The eligible Institutions are: State Cooperative Banks (SCB), State Land Development Banks, Regional Rural Banks, Commercial Banks and other financial institutions approved by RBI.

Purposes:

- Refinance for investment in agriculture and allied activities such as minor irrigation, land development, soil conservation, dairy, sheep, poultry, piggery, farm mechanization, plantation/horticulture, forestry, fishery, storage and market yards etc.
- Refinances loans meant for artisans, small-scale industries, village and cottage industries and others (non-farm sector)
- Loans to state government for contributing share capital to co-operative institutions.

Period: Available upto to a maximum of 25 years.

- Co-ordinates operations of rural credit institutions.
- Assists governments, RBI and other institutions in rural development efforts.
- Contributes to the share capital and securities of eligible institutions concerned with agriculture and rural development.
- Assists state government to enable them to contribute to the share capital of eligible institutions.
- Frames overall rural credit policies
- Provides facilities for training, research and dissemination of information in the fields of rural banking, agriculture and rural development.
- Undertakes the inspection of RRBs and co-operative credit institutions.

Schematic Lending

Purpose-wise and Agency-wise Amount Sanctioned and Disbursed during 2007-2008 and Cumulative Disbursements up to 31 March 2008

(Amount in Rs.Lakhs)

Purpose	Financial Assistance	NABARD's Commitment	Disbursement during 2007-2008	Cumulative Disbursement as on 31 March 2008
Minor Irrigation	42493	40368	40368	1549045 (14.4)
Land Development	46213	46214	46214	335050 (3.1)
Farm Mechanization	193619	174765	174765	2173914 (20.2)
Plantation /	37981	34182	34182	428112 (4.0)

Horticulture				
Poultry and Sheep / Goat / Piggery	16120	14510	14510	317028 (3.0)
Fisheries	2828	2545	2545	89649 (0.8)
Dairy Development	67319	60587	60587	848727 (7.9)
Storage / Godowns & Market Yards	15142	13628	13628	108084 (1.0)
Forestry	709	639	639	33156 (0.3)
Bio Gas Plants	108	98	98	15238 (0.1)
Non-farm Sector	297405	274795	274795	2135135(19.8)
Seed Project *	-	-	-	3282 (Neg)
Self Help Group	161548	161550	161550	706199 (6.6)
SC/ST Action Plan*	2052	2052	2052	103798(1.0)
SGSY	28732	25858	25858	1230492(11.4)
Others	49851	45314	45314	610566(5.7)
AH (OTHERS)	7910	7119	7119	74591(0.7)
Agri-clinics and Agribusiness	403	403	403	947(Neg)
All Purposes	970434	904627	904627	10763013 (100.0)

Neg. – Negligible.

Source: Statistical Statements, Annual Report - 2007-2008, National Bank for Agriculture and Rural Development, Mumbai.

With a view to improve the quality of credit plans, and also to organize, co-ordinate and effectively monitor them, NABARD will be setting District Level Offices in all the districts in the country inn a phased manner in the (VIII) plan. In the first phase, the NABARD has already set up 43 such offices. These offices would also prepare a potential linked credit plan for each district which would serve as a basis for the preparation of Annual credit plans by the branches of commercial banks.

In future, NABARD will give special attention to the development of dry land farming, and increasing the production of oil seeds and pulses which are in short supply. It will bring about nexus between producers and input suppliers, marketing agencies and extension services to ensure remunerative employment for the rural artisans.

AGRICULTURAL FINANCE CORPORATION

Agricultural Finance Corporation Ltd was incorporated on April 10, 1968 as a Public Limited Company with an Authorised Capital of Rs. 100 crore and Paid-up Capital of Rs. 5 crore by the then private sector commercial banks to “finance agriculture by all possible means”.(Currently the Paid-up Capital is Rs. 15 crore). Subsequent to the nationalisation of fourteen major Indian Scheduled Commercial Banks on July 19, 1969, AFCL repositioned itself as a Technical Support Institution for facilitating accelerated growth of Indian agriculture. AFCL has now blossomed into a diversified reputed consultancy organization (http://www.afcindia.org.in/service.php).

Agricultural Finance Corporation Limited (AFCL) which is owned by public sector banks, NABARD and Exim Bank, is a forty year old consultancy organisation mainly involved in providing consultancy services in the field of agriculture, allied and also social sectors. AFCL has good rapport with the various Ministries/Departments in the Government of India, and State Governments, and now is a well known name in the field of consultancy.

Agricultural Finance Corporation Limited (AFCL) is governed by eminent **Board of Directors** comprising Chairmen and Managing Directors of eight Public Sector commercial Banks; Chairman of Development Finance Institutions i.e. National Bank for Agriculture and Rural Development, (NABARD) and Export & Import Bank of India (EXIM Bank) nominees of Government of India from the Ministries of Agriculture, Finance and Planning Commission; and three Experts in the fields of Agriculture, Finance and rural development. One of the three experts is currently the Chairman of the Board of Directors of the company. The Managing Director is the chief executive of the Company. Headquarter of AFCL is situated at Mumbai. The Company has three Regional Offices at Kolkata, New Delhi and Bangalore besides four Branch Offices at Guwahati, Lucknow, Dehradun and Hyderabad and Project Offices at Kalahandi, Sohela, Pilibhit, Bhor (Pune) and Nasik.

AFCL offers consultancy services in Agribusiness Management, Livelihood Development and Poverty Alleviation, Water Resources Management, **Watershed development and Management** , **Rural Credit**, Agriculture, Micro Enterprises and Micro-Finance, Area Development, **Capacity Building**, **Fishery**, Forestry, Gender Development, **Horticulture & Plantation**, Wasteland Development, Non-farm sector, **Project Implementation**, Non-conventional Energy, Environment Impact Assessment & Environment Management Plans & Resettlement & Rehabilitation, **CDM Services**.

Vision**:** To facilitate increased flow of institutional credit and other support services for rural prosperity.

Mission: To continue to be the leading agri consulting organisation by providing timely, appropriate and feasible client-specific end-to-end solutions not only in India but in other developing countries.

In its four decades of its existence, AFCL has been involved in more than 5000 consulting **assignments** in India and also in other countries. AFCL's services has been utilised by various Ministries and Institutions of the Central and State Governments and Multi-lateral funding institutions like World Bank, Asian Development Bank, International Fund for Agricultural Development, UNDP/UNOPS, DFID, Islamic Bank.

The major services include consultancy, capacity building, micro finance and project implementation.

Consulting services cover the entire gamut of agriculture and rural development including the various sectors and sub-sectors. The services can be classified into the following:

- Project Appraisal
- Project Identification
- Project Formulation
- Preparation of Detailed Project Reports
- Techno-Economic Feasibility Studies
- Surveys – Base-line, benchmark, socio-economic, customer satisfaction etc.
- Monitoring and Evaluation Studies – Mid-term, end-line, longitudinal
- Impact Assessment Studies

Since inception in 1968, AFC has successfully handled over 5000 assignments of diverse nature for a variety of clients in India and other countries including multilateral funding institutions. These could be broadly grouped under the following categories:

- DPRs for Multi-Lateral Agencies
- Support Services for MFO's and MFI's
- Agriculture
- Agribusiness
- Agricultural Marketing
- Animal Husbandry
- Area Development
- Bio-technology
- Capacity Building
  - Institutional
  - Human

- CDM Services
- Commercial & High-Tech Agriculture
- Environment/Ecology
    - Conservation and Development
    - Impact Assessment and Management
    - Others
- Fishery
- Forestry
- Gender Development
- Horticulture & Plantation
- Livelihood Development & Poverty Alleviation
- Micro Enterprises and Micro-Finance
- Non-conventional Energy
- Non-farm sector
- Project Implementation
- Rehabilitation and Resettlement
- Rural Infrastructure
- Rural Credit
    - Commercial Banks
    - Development Finance Institutions
    - Cooperatives
    - Others
- Sericulture
- Water Resources
    - Irrigation
    - Command Area Development
    - Ground Water
    - Watershed Development
    - Catchment Area Treatment
    - Others
- Wasteland Development

ASIAN DEVELOPMENT BANK

ADB was conceived amid the postwar rehabilitation and reconstruction of the early 1960s. The vision was of a financial institution that would be Asian in character and foster economic growth and cooperation in the region - then one of the poorest in the world. The Philippines capital of Manila was chosen to host the new institution - the Asian Development Bank - which opened its doors on 19 December 1966, with 31 members to serve a predominantly agricultural region. Through the years, ADB's work and assistance levels has expanded alongside its membership as the region has undergone far-reaching changes. As 2007 drew to a close, ADB celebrated 41 years of fruitful cooperation with the governments and peoples of the Asia and Pacific region. It could look back on phenomenal economic growth in the region alongside abiding development challenges.

ADB is an international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe. ADB's main partners are governments, the private sector, nongovernment organizations, development agencies, community-based organizations, and foundations. Under Strategy 2020, a long-term strategic framework adopted in 2008, ADB will follow three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. In pursuing its vision, ADB's main instruments comprise loans, technical assistance, grants, advice, and knowledge. Although most lending is in the public sector - and to governments - ADB also provides direct assistance to private enterprises of developing countries through equity investments, guarantees, and loans. In addition, its triple-A credit[1] rating helps mobilize funds for development (http://www.adb.org/About).

Operations

For more than 40 years, ADB has supported projects in agriculture and natural resources, energy, finance, industry and nonfuel minerals, social infrastructure, and transport and communications. More than half of ADB's assistance has gone into building infrastructure - roads, airports, power plants, and water and sanitation facilities. Such infrastructure helps lay the foundation for commerce and economic growth and makes essential services accessible to

[1] A leading triple-A borrower in the international markets, ADB raises funds regularly through international and domestic capital markets, reflecting strong credit fundamentals and conservative financial policies. ADB’s overriding borrowing objective is to ensure availability of long-term funds at the most stable and lowest possible cost for the benefit of its OCR borrowers. Subject to this objective, ADB seeks to diversify its sources of funding across markets, instruments, and maturities, and has so far issued bonds in 30 currencies. ADB pursues a strategy of: issuing liquid benchmark bonds to maintain a strong presence in key currency bond markets; and raising funds through cost-efficient, opportunistic private placement transactions. ADB also seeks to develop domestic capital markets in its DMCs through local currency borrowings and derivative activities.

the poor. In addition to loans, grants, and technical assistance, ADB uses guarantees and equity investments to help its developing member countries.

Organization

The highest decision making tier at ADB is its Board of Governors, to which each of ADB's 67 members nominate one Governor and an Alternate Governor to represent them. The Board of Governors meets formally once a year at an Annual Meeting held in a member country. The Governors' day to day responsibilities are largely delegated to the 12-person Board of Directors, which performs its duties full time at ADB's HQ in Manila. The ADB President, under the Board's direction, conducts the business of ADB. The President is elected by the Board of Governors for a term of five years and may be reelected. Since its foundation in 1966, ADB's Headquarters has been based in Manila, Philippines. Its present building in the business district of Ortigas, Mandaluyong City, was opened in 1991 and accommodates about 3,000 personnel. ADB also has 30 field offices, including resident and regional missions, a country office, a liaison office, and representative offices. The field offices give vital support to the operations and outreach work of ADB's Manila Headquarters. They carry out much of ADB's operational roles of country programming, processing of loan and grant assistance, project.

Management

The President is Chairperson of the Board of Directors, and under the Board's direction, conducts the business of ADB. He is responsible for the organization, appointment, and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors. The President is elected by the Board of Governors for a term of five years, and may be reelected. He is also the legal representative of ADB. On 17 April 2006, the Board of Directors approved the recommendation on the reassignment of the functions and duties of the operations vice presidents. The President has also approved the structure of the four realigned regional departments, effective 1 May 2006. The President now heads a management team comprising five Vice-Presidents and the Managing Director General, who supervise the work of ADB's operational, administrative, and knowledge departments.

Policies and Strategies

In 2008, ADB's Board of Directors approved Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020. It is the paramount ADB-wide strategic framework to guide all its operations to 2020. In 2009, ADB's Board of Governors has agreed to triple ADB's capital base from $55 billion to $165 billion, giving it much-needed resources to respond to the global economic crisis and to the longer-term development needs of the Asia and Pacific region. Voting by ADB's 67 member countries on GCI V closed on 29 April 2009, with an overwhelming majority of members endorsing it. The 200% increase is ADB's largest, and the first since ADB increased its capital by 100% in 1994.

Strategy 2020 reaffirms both ADB's vision of an Asia and Pacific free of poverty and its mission to help developing member countries improve the living conditions and quality of life of their people.

Strategy 2020 identifies drivers of change that will be stressed in all its operations—developing the private sector, encouraging good governance, supporting gender equity, helping developing countries gain knowledge, and expanding partnerships with other development institutions the private sector, and with community-based organizations.

By 2012, 80% of ADB lending will be in five core operational areas, identified as comparative strengths of ADB:

- Infrastructure, including transport and communications, energy, water supply and sanitation and urban development
- Environment
- Regional cooperation and integration
- Finance sector development
- Education

ADB will continue to operate in health, agriculture, and disaster and emergency assistance, but on a more selective basis. ADB has developed a corporate results framework [PDF] to assess its progress in implementing Strategy 2020. Annually, it will monitor implementation through the ADB Development Effectiveness Review.

Key policy and strategy papers to supplement Strategy 2020 implementation on priority sectors and themes are listed on these pages.

- Drivers of Change
- Core Operational Areas
- Other Operational Policies and Strategies

View the list of safeguard policies and sector or thematic strategies to be developed or reviewed over the next 12 months.

WORLD BANK

History

Since inception in 1944, the World Bank has expanded from a single institution to a closely associated group of five development institutions. Our mission evolved from the International Bank for Reconstruction and Development (IBRD) as facilitator of post-war reconstruction and development to the present day mandate of worldwide poverty alleviation in close coordination with our affiliate, the International Development Association, and other members of the World Bank Group, the International Finance Corporation (IFC), the Multilateral Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID).

Once we had a homogeneous staff of engineers and financial analysts, based solely in Washington, DC. Today, we have a multidisciplinary and diverse staff that includes economists, public policy experts, sector experts and social scientists-and now more than a third of our staff is based in country offices. Reconstruction remains an important part of our work. However, the global challenges in the world compel us to focus on:

- poverty reduction and the sustainable growth in the poorest countries, especially in Africa;
- solutions to the special challenges of post-conflict countries and fragile states;
- development solutions with customized services as well as financing for middle-income countries;
- regional and global issues that cross national borders--climate change, infectious diseases, and trade;
- greater development and opportunity in the Arab world;
- pulling together the best global knowledge to support development.

At today's World Bank, poverty reduction through an inclusive and sustainable globalization remains the overarching goal of our work.

The World Bank is a vital source of financial and technical assistance to developing countries around the world. Its mission is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors. We are not a bank in the common sense; we are made up of two unique development institutions owned by 187 member countries: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but collaborative role in advancing the vision of inclusive and sustainable globalization. The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses on the world's poorest countries.

Their work is complemented by that of the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). Together, we provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environmental and natural resource management.

The World Bank, established in 1944, is headquartered in Washington, D.C. We have more than 10,000 employees in more than 100 offices worldwide. (http://web.worldbank.org). To ensure countries continue to have access to the best global expertise and cutting-edge knowledge, the World Bank Group is revising its programs to assist the poor, as well as its range of financing options, to meet pressing development priorities.

Challenges

The World Bank had made the world's challenge—to reduce global poverty- the bank's challenge. The Bank focuses on achievement of the Millennium Development Goals that call for the elimination of poverty and sustained development. The goals provide the bank with targets and yardsticks for measuring results. The bank's mission is to help developing countries and their people reach the goals by working with our partners to alleviate poverty. It addresses global challenges in ways that advance an inclusive and sustainable globalization—that overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.

Six strategic themes drive bank's efforts. By focusing on these strategic themes, the Bank delivers technical, financial and other assistance to those most in need and where it can have the greatest impact and promote growth: to the poorest countries, fragile states and the Arab world; to middle-income countries; to solving global public goods issues; and to delivering knowledge and learning services.

Organisation

The World Bank is like a cooperative, where its 187 member countries are shareholders. The shareholders are represented by a Board of Governors, who are the ultimate policy makers at the World Bank. Generally, the governors are member countries' ministers of finance or ministers of development. They meet once a year at the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund.

Because the governors only meet annually, they delegate specific duties to 25 Executive Directors, who work on-site at the Bank. The five largest shareholders, France, Germany, Japan, the United Kingdom and the United States appoint an executive director, while other member countries are represented by 20 executive directors.

- The President of the World Bank, Robert B. Zoellick, chairs meetings of the Boards of Directors and is responsible for overall management of the Bank. By tradition, the Bank president is a U.S. national and is nominated by the United States, the Bank's largest shareholder. The President is selected by the Board of Executive Directors for a five-year, renewable term.

- The Executive Directors make up the Boards of Directors of the World Bank. They normally meet at least twice a week to oversee the Bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies and borrowing and financial decisions.

The World Bank operates day-to-day under the leadership and direction of the president, management and senior staff, and the vice presidents in charge of regions, sectors, networks and functions. Vice Presidents are the principal managers at the World Bank. For more information about bank vice presidents, key bank managers and the organization of the Bank, visit:

Operations

The World Bank's two closely affiliated entities—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—provide low or no interest loans (credits) and grants to countries that have unfavorable or no access to international credit markets. Unlike other financial institutions, we do not operate for profit. The IBRD is market-based, and we use our high credit rating to pass the low interest we pay for money on to our borrowers—developing countries. We pay for our own operating costs, since we don't look to outside sources to furnish funds for overhead.

So, where does the money come from to operate the World Bank, and how do we use the funds to carry out our mission?

- **Fund Generation**

  IBRD lending to developing countries is primarily financed by selling AAA-rated bonds in the world's financial markets. While IBRD earns a small margin on this lending, the greater proportion of its income comes from lending out its own capital. This capital consists of reserves built up over the years and money paid in from the Bank's 185 member country shareholders. IBRD's income also pays for World Bank operating expenses and has contributed to IDA and debt relief.

  IDA is the world's largest source of interest-free loans and grant assistance to the poorest countries. IDA's funds are replenished every three years by 40 donor countries. Additional funds are regenerated through repayments of loan principal on 35-to-40-year, no-interest loans, which are then available for re-lending. IDA accounts for more than 40% of our lending.

- **Loans**

  Through the IBRD and IDA, we offer two basic types of loans and credits: investment operations and development policy operations.

  Countries use investment operations for goods, works and services in support of economic and social development projects in a broad range of economic and social sectors. Development policy operations (formerly known as adjustment loans) provide quick-disbursing financing to support a country's policy and institutional reforms.

  Each borrower's project proposal is assessed to ensure that the project is economically, financially, socially and environmentally sound. During loan negotiations, the Bank and borrower agree on the development objectives, outputs, performance indicators and implementation plan, as well as a loan disbursement schedule. While we supervise the implementation of each loan and evaluate its results, the borrower implements the project or program according to the agreed terms. As more than 30% of our staff is based in over 100 country offices worldwide, three-fourths of outstanding loans are managed by country directors located away from the World Bank offices in Washington.

  IDA long term loans (credits) are interest free but do carry a small service charge of 0.75 percent on funds paid out. IDA commitment fees range from zero to 0.5 percent on undisbursed credit balances. For FY09 commitment fees have been set at 0.0 percent.

  For complete information about IBRD financial products, services, lending rates and charges, please visit the World Bank Treasury. Treasury is at the heart of IBRD's borrowing and lending operations and also performs treasury functions for other members of the World Bank Group.

- **Trust Funds and Grants**

  Donor governments and a broad array of private and public institutions make deposits in Trust funds that are housed at the World Bank. These donor resources are leveraged for a broad range of development initiatives. The initiatives vary significantly in size and complexity, ranging from multibillion dollar arrangements—such as Carbon Finance; the Global Environment Facility; the Heavily Indebted Poor Countries Initiative; and the Global Fund to Fight AIDS, Tuberculosis, and Malaria—to much smaller and simpler freestanding ones.

  The Bank also mobilizes external resources for IDA concessionary financing and grants, as well as funds for non-lending technical assistance and advisory activities to meet the special needs of developing countries, and for co-financing of projects and programs.

Direct World Bank grants to civil society organizations emphasize broad-based stakeholder participation in development, and aim to strengthen the voice and influence of poor and marginalized groups in the development process.

IDA grants—which are either funded directly or managed through partnerships—have been used to:

- Relieve the debt burden of heavily indebted poor countries
- Improve sanitation and water supplies
- Support vaccination and immunization programs to reduce the incidence of communicable diseases like malaria
- Combat the HIV/AIDS pandemic
- Support civil society organizations
- Create initiatives to cut the emission of greenhouse gases

See how these grants have made a difference at IDA at Work. Visit the Grants website for more information.

- **Analytic and Advisory Services**

While we are best known as a financier, another of our roles is to provide analysis, advice and information to our member countries so they can deliver the lasting economic and social improvements their people need. We do this in various ways. One is through economic research and data collection on broad issues such as the environment, poverty, trade and globalization Another is through country-specific, non-lending activities such as economic and sector work, where we evaluate a country's economic prospects by examining its banking systems and financial markets, as well as trade, infrastructure, poverty and social safety net issues, for example.

We also draw upon the resources of our knowledge bank to educate clients so they can equip themselves to solve their development problems and promote economic growth. By knowledge bank we mean the wealth of contacts, knowledge, information and experience we've acquired over the years, country by country and project by project, in our development work. Our ultimate aim is to encourage the knowledge revolution in developing countries.

These are only some of the ways our analyses, advice and knowledge are made available to our client countries, their government and development professionals, and the public:

Poverty Assessments

Public Expenditure Reviews

Country Economic Reports

Sector Reports

Topics in Development

- **Capacity Building**

  Another core Bank function is to increase the capabilities of our partners, the people in developing countries, and our own staff —to help them acquire the knowledge and skills they need to provide technical assistance, improve government performance and delivery of services, promote economic growth and sustain poverty reduction programs. Linkages to knowledge-sharing networks such as these have been set up by the Bank to address the vast needs for information and dialogue about development:

  - Advisory Services and Ask Us help desks make information available by topic via telephone, fax, email and the web. There are more than 25 advisory services at the Bank. Staff members who respond to inquiries add value to the work of clients, partners and our own staff by responding quickly to their knowledge needs. Often, they are the first and possibly the only contact the public at large—especially people in developing countries--have with the World Bank.
  - Global Development Learning Network is an extensive network of distance learning centers that uses advanced information and communications technologies to connect people working in development around the world.
  - Knowledge for Development offers policy advice to client countries on the four pillars of a knowledge economy: economic and institutional regime, education, innovation, and information and communication technologies (ICTs) to help clients make the transition to a knowledge economy.
  - Capacity Development Resource Center is a repository of literature, case studies, lessons learned, and good practices in the area of capacity development, the key to development effectiveness.
  - World Bank Institute Global and Regional Programs bring together leading development practitioners online and face-to-face to exchange experiences and to develop skills.

- B-SPAN webcasting service is an Internet-based broadcasting station. The station presents World Bank seminars, workshops and conferences on sustainable development and poverty reduction via streaming video. The unedited discussions and debates about pressing development issues attract government officials, development practitioners, academics, students, researchers, journalists, NGO representatives, and the public-at-large.

INSURANCE AND CREDIT GUARANTEE CORPORATION OF INDIA

History

The concept of insuring deposits kept with banks received attention for the first time in the year 1948 after the banking crises in Bengal. The question came up for reconsideration in the year 1949, but it was decided to hold it in abeyance till the Reserve Bank of India ensured adequate arrangements for inspection of banks. Subsequently, in the year 1950, the Rural Banking Enquiry Committee also supported the concept. Serious thought to the concept was, however, given by the Reserve Bank of India and the Central Government after the crash of the Palai Central Bank Ltd., and the Laxmi Bank Ltd. in 1960. The Deposit Insurance Corporation (DIC) Bill was introduced in the Parliament on August 21, 1961. After it was passed by the Parliament, the Bill got the assent of the President on December 7, 1961 and the Deposit Insurance Act, 1961 came into force on January 1, 1962.

The Deposit Insurance Scheme was initially extended to functioning commercial banks only. This included the State Bank of India and its subsidiaries, other commercial banks and the branches of the foreign banks operating in India.

Since 1968, with the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968, the Corporation was required to register the 'eligible co-operative banks' as insured banks under the provisions of Section 13 A of the Act. An eligible co-operative bank means a co-operative bank (whether it is a State co-operative bank, a Central co-operative bank or a Primary co-operative bank) in a State which has passed the enabling legislation amending its Co-operative Societies Act, requiring the State Government to vest power in the Reserve Bank to order the Registrar of Co-operative Societies of a State to wind up a co-operative bank or to supersede its Committee of Management and to require the Registrar not to take any action for winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the Reserve Bank of India.

Further, the Government of India, in consultation with the Reserve Bank of India, introduced a Credit Guarantee Scheme in July 1960. The Reserve Bank of India was entrusted with the administration of the Scheme, as an agent of the Central Government, under Section

17 (11 A)(a) of the Reserve Bank of India Act, 1934 and was designated as the Credit Guarantee Organization (CGO) for guaranteeing the advances granted by banks and other Credit Institutions to small scale industries. The Reserve Bank of India operated the scheme up to March 31, 1981.

The Reserve Bank of India also promoted a public limited company on January 14, 1971, named the Credit Guarantee Corporation of India Ltd. (CGCI). The main thrust of the Credit Guarantee Schemes, introduced by the Credit Guarantee Corporation of India Ltd., was aimed at encouraging the commercial banks to cater to the credit needs of the hitherto neglected sectors, particularly the weaker sections of the society engaged in non-industrial activities, by providing guarantee cover to the loans and advances granted by the credit institutions to small and needy borrowers covered under the priority sector.

With a view to integrating the functions of deposit insurance and credit guarantee, the above two organizations (DIC & CGCI) were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence on July 15, 1978. Consequently, the title of Deposit Insurance Act, 1961 was changed to 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961 '.

Effective from April 1, 1981, the Corporation extended its guarantee support to credit granted to small scale industries also, after the cancellation of the Government of India's credit guarantee scheme. With effect from April 1, 1989, guarantee cover was extended to the entire priority sector advances, as per the definition of the Reserve Bank of India. However, effective from April 1, 1995, all housing loans have been excluded from the purview of guarantee cover by the Corporation.

The introduction of credit guarantee schemes by the erstwhile Credit Guarantee Corporation of India Limited was part of a series of measures taken since the late sixties aimed at encouraging the commercial banks to cater to the late requirements of the hitherto neglected sectors, particularly weaker sections of society. In the wake of the social control measures initiated in 1968 followed by nationalization of major commercial banks, the banks were required to ensure an increased flow of credit to smaller borrowers who found it difficult to have access to institutional credit. While there was an increasing awareness among banks of the need to provide more credit to such borrowers, certain practical difficulties were encountered. The Credit Guarantee Corporation of India Ltd., was thus visualised as an agency to provide a simple but wide-ranging system of guarantees for loans granted by credit institutions to such small and needy borrowers (http://www.dicgc.org.in)

With a view to integrate the twin and cognate functions of deposit insurance and credit guarantee, the Credit Guarantee Corporation of India Limited and the Deposit Insurance Corporation were merged in July 1978 and the corporation was renamed as the Deposit Insurance and Credit Guarantee Corporation.

- **Deposit Insurance Scheme Institutional Coverage:**

The deposit insurance scheme was introduced with effect from 1 January 1962. The Scheme provides automatic coverage for deposits of all commercial banks (including regional rural banks) received in India. Following an amendment to the Deposit Insurance and Credit Guarantee Corporation Act in 1968, similar coverage is also extended in respect of deposits with co-operative banks in such of the states, as have passed the enabling legislation amending their local co-operative societies Acts. In terms of geographical coverage, the benefit of deposit insurance now stands extended to the entire banking system leaving uncovered only 69 cooperative banks in such of the states as have yet to pass the necessary legislation.

- **Extent of Insurance cover:**

Under the scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of his deposits in all branches of that bank, held by him in the same capacity and right, subject to a monetary ceiling of Rs.1,00,000/-.

- **Insurance premium:**

The consideration for extension of insurance coverage to banks is payment of an insurance premium at the rate of 5 paise per annum per hundred rupees. The premium is collected at half-yearly intervals. The banks are required to bear this fee so that the protection of insurance in available to the depositors free of cost. The corporation can levy a maximum premium of up to Rs. 0.15 per Rs. 100 per annum.

- **Payment of Insurance claims:**

When a bank goes into liquidation, the corporation pays to every depositor, through the liquidator, the amount of deposits up to Rs.1,00,000/-. When bank is amalgamated with an other bank and the scheme of amalgamation does not entitle the depositor to get credit for the full amount of his deposit, the corporation pays to each depositor the difference between the full amount of the deposit (or Rs.1,00,000/- whichever is less) and the amount actually received by him under the scheme of amalgamation. After settling a claim, the liquidator/transferee bank is required to repay to the corporation, by virtue of such rights of subrogation, recoveries effected by it from out of the assets of the insured bank in liquidation/amalgamation.

The Head Office of the DICGC is located at Mumbai and It has branch offices at Calcutta, Madras, New Delhi and Nagpur.

Legal Framework/Objective

The functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961' (DICGC Act) and 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961' framed by the Reserve Bank of India in exercise of the powers conferred by sub-section (3) of Section 50 of the said Act. The preamble of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 states that it is an Act to provide for the establishment of a Corporation for the purpose of insurance of deposits and guaranteeing of credit facilities and for other matters connected therewith or incidental thereto.

Organization and Functions

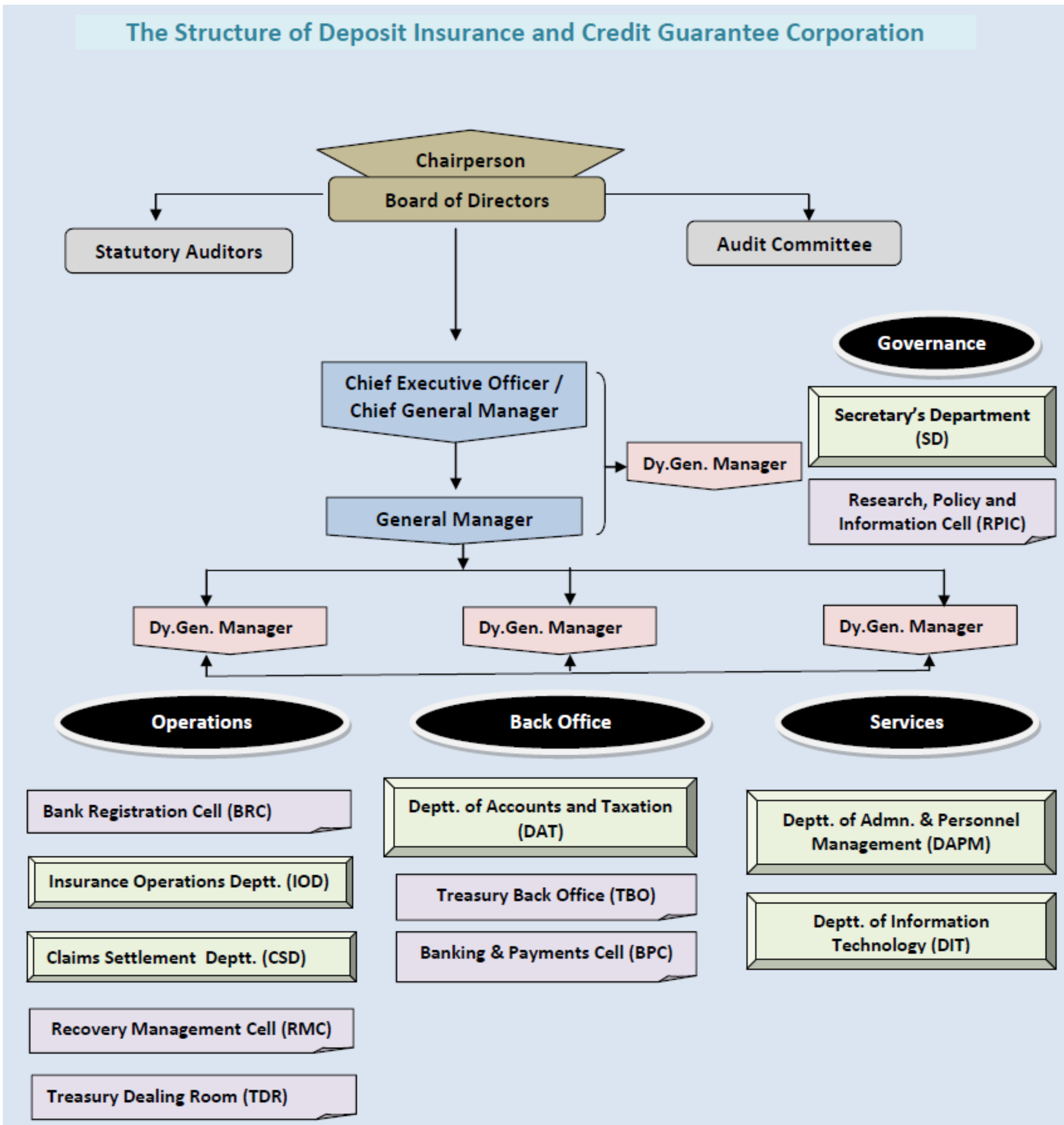
Management

The authorized capital of the Corporation is Rs.50 crore, which is fully issued and subscribed by the Reserve Bank of India (RBI). The management of the Corporation vests with its Board of Directors, of which a Deputy Governor of the RBI is the Chairman. As per the DICGC Act, the Board shall consist of, besides the Chairman, (i) one Officer (normally in the rank of Executive Director) of the RBI, (ii) one Officer from the Central Government, (iii) five Directors nominated by the Central Government in consultation with the RBI, three of whom are persons having special knowledge of commercial banking, insurance, commerce, industry or finance and two of whom shall be persons having special knowledge of, or experience in co-operative banking or co-operative movement and none of the directors should be an employee of the Central Government, or the RBI or the Corporation or a director or an employee of a banking company or a co-operative bank, or otherwise actively connected with a banking company or a co-operative bank, and (iv) four Directors, nominated by the Central Government in consultation with the RBI, having special knowledge or practical experience in respect of accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law or small scale industry or any other matter which may be considered to be useful to the Corporation.

The Head Office of the Corporation is at Mumbai. An Chief Executive Officer is in overall charge of its day-to-day operations. It has four Departments, viz. Accounts, Deposit Insurance, Credit Guarantee and Administration, under the supervision of other Senior Officers. The

Corporation had four branches, situated at Kolkata, Chennai, Nagpur and New Delhi. Out of these, the branches situated at Kolkata, Chennai and Nagpur were closed with effect from November 30, 2000, since almost all the banks have opted out of the Credit Guarantee Schemes, and most of the pending claims have been settled. While major items of work of these three branches were taken over by the Head Office of the Corporation, some residual items of work are vested with the DICGC Cells specially created in the Rural Planning & Credit Department of the Reserve Bank of India at the respective centres.

Organisational structure



Deposit Insurance

Banks covered by Deposit Insurance Scheme

(I) All commercial banks including the branches of foreign banks functioning in India, Local Area Banks and Regional Rural Banks.

(II) Co-operative Banks - All eligible co-operative banks as defined in Section 2(gg) of the DICGC Act are covered by the Deposit Insurance Scheme. All State, Central and Primary co-operative banks functioning in the States/Union Territories which have amended their Co-operative Societies Act as required under the DICGC Act, 1961, empowering RBI to order the Registrar of Co-operative Societies of the respective States/Union Territories to wind up a co-operative bank or to supersede its committee of management and requiring the Registrar not to take any action for winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the RBI, are treated as eligible banks. At present all co-operative banks, other than those from the States of Meghalaya and the Union Territories of Chandigarh, Lakshadweep and Dadra and Nagar Haveli are covered by the Scheme.

Insurance coverage

Initially, under the provisions of Section 16(1) of the DICGC Act, the insurance cover was limited to Rs.1,500/- only per depositor(s) for deposits held by him (them) in the "same right and in the same capacity" in all the branches of the bank taken together. However, the Act also empowers the Corporation to raise this limit with the prior approval of the Central Government. Accordingly, the insurance limit was enhanced from time to time as follows:

Rs. 5,000/- with effect from 1st January 1968

Rs. 10,000/- with effect from 1st April 1970

Rs. 20,000/- with effect from 1st January 1976

Rs. 30,000/- with effect from 1st July 1980

Rs. 1,00,000/- with effect from 1st May 1993 onwards.

Types of Deposits Covered

DICGC insures all bank deposits, such as saving, fixed, current, recurring, etc. except the following types of deposits.

(i) Deposits of foreign Governments;

(ii) Deposits of Central/State Governments;

(iii) Inter-bank deposits;

(iv) Deposits of the State Land Development Banks with the State co-operative banks;

(v) Any amount due on account of and deposit received outside India;

(vi) Any amount which has been specifically exempted by the corporation with the previous approval of the RBI.

Insurance Premium

The rate of insurance premium was initially fixed at .0.05 or 1/20th of 1 per cent per annum. It was reduced to .0.04 or 1/25th of 1 per cent per annum with effect from 1st October 1971. However, it was again raised to .0.05 or 1/20th of 1 per cent per annum with effect from 1st July 1993.Since 2001,the Corporation has had to settle claims for large amounts due to the failure of banks, particularly in the Co-operative Sector causing a drain on the Deposit Insurance Fund (DIF). While there is sufficient corpus in Deposit Insurance Fund for the present, it is necessary to build up a sound DIF in the long term to protect the interests of the banking system. With this objective the Corporation decided to enhance the deposit insurance premium from 5 paise per Rs.100 of assessable deposits per annum to 10 paise per Rs.100 of assessable deposits per annum in a phased manner over a period of two years. In the first phase, the premium was raised to 8 paise per Rs.100 of assessable deposits from the financial year 2004-05 and later to 10 paise per Rs. 100 assessable deposits from the fiancial year 2005-06. The Corporation will continuously review the DIF and will consider revising the premium further from time to time with the objective of maintaining a strong DIF.For further details refer the section - What's New

The premium paid by the insured banks to the Corporation is required to be absorbed by the banks themselves so that the benefit of deposit insurance protection is made available to the depositors free of cost. In other words the financial burden on account of payment of premium should be borne by the banks themselves and should not be passed on to the depositors.

The formula for working out the half-yearly premium is as follows: -

Deposits in rupees rounded to thousands X 0.05 / 100

The deposits should be rounded off to the nearest thousand Rupees

Interest

An insured bank is required to remit premium not later than the last day of May and November each year. If it does not pay on or before the stipulated date the premium payable by it or any portion thereof, it is liable to pay interest at the rate of 8% above the Bank Rate on the amount of such premium or on the unpaid portion thereof, as the case may be, from the beginning of the half-year till the date of payment. Interest is calculated on this basis for the actual number of days of default, taking 1 year as 365 days.

Any amount payable to the Corporation by way of premium or interest on the overdue amount of premium can be paid in the following manner:

(i) Directly for credit of Deposit Insurance Fund A/C of the Corporation maintained with RBI, Deposit Accounts Department, Mumbai.

(ii) Remittance by crossed cheque, demand draft or T.T. drawn and payable at Mumbai, in favour of the Corporation.

Returns

Every insured bank is required to furnish to the Corporation as soon as possible, after the commencement of each calendar half-year, but not in any event later than the last day of the first month of the half-year, a statement (Form DI-01) in duplicate, showing the basis on which the premium payable by that bank has been calculated and the amount of premium payable by that bank for that half-year. The statement should be certified as correct by two officials authorised by the bank for this purpose and it has to furnish to the Corporation specimen signatures of the officers authorised to sign the statements and returns under the DICGC Act, 1961. Besides half-yearly return in form DI-01, the insured banks are also required to furnish to the Corporation, one annual return in Form DI-02 showing the distribution of deposits according to the size of deposits as on the last day of June every year.

The liquidator of a bank which has been wound up or liquidated and the chief executive officer of the transferee bank or the insured bank as the case may be in the case of amalgamation or reconstruction etc. sanctioned by a competent authority, is required to submit quarterly statements in the prescribed formats to the DICGC indicating the particulars of utilization of the amounts released by the DICGC, the position of realisation of assets of the bank and utilization of the amounts thereof and the assets and liabilities of the bank.

Supervision and Inspection of Insured Banks

The Corporation is empowered (vide Section 35 of the DICGC Act) to have free access to the records of an insured bank and to call for copies of such records. On Corporation's request, the RBI is required to undertake / cause the inspection / investigation of an insured bank.

Settlement of claims

In the event of the winding up or liquidation of an insured bank, every depositor of the bank is entitled to payment of an amount equal to his deposits held by him in the same right and in the same capacity in all the branches of that bank put together, standing as on the date of cancellation of registration (i.e. the date of cancellation of licence or order for winding up or for liquidation) subject to the set off of his dues to the bank, if any (Section 16(1) and (3) of the DICGC Act). However, the payment to each depositor is subject to the limit of the insurance coverage fixed from time to time.

When a scheme of compromise or arrangement or re-construction or amalgamation is sanctioned for a bank by a competent authority, and the scheme does not entitle the depositors to get credit for the full amount of the deposit on the date on which the scheme comes into force, the Corporation pays the difference between the full amount of deposit or the limit of insurance cover in force at the time, whichever is less, and the amount actually received by him under the scheme. In these cases also the amount payable to a depositor is determined in respect of all his deposits held in the same right and in the same capacity in all the branches of that bank put together subject to the set off of his dues to the bank, if any (Section 16(2) and (3) of the DICGC Act).

Under the provisions of Section 17(1) of the DICGC Act, the liquidator of an insured bank which has been wound up or taken into liquidation has to submit to the DICGC a list showing separately the amount of the deposit in respect of each depositor and the amount set off, in such a manner as may be specified by the DICGC and certified to be correct by the liquidator, within three months from the date of his assuming charge of office. In the case of a bank for which a scheme of amalgamation/ reconstruction, etc. has been sanctioned, similar list has to be submitted by the chief executive officer of the concerned transferee bank or insured bank as the case may be, within three months from the date on which the scheme of amalgamation/reconstruction, etc. comes into effect (Section 18(1) of the DICGC Act).

The DICGC is required to pay the amount payable under the provisions of the Act in respect of the deposits of each depositor within two months from the date of receipt of such lists. The time-limit is, however, subject to all the information/documents as required by the Corporation being in order.

On the receipt of an order for the liquidation of a bank or a scheme of amalgamation/reconstruction etc. for a bank approved by a competent authority, the Corporation sends detailed guidelines for compilation of the claim list to the liquidator/chief executive officer of the transferee or insured bank, as the case may be. Besides, copies of the audited balance sheet and the profit and loss accounts of the bank as on the date of cancellation of registration i.e. the date of cancellation of licence /liquidation/amalgamation /reconstruction etc. of the bank are called for, to verify the authenticity of the total deposits as given in the claim list. A check list relating to the discrepancies commonly observed in the course of scrutiny of the claim lists is given in the Annexure.

The DICGC makes the payment of the eligible amount to the liquidator/chief executive officer of the transferee / insured bank, for disbursement to the depositors. No payment is made directly to the depositors. However, the amounts payable to the untraceable depositors i.e. those in respect of whom necessary information is not available, are held back till the liquidator/chief executive officer is in a position to furnish all the requisite particulars.

In terms of Section 21(2) of the DICGC Act read with Regulation 22 of the DICGC General Regulations, the liquidator or the insured bank or the transferee bank as the case may be, is required to repay the amount to the DICGC within such a time and in such a manner as may be prescribed, out of the amounts realised from the assets of the failed bank and other amounts in hand after making provision for the expenses incurred, as soon as such amounts are sufficient to pay to each depositor one paisa or more in the Rupee.

Accounts

The Corporation maintains the following Funds:

Deposit Insurance Fund

Credit Guarantee Fund

General Fund

The first two are funded respectively by the insurance premia and guarantee fees received and are utilised for settlement of the respective claims.The General Fund is utilised for meeting the establishment and administrative expenses of the Corporation. The surplus balances in all the three Funds are invested in Central Government securities which is the only investment permissible under the Deposit Insurance and Credit Guarantee Corporation Act, 1961 and the income derived out of such investments is credited to the respective Funds. Inter-Fund transfer is permissible and if there is a shortfall in one of the Funds, it is made good by transfer from either of the other two Funds.

The Corporation has adopted from 1987, the system of actuarial valuation of the liabilities of Deposit Insurance and Credit Guarantee Funds every year. The Corporation has become assessable for income tax starting from the Assessment Year 1988-89. The books of accounts of the Corporation are closed as on 31st March every year. The affairs of the Corporation are audited by an Auditor appointed by the Board of Directors with the previous approval of RBI. The audited accounts together with Auditor's report and a report on the working of the Corporation are required to be submitted to RBI within 3 months from the closing of accounts. Copies of these documents are also submitted to the Central Government, which are laid before each House of the Parliament.

Administration

The Administration Department of DICGC attends to all staff and establishment related functions in respect of the employees of the Corporation who all are the employees of RBI. DICGC is treated as an independent salary drawing unit. The Board Section attends to all matters relating to arranging for the Board Meetings, preparation of the agenda notes and minutes of the Board Meetings and monitoring compliance of the decisions taken in these meetings.

CROP INSURANCE

In any business arrangement, both sides of the transaction must expect to benefit. Crop insurance transactions are no different. This defines the first boundary: crop insurance is sold and bought in a market. The purchasers must perceive that the premiums and expected benefits offer value; the sellers must see opportunity for a positive actuarial outcome, over time, and profit.

Crop insurance is not the universal solution to the risk and uncertainties which are part and parcel of farming. Rather insurance can address part of the losses resulting from some perils. The second boundary then is, insurance has a limited role in risk management in farming. Again, the implications of this will be explored below.

The third boundary is that any limitations to the scope for effective and economic crop insurance, though real at any given moment, can change over time. Farming enterprises and systems are dynamic. They change over time, and in so doing present different patterns of risk and new ways by which farming technology, and farm management techniques, can cope with production and other risks. The design of insurance solutions is an equally dynamic field of research and development. New techniques of ascertaining that loss-causing perils have occurred, together with more efficient and economical methods for measuring losses, mean that new types of insurance products can be developed. When companies see a business opportunity here, with an evident demand, then these products will be refined, funded and marketed.

All over the world agriculture is synonymous with risk and uncertainty. Agriculture contributes to 24% of the GDP and any change has a multiplier effect on the economy as a whole. Economic growth and agricultural growth are inextricably linked to each other. Crop insurance helps in stabilization of farm production and income of the farming community. It helps in optimal allocation of resources in the production process.

History of Crop Insurance in India

The Crop Insurance in India was started with the introduction of the All-Risk Comprehensive Crop Insurance Scheme (CCIS) that covered the major crops. This scheme was introduced in 1985. In fact this period of introduction also coincided with the introduction of the Seventh-Five-year plan. This initial scheme was of course later substituted and replaced by the National Agricultural Insurance Scheme (NAIS). This substitution came into effect from 1999. These Schemes that have been introduced throughout the crop insurance history have been preceded by years of preparation, studies, planning, experiments and trials on a pilot basis. In the crop insurance history, the question of introducing a crop insurance scheme was taken up for examination soon after the Indian independence. The first aspect that was examined related to the modalities of crop insurance. The issue under consideration was about whether the crop insurance should be offered under an 'individual approach' or on 'Homogenous area approach'.

The Individual approach of the scheme indemnifies the farmer to the full extent of the losses. Also the premium that is to be paid by him is determined with reference to his own past yield and loss experience. The Individual approach for these schemes necessitates reliable and accurate data of crop yields of individual farmers for a sufficiently long period, for fixation of premium on actuarially sound basis. The Homogenous area approach on the other hand was aimed at envisaging a homogeneous area from the point of view of crop production and similarity of annual variability of crop production. The homogenous area approach was found to be more favorable. This is because it would facilitate the provision of a single unit treatment to various agro-climatically homogenous areas and the individual farmers and allow them to pay the same rate of premium and receive the same benefits, irrespective of their individual fortunes.

First Individual Approach Scheme 1972-1978

Different forms of experiments on agricultural insurance on a limited, ad-hoc and scattered scale started from 1972-73 when the General Insurance Corporation (GIC) of India introduced a Crop Insurance Scheme on H-4 cotton. In the same year, general insurance business was nationalized and, General Insurance Corporation of India was set up by an Act of Parliament. The new corporation took over the experimental scheme in respect of H-4 cotton. This scheme was based on "Individual Approach" and later included groundnut, wheat and potato. The scheme was implemented in the states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal. It continued up to 1978-79 and covered only 3110 farmers for a premium of Rs.4.54 lakhs against claims of Rs.37.88 lakhs.

Pilot Crop Insurance Scheme (PCIS) 1979-1984

In the background and experience of the aforesaid experimental scheme, a study was commissioned by the General Insurance Corporation of India and Prof. V.M. Dandekar was entrusted to suggest a suitable approach to be followed in the scheme. The recommendations of the study were accepted and a Pilot Crop Insurance Scheme was launched by the GIC in 1979, which was based on Area Approach for providing insurance cover against a decline in crop yield below the threshold level. The scheme covered cereals, millets, oilseeds, cotton, potato and chickpea and it was confined to loanee farmers of institutional sources on a voluntary basis. The premium paid was shared between the

General Insurance Corporation of India and State Governments in the ratio of 2:1. The maximum sum insured was 100 per cent of the crop loan, which was later increased to 150 per cent. The Insurance premium ranged from 5 to 10 per cent of the sum insured. Premium charges payable by small/marginal farmers were subsidized by 50 per cent shared equally between the state and central governments. Pilot Crop Insurance Scheme–1979 was implemented in 12 states till 1984-85 and covered 6.23 lakh farmers for a premium of Rs.195.01 lakhs against claims of Rs.155.68 lakhs in the entire period.

Comprehensive Crop Insurance Scheme (CCIS) 1985-99

This scheme was linked to short term credit and implemented based on the Homogenous area approach. Till Kharif 1999, the scheme was adopted in 15 states and 2 UTs. Both PCIS and CCIS were confined only to farmers who borrowed seasonal agricultural loan from financial institutions. The main distinguishing feature of the two schemes was that PCIS was on voluntary basis whereas CCIS was compulsory for loanee farmers in the participating states / UTs.

Main Features of the Scheme were

- It covered farmers availing crop loans from Financial Institutions, for growing food crops and oilseeds, on compulsory basis. The coverage was restricted to 100 per cent of the crop loan subject to a maximum of Rs.10,000/- per farmer.
- The premium rates were 2 per cent for cereals and millets and 1 per cent for pulses and oilseeds. Farmers' share of premium was collected at the time of disbursement of loan. Half of the premium payable by small and marginal farmers was subsidized equally by the Central and State Governments (Tripathi, 1987)
- Burden of Premium and Claims was shared by Central and State Governments in a 2:1 ratio, and
- The scheme was a multi agency effort, involving GOI, State Governments, Banking Institutions and GIC.

Experimental Crop Insurance Scheme (ECIS) 1997-98

As demanded by various states from time to time attempts were made to modify the existing CCIS. During 1997, a new scheme, namely Experimental Crop Insurance Scheme was introduced during Rabi 1997-98 season with the intention to cover even those small and marginal farmers who do not borrow from institutional sources. This scheme was implemented in 14 districts of five states. The Scheme provided 100 per cent subsidy on premium. The premium and claims were shared by Central and State Governments in 4:1 ratio.

National Agricultural Insurance Scheme (NAIS) 1999

The National Agricultural Insurance Scheme (NAIS) was introduced in the country from the rabi season of 1999-2000. Agricultural Insurance Company of India Ltd (AIC) which was incorporated in December, 2002, and started operating from April, 2003, took over the implementation of NAIS. This scheme is available to both loanees and non-loanees. It covers all food grains, oilseeds and annual horticultural / commercial crops for which past yield data are available for an adequate number of years. Among the annual commercial and horticultural crops, sugarcane, potato, cotton, ginger, onion, turmeric, chillies, coriander, cumin, jute, tapioca, banana and pineapple, are covered under the scheme. The scheme is operating on the basis of both area approach, for widespread calamities, and individual approach, for localized calamities such as hailstorm, landslide, cyclone and floods.

Agriculture insurance in India till recently concentrated only on crop sector and confined to compensate yield loss. Recently some other insurance schemes have also come into operation in the country which goes beyond yield loss and also cover the non- crop sector. These include Farm Income Insurance Scheme, Rainfall Insurance Scheme and Livestock Insurance Scheme.

Pilot Scheme on Seed Crop Insurance (PSSCI)

The Seed Crop Insurance Scheme was implemented on pilot basis during 1999-2000 and 2000-01 and the financial assistance was provided to the identified states i.e., Andhra Pradesh, Orissa, Gujrat, Haryana, Karnataka, Madhya Pradesh, Punjab, Rajasthan, U.P, Maharashtra for the implementation of the scheme. The major objectives of this scheme are:

a) Objectives

- To provide financial security and income stability to the seed growers in the event of failure of seed crop
- To build confidence in the minds of existing seed growers and stimulate participation of new growers to undertake seed production programme of newly released hybrid / improved varieties
- To provide stability to the infrastructure established by the State owned Seed Corporations / State Farms and
- To give a boost to the modern seed industry to bring it under scientific principles.

b) States, Areas and Crops to be covered:

Breeder', 'Foundation' and ‘Certified’ seeds of the following crops in the following States will be covered. The identified States will opt for the crops to be covered from the list given in Table 1.

Table 1: States and Crops Covered under Pilot Scheme on Seed Crop Insurance

State	Crops
Andhra Pradesh	Paddy, Maize, Jowar, Bajra, Sunflower, Cotton, Groundnut, Red Gram
Gujarat	Bajra, Wheat, Gram, Cotton, Groundnut, Maize, Red Gram, Castor
Haryana	Paddy, Wheat, Gram, Red Gram, Cotton
Karnataka	Paddy, Maize, Jowar, Bajra, Sunflower, Cotton, Groundnut, Red Gram, Bengal Gram, Black Gram, Green Gram, Ragi.
Madhya Pradesh	Paddy, Wheat, Gram, Soyabean, Sunflower, Cotton, Red Gram, Mustard.
Maharashtra	Paddy, Jowar, Bajra, Wheat, Gram, Soyabean, Sunflower, Cotton, Groundnut, Red Gram, Green Gram, Black Gram.
Orissa	Paddy, Groundnut, Red Gram , Cotton
Punjab	Paddy, Wheat, Gram, Red Gram, Soyabean, Cotton.
Rajasthan	Wheat, Gram, Soyabean, Groundnut, Red Gram, Cotton, Bajra, Castor, Mustard.
Uttar Pradesh	Paddy, Wheat, Gram, Soyabean, Sunflower, Red Gram, Cotton, Potato, Pea, Mustard.

Only the Foundation and Certified Seed produce that is offered to State Seed Certification Agency (SSCA) for certification is eligible for coverage. In case of Breeder Seed, the coverage is subject to the production being carried out under the supervision of the concerned Monitoring Committee. For the purpose of insurance coverage, seed areas under jurisdiction of a sub-office / area-office of SSCA will be identified as a unit for determination of Average Yield and Sum Insured in respect of that unit area.

c) Risks Covered

The proposed Scheme seeks to provide protection against those risks, which are beyond control of the farmers. The following types of losses will be covered:

A. At Field Stage

A1. Failure of Seed Crop Field either in Full or in Part due to the Perils Indicated Below:

Risks of loss against natural fire, lightning, storm, hailstorm, cyclone, typhoon, tempest, hurricane, tornado, flood, inundation, landslides, drought, dry spells, excessive rain, large scale incidence of pests and diseases are covered. Damages due to frost would also be covered under the Scheme.

A2. Loss in Expected Raw Seed Yield:

Following perils in addition to the perils mentioned under Para A1 above will be covered:

Prevalence of excessive rain, blowing of hot and / or cold wind, excessive hot weather during flowering or seed setting stage will be covered.

A3. Loss of Seed Crop after Harvest

Damage to the harvested seed crop due to operation of the above-mentioned perils whilst lying on the field until the crop is removed from the field for transportation to the processing plant will be covered under the Scheme.

B. At Seed Certification Stage

Losses due to seed lots having failed in 'Germination Test' due to operation of any of the insured perils mentioned in Para A1 and A2 above will be compensated. Failure in germination test due to any factor / reason other than the insured ones will not be covered.

d) Exclusions under Seed Crop Insurance

Physical damage / losses / rejection of field / seed on account of following reasons are excluded from the coverage:

i) Poor crop stand due to either defective planting material or unfavourable conditions prevailing during sowing period.
ii) Non-maintenance of prescribed isolation distance.
iii) Non-rouging at appropriate times and non-conformity of prescribed standards or non-compliance of any of the instructions of the Certification Agency.
iv) When seed crop production has not been taken up in ideal conditions with proper cultural practices.
v) Non-acceptance of crop due to non-synchronization of male and female plants.
vi) Lodging of seed crop and resulting loss in yield except for the insured perils.
vii) Loss or damage to seed crop affected by pests and/or diseases, which otherwise, would have been controlled by adopting adequate plant protection measures.
viii) Losses on account of Physical Purity, Genetic Purity, and admixtures of Other Distinguishable Varieties (ODV) or due to 'other' reasons not covered under the Scheme.
ix) Loss of seed crop / seeds at field stage / laboratory stage due to theft.
x) Losses to seed crop whilst in transit.

xi) Loss / damage due to operation of following perils directly or indirectly:

a) War, invasion, civil war, rebellion, conspiracy, persons acting maliciously.

b) Nuclear reaction, nuclear radiation or radioactive contamination.

xii) Loss or damage due to:

a) Willful negligence of the insured.

b) Human action, birds and animals.

e) Sum Insured

Sum Insured is equivalent to preceding three / five year's Average Seed Yield certified in respect of the identified unit area multiplied by 'Procurement Price' of the seed crop variety prevailing in the previous season by National Seed Corporation (NSC). The Sum Insured may be increased up to 150 per cent of the average processed, tagged certified Seed Yield. A producing agency opting for higher Sum Insured would be required to pay a correspondingly higher premium.

f) Salvage

All seed crops identified for coverage under the Scheme have salvage values. Salvage values will be calculated at a fixed percentage of Procurement Price (PP) as given below, which will be deducted from the claim amount before payment. Alternatively, the insurer will pay the full amount of compensation (i.e., before deduction of salvage) and will take over the possession of the salvage. The deduction of salvage will be applicable in case of losses in Germination test only.

Salvage Value under Seed Insurance Scheme

Crop	Salvage as per cent of Procurement Price	
	Hybrids	Other Varieties
Jowar and Bajra	30	60
Maize	40	60
Paddy, Wheat, Gram and Groundnut	40	60
Sunflower	30	60
Soyabean and Tur	40	50
Cotton	20	20

g) Loss Assessment Method

The certification agency officials, who periodically inspect the field, will intimate individual grower-wise, the details of damages / losses and rejection thereof to the seed producing organization and to the insurer. The insurer will arrange for surveying the loss and the compensation will be estimated and paid as per graded scale mentioned earlier. The first inspection of the seed crop will be done by the State Seed Certification Agencies within 45 days in case loss is reported by the seed grower, otherwise if the crop is normal, the State Seed Certification Agencies will work out the inspections as per their routine norms. The amount of claim will be proportionate to the area rejected.

Excess: 20 per cent of all admissible claims will be borne by the Insured.

Loss after Harvesting and until the Crop is ready for Transportation

Concerned seed producing organization / grower will intimate the loss soon after the incident of loss to the insurer giving all the detailed information. The Insurer will arrange or survey / loss assessment and the compensation will be estimated and paid.

Excess: 20 per cent of all admissible claims will be borne by the Insured.

Loss at Seed Certification Stage

Certification Agency and seed producing organization both will intimate

i) Sharing of Risk

Premium will go to the account of the Insurer, i.e., General Insurance Corporation of India. The Claims beyond 200 per cent of premium income will be to the insurer the individual farmer-wise Actual Quantity Rejected due to failure in germination test on account of natural calamity along with the laboratory test results. The maximum amount of claim will be the procurement value of the rejected quantity less salvage value as referred in Salvage value chart.

h) Premium Rate

Crop-wise premium at the following rates will be charged borne by the Government on a sunset basis - in the first year 100 per cent, in the second year 50 per cent and in the third year 25 per cent of losses beyond 200 per cent of the premium income might be met by the Central Government. From the fourth year onwards the General Insurance Corporation of India will meet the losses fully.

Premium Rates under Seed Insurance Scheme

Crop	Rate (per cent)	Crop	Rate (per cent)
1. Paddy	3.0	7. Wheat	2.0
2. Jowar	3.5	8. Bajra	5.0
3. Maize	5.0	9. Soyabean	5.0
4. Sunflower	2.5	10. Groundnut	2.0
5. Gram	5.0	11. Tur	5.0
6. Cotton	5.0		

i) Reinsurance

General Insurance Corporation of India will negotiate suitable reinsurance arrangement in the international market to cover the losses exceeding 100 per cent of premium income. In case the reinsurance arrangement also covers the Government of India's liability, the same will be adjusted while receiving the Government of India's share of claims liability.

2.7 Farm Income Insurance

The Farm Income Insurance Scheme was started on a pilot basis during 2003-04 to provide income protection to the farmers by integrating the mechanism of insuring yield as well as market risks. In this scheme the farmers' income is ensured by providing minimum guaranteed income.

2.8 Livestock Insurance

Livestock insurance is provided by public sector insurance companies and the insurance cover is available for almost all livestock species. Normally, an animal is insured up to 100 per cent of the market value. The premium is 4 per cent of the sum insured for general public and 2.25 per cent for Integrated Rural Development Programme (IRDP) beneficiaries. The government subsidizes premium for IRDP beneficiaries. Progress in livestock insurance, however, has been slow and poor.

2.9 Weather Based Crop Insurance / Rainfall Insurance

During the year 2003-04 the private sector came out with some insurance products in agriculture based on weather parameters. The insurance losses due to vagaries of weather, i.e. excess or deficit rainfall, aberrations in sunshine, temperature and humidity, etc. could be covered on the basis of weather index. If the actual index of a specific weather event is less than the threshold, the claim becomes payable as a percentage of deviation of actual index. One such product, namely Rainfall Insurance was developed by ICICI-Lombard General Insurance Company. This move was followed by IFFCO-Tokio General Insurance Company and by public sector Agricultural Insurance Company of India (AIC). Under the scheme, coverage for deviation in the rainfall index is extended and compensations for economic losses due to less or more than normal rainfall are paid.

ICICI Lombard, World Bank and the Social Initiatives Group (SIG) of ICICI Bank collaborated in the design and pilot testing of India's first index based weather insurance product in 2003-04. The pilot test covered 200 groundnut and castor farmers in the rain-fed district of Mahaboobnagar, Andhra Pradesh. The policy was linked to crop loans given to the farmers by BASIX Group, a NGO, and sold through its Krishna Bhima Samruddhi Area Bank. The weather insurance has also been experimented with 50 soya farmers in Madhya Pradesh through Pradan, an NGO, 600 acres of paddy crop in Aligarh through ICICI Banks agribusiness group along with the crop loans, and on oranges in Jhalawar district of Rajasthan.

Similarly, IFFCO-Tokio General Insurance (ITGI) also piloted rainfall insurance under the name - Baarish Bima during 2004-05 in Andhra Pradesh, Karnataka and Gujarat. Agricultural Insurance Company of India (AIC) introduced rainfall insurance (Varsha Bima) during 2004 South-West Monsoon period. Varsha Bima provided for five different options suiting varied requirements of farming community. These are (1) seasonal rainfall insurance based on aggregate rainfall from June to September, (2) sowing failure insurance based on rainfall between 15th June and 15th August, (3) rainfall distribution insurance with the weight assigned to different weeks between June and September, (4) agronomic index constructed based on water requirement of crops at different pheno-phases and (5) catastrophic option, covering extremely adverse deviations of 50 per cent and above in rainfall during the season. Varsha Bima was piloted in 20 rain gauge areas spread over Andhra Pradesh, Karnataka, Rajasthan and Uttar Pradesh in 2004-05.

Based on the experience of the pilot project, the scheme was fine-tuned and implemented as "Varsha Bima -2005" in about 130 districts across Andhra Pradesh, Chattisgarh, Gujarat, Karnataka, Mahrashtra, Madhya Pradesh, Orissa, Tamil Nadu, Uttarakhand and Uttar Pradesh during Kharif 2005. On an average, 2 or 3 blocks /mandals / tehsils were covered under each India Meteorological Department (IMD) rain gauge stations. The scheme covered the major crops provided at least two coverage options namely, Seasonal Rainfall Insurance or Rainfall Distribution Index and Sowing Failure Insurance. Varsha Bima-2005 covered 1.25 lakh farmers with a premium income of Rs.3.17 crore against a sum insured of Rs.55.86 crore. Claims amounting to Rs.19.96 lakh were paid for the season. Further, during kharif 2006, the scheme was implemented as Varsha Bima-2006 in and around 150 districts/ rain gauge station areas covering 16 states across the country.

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- The scheme was a multi agency effort, involving GOI, State Governments, Banking Institutions and GIC.

Experimental Crop Insurance Scheme (ECIS) 1997-98

As demanded by various states from time to time attempts were made to modify the existing CCIS. During 1997, a new scheme, namely Experimental Crop Insurance Scheme was introduced during Rabi 1997-98 season with the intention to cover even those small and marginal farmers who do not borrow from institutional sources. This scheme was implemented in 14 districts of five states. The Scheme provided 100 per cent subsidy on premium. The premium and claims were shared by Central and State Governments in 4:1 ratio.

National Agricultural Insurance Scheme (NAIS) 1999

The National Agricultural Insurance Scheme (NAIS) was introduced in the country from the rabi season of 1999-2000. Agricultural Insurance Company of India Ltd (AIC) which was incorporated in December, 2002, and started operating from April, 2003, took over the implementation of NAIS. This scheme is available to both loanees and non-loanees. It covers all food grains, oilseeds and annual horticultural / commercial crops for which past yield data are available for an adequate number of years. Among the annual commercial and horticultural crops, sugarcane, potato, cotton, ginger, onion, turmeric, chillies, coriander, cumin, jute, tapioca, banana and pineapple, are covered under the scheme. The scheme is operating on the basis of both area approach, for widespread calamities, and individual approach, for localized calamities such as hailstorm, landslide, cyclone and floods.

Agriculture insurance in India till recently concentrated only on crop sector and confined to compensate yield loss. Recently some other insurance schemes have also come into operation in the country which goes beyond yield loss and also cover the non- crop sector. These include Farm Income Insurance Scheme, Rainfall Insurance Scheme and Livestock Insurance Scheme.

Pilot Scheme on Seed Crop Insurance (PSSCI)

The Seed Crop Insurance Scheme was implemented on pilot basis during 1999-2000 and 2000-01 and the financial assistance was provided to the identified states i.e., Andhra Pradesh, Orissa, Gujrat, Haryana, Karnataka, Madhya Pradesh, Punjab, Rajasthan, U.P, Maharashtra for the implementation of the scheme. The major objectives of this scheme are:

a) Objectives

- To provide financial security and income stability to the seed growers in the event of failure of seed crop
- To build confidence in the minds of existing seed growers and stimulate participation of new growers to undertake seed production programme of newly released hybrid / improved varieties
- To provide stability to the infrastructure established by the State owned Seed Corporations / State Farms and
- To give a boost to the modern seed industry to bring it under scientific principles.

b) States, Areas and Crops to be covered

Breeder', 'Foundation' and ‘Certified’ seeds of the following crops in the following States will be covered. The identified States will opt for the crops to be covered from the list given in Table 1.

Table 1: States and Crops Covered under Pilot Scheme on Seed Crop Insurance

State	Crops
Andhra Pradesh	Paddy, Maize, Jowar, Bajra, Sunflower, Cotton, Groundnut, Red Gram
Gujarat	Bajra, Wheat, Gram, Cotton, Groundnut, Maize, Red Gram, Castor
Haryana	Paddy, Wheat, Gram, Red Gram, Cotton
Karnataka	Paddy, Maize, Jowar, Bajra, Sunflower, Cotton, Groundnut, Red Gram, Bengal Gram, Black Gram, Green Gram, Ragi.
Madhya Pradesh	Paddy, Wheat, Gram, Soyabean, Sunflower, Cotton, Red Gram, Mustard.
Maharashtra	Paddy, Jowar, Bajra, Wheat, Gram, Soyabean, Sunflower, Cotton, Groundnut, Red Gram, Green Gram, Black Gram.
Orissa	Paddy, Groundnut, Red Gram , Cotton
Punjab	Paddy, Wheat, Gram, Red Gram, Soyabean, Cotton.
Rajasthan	Wheat, Gram, Soyabean, Groundnut, Red Gram, Cotton, Bajra, Castor, Mustard.
Uttar Pradesh	Paddy, Wheat, Gram, Soyabean, Sunflower, Red Gram, Cotton, Potato, Pea, Mustard.

Only the Foundation and Certified Seed produce that is offered to State Seed Certification Agency (SSCA) for certification is eligible for coverage. In case of Breeder Seed, the coverage is subject to the production being carried out under the supervision of the concerned Monitoring Committee. For the purpose of insurance coverage, seed areas under jurisdiction of a sub-office / area-office of SSCA will be identified as a unit for determination of Average Yield and Sum Insured in respect of that unit area.

c) Risks Covered

The proposed Scheme seeks to provide protection against those risks, which are beyond control of the farmers. The following types of losses will be covered:

A. At Field Stage

A1. Failure of Seed Crop Field either in Full or in Part due to the Perils Indicated Below:

Risks of loss against natural fire, lightning, storm, hailstorm, cyclone, typhoon, tempest, hurricane, tornado, flood, inundation, landslides, drought, dry spells, excessive rain, large scale incidence of pests and diseases are covered. Damages due to frost would also be covered under the Scheme.

A2. Loss in Expected Raw Seed Yield

Following perils in addition to the perils mentioned under Para A1 above will be covered:

Prevalence of excessive rain, blowing of hot and / or cold wind, excessive hot weather during flowering or seed setting stage will be covered.

A3. Loss of Seed Crop after Harvest

Damage to the harvested seed crop due to operation of the above-mentioned perils whilst lying on the field until the crop is removed from the field for transportation to the processing plant will be covered under the Scheme.

B. At Seed Certification Stage

Losses due to seed lots having failed in 'Germination Test' due to operation of any of the insured perils mentioned in Para A1 and A2 above will be compensated. Failure in germination test due to any factor / reason other than the insured ones will not be covered.

d) Exclusions under Seed Crop Insurance

Physical damage / losses / rejection of field / seed on account of following reasons are excluded from the coverage:

i) Poor crop stand due to either defective planting material or unfavourable conditions prevailing during sowing period.
ii) Non-maintenance of prescribed isolation distance.

iii) Non-rouging at appropriate times and non-conformity of prescribed standards or non-compliance of any of the instructions of the Certification Agency.

iv) When seed crop production has not been taken up in ideal conditions with proper cultural practices.

v) Non-acceptance of crop due to non-synchronization of male and female plants.

vi) Lodging of seed crop and resulting loss in yield except for the insured perils.

vii) Loss or damage to seed crop affected by pests and/or diseases, which otherwise, would have been controlled by adopting adequate plant protection measures.

viii) Losses on account of Physical Purity, Genetic Purity, and admixtures of Other Distinguishable Varieties (ODV) or due to 'other' reasons not covered under the Scheme.

ix) Loss of seed crop / seeds at field stage / laboratory stage due to theft.

x) Losses to seed crop whilst in transit.

xi) Loss / damage due to operation of following perils directly or indirectly:

a) War, invasion, civil war, rebellion, conspiracy, persons acting maliciously.

b) Nuclear reaction, nuclear radiation or radioactive contamination.

xii) Loss or damage due to:

a) Willful negligence of the insured.

b) Human action, birds and animals.

e) Sum Insured

Sum Insured is equivalent to preceding three / five year's Average Seed Yield certified in respect of the identified unit area multiplied by 'Procurement Price' of the seed crop variety prevailing in the previous season by National Seed Corporation (NSC). The Sum Insured may be increased up to 150 per cent of the average processed, tagged certified Seed Yield. A producing agency opting for higher Sum Insured would be required to pay a correspondingly higher premium.

f) Salvage

All seed crops identified for coverage under the Scheme have salvage values. Salvage values will be calculated at a fixed percentage of Procurement Price (PP) as given below, which will be deducted from the claim amount before payment. Alternatively, the insurer will pay the full amount of compensation (i.e., before deduction of salvage) and will take over the possession of the salvage. The deduction of salvage will be applicable in case of losses in Germination test only.

Salvage Value under Seed Insurance Scheme

Crop	Salvage as per cent of Procurement Price	
	Hybrids	Other Varieties
Jowar and Bajra	30	60
Maize	40	60
Paddy, Wheat, Gram and Groundnut	40	60
Sunflower	30	60
Soyabean and Tur	40	50
Cotton	20	20

g) Loss Assessment Method

The certification agency officials, who periodically inspect the field, will intimate individual grower-wise, the details of damages / losses and rejection thereof to the seed producing organization and to the insurer. The insurer will arrange for surveying the loss and the compensation will be estimated and paid as per graded scale mentioned earlier. The first inspection of the seed crop will be done by the State Seed Certification Agencies within 45 days in case loss is reported by the seed grower, otherwise if the crop is normal, the State Seed Certification Agencies will work out the inspections as per their routine norms. The amount of claim will be proportionate to the area rejected.

Excess: 20 per cent of all admissible claims will be borne by the Insured.

Loss after Harvesting and until the Crop is ready for Transportation

Concerned seed producing organization / grower will intimate the loss soon after the incident of loss to the insurer giving all the detailed information. The Insurer will arrange or survey / loss assessment and the compensation will be estimated and paid.

Excess: 20 per cent of all admissible claims will be borne by the Insured.

Loss at Seed Certification Stage

Certification Agency and seed producing organization both will intimate

i) Sharing of Risk

Premium will go to the account of the Insurer, i.e., General Insurance Corporation of India. The Claims beyond 200 per cent of premium income will be to the insurer the individual farmer-wise Actual Quantity Rejected due to failure in germination test on account of natural calamity along with the laboratory test results. The maximum amount of claim will be the procurement value of the rejected quantity less salvage value as referred in Salvage value chart.

h) Premium Rate

Crop-wise premium at the following rates will be charged borne by the Government on a sunset basis - in the first year 100 per cent, in the second year 50 per cent and in the third year 25 per cent of losses beyond 200 per cent of the premium income might be met by the Central Government. From the fourth year onwards the General Insurance Corporation of India will meet the losses fully.

Premium Rates under Seed Insurance Scheme

Crop	Rate (per cent)	Crop	Rate (per cent)
1. Paddy	3.0	7. Wheat	2.0
2. Jowar	3.5	8. Bajra	5.0
3. Maize	5.0	9. Soyabean	5.0
4. Sunflower	2.5	10. Groundnut	2.0
5. Gram	5.0	11. Tur	5.0
6. Cotton	5.0		

i) Reinsurance

General Insurance Corporation of India will negotiate suitable reinsurance arrangement in the international market to cover the losses exceeding 100 per cent of premium income. In case the reinsurance arrangement also covers the Government of India's liability, the same will be adjusted while receiving the Government of India's share of claims liability.

2.7 Farm Income Insurance

The Farm Income Insurance Scheme was started on a pilot basis during 2003-04 to provide income protection to the farmers by integrating the mechanism of insuring yield as well as market risks. In this scheme the farmers' income is ensured by providing minimum guaranteed income.

2.8 Livestock Insurance

Livestock insurance is provided by public sector insurance companies and the insurance cover is available for almost all livestock species. Normally, an animal is insured up to 100 per cent of the market value. The premium is 4 per cent of the sum insured for general public and 2.25 per cent for Integrated Rural Development Programme (IRDP) beneficiaries. The government subsidizes premium for IRDP beneficiaries. Progress in livestock insurance, however, has been slow and poor.

2.9 Weather Based Crop Insurance / Rainfall Insurance

During the year 2003-04 the private sector came out with some insurance products in agriculture based on weather parameters. The insurance losses due to vagaries of weather, i.e. excess or deficit rainfall, aberrations in sunshine, temperature and humidity, etc. could be covered on the basis of weather index. If the actual index of a specific weather event is less than the threshold, the claim becomes payable as a percentage of deviation of actual index. One such product, namely Rainfall Insurance was developed by ICICI-Lombard General Insurance Company. This move was followed by IFFCO-Tokio General Insurance Company and by public sector Agricultural Insurance Company of India (AIC). Under the scheme, coverage for deviation in the rainfall index is extended and compensations for economic losses due to less or more than normal rainfall are paid.

ICICI Lombard, World Bank and the Social Initiatives Group (SIG) of ICICI Bank collaborated in the design and pilot testing of India's first index based weather insurance product in 2003-04. The pilot test covered 200 groundnut and castor farmers in the rain-fed district of Mahaboobnagar, Andhra Pradesh. The policy was linked to crop loans given to the farmers by BASIX Group, a NGO, and sold through its Krishna Bhima Samruddhi Area Bank. The weather insurance has also been experimented with 50 soya farmers in Madhya Pradesh through Pradan, an NGO, 600 acres of paddy crop in Aligarh through ICICI Banks agribusiness group along with the crop loans, and on oranges in Jhalawar district of Rajasthan.

Similarly, IFFCO-Tokio General Insurance (ITGI) also piloted rainfall insurance under the name - Baarish Bima during 2004-05 in Andhra Pradesh, Karnataka and Gujarat. Agricultural Insurance Company of India (AIC) introduced rainfall insurance (Varsha Bima) during 2004 South-West Monsoon period. Varsha Bima provided for five different options suiting varied requirements of farming community. These are (1) seasonal rainfall insurance based on aggregate rainfall from June to September, (2) sowing failure insurance based on rainfall between 15th June and 15th August, (3) rainfall distribution insurance with the weight assigned to different weeks between June and September, (4) agronomic index constructed based on water requirement of crops at different pheno-phases and (5) catastrophic option, covering extremely adverse deviations of 50 per cent and above in rainfall during the season. Varsha Bima was piloted in 20 rain gauge areas spread over Andhra Pradesh, Karnataka, Rajasthan and Uttar Pradesh in 2004-05.

Based on the experience of the pilot project, the scheme was fine-tuned and implemented as "Varsha Bima -2005" in about 130 districts across Andhra Pradesh, Chattisgarh, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Orissa, Tamil Nadu, Uttarakhand and Uttar Pradesh during Kharif 2005. On an average, 2 or 3 blocks /mandals / tehsils were covered under each India Meteorological Department (IMD) rain gauge stations. The scheme covered the major crops provided at least two coverage options namely, Seasonal Rainfall Insurance or Rainfall Distribution Index and Sowing Failure Insurance. Varsha Bima-2005 covered 1.25 lakh farmers with a premium income of Rs.3.17 crore against a sum insured of Rs.55.86 crore. Claims amounting to Rs.19.96 lakh were paid for the season. Further, during kharif 2006, the scheme was implemented as Varsha Bima-2006 in and around 150 districts/ rain gauge station areas covering 16 states across the country.

AGRICULTURAL COOPERATION-PHILOSOPHY AND PRINCIPLES. HISTORY OF INDIAN CO-OPERATIVE MOVEMENT, PRE-INDEPENDENCE AND POST INDEPENDENCE PERIODS, COOPERATION IN DIFFERENT PLAN PERIODS, COOPERATIVE CREDIT STRUCTURE-PACS, FSCS

Co-operation and Co-operative Credit

According to Calvert, “Co-operation is a specialized form of economic organization in which people voluntarily associate together on a basis of equality for the promotion of their common economic interests”.

A Co-operative Society is an enterprise formed and directed by an association of users, applying within itself, the rules of democracy, and directly intended to serve both its own members and the community as a whole - Lambert.

Principles of Co-operation

A co-operative society is a special type of business organization different from other forms of organization. The characteristics / principles of co-operative society are:

i) Open Membership / Universality

The membership of a Co-operative Society is open to all those who have a common interest, those who are convinced of its benefits and those who are prepared to share the benefits and responsibilities involved in such a membership. A minimum of ten members are required to form a cooperative society. The Co–operative Societies Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.

ii) Unity or Political and Religious Neutrality

Unity is the fundamental force behind all co-operative organizations. It is above all beliefs, faiths and convictions.

iii) Voluntary Association

Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.

iv)State Control

To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

v) Sources of Finance

In a co-operative society, capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.

vi) Democratic Management

Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.

vii) Service Motive / Limited Interest on Capital

The main aim of the society is not to earn abnormal profit but to enable the members to improve their economic conditions. If there is any excess income, it will be used to meet unforeseen loss or strengthening the funds of the society so that cheaper services may be made available to the members. Co-operatives are not formed to maximize profit like other forms of business organization. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.

viii) Separate Legal Entity

A Co-operative Society is registered under the Co-operative Societies Act. After registration a society becomes a separate legal entity, with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter into agreements with others and can purchase or sell properties in its own name.

ix) Distribution of Surplus

Every co-operative society in addition to providing services to its members, also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of members' participation in the business of the society. For example, in a consumer co-operative store only a small part of the profit is distributed to members as dividend on their shares; a major part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.

x) Self-help through Mutual Cooperation

Co-operative Societies thrive on the principle of mutual help. They are the organizations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of "Each for all and all for each". The members can fight exploitation and secure a place in society.

xi) Principles of Publicity

The co-operative organizations do not believe in maintaining secrecy about their working and progress.

xii) Members should have the spirit of dedication and service with absolute honesty and unquestionable integrity. Hence, co-operation is the movement of the people, for the people and by the people.

History of Co-operative Movement

Robert Owen (1771–1858) is considered the father of the cooperative movement. Owen believed in putting his workers in a good environment with access to education for themselves and their children. He put his ideas into effect successfully in the cotton mills of New Lanark, Scotland. It was here that the first co-operative store was opened.

The Famine Commission of 1901 recommended the establishment of Agricultural Banks on the lines of Mutual Credit Association of Europe to provide credit to farmers in order to prevent further famine and also to improve agriculture. A Committee under the presidentship of Sir Edward Law drafted a model bill to establish co – operative credit societies. The bill was passed as Co-operative Credit Societies Act on 25th March, l904.

Provisions were made in this Act to establish credit societies both in rural and urban areas for providing credit facilities at cheap rates to needy people of the locality. Rural societies were organized on 'Raiffeisen Model' while the urban societies were established on 'Schulze Delitzch Pattern'. In Raiffeisen Model, unlimited liability was an important feature while in Schulze Delitzch societies, limited liability principle was followed.

In the event of liquidation of limited liability societies, the liability of the members is limited to their share capital or it may be one to five times of the share capital as prescribed by the by-law of the society. The advantage is that members have confidence that their property is safe, even if the society is liquidated. In the event of liquidation of unlimited liability societies, the members lose not only their share capital but their other properties upto the extent of the loss of the society. The main advantages of unlimited liability are the mutual trust and watchfulness it creates among the members.

Realizing the defects noticed in the Co-operative Credit Society Act, 1904, that is, i) no provision for purposes other than credit, i.e., marketing and ii) unlimited liability, the Government passed Co-operative Societies Act, 1912.

According to this, a) non – credit societies can also be formed and b) the liability of the central societies (collection of primary societies) shall be limited and the liability of rural (primary) societies shall be unlimited. After 1912, there was a rapid growth not only in the number of co-operative credit societies but also in non - agricultural credit societies. However, the development was not even. It made rapid progress only in Bombay, Madras and Punjab (where agriculturists had mortgage rights) than in the Zamindhari areas like Bengal.

In 1914, the Government of India appointed a committee under Sir Edward Maclagan to examine the progress of the co-operative movement and to suggest measures for improvement. The defects noticed by the committee were:

a) Misappropriation of funds by the members of the management committee,
b) Nepotism in advancing loans to friends and relatives,
c) Improper auditing and inspection of societies.

The major recommendations were:

i) Formation of three classes of societies namely:
   a) primary meant for individuals and unions or federation of societies meant for supervision;
   b) Central bank at district level for banking business; and
   c) Provincial bank at the provincial 1evel to serve as apex banks.

ii) Restriction of area under primary society to a village, and

iii) Encouragement of non –credit societies through the financial support by central banks.

On passing of the Government of India Act in 1919 under the Montague Chelmsford Reforms, co-operation became the provincial subject and was administered by provincial governments. The economic prosperity between 1920 and 1929 facilitated rapid increase in the number of societies. However, due to the world wide Great Depression (1929-34) and the Second World War, the co-operative movement had a serious set back.

Progress of Co-operative Societies

Year	Number of Societies	Members (000's)	Amount of Working Capital (Rs. Crores)
1906-07	843	90.844	0.25
1911-12	8177	403.318	3.36
1914-15	17327	824.469	12.23
1921-22	52182	1974.290	31.12
1929-30	104187	4181.904	89.52
1939-40	137000	6080.000	107.10
1945-46	172000	9160.000	164.00

Many committees were appointed to study the progress of co-operative movement. In Madres, Madras Co-operative Societies Act, 1932 and the Madras Co-operative Land Mortgage Banks Act, 1934 were passed. While the 1932 Act conferred more power on the Registrar with regard to the recovery of bad debts, audit, supervision and control, the 1934 Act provided for long-term credit through co-operative land mortgage banks. The Madras Province appointed a Committee on Co-operation (1939) under T.Vijaya Raghavachary to study the conditions of the co-operative movement in the state. The committee suggested several amendments to 1932 Act.

The Reserve Bank of India was established in 1935 with an Agricultural Credit Department. The RBI conducted enquiries and advised the provincial governments to improve the working of credit societies. The Agricultural Finance Sub Committee (Prof. D.R.Gadgil Committee) set up in 1944, recommended that the state aid should be increased so that co-operatives might be enabled to supply better credit facilities. It also recommended for the adoption of limited liability to the co-operatives. It was also felt that the cooperatives would be strengthened through linking credit with marketing, setting up of processing plants by grant of liberal loans and subsidies, and training of expert staff.

In 1945, the Government of India appointed the Cooperative Planning Committee under the chairmanship of R.G. Saraiyya for drawing up a plan for future development of the co-operative movement. It recommended that the rural credit societies should function as multi-purpose societies so as to attend to all economic activities of the farmers. It paved the way to linking credit with marketing of agricultural produce.

Development of Co-operatives during Post Independence Period

The Rural Banking Enquiry committee (1949-50) recommended for the formation of Rural Co – operative Banks. The All India Rural Credit Survey (AIRCS) committee was appointed in 1951 under the chairmanship of A.D.G Gorwala. The committee brought to light some defects in the organizational, operational and structural aspects of the co-operative institutions and stated, “The co-operation in India has failed but it must succeed as there was no alternative to the co- operative form of association in the village for the promotion of agricultural credit development”. The committee recommended an Integrated Scheme of Rural Credit by involving three fundamental principles namely, i) State participation in co-operative institutions at different levels, ii) co-ordination of credit with other economic activities especially processing and marketing, and iii) administration through training and efficient personnel responsible to the needs of the rural population.

Under the provisions of the Agricultural Produce (Development and Ware housing) Corporation Act 1956, the National Co-operative Development and Ware Housing Board was established. The RBI had established the National Agricultural Credit (Long Term Operations) Fund in 1956 to provide long-term loans to the state governments for enabling them to contribute to the share capital of co-operative institutions. It also created National Agricultural Credit (Stabilization) Fund to enable the short term credit granted to the co-operatives to be converted into medium term loans in circumstances in which the co-operatives could not repay short term loans due to natural calamities.

The Committee on Co-operative Credit (1960) headed by Vaikunt Lal Metha recommended measures to secure a balance between economic viability and the co-operative ideology, liberalization of rules and procedures for disbursal of credit. It recommended big sized societies, granting short-term loans for landless people, linking credit with marketing, etc.

The Madras Full Finance Scheme Committee 1960 stressed that loan should be given to landless cultivators and tenants. It emphasized that the production and purpose-oriented credit should be purveyed to farmers.

An expert committee under Dr. Dantwala was appointed in 1964. It recommended that the primary marketing societies should take up both marketing and credit activities.

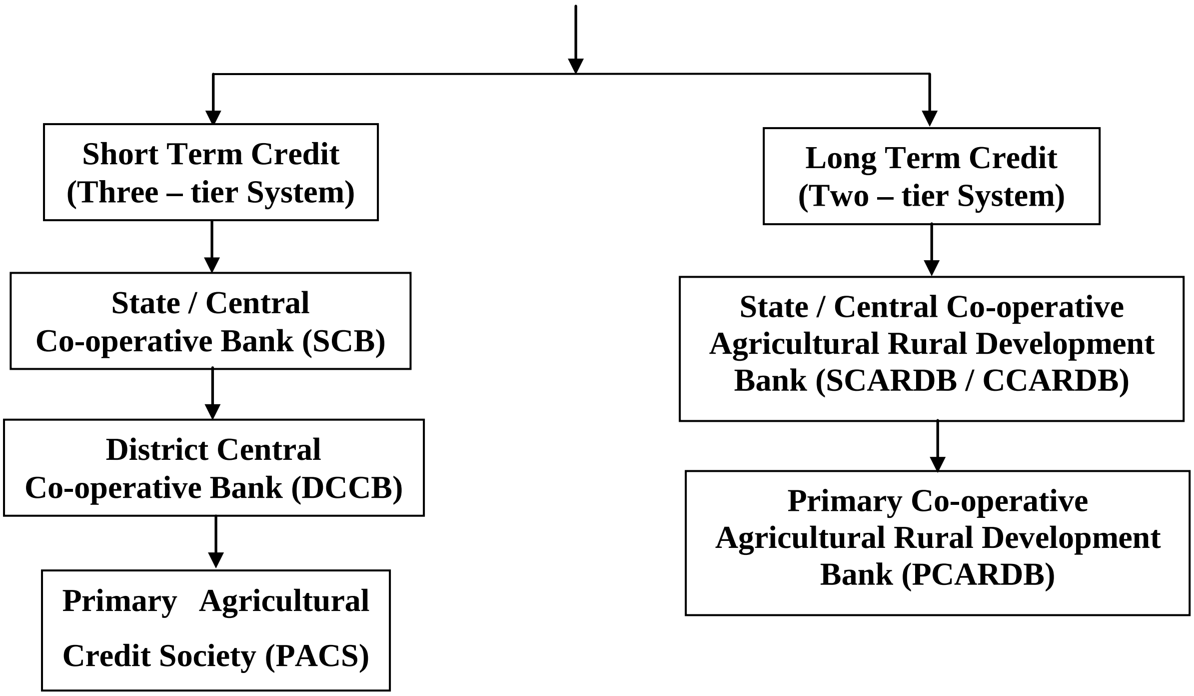
The All India Rural Credit Review Committee (AIRCRC) was appointed by the RBI under the chairmanship of B.Venkatappaiah in 1969 to review the progress of rural credit in the context of IV Five Year Plan. It warned that the lower rung of the rural community should be financed in terms of social justice and as per the recommendation of this committee, 45 Small Farmers' Development Agencies (SFDAs) were established in the selected districts. The committee recommended for the reorganization of primary societies into viable societies, rehabilitation of weak central co-operative banks, etc. Rural Electrification Corporation was also set up in 1969 to promote and finance the rural electricity co-operatives.

Co-operative Credit Institutions

The co-operative credit structure in India is characterized by two types of institutions: one, involved in the dispensation of short and medium term credit and the other in the provision of long term credit.

The Primary Agricultural Credit Society (PACS) / Primary Agricultural Co-operative Bank (PACB) is the foundation stone on which the whole co-operative credit structure is built up. These societies are federated to District Central Co-operative Bank (DCCB), generally at the district level. The DCCBs are federated to State Co-operative Bank (SCB) which is an apex institution at the state level having close link with the RBI and NABARD. Long term credit is provided by Land Development Banks (LDBs). The State / Central Land Development Bank (now renamed as State Co-operative Agricultural Rural Development Banks (SCARDBs) is the apex institution which operates through Primary Land Development Banks (PLDBs) (now renamed as Primary Co-operative Agricultural Rural Development Banks (PCARDBs) at district / taluk / block level in some states or through its own branches where PCARDBs do not exist.

Co-operative Agricultural Credit Structure



a) Primary Agricultural Credit Society (PACS)

The formation of these societies dates back to 1904 when the first Co-operative Credit Societies Act was passed. The objective was to provide cheap credit to the farmers in order to relieve them from the clutches of money lenders. Many PACS also undertake multiple activities like sale of fertilizers and other agricultural inputs and several act as distributors of ration items under the Public Distribution System (PDS).The main functions of the PACS are:

i) to promote economic interests of the members in accordance with the co-operative principles;
ii) to provide short and medium term loans;
iii) to promote savings habit among members;
iv) to supply agricultural inputs like fertilizers, seeds, insecticides and implements;
v) to provide marketing facilities for the sale of agricultural produces; and
vi) to supply domestic products requirements such as sugar, kerosene, etc.

Management

The general body elects a managing committee which consists of five to nine members and elects a President, Secretary and a Treasurer to look after the day – to – day functioning of the society. All the office bearers render honorary service. The RBI has given a directive to appoint a full time paid secretary to maintain the accounts for each society.

Membership

All agriculturists, agricultural labourers, artisans and small traders in the villages can become members of the society.

Share Capital

PACS issue ordinary shares of small value depending upon the particular society, i.e., Rs.10 and Rs.50 each to their members. The ownership of shares decides the rights and obligations of the holder to the society. Share capital forms an important part of the working capital. Members' borrowing capacities were determined by the number of shares held by them.

Liability

Initially, societies were formed with unlimited liability. The All India Rural Credit Review Committee pointed out that unlimited liability operates as a restraint on the willingness of the society to liberalize its loan policies, to admit new members and to extend its area of operation. Besides, it hinders the society to receive contribution from the state government whose liability inevitably has to be limited. In view of these reasons, the societies were formed with limited liability and the existing societies were converted into limited liability societies.

Sources of Funds

Share capital, entrance fee, deposits from members and non-members, reserve fund, and loans borrowed from higher institutions (Central cooperative Banks, Commercial Banks and government) and grants and subsidies from the government are the different sources of funds of the co-operative societies. PACSs obtain loans from DCCB or SCB to cater to the needs of their members. The maximum borrowing power of the society is based on its liability and it differs from state to state. It is generally fixed at $1/6^{th}$ or $1/8^{th}$ of the total value of the net assets of the solvent members. Credit limit is fixed by the Registrar of Cooperative Societies or DCCBs on the basis of the factors viz., total assets of the members, income and repaying capacity of members, owned funds of the society, audit classification and repayment performance.

Loaning Policies

PACSs supply short-term credit on the personal security of the borrowers, while medium term credit is given either by creating charge on their immovable assets or mortgages. Repayment period is determined on the basis of
incremental income derived out of the loan.

Progress of PACS

The percentage of villages covered by PACS in 1990-91 was 97 which would be positive sign. There have been ups and downs in the 'Number of PACS' due to liquidation of unviable PACS between 1950-51 and 1995-96. The 'Deposits' in PACS are considerably less than the 'Loan' taken by them from Central Banks and Central Financial Agencies (CFAs). Dependence of PACS on Government and Central Banks / CFAs loan on is viable.

The region progress made by PACS is given in the table below and it would reveal that Western region ranked first during 2008 in terms of the presence of number of PACS accounting for 31 per cent of the total number of PACS in India and it was followed by Eastern Region (19 per cent), Southern Region (16 per cent) and so on.. As regards the borrowing, Southern Region ranking first accounting for 42.3 per cent of the total loan amount outstanding and it was followed by Northern Region (21.0 per cent), Western Region (20.6 per cent) and so on. Thus, there is an imbalance in the growth of credit co-operatives in India. The percentage of overdues to demand at all India level was 35.7 per cent.

In order to reorganize and revitalize the non – viable credit co-operatives, the government took several measures which are discussed below:

Regulation of PACS

As a policy of reorganization of PACS into viable units, the number of societies had been brought from 1,61,000 in 1970-71 to 82,905 in 1990-91. The reorganization programmes envisaged the following aspects:

i) Minimum short-term loan of Rs.2 lakhs for a society to become a viable unit.
ii) Coverage of villages with a gross cropped area of 2000 ha to achieve this level of business.
iii) Appointment of a suitably trained full – time paid secretary to manage its affairs.

The National Bank has formulated a scheme known as instant fresh finance scheme during 1988-89 to issue timely fresh credit to those members of PACS who have repaid their early dues. This policy improvement should go a long way to build confidence of the members in their co-operative society as no member was allowed fresh loan irrespective of whether he has paid or not repaid the loan when the society as such was declared ineligible for fresh financing.

Select Indicators of Primary Agricultural Credit Societies – Region - wise (As at end-March 2008)

(Amount in Rs. Crores)

Regions	**Total No. of PACS**	**No. of Villages Covered by PACS**	**No.of Villages per PACS**	**Total No. of Borrowers**	**Total borrowings**	**Total Deposits**	**Total Loans & Advances Outstanding.**	**per cent of overdues to Demand**
Central Region	14,058 (14.81)	172,451 (26.59)	12	6805 (8.57)	3894 (8.14)	542 (2.13)	4345 (6.62)	45.02
Eastern Region	17,843 (18.79)	191,389 (29.51)	11	15513 (19.54)	4273 (8.93)	3496 (13.74)	5721 (8.71)	35.23
North-Eastern Region	3,511 (3.70)	34,222 (5.28)	10	316 (0.40)	432 (0.90)	130 (0.51)	528 (0.80)	49.88
Northern Region	15,337 (16.15)	116,325 (17.94)	8	5604 (7.05)	12033 (25.15)	3572 (14.04)	13761 (20.96)	36.08
Southern Region	14,850 (15.64)	78,104 (12.05)	5	18388 (23.16)	14331 (29.95)	17302 (67.98)	27793 (42.32)	26.07
Western Region	29,351 (30.91)	55,976 (8.63)	2	32782 (41.28)	12884 (26.93)	407 (1.60)	13519 (20.59)	44.87
ALL INDIA TOTAL	94,950 (100.00)	648,467 (100.00)	7	79408 (100.00)	47848 (100.00)	25449 (100.00)	65666 (100.00)	35.67

Figures in parentheses indicate percentage share in Total

Source: Performance of Primary Agricultural Credit Societies (April 1, 2007 to March 31, 2008), National Federation of State Cooperative Banks Ltd., Mumbai-400 703.

Task Force on Revival of Rural Cooperative Credit Institutions Chaired by Prof. A. Vaidyanathan

In August 2004, the Government of India set up a Task Force to suggest an action plan for reviving rural cooperative credit institutions and legal measures necessary for facilitating this process.

The Task Force, chaired by Prof. A. Vaidyanathan, has recommended that any financial restructuring without addressing the root causes of the weaknesses of the system would not result in its sustained revival. This would require legal measures for enabling cooperatives to evolve into democratic, self-governing and financially well-managed institutions.

The Vaidyanathan Committee has also suggested a model cooperative law that can be enacted by the state governments. In states, where there are already two laws, the old Cooperative Societies Act and the new Act on the lines of the Model Cooperatives Act, it would be better to gradually converge and have only one Act so as to reduce confusion and legal problems.

The major recommendations of the task force are as follows:

The revival package suggested by the Vaidyanathan Committee is a financial package for wiping off accumulated losses, covering invoked but unpaid guarantees given by State Governments, increasing the capital to a specified minimum level, retiring government share capital and technical assistance. It has also laid down the eligibility criteria for institutions, amongst which implementation of the recommendations for legal and institutional reform is an important condition.

i) Structural Changes in Primary Agricultural Co-operative Banks

The PACS should confine their activities only to rural credit and they should not get themselves involved in the non-credit activities like PDS, etc. Therefore, it is suggested that Primary Co-operative Marketing Societies may be promoted for running the fair price shops.

ii) Co-operation within co-operatives

The SHGs could be made members of the co-operative society. Each Primary Agricultural Cooperative Society shall be a conglomeration of self-help groups, as each SHG is a "Micro Co-operative Society" and this will ensure division of not only power but also an empowerment for the members.

iii) Single Window Lending

Long-term loans could be provided to the farmers by the District Central Co-operative Banks. This will enable the farmers to avail of all their credit needs from a single institution. TNCSARDB could be merged with the Tamil Nadu State Apex Co-operative Bank and PCARDBs could become branches of District Central Cooperative Banks.

iv) Member's' Accountability and Members' Participation

In the absence of members' participation, the Board of Management and the officials misuse their position and mismanage the affairs of the societies. The members should jointly work to derive the benefits from the society. To promote the members' interest and welfare, the committee suggested formation of sub-committees viz., Members' Grievances Committee, Loan Committee, Recovery and Relief Committee, Resources Management Committee and Elected Advisory Committee from the above subcommittees etc.,

v) Cooperatives will need assistance to computerize themselves and install sound accounting and monitoring systems to remain competitive.

vi) All PACS, which presently have a recovery rate of at least 50 per cent and whose gross margin covers at least 50 per cent of their establishment costs should be covered under the package. The DCCBs with positive net worth and those with negative net worth but with less than 25 per cent deposit erosion may be taken up under the package for revival. The same criteria will also apply to SCBs.

vii) All cooperative banks would be on par with the commercial banks as far as regulatory norms are concerned.

vii) State governments may issue Executive Orders to bring in the desired reforms relating to: (i) ensuring full voting membership rights on all users of financial services including depositors; and (ii) removing state intervention in administrative and financial matters in cooperatives.

The task force recommended a financial package of Rs. 14,839 crore for rural credit co-operative institutions. Based on the consensus arrived at with the state governments and other stakeholders on the recommendations made by the task force, the central government approved the revival package that involves financial assistance of Rs 13,596 crore.

NABARD has been designated as the implementing agency for the revival of the short-term cooperative credit scheme.

A Department for Cooperative Revival and Reforms has been set up in the head office of NABARD for facilitating the implementation process. For guiding and monitoring the implementation of the revival package, a National-Level Implementing and Monitoring Committee (NIMC) has been set up under the chairmanship of the governor of the RBI. The provision of financial assistance under the package has been linked to reforms in the cooperative sector. In order to avail financial assistance under the package, the state governments are required to sign a MoU with NABARD, committing to implement the legal, institutional and other reforms as envisaged in the revival package. So far, eight state governments, namely, Andhra Pradesh, Maharashtra, Gujarat, Rajasthan, Orissa, Madhya Pradesh, Uttar Pradesh and Uttrakhand have signed MoUs with the Government of India, and four other state governments, namely, Punjab, Bihar, Tamil Nadu and Sikkim, have conveyed their consent for participation in the revival package.

Progress of Cooperative Banks: A. Primary Agricultural Credit Societies in India (Amount in Rs.Crores)

Particulars	1950-51	1955-56	1960-61	1965-66	1970-71	1975-76	1980-81	1985-86	1990-91	1995-96	2000-01	2007-08
Number of societies	1,15,462	1,59,939	2,12,129	1,91,904	1,60,780	1,34,838	94,484	92,403	82,905	86,217	98,843	94,950
Membership (in million)	5.15	7.79	17.04	26.14	30.96	39.52	57.65	71.22	80.12	86.02	99.918	131.53
Share capital	8.40	16.80	57.75	115.32	205.74	N.A	757.95	N.A	1226.42	N.A	3883.52	6596.65
Deposits	4.48	7.05	14.59	34.49	69.46	113.31	291.34	571.98	1348.97	914.73	13481.07	25449.26
Borrowings	19.21	42.80	183.78	363.15	675.19	N.A	2957.42	N.A	7778.59	N.A	25889.66	47847.97
Working capital	40.95	79.10	273.92	546.56	1153.40	N.A	4036.03	N.A	11871.92	N.A	53867.47	88106.85
Loans issued	22.90	49.62	202.75	341.75	577.88	N.A	1769.41	N.A	4678.85	N.A	25698.31	57642.48
Loans outstanding	29.13	59.84	218.00	426.90	322.40	N.A	2450.64	N.A	6877.23	N.A	34522.33	65666.38
Percentage of Over dues to outstanding	21.90	25.00	20.32	29.37	41.10	N.A	44.32	N.A	45.65	N.A	34.90	35.67

N.A.: Not Available.

Source: Statistical Statements relating to Cooperative Movement in India, various years.

b) District Central Co-operative Banks (DCCBs)

CCB / DCCBs form an important link between PACS and SCBs.

Functions

The major functions of CCB / DCCBs are:

- to meet the credit requirements of member societies;
- to perform banking business;to act as balancing centres for the PACS by diverting the surplus funds of some societies to those which face shortage of funds;
- to guide and supervise the PACS; and
- to undertake non-credit activities.

The area of operation is generally a district. All types of co-operative societies such as marketing societies, consumers' societies, farming societies and urban co-operative credit societies apart from PACS can become member of CCB / DCCBs.

Sources of Finance

These banks raise funds by way of share capital, deposits from public, borrowings from SCBs, government, RBI, SBI and commercial banks. The borrowing power of these banks ranges from 12 to 15 times of their paid-up share capital and reserve fund.

Loaning Policy

These banks generally extend short and medium term loans to PACS for financing agricultural activities. Loans are granted against proper security, landed assets, house mortgage, cattle, agricultural produce, jewels etc.

The number of CCB / DCCBs has declined due to reorganization. Because of various reasons, the percentage of overdue has increased from 8.7 per cent in 1950 -51 to 43 per cent in 1990-91.

Progress of Cooperative Banks: B. Central Cooperative Banks (Amount in Rs.Crores)

Particulars	1950-51	1955-56	1960-61	1965-66	2000-01	2007-08
Number of Banks	505	478	390	346	370	372
Membership (in thousands)	207	300	388	362	1837.433	3396.881
Share capital	4.04	4.37	18.24	28.82	3015.78	5829.23
State Government Contribution towards	N.A.	N.A.	10.31	19.27	48812	1139.28

Share Capital						
Deposits	37.79	55.71	112.02	236.59	61813.20	105993.72
Borrowings	9.75	21.80	141.17	244.99	16566.68	30533.34
Working capital	56.37	92.66	304.05	583.52	89541.36	168137.52
Loans issued	82.84	79.83	354.38	771.66	55780.39	87229.09
Loans outstanding	34.14	54.34	220.03	437.72	50569.89	95974.23
Percentage of Over dues to outstanding	8.67	14.50	12.47	19.89	25.24	28.69

Management

The management of these banks is vested with Board of Directors consisting of 12 to 15 members. A DCCB is considered weak when its estimated bad and doubtful debts, other over dues above three years and accumulated losses exceed 50 percent of its paid-up capital and reserves. Rehabilitation programme is being implemented to revitalize such weak DCCB. As on June 30, 1988, as many as 176 DCCBs were identified as weak and put under rehabilitation programme.

c) State Co-operative Bank (SCB)

It is the apex institution at the state level which links widely scattered PACS with the money market, Reserve Bank of India and the Cooperative movement. The main objective of the bank is to link the widely scattered PACS with the money market and the RBI and to co-ordinate the work of CCB / DCCBs.

The Functions of SCBs are:

- to act as bankers' bank to DCCBs and to supervise, control and guide them;
- to mobilize financial resources needed by the PACS and deploy them properly among the various sectors of the movement;
- to co-ordinate the various development agencies and he1p the government in drawing plans for co-operative development and their implementation;
- to formulate and execute uniform credit policies for co-operative movement;
- to perform banking functions such as issuing cheques, drafts, letters of credit (by issuing letter of credit, a banker requests another party (a banker or trader) to grant a specified amount to a third party specified therein and the issuing banker himself binds to pay the money paid under the letter of credit), collecting and discounting bills, etc.

Progress of Cooperative Banks: C. State Cooperative Banks (Amount in Rs.Crores)

Particulars	**1950-51**	**1955-56**	**1960-61**	**1965-66**	**2000-01**	**2007-08**
Number of Banks	15	24	21	22	30	31
Membership (in thousands)	2 1	27	30	2 1	122.464	150.917
Share capital	1.58	4.37	18.24	28.82	697.11	1316.17
State Government Contribution towards Share Capital	N.A.	N.A.	6.46	9.86	64.87	152.86
Deposits	22.08	36.67	72.33	146.51	32612.95	56286.92
Borrowings	8.54	19.02	125.32	198.52	11983.35	21606.38
Working capital	34.42	63.34	221.65	389.98	52216.89	89850.76
Loans issued	42.12	67.86	258.20	474.22	33612.54	53313.76
Loans outstanding	17.90	34.77	166.69	307.93	25482.76	49101.43
Percentage of Over dues to outstanding	12.01	10.64	4.18	3.13	9.85	11.12

Area of Operation and Membership

Area of operation is within the state. Each state has one apex bank. Some States have more than one as in Maharashtra, Madhya Pradesh, Punjab and Andhra Pradesh.

Membership is open to all CCB / DCCBs and such other societies, which have direct dealings with SCBs and State Governments, have now become shareholders in order to strengthen and influence their borrowing power.

Management

While the main authority of SCBs is vested with the General Body, powers of day-to-day functioning rests with the Board of Directors. As a share holder, the government nominates some directors and the rests are selected by the General Body. The General Body meets once in a year.

Sources of Finance

The sources of these banks are share capital, reserve funds, deposits from members and non-members, borrowings from NABARD, SBI, State Government and direct state contributions. The ceiling on borrowing varies from 12 to 20 times of the owned funds.

Loaning Policies

SCBs provide short-term loans to meet expenses of agricultural operations, marketing of agricultural produces and distribution of controlled commodities. They grant medium term loans for the purchase of cattle, machineries, reclamation of land, renovation of wells, tanks and channels, construction of farm sheds and godowns, etc. Loans are granted to the member societies through their branches.

Land Development Banks

The advent of new innovations in agricultural technology, increasing demand for food with population explosion, profitability in commercial agriculture, attractive price for exportable agricultural commodities, etc., made the farmers to realize that agriculture could also be taken up as an industry by effecting improvement on land for increasing its production potential through more capital investment, which led to the raising demand for long term credit. Farmers required larger amount to acquire durable farm assets such as machineries and livestock and undertake permanent land improvements, construction of wells, buildings, erection of pump – sets, redemption of old debts, etc. Since the amount is large, it is difficult for them to repay the loan amount in lump sum. The amount has to be repaid in installments and distributed to a longer period of even 20 years.

Reasons for the Establishment of LDBS

- A bulk of the credit was extended by non-institutional agencies like money lenders at higher rate of interest. Therefore, indebtedness of farmers was so acute that it did not allow them to receive long-term credit.
- The organizational structure of the PACS and its lack of expertise in scrutinizing or appraising the securities and long-term credit proposals did not permit them to deploy long-term credit.
- Commercial banks could not dispense long-term credit because of the short-term nature of their deposits.
- The government was not considered as an ideal agency for extending long-term credit as stated by the AIRCSC (1951).

Hence, the need for special type of credit institutions to meet the long-term credit demand for farmers had arisen. The first Co-operative Land Mortgage Bank was set up at Jhang in Punjab in 1920. In 1924, the first land mortgage bank was registered in Bengal at Naogaon. These banks however, could not achieve success due to mounting over dues, malpractices, etc. The real beginning in land mortgage banking in India was made when Central Land Mortgage Bank was set up in Madras in 1929.

During 1920-29, land mortgage banks were established under the Co-operative Societies Act in Punjab, Mysore, Bombay, Assam and Bengal. The Agricultural Finance Sub Committee (1945) observed, "Co-operative Land Mortgage Banks in India have so far been advancing loans almost exclusively for the redemption of old debts. It should not, however, be forgotten that the main object of land mortgage banking is to finance land improvement." The AIRCSC (1954) recommended the establishment of a Central Land Mortgage Bank (CLMB) in each state at the apex level and for strengthening of the Primary Land Mortgage Banks (PLMB) at the district level. During the third plan period, the LMBs received massive support from institutional agencies like RBI, SBI, LIC and Agricultural Refinance Corporation. The LMBs reoriented their loan policies towards providing loans for productive purposes and attention was paid to agricultural development and hence, their name was changed to "Land Development Banks (LDBs)'.

Objectives

The main objective of the Land Development Bank is to promote the development of agriculture and increase the agricultural production.

Organizational Structure

The long-term co-operative credit structure is not uniform throughout the country. The structural pattern of LDBs falls into one of the following four categories:

- Federal type with the Central Land Development Bank at the top and the Primary Land Development Bank at the base. This pattern is adopted in Andhra Pradesh, Assam, Haryana, Kerala, Karnataka, Punjab, Rajasthan, Tamil Nadu and West Bengal.
- The Central Land Development Bank advances loans directly to farmers through branches.
- This pattern prevails in Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh.
- The CLDBs operating through branches as well as PLDBS.
- The CLDBs operates through separate departments of DCCBs of the area.

Area of Operation

`The area of operation of PLDBs shows very wide variation and it ranges from a taluk to a whole district. It was estimated by the Working Group for Formulation of Fourth Five Year Plan Proposals on Co-operation that a Primary Land Development Bank to be an economically viable unit, should handle, a minimum business of Rs.20 lakhs a year with a margin of 1.25 per cent, employing requisite staff for the purpose.

Membership

In PLDBS, all land owners are eligible to become members and borrow funds by mortgaging their land. The principal borrower is enrolled as 'A' class members and others who have interest in the mortgaged property are admitted as B class members. The members of SLDBs are the PLDBs and a few industrial promoters.

Management

The management of the SLDB is vested in a Board of Directors consisting of 7 to 9 members. The Government nominates 2 to 3 directors in some states. The State / Central LDB nominates the directors in some states.

Progress of Cooperative Land Mortgage Banks: A. State / Central Cooperative Agricultural and Rural Development Banks

(Amount in Rs.Crores)

PARTICULARS	1950-51	1955-56	1960-61	1965-66	1975-76	1980-81	1985-86	1990-91	1995-96	2000-01	2007-08
Number of banks	5	9	18	18	19	19	19	19	19	20	20
Membership (In Thousands)	10	91	187	403	3,018	2,65 2	3,314	3,646	4,793	N.A	N.A
Owned funds	65	132	544	1,804	134.32	279.63	434.02	651.64	1235.55	3,034	3,713
Deposits and other borrowings	32	226	563	1,018	1292.50	1936.00	2771.28	4192.55	7215.71	13,949	16,488
Debentures outstanding	675	1,494	3,654	17,837	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Working capital	772	1,853	4,760	20,659	N.A	N.A	N.A	N.A	N.A	16,896	N.A
Fresh advances	133	283	1,162	5,641	183.84	308.55	462.33	742.64	1574.78	2,586	2,226
Recoveries	46	137	303	1,100	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Loans outstanding	598	1,308	3,661	16,326	992.54	1534.86	2411.24	3899.21	6816.39	12,553	18,217
Percentage of over dues to outstanding	0.17	8.79	3.33	1.87	36	39	32	50	33	58	34.5

Progress of Cooperative Land Mortgage Banks: B. Primary Cooperative Agricultural and Rural Development Banks (Amount in Rs.Crores)

Particulars	1950-51	1955-56	1960-61	1965-66	1975-76	1980-81	1985-86	1990-91	1995-96	2000-01	2007-08
Number of Banks	286	302	463	673	872	896	889	711	757	732	697
Membership (in thousands)	215	314	669	1,048	4,419	6,205	8,400	7,483	5,353	N.A	N.A
Owned funds	69	103	246	1,273	58.15	132.75	205.37	256.75	339.88	1,628	3,039
Deposits and other borrowings	588	1,012	2,453	12,420	520.69	873.18	1455.57	1857.58	2749.92	8,504	10,537
Working capital	666	1,135	2,699	13,693	N.A	N.A	N.A	N.A	N.A	10,838	N.A
Fresh advances	129	174	717	4,122	111.18	205.78	325.02	344.15	651.49	1,865	1,773
Recoveries	46	80	173	999	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Loans outstanding	626	1,051	2,466	12,433	518.10	891.06	1504.11	1879.75	2708.58	8,295	9,529
Percentage of Over dues to outstanding	1.28	2.28	2.60	3.56	30	51	45	69	48	53	53.7

Source: statistical statements relating to cooperative movement in India, various years.

The Bank and Cooperative Credit, rbidocs.rbi.org.in/rdocs/content/PDFs/90026.pdf.

The State / Central LDB nominates one director of PLDB. The members of the Board work for three years. The General Body is the ultimate authority in all matters relating to administration of bank. In each SLDB, there is an in executive committee, consisting of about 9 members of whom the President, Vice President, the nominee of the Apex Co-operative Bank and the Registrar of Cooperative Societies (RCS) are the ex-officio members. The rest are elected by the Board of Directors from among them. The administration of the bank is vested with directors in the executive committee. It has powers to admit members, sanction loans, make investments, borrow funds and approve transfer of shares and debentures. The management of PLDBs is vested in an elected Board of Directors consisting of 9 to 12 directors.

Sources of Finance

The PLDBs obtain their finance from:

- Share Capital
- Loans from CLDBs / SLDBs
- Admission and Other fees
- Grants and Subsidies from the Government
- Borrowing from other agencies.

The SLDBs get their finance from:

- Share capital
- Issue of debentures (Debenture is a bond which conveys and acknowledges the receipt
- of debt and also indicates the payment of principal along with interest).
- Loans from the State Bank of India and other commercial banks on the guarantee of the
- State Government
- Admission and other fees
- Grants and subsidies
- Deposits

The PLDBs raise their share capital by issuing shares to the members in certain proportion to their borrowings from the bank. The ratio of share capital to the borrowed amount varies from 5 to 10 per cent (Maharastra). The CLDBs raise their finance through issue of ordinary rural and special development debenture. A debenture is a long-term loan issued by

SLDBs, carrying fixed interest rate for a fixed period, generally upto 20 years. The ordinary rural debentures are issued to the general public institutions and individuals. These are treated as trustee securities and are guaranteed by the state government. They are subscribed by the RBI, SB1, cooperative banks, commercial banks and LIC. Rural debentures are issued to raise funds for sanctioning loans to agriculturists for productive purpose. Special debentures are floated for providing finance to the agriculturists under special agricultural development or land development programmes.

Lending programme of LDBs

The CLDBs grant long-term loans to agriculturists through PLDBs and branches of CLDBs. The CLDBs were advised to ensure that at least to 90 per cent of the loans issued by them during 1982-83 were for increasing agricultural production, not less than 75 per cent being devoted for easily identifiable productive purposes. SLDBs were further required to ensure that at least 20 per cent of the loans granted under normal lending programme were for the benefit of small farmers and weaker sections of society.

The main function of CARDBs is to grant loans on the security of agricultural properties. Primary Land Development Bank gets applications, scrutinizes them and sends them to Central Land Development Bank. The person of the Central Land Development Bank visits the land of the applicant, determines its value and examines all other aspects and finally sanctions the loan amount. In assessing the land value such factors as the amount of land tax paid, the rental value of land, gross and net income from land, sale value of land, etc., are taken into account. The applicant obtains the loan amount from the PLDB.

Although the main purpose for which the Long Term Cooperative Credit Structure (LTCCS) was established was land development (e.g., land leveling, minor irrigation, etc.), it no longer forms a major purpose in the loan mix of these institutions and loans issued for such purposes form an insignificant component. However, every time a loan is issued for plantation and horticulture activities, about 20 per cent of the overall cost is primarily for land development measures. Investments in minor irrigation also improve the overall productivity of land and hence can be construed as land development. While significant growth was witnessed in animal husbandry and farm mechanization loans, there was a drastic fall in the proportion of loans for minor irrigation. Even though new purposes like housing and fisheries did open up, their magnitudes were negligible.

Rehabilitation of SLDBs / PLDBs

With a view to improve the organizational and managerial efficiency of some weak SLDBs, several measures were initiated. Based on the suggestions of the Standing Committee on Term Lending through Co-operatives (COTELCOOP), the following measures were initiated.

i) In view of the emphasis on the viability of the primary units, the SLDBs were advised to evaluate the performance of primary units every year in September-October.
ii) LDBs were advised to undertake a classification overdues / defaulters.
iii) LDBs were asked to maintain beneficiary wise profile stating details such as status of borrower, repayment and reasons for default.

The most undesirable feature of "eligibility criteria" is that under this discipline, the new and potential borrowers of the credit agencies are penalized due to mounting over dues of previous borrowers and the deficiencies of the credit agencies. A recent study by RBI, i.e. Report of the Agricultural Credit Review Committee had a review of the agricultural credit system in India and it has suggested the replacement of eligibility criterion by 'viability criteria' supported by institutional reinforcement'. Under this scheme, all units of PLDBs which are solvent (owned funds are not wiped out by their losses) will be eligible for unrestricted finance from NABARD which put such institutions under the Programme of Institutional Reinforcement (IR) aimed at making them viable.

The Long Term Co-operative Credit Structure (LTCCS) was next reviewed by two other Committees, one chaired by Shri K. Madhava Das (Committee on Cooperative Land Development Banks) in 1974 and the second by Dr. R. K. Hazari (Committee on Integration of Cooperative Credit Institutions) in 1975. The Madhava Das committee, while endorsing diversification of lending operations of the LDBs to cover a broader range of productive activities in agriculture, emphasized the need for greater coordination with the short term structure and the line departments of state governments. This led to the renaming of the structure from LDBs to Agriculture and Rural Development Banks (ARDBs).

The Committee suggested special arrangements for providing LT credit in smaller states and states with relatively less developed cooperative credit societies. In smaller states, it recommended that instead of creating a separate LT structure, the existing ST structure be encouraged to provide long term credit. In states with poorly developed cooperatives (especially Assam, J& K, Tripura and West Bengal), it recommended integration of the ST and LT structures. The Hazari Committee also examined the viability of PCARDBs and suggested that a PCARDB should have a minimum loan business of Rs.35 lakh to be viable. The Committee did not agree with the recommendation of the AIRCRC that PACS should provide LT loans as agents of PCARDB. It felt that farming had become complex and modern technological methods had led to demand for investment credit for various purposes that the PACS would not be able to handle.

The Committee attributed the high level of overdues in the LT structure, which had grown from 11 per cent in 1969 to 45 per cent in 1973, to defective loaning policies. It said the overdues were an outcome of willful default, large-scale misuse of loans, ineffective field supervision and lack of concerted efforts and will on the part of banks' board of directors and staff to recover loans. It also observed that overdues were concentrated in loans extended to the bigger cultivators, with land of more than 10 acres. These features persist even today.

The Hazari Committee (1975) noted the increasing role of commercial banks in financing agriculture directly and indirectly through PACS. It emphasized the need for increasing the role of commercial banks and RRBs in financing agriculture, especially because of their ability to provide both ST and LT credit.

Task Force on Revival of Rural Cooperative Credit Institutions (Long Term)

The Task Force which had submitted its report on revival of the short term cooperative credit structure to the Government of India (GoI) was asked in January 2005 to also suggest an implementable action plan for reviving the cooperative agriculture and rural development banks and a comprehensive strategy for institutional financing of long term investments for agricultural and rural development.

The ground level recovery performance in the system is generally poor with five out of 10 states with the federal structure showing recovery of less than 50 per cent at the primary level while six out of 8 states with the unitary structure showed recovery of less than 50 per cent.

The Task Force therefore recommends that the approach for financial restructuring should ensure the functioning of institutions as democratic, self governing and self reliant institutions by appropriate amendments in the legal framework and governance and management of LTCCS.

Recommendations

The key recommendations of the Task Force on institutional restructuring are as follows:

- allow PCARDBs to access all types of deposits from members
- allow PCARDBs to provide all types of loans to its members
- allow PCARDBs to borrow from any regulated financial institution including federal units of the STCCS
- all state equity in the LT CCS maybe retired
- convert branches of unitary SCARDB into autonomous PCARDBs
- allow SCARDBs to mobilize public deposits under suitable regulatory and supervisory arrangements
- allow PCARDBs to affiliate themselves with an upper tier of their choice
- the SCARDB should join hands with the SCB in its state and set up a support service unit on mutually acceptable terms to provide such services to lower tiers in both the structures
- CRAR of minimum 7 per cent be stipulated, to be increased to 12 per cent in 5 years
- As no unit under the LTCCS is a bank under the Banking Regulations (BR) Act, the use of the word "bank" or its derivatives may be prohibited.

Large-Sized Adivasi Multi-Purpose Co-operative Societies (LAMPS)

LAMPS have been set up on the recommendations of the study team (Committee on Cooperative Structure in Tribal Areas) under the Chairmanship of Shri. Bawa appointed by the government of India in 1971. These societies operate mainly in hill and tribal areas.

The objectives of LAMPS are:

- to provide all types of credit, including those for meeting social obligations and consumer requisites under single roof;
- to provide technical guidance in the intensification and modernization of agriculture;
- to supply of inputs and essential commodities; and
- to arrange for the marketing of agricultural and minor forest products besides the

products of the subsidiary occupations of the tribals.

Members

It is formed in a compact area of having population of 10,000 approximately and the majority of whom should be tribals. Membership restriction is there, i.e., 70 per cent of the members should be tribals and 30 per cent of the members may be non-tribals.

Sources o f Finance

Borrowings from commercial banks, share capital, and government contributions are sources of finance to LAMPS.

Board of Management

The management is vested with managing committee which is composed of three government nominated directors, nine tribal and non tribal elected directors.

Performance

LAMPS in tribal areas provide concessional finance to tribals, which include short term, medium term and consumption loan to carry on their agricultural operations, allied activities and to meet other social purposes respectively at a concessional rate of 4 per cent per annum (Gursharan Singh Kainth, India's Rural Cooperatives, books.google.co.in).

There were 2646 LAMPS as on 30 June 1991 with Madhya Pradesh (1073), Bihar (474), Maharashtra (290) and Orissa (223) together accounting for 77.85 per cent of the total. Total members of these societies were 39.31 lakh of which 29.86 lakhs were Scheduled Castes and Scheduled Tribes. The paid up share capital stood at Rs. 30.70 crores and the working capital was Rs. 453.55 crores. Over dues of LAMPS stood at Rs. 163.61 crores which formed 65.20 per cent of their demand. The non-credit business of these societies restricted to marketing of products and distribution of farm requisites and consumer goods.

The Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) observed constraints, which staggered the growth of LAMPS. They are:

- Lack of aggressive investment lending;
- Non availability of trained and experienced personnel for manning executive positions;

- Unhealthy competition from private traders;
- Absence of effective marketing organization and market intelligence, lack of infrastructural arrangement for storage and transportation; and Inadequate agency commission to the societies for distribution activities.

Farmers' Service Society (FSS)

By early 1970s, it was found that the multi-purpose PACS had not succeeded much in diversifying their operations, especially commodity marketing and processing, in reaching the weaker sections and in becoming viable. They mostly under the control of the better-off sections of the society and the small and marginal farmers were not able to get access to the society or its services. The societies were not able to provide a variety of services like funding infrastructural development such as godowns and agro-service centre as well as providing finances for processing industries in their localities other than credit, and supply of inputs. Hence, based on the recommendation of National Commission on Agriculture, the scheme of setting up FSS to cater to the credit and non-credit needs of farmers at a single point was launched in 1973.

A Group constituted by the Union Cabinet in July 1974 under the leadership of T.A. Pai recommended the organization of FSS to meet the credit needs of rural area. The study Team head by T.A.Pai recommended the setting up of 'Farmers Service Co-operatives'. FSS has been evolved to change the power structure in favour of weaker sections in rural areas and at the same time it will strengthen the co-operative movement through adoption of commercial banking principles in the management of its finances.

Objectives

The main objective of FSS is to provide all types of credit and full package of services and technical guidance to farmers particularly small farmers, for enhancing production, and for diversification of activities on the farm in an integrated manner and at one contact point.

FSS and PACS

Farmers' Service Societies (FSS) would have the following features:

- FSS unlike PACS will have a compact area of operations in 10-20 villages (instead of 5-8

- villages for PACS) with a potential of reaching a business of Rs.2.5 to Rs.3 million (instead of
- Rs.0.2 million for PACS) in 3 to 5 years.
- FSS unlike PACS will have branches and such FSS may even reach a business of Rs.10 million
- in 5 to 7 years.
- FSS will have an overall strategy of agro-based development to utilize land and manpower.
- FSS membership will be more oriented to the hitherto neglected weaker sections of the rural
- population.
- FSS management will also be represented by this section.
- FSS will undertake both credit and non-credit (including agro-processing) operations.
- FSS will be a self-paying proposition in the sense that it will meet all its costs within
- reasonable period of time.
- FSS like PACS will be an integral part of a three - tiered cooperative credit organization when
- sponsored by state cooperative banks.
- FSS will be a cooperative organization even when it is sponsored by the commercial banks.
- FSS will have adequate and properly trained managerial and technical personnel.
- FSS as compared to PACS have the following three distinct features:

(a) they are much larger sized field level Rural Financial Institutions (RFIs),

(b) they have wider scope of operations, and

(c) their membership and management are relatively more from the weaker sections.

Some more specific features of these two cooperatives are given in Table below.

Major Features of PACS and FSS

Features	PACS	FSS
Area of coverage	Generally, a small area of not less than 2,000 hectares of cropped area.	It serves an area covering 10 Kms or area of operation extending up to a block or population of 10,000.
Type of beneficiaries	All types of farmers	All farmers and other households including rural artisans, agricultural

		labourers, etc.
Nature of credit business	Short-term crop loans and medium term loans for agricultural and allied activities	Multi-term and multi-purpose credit. It will carry out an agro-economic survey of the area under its jurisdiction to find out the economic situation of the members and accordingly prepare a credit plan for the overall development of the area.
Nature of non-credit business	Supply of farm inputs, marketing and processing, and distribution of essential commodities, etc.	Package of services. Besides providing loans (cash and kind) for agricultural and allied activities, FSS provide necessary technical assistance to its members for the development of agriculture.
Management	a) Full-time paid secretary	a) Whole-time managing director and functional specialists
	b) Board of Directors consisting of 11 members of whom not less than 50 per cent shall represent weaker sections	b) Board of Directors consisting of 11 members of whom 5 shall be representatives of weaker sections and 2 shall be elected among other members besides 2 nominees of the Registrar of Cooperative Societies, 1 nominee of the financing bank and the managing director, ex-officio.

Performance Criteria

From the preceding discussion, it appears that four organizational principles have been followed in promoting FSS. These are: (a) vertically integrated organizational structure from local to regional to state / national level (also applicable to PACS to some extent), (b) higher density of field-offices of FSS, (c) larger coverage of clients with specific focus on the weaker sections, and (d) multi-functional structure of operations which are horizontally integrated (also applicable to PACS to some extent).

A study undertaken by RBI in 1980 on the working of FSS revealed that:

- A number of PACS co-existed in the jurisdiction of FSS and resulted in overlap in jurisdiction.
- Large cultivators continue to wield influence over FSS management.
- The nominees of state government and the sponsor banks did not show much interest in the functioning of FSS.
- Many FSS were functioning without technical staff.
- Many of the FSS did not arrange for the marketing of farm produce.
- They performed limited non-credit functions related to supply of farm inputs and distribution of consumer goods.

Performance

There were 2410 FSS in India as on 30th June, 1991 with a total membership of 67.74 lakhs of which weaker section constituted 83.54 per cent. The paid-up share capital was Rs.97.79 crores of which Rs.17.79 crores was contributed by the State Government. The FSS issued loans to the tune of Rs.252.68 crores. The overdue was 40.86 per cent of their demand.

National Cooperative Development Corporation (NCDC)

The National Cooperative Development Corporation (NCDC) was established by an Act of Parliament in 1963 as a statutory Corporation under the Ministry of Agriculture.

Functions

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilizers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfillment of stipulated conditions.

National Cooperative Union of India (NCUI)

The Origin

The National Cooperative Union of India (NCUI), the apex organization of the Indian Cooperative Movement, can trace back its origin in 1929 when All India Provincial Cooperative Institutes' Association came into being with Shri Lallubhai Samal Das Mehta as its first President. Having been reorganized as Indian Cooperative Union, it was renamed later as All India Cooperative Union in 1954 and re-christened as National Cooperative Union of India in 1961.

Objectives

- Promote and develop the cooperative movement in India.
- To educate, guide and assist the people in their efforts to build up and expand the cooperative sector.
- To serve as an exponent of cooperative opinion in accordance with cooperative principles.

Functions

In furtherance of these objects, the Union undertakes the following functions:

i) Organize cooperative education and training programmes and popularize the principles and practices of cooperation.

ii) Develop inter-cooperative relations and help the coordinated functioning of the cooperative movement in various sectors.

iii) Organize, conduct, collaborate and assist in carrying out research, investigation of cooperative problems and formulation of projects for cooperative development.

iv) Arrange for the production and publication of literature and audio-visual and other aids including films, filmstrips on cooperation and allied subjects.

v) Give publicity to the achievements of cooperatives through periodicals, journals, newspapers, pamphlets, brochures, books, films, broadcasts, T.V and the like for creating favourable atmosphere for the development of the cooperative movement.

vi) Maintain an information bureau and a library.

vii) Express opinion on matters of cooperative Policy and act as the accredited representative of the Indian Cooperative Movement in the national and international spheres.

viii) Convene and hold the National Cooperative Congress and cooperative seminars, meetings, conferences, exhibitions etc

ix) Select delegates, representatives and observers on behalf of the Union for participation in the international, national and state conferences.

x) Facilitate the promotion of cooperative institutions and assist the member societies in resolving their problems and difficulties and formulation of programmes and their implementation while preserve and safeguard the democratic character of the cooperative movement in the country.

xi) Confer honour on the eminent co-operators.

xii) Acquire, hire, purchase, own or dispose off immovable property by way of sale, lease or otherwise for the furtherance of objects of the Union.

xiii) Promote international cooperative relations through active collaboration with ICA, UNO, FAO, ILO, UNDP, UNIDO and other international agencies involved in cooperative development.

xiv) Establish effective liaison and relations with ICA member-organizations and national cooperative organizations of other countries.

xv) Help, promote international marketing on cooperative to cooperative basis by documenting necessary information and to act as nodal agency for the benefit
of Indian Cooperative Movement.

xvi) Provide consultancy services to the cooperatives.

xvii) Undertake such economic activities, directly or through strategically collaborative joint ventures or partnerships with cooperatives and other organizations including insurance business as may be considered necessary for consolidation of financial position of NCUI or for furtherance of any or all of the above stated objects.

xviii) Undertake such activities or functions as are considered incidental or conducive to the attainment of the objects of the Union.

Achievements of Co-operative Credit Societies in India

The Co-operative credit system has been in existence for the past 100 years. The best assessment of co-operative movement was given by the All India Rural Credit Survey Committee, 1954 (i.e., exactly after 50 years of co-operative movements' existence) which stated "Co-operation has failed in India but it must succeed....". But since 1954, the co-operative movement has made great progress. Some of its achievements are listed below:

i) The co-operative credit societies satisfy the basic condition of proximity as they can have intimate knowledge on the character and abilities of their members. Further, the credit provided by co-operative societies is bound to be cheap due to their low administrative costs.

ii) In 1951, the money lenders provided 69.7 per cent of the farmers' credit needs and it declined to 29.6 per cent in 2002. Presently, the rural credit system is being dominated by co-operatives as they increased their share from 3.1 percent in 1951 to 27.3 per cent in 2002.

iii) Co-operatives had led to the use of better farming methods, such as the use of improved seeds, fertilizers, etc.

iv) Credit societies also provide non-credit services like storage, processing and marketing of farm produces and supply of consumer goods.

v) Co-operatives have created a political awareness among rural people and made them to participate in economic development in a democratic way.

Weaknesses of Co-operative Credit Societies

There are some important snags and deficiencies in the working of co-operative credit societies and they have failed to acquire the dynamism needed to discharge their responsibilities. The All India Rural Credit Survey committee and other Committees on Co-operatives have brought out the following deficiencies in the co-operative credit societies.

(i) Lack of spontaneity

The movement was not voluntary and the people did not come forward to form societies to satisfy their economic needs. The villagers generally thought that the societies were government-lending institutions.

(ii) Lack of funds

The basic feature of co-operative banking system must be a large reliance on resources mobilized locally and a lesser and lesser dependence on higher credit institutions. However, not only PACS but also the higher credit institutions, viz., DCCBs and SCBs could not attract as much deposits from the general public as was anticipated.

(iii) Loans for productive purpose only

Co-operatives give loans only for agricultural operations. However, farmers need credit for consumption purpose also. Hence, they either depend on money lenders or they divert the production loans to meet unproductive purposes which in turn lead to overdue problem.

(iv) Production credit only

The Co-operatives have failed to appreciate the link between credit and processing and marketing. What is really needed is a co-operative society which would integrate various aspects of agricultural operations in order to meet all the needs of the farmers.

(v) Non-viable Units

A viable unit is one which renders the more important services adequately to as many members as possible within a reasonable time. According to NAFSCOB estimates, 62 per cent of the PACS in the country are viable, 30 per cent are potentially viable and eight per cent are either dormant, defunct or under liquidation during 2007-08.

(vi) Uneven growth

The development of co-operative movement indicated that the progress in different parts of the country has been uneven. In 2007-08, Maharashtra ranked first in terms of number of PACS (22.3 per cent of total number of PACS in India) followed by Uttar Pradesh (9.4 per cent), West Bengal (8.5 per cent) and so on. In terms of loan amount borrowed Maharashtra topped the list accounting for 19.1 per cent of the total loan amount disbursed by PACS and it was followed by Andhra Pradesh (13.7 per cent), Haryana (8.4 per cent) and so on. Tamil Nadu accounted for 4.8 per cent of number of PACS and 6.9 per cent of loan amount borrowed in India during 2007-08.

(vii) Mounting Over dues

The financial soundness of cooperative credit structure depends on the prompt recovery of loans. The problem of over dues affects not only the interests of the defaulters themselves, but also the other regularly repaying members, creditors, and the very co-operative movement itself. The percentage of over dues to loan amount outstanding at the level of PACS was 36.8 and it was 53.7 per cent at the level of PLDBs during 2007-08. At the level of DCCBs, the percentage of over dues to demand was 28.7 in the same year.

(viii) Defective management and leadership

The failure or non-viability of co-operative credit societies is also due to defective management and leadership. The officials do not have proper training and hence they could not compete with money lenders or private lending agencies.

(ix) Interference of the government

The Government attempts to convert co-operatives into a government department with all its rigidities and short-sightedness associated with a government department. Government also did not take adequate interest in improving the financial strength of the societies. It also resorts to ban or postponement of recovery of loans which hampers the functioning of societies.

(x) Delayed credit

A common complaint is that farmers do not get loans in time. So credit delayed is credit denied. Delayed credit tempts the borrower to divert it to other unproductive purposes.

(xi) Another problem faced by LDBs is the high cost of raising ordinary debentures. As noted by ACRC, issue of ordinary debentures for non-schematic lending for production purposes is at present a loss-making proposition as the ordinary debentures carry higher rates of interest than the rates at which loans are issued by them.

(xii) Because of their strong socio-economic position, large farmers have cornered greater benefits from co-operatives. For instance, farmers having less than two hectares received only 32.8 per cent of the total loans advanced by the PACS during 2007-08.

xiii) The margins available at various levels in the co-operative credit structure at present are inadequate as against the operational costs.

Interest Rates for Refinance Schemes

As the financial institutions are refinanced at higher rates of interest by their higher level financial institutions, their cost of management becomes higher and subsequently it affects their profitability. The rates of interest charged by NABARD for its refinance schemes are given below:

A. Interest Rates on Schematic Refinance for Farm / Non-Farm Sectors for all agencies (CBs / PCBs / RRBs / SCARDBs / ADFCs) Effective from 16 March 2005 {percentage p.a.}

S. No.	Name of the activity/region	Upto Rs.50,000/-	From Rs. 50,000/- to Rs.2,00,000/-	Above Rs.2,00,000/-
1.	All activities in North Eastern Region and Agri-clinics & Agribusiness Centres in all regions	6	6	6
2.	MI, DLF, LD, WLD, SGSY, SHG, SC/ST Action Plan, OF, Contract Farming under AEZ, A&M, RH and FM in regions other than those mentioned at 1 above	6	6.25	6.25
3.	Cold Storage / Rural Godowns and other activities in regions other than those mentioned at (1) above	6	6.25	6.75
4.	NFS in regions other than those mentioned in 1 above	6	6.25	6.5

Abbreviations: MI - Minor Irrigation; DLF - Dry land Farming; LD - Land development; WLD - Wasteland Development; SGSY – Swarnajayanti Gram Swarozgar Yojana; SHG - Self Help Group; OF Organic Farming; AEZ - Agri Export Zone; A&M - Aromatic and Medicinal Plants; and RH - Rural Housing NFS - Non-farm Sector FM - Farm Mechanization.

Regional Rural Banks

S. No.	Purpose	Rates of interest (% p.a.) Per annum
1.	Short Term - **Seasonal Agricultural Operations (SAO)**	For NPA upto 20% : 5.75 For NPA above 20% : 6.00

2.	ST (OSAO)	6.50
3.	Financing Pisiculture	6.00
4.	Marketing of crops	6.25
5.	Medium term (Non-Schematic) credit limits for financing approved agricultural purposes	6.00

Co-operative Banks: Rates of interest on Short Term refinance for Seasonal Agricultural Operations (SAO)

S. No.	Percentage of SCB's average borrowings from NABARD under SAO to DCCBs' average loans outstanding against PACS	Revised rate of interest on SAO refinance (% p.a) w.e.f 13.2.2004
1.	Less than 35	5.25
2.	35 and above, but below 40	5.5
3.	40 and above	5.75

The Government of India has introduced an interest subvention scheme whereby loans upto Rs. 3 lakhs are extended to farmers at an interest rate of 7 per cent and Government of India provides a interest subsidy of 2 per cent to the banks.

Hence, the financial institutions, especially the co-operatives should be permitted to advance priority sector loans at economic lending rates or the cost of debentures floated by them has to be reduced by lowering the interest payable to government and other lending institutions.

Suggested Remedies

- Fresh efforts are warranted to create a cadre of trained, dedicated and honest workers.
- Co-operative movement should be converted into a people's movement. They should themselves watch against unscrupulous elements taking hold of these societies.
- Instead of single purpose societies, multi-purpose societies need to be organized.
- Government and political institutions should not interfere in the affairs of co-operatives.
- They must have autonomy for granting advances and to recover loans. Co-operatives should take serious actions against willful defaulters (those who
- do not repay loan- amount wantonly as per repayment schedule though they are able to

generate sufficient funds from the investment for which they got loan).

- The working of co-operative credit societies should be improved by arranging for continuous inspection and research into their problems.

REORGANISATION OF COOPERATIVE CREDIT STRUCTURE IN ANDHRA PRADESH AND SINGLE WINDOW SYSTEM

Andhra Pradesh State Co-operative Bank

The Andhra Pradesh State Cooperative Bank Limited (APCOB) is a Scheduled State Coopratìve Bank for the State of Andhra Pradesh. The Bank is committed to agricultural and rural development through the Cooperatives. The cooperative credit system in Andhra Pradesh with the APCOB at its apex level is a federal system consisting of a family of 22 affiliated District Cooperative Central Banks (DCCBs), which in turn, have 557 Branches and 2748 Primary Agricultural Cooperative Societies (PACS) through which, developmental agricultural credit is provided, to serve a sizeable chunk of the total membership of the PACS of around 1.5 crores.

The APCOB and affiliate credit structure in Andhra Pradesh showcase a unique experiment of Single Window Credit Delivery System, as a first of its kind in the country under which, both investment and production credit for agriculture is provided at the grass root level through a single agency. The PACS at village level has been modelled as a one stop shop for the farmer for availing of varied short, medium and long term loans both under production and investment credit, input requirements, produce storage facilities, essential commodities, banking and other rural based services. APCOB has also a network of 26 branches in the twin cities of Hyderabad and Secunderabad and one Head Office Main Branch as also a Branch each at Tirupathi and Vijayawada meeting the exclusive needs of the urban clientele.

In tune with it's main focus, the APCOB, through the DCCBs and PACS, provides re-finance support for agricultural production credit for seasonal agricultural opertions (crop loans), investment credit for investments in agriculture for Minor Irrigation, Farm Mechanisation, Land Development, Horticulture, Dairy, Poultry, Fisheries and other diversified investments and allied activities. In times of natural calamities, the Bank provides credit stabilisation arrangements by way of conversion, rephasement, postponement and reschedulement of agricultural loans. Credit to the weavers Sector through Primary Handloom and Silk Weavers Credit Societies, as also financing to the Apex Weavers Society is another important portfolio through which rural development is fostered. Loans to Employees Credit Societies is also extended to provide timely financial support to employees of various organisations mainly through the DCCBs. This apart, the Bank finances Industrial Cooperatives and agro-processing industries in the cooperative fold like Sugar Factories, Spinning Mills, Milk Unions and Dairy Federation.

As a part of it's commitment towards rural development, the Bank provides assistance for programmes under Swarna Jayanthi Gram Swayamrozgar Yojana (SGSY earlier known as IRDP), Non Farm Sector finance for self employment programmes in the rural and semi-urban areas, micro-credit through Self Help Groups, Youth Associations and Women's Groups. The Bank extends financial support to Apex Cooperative Federations like MARKFED, APCO, FEDCON etc. It has also been providing direct finance to small and medium industries and agro-based units. The Bank offers a host of facilities to its urban clientele. These include, Banking facilities under attractive deposit schemes, safe deposit lockers, Clean & Secured Overdrafts, Consumer Durable Loans, Vehicle Loans, Gold Loans, Housing Loans, Real Estate Mortgage Loans and a host of other services.

Services

The loan portfolio of APCOB covers Crop Loans, Medium Term Loans and Long Term Loans for Agricultural purposes. Substantial support is being extended to the Government-sponsored District Rural Development Agency projects through IRDP Loans and also to Cooperative Sugar Factories, Spinning Mills, Weavers Societies, Employees Cooperative Credit Societies and other Societies.

APCOB is also extending finance to many Apex Cooperative institutions in the State like APCO, MARKFED, GCC etc. APCOB provides all types of banking facilities to it's customers through attractive deposit schemes as also various types of loans for it's urban clientele through it's own branch network.

Deposit schemes

Savings bank

This facility is available to customers to deposit and withdraw money as per their convenience. The facility is extended with or without cheque book as per the needs of the customer. Prompt and courteous service awaits our customers at our Branches.

Current account

Current Account with cheque book facility is offered by the Bank to its corporate and business clients. Clean and secured overdraft facility is also provided on the Current Account.

Fixed deposit

The Bank offers attractive rates on Fixed Deposits for various maturity periods. Facility for drawing interest on a monthly or quarterly basis is provided.

Gruhalakshmi deposit

This is a cumulative term deposit scheme under which money multiplies faster to a yield targetted amount for the customer as per the deposit period convenient to him.

Cash certificate

This is a cumulative deposit scheme under which interest is accumulated to the principal deposit amount and lumpsum paid at the end of the investment period. Customers can encash sizeable amounts by investing small amounts initially. Ideally suited to customers saving for a targetted purpose for the future.

Recurring deposit

Under this scheme, the customer can save small amount in monthly instalments for a fixed term to get back a lumpsum. Interest is accumulated on the principal over the saving period at attractive rates of interest.

Other special deposit schemes

The Bank is offering a host of other special deposit schemes to suit the savings needs of its customers like Aishwarya Deposit Scheme and Special Tax Saver Deposit Scheme.

Loan schemes

The Bank offers the following attractive loan schemes to individuals who are its customers.

Clean overdraft

Overdrafts on Current Accounts are provided to the customers upto five times their net salary against a simple surety of employees/employers undertaking.

Secured overdraft

Secured overdrafts on current accounts are provided to customers against the security of National Saving Certificates, Kisan Vikas Patras, as also against the security of urban immovable property.

Gold loans

Customers can avail of Gold Loans against pledge of gold ornaments at all branches of the Bank.

Consumer durable loans

The Bank provides loans for purchase of consumer durables to its customers for buying of items like TV, Refrigerator, Air Conditioners and a host of other consumer durables.

Education loans

Under the Vidya Vikasa Vardhini Scheme, the Bank is providing loans to students/parents of students for pursuing professional courses like Engineering, Medicine, Computer Education and other courses including technical courses/job oriented courses. The loan is repayable at attractive rate of interest and easy repayment period.

Car finance

Finance for purchase of cars is provided to professionals and self employed entrepreneurial and salaried customers of the Bank for their personal use at attractive rates of interest and repayment period ranging upto 60 months.

Auto finance

The Bank provides finance to unemployed persons for self employment purpose by providing commercial vehicles like Auto rickshaws etc. The loan is provided against two sureties.

Traders finance

Loans are provided to wholesale/retail traders and businessmen engaged in trade activity for running their business on furnishing of collateral security and on pledge of stocks. This facility is extended in the nature of cash credit limit for facilitating continuous operation based on the day-to-day business needs.

Housing finance

The Bank offers attractive Housing Loan Scheme both for construction or purchase of a new house/flat as also for purposes of repairs and extension to existing house. Comfortable repayment period for the loan is provided.

Real estate mortgage loan

Loan facility is provided against mortgage of fixed assets/property for purchase of house, house construction, house repairs, business, higher studies, and health care, at attractive rates of interest and comfortable repayment period.

Other services

Fund transfer and demand drafts

The Bank arranges transmission of funds of it' s customers to locations at every nook and corner of the country by it's various transfer mechanism as also issuance of Demand Drafts at low commission rates.

Collection of cheques and bills

The Bank undertakes the collection of local and outstation cheques and bills for a nominal fee.

Standing instructions

The Bank undertakes all types of standing instructions issued by customers on their accounts with the bank.

Safe deposit lockers

Safe Deposit Lockers are available at all branches of the Bank of various sizes to suit the needs of different customers. An exclusive safe deposit vault with more than 1000 lockers are provided at the centrally located Narayanaguda Branch of the Bank.

SUCCESSFUL COOPERATIVE SYSTEMS IN GUJARAT, MAHARASHTRA, PUNJAB

Co-operative credit System in Maharashtra

Maharashtra has all along been a leader in cooperative movement. Cooperative has become a way of life for people in the State. Almost 50% of the State's population is connected to 1.78 lakh cooperative societies, covering different aspects of people's day to day life. We have about 20,000 primary agriculture credit cooperative societies and 31 district central cooperative banks. As against six villages covered by the society in the country, we in Maharashtra have one society for two villages. More than 10 million farmers are members of the primary societies. The cooperative credit system in the State accounts for 65% of the credit disbursements for agriculture as compared to 35% at national level. That is why, the State needs to ensure that the cooperative credit institutions remain vibrant and work in a professional and competitive environment.

The cooperative credit institutions in districts, having good access to irrigation have done extremely well due to greater degree of crop diversification. The dams and the societies in consistently drought prone and rain-fed districts, have not been able to stand the impact of continued default and thus, over a period of time, become extremely weak. Revitilisation of these institutions is a must to ensure greater flow of capital to agriculture in these districts.

The cooperative movement has contributed a great deal in the development of rural economy in the State. While we lead the country in terms of financial institutes in the cooperative sector, there are many other success stories like sugar industry, textiles, poultry, milk, agro-processing and marketing etc. What else can be the best way to show it, than to stand up to the challenge of competition?

Over the time, there has been some slackness in the working of some of these societies, but I must say that these societies have contributed immensely in the growth of rural areas in the State. The slackness in the working of many of these societies can be attributed to many factors, but lack of appropriate incentive system is one of the key reasons for it. The recommendations of Task Force will help in creating environment for such incentive system to operate. The cooperative credit structure in Maharashtra will grow at much faster rate once faced with competitive forces and will help serve our population better.

The suggestions made by the Task Force relating to financial, administrative, legal and technical aspects seem to be well through out. When we talk of competition, the independence of the concerned institution also needs to be re-visited and they are required to be given environment for operating freely and in democratic manner, as demanded by the competitive atmosphere. Recommendation to provide wider choice on borrowings and investing to cooperatives and in turn to borrowers is going to galvanise the rural credit system. Small borrowers will now operate in buyers' market, thus providing them with more bargaining power.

Agricultural Credit

The co-operative agricultural credit structure in Maharashtra is a three tier structure.

- Short & Medium Term Credit Long Term Credit
- Central Co-op Banks at district level
- Primary Agricultural Credit Societies at Village Level
- Long term credit Mascard Bank
- Branches at district level
- Sub Branches at Taluka level

(MASCARD Bank is Maharashtra State Co-operative Agriculture and Rural Development Bank)

Thus the agricultural credit reached the farmers right upto their doorstep through the Primary Agricultural Credit Societies (PACS). The Short Term loan is made available for a period of 12 to 15 months for meeting the cost of expenditure during the agricultural season. Medium Term loan is given for a period of upto five years for the purchase of bullocks, carts, repairs to old wells etc..The Long Term Loans are granted for period exceeding five years mainly for sinking of wells, permanent fencing, purchase of land, purchase of heavy agricultural machinery like tractors etc as well as for lift irrigation schemes.

The life of the farmer is full of problems- small holdings, indebtedness, lack of irrigation facilities leading to low productivity. He is traditionally used to dealing with one single agency for satisfaction of all his credit requirements. Thus the local trader/money lender not only lends him money for his seeds, fertilisers, insecticides etc. but at times also provides these necessities to him. The trader/moneylender also provides him credit for his household needs. And when the crops are harvested the trader also markets the crops.

In their initial days the rural credit societies could not satisfy the needs of the farmers. They did not have enough funds or facilities to offer to the farmers. Thus the farmers continued to rely on the money lenders and suffer. Thus came the advent of multipurpose co-operatives. However since the societies at the village level were small in size, they could not provide adequate services to their members. The Government therefore gave financial assistance to these societies and thus increased their borrowing capacity. Crop Loan System has also been introduced. The government has introduced various schemes to improve the economic conditions at the rural level

1. Subsidy to Agricultural Credit Stabilisation fund
2. Contribution to Risk Fund
3. Share Capital Contribution
4. Loans to Co-operative Credit Societies for the conversion of Loans from Short Term to Medium Term.
5. Crop Production Incentive to agriculturists.

District Central Co-operative Banks

There are 30 such Banks in Maharashtra whose primary object is to provide for the credit requirements of the Primary Credit societies. The first such secondary level co-operative was registered in Mumbai in 1911 under the Government of India Act, 1904. Since then these Central Banks have laid the firm financial infrastructure for the co-operative movement in Maharashtra.

The progress of the District Central Co-operative Banks can be seen from the following figures :

(Rupees in Millions)

	1961	**1991**	**1995**	**2002**
No. of Banks	35	30	30	30
Branches	..	3147	3516	3804
Members	57,000	84,000	94,000	119000
Share Capital	65.3	1889.6	2963.7	7863.2
Deposits	264.7	31994.0	63987.4	195734.7
Working Capital	609.3	48349.2	89069.7	274986.5
Loan Outstanding	436.1	30783.6	52208.8	155756.3
Profit	5.0	171.4	363.3	1604.

*** The fall in figure of banks in 1991 & 1995 is due to the reorganisation of the State I in 1961, which led to the reduction of the number Districts.*

The State Co-operative Bank

The State Co-operative Bank, which is at the top of the credit structure is also called as the Apex bank. Its functions are t co-ordinate and to guide the working of the Central Banks and to arrange re-finance for them. It thus acts like a supervisory body at the top and arranges to spread the co-operative movement.

The progress made by the Apex Bank is as under

(Rupees in Millions)

	1961	**1991**	**1995**	**2002**
No. of Branches	20	43	45	46
Members	11,000	26,000	29,000	40,000
Share Capital	32.6	281.6	455.5	1,869.1
Deposits	215.3	20,936.2	36,085.2	101,974.7
Loans Outstanding	374.2	21,731.4	31,189.4	88,303
Profit	2	68.6	101.5	106.8

The Maharashtra State Co-operative Agricultural and Rural Development Bank (MASCARD)

The MASCARD Bank floats debentures for making provision of long term loans to the member Banks. These debentures are purchased mainly by the State Government , however it is necessary for it to create a strong asset base so that it can secure the loans raised by it.The progress made by the bank is as follows

(Rupees in Millions)

	1961	**1991**	**1995**	**2002**
Members	8,000	1,021,000	1,138,000	828,000
Share Capital	5.1	543.6	780.5	449.5
Working Capital	74.6	8371.0	11631.4	12263
Loans Advanced	21.5	1243.8	1366.2	Nil
Debentures Issued	35.0	1022.6	1458.0	Nil
Debentures Outstanding	53.6	5510.7	8495.0	9382.1

The Government vide order No.LDB-1099/C.N.37/7-C, dated 29.12.1999 has bifurcated the Maharashtra State Cooperative Agricultural and Rural Development Bank into 29 District Agricultural Cooperative and Multipurpose Rural Development Bank. There will be apex bank of these district banks called as Maharastra State Cooperative Agricultural and Multipurpose Rural Development bank.

Co-operative credit System in Punjab

Punjab State Co-operative bank Ltd.,

The Punjab State Cooperative Bank Chandigarh was established on 31st August 1949 at shimla vides Registration No.720 as a principal financing institution of the cooperative movement in the state. It has 19 branches and 3 extension counters in the city of Chandigarh. 20 Central Cooperative Banks having 788 branches and 29 Extension Counters in the State of Punjab are affiliated with the bank. In the Cooperative banking structure the position of the Punjab State Coop Bank is extremely important as a the whole short term credit system revolves around it. This bank ensures that its member central cooperative banks follow sound banking practices and observe strict financial discipline. The Central Cooperative Banks are financing the farmers through PACS at the village Level. There is no arena of life where this premier institution has not played its part. From a farmer, artisan to traders/businessman, everybody has been covered in the fold of this institution. The green, white and sweet revolutions in the state of Punjab are some of the major achievement in which this institution has plays a vital role.

The Punjab State Cooperative Bank has already been awarded "BEST PERFORMANCE AWARD" from NABARD and NAFSCOB. For the year 2003-04, Punjab Cooperative Bank has been selected for NABARD's "Best Performance Award " which is based on performance of all the SCBs in the country. Similarly our Jalandhar DCCB has also been selected for NABARD's "Best Performance Award" out of all the DCCBs in the country for the year 2003-04.

Objectives

- To serve as a Balancing Centre for Cooperative Societies in the State for Cooperative Societies in the State of Punjab registered under the Punjab Cooperative Societies Ac, 1961 for the time being in force.
- To promote the economic interest of the member banks and cooperative societies in the state in accordance with cooperative principles and to facilitate the development and funding of any cooperative society registered under the said act.
- To carry on banking and credit business.

The Primary Agricultural Credit/Service Societies

The agricultural co-operative credit structure in the Punjab State is broadly divided into two sectors, one dealing with the short-terms and medium-terms finance and the other with the long-term credit. In the State, the short-term and medium-term credit structure is based on a three-tier system, i.e., the Apex Co-operative Bank at the State level, the Central Co-Coperative Bank at the district/tehsil level and the Primary Agricultural Credit Societies at the village level. The major objectives of the primary agricultural credit service societies are to supply agricultural credit to meet the requirements of funds for agricultural production, the distribution of essential consumer commodities, the provision of storage and marketing facilities and for light agricultural implements and machinery.

Owing to an increasing emphasis on the development of land and agriculture, long-term co-operative credit has assumed great importance. There is the Punjab State Land Mortgage Bank at the Apex and the Punjab Mortgage Bank at the district/tehsil level. These Primary Land Mortgage Banks advance loans to the farmers for long term purposes.

At the operational level, there exists a primary co-operative to extend credit to the farmer. This unit epitomizes the vitality and service potential of the Co-operative Movement in India. The organization of these societies dates back to 1904, when the first Co-operative Societies Act was passed. These societies were started with the object of providing cheap credit to the agriculturists in order to free them from the clutches of the rapacious money-lenders. the agricultural primary credit society is the foundation-stone on which the whole co-operative edifice is built. Even now these societies dominate the co-operative picture.

The first Agricultural Credit Society in the Firozpur District was registered on 4 October 1911, at the Village of Khalchi Kadim in the Firozpur Tehsil. Originally, the movement was confined to the credit societies only and, thus, credit dominated till the partition (1947). After the partition, the Co-operative Movement began to spread to other field, viz labour, construction and farming.

Agricultural Finance & Cooperation

Author: Faculty TNAU
Email: kat@tanu.ac.in