1

RURAL FINANCE

Unit Structure

1.0 OBJECTIVES

1) Understanding features of Rural finance.

2) Understanding the problems of Rural Credit in India.

3) Understanding the Improve Credit flow to Agriculture.

4) Studying the types of Rural Credit.

1.1 INTRODUCTION

Finance has been recognized as the life blood of all economic activities. Like all other producers agriculturist also need credit. Generally, in underdeveloped countries farmers cannot expert their credit needs to come from saving. It is so because their income farm operations are sufficient to provide minimum necessities of life. Therefore, they have to rely upon outside finance. Modern agriculture is a costly affair. Credit is needed to adopt new farm technology resulting in ushering of green revolution. In India, it has two fold necessities. Firstly crop productivity is very low due to traditional methods of cultivation and secondly, there is an urgent need to enhance agricultural.

Production to get self-sufficiency and save valuable foreign exchange. In short, effective arrangements are needed to provide credit facilities so that agriculturist may adopt better techniques of production.

The different studies conducted show a strong positive relationship between agricultural growth and availability of credit. Broadly, credit in agricultural sector may be divided into short-term loans to meet the input expenses and medium and long-term loans to facilities the development of fixed farm assets such as land.

Agriculture is a productive occupation and such one of the essentials of agricultural production is capital. This may provided by the cultivator himself or like other business; he may borrow it from someone else and repay it from the output of the field in which it has been invested. The problem of agricultural finance relates to i) capital needs of the farmer, ii) agencies of credit and iii) the repayment of loans. Thus the all India Rural Credit Survey Committee observed that, Agricultural credit is a problem when it cannot be obtained: it is also a problem when it can be had but in such a form that on the whole it does more harm than good. It may be said that, in India, it is this two fold problem of inadequacy and unsuitability that is perennially presented by agricultural credit.

1.2 FEATURES OF RURAL FINANCE

In our country, rural finance has the special features which are discussed below in detail.

1. Agriculture Development
2. Productive Credit
3. Unproductive Credit
4. Loan for Agro-based Industries
5. Loan for Agro-processing Industries
6. Loan for Rural and Small scale Industries
7. Commercial Agriculture Loan
8. Rural Development

1.3 PROBLEMS OF RURAL CREDIT IN INDIA

1. Insufficiency:

In spite of expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of increase in prices of agricultural inputs.

2. Inadequate Amount of Sanction:

The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.

3. Lesser Attention of Poor Farmers:

Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better credit worthiness.

4. Growing Over-dues:

The problem of over-dues in agricultural credit continues to be an area of concern. The recovery of agricultural advances to various institutions is also not at all satisfactory. In 1997-98, the recovery of agricultural advances of commercial banks, co-operative banks and regional rural banks were 63 per cent, 66 per cent and 57 per cent respectively. Such growing over-dues has also been resulted from poor repaying capacity of farmers. As a result of that, the credit agencies are becoming wary of granting loan to farmers.

5. Inadequate Institutional Coverage:

In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

6. Red Tapism:

Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

1.4 MEASURES TAKEN TO IMPROVE CREDIT FLOW TO AGRICULTURE

In order to improve the flow of credit to agriculture, the Government has introduced the following measures in 1998-99:

(i) Procedural simplification for credit delivery has been made (as per R.V. Gupta Committee Report) through rationalization of internal returns of banks.

(ii) More powers have been delegated to branch managers to raise the credit flow to agriculture.

(iii) Introduction of composite cash credit limit to farmers, introduction of new loan products with saving components, cash disbursement of loans, dispensation of no due certificate and discretion to banks on matters relating to margin security requirements for agricultural loans above Rs. 10,000.

(iv) Introduction of at least one specialized agricultural bank in each state to cater to the needs of high tech.

(v) Introduction of cash credit facility.

(vi) Insuring Kisan Credit cards to farmers to draw cash for their production needs on the basis of the model scheme prepared by NABARD.

(vii) The Government has made arrangement for hassle free settlement of disputed cases of over dues.

(viii) To augment Rural Infrastructural Development Fund (RIDF) with a corpus of Rs. 10,000 crore with NABARD to finance rural infrastructure development projects by states.

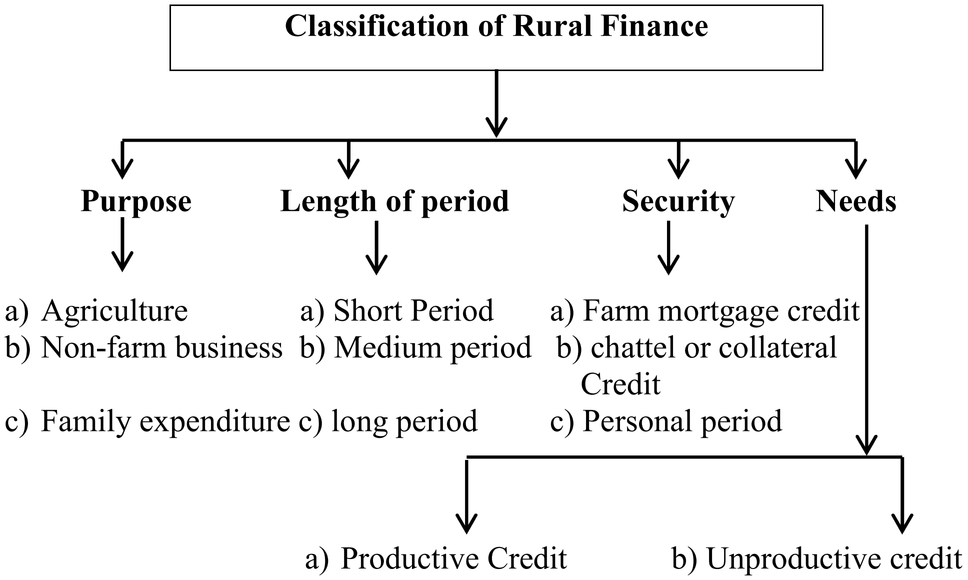
Thus, the flow of institutional credit for agriculture and allied activities which was Rs. 31,956 crore in 1997-98 is estimated to have increased to Rs. 64,000 crore in 2001-02. The total credit now from all agencies is projected to reach the level of Rs. 82,073 crore by 2002-03. The total credit now to agriculture during the period 1997-2002 is likely to be of the order of Rs. 2,33,700 crore which is close to the Ninth Plan projection of Rs. 2,29,750 crore.

For the Tenth Plan period (2002-07) the credit flow into agriculture and allied activities from all banking agencies is projected at Rs. 7,36,570 crore, which is more than three times the credit flow during the Ninth Plan.

Farm Credit Package:

The Government of India announced the "Farm credit package" in June 2004 which aimed at doubling the flow of institutional credit for agriculture in the ensuing three years. Accordingly, the credit to the farm sector got doubled during two years, i.e., from Rs. 86,981 crore in 2003-04 to Rs. 1,80,486crore in 2005-06, as against the stipulated time period of three years. The credit flow continued to increase at Rs. 2, 29,400crore in 2006-07 and then to Rs, 2,64.455crore in 2008-09.

1.5 TYPES OF RURAL CREDIT



A) According to Purpose:
Following the Reserve Bank's classification of agriculture credit by purpose, we may say that such credit is required to purchase land to effect permanent improvement on it.

1. For Agricultural purpose:
Such credit is needed for the purchase of seed, manure and fodder, payment of rent, wages, revenue, cess and other charges, irrigation of crops, hire charges of pumps and purchase of water, purchase of live-stock and effecting other land improvements . Repaired of agricultural implements, machinery, transport equipment's, farm houses, cattle sheds, repairs of wells and other irrigation services, laying of orchards, for reclamation of lands and construction of irrigation wells, tanks and other capital expenditure on agriculture.

2. For Non-Farm Business purpose:
Such credit is needed for repair of production and transport equipment and furniture, current expenditure in non-farm business, purchase, construction and repair of building or non-farm business, purpose of farm equipment and other capital expenditure on non-farm business.

3. For meeting Family Expenditure:

Such credit is needed for purchase of domestic utensils and clothing's, playing for medical, educational and other family expenses, purchase construction and repair of residential houses and expenses relating to death and marriage and other ceremonies and litigation expenses.

4. Other purposes:
These include purchase of building and ornaments, share and debentures of cooperative societies, deposits with cooperatives societies, private money lenders and traders, unspecified purposes and payment of old debts.

B) According to the Length of the Loan period:
From the point of view of the length of the loan period, agricultural credit may fall into three categories, viz.

1. Short-term credit:
This is needed normally for short period of less than 15 months to meet current expenses of cultivation, to facilitate production and for meeting domestic expenses. For example, a farmer may need credit to buy seeds, fertilizers and fodder for cattle. He may also require funds to support his family in those years when the crops have not been good or adequate for the purpose. Such short-term loans are normally repaid fully after the harvest. They are recoverable out of the sale proceeds of the crops concerned.

According to the recommendations of *V. L. Mehta committee on Cooperative Credit,* short-term production loans should be advanced on the basis of sureties only. In some states such as M.P, Kerala and Orissa, however, even such loans are being provided on mortgage of land. In Bihar and W. Bengal a member can borrow up to Rs.200/- only on surety basis and has to offer mortgage security for loans exceeding this amount.

2. Medium-term loans:
Which are required for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, gardening, fencing, plantation etc?Purchase of shares in cooperative sugar factories, pig breeding sheep and goat rearing, purchase of storage bins and purchase of rubber rollers under agricultural machinery.

These loans are larger than short term loans and can be repaid over a longer period of time. The period of loan is generally linked up with the period of serviceability of the assets to be procured with the loan but normally it does not exceed 5 years.

3. Long-term loans:
Which the farmer need for the purchase of buying additional land, to make permanent improvements on land like reclamation and bunding, construction of farm house, cattle and machine-sheds, horticulture, tractors, oil engines, machinery for crushing sugarcane, manufacturing of gur, consolidation of holdings, purchase or acquisition of title of agricultural lands by tenants, etc. to pay off old debts and to purchase costly machinery. Such loans can be repaid only out of the extra income secured by the investment on land. Therefore, these loans are for long periods of more than 5 years, ranging from 15 to 20 years.

It may be observed that almost all types of credit are needed by the farmer at different stages of farming. But the pressing need is the provision of long and medium term credit as the same is not readily available to him.

C) According to security:
On the basis of security offered, agricultural credit can be classified into following categories.

1. Farm Mortgage Credit:
This is secured against land by means of a mortgage of land.

2. Chattel and collateral credit:
The farmer is given on the security of the farmer’s livestock, crops or warehouse receipts and the latter on the security of other kinds of property such as shares, bonds and insurance policies.

3. Personal Credit:
This is advanced on the promissory or personal notes of the farmer with or without another’s security or guarantee. The rural credit survey committee found that about 50 % of the families surveyed were willing to offer their immovable property as security, of the rest about 25 p.c indicated personal

security and remaining families did not specify the type of security which they had to offer.

D) Productive and Unproductive credit needs:

Agriculture may require credit for the purpose of production and consumption. In other words, credit needs of the farmers can be classified into two parts-

i) Credit needed for productive purpose:

The loans which are used in productive operation of agriculture are called the productive credit. However, productive requirements of the farmers are loans for purchase of cattle, implements, fertilizers, inputs, better seeds and requirements of the farmers are loans for purchase of cattle, implements, fertilizers, inputs better seeds and machinery etc.

ii) Unproductive credit needs:

On the contrary, farmers need credit for consumption purpose. The loans which are used for consumption purposes are called the unproductive credit. Between the movement of marketing of agricultural produce and harvesting of next crop, there is a long interval of time. Most of the farmers do not have sufficient income to sustain them through this period. Therefore, they have taken loans for meeting their consumption needs. In the times of drought or flood, when the crops are damaged, the farmers have also to insure such loans. In fact, unproductive loans are taken for also taken for social purposes like birth of a male child, marriage or death of persons in the family. Litigation too forces the farmers to borrow.

1.6 IMPORTANCE OF RURAL CREDIT IN INDIA:

1. Agricultural Development.
2. Development of Rural Industry.
3. Increasing Economic and Social Background of Agricultural Farmer.
4. Development of Agro Based Industries.
5. Increasing the Employment in Rural Area.
6. Commercial Agricultural Farming.
7. Development of Rural Economy.
8. Control of Poverty in Rural Area.
9. Increasing the Institutional Credit.
10. Rural Industrialization.

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RURAL INDEBTEDNESS

Unit Structure :

2.0 OBJECTIVES

1) Understanding cause of Rural Indebtedness

2) Understanding Consequences of Rural Indebtedness

3) Studying measures and Suggestions for Removing Rural Indebtedness

2.1 INTRODUCTION

Rural indebtedness has been the ever green companion of the Indian peasants. According to a well-known saying, the Indian peasant is born in debt, lives in debt and dies in debt. The prevalence of poverty among agricultural labouring households is underlined by the prevalence of the rural indebtedness. With the increase in the level of poverty, the level of debt increases.The burden of debt passes on from generation to generation. The number of those in the grip of this vicious problem is even now very large, despite vigorous attempts to solve it. Rural indebtedness has eaten into the very vitals of our rural social structure. Hence it has drawn the attention of sociologists, economists, planners, bureaucrats and others since long time past.

While borrowing money the borrower does not pay attention to his repaying capacity and for him even a little debt becomes a trap out of which he cannot come out. Loans from the money- lender support the farmer as the hangman's rope supports the hanged.

Rural borrowing and rural debt signify two different things. There is nothing wrong in borrowing especially when the funds are required for agricultural operations. But indebtedness arises when the income of the farmer is not sufficient to repay the debt incurred or when he spends his income for unproductive purposes and does not save for the purpose of paying off his debt. When the borrower fails to repay the loan in time and the loan goes on accumulating, he becomes indebted.

2.2 CAUSES OF RURAL INDEBTEDNESS

The factors accounting for rural indebtedness are many and varied. They are as follows:

1. Poverty of the farmers:

The basic cause of the rural indebtedness in India is the extreme poverty of the farmers. The farmers being poor have to borrow for various purposes. Sometimes, the crops fail because of the failure of monsoons, or because of floods etc. They have to purchase seeds, implements, cattle etc. and since they have no past savings to draw upon, they are forced to borrow. Just as poverty forces him to borrow, it is his poverty again which forces him to have so little for paying off his debt.

2. Passion for land:

The farmers in the Indian context have a tremendous passion for land. They are keen to make improvements on land. They do it mostly through borrowing.

3. Ancestral debt:

The most important cause of the existing rural indebtedness is the ancestral debt. Many agriculturists start their career with a heavy burden of ancestral debt and drag the loan for the whole of their lives, taking it to be a religious and social obligation.

This increases the debt burdens on the inheritors, every time the debt is thus passed on. The Royal Commission on Agriculture has aptly described this situation, in its observation that the farmer "is born in debt, lives in debt and dies in debt."

4. Ease of taking loan:

Institutional agencies have fixed hours and stipulate that some formalities should be observed before the loans are sanctioned and then paid. On the other hand, a money lender has been easily approachable even at odd hours. This encourages borrowing.

5. Litigation:

Litigation, civil or criminal, is another cause of rural indebtedness. Agriculturists of standing are generally involved in various kinds of disputes such as intra-family disputes, inter-family disputes, and disputes over boundary lines, theft of crops, and division of ancestral lands etc. which often force them to go to courts of law. Such prolonged litigations involve heavy expenditure and to meet these expenses, farmers take a loan which further aggravates the burden of rural indebtedness.

6. Small sized holdings:

Approximately 72.6 per cent of the operational holdings in India are less than 5 acres in size. When the holdings are small, modernization of agriculture becomes impossible. The cultivation ceases to be economical even in the best of years and the yield from land becomes insufficient for the maintenance of the farmer and his family. On account of this reason the farmer incur debt.

7. Illiteracy and ignorance:

The illiteracy and ignorance of the peasants stand in the way of improving the economic conditions. They are not conscious about the utility of small family norms. In view of the large size of the family, they are compelled to borrow money for fulfilling the basic necessities of life.

8. Extravagant expenditure:

Being bound to customs and tradition, the ruralites consider the expenses on the occasion for marriage, birth, death, and caste dinners on auspicious occasions and on some religious observance as unavoidable. Being poor, they have no reserve to fall back upon. This makes them to borrow.

They borrow at least for two reasons. In the first place, if they do not spend on these occasions, their image in the public eyes will be tarnished. Secondly, they have ambition to excel others in pomp and grandeur.

9. Malpractices of the money-lenders:

The private money-lenders are known to have adopted various malpractices.

(a) They have been charging exorbitant rates of interest varying between 40 to 60 per cent per annum.

(b) They have also been found keeping false accounts.

(c) They are more interested in forcing the borrowers to part with their land by encouraging the farmers to borrow from them and get their lands mortgaged to them.

(d) They have been purchasing the crops of the farmers at very low price when the latter approach them for selling their crops in order to repay their debts.

(e) When the farmers' debt has accumulated to a sufficient amount, they take away the land of the borrowers. Like a fly in the cobweb, which can rarely escape, similarly, the farmer once caught by the money-lender can rarely come out of his clutches.

10. High rates of interest:

The high rates of interest also compel the cultivators to borrow. The rates vary from state to state but due to the poor economic condition of the peasants, the interest accumulates every year. Quite often it is extremely difficult to clear up even interest charges alone. The Bombay Banking Committee rightly observes, "It is not that the agriculturist" repays too little, he often repays too much. It is the high rate of interest and the malpractices followed by the money-lenders that tend to perpetuate his indebtedness."

2. Pulls of high standard of living:

Sometimes high standard of living constitutes the cause of indebtedness. Of late, the benefits of urbanization have reached the doorsteps of the ruralizes. Poor peasants have fallen a prey to the cons meristic culture. They are attracted by the temptations of the amenities of city life. They are induced to buy them even if there is no great need for them.

12. Excessive burden of land revenue and rent:

During the British rule, the land revenue was fixed high. So the farmers were not able to pay in time. Hence, they were forced to borrow. Even in the Post-Independent India excessive land revenue with its rigid procedure of collection is squarely responsible for aggravating the problem of rural indebtedness.

The rent is tasking for the small and marginal farmers. The dues being fixed, they are bound to pay even when production suffers during conditions of flood and drought. Therefore, the farmers are forced to take loans to make these payments. Consequently the burden of indebtedness increases.

13. Addiction to drinking:

Drinking leads to rural indebtedness in two ways. In the first place, it gives rise to a number of quarrels and crimes resulting in litigation. Litigation as all of us know entails unnecessary expenditure. Secondly, drinking is itself an expensive habit and a good share of the peasant's income is spent for drinking.

14. Inflation:

Inflation unaccompanied by corresponding increase in the income of the ruralites compels them to borrow to meet their basic needs.

15. Inadequate infrastructural facilities and institutional arrangements:

Inadequate infrastructural facilities stand in the way of improving the economic condition of the farmer. Due to inadequate marketing facilities, he has no other alternative but to sell away the produce immediately after harvest at the unreasonable prices. The heavy indebtedness of the farmer also makes it difficult for him to store the produce for sale on favourable terms at a later date.

2.3 CONSEQUENCES OF RURAL INDEBTEDNESS

Rural indebtedness is dysfunctional for the rural society in more ways than one. Some of its evil consequences are as follows:

1. From the economic point of view, increasing rural indebtedness leads to growing pauperisation of the small and marginal farmers. They mortgage their landed property to the money-lenders and ultimately lose it to the latter.

In this way, they join the ranks of the landless labourers. The small farmer gets a low price while selling his produce and pays high prices for buying inputs. Hence rural indebtedness is both the cause and effect of the growing poverty of the Indian farmers.

2. Increasing rural indebtedness has also undesirable social consequences. In the first place, it creates a class of landless labourers and tenants in the place of independent farmers.

Secondly, the heavily indebted farmers are forced to pledge their own person and become bonded slaves to the landlords and money-lenders. Sometimes their women fall prey to money-lenders' caprice and vice. This has led to moral degradation of rural society.

Thirdly, in many parts of the country, the small peasants who have lost their land to the money-lenders have revolted against the latter in a violent manner. The problem is particularly serious in some parts of Bihar, Orissa and Andhra Pradesh. In such states the high caste money-lenders have exploited the innocent and illiterate advises and have deprived them of their meager land ownership.

Quite naturally this has been the direct cause of Naxalite movements in these areas. Dr. Thomas aptly observes, "A society steeped in debt is necessarily a social volcano. Discontent between classes is bound to arise and shouldering discontent is always dangerous."

3. Rural indebtedness has far-reaching political implications for the rural society. The money-lenders become unscrupulous politicians and exploit the heavily indebted farmers when elections to village Panchayats, co-operative societies, state assembly and LokSabha are held. Democracy becomes a mockery.

4. From the psychological angle we observe that the borrowers are always a frustrated lot. They always remain in the grip of worry and tension.

5. Deterioration of agriculture:

As a result of indebtedness, the condition of agriculture also deteriorates. Two reasons may be attributed to this state of affairs. In the first place, the heavily indebted farmers because of paucity of funds are not in a position to modernize agriculture. This would cripple their capacity to increase their income level. Secondly, most of the farmers have to work on the moneylender's land as servants. Obviously they lack interest in work.

6. Low standard of health:

The farmers burdened with a heavy debt grow weaker because they are beset with the problem of repaying it. They work hard to repay the loan which sometimes tell upon their health. They also cannot afford to have medical facilities for themselves and for their children. They cannot have any nourishing diet. All these lead to the lowering of their health standards.

2.4 MEASURES FOR ERADICATING INDEBTEDNESS

The Government has undertaken several measures since long to put an end to rural indebtedness. They are as follows:

1. (a) Removing the need for borrowing:

(i) Steps have been taken to reduce the effective burden of land revenue and to make its payment convenient through greater elasticity in its administration and collection.

(ii) Adequate irrigation facilities have been provided to the farmers. (iii) Inputs have been made available at cheap rates.

(iv) Agro-based industries have been promoted in the rural areas.

(v) Improvement has been effected in the sphere of means of communication and transportation. Better marketing facilities have been made available to the peasants.

(b) Protecting the assets of the agriculturists from passing into the hands of moneylenders:

For this purpose various Acts have been passed in the past e.g. the Land Alienation Acts, the Encumbered the Estates Relief Act of 1876 etc.

(c) Regulation of the activities of moneylenders:

For this purpose various legislative measures have been enacted. They are as follows:

(i) The Deccan Agriculture Act, 1879:

Under this Act the courts were allowed to go behind the contract of debt and to modify it in favour of the borrower.

(ii) The Various Loans Act, 1918:

This Act tried to improve the legal position of the borrower.

(iii) The Regulation of Accounts Act, 1930:

It aimed at protecting the debtor from manipulated accounts by prescribing forms of accounts and insisting on the debtor being supplied with these regularly.

(d) The Punjab Relief of Indebtedness Act, 1934:

It drew a distinction between secured and unsecured loans for purposes of rate of interests.

(e) Various Acts like the Punjab Registration of Moneylenders Act,

1938 provided for the registration and licensing of money lenders.

(f) The Acts like the Punjab Restoration of Mortgaged Lands Act and the Punjab Debtor's Protection Act provided for restoration of mortgaged lands on payment of nominal compensation and exempted ancestral property from attachments as also standing crops.

2. Nationalisation of Commercial Banks:

The commercial banks were nationalised in 1969. Since then special efforts have been made to increase the involvement of public sector banks in the development of agriculture and other associated activities in the rural areas. At present, the commercial banks are mandated to earmark 18% of their total annual lending to agricultural sector as part of priority sector lending.

They have also been associated with the rural finance through some other important schemes such as the Lead Bank Scheme, Village Adoption Scheme, Service Area Plan, Intensive Centre Scheme, Agricultural Finance Corporation etc.

3. Regional Rural Banks:

Regional Rural Banks have been established since 1975 as a new source of finance in the rural areas. The main objective of these banks is to provide credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. These banks are sponsored by the nationalised commercial banks. So far as the area of operation is concerned, such a bank covers one or more districts of a state.

At present, there are 196 Regional Rural Banks in the country and these have about 14500 branches.

4. Twenty-Point Economic Programme:

Under the 20- point programme launched in July, 1975, the government had declared a moratorium on the recovery of debt by money-lenders from farmers, landless labourers and rural artisans. Liquidation of rural indebtedness and abolition of bonded labour were two dynamic aspects of the old 20-point economic programme.

5. Co-operative Credit Institutions:

Co-operative finance is the best and the cheapest source of rural credit. It is because loans are advanced for productive activities and also at very low rates of interest as compared to those charged by the money-lenders and various other institutions. The Primary Agricultural Co-operative Credit Societies generally advance short- term and medium-term loans to the farmers, the Primary Land Development Banks cater to the long-term financial requirements of the farmers.

6. Report of the Sivaram Committee:

In its report submitted in April, 1976 the Sivaram Committee outlined the following proposals pertaining to rural indebtedness.

(a) Consumption loans for marriages, births and deaths, religious expenses, medical expenses, education etc. should be provided by the government corporations and nationalised banks to small farmers, landless labourers and artisans.

(b) Banks and Co-operatives should provide similar loans to marginal farmers.

(c) Schemes should be devised to enable these classes of people to return these loans.

7. National Bank for Agriculture and Rural Development:

NABARD was set up by the Government of India on 12th July, 1982 with an authorised capital of Rs. 500 crore and a paid up capital of Rs. 100 crore. It plays the role of a catalyst of rural resurgence through injection of adequate finance for approved development projects. It is an apex institution entrusted with the responsibility of bringing about rural prosperity.

The number of schemes sanctioned as well as the financial assistance extended by the Bank for these schemes has been constantly increasing. NABARD has been paying special attention in extending credit facilities in less developed banked areas like Bihar, Rajasthan and Orissa.

Of late, the bank has been taking special steps for augmenting credit flow to the North East Region.

The role of NABARD in providing funds for the promotion of self-help groups, especially the ‘Rural Women’s Development and Empowerment Scheme’ is, indeed, commendable.

Recently, the bank prepared a model scheme for the commercial banks to issue ‘Kisan Credit Cards’ to the farmers. The purpose of the KCC scheme is to facilitate short term credit to the farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, 187 Regional Rural Banks and 334 Central Cooperative Banks.

Since its inception till the end of March 2004, more than 41 million KCCs have been issued and total loans sanctioned amounted to Rs. 97,710 crores. KCC holders are also provided personal accident insurance cover of Rs. 5,000 for death and Rs. 25,000 for disability.

2.5 SUGGESTIONS FOR REMOVING RURAL INDEBTEDNESS

Several suggestions have been made for eradicating rural indebtedness. Of them, major ones are the following:

1. Measures should be devised for cancelling old debts.

2. Measures should be adopted for limiting fresh borrowing to the minimum necessary and to the productive type.

3. The government should make arrangements for giving loans to the farmers at low rates of interest.

4. In order to make loans available to the villagers, the formal procedure for the grant of loans in the co-operative societies and banks should be made as simple as possible.

5. The laws preventing money-lender to take possession of farmer's land should be strictly put to practice.

6. Efforts should be made to desist ruralizes from undertaking unproductive and wasteful expenditure. Hence they ought to be educated about the harmful consequences of unproductive debts.

7. In order to reduce the dependence of the ruralizes on local money-lenders, the network of institutional credit structure comprising cooperatives, commercial banks and regional rural banks should be rapidly expanded throughout the country to cater to the credit needs of the small farmers and artisans.

8. There should be a check on the practice of private money lending. The account register of the moneylenders should be checked to find out how far they have increased their landed property during the period under review. Besides, only the registered and license holders should be allowed to advance loans.

In fine, the problem of rural indebtedness is linked with the larger issue of rural poverty. Poverty alleviation measures have to be taken up on a war footing to augment the income of the ruralizes. Mobilization of local, social and economic resources, an equitable distribution of benefits of new agricultural strategy and establishment of a good number of co-operatives and commercial banks will go a long way in mitigating the magnitude of rural indebtedness from the rural social matrix.

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3

SOURCES OF RURAL CREDIT IN INDIA

Unit Structure :

3.0 OBJECTIVES

1) Understanding the sources of Rural Credit in India.

2) Understanding the sources of Non- Institutional credit

3) Understanding the sources of Institutional credit

3.1 INTRODUCTION

Credit needs of the Indian farmers can be classified into three types depending upon the period and the purpose for which they are required:

a) Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. For e.g., they want to buy seeds, fertilizer's, fodder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose.

b) The farmers require finances for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, etc. These loans are larger than short-term loans.

c) The farmers need finances for the purpose of buying additional land, to make payment improvements on land, to pay off old debt and to purchase costly agricultural machinery. These loans are for long periods of more than 5 years.

3.2 SOURCES OF RURAL CREDIT IN INDIA

There are two sources of credit available to farmers:

A) Non institutional sources: Private or Non institutional sources include

a) Money-lenders,

b) Traders and commission agents,

c) Relatives and landlords.

Non institutional sources accounted for 93 percent of the total credit requirements in 1951-52 and institutional sources including the government accounted for only 7 percent of the total credit needs in that year.

B) Institutional sources:

Institutional credit refers to loans provided to farmers by

i) Government

ii) Co-operative societies

iii) Commercial banks

iv) Regional rural banks (RRBs)

v) NABARD.

vi) Lead Bank Scheme

vii) Kisan Credit Card scheme

viii) Farmer Service Societies

ix) Agricultural Finance Corporation (AFC)

x) State Bank of India (SBI)

A) Non institutional sources:

Non institutional sources:	**1951-52**	**1961-62**	**1971-72**	**1981-82**	**1991-92**	**2010-2011**
Money Lender	69.7	49.2	36.1	16.1	17.6	18.2
Traders and Commission agents	5.5	8.8	8.4	3.2	2.5	4.8
Relatives	14.2	8.8	13.1	8.7	5.5	4.4
Landlords.	3.3	14.5	10.7	8.8	4.3	5.7

Source: All India debt and Investment Survey.

a) Money Lenders: are of two types:

i) Landlords or rich farmers:

Who combine farming with money lending and professional money lenders? The cultivators depend upon the money-lenders for their requirements of cash. The moneylenders freely supplies credit for productive and non-productive purposes. They provide credit for short term as well as long term requirements of the farmers. The moneylenders are easily accessible and maintain a close and personal contact with the borrower, often having relation with family extending over generations. His methods of business are simple and elastic. He has local knowledge and experience and therefore can lend against promissory notes. He knows how to protect himself against default, through legal and illegal methods.

ii) Landlords and others:

Traders and commission agents supply funds to farmers for productive purposes much before the crop mature. They force the farmers to sell their produce at low prices and they charge a heavy commission for their dealings. Farmers often borrow from their own relatives in cash or in kind for their temporary requirements. They carry low or no interest and they are returned soon after the harvest. Farmers, particularly small farmers and tenants, depend upon landlords and others to meet their financial requirements for they charged exorbitant interest rates.

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

b) Traders and Commission Agents:

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

c) Relatives:

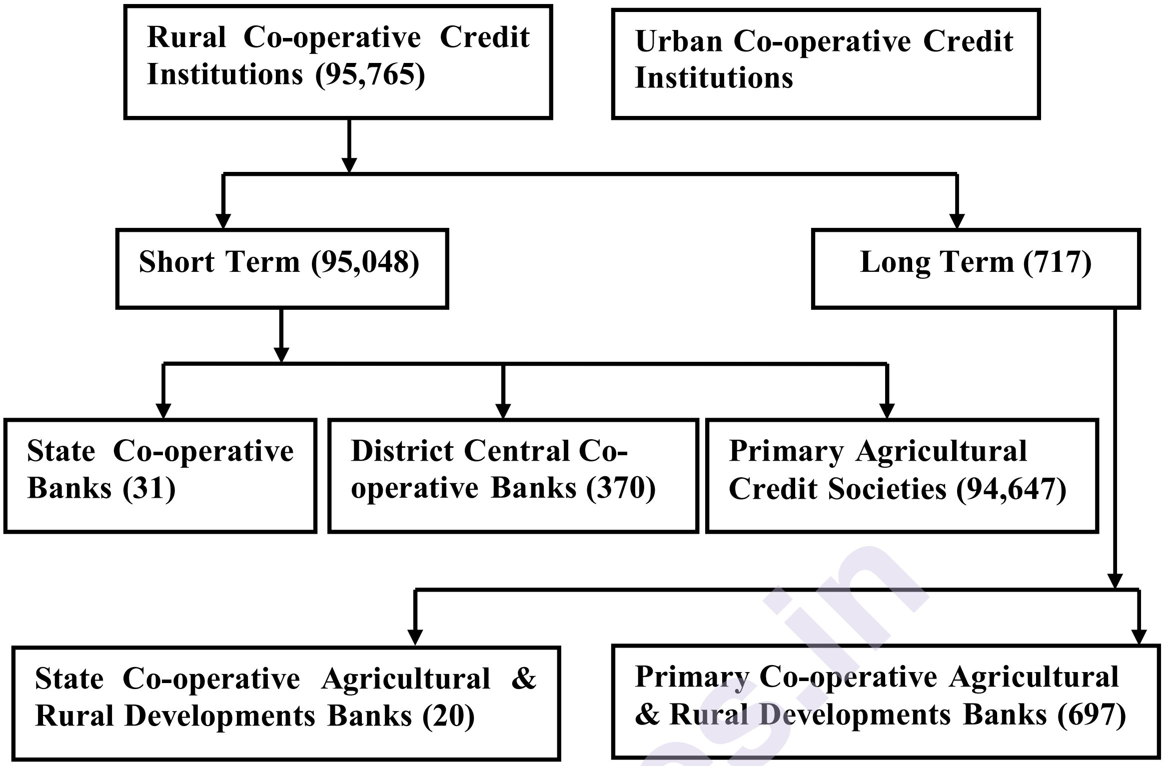
Farmers also borrow from their own relatives in cash or kind. These loans are taken for the short period in order to tide over temporary difficulties. These loans are generally contracted in an informal manner, the carry low or no interest and they are returned soon after the harvest. But this source of finance is uncertain and with increasing needs of modern agriculture, the farmer cannot depend upon this source to any large extent. Moreover, the importance of this source in the total borrowing of the cultivators was 14.2 percent in 1951-52 which declined to 8.8 per cent in 1961-62.

B) Institutional sources:

The need for institutional credit arises because of the weakness or inadequacy of private agencies and their exploitative nature of credit. The basic motive of Institutional credit is to help the farmer to raise his productivity and maximize his income. The rate of interest is not only relatively low but can be different for different groups of farmers and for different purposes.

As far as institutional sources are concerned, the first institutions established and promoted was the institutions of Cooperative credit institutions. History of co-operative credit is very old in India. The organization of rural co-operative credit institutions in India can be clear from this chart.

Co-operative Credit Institutions



Rural Institutional sources: (%)

Institutional sources: (%)	1951-52	1961-62	1971-72	1981-82	1991-92	2010-2011
Government	3.3	15.5	7.1	3.9	6.1	7.8
Co-operative Credit	3.1	2.6	22.0	29.9	27.6	24.9
Commercial Banks	0.9	0.6	2.6	29.4	33.7	27.1
Other	-	-	-	-	2.7	7.1
Total	7.3	18.7	31.7	63.2	70.1	66.9

Source: All India debt and Investment Survey and NSSO.

Rural Institutional sources: (Rs in crores)

Year	Co-operative Banks	Share in%	RRBS	Share in%	Commercial Banks	Share in%	Total Institutional Credit
1984-85	3440	55	-	-	2790	45	6230
1991-92	5800	52	596	05	4806	43	11202
2001-02	23604	38	4854	08	33587	54	62045
2002-03	23716	34	6070	09	39774	57	69560
2003-04	26959	31	7581	09	52441	60	86981
2004-05	31424	25	12404	10	81481	65	125309
2005-06	39404	22	15223	08	125859	70	180486
2006-07	33987	24	15170	10	100999	67	150156
2007-08	35875	20	17989	10	128876	70	182738
2008-09	36165	19	19325	10	132761	71	188251
2009-10	32871	18	23984	13	121879	69	178734
2010-11	70105	18	43988	10	332708	74	446779
2011-12	53187	20	29073	11	179869	69	262129

Source: Economic Survey and NABARD various issues

1) The Government :

These are both short term as well as long-term loans. These loans are popularly known as "Taccavi loans" which are generally advanced in times of natural calamities. The rate of interest is low. But it is not a major source of agricultural finance. The government provides finance indirectly as well as indirect.

1. Indirect financing indirect credit is provided through the co- operative societies.

2. **Direct financing** The govt. has been financing farmers directly. Agricultural credit from the govt. is calls "taccavi' and has a long history in India, it is provided under Land Improvement Loan Act of 1883 and the agricultural Loans Act of 1884. The government gives "taccavi loans" to the farmers which are disbursed at the time of distress famines, flood etc. At a low interest rate of 6 percent and the repayment schedule is very convenient.

2. Rural Co-operative Credit Institutions:

The rural co-operative movement was started in over 100 years back largely with a view to providing agriculturists funds for agricultural operations at low rates of interest and protect them from the clutches of money lenders.

The organisation of the co-operative credit for short period is as following,

A. Short Term Rural Credit :

a) Primary Agricultural Credit Society (PACS):

It may be started with ten or more persons, normally belonging to a village. The value of each share is generally nominal. PACS deal directly with farmer - borrowers, grant short term and medium term loans and also undertake distribution and marketing functions. The management of the society is under an elected body consisting of President, Secretary and Treasurer. Profits are not distributed as dividends to shareholders but are used for the welfare of the village .The usefulness of PACS has been rising steadily.

In 1950-51, they advanced loans worth Rs. 23crores, which increased to Rs. 200crores in 1960-61 and further to Rs. 34,520 crores in 2000-01. This progress has been spectacular but not adequate considering the demand for finance from farmers.

The number of PACS had come down from 2,12,000 in 196061 to 1,61,000 in 1970-71 and recently number of PACS are 94,647. At the end March 2006 with estimated membership of over 10 crore farmers. Most of the PACS are dependent on the finance provided by Central Cooperative Banks (CCBs). In case the CCBs are weak, the PACS are starved of finance which affects the credit functions of PACS. At the end of March 2006, the loans and advances outstanding for PACS were about Rs. 51,780 crores.

b) District Central Co-operative Banks (DDCBs):

These are federations of primary credit societies in specified areas normally extending to a whole district. These banks have a few private individuals as shareholders who provide both finance and management. They may accept deposits from the general public but their main task is to lend to village primary societies.

By the end of March 2007, there were 370 District Central Cooperative Banks. The loans outstanding came to Rs. 79,200crores. They acts as an intermediaries between the State Co-operative Bank on the one hand and the village primary credit societies on the other.

The Reserve Bank – now NABARD has formulated a scheme for the rehabilitation of weak central co-operative banks. NABARD is providing liberal assistance to the State Governments for contributing to the share capital of the weak Central Cooperative Banks selected for the purpose.

c) State Co-operative Banks (STCBs):

The STCB finances and controls the working of the District Central Cooperative banks in the State. It serves as a link between NABARD from which it borrows and the cooperative central banks and village primary societies. There are 31 State Cooperative Banks (STCB) in the country.

The State Cooperative Bank not only interested in helping the rural cooperative credit movement but also in promoting other co-operative ventures and in extending the principles of cooperation. During 2005-06 the 31 state cooperative banks had lent about Rs. 48,260crores to District Central Co-operative Banks.

B. Long Term Rural Credit:

Cooperative Agriculture and Rural Development Banks (CARDBs) :

The long term requirements of the farmers were traditionally met by the money-lenders. Initially, land mortgage banks were organised for the purpose of providing long term credit to farmers. These banks were later called land development banks. In recent years, they have been renamed as Cooperative Agricultural and Rural Development Banks (CARDBs). These were classified into;

- Primary Co-operative Agricultural and Rural Development Banks (PCARDBs)

- State Co-operative Agricultural and Rural Development Banks (SCARDBs).

The number of PCARDBs and their branches increased from 286 in 1950-51 to 697 in 2006-07, while that of SCARDBs increased from 5 to 20 during the same period. Total loans advanced by PCARDBs during 2005-06 were Rs. 2,250 crores and the loans outstanding at the end March was Rs. 12,740 crores. On the other hand, SCARDBs had sanctioned loans worth Rs. 2,900crores in 2005-06 and the amount outstanding at the end March 2006 was Rs. 17,710crores.

Finance and Loan operations of CARDBs:

CARDBs obtain their funds from share capital reserves, deposits and issue of bonds or debentures. Debentures are long term loans which are issued by SCARDBs, carrying fixed interest and for fixed periods, generally up to 20 years. They are subscribed

by the LIC, the commercial banks, the State bank of India and its subsidiaries and by the Reserve Bank of India. SCARDBs also float rural debentures for periods up to 7 years which are subscribed by farmers and panchayats and by the Reserve Bank of India.

CARDBs provide credit for a variety of purposes such as redemption of old debts, improvement of land, purchase of costly agricultural equipment, construction of wells and erection of pumps, etc. Though land development banking has made considerable progress in recent years, it has not really contributed much to the improvement of the financial position of the farmers.

3. Role of Commercial Banks in Rural Credit:

In the initial period of nationalisation, the banks concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high-yielding varieties of food grains. At present short term crop loans account for nearly 42 to 45 percent of the total loans disbursed by the commercial banks to farmers. Term loans for varying periods for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube-wells, for development of land for the purchase of fruit and garden crops, or leveling and development of land for the purchase of plough animal, etc. are provided. These term loans accounted for 35 to 37 percent of the total loans disbursed by the commercial banks.

Commercial banks extended loans for activities like dairying, poultry farming, piggery, bee keeping, fisheries and others which accounted for 15 to 16 percent. Commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. Commercial banks are providing indirect finance for the distribution of fertilisers and other inputs.

Commercial banks also extend their credit to manufacturing or distribution firms and agencies and co-operatives engaged in the supply of pump sets and other agricultural machinery on a hire purchase basis. They finance operations of the Food Corporation of India, the State Government and others in the procurement, storage and distribution of food grains. Finally commercial banks subscribe to the debentures of the central land development banks and also extend advances to the latter.

There are 5, 50,000 villages spread throughout the country. To reach all of them with only about 47,000 banking offices is a difficult task. To overcome from this problems commercial banks have introduced some unique schemes to reach to the farmers in rural areas.

4. Regional Rural Banks (RRBs):

In pursuance of the aspect of the New Economic Programme that the Government of India set up Regional Rural Banks. The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas.

Initially, five RRBs were set up on October 2, 1975 in Uttar Pradesh, Haryana, Rajasthan and west Bengal. Each RRB had an authorised capital of Rs. 1crore, and issued and paid up capital of 25 lakhs. The share capital was subscribed by the Central Government (50%), the State Government concerned (15%) and the sponsoring commercial bank (35%).

 Change In Relative Share of Institutions:

After the nationalisation of 14 major banks in 1969, the commercial banks have consistently increased their share in institutional credit to agriculture from 38.4% in 1980-81 to 74.3% in 2010-11.As a result the relative share of co-operative institutions has declined from 61.6% in 1980-81 to 15.7% in 2010-11.RRBs have contributed about 8 to 10 % of agricultural credit over the years ,it is shown in table no-4.1.

Table no- 4.1

Institutional Credit to Agriculture: Relative Share of Different Institutions

Year	Scheduled Commercial Banks	Co-Operative Societies	RRBs
1970-71	-	100.00	**-**
1980-81	38.4	61.6	**-**
1990-91	47.4	49.0	**3.4**
2000-01	52.6	39.4	**8.0**
2004-05	65.0	25.0	**10.0**
2007-08	71.1	18.9	**10.0**
2008-09	75.8	15.3	**8.9**
2009-10	74.3	16.5	**9.2**
2010-11	74.5	15.7	**9.8**

Source: Economic Survey 2011-3.

5. ROLE OF NABARD IN RURAL DEVELOPMENT

A National Bank for Agricultural and Rural Development (NABARD) or the National Bank was set up in July 1982 by an Act of Parliament to take over the functions of the Agricultural Refinance Development Corporation (ARDC) and the refinancing functions of RBI in relation to co-operative banks and RRBs. NABARD is linked originally with the RBI by the latter contributing half of its share capital and the other half being contributed by the Government of India and nominating three of its Central Board Directors on the board of

NABARD, besides a Deputy Governor of RBI being appointed as Chairman of NABARD.

Resources of NABARD:

The authorised share capital of NABARD was Rs. 500crores and its paid-up capital was Rs. 100crores, contributed equally by the Central Government and the Reserve Bank. The resources of the National Agricultural funds were transferred to NABARD. World Bank and IDA have also been providing funds to NABARD for implementation of the projects financed by them. The most important source of NABARD's funds is RIDF deposits, closely followed by market borrowings.

Functions of NABARD:

NABARD has a dual role to play (a) as an apex institution and (b) as a refinance institution. NABARD has inherited its apex role from RBI i.e. it is performing all the functions formerly performed by RBI with regard to agricultural credit. At the same time, NABARD has taken over the functions of ARDC and thus provides refinance facilities to all banks and financial institutions lending to agriculture and rural development.

i) NABARD services as a refinancing institution for all kinds of production and investment credit to agriculture, small scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development.

ii) It provides short term, medium term and long term credit to State Co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI.

iii) NABARD gives long term loans (up to 20 years) to State Governments to enable them to subscribe to the share capital of co-operative credit societies

iv) NABARD gives long term loans to any institution approved by the Central Government or contribute to the share capital or invests in securities of any institution concerned with agriculture and rural development.

v) NABARD has the responsibility of co-ordinating the activities of Central and State Governments, the Planning Commission and other all India and state level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralized sectors, etc.

vi) It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies.

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

Working of NABARD:

NABARD is performing the various functions assumed by it smoothly and efficiently. It sanctioned short term credit limits worth Rs. 8,820 crores during 2003-04 and Rs. 16,100 crores during 2006 - 07 for financing seasonal agricultural operations at the concessional rate of 3 percent below the Bank rate. During 2010-11 NABARD sanctioned total credit limit aggregating 35,273 crores Rs. as against 25,661 core Rs. During 2009-10 for various short-and medium-term purposes to STCBs and RRBs and long-term loans to the state government.

NABARD has attempted to ensure the flow of credit to weaker sections of society under the new 20-point programme by making it obligatory for banks to disburse a specified percentage of short term loans to small and marginal farmers and other economically weaker sections.

NABARD provides two types of refinance. The first is extended to RRBs, Apex Rural Credit Institutions, viz., State Cooperative Banks and state Governments. The second type of refinance is extended to provide resources for ground level deployment of rural credit. Purpose-wise, minor irrigation has continued to occupy an important place in scheme lending of NABARD i.e. about 13 percent of the schemes sanctioned in recent years consisted of minor irrigation works.

NABARD has vigorously continued its efforts in promoting investments in the agricultural sector in the less developed / under– banked states – U.P., Bihar, M.P., Rajasthan and Orissa have been the biggest beneficiaries.

NABARD and Rural Infrastructure Development Fund (RIDF) RIDF –I was established in 1995-96with the major objective of providing funds to state governments and state owned corporations to enable them to complete various types of rural infrastructure projects. RIDF has been continued on an annual basis. The annual allocations of funds under the RIDF has gradually increased from Rs.2000 crore in 1995-96 to Rs.18000 crore in 2011-3. Aggregate allocations have reached Rs.1, 34,000 crore .The budget allocation for RIDF for 2012-13 has been raised further to Rs.20, 000 crore.

As against the total allocation of Rs.1,34,000crore ,encompassing RIDF-I to RIDF-XVII ,sanctions aggregating Rs.1,32,808 crore have been accorded to various state governments and an amount of Rs.86, 631 crore disbursed up to end December 2011. This shows that the proportion of disbursements in relation to sanctions has been only 65 %.

6. Lead Bank Scheme.

6.1 introduction :

In the previous unit, we saw the different functions performed by commercial banks for industry, trade etc. Recognizing the role that these banks can play, Govt. of India imposed social control over them in 1967. The main intention was to accelerate rate of growth, providing banking facilities to the rural areas and extending loan assistance to the important sectors. However, as govt. realized that social control will not be enough to fulfill the objectives, a decision of nationalizing 14 main commercial banks was taken on 19th July 1969. Setting up of Lead banks is also an important decision taken for the development of the country.

6.2 Objectives :

i) Understanding the background of Lead Bank Scheme.

ii) Understanding the meaning and objectives of Lead Bank Scheme.

iii) Studying functions and working of Lead Bank Scheme.

iv) Studying the problems/drawbacks of Lead Bank Scheme.

6.3 Background of lead bank scheme :

A study group under the Chairmanship of Dr. Dhananjayrao Gadgil was formed by the National Credit Corporation for making suggestions to remove regional inequality and imbalance. The group submitted its report in 1969. At that time, commercial banks accounted for 83% of total loan allocation, but 5000 villages had not received banking facilities. As a result, the study group recommended that commercial banks should adopt regional approach. It implies that commercial banks should pay attention to the social justice and consider district as the focus area for their activities. Overall economic and social development of the district should be their top most objective. After the report of the study group was submitted to RBI, RBI set up a committee under the Chairmanship of F.K.F.Nariman. This committee also upheld the recommendations of Gadgil group and floated the concept of Lead Bank. Finally, RBI announced the Lead Bank Scheme at the end of 1969.

6.4 Meaning :

The basic idea behind the lead bank scheme is that a bank should lead and take initiative for the development of a district. Lead banks are supposed to function in co-ordination with other banks and financial institutions in the district in designing and implementing schemes of economic development.

This scheme was introduced at end of 1969 in 336 districts, excluding metropolitan cities like Mumbai, Kolkata, Chennai and Union

Territories like Delhi, Pondecherri and Goa. They were allotted to 14 Nationalised Banks, State Bank and its seven associate banks and 3 private banks. The field of the bank was decided on the basis of the size of the bank, availability of the resources with the bank and affiliation to the district etc. Lead bank is supposed to conduct a survey of the district, check the possibility of developing agriculture, industry (small or large) and other businesses and take a lead in meeting total credit needs of the district.

6.5 Objectives Of Lead Bank Scheme :

1) Bringing co-ordination in the functioning of commercial banks, co-operative banks and other financial institutions operating in the district.

2) Bringing effectiveness in branch expansion, guidance and monitoring.

3) Establishing close relationship between loan business and banking business.

4) Encouraging saving by conducting survey of district's resources.

5) Assisting in the development of agriculture and agro-based and small industries of the district.

6) Removing hurdles in the development of district.

7) Accelerating the pace of economic activities at district level.

8) Establishing close relations and co-ordination between district level govt. officials and banking institutions.

6.6 Functions Of The Lead Bank :

Lead bank, as a consortium leader, performs following functions :

1) Preparing economic report of the district : This is an important function of the lead bank and helps in taking important decisions like where to open new branches in the district, how much deposits could be collected from a region, which parts will see industries flourishing, and how much credit is needed in a region etc.

2) Continuity in economic survey : The lead bank should take the responsibility of conducting economic survey of the district every year. Continuity will help in knowing the extent of progress and also the shortcomings in it.

3) Preparing District Credit Plan : Lead bank initiates preparing the district credit plan in association with the commercial banks and govt. banks. District credit plan is a prediction about how much credit will be required for agriculture, industry and commerce in the district next year. Lead bank must ensure that every bank from the district will share the responsibility of meeting the credit requirements.

4) Appointing an Advisory Committee at district level : A committee consisting representatives of credit societies, banks and govt. officials (representatives from Panchayat Samiti and Zilla Parishad) is formed. District Collector is the oxofficer Chairman of this committee. The committee has following two responsibilities:

a) Coordinating the activities of commercial banks, co-operative banks and other financial institutions from the district.

b) Coordinating the development accounts of commercial banks, co-operative banks and other financial institutions from the district.

6.7 Working Of Lead Bank Scheme :

The scheme has been implemented since 1970. In the beginning, due to ambiguous nature of the scheme, banking sector went through chaos. However, as the details were made available, the scheme started functioning. By March 1978, every lead bank had prepared the district credit plan. However, it was criticized on several grounds.

i) Agriculture did not receive proper place in credit schemes.

ii) Co-operative institutions were not given proper place and importance in the credit plan.

iii) Credit plan was not consistent with the district development scheme.

In 1981-82, RBI published guiding principles for preparing district credit plan. Banks were asked to consider following things :

i) Making efforts to reduce unemployment and under employment in the district.

ii) Raising income levels of people living below poverty line. iii) Initiating labour intensive projects in the district.

iii) Making efforts for raising agricultural productivity.

iv) Preparing a scheme for the progress of small & marginal farmers.

v) Preparing development plans for landless labourers, backward caste people.

vi) Credit plan should be based on strong economic and technical foundation.

vii) Of the total agricultural credit in the district, 50% should flow to small and marginal farmers. In the rural areas, credit deposit ratio should be maintained at 60%.

Until 2001, 576 districts were brought under the purview of lead bank scheme. Lead banks have done far better than the objectives of lead bank scheme. Public sector banks have been instrumental in implementing the scheme.

6.8 Shortcomings Of The Lead Bank Scheme: Following Are Main Shortcomings :

1) Impractical Credit Plan: The credit plans prepared by lead banks are said to be impractical, as these are not based on scientific foundation. The credit plan should be prepared taking into consideration total number of banks and financial institutions, their credit creation capacity, possibility of economic expansion etc.

2) Lack of Coordination: Lead banks have been criticized on the ground that they have failed in coordinating the activities of commercial banks, co-operative banks and other financial institutions from the district.

3) Lack of Basic Facilities: Many districts lack the basic facilities required for carrying out developmental work. Lead banks have attained limited success due to lack of facilities like transport, communication, storage faciltity, insurance companies markets etc.

4) Lack of Enterprise: For the successful implementation of credit plan, creative leadership and enterprise is required. However, many districts lack such leadership and enterprise.

5) Lack of Trained Experts and Experienced Staff: Many commercial banks find it difficult to get trained experts and experienced staff required for implementing new schemes.

6) Flawful Technical and Economic Survey: Lack of trained staff creates difficulties in conducting technical and economic survey.

7) Non-cooperation from other banks: Under the scheme, lead bank takes lead, but if other banks do not cooperate implementation of the credit plan will suffer.

8) Unfair Distribution of the Districts: If the allotted district is unknown to the bank, it becomes difficult for the lead bank to work in such district.

Despite these short-comings, lead bank scheme can be highly successful if survey of the district is done properly and if other banks cooperate with the lead

7. Kisan Credit Card Scheme

In spite of various measures to rejuvenate farm credit, the flow of credit remained quantitatively and qualitatively poor. The institutional sources of credit meet only 51 per cent of the credit requirements of farm sector. The non-institutional sources were mainly reached by farmers due to lack of collaterals, frequent needs, undue delays, complicated procedures and malpractices adopted by institutional lending agencies. With a view to inquire into the reasons for the problems of the farm credit and suggest measure for improving the delivering system, RBI set up a one man Committee of Shri R. V. Gupta to in December 1997. The Committee submitted its report in April 1998. It was against this background that RBI directed all Public Sector Banks (PSBs), RRBs and cooperative banks to introduce "Kisan Credit Card Scheme (KCCS)" on the lines of the model scheme formulated by NABARD and in due course of time the KCCS was adopted by all the directed agencies.

The KCCS aims at adequate and timely support from banking system to the farmer for crop production and ancillary activities. The credit limit (loan) is sanctioned in proportion to the size of the owned land but some flexibility is provided for leased-in land in addition to owned land. The borrowing limit is fixed on the basis of proposed cropping pattern. Most of the banks are adhering to Scales of Finance (SOF) decided by the State Level Bankers

Committee (SLBC) but some banks have fixed their own SOF. The nature of credit extended under KCCS is revolving cash credit i.e., it provides for any number of withdrawals and repayments within the limit. This feature would provide flexibility and reduce the interest burden upon KCCS beneficiary. Security and margin norms would be in conformity with the guidelines issued by RBI and NABARD from time to time. With effect from 2001-2002, it was made obligatory for the implementing agencies to operate the KCCS with an in-built component of life-insurance for KCCS beneficiary. The KCCS as envisaged has substituted all other existing institutional modes of short term credit delivery.

8.Farmers Service Societies (FSS)

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

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

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

iii) To encourage dairy, fisheries, poultry, farm forestry and other subsidiary occupations in rural areas;

iv) To make arrangements for bringing about improvements in agricultural markets; and

v) To mobilize deposits and small savings from weaker sections through incentives.

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

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

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

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

8.2 Farmer’s Service Societies:

The National Commission on Agriculture has recommended the organization of Farmer’s Service Societies (FSS), one for each block or any other viable unit of convenient size. The strength of FSS lies in the fact that they take into account, a comprehensive view of the problems of the small farmers. As is well known, the small and marginal farmers require not only credit but timely availability of inputs and ancillary services, along with technical advice and services such as storage, transportation, processing and marketing, preferably through a single contact point. These societies have been organized since 1973-74 to meet the above mentioned requirements of poor farmers. The National Commission on Agriculture has recommended a programme of establishing 2,500 such societies over a period of six years, commencing from 1974 with a capacity to form new societies at the rate of 1,000 per years. However, by the end of June, 1979, there were only 1,200 FSSs in the country.

9. Agricultural Finance Corporation (AFC)

Agricultural Finance Corporation (AFC) was incorporated on April 10, 1968 by the Indian Banks‟ Association in order to provide advisory services to commercial banks in matters related to financing agriculture. Basically, AFC is a consortium of commercial banks established under the Indian Companies Act 1956 to provide Agricultural Credit Management 126 consultancy services to member banks in matters related to projects for agriculture and rural development. Scheduled commercial banks numbering 37, notified under RBI Act of 1934 had subscribed to the share capital of the corporation. The authorized share capital of AFC was Rs 100 crores and the issued share capital was Rs 10 Crores.

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

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

10. State Bank Of India

The State Bank of India opened specialized branches known as 'Agricultural Development Branches' (ADBs) at selected intensive centres' for catering exclusive to the credit needs of agricultural and allied activities.

These ADBs provide a package of assistance, which decides credit-support including technical and other facilities. These ADBs commence with business plans for their areas of operations covering a period of 2 to 3 years, to start with. These plans are based on the development plan prepared with reference to the potential and local resource of the area and the progress of the plan is reviewed at regular intervals.

The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India.

10.1 Functions:

1. The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.

2. It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.

3. It acts as an agent of the registered co-operative banks.

4. It is authorized to purchase and sell of gold and silver.

5. It underwrites the issue of stocks, shares and other securities.

Lending for Rural Development: Commercial banks are endeavoring not only to fill the credit gaps in the field of agriculture arising out of the inadequate development of co-operatives but are also seeking to contribute to agricultural development by systematically preparing programmes of development suitable to the resource - base of the area. During the last few years, they have contributed substantially to the development of irrigation, mechanization, land development programmes as also to activities allied to agriculture such as horticulture dairying, etc. For this purpose, the commercial banks have appointed a large number of Technical experts for systematically studying the p roblems of agricultural growth and rural development.

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4

CO-OPERATIVE FINANCIAL INSTITUTIONS

Unit Structure :

4.0 OBJECTIVES

1) Understanding the Structure of Co- operative credit Institutions

2) Understanding the working of PACCS

3) Understanding the functions of DCCB

4) Understanding the functions of SCB

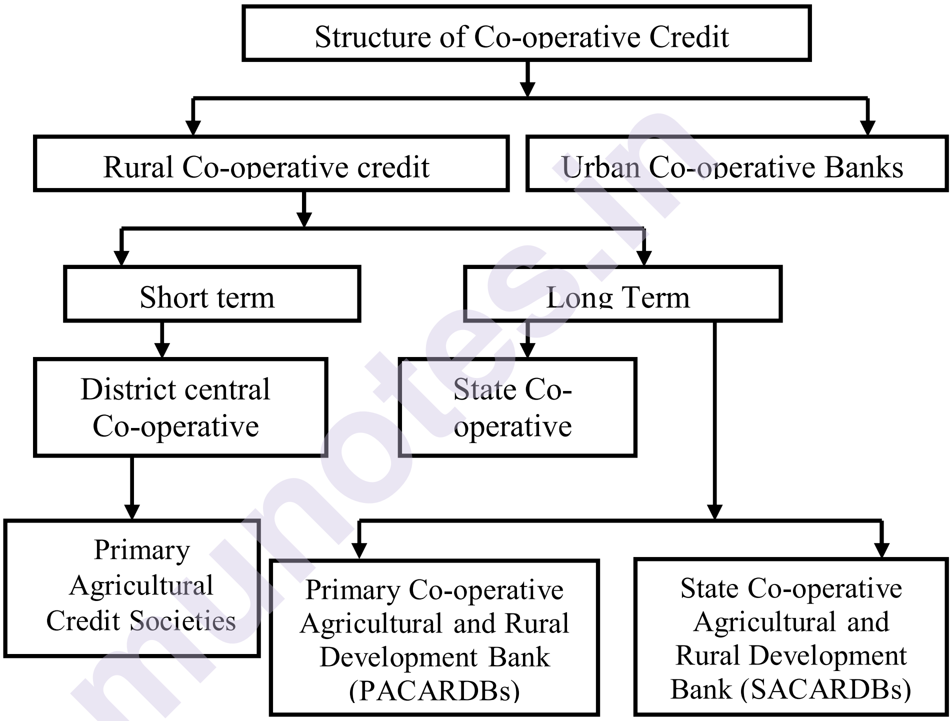
5) Understanding the long tern credit structure.

4.1 INTRODUCTION

Agriculture is an important industry and it requires capital. Due to uncertainty in production, low returns, small-divided plots, cultivators cannot manage their living, without borrowings. Agriculturist's capital is locked up in his land and stock, hence borrowing is a necessity to the farmer. In India, agriculture provides employment to 60 % of the population and amounts 26 % of our national wealth, and accounts 20% of the total export earnings, for stimulating the tempo of agricultural production farmers must be provided adequate and timely credit to buy fertilizers, seeds,

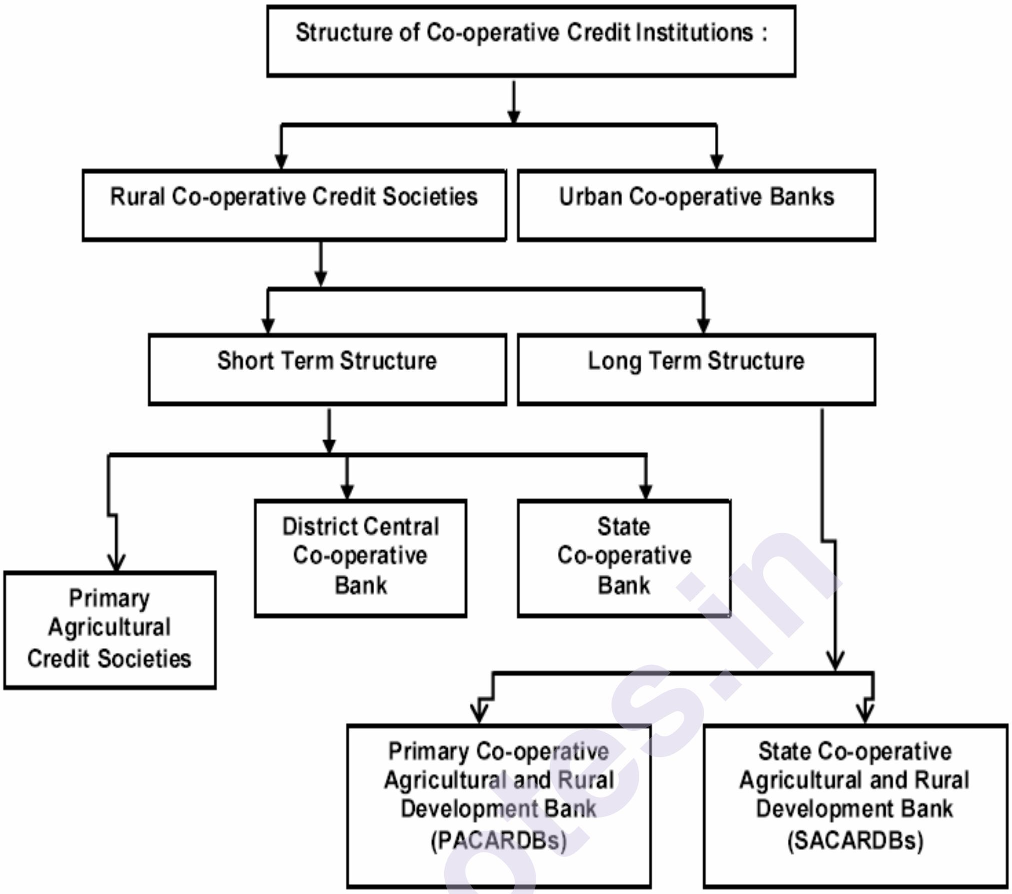
modern tilling equipment's, pay for irrigation facilities etc. The use of greater and better quality of inputs, there is always a greater demand for rural credit. In underdeveloped country like India, the need for credit is more pressing, where the farmers are without liquid resources, and credit on reasonable terms, to finance the preparation for next crop. Therefore, co-operative institutional credit supply becomes recognized as a basic condition for agricultural progress.

4.2 STRUCTURE OF CO-OPERATIVE CREDIT INSTITUTIONS

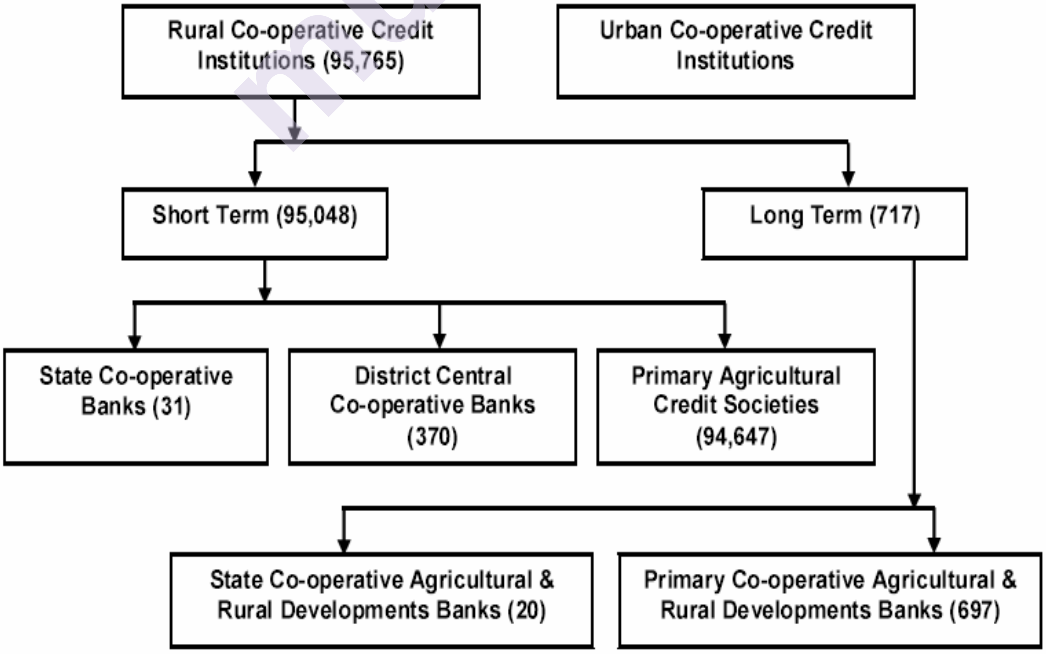


Sources: Co-operative perspective –MNI March 2011. Issues.

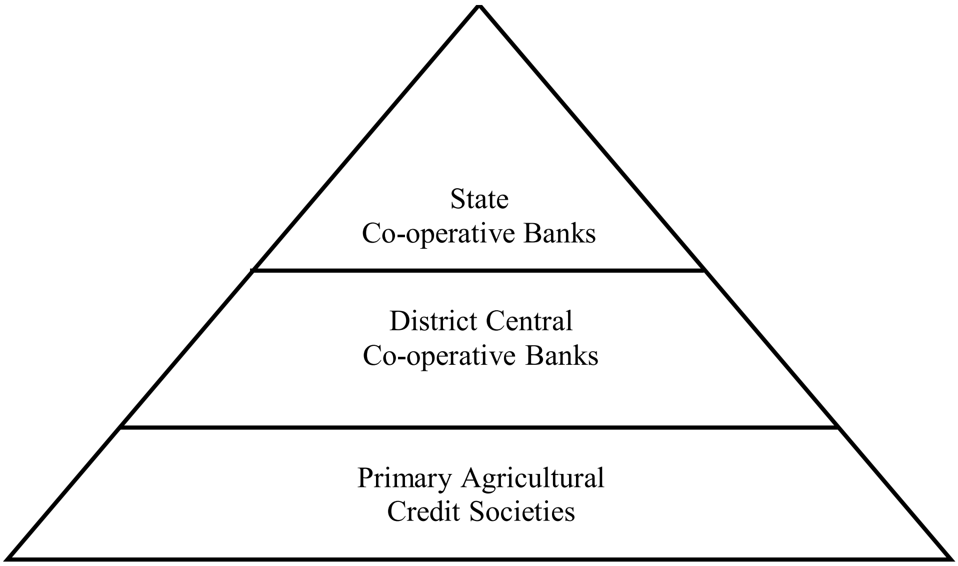
Figures in bracket indicate number of banks of that type.



Co-operative Credit Institutions



Short Term Structure (Pyramid)



4.2.1 Short term Co-Operative Credit

A) Primary Agricultural Credit Societies: (PAC'S)

Primary Agricultural Credit Societies (PACS) are the grass root level arms of the short term co-operative credit structure. They deal directly with farmers and give short term and medium term loans.

The major objectives of co-operative development programs are to provide benefits of co-operative activities to weaker sections of the society.

Functions of PACS:

1. To associate and encourage to raise Agricultural production and welfare programme. To promote the economic interests of the members.
2. Give and sanction land loans to farmers for short term and medium term.
3. To cater the needs of small farmers and agricultural labours also and disbursement of credit to members.
4. To borrow from central agencies.
5. To supervise the use of loans and to recover the loans disbursed.
6. To distribute fertilizers, seeds implements etc.
7. Wherever necessary these societies can purchase store and sell the produce.

Performance and Progress of Agricultural Credit Societies:

PACS in Maharashtra:

I	1981	1991	2001	2010	2012
Primary Co-operative	18389	18433	20619	21243	21402
Total No. of members (lakh)	5391	7507	10121	13853	14230
Total loan disbursement	24993	76855	373412	698884	805762
Loan Recovered (Lakh)	20044	78417	276550	9220239	668991
Outstanding (Lakh)	35345	135192	530827	1024119	1089116

Problems of Primary Agricultural Credit Societies: (PAC'S):

1. Non-viable Units:

According to all India Rural Credit Review Committee (1969) a large number of primary societies are neither viable nor potentially viable and must be regarded as inadequate and unsatisfactory agencies for disbursing production oriented credit.

2. Uneven Growth:

It can be seen from the figures that 86% in Karnataka, 69% in Tamilnadu, and 52% in Maharashtra, rural population was served by co-operatives. While in Assam, Bihar, Manipur, the said percentage was around 10% to 15% only.

3. Inadequate Credit Supplied:

On an average each society has given Rs.1100 only per member which is by no means fairly satisfactory even. A large number of societies do not advance loans which can be substantiated by figures. 32 % members only borrowed from agricultural societies in 1981-82. Thus, it is rightly said by rural Credit Review Committee.

4. Defective Loan Policies:

Agriculture Credit Societies in most of the states have not restructured loan policies suitable to crop loan system. There are various defects like, improper Timing of loans, entire loan is given in lump sum, kind loan not given, and security against loan is insisted.

5. Delay in loan Disbursement:

Actual disbursement of loan is inordinately delayed. Entire process takes 6 to 8 months also.

6. Inadequate Supervision and defective Audit:

Even today there is no strict supervision and proper checking of the working of the primary societies the RBI has revealed that around 30 % loans are not used for the same purpose for which

it was asked. So also there is frequent renewal of the same loan.

7. The Attitude of the Government:

The Government attitude approach is quite encouraging; however, the co-operatives work like a Government department with all rigidities and short-sightedness associated with Government Department.

8. Ineffective Management:

In many village societies political interference, exits, annual meetings are not conducted but shown on paper only; particular local groups dominate the societies in respective of their knowledge in the field.

9. Neglect of small farmers:

A major defect of these societies is that they never cared for small farmer persons. Only recently Government of India has asked, Apex Institutions to look into their problems. Now the total share at least on paper, stands, around 40 %.

10. No linking of credit with Marketing:

It is a sad experience that even today credit has not effectively been linked with marketing. During 1979-80 only Rs. 9 crores were recovered through marketing linkage.

Suggestions to improve the working:

1. Societies should Develop into Rural Banks:

If societies develop beyond minimum standards, and develop into rural banks accepting all types of deposits, extending the banking services, offering credit facilities, including non- cultivators also, then credit structure would become a sound one.

2. Reorganization and Revitalization:

The planning commission actually suggested the revitalization based on sound leadership, which must be carried out quickly as expected.

3. **Emphasis on deposit Mobilization:**

Actually primary societies should concentrate on collecting deposits and should educate the rural people relating importance of thrift. But unfortunately many of the societies have not gained that confidence in society.

4. Reducing Overdues:

Serious efforts should be made to reduce the overdue. The collection drive should be launched in all states. Coercive should be taken against willful defaulters.

5. Effective Supervision and Audit:

For efficient working of the societies, co-operative bank, effective supervision, inspection and audit is necessary. Efficient management is also a necessary condition.

6. Linking of Credit with Marketing:

The problem of recovery is most serious problem before the primary societies, so effective linking of credit with marketing is always beneficial to sort out this problem.

7. Better Service to Small Farmers:

The basic objectives of co-operatives movement are to serve the small farmers and weaker sections of the society. The Co- operative credit institutions therefore, reorient and redesign their credit policies hereafter.

8. Implementations of Crop Loan System:

Crop loan system should be introduced in all the rural areas and the scale of finance be decided according to the acreage under different crops. There should also be this loans given in kind, should not be restricted so rigidly to fixed areas and of fixed quantities.

B) District Central Co-operative Banks:

The co-operative primary societies federated into a central society are named as central bank. There are 369 District Central Banks in India which are federations of primary credit societies normally working in a district. Therefore, they are also known as district Central Co-operative Banks. These banks have a few private individuals as the shareholders and remaining funds come from primary credit societies or Government provides finance, purchases shares, collect deposits etc. The main task of these central co-operative banks is to lend loans to village primary societies. The District Central Co-operative Banks act as intermediaries between the State Co-operative banks on the on hand and the village primary credit societies on the other. The success of the co-operative credit movement largely depends on their financial strength of DCC's. The Central Co-operative Banks occupy very important position in the co-operative credit structure.

Functions of the Central Co-operative Banks:

The main functions of Central Co-operative Banks are as follows:

1. To meet the credit requirement of the primary credit societies for production, marketing and sales and supply operations by providing them a regular flow of credit.
2. To carry out ordinary commercial banking business. The Central Co-operative Banks accepts deposits from the people, collect bills, cheques, bundies, railway receipts, sales of securities and advancing loans to members against fixed deposits, against gold, silver, etc. in rural areas.
3. To undertake non-credit activities such as supply of seeds, fertilizers, manures, food-stuffs and consumer goods.
4. To maintain close contact with primary societies, work as intermediary between State Co-operative Bank and Primary Co-operative Credit Societies (PCCS), at village level.
5. To provide a safe place for investment of funds of primary Co-operative credit societies.
6. To act as friend, philosopher and guide to the primary societies and to make them available surplus funds in their time of need.
7. To develop co-operative movement in the district on sound lines and extend banking facilities to the members and to the rural areas etc.

Area of Operation:

The area of operation of Central Co-operative Banks varies from taluka to district. Normally, as per Maclagan Committee report, the area of operation is supposed to be one revenue district so that it will be strong economic unit.

Sources of Finance:

The Central Co-operative Banks raise funds by way of share capital, deposit from the public, borrowing from the state co- operative Banks, grant loans from the Government.

Loan Policies of the Banks:

The loan are advanced to primary credit societies for financing agriculture such as cultivation expenses, purchase of seeds and to meet seasonal need of agricultural operations. The loans given for land reclamation, building of Cattle sheds, purchase of Cattle, purchase of oil pumps etc. are regarded as medium term loans. Loans granted consisting of land assets are known as long term loans. The most unfortunate and disquieting trend in the working of these banks is the rise in the percentage of over dues.

Growth and Development of Banks:

The first central bank was opened up in U.P in 1916 as a primary credit society. Then similar types of banks were opened up in Madhya Pradesh and Rajasthan. In 1910, the central banks did increase from 233 in 1919-20 to 588 in 1929-30. Their membership increased to 2 lakh and deposits 33 crores in 1945-46. In planning period, progress was fast in second plan. The principle of one central bank for each district was followed in all states as per the recommendations of rural credit survey committee report. As a result of reorganization policy the number of central banks fell from

505 in 1950-51 to 280 in 1960-61. In 1976-77, there were 342 banks. Today there are 367 banks with 13000 offices and the membership is 2.20 million whereas the total share capital comes to 40000 million.

The total working capital is 12 lakhs cores rupees. The above table is self-explanatory explaining the growth and development of central co-operative banks in the recent past.

Loans and advances for agricultural purposes accounted a very large share. The medium term loans are generally given for the purchase of bullocks and for the improvement of land and irrigation. But the medium term loans account for only purpose of advance. This rate varies between 8 to 15 % and the margin retained by Central Co-operative Banks on these advances arrives to the extent of 1.5%.

There was a declaration in growth of the districts central co- operative banks (DCCBs) in 2012-13 which is proved by decline in asset growth to 4.3 per cent during the year from 14.5 per cent during 2011-12.

Problems and Weaknesses of the District Central Co-operative

Banks in India:

The Central Co-operative Banks suffer from the following

weaknesses:

1. **Uneven Expansion of Credit :**

These banks have not provided credit to almost all states on a uniform basis. This has been due to weak structure and inadequate coverage of villages. There are large numbers of dormant societies.

2. **Defective Loan Procedure:**

Large advances granted to individual members, bad and doubtful debts, ill-equipped staff and undertaking of trading activities by the banks.

3. **Difficulty in mobilizing the resources:**

Central Banks have not succeeded in mobilizing savings because of severe competition from the commercial banks.

4. Heavy Over dues:

The banks suffer from heavy over dues. Presently the over dues are to the extent of 32 % which is all time high. The situation of over dues is worst in the states like Assam, M.P., Orissa, Rajasthan and Bihar and the reasons are poor recovery, inefficient management, untrained staff, lack of supervision and defective loan policy.

5. Delay in Sanctioning loans:

It has been noticed that there is unusual delay in the sanction of loans. Applications are unnecessarily kept pending as the full board of directors cannot meet once a quarter. Some of the banks do not make any distinction between short term loans and long term loans. There are also malpractices which help to conceal the real position of the banks.

6. Defect in investment policy:

There is a tendency among some Central Co-operative Banks to keep fund in current and call deposits with commercial banks far in excess of actual requirements. There is also increasing tendency on the part of Central Co-operative Bank to invest in share of other co-operative institutions, particularly in sugar factories, spinning mills etc.

7. Defects in Management:

One of the important defects in management is that there are still large numbers of representative of individuals and therefore the management of these banks is still conducted by untrained staff. Most of the directors are busy politicians and they do not take much interest in the problems of the bank. District Central Co-operative Banks have become the hot beds of politics.

8. Other defects:

1. The Central Co-operative Banks failed to establish a close link with primary co-operative credit societies.
2. They do not provide sufficient loans to industrial consumers or other non-credit societies.
3. The banks cannot offer guidance to the primary credit societies in the matter of the operational policies.
4. Quantitatively their position is unsatisfactory because in many states only C-types banks predominate and hence there is no effective supervision and control.

Suggestions for Improvement in the working of Co-operative Banks:

1. Increase the Deposits:

The Co-operative banks should try to increase their deposits by opening up their branch offices in business areas, improve the services to their clients, offer competitive rates of interest and introduce the schemes like pigmy deposits, automatics extension deposits, social security deposits, recurring deposits etc. simplify the account procedures and provide free services for collection of local and outstation cheques.

2. Improve loans policies:

The banks should change their loan policies on the basis on the crop loan system. There should be proper link between advancing of the loan and repayment of the loan in sowing and harvesting seasons.

3. Recovery of over dues:

The bank should drop a scientific method to recovery over dues. The borrowing societies should recover loans from members and play it back to Central Co-operative Bank. The Central Co- operative Bank must maintain up to date record on a daily basis.

4. Other Measures:

1. The Central Co-operative Banks should maintain adequate liquid resources.
2. An adequate margin should be kept between borrowing and lending rates so as to build a strong reserve fund.
3. Proper scrutiny and provision should be made for bad and doubtful reserve.
4. Business should be confined generally to short-term loan.
5. Separate record should be kept of long term loans and over dues of principal and interest.
6. In the interest of the efficiency of the organization properly qualified and trained personnel should be appointed.
7. Adequate investment depreciation reserve should be created to cover the gap between the market value and face value securities in which banks have investment their funds
8. Adequate provision out of the profits should be made for bad and doubtful debts.

Rural Credit Review Committee's (1969) Suggestions:

1. Increase in state contributions to the share capital of central bank in areas of poor performance.
2. Where agricultural credit societies are dormant, there for reactivation central co-operative bank many finance non- defaulter members of the societies.
3. It was advised that the staff should be augmented, training facilities should be giving a training of new agricultural and techniques should be provided.
4. Special grants by the state Government to employ right quality staff and to write-off bad loans.
5. State Government should make long deposits so as to enable central co-operative banks to absorb over dues.
6. Special drive to recover over dues.
7. Special officers for small cultivators.
8. Decentralization of loan sanctioned powers.

C) State Co-operative Banks:

The State Co-operative Banks is a central institution at the state level which works as a final link between small primary societies on the one hand and the money market on the other hand. It takes-off the idle money in the slack season from the Central Co-operative Banks and supplies the money to the Central Co-operative.

Banks in busy season. There are presently 30 State Co- operative Banks in India. They form Apex co-operative credit structure in each state. The Apex Bank controls the working of Central Co-operative Banks in the State. It serves as a link between National Bank of Agriculture and Rural Development (NABARD) on one hand (formerly RRBI) and on the other hand, co-operative Central Bank and Village primary societies. The state Co-operative Bank is not only interested in helping the rural co-operative credit movement but also promotes other co-operative ventures.

Objectives and functions of Apex Banks:

The following are chief objectives of the Apex Banks:

1. They act as banker's bank to the Central Co-operative banks in the districts. These banks not only mobilize the financial resources needed by the societies but they also deploy them properly among the various sectors of the movement.
2. They co-ordinate their own policies with those of the co-operative movement and the Government.

3. They form a connecting link between the co-operative credit societies and the commercial money market and the R.B.I.

4. They formulate and execute uniform credit policies for the co-operative movement as a whole.

5. They promote the cause of co-operation in generation by granting subsidies to the Central Co-operative Banks for the Development of Co-operative activities.

6. They act as a clearing house for capital i.e., money flows from the Apex Banks to the central Banks and from the Central Banks to the rural societies and from them to individual borrowers.

7. They supervise, control and guide the activities of the Central Bank through regular inspections by their inspection they rectify the defects in their work. Thus they act as their friend, philosopher and guide.

8. They also perform general utility functions such as issuing drafts, cheques and letters of credit on various centers and thereby help remittance of funds.

9. They collect and discount bills with the permission of the registrar.

10. In certain places they also provide safe deposit lockers and facilities for safe custody of valuables.

11. They help the state government in drawing up Co-operative development and other development plans and in their implementation.

Resources:

State co-operative banks draw their funds from various sources comprising of share capital, reserve fund, cash credit, overdraft from commercial banks etc. But a major part of the funds of State Co-operative banks comes from the Reserve Bank of India. As regards the channelization of funds, these banks channel them via central bank.

Lending Policies:

As an Apex Bank, State Co-operative Banks provide short term loans for twelve months both to finance agricultural operations as well as for the marketing of crop and distribution of controlled commodities. Moreover, medium term loans are granted for purchase of cattle and machinery, reclamation of land, sinking and renovation of irrigation wells, construction of farm sheds, godowns etc.

The Working and progress of the Sate Cooperative Banks:

There is only one Apex Bank in each state but some states like Maharashtra, M.P., Punjab, and A.P. have got more than one Apex Banks.

The membership of these banks is opened up to all Central Co-operative Banks and some societies are also allowed to have direct dealing.

Regarding the sources of finance the primary source is working capital of these banks and share capital, reserve fund, deposit from members, borrowing from Reserve Banks, State Banks etc. The share capital of Apex banks is increased from Rs.

18 crores in 1960-61 to Rs. 100 crores in 1980-81 to Rs.400 crores in 1997-98 and now Rs. 500 crs.

The Apex banks provided short term loans for a period of 12 months for financing agricultural operations, also provides loans for marketing of crops and distributions of controlled commodities. Medium-term loans are granted for purchase of cattle and machinery, reclamation of land, sinking and renovation of irrigation wells, bundling, fencing, construction of farm sheds, godowns, renewals of machinery and equipment's.

The loans are granted to the member societies through their main branches. In 1960-61, Rs. 260 crores were disbursed while in

1995-96, 22145 crore rupees loan advances were sanctioned. Above three tables clearly indicate the working of state co-operative Banks and the fast progress they have made in distributing agricultural loans, medium-term loans through district central co- operative banks.

State Co-operative Banks and priority sector Lending:

Improving credit delivery and financial inclusion have become key priority of Reserve Bank of India. In this direction RBI introduction biometric smart card system (Kisan Credit Card (KCC)). Priority sector, lending aims at encouraging and enhancing credit availability to priority sectors of the economy. The target for advances to the priority sector is 40% of adjusted Net Bank Credit (ANBC) to decide the nature and structure of priority lending Malegam committee was appointed and submitted its report in Feb.2012.

Major Recommendation of Malegam Committee on Priority

Sector Lending:

1. 1. Overall Priority sector lending should be 40% od adjusted net bank credit for domestic banks, agriculture microcredit,
2. education, housing, export credit were treated as a part of priority sector.
3. Lending to agricultural sector should be around 18% of ANBC (adjusted Net Bank Credit) retained as target for Agri. Sector.

4. 9 % of ANBC should be given as loans to small and marginal farmers, by 2015-16.

5. 7% of ANBC should be given to micro- enterprises.

Problemmes and Weaknesses of the State Co-operative Banks:

The State Co-operative Banks suffer from the following defects:

1. **Poor Deposit Mobilization:**

These banks have not been successful in raising, deposit as even now, individual deposits from less than 25 per cent in many Stats.

2. **Ineffective supervision and inspection:**

Many of the banks have not taken up this work in right spirit. Some of the banks have not adequate staff for this work. Officers of these banks sometimes pay only hurried visits.

Book Adjustments:

Book adjustments are often made regarding repayment of loans. The State Co-operative Banks have failed to check wrong transactions of the Central Co-operative Banks.

3. **Undesirable Investment of Funds:**

Deposit the advice of NABARD, a cautious policy is not being allowed in the matter of investment of the funds which are even now utilized for the purchase of share in other co-operative institutions, or in making huge advance to the primary co- operative societies.

4. **Increasing Over dues:**

The over dues of the banks have been showing a rising trend of

32 %. This is due to the fact that these banks have not followed the prescribed loaning procedure and recovery efficiency over dues estimated to Rs. 10000 crores by 2004.

5. **Failure to assess Genuineness of Borrowing:**

The banks are unable to assess the genuineness of the borrowing of the Central Co-operative Banks.

Remedies for Improvement:

1. **Opening of Branches:**

In areas where a Central Co-operative Bank is virtually inoperative and unable to finance the agricultural credit societies, the SCB should establish a branch and finance societies till separate central bank is organized. Recently because of various restrictions brought by RBI the over dues position is showing declining trend. Which is definitely showing improvement in the performance of SCBs.

2. Wide Membership:

The membership of the SCB should be open to all Central banks and such other co-operative credit institutions which extend same work. Restrictions should be imposed on the individual membership.

3. Qualified Managerial Staff:

Managers of these banks should be qualified and trained. No Co-operative should be allowed to begin operations until a qualified manager is appointed who commands the confidence of the people and is able to build the organization.

4. Withdrawals of privileges for Non-co-operation:

Central Co-operative Banks which refuse to co-operative with SCB in the matter of supervision and inspections should be disaffiliated from the state Co-operative Banks and denied privileges.

5. Effective Supervision:

The State Co-operative Banks should try to improve their operational efficiency, exercise effective control over branches and the supervisory staff and make continuous effort for the recovery of loans.

4.2.2 Long Term Agricultural Rural Co-operative Credit Institutions in India:

a) Land Development Banks:

Land Development Banks are the institutions providing long term credit to the agriculturists. The ordinary cooperative credit societies and central co-operative banks cannot afford to lock up their funds for long periods. Commercial Banks also refrain from lending for long period even for business purposes. Therefore, they cannot be expected to take a lead in long-term loans for agricultural purposes. In view of this, land development banks were organized for providing long-terms credit facilities to farmers. They grant loans to the landowners on the security of land mortgaged to them. Such banks may be organized on a co-operative or quasi-co-

operative basis. In the later, besides the co-operative element, private individuals are also included. This form is more prevalent in India in order to attract initial capital as well as business talent and organizing capacity. These banks are now renamed as CARDB’s, i.e. Co-operative Agriculture and Rural Development Banks.

Need for Land Development Banks:

The need for Land development Bank arose due to the following reasons:

1. The primary cooperative societies cannot possibly give loans to the cultivators for long period.
2. The work of marketing long term loans on the basis of landed property requires expert assistance for valuation.
3. The abolition of Zamindari system and the restrictions put on the dealing of money-lenders made it difficult for the cultivators to get long term loans for their day to requirements.
4. Increase in agricultural production and productivity of land required long term finance which was not available from the commercial banks till recently.

Structure of Land Development Banks:

The organizational structure of Land Development Bank is not uniform all over the country. But, it falls into one or other of the following categories:

a) Federal Type:

A majority of the states have the federal set up with central land development bank at the state level affiliated primary land development bank at the district or lower levels. The federal type of organization is found in 12 states, viz., Andhra Pradesh, Assam, Haryana, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal.

b) Unitary Type:

In some states, the structure is of unitary type, the operational units below the central development being its branches. In four States, Viz., Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh, the structure is of the unitary type. The same is also true for the union territories.

c) The Central Land Development Bank operates through branches as well as primary Land Development Bank.

Objectives and Functions:

The main objective of Central Land Development Bank is to provide long term finance either through the primary land

Development Banks affiliated to them or the finance directly through the branches.

1. They grant loans to primary Land Development Banks or to its branches on the mortgage or unencumbered property to which the borrower member has a clear title.

2. They inculcate the spirit and practice of thrift, mutual help and self-help among the members.

3. They float debentures for raising necessary funds for which the state Government guarantee for the repayment of principal and interest.

4. They mobilize rural savings and to stimulate capital formation in the agricultural sector by the issue of debentures.

5. They protect fanner from the grip of money lenders.

6. They supervise, inspect and guide the primary Land Development Banks, and verify utilization of loans.

7. They act as a link between long-term banking of RBI and the Government.

8. They establish branches, sub-officers to facilities its business.

Area of Operation:

The area of operation of LDBs is neither too large as to become unwieldy nor too small to be uneconomic. In some states viz., Maharashtra. Tamil-Nadu and Karnataka, the banks work at taluka level. In other states, primary Land Development Banks have opened branches at district level. Only the state of Gujarat has branches extending up to taluka level.

Management:

The Management of Land Development Banks vests in the hands of board of Directors comprising 7 to 9 members. Generally,

2 to 3 directors are nominated by the Government. In the case of Primary Land Development Bank, one director is nominated by the Central Land Development Bank. The members of the Board work for three years.

Financial Resources:

Land Development Banks attain their funds from share capital, reserve, deposits and issue of the Central Land Development Banks. It has fixed rate of interest for certain period, generally up to 20 years. These debentures are guaranteed by State Government in respect of payment of interest and repayment of principal. They are subscribed by LIC, the Commercial Banks, and the State Bank of India. Besides, Ordinary debentures, the Land Development Bank have been floating rural debentures since

1957 for a period up to 7 years which are subscribed by fanners and panchayats and the Reserve Bank of India.

Loaning Policy:

The main objectives of Land Development Bank (LED) are to grant loans on security of agricultural properties. As they grant loans for several years, strict rules are laid down with regard to the security against which they can advance loans. They generally lend up to 50 per cent of the value of security.

The Land Development Bank (LED) provides credit for a variety of purposes such as redemption of debt, improvement of Land, Purchase of costly agricultural equipment, construction of wells and pumps and so on. At one stage, redemption of old debts was the most important. But, in recent years, farmers have been borrowing from LDBs mainly for the purpose of land improvement and Development including sinking of wells and purchase of Agricultural machinery.

As a policy, the government attaches considerable importance to agriculture and our successive plans to provide larger financial allocations and to accord highest priority for agricultural development programs. The main thrust continues to be on development of minor irrigation.

Growth and Progress: Problems of LDBs:

1. Problems of Over dues:

Mounting over dues have crippled the Land Development Banks in recent years. Over dues is highest one of the extent 40 %. The financial discipline imposed on these banks is the main cause for highest over dues. In addition to that, Faulty loan policies, inadequate supervision, overutilization of loan, less recovery, over dues affected due to national calamities caused to initiate the highest over dues.

2. Lack of Trained Manpower:

Land Development Banks have grown in number, but enough attention was not given to build up capable manpower shouldering increasing volume of business and to face the challenges.

3. Diversification of Loans:

For the success of banks, diversification is very necessary. e.g. Loan should be given on the security against hypothecation of assets, charge on land, Government guarantee, personal surety. There is good scope for financing agro-processing industry and cottage industry sectors.

4. Management Structure in not uniform:

Absence of elected member, irregular meeting of the committees, and lack of interest in the working create problems.

5. Excessive delay in granting loans:

In many cases loans are sanctioned not even in 8 to 9 months, ignorance of borrowers, lack of frequent meeting, non- compliance of conditions create the problems I timely granting the loans.

6. High cost of credit:

It is a serious defect of Land Development Banks. Farmers suffer due to excessive interest rates and cost of recording of credit instruments is high.

7. Lack of Supervision and Inspection:

The machinery for supervision is inadequate so also the secretaries and managers are untrained.

8. Small Farmers are not Benefitted:

These banks do not give the loans to small farmers at the loans to small farmers at the moderate rate of interest. Most of the loans are given to the land holders who have more than acres of land.

9. Adverse Effect of Land Reforms:

Due to tenancy legislation in state like Maharashtra, tenants could not offer land to the banks as a security which adversely affected the expansion of rural credit and recovery of past loans.

10. Unhelpful Attitude of Registrars:

In many states, the officers like registrars, sub-registrars do not co-operative which create delay in scrutiny of applications and the grant of loans.

Suggestions for Improvement:

1. Uniform Structural pattern:

The structural pattern of LDBs should be made uniform throughout the country. There should preferably be one Central Land Development Bank at the state level and one at the taluka level. The area of operation should be such that bank should have close contact with the borrowers, to make LDBs a viable unit.

2. Trained field staff and proper Supervision:

The LDBs must have trained field staff do that the staff members will have direct contact with the borrowers and they will supervise regularly how the things are going on.

3. Loaning policy should be production Oriented:

Presently, the loan policy is mostly security oriented rather than production oriented. This must be changed.

4. State Government's Guarantee to Principal Amount of Debentures:

It is expected that the State Government should provide every guarantee for the payment of principal and interest on debentures of Central Land Development Banks. So also provision should be made to meet the losses arisen due to exemption of stamp duty, registration fees. Special finance should be provided to the banks working in under-developed areas to meet the administration cost.

5. Delay in Granting loans be removed:

Most of the applicants do not know the procedures how to fill up the loan applications, unnecessary time is taken at every stage, the procedure of granting loans is unknown to borrowers and Government departments also do not extend good co-operation to the borrowers. All these factors lead to undue delay. Such delay should be avoided.

6. Timely Recovery:

To attain the goal of timely recovery of loans, promote recovery, better supervision, fixing dates of recoveries to match harvests, launching of recovery drive etc. are the important things which need to be looked after carefully.

7. Accurate land Valuation:

Success of Land Development Banks depends on accurate land valuation offered as security, on which repaying capacity of the borrower depends.

8. Other Measures:

The other measures include LDBs drive for mobilization of rural saving, incentives to the agencies canvassing for LDBs debentures, high contribution to share capital etc. The present lending policies and procedures of LDBs should be reviewed in a comprehensive manner to bring them in line with the requirements of sound investment credit and ensure optimum use of scarce long term resources.

4.3 ACHIEVEMENTS OF CO-OPERATIVE CREDIT MOVEMENT

The Co-operative has made land mark progress to provide loan facilities to small cultivators in the country. The major achievements of co-operative credit since the inception of freedom have been summarized.

1. Fairly Satisfactory Expansion:

Credit cooperative have made remarkable progress since independence. The short, medium and long term loans issued by primary credit societies have risen from Rs. 34 crores in 1951-52 to Rs. 1601 crores in 1981-82 and further to 3115 crore in 1992-93. The percentage of such loans to total agricultural credit requirements has risen from about 3 per cent to about 35 per cent during this period.

2. Supply of Credit to Related Activities:

Co-operative banks have also been financing agricultural marketing and processing activities. Co-operative credit supplied for marketing and processing activities amounts to Rs. 105 crores and Rs. 228 crores in 1992-93 in the case of State Co-operative Banks and about Rs. 107 crores and about Rs. 84 crores in case of Central Banks respectively. Both the activities are expected to grow in future and credit co-operatives will have to accept larger responsibilities for financing these activities.

3. Supply of credit to small Farmers and weaker sections:

It is significance to note that about 40 per cent of co- operative credit goes to small and marginal farmers. The rates of interest charged by credit co-operatives have always been lowest in the markets. The interest rates charged at present vary between 9 per cent to 13 per cent. Some of the States and Districts Co- operative Banks have also been implementing a scheme of differential interest rates.

4. Crop Loan system:

Co-operative has developed the 'crop loan system'. Accordingly, loans are given on the basis of crops to be grown and the acreage under the crop. These loans are given in anticipation of the crop and are recovered after the harvest.

5. Cash Credit System:

It is significant that the bulk of the short term credit is production oriented and not security oriented. Besides, in some states such as Punjab, Kerala, Maharashtra and Andhra Pradesh, Cooperative banks have also introduced the cash credit system in selected areas and for selected crops so facilitate continuous borrowing and repayment of borrowers.

6. Supply of Farm Inputs:

The Co-operative credit societies provide the cultivators improved and better manures and implements at reasonably low prices. The multipurpose co-operative societies make agriculture a profitable concern.

7. Social Benefits:

Co-operation strengthens the social consciousness in man. Unlimited liability all members to supervise the activities of others. Moreover, a part of the benefits viz., construction of Panchayatghars, clearing drains etc.

8. Educational and Moral Benefits:

The Co-operation develops the intellect of the members who learn the way of business and credit on the basis of democracy. They avoid litigation, extravagance and gambling etc. It inculcates honesty and capitalist honesty that loans are given on personal security of the members.

4.4 WEAKNESSES OF CO-OPERATIVE CREDIT

Co-operative credit structure suffers from various problemmes in the country. Some of the major problemmes are discussed as under:

1. Regional Imbalances:

One of the weaknesses of the co-operative is the regional imbalances. Out of the total outstanding loans of Rs. 1601 crores nearly 70 per cent is accounted for by only eight states- Maharashtra, Gujarat,Tamil Nadu, Andra Pradesh, Karnataka, Punjab, Haryana and Kerala. The large majority of other states such as Orissa, Bihar, Assam, U.P., West Bengal, M.P., etc., are left with comparatively small amount of loan as well as deposits.

2. Reliance on External Resources:

Unduly large reliance on external resources is another weakness of credit cooperatives. It is important to note here that the Reserve Bank of India has been extending credit cooperatives very large financial assistance for various purposes. Moreover the ARDC and Government have also been extending financial support to co-operatives with the result that the borrowing of co-operatives have increased considerably.

3. Defective Lending Policies:

It is heartening to note that there are willful defaulters those who can pay but do not pay. It is due to the lack of will and discipline among cultivators. The defective lending policy has been other contributory factor to increase the magnitude of over dues and unpaid loans.

4. Lack of Efficiency:

Some states have introduced cadre system to improve the working efficiency of co-operatives. Moreover, a program for rehabilitation of district co-operative banks has also been

undertaken during the last ten years. Some district Central co- operative banks have come out of the rid but a large number of them still continue to be weak.

5. Organizational Inadequacy:

Another weakness of co-operatives relate to organizational inadequacy. A large number of credit primaries are dormant and numerous district co-operative banks are weak. Therefore, attempts are being made on behalf of the RBI to reorganize the primaries into viable units so that they can afford a full time secretary.

6. Lack of public Coordination:

The cooperative movement has not been voluntary. It took the shape of government department. The credit societies were through to be government lending agencies. Government officials are interested in showing quantitative result. In order to expand the co-operative credit institutions, the movement was left in the hands of bureau crafts, who themselves were ignorant of the ideals of co- operatives.

7. Political Interferences:

The All India Rural Credit Survey Committee has observed that political instances have begun to affect the working of the institution in many ways. As a result credit was given to certain groups or to be provided to others against coordination of the rules in force or causing repayment of co-operative dues to be delayed or ignored. Thus, political framework and other considerations sometimes led to facile financing as also to the failure to make a determined drive for recoveries.

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5

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Unit Structure :

5.0 OBJECTIVES

- Know the background of establishment of NABARD.
- To Understand capital structure of NABARD.
- To Understand the management of NABARD.
- To Study the functions and progress of NABARD.

5.1 INTRODUCTION

Indian agriculture received loan assistance indirectly from the RBI. An independent department was set up for providing agricultural credit. In 1963, Agriculture Refinance and Development Corporation was constituted to make refinance facility available. Yet, there were many problems in the allocation of agricultural credit. As a solution, a recommendation to set up a bank at national level was made by a committee set up by RBI.

5.2 ESTABLISHMENT OF NABARD

The existing institutional credit flow from commercial banks (public & private), co-operative banks to the agriculture and rural sector was inadequate. A need was felt to have an apex bank for agricultural and rural development in an agrarian country like India. Expert Committee had also recommended for the same. As a result, NABARD was established through a separate bill presented in the Parliament on 12th July 1982. It was expected to provide loan assistance to small, handicraft and village industries and to take over the agricultural credit function of RBI. NABARD functions as an apex body in the co-operative credit structure in India.

5.3 NABARD'S CAPITAL

NABARD had an authorized share capital of Rs.100 Crores and paid-up capital of Rs.100 Crores. It was raised to Rs.2,000Crores in 1999. NABARD's capital is subscribed by RBI and Central Govt., 50% each. It receives finance from Central Govt. and World Bank. It can also raise capital from the open market. NABARD also receives funds from National Agriculture Credit Fund (Stabilization fund). It is dependent on RBI for short term and working capital requirement. During last few years, NABARD's capital & funds have increased enormously.

5.4 MANAGEMENT OF NABARD

NABARD's management consists of 16 directors. They are appointed in the following manner :

RBI's deputy governor is the Chairman of the bank,RBI appoints 3 directors,Central Govt. appoints 3 directors, 2 experts from co-operative banks and 1 from commercial bank are appointed as directors.State Govts.appoint 2 directors.2 Experts from the area of rural economy and rural development.1 Managing Director.1 Full time Director. The Bank has head office at Mumbai and other 16 Regional offices and 7 sub-offices in India.

5.5 OBJECTIVES

1. To Refinance State land Development Banks, State Co-operative Banks, Scheduled Commercial Banks and Regional Banks for supporting production and Investment credit for Development activities.

2. To co-ordinate the activities of different agencies engaged in developmental activities and with RBI, Central Government etc.

3. To modify the present structure of credit institutions, and to arrange training of the personnel.

4. To undertake evaluation of the projects refinanced by it.

5.6 FUNCTIONS OF NABARD

Functions of NABARD

Financing Functions **Coordinating and Advisory Functions**

1. Production and marketing credit Institutions. 1. Coordinating Several

2. Conversion of loans. 2. Research Activities.

3. Rescheduling loans. 3. Inspection Activities

4. Sanctioning Investment Credits.

5. Loans to State Govt. for share Capital.

6. Other functions.

A) Financing Functions :

1. Production and marketing credit :

It is the most important function of NABARD. It includes refinance, loans and advances given for agricultural purpose, marketing purposes etc. It gives loans for marketing activities of artisans and small-scale industries also, including village and cotton industries.

2. Conversion of loans:

Under conditions of drought, famine or other natural calamities and also in military operations, short term loans are converted into medium term loans are converted into medium term loans for a maximum period is also seven years.

3. Rescheduling loans:

In unforeseen circumstances the bank is authorized to reschedule the loans made to artisans, small-scale industries, villages/cottage industries etc. Such period is also seven years maximum.

4. Sanctioning Investment Credits:

For promoting agriculture and Rural Development the NABARD extends investment credit to Regional Rural Banks, State Co-operative Banks and Land Development Banks etc.

5. Loans to State Govt. for share Capital:

The Banks contributes to the share capital and can purpose or sell securities of institutions found by it.

6. Other functions:

In an effort to promote agricultural and rural development the bank also grants direct loans for a maximum period of 25 years. It can extend guarantee for purchase of capital goods also, on deferred payment basis. It provides security for loans with prior approval of the Central Government.

B. Coordinating and Advisory Functions

1. Coordinating Several Institutions.
NABARD is also entrusted with the task of coordinating the operations of several institutions engaged in the field of rural credit.

2. Research Activities.

NABARD maintains a Research and Development Fund to help and to promote research activities in Agricultural sector and rural development sector. It gives grants also for Research work under section 38.

3. Inspection Activities:

NABARD undertakes the inspections of Regional Rural Banks (RRB'S) and the Co-operative Banks etc. These banks are asked to furnish the copies of the returns.

5.7 ROLE OF NABARD IN RURAL DEVELOPMENT

1) It provides refinance to agriculture, small and village industries, handicrafts etc.
2) It provides short, medium and long term loan assistance to RBI approved State Co-operative banks, rural development banks, land development banks and other institutions.
3) NABARD provides long term loans (20 years maturity) to state govts., so that they can subscribe to the share capital of co-operative credit societies.
4) It provides long term loans and helps in raising capital to those institutions, which are working for agricultural and rural development and are approved by Central Govt.
5) NABARD plays the role of a coordinator among the activities of Central Govt., State Govts., and planning commission so as to develop the rural economy.
6) NABARD is entrusted with the responsibility of inspecting the working of RRBs, co-operative banks and primary co-operative institutions.
7) It has instituted 'research and development fund' for financing the agricultural and rural development related research.
8) It also provides financial assistance on a large scale for mechanization in agriculture, minor irrigation, forest conservation and horticulture.

5.8 NABARD'S PERFORMANCE

NABARD functions as an apex bank among the institutions providing credit for the development of agriculture, small and village industries, handicrafts etc. NABARD's performance is described below :

i) Short term loans - NABARD's short term loan assistance to agricultural sector was Rs.8,160 Crores in 1999-2000, which increased to Rs.8,820 Crores in 2003-04. the rate of interest charged on these loans is 3% less than the regular one.

ii) 20 point programme - Under the new 20 point programme, banks are provided loan assistance so that they can lend to small and marginal farmers and economically weak units. Such a lending is to be done at a specific rate of interest.

iii) Medium-term loans - Medium term loans are provided for the development of agriculture.

iv) Long-term loans- NABARD extends long-term loans to state govts., so that they can subscribe to the share capital of co-operative institutions.

v) Increase in refinance- NABARD provides refinance to state co-operative banks and regional rural banks for the short and medium-term. By the end of 2002, it had provided refinance assistance to the tune of Rs.6,590Crores to state co-operative banks and RRBs. State Govts.,also receive special assistance from NABARD for purchasing shares of weak cooperative institutions and banks.

During 2001-02, NABARD had provided refinance of Rs.12,000Crores to weaving institutions and industrial co-operative institutions for purchasing fertilizers and other inputs, stocking and distribution as also for production and sale.

vi) Assistance under Integrated Rural Development Programme : It provides refinance to weak units for minor irrigation, animal husbandry, fishing business, small business etc. under IRDP.

vii) Priority to agricultural mechanization: NABARD has given priority to mechanization of agriculture. Nearly 28% of its loans have been given for this reason.

viii) Development of backward regions: NABARD has provided special attention for increasing agricultural investment in those states, which have less developed agricultural sector. Backward states have received 50% of loan assistance provided by NABARD. U.P., Bihar, Rajasthan, Madhya Pradesh, Orissa are the main beneficiaries.

ix) Establishment of Rural Infrastructure Development Fund: Rural Infrastructure Development Fund was established by NABARD with the help of Central Govt., in 1995-96. This fund is meant for financing development of rural infrastructural projects like major irrigation, roads, water management, flood control etc.

During 1995 and 31st March 2004, this fund had provided Rs.16,300Crores for the construction of roads and bridges, Rs.12,140 Crores for irrigation and Rs.6,240 Crores for other reasons, that is, a total of Rs.34,680 Crores. During 2003-04, Rs.7,605Crores were spent on 7,827 schemes.

x) Efforts for re-structuring of co-operation: NABARD has made efforts for restructuring co-operation in the country. Primary Agricultural Credit Societies were restructured. It also provided help for rehabilitation of district central co-operative banks.

5.9 EVALUATION OF NABARD

The Khusro Committee set-up for the evaluation of NABARD has stated that it has done a commendable job in the sphere of refinance. The loan assistance provided by NABARD has helped in the development of agriculture, small and village industries and the rural sector as a whole. However, NABARD has failed in preventing the laggardness of co-operative banks. It has done an appreciable task in some states, while in other states; its performance has been very poor. In sum, NABARD has been playing an important role in the development of agriculture and rural sector.

Check Your Progress:

Q.1 Answer in one sentence.

i) When was NABARD established?

ii) Who provides capital to NABARD?

iii) How many members does NABARD's board consist of?

iv) Which fund was set-up by NABARD for rural infrastructure development?

Q.2 State whether true or false.

i) NABARD functions as an apex institution in the co-operative credit structure.

ii) Govt. of India and RBI contribute 50% each in NABARD's capital.

iii) NABARD depends on state govts., for short-term and working capital.

iv) RBI's deputy governor is the Chairman of NABARD.

v) NABARD provides only long-term loan assistance.

5.10 QUESTIONS

A. Long answer questions.

i) Describe in detail functioning of NABARD.

ii) Explain NABARD's contribution in agriculture and rural development.

B. Write short notes.

i) NABARD,

ii) NABARD's performance,

iii) NABARD's capital structure and management.

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6

REGIONAL RURAL BANKS

A) REGIONAL RURAL BANKS (RRBS)

Unit Structure :

6.1 OBJECTIVES

- Study the establishment & nature of RRBs
- To Understand the responsibility of sponsor bank
- To Understand capital structure and management of RRBs
- To Study objectives & functions of RRBs
- To Study progress and problems of RRBs
- Study the measures adopted to solve the problems of RRBs

6.2 INTRODUCTION

Nearly 70% of India's population lives in rural sector. So, economic development of India in true sense is possible only if rural sector develops, and that is possible only if the institutional credit reaches the countryside.

The 'Banking Commission' of 1972 floated the concept of rural banks. A study group on rural banks, chaired by M. Narasimham, upheld the concept and recommended establishment of rural banks. In 1976, 'Regional Rural Banks Act' was passed.

6.3 ESTABLISHMENT & NATURE OF RRBS

5 RRBs were set up on the occasion of Mahatma Gandhi's birthday 2nd October. These were established at Moradabad and Gorakhpur in U.P., at Bhivani in Haryana, at Jaipur in Rajasthan, and at Malada in West Bengal; and were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank respectively.

Regional Rural Banks are set up on the initiative of State and Central Govt., sponsored by a bank and work in the rural areas. Their operation area is limited to either one or two districts. These banks lend to small and marginal farmers, rural artisans, agricultural labourers etc. and charge interest rate, which should not be more than the one charged by primary agricultural credit societies (PACS) in the State.

6.4 RESPONSIBILITY OF RRB

As per the amendment of 1987, the sponsoring bank should guide in the area of capital raising, employee recruitment, training, managerial advice, etc.

Sponsoring banks provide help to RRBs in the following areas :

i) Contributing in the capital of RRB.

ii) Providing managerial help

iii) Making required staff available

iv) Financing training expenses

v) Providing financial help under refinance

vi) Providing guidance for the investment

Though the above types of help is to be provided during first 5 years, sponsoring banks are found to be continuing the same even after 5 years.

6.5 CAPITAL

Every regional bank has an authorized capital of Rs.1 crore, with 1 lakh shares of Rs.100 each. The issued and paid up capital is of Rs.25 lakhs; of which 50% is contributed by sponsoring bank, 35% by central Govt. and 15% by state Govt. An amendment of 1987 raised authorized capital to Rs.5 Crores and paid-up capital to Rs.1 Crore.

6.6 MANAGEMENT

Board of Directors, which consists of 9 members, is responsible for day-to-day working of RRBs. Of the 9 directors, 4 are appointed by the central govt., of which 1 is elected as Chairman. Two directors are appointed by State Govt. and remaining 3 by sponsoring bank. The total number of directors should not cross 6. RBI and NABARD are allowed to appoint one director each. The tenure of the board of directors is 5 years. After the establishment of NABARD, all the powers regarding RRBs have been transferred to it.

6.7 OBJECTIVES OF RRBS

Following are the objectives of RRBs:

i) Extending loan assistance to small & marginal farmers, artisans, small entrepreneurs, traders and agricultural labours.

ii) Helping in accelerating the growth of rural sector.

iii) Developing saving habits among rural people.

iv) Freeing the rural people from the clutches of moneylenders.

v) Removing regional imbalances.

Characteristic Features of RRBs:

The RRBs have the following Characteristic Features:

1. The areas of operation of the Regional Rural Bank are broadly confined to a district. A district is a well-established administrative entity. Normally one RRBs is expected to cover a population of 10 to 15 lakhs.

2. RRBs have an authorized Captial of 1 crore and an issued capital of Rs. 5 lakhs. The issued capital was subscribed by the Government of India, the sponsoring bank and the concerned state government in the proportion of 50 % , 35 % and 15 % respectively.

3. RRBs are usually sponsored by the public sector banks. The RRBs enjoy the status of public sector banks, they get direct access to the RRBs refinance facilities.

4. The Management of RRBs vests with the board of directors headed by the chairman who is usually an officer of the sponsor bank but appointed by Govt. of India.

5. The RRBs are free to recruit their own staff-clerks, subordinate staff and accounts.

6. For collecting deposits from the rural areas, RRBs have been allowed to offer slightly a higher rate of interest on their deposits as in the case of co-operative banks.

7. The RRBs keep their deposits with the sponsor banks or with the public sector banks.

8. For their loan operations, the RRBs mostly depends upon sponsor banks and RBI (now NABARD) for finance.

6.8 FUNCTIONS OF RRBS

RRBs perform following functions:

1. The RRBs are mainly required to open branches in the rural areas. The RRBs are expected to spread their branch network in remote rural areas.

2. The RRBs are required to mobilize deposits as far as possible from the small men living in remote rural areas. The aim is to promote saving and investment habit of the rural people who were earlier lacking these habits.

3. Providing individual or group loans to rural people.

4. Ensuring that financial activities are productive and viable.

5. Devising new schemes of credit allocation to people from backward castes (i.e. S.C.s &S.T.s) and generating self-employment opportunities to them.

6. Making efforts for the upliftment of the economically weak people by introducing special credit allocation schemes for them.

7. Accepting deposits and other banking functions are also performed by RRBs.

6.9 PROGRESS OF RRBS

RRBs have played an important role in increasing the flow of institutional credit to the rural sector since inception. At present, 196 RRBs are working in 23 States with a network of 14,500 branches. 95% of their loan assistance is given to weak units and 90% branches have been opened in those areas, which were not served by banks earlier. The progress card of RRBs is described below :

Progress of RRBs :

	1991	1995	1999	2003	2005	2010	2011	2012	2013
No. of RRBs	196	196	196	196	196	82	82	64	57
No.of Branches	14527	14509	14999	14500	14484	15480	16909	17861	19082
Deposits (Rs.in Crores)			27065	48500			186336	211488	239494
Loans (Rs.in Crores)			11355	21773			116385	137078	159406

Source : NABARD Annual Report 2013-14

6.10 PROBLEMS OF RRBS

RRBs face following problems:

1. **Inadequate Deposit Mobilization:** The deposit mobilization of RRBs has remained at a very low level. The area of operation for each RRB is confined to a district only. The weaker section population in the rural areas who have very low saving capacity, the deposit mobilization stands at a lower level.

2. **Organizational problems:** The performance of the RRBs is adversely affected by the lack of co-ordination between those, which control it (i.e. sponsoring bank, NABARD, Central and State Govt.). Further, their area is limited to one or two districts. Shortage of expert staff is also a problem.

3. **Problem of recovery:** These banks have not been successful in recovery of loans. In case of some banks, the recovery percentage is 55. Faulty allocation, absence of monitoring, misuse of funds, political interference, and natural calamities are responsible for poor recovery percentage.

4. **Huge losses:** Finance minister, in his 1994-95 budget, stated that 150 RRBs out of 196 were in loss at least once during first 5 years. The reasons responsible include poor recovery percentage, increase in expenditure due to continued branch expansion, less than proportionate increase in income and lack of skilled manpower.

5. **Management problems:** RRBs are small institutions working at district level. The sponsoring bank appoints the managerial staff, which can't take decisions on its own. Board of Directors, do not meet regularly and control from multiple entities creates delays in decision-making.

6. **Lack of local Participation:**

RRBs have not received sufficient local participation. The RRBs have been thrust upon the rural people from above without involving local people in its operation and management.

7. **Absence of Suitable Staff:**

The RRBs are not manned by adequate staff. The Managers and field officers belong to the rank of deputed staff of the sponsor bank. Most of the staff recruited by RRBs lack proper training and guidance.

MEASURES TO IMPROVE THE WORKING OF RRB:

1. **Uniform Policies :**

The loan policies and credit procedures of Regional Rural Banks should be uniform, simple and flexible. Beside credit, the RRBs should provide a package of services like Marketing and distribution of inputs, storage and godown facilities.

2. **Prompt Recovery :**

There is need for quick and prompt recovery of loans by RRBs. For this they should have adequate trained and expert field staff to undertake field supervision and end use credit.

3. **Support of Government :**

State Government need to support the RRBs in a big way. It is the responsibility of state governments to provide infrastructural facilities, transport and communication network, regulated markets, Schools and medical facilities in the rural areas.

4. **Deposit Mobilization :**

The RRBs need be encouraged to provide even to borrowers other than small borrower. This would increase the profitability of the banks.

5. **Rationalize credit Supply :**

It is further suggested that the RRBs need to supply credit uniformly to benefit all the sector of rural economy. It is observed that RRBs mainly concentrate their loan operations in agriculture. Sectors like village and cottage industries, retail traders and professionally self-employed workers get very little credit from RRBs.

6. **Proper Co-ordination:**

There is need for proper coordination between RRBs and other institutional financing agencies operating in the rural areas like commercial banks and co-operative banks.

6.11 IMPORTANT MEASURES

Narsimham Committee, and the Agricultural Credit Review Committee, chaired by Khusro have recommended that RRBs be merged with either sponsoring banks or other commercial banks. However, M.L.Dantwala has opined that this is not the solution to the problems of RRBs.

Following measures have been recommended for solving the problems and making RRBs strong.

i) RRBs be allowed to function beyond their jurisdiction

ii) Separate machinery be formed to monitor their functioning

iii) New capital be injected in them

iv) These banks should attempt to develop saving habits among rural people and link their loans to the savings

Govt. should pay more attention to the problems of RRBs as these can play very important role in rural development.

6.12 CHECK YOUR PROGRESS

Q.1 Answer the following in one sentence.

1) When was the RRBs Act passed?
2) How many RRBs were set up in the beginning and where?
3) Whom can the RRBs tend to?
4) How are the RRBs managed?
5) How many RRBs are there in India at present?

Q.2 State whether true or false.

1) Every RRB has its sponsoring bank.
2) The area of RRBs is very wide.
3) The sponsoring bank does the functions like capital raising, recruitment of employees, training, managerial advice etc. during initial 10 years.
4) RBI contributes 50% of the capital of RRBs.
5) Authorized capital and paid-up capital of RRBs was raised to Rs.5 Cr. & Rs.1 Cr. respectively since 1987.

6.13 QUESTIONS

A) Long answer type questions.

i) Explain in detail the objectives and functions of RRBs.

ii) Evaluate the working of RRBs

iii) What are RRBs? Explain their problems and measures.

B) Write short notes.

i) Regional Rural Banks.

ii) Functions and progress of RRBs.

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7

LINKAGE BETWEEN BANKS AND SHGS

Unit Structure :

7.0 OBJECTIVES

1) Studying the linkage between Banks & SHGS

2) Understanding the Initiatives of NABARD for Improving SHGS.

3) Understanding the role of Government organization to improve SHGS.

7.1 INTRODUCTION

NABARD continues to provide 100 percent refinance to banks at an interest rate of 6.5 percent per annum. Other support measures include facilitating training of the bank officials and the field staff of the NGOs. The federation of NGOs/SHGs and other related institutions through financial assistance, faculty support and the like. As many as 550 NGOs are participating in the programme of them. Women SHGs constituted about 94 percent. On the whole, the programme benefited 5.60 lakh rural poor families in 280 districts. The southern region continues to dominate the linkage programmes with share of 65 percent followed by the Western (11 percent), the Eastern (11 percent), the Central (10 percent) and the Northern Region 8 percent. Andhra Pradesh, Karnataka and Tamil Nadu states has taken the lead in promoting the SHGs and in establishing the bank SHG linkage, the bank linkage is generally established after the successful functioning of individual groups for six months to a year. The concept of the SHGs has not been as successful in the north-east and some of the eastern states. Area specific programme need to be formulated to meet the varying socio-cultural practices.

After successful experimentation in couvery - Grameen Bank, Mysore (Karnataka) in association with an experienced NGO, namely MYRADA, more and more RRBs are involving themselves as SHGs. Some government agencies like Zillah Panchayat have also taken initiatives to promote SHGs and such efforts are supported by the NABARD through assistance in organizing training programmes for the staff. Notwithstanding 100 percent refinance from the NABARD, commercial banks perceive this activity as unprofitable. Hence, only Regional Rural Bank and cooperative banks take up such financing. The RBI has been preventing upon the commercial bank to formulate their respective policies on micro credit and promotion of SHG. The NABARD has been organizing the SHGs workshop involving bankers and development personnel to accelerate the process of SHG bank linkage. The RBI has issued circular to the commercial banks to reckon micro credit extended to individual borrower or the tough intermediaries as parts of their priority sector lending. The circular also stated that micro credit should forms an integral part of the corporate credit plan of the bank and should be received at the biggest level on a quarterly basis.

The RBI issued a circular dated July 24, 1991, to the commercial banks advising them to participate actively in the pilot support for linking self help groups with banks. The NABARD, after consultation with a few interested banks and voluntary agencies, issued a set of guidelines on February 26, 1992, which, while being adequately comprehensive were kept flexible enough to enable participate banks and field level bankers to involve and to contribute to strengthening the project concept and strategy. When the pilot project was initiated by the NABARD, the self help groups model was adopted and was called as an Indian model, later, in the early nineties, the NABARD called it the SHG-Bank linkage model.

The SHG-Bank linkage programme was show to take off, but has been speeding along since 1999. But it grew rapidly over the years reaching 1,079091 SHGs in 2003-04 in India, of these about 1.6 millions are linked to banks.11 5.9 Evolution of Self Help Groups in India In India, soon after independence, there has been an aggressive effort on the part of the government, which was concerned with improving the access of the rural poor to formal credit system. Some of these measures have been institutional, while some others were through implementation of focused programmes for removal of rural poverty. Reaching out of the far-flung rural areas to provide credit and other banking services to the hitherto neglected sections of the society is an unparallel achievement of the Indian banking system. The main emphasis is the spread of the banking network, introductions of new instruments, credit packages and programmes These were to make the financial system responsive to Provide credit to the weaker sections in the society. Comprising small and marginal farmers, rural artisans, landless agricultural and non-agricultural labourers and other small borrowers falling below poverty line. With the implementation of the above policies, further Government of Indian its developmental planning emphasized the promotion of agriculture and other allied economic activities through credit intervention for ensuring integrated rural development and securing the prosperity of the rural areas. In pursuance of this, formal credit institutions have been guided by the principle of growth with equity and a large share of the credit disbursed for various activities was channelized towards the weaker sections of the society.

Consequently, by the implementation of several poverty alleviation programmes, the number of people below the poverty line has declined from 272.7 million in 1984-85 to 210.8 million in 1989-90. In 1991-2000, which constitutes over 21 percent of the population. The number of operational holdings is expected to have crossed the 100 millions mark with more than 80 percent being small and marginal holdings. The institutional credit system needs to meet the challenges of delivering credit to an ever-increasing number of rural people who need greater access to formal credit. It may have to reinforce its own structure at the grass root level and also have to devise new ways of reaching out of the rural poor.

As a result, the experience of implementation of the above discussed poverty alleviation programmes lead to the introduction of the Integrated Rural Development Programme (IRDP) on 2nd October, 1980 with the specific objectives of raising the poor rural families above the poverty line. Such families considered credit support from banks as an important input in taking up economic and gainful activities. In spite of these impressive achievements in the expansion of the credit delivery system and special programmes, nearly half the indebted rural households are still outside the ambit of the institutional system. They approach the moneylenders for meeting their consumption and production in the absence of institutional support. Some of the poor who have not been reached even by the vast network of the institutional credit delivery system, have organized themselves into self-help groups (SHGs) and many such groups have come into existence either spontaneously or with the active involvement of the voluntary agencies which motivated the rural poor to pool their meager financial resources for meeting their small and frequent consumption and production credit needs.

7.2 INITIATIVES BY NABARD

NABARD has been playing the role of propagator and facilitator by providing conducive policy environment, training and capacity building besides extending financial support for the healthy growth of the SHG linkage programme. Over the years, various steps have been taken in this regard may be enumerated as under :-

1. Conceptualization and introduction of pilot programme in February 1992 for linking 500 SHGs with banks after consultations with Reserve Bank of India, Banks and NGOs.

2. Introduction of bulk lending scheme in 1993 for encouraging the NGOs which were keen to try group approach and other financial services delivery innovations in the rural areas.

3. Developing a conducive policy framework through provision of opening savings bank accounts in the names of SHGs (through they are informal groups),relaxation of collateral norms, simple documentation and delegation of all credit decisions and terms to SHGs.

- Training and awareness building among the stakeholders.
- Provision of capacity building support of NGOs/SHGs/Banks.
- Mainstreaming the SHG linkage programme as part of corporate planning and normal business activity of banks in 1996 and internalizing, training, monitoring and review mechanism.
- Encouraging banks (RRBs and DCCBs) for promotion of SHGs.
- Financial support to NGOs for promotion of SHGs.
- Encouraging rural individual volunteers in promotion and nurturing of SHGs.
- Close monitoring.
- Dissemination through seminars, workshops, occasional papers and print media.
- Constitution of High Powered Task to look into the aspects of policy and regulation of microfinance and suggest policy, legal regulatory measures for smooth and unhindered growth of microfinance sector.
- Setting up a microfinance development fund in NABARD for meeting the promotional costs of up-scaling the microfinance interventions. The funds has since been redesigned as microfinance development and equity fund.
- Initiating the credit rating of the microfinance institutions through accredited credit rating agencies of India by meeting 75 percent of the cost of the rating as grant. This is done to enable the microfinance institution to approach banks for commercial borrowing and extending micro-credit to the poor.

7.3 REFINANCE ASSISTANCE PROVIDED BY NABARD

Self Help Group is a visible organized setup to disburse micro credit to the rural women and encourage them in entrepreneurial activities. SHGs and micro-credit are the solutions to speed up the socio-economic development of poor women. NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. A Microfinance Development Fund has been constituted in NABARD. This would be utilized for scaling up the SHG-linkage programme and supporting other microcredit initiatives. Special emphasis is provided for building the capacities of the poor with particular emphasis on vulnerable sections including women, scheduled castes and scheduled tribes. The refinance assistance provided by NABARD with regard to microcredit presented in.

7.4 ROLE OF GOVERNMENT ORGANIZATION

An SHG is a small affinity group of 10-20 members from homogenous strata. It is formed and groomed by an NGO or bank branch or a government agency called self help promoting institution (SHPI). The members of the group are encouraged to collect regular thrift on a weekly or fortnightly or monthly basis and use the pooled resources to give interest bearing small loans to needy members. The SHPI trains the members to maintain simple accounts of the collected thrift and loans given to members. The regular meetings also provide them a platform to discuss and resolve many social and common issues, thus fortifying their togetherness. A savings bank account is opened with a bank branch and regular thrift collection and loaning to members build up the financial discipline among the members to encourage the bank to provide larger loans to the group.

Government organizations are as follows :

1) District Rural Development Agency (DRDA)

2) Krishi Vidyan Kendra (KVK)

3) Mahila Arthik Vikas Mahamandal (MAVIM)

1) District Rural Development Agency (DRDA) :-

The Swarnajayanti Gram Swarozgar Yojana (SGSY) has been launched with effect from 1.4.1999 as a new self-employment programme for the rural poor. The SGSY is being implemented by the DRDA through the Block Development Office. The SGSY programme replaces the self-employment and allied programmes - Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self-employment (TRYSEM), Development of Women and Children in Rural Area (DWCRA), the Ganga Kalyan Yojana (GKY) as well as Million Scheme (MWS) are no longer in operation. The salient features of the Swarn Jayanti Gram Swarozgar Yojana are given below.

- The Swarn Jayanti Gram Swarozgar Yojana (SGSY) aims at establishing a large number of micro-enterpries in the rural areas, building upon the potential of the rural poor.
- The SGSY emphasis on the cluster approach for establishing the micro enterprises. For this 4-5 key activities have to be identified in each block. The major share of SGSY assistance has to be in activity clusters.
- The SGSY adopts a project approach for each key activity. Project reports are to be prepared in respect of each of the identified key activities. The banks and the financial institutions have to be closely associated and involved in preparing these project reports, so as to avoid delays in sanction of loans and ensure adequacy of financing.

- The existing infrastructure for the cluster activities should be reviewed and gaps to be identified. Critical gaps in investment have to be made up under SGSY, subject to a ceiling of 20 percent of the total allocation made under the SGSY for each district. This amount is maintained by the DRDAs as SGSY – Infrastructure fund and which can also be utilized to generate additional funding from other sources.

- The assisted families may be individuals or groups (Self Help Groups) the SGSY, however, favours the group approach.

- The SGSY seeks to lay emphasis on skill development through well designed training courses. Those who have been sanctioned loans, are to be assessed and given necessary training. The design, duration of the training and the training curriculum are tailored to meet the needs of the identified key activities. DRDAs are allowed to set up to 10 percent of the SGSY allocation on training. This may be maintained as SGSY training fund.

- The SGSY provides for promotion of marketing of the goods produced by the SGSY swarozgaries, which involves provision of market intelligence, development of markets and consultancy services, as well as institutional arrangements for marketing of the goods including exports.

- The SGSY is a credit-cum-subsidy programme. However, credit is the critical component of the SGSY, subsidy a minor and enabling elements. Accordingly, the SGSY envisages greater involvement of the banks.

- Subsidy under SGSY is uniform at 30 percent of the project cost, subject to a maximum of Rs. 7500. In respect of SC/STs, subsidy is 50 percent and Rs.10,000/- respectively. For Self Help Groups, the subsidy is at 50 percent of the cost of the scheme, to a ceiling Rs. 1.25 lakh. There is no monetary limit on subsidy for irrigation projects. SGSY particularly focus on the vulnerable groups among the rural poor.

- Funds, under the SGSY are shared to central and state governments in the ratio of 75:25.21 As on March, 2011, 12171 self help groups organized by DRDA in the Amravati district. For the year 2010-11 revolving fund assistance had been released to 11215 groups and loan assistance for economic activity has been released to 571 groups. For the year 2009-10, the programme aims to cover 11217 groups with revolving funds assistance and economic assistance for 9250 self help groups.

2) Krishi Vidyan Kendra (KVK) :-

Krishi Vidhan Kendra was started in 1996 as a first KVK of the country with a view to update the technical skill of the farm public, to train the farmers, farm women and rural youth in scientific farming, to provide in service training to the staff of developmental departments and to evolve new varieties of crop plants suited to the region.

This Kendra was administered by State Government. The technical and administrative control of this center have been taken over by the Maharashtra Government and this Kendra is registered as a society. This Kendra is financed by the ICAR as well as by the Maharashtra government.

Under ICAR programmes, this KVK is carrying out the activities as per the mandates of KVK which are as follows.

- Conducting on-farm testing for identifying technologies in terms of location specific sustainable land use systems.
- Organize training to update the extension personnel with emerging advances in agricultural research on regular basis.
- Organize short and long term vocational training courses in agriculture and allied vocations for the farmers and rural youths with emphasis on learning by doing for higher production on farms and generating self employment.

Women cell is functioning at this Kendra for the welfare of farm women. As on March, 2010, 101 self help groups were promoted under women cell in various villages. The leaders and members of these SHGs are trained on various aspects of agriculture and allied fields so as to enable them to start self-employment units. To fetch additional income for their families and improve nutritional and health like educational field, agriculture field is also developing and expanding in this age of information and technology. Krishi Vidnyan Kendras is not only limited to education and research but have been also become centres for creating employment and entrepreneurs.

3) Mahila Arthik Vikas Mahamandal (MAVIM) :-

MAVIM is the state women's development cooperation of Maharashtra, established on the 24th February 1975 on the occasion of International Women's year. The mission of the corporation is "To bring about gender justice and equality for women, investing in human capital and the capacity building of women, thus making them economically and socially empowered and enabling them to access sustainable livelihood."

The corporation has the objective of bring about women's empowering by mobilizing women and building organization of women, enhancing their capacities by training, increasing their self confidence and strengthening entrepreneurship among women and making credit and market accessible to women. The corporation also seeks to improve women's access to education, and increase their participation in decision making and governance.

MAVIM's head office is situated in Mumbai and the corporation has 34district offices across the state of Maharashtra. MAVIM has professionally qualified personnel trained in social science in its head office and in district offices. MAVIM promotes self help group in villages its (1350) field workers known as Sahayoginies and through its 4 contracted NGOs. Reorganization of MAVIM from a commercial company under the company Act 1956 to being registered in September 2005 under section 25 of the company's Act as a not for profit company.

Work for following five component i.e.

1) Formation of SHG 2) Entrepreneurship development

3) Gender sensitization 4) Functional literacy

5) Social awareness

For fulfillment of above component MAVIM has appointed qualified and experienced staff and doing with NGO for the fast mobilization.

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8

IMPACT OF SELF-HELP GROUP IN SOCIO-ECONOMIC DEVELOPMENT OF INDIA

Unit Structure

8.0 OBJECTIVES

1) To Understanding the impact SHG in Socio - Economic Development of India.

2) Understanding the Short coming of SHG in India.

3) Understanding to improve the Self - Help Group in India.

8.1 INTRODUCTION

Self - Help group is a method of organizing the poor people and the marginalized to come together solve their in divided problem. The SHG method is used by Govt., NGO, and other worldwide. SHG have bred playing considerable role in infrastructure development, marketing, technology support Communication level of member, confidence family violence, interaction. changing saving pattern. social justice, community action, sustainable development etc

1.Saving and Financial Decision Making

One of the primary benefits of participation in a SHG is the opportunity to save regularly, access formal savings institutions and participate in the management of these savings. They save regularly, have their own bank accounts and make deposits into these accounts. SHG is having a good impact on members, in their ability to save their hard earned money.

2. Access to credit

A corollary of participation in SHGs is an improvement in a woman's access to credit. Since the project is perhaps too early in its implementation to directly improve women□s access to credit. The financial mobility due to participation in the SHG has led to an improvement in the quality of life, according to some of the successful groups. Overall, many families were able to address their basic needs better than before. Some of NGOs reports have shown that the record on the repayment of loans by women was often better than that of men, and that women were also more likely to spend the income earned, on their families, leading to improved health and nutrition of the poor population and for improving the quality of their lives.

3. Employment:

The implementation of SHG has generated Self-employment opportunities for the rural poor. The progress of the programme since inception assisted in formation of 35.7 lakh SHGs; assisted 1.24 Cr. Swarozgaris in establishing their own micro-enterprises. The Government of India released Rs.11, 486 Crore under the programme; bank credit mobilization is Rs.19, 017; Total subsidy provided is Rs.9, 318 Cr. The program helped many participants in improving their economic conditions. Another good accomplishment of the program is that it has adopted the SHG strategy. The number of assisted SHG/ group Swarozgaris has increased from 35,000 in 1999 – 00 to 1.15 million in 2007 – 08. At the same time the number of assisted individual Swarozgar has declined from 586 thousand in 1999 – 00 to 254 thousand in 2007 – 08. The National Bank for Agriculture & Rural Development (Nabard) will create a Rs.15 billion fund to cater women's Self-Help Groups in economically weaker districts in the country, After joining the Self Help Group the women are economically and socially empowered. This empowerment cannot be transformed or delivered it must be self generated such that it enables those who are empowered to take control over their lives.

4. Decision-making within the household

The social impact of the SHG programme increased involvement in Decision-making, awareness about various programmes and organisations, increased access to such organisations, increased expenditure on Health and Marriage events, there is a Change in the attitude of male members of the families, Now they are convinced about the concept of SHG and encourage women to participate in the meetings and women reported that they have savings in their name and it gives them confidence and increased selfrespect. Within family the respect and status of women has increased. Children Education has improved significantly. Especially girl education was very low but now SHG members are sending their children including girls to school. The Sanitation in members households has improved and it has led to better health in members families. Now women are taking treatment from qualified doctors, even if they have to travel to nearby towns. Members are now confident enough to raise social status.

5. Participation in local government because of SHG,

Women know about their local political institutions such as the Gram Panchayats and have better knowledge of where to report certain types of grievances. As part of the political empowerment process, it is a pertinent fact that many women have not only been elected to the Grama

Panchayats but have become the role holders too. In a majority of the cases, the women perceived themselves as now having some influence over decisions in the political life of village, and in a smaller number of cases, the women named their participation and influence in village political life as an important and note-worthy change. However, in general, the opportunities available to the women to participate in village life were limited, as most of the village processes were still being male-dominated and patriarchal. Though the SHGs generate positive impact on the rural economy through empowering women and enhancing the rural income of those participant households, the issue of group size has been of long standing concern.

6. Communication Level of Members

Microfinance movement is having a good impact on members, in their ability to express their feelings and has made people more confident to express themselves.

7. Self Confidence among Members

The group formation brought out the hidden talent and leadership qualities among the members. Therefore, it can be concluded that after joining the SHG the members have improved their status in family, become helpful in family finance and sometimes helped others too. Now, most of the SHG people feel that they get more respect; not only in the village, but our own family members treated us more respectfully. People of the village now invite us for social and community functions. Now our family members value our opinions whereas earlier they had no use for it. They encourage us and support us in our activities". "Now they get respected in the village society and have a definite identity in society. Family members think of them as a working woman and encourage them in their work". Improve their knowledge of banking, of how to undertake the different banking transactions, as also of dealing with government officials. They now feel confident about these things. They too feel an improvement in their social status. Family members changed their attitudes towards them after they started participating in the SHG. They now regard them brave women. The people of the village too give much more respect than before". Family members seek her opinion in many of the family decisions. Moreover, people from the society in general respect them.

8. Change in Family Violence

Involvement with SHG has reduced this violence in 25 per cent cases especially due to reduction in economic difficulties. In most of cases the members revealed that their husbands should also be involved in SHGs.

8. Frequency of Interaction with Outsiders

Members generally, got lesser opportunity to interact with bankers, Government officials, NGOs and others in the Pre-SHG period. It can be seen that in the Pre SHG period 25 per cent of the members were not interacting with officials whereas after associating with SHGs, 91 per cent members had interacted with the outsiders and out of total 44 per cent have interacted more than 4 times with outsiders. This interaction helped them to articulate their problems and improved their self-confidence.

10. Status of Access to Amenities

Since SHG programme has economic as well social implications. It can be seen that there has been an increase of 40 per cent in SHG members in terms of their status of access to amenities factors. Therefore, it can be concluded that after joining the SHG the members have improved in getting access to amenities like medical, sanitation, education, market, water supply, transport. 1.17. Community Participation SHG members undertook a lot of community activities which they earlier could not have imagined themself to have done. They distributed school uniforms to poor students; they undertook a plantation drive, distributed pen and notebook sets to poor students and donated some money to a charity during a national calamity. They participated in several social initiatives like the "Clean Village Drive" and other such social upliftment programmes since their involvement in the SHG. They organized a small function on India□s Republic day. Perspective of the Social Worker Women who have participated in this have benefited economically. They are now able to buy household goods like televisions, furniture, telephones, jewellery and most importantly are able to save for the future. "Now they are much more confident in their dealings with government officials, bank officials, electricity board officials, Medical officers, the revenue officer, health scheme officials etc. They also participate in elections. Moreover, they make use of the various government welfare schemes available". Howover the years, women who have barely completed their schooling, who could earlier barely step out of their houses to talk to government officials or other village men, are today stepping out and caring for themselves and their communities with confidence. An interesting development is that the men, unlike earlier, are now encouraging women to step out of their houses to work and participate in these social and community events. Whether this is a welcome change or not needs to be understood. It has to be understood why they are doing so. One reason they could be doing so is because of the increased household incomes and ready access to credit that the SHG participation of the women is resulting into. Sometimes this situation can be exploited if the men are alcoholic, so that the credit is actually wasted away. In this regard, however, the women are alert and aware and the SHG participation has given them the collective strength to stand up to it. They collectively stop any man from abusing his wife under the influence of alcohol. Now they are able to meet each other and discuss their problems. They understand each other's viewpoints and problems. Interaction with other women has resulted in building congenial relationships and has ensured fewer conflicts. It has also had the multiplier effect of spreading the SHG movement. Awareness of health related issues, personal hygiene, communicable diseases; effects of malnutrition, environmental issues, and sanitation have also increased as a result of training programs and their participation in the related projects.

11. Increased Nutritional status

They find positive impacts on empowerment and nutritional intake. Female social and economic empowerment in program areas increased irrespective of participation status. Evidence of higher consumption is not income or asset formation. the program's main economic impact had been through consumption smoothing and diversification of income sources rather than exploitation of new income sources.

12. SHGs and Environmental Management

Research and policy has tended to focus on the relationship between poverty and environmental degradation in terms of pointing out that the poor are both victims and agents of environmental degradation. They are victims in that they are more likely to live in ecologically vulnerable areas, agents in that they may have no option but deplete environmental resources thus contributing to environmental degradation. As a result of increasing awareness, social conditions and poverty alleviation, are necessary to support environmental sustainability (SIDA 1996; Leach and Mearns 1991; UNEP 1995).Today SHGs have a role to play in poverty alleviation through empowerment of women in India. Moreover, women tend a greater involvement in environmentally sustainable activities and environmental management than men. Therefore, involvement of women in development programmes through SHGs can effectively increase awareness of society to ward environmental sustainability.

8.2 SHORTCOMINGS' OF THE SELF-HELP GROUP IN INDIA

Though it was considered as a wonderful program by many stakeholders, the program failed on many counts is provided as follows:

1. Challenge of take off

The program supported promotion of 292 thousand SHGs in the first year, i.e. 1999 – 00.The number remains around this level in all subsequent years with wide fluctuations from year to year. Similarly, 214 thousand groups passed Grade – I, in the second year of the program, i.e. 2000 – 01. It remains around this level in all subsequent years. Though there is significant growth in the number of groups that passed Grade – II, groups which have taken up economic activities are less. In total only 685 thousand groups have taken up economic activities. It is a little over one-fifth of groups promoted in the scheme.

2. Funds allocation and utilization

The allocation of funds for the SGSY scheme by both central and state governments was Rs.1, 472 cr. in 1999 – 00, the first year of the programme. In the subsequent 7 years, the allocation remained below that of the first year. It was nearly half of the first year allocation in 2001 – 02 and 2002 – 03. The total amount allocated for the programme during 10 years is Rs.14, 467 cr. It is less than half of the budgetary allocation of

Rs.30, 100 cr. for NREG in just one year, i.e. 2009 – 10. The principal reason for stagnation in funds allocation is non-cooperation of banks. The allocated meagre amounts were not fully utilized even in one year during the last 10 years program period. Total utilization is 74% of funds made available. However, the utilization ratios are increasing over the years. It has increased from 49% in 1999 – 00 to 86% in 2003 – 04. It remains well over 80% in the subsequent years. Though there is provision for utilizing of 10% of allocated funds for training and another 20% for development of critical infrastructure, utilization of funds in these two activities is quite less and relatively more funds were used for providing subsidies and grants to SHGs and individual Swarozgaris. As a result the program is often known as subsidy oriented programme.

3. Credit mobilization

Mobilizing bank credit is a major challenge of the program, due to which the governments at centre and states could not increase the allocations over the years. In total, the target of credit mobilization is Rs.29, 831 cr. But little over half of that amount was mobilized during the last 10 year. However, the proportion of actual mobilization to target is increasing over the years. It is a healthy sign. Because of lower than targeted mobilization of bank credit and allocation of a relatively higher proportion of funds for subsidy, the ratio of credit to subsidy was about two during the period and did not vary much from year to year. Thus, the credit subsidy ratio remained much below the target ratio of 3:1 (GoI, 2009). It also resulted in less than planned investment per Swarozgar.

4. Challenge to target the real poor and vulnerable sections

A comprehensive study by BIRD, 2007 on coverage of SCs/ STs in SGSY, which covered 10,848 Swarozgaris and non-Swarozgaris (control sample), pointed out exclusion of SCs and STs in the following ways and for the following reasons. Physical exclusion – by not being accepted as group members, Financial exclusion by denial of their due share either by group leaders or by implementing bank or block officials, Exclusion because they are already covered under some state government sponsored programs (often implemented by state (ST/ SC corporations) and in many cases are already defaulters of bank loans (BIRD, 2007). About 60% of the non-Swarozgaris (control sample) were found to be sure about their inclusion in the BPL list (BIRD, 2007). A more dismal picture is provided by a MoRD (2007) briefing, which shows that SGSY covers only 1% of the relevant household population, and only 33% of its beneficiaries are drawn from the poorest quintile, whereas as many as 14% are from the richest and 26% are from the two richest quintiles. Further, the total benefits are even more inequitably distributed with the richest quintile receiving as much as 50% as compared to 8% for the poorest (as quoted in Tankha, et al. 2008). The annual report of MoRD 2002 – 03, reported that in most of the areas, especially in Bihar and Uttar Pradesh, influential persons in villages were found to own a group (as quoted in GoI, 2009).

5. Low survival rate of promoted micro-enterprises

Many assisted Swarozgaris are either reluctant to create or acquire the planned assets or were disposing them immediately after acquiring. According to BIRDs study "in northern states, the success rate in terms of whether units exists or not in case of units financed to group Swarozgaris turned out to be even worse than that in case of individual Swarozgaris as only 17.7% units were found to be existing in case of group Swarozgaris as against the 31.11% units intact in case of individual Swarozgaris.The results indicate just opposite pattern to what most of us believe/ perceive that group approach of financing is better than the individual financing. However, in case of southern states, 76.6% units were found to be existing at the time of field visits which shows the better care by the government department as far as monitoring of units is concerned" (BIRD, 2007). The present author observed that in Andhra Pradesh some groups manipulated acquiring of assets/ livestock. According to the group members, they sent their buffaloes to their relatives'/ friends' houses a day before the proposed transaction. The next day they acted as if purchasing (their own) livestock from their relative/ friend in front of the officials. The Government of AP noticed these kinds of problems long ago and converted capital subsidy into interest subsidy in 2004. Now one hardly hears words like SGSY, subsidy and revolving fund among SHGs in rural areas of Andhra Pradesh. One can only hear the words „PavalaVaddi or „3% interest loans. In other states, many studies reported that groups focus is on subsidy. They dispose the capital/ livestock immediately, repay the bank loan and distribute the subsidy amount (see e.g. APMAS, 2008; Tankha, et al, 2008; BIRD, 2007).

6. Low realized incremental income from Income generating activities

The program envisaged that Swarozgaris would realize about Rs.2, 000 per month from the investment of about Rs.25, 000. Except a few case studies, no major evaluation study reported additional income anywhere close to Rs.2, 000 per month. In 2002 – 03, only 43% of the assisted Swarozgaris reported an increase in their income (as quoted in GoI, 2009). A rigorous study by Pathak and Pant (2006) in Jaunpur district of UP shows that SGSY has not contributed significantly to the change in the level of income of the beneficiaries (as quoted in Tankha, et al, 2008). According to a NIRD (2008) study, even in the better performing State of Andhra Pradesh the income gain to a Swarozgar from enterprise activities under SGSY was a mere Rs.1,228 per month (as quoted in GoI, 2009). BIRD presented an even grimmer picture. According to their study the poor income generation in both the cases of individual Swarozgaris (Rs.9, 391) and The group members shared these old stories (6 to 7 years old), since then they have repaid their loans and all officials got transferred. swarojgaries (Rs.6, 916 in northern states and Rs.11, 089 in southern states) per member per annum suggests for serious thinking about implementation of the program in its present format. Certain success stories, here and there should not be read as final outcome of the program and at the best, these can be documented and evaluated so that the reasons for success can be internalized into the future policy guidelines. The program also breaks the great myth that „group approach of lending is always better than the individual approach of financing (BIRD, 2007). Needless to say, that the above figures are only of surviving units. If failed units were also included, the average incremental income would be around a few hundred rupees or less. It may be recalled that about 50% of the Swarozgaris have taken up dairy. About another quarter has taken up other livestock rearing, including poultry and other primary activities. It is surprising to note that Indian villagers need training in activities like livestock rearing, the primitive and primary occupation in the country

8.3 SUGGESTIONS TO IMPROVE SELF-HELP GROUP IN INDIA

1. Suggestions for designing the NRLM

As three-fourths of households in the country are either poor or vulnerable, NRLM may cover all willing rural households, irrespective their BPL or APL status, in the SHG program for effective financial inclusion. It may be divided into two sub-programs, viz. Financial Inclusion and Livelihood promotion. Two programmes may be implemented sequentially. The first five years may be totally focusing on promotion and strengthening of SHG institutions and later focus may be on setting up of small and medium enterprises under SHG federations.

2**. Suggestions to promote Financial Inclusion**

1. SHG banking may be allowed to function as core banking activity without any outside interference like target fixing, interest cap, loan size, etc.
2. The Government may promote quality SHGs through village/ cluster level; sub-district/ block level and district level federations.
3. Wherever banks are not accessible or not responsive, federations may be prepared to take up financial intermediation
4. Promoting agencies play a crucial role in developing quality institutions. Promoting agencies may be given adequate financial and capacity building resources and timeframe. Available evidence indicate that investment of about Rs.15,000 per SHG for 8 to 10 years is required to promote quality SHGs with strong federations and effective livelihood opportunities.
5. Promoting agencies should have a clear role transformation strategy and should implement the same in letter and spirit
6. NRLM may work on sensitization and orientation to bankers about the commercial value of SHG banking.
7. NRLM may understand the banks concerns such as quality of groups, political interference in functioning of federations, wrong signals like loan waivers, etc and address them.

3. NRLM may provide interest subsidy as given in AP.

Suggestions for promotion of small and medium enterprises

To obtain desirable employment transformation and to take full advantage of booming secondary and tertiary sectors, NRLM may focus on manufacturing and service sectors. The small and medium enterprises may be promoted to village/ cluster; sub-district/ block and district level SHG federations.

1. The potential units could be agro-processing units; milk processing units; common service providing units; cold storages; rural warehouses; market yards to organize weekly markets; etc
2. Appropriate institutions like „commodity cooperatives and „producer companies may be promoted under SHG federations to take up small and medium enterprises as per the pattern of the borrowing from the SHGs.
3. The federations could be assisted to have state of the art units by hiring professional consultancy firms, who can provide these units on turnkey basis.
4. NRLM may provide investment and working capital to the federations to set up these units
5. If banks are non-responsive, the apex financial institutions like state finance corporations/ SIDBI/ NABARD could be accessed.
6. Acquired units could be pledged as security to the banks and financial institutions.
7. These units would result in development of entrepreneurship in federations, provide a large number of regular employment opportunities to the members and boost the rural economies.
8. SHG concept should target the holistic development of women members. The ministry may bring out publications pertaining to different aspects of SHG and its development / empowerment.
8. It is felt that efficiency and effectiveness of SHG should be regularly monitored by a qualified and designated body to give corrective input wherever necessary as well as encourage the deserving ones.
10. Timely release of adequate loans and the eligible subsidy is important. SHG member education and awareness on the high poverty regions should be viewed as long term investment in human capital development. All stakeholders should invest their time for capacity building, handholding and development support.

9

MICRO FINANCE

Unit Structure

9.0 OBJECTIVES

Micro Finance is a movement which aims at providing financial services to those who do not have access to Finance or are neglected by the commercial banks and financial institutions. For some, micro finance is used to describe the supply of financial services to low income groups who typically lack collateral, steady employment and a verifiable credit history. The promoters of micro finance generally believe that provision of a wide range of financial services, especially savings accounts, to the poor will lead to generation of self-employment income and to help the poor people to come out of poverty.

In some regions, micro finance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services including not just credit but also savings, insurance and fund transfers." For others, micro finance is an effective tool to fight poverty and a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. In short, micro finance is a novel approach to "Banking with the poor."

9.1 MICRO FINANCE AND MICRO CREDIT

Very often the terms 'Micro finance' and Micro Credit' are used as synonyms phrases. But it needs to be mentioned that micro finance is a broad category of services which includes micro credit. Micro credit is provision of credit services or extension of very small loans to poor customers. In other words, micro finance is a broad concept and includes wide range of services to the poor, while micro credit is one of the aspects of micro finance and refers to the provision of micro loans (very small loans) to those who would otherwise have no access to banks and financial institutions. Micro credit thus, is a part of micro finance and micro credit, very often, as stated earlier, the two terms are used interchangeably.

a) Features of Micro Credit Institutions:

Micro credit, as stated earlier, is the extension of micro loans to very poor persons for generation of self-employment and income. Financial and Business services provided by Micro Finance Institutions (MFIs) generally include saving and credit. The main features of micro credit institutions which differentiate it from other commercial institutions are:

i) It is an alternative to informal credit and a substitute for the 'loan sharks' who charge exorbitant interest and exploit the clients.

ii) Requires no security or collateral to put up against loans.

iii) Requires less paper work or documentation and have simple procedures.

iv) Have very simple, easy and flexible repayment terms and simplified procedures.

v) Generally assistance of members of group in case of a critical situation or a household emergency.

vi) The most neglected and deprived segments of the population are efficiently targeted.

vii) Groups interaction with each other's and maintaining close contacts.

b) Objectives of Micro Credits Programmes:

The main objectives of micro credit programmes can be briefly summarized as under:

i) To safeguard the interests of the poor and to stop their exploitation caused by expensive informal credit.

ii) To provide micro loans to the poor and low income groups at relatively cheaper rates as compared to accessible informal credit.

iii) To finance such projects which are economically and socially viable but cannot be financed otherwise.

iv) To empower women within households as decision makers and in society through economic participation.

v) To tap all available resources to create maximum employment opportunities for the rural poor.

vi) To generate self-employment and make people self-sufficient.

vii) To eradicate poverty, accelerate the pace of growth and improve the living standards on sustainable basis.

c) Micro Finance in India:

The origins of micro credit in its presence from can be linked to be "Grameen Bank" in Bangladesh, which is the oldest and perhaps the best known micro finance institution in the world. Muhammad Yunus a Nobel Prize winner introduced the concept of micro finance in Bangladesh and established the "Grameen bank" in 1983. The National Bank for Agriculture and Rural Development (NABARD) took this idea and started the concept of micro finance in India. In this concept, there exists a link between Self Help Groups (SHG), Non-Government Organizations (NGOs) and Banks. The SHG–Bank linkage programme , introduced and encouraged by NABARD since 1992 in India is the 'largest and fastest' growing micro finance programme in the world' and is being implemented by more than 30,000 branches of commercial banks, Regional Rural Banks (RRBs) and Co-operative banks in over 520 districts of the country.

d) Progress of Microfinance in India

The institutions which engage in microfinance services in India follow three types of approaches namely

i. The Grameen Bank approach

ii. The Cooperative Societies (which are members of a cooperative bank) approach

iii. The SHG Programme approach.

In the four years between 2003 and 2007, small borrower bank accounts (credit) i.e. uptoRs 25,000 increased marginally from 36.9 million to 38.6 million, while SHGs 'borrowing members grew from 10 million to 40.5 million and MFIs borrowers grew from 1.1 million to 8 million'. In 2007-08, MFIs have added 6 million clients increasing their outreach to 14 million as per data brought out by Sa Daan.An innovative scheme in rural delivery system launched by NABARD is the linking of SHGs of the poor with banks and bulk lending through NGOs. NABARD considers SHGs a pre-microenterprise stage for a majority of the rural population. The linkage project envisages active involvement of NGOs who play a crucial role in formation, nurturing, stabilising and guiding the SHGs into cohesive and dynamic groups inculcating the habits of thrifts and credit management and ultimately establishing linkage with the banks. Under the SHG-bank linkage programme, three linkage models have broadly emerged. Under the first model, banks directly link SHGs without the intervention of the NGOs. In the second model, banks provide credit to SHGs and NGOs act as Self Help Promoting Institutions (SHPIs). Under the third model, NGOs act both as SHPIs and financial intermediaries for channelising credit from banks to SHGs. The SHG-Bank Linkage Programme implemented by commercial banks, RRBs and cooperative banks has emerged as the major micro- finance programme in the country. Under the SHG-Bank Linkage Programme, as on March 31, 2009, 61,21,147 SHGs held savings bank accounts with total savings of Rs 5,545.62 crore as against 50,09,794 SHGs with savings of Rs 3,785.39

crore as on March 31, 2008. Thus more than 8.06 crore poor households were associated with banking agencies under the SHG- Bank Linkage Programme. The table one clearly shows the progress under SHG Bank Linkage programme in India.

* From 2006-07 onwards, data in respect of number of SHGs financed by banks and bank loans are inclusive of SHGs financed under the Swarnajayanti Gram SwarozgarYojana (SGSY) and the existing groups receiving repeat loans. Owing to this change, NABARD discontinued compilation of data on cumulative basis from 2006-07. As such data from 2006-07 onwards are not comparable with the data of the previous years.

Provisional

Source: GoI, 2009

As on March 31, 2009, commercial banks had the maximum share of SHG savings with savings of 35,49,509 SHGs (58 per cent) amounting to Rs 2,772.99 crore (50 per cent); this was followed by RRBs with savings bank accounts of 16,28,588 SHGs (26.6 per cent) and savings amount of Rs1,989.75 crore (35.9 per cent) and cooperative banks with savings bank accounts of 9,43,050 SHGs (15.4 per cent) and savings amount of Rs 782.88 crore (14.1 per cent).

The share of the Swarnajayanti Gram Swarozgar Yojana (SGSY) in SHG savings accounts was 15,05,581 SHGs, forming 25 per cent of the total SHGs having savings accounts in banks. During 2008-09, the average savings per SHG with all banks increased from Rs 7,556 as on March 31, 2008 to Rs 9,060 as on March 31, 2009, varying between a high of Rs 12,218 per SHG with RRBs and a low of Rs 7,812 per SHG with commercial banks. As on March 31, 2009, the share of women SHGs in total SHGs with savings bank accounts was 48,63,921, accounting for 79.46 per cent as compared to the previous year's share of 79.56 per cent. During 2008-09, banks financed 16,09,586 SHGs, including repeat loans to existing SHGs, as against 12,27,770 SHGs during 2007-08, a growth of 31.1 per cent (number of SHGs).

As on March 31, 2009, 42,24,338 SHGs had outstanding (cumulative) bank loans of Rs 22,679.85 crore as against 36,25,941 SHGs with outstanding bank loans of Rs16,999.90 crore as on March 31, 2008(Table 5.9). This included 9,76,887 SHGs (6.5 percent) with outstanding bank loans of Rs 5,861.72crore (21.7per cent) under the SGSY as against 9,16,978 SHGs with outstanding bank loans of Rs 4,816.87 crore as on March 31, 2008. Commercial banks had the maximum share of around 70 percent of outstanding bank loans to SHGs followed by RRBs with a share of 23 per cent and cooperative banks with the balance. As on March 31, 2009, the average bank loan outstanding per SHG was Rs 53,689 as against Rs 46,884 as on March 31, 2008. It varied from a high of Rs 57,037 per SHG in the case of commercial banks to a low of Rs 31,460 per SHG in the case of cooperative banks. Financial Inclusion in.

9.2 CHALLENGES AHEAD FOR MICROFINANCE IN INDIA

An evaluation of SHGs carried out by the regional offices (ROs) of the Reserve Bank revealed that there was scope for improvement in the area of maintenance of book s of accounts. It also brought out that rotation of group leaders was generally not followed by SHGs. However, other best practices like strict adherence to attendance of group meetings, recording minutes of the meetings and prompt repayment of bank loans were being followed. The momentum of growth in the micro-finance sector has brought into focus the importance of regulating the sector to function in an efficient and orderly manner. There would be need for greater transparency in their functioning and for facilitating their reach to un-banked population of the country Interest rates in the microfinance sector have to be significantly higher than in the banking sector reflecting the much higher cost of doing business. This attracts criticism but it is important to remember that most microfinance institutions charge rates which are much lower than rates charged by money lenders. Borrowers stand to benefit from the experience of micro-finance institutions as these provide competition to money lenders (Planning Commission, 2006).

Over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide. Sustainable (i.e., profitable) microfinance providers can continue to serve their clients without needing ongoing infusions of subsidies, and can fund exponential growth of services for new clients by tapping commercial sources, including deposits from the public. MFIs on average have higher returns on assets than commercial banks do, but MFIs produce lower returns on equity for their owners. The median return on MFI owners equity in 2006 was moderate—12.3 percent, roughly 4 percent lower than the return for banks (Rosenberg, et al.).

There have been incidents of state governments imposing restrictions on micro-finance institutions in a manner which does not reflect an appreciation of the realities on the ground. Excessive regulation and control of this sector may be particularly dangerous as it can prevent the development of a healthy and competitive micro finance sector which could compete with usurious money lenders (Planning Commission, 2006).

9.3 CONCLUSION

Finance is the lubricant, which oils the wheels of development. All economies rely upon the intermediary function of finance to transfer resources from savers to investors. In market economies, this function is performed by commercial banks, financial institutions and capital markets. In many developing countries, capital markets are at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs disproportionate to the amount of lending. Extending the reach of financial services to the poor through new technologies and simplified branch regulations hold promise. Bringing financial services to rural clients is the biggest challenge in the quest for broad-based financial inclusion. Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch. Poor infrastructure and telecommunications, and heavy

Branch regulation, also restrict the geographical expansion of bank branch networks. In many developing countries there are fewer bank branches per rural resident than per urban resident. Non bank financial institutions like microfinance institutions help to fill this gap. Even though, in India, the microfinance model extends credit and savings to the poor, the challenges faced by the industry has to be rectified in due course for the effective working of the model.

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RURAL MARKETING AND FINANCE

Time 3 hours Marks : 70

Instructions - 1. All questions are compulsory.

2. All questions carry equal marks

Q.1. Explain the concept of rural finance and explain the types of rural finance.

OR

Explain the importance of rural finance

Q.2. State the causes of rural indebtedness.

OR

Explain the objectives of Regional Gramin Bank.

Q.3. Explain the need of a cooperative finance supply

OR

Explain the importance of crop insurance.

Q.4. Explain the function of Bhuvikas Bank.

OR

Explain the importance of Self Help Group in rural development

Q.5. Write any two short notes from the following

A. Objectives of NABARD

B. Characteristics of self-help group

C. Microfinance and development of the poor

D. Problems of Agricultural Finance

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