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Chapter-3: Sources of Agricultural Credit in India

CHAPTER-3

SOURCES OF AGRICULTURAL CREDIT IN INDIA

3.1: Introduction

Agriculture has always been the backbone of the Indian Economy. Agriculture has predominantly occupied the Indian economy and its rural people, thus the development of Indian economy depends upon rural rebuilding. Rural rebuilding is an approach to uplift the socio- economic life of the rural people in India, comprising of small and marginal farmers, tenants and landless labourers. The rural sector of India plays a important role in almost all the aspects of the economy i.e. important source of national income, provides the maximum number of people, supplies raw materials to major industries and deliver food to the entire population of India etc. So, Agricultural and Rural development is the only way to improve the quality of life of the rural people "Planning without village, in India, are a myth; business without village a bad bargain and service with village, a mockery" **(Bhattacharya S, 1986)[1].**

The process of economic development of Indian economy was very much affected under British rule. Soon after independence, the country found a general inadequacy of the basic ingredients of development and also faced droughts, foods and similar other natural calamities with entailed famine whose impact on rural masses of India was severely acute. So the development of rural areas remains a prime task due to existing of several problems in the rural economy like poor infrastructural facilities, credit and other facilities. The rural farmers are not able to meet their day-to-day requirements from their own sources of income. Hence, they have to depend on various institutional agencies for getting funds for making investments in agricultural and allied activities. There are various sources of agricultural credit in India, it can be classified into two types- i) Institutional credit sources, ii) Non-Institutional credit sources. Institutional credit sources include Government, Commercial Banks (SCBs), Co-operative Credit Societies, Regional Rural Banks(RRBs) and National Bank for Agricultural and Rural Development

(NABARD) and non-institutional credit sources include professional money lenders, agriculture moneylenders, commission agents, merchants, friends, relatives and others sources also. The rural areas requires adequate amount of institutional credit and as well as the credit absorption capacity of the region, which requires the formulation of proper credit plans.

3.2: Need for Rural Credit

Credit is the prime factor of an economy's progress. The requisite amount of credit requires to every sector for their day-to day activities and as well as its growth and progress. Rural credit helps in the progress of any specific problem area or any target group engaged in certain specific economic activity with an ultimate goal for increasing production and also in generating higher income to the rural poor people in India.

Since independence, the basic aim of rural credit policy in India has been in improving agriculture and allied sector, the quality of rural life and raising the standard of living of the rural poor. The agricultural and rural development is the basic requirement for the attainment of prosperity since 76 percent of the total population of our country belongs to the rural area **(RBI, 2006)**[2]. The serious constraint in rural development is non-availability of adequate institutional credit, as a result major portion of rural people (e.g., small farmers, marginal farmers, landless labourers, rural artisans and small entrepreneurs etc) have to depend on non-institutional credit sources. Most of the non-institutional credit sources are using various malpractices to exploit these rural people and forced them to turn into vicious circle of poverty. Rural credits are generally required for the followings **(Chakrabarty M, 2008)**[3]**:**

On the basis of Time:

i) **Short-term Credit-** The rural people required short-term for the purchase of seeds, fertilizers, pesticides, feeds and fodder of livestock, marketing of agricultural produce, payment of wages of hired labour and meeting transportation costs to carry product to the market. The period of such loans is less than 15 months.

ii) **Medium-term Credit-** The tenure of this kind of loans is in between 15 months to 60 months. Medium-term loans are obtained for the purchase of cattle, small agricultural implements, repair and construction of wells, land development, purchase of farm machinery and other purposes.

iii) **Long-term Credit-** Long-term credit are required for effecting permanent improvements on land, digging tube wells, purchase of larger agricultural implements and machinery like tractors, harvesters, etc. the tenure of long-term loans is 5 years to 25 years and these sort of loans are repaid in installments over a number of years.

On the basis of Nature:

i) **Production Credit-** Under production needs all credit requirements which directly affect agricultural productivity. Farmers need loans for the purchase seeds, fertilizers, manures, agricultural implements, livestock, arrange water, pay wages to workers and marketing for agricultural produce etc.

ii) **Investment Credit-** The farmers require such credit for improvement of farm assets and land through construction of wells, purchase of machinery and improvement of agricultural etc.

iii) **Consumption Credit-** The farmers require such credit for most of the unproductive purposes like to buy clothes and utensils, to meet medical expenses, to repair houses and also to celebrate social and religious ceremonies e.g., birth, marriage and death.

On the basis of Purpose:

i) **Credit requirement for capital expenditure-** these loans are required for purchasing permanent assets or repairing of assts, e.g., purchase of larger land and houses etc.

ii) **Credit requirement for capital expenditure on non-farm business-** these loans are required for the purchase of houses, furniture, transport etc.

iii) **Credit requirement for current expenditure-** The farmers require these loans for carrying out their day to day production activities e.g., payment of wages, electricity bills, rent etc.

iv) **Repayment of Debt and Interest credit requirement-** The farmers require these loans to pay the interest on outstanding debt and also to repay debt.

v) **Credit requirement for family expenditure-** Deficit budget is the common problem of most of the rural household, so they need credit to meet family expenses and social and religious purposes e.g. purchase of clothes, medicines, education, entertainment etc.

vi) **Other Expenditure requirement-** Sometimes the farmers need credit to repay premium on insurance of assts, purchase of gold and silver ornaments and shares or bonds.

3.3: Genesis of Institutional Credit in India

Credit is one of the critical inputs for agricultural development in India and agricultural growth has all along been central to India's efforts at poverty reduction. Credit can also helps the farmers to undertake new investments as well as adopt new technologies. After realizing the importance of agricultural credit the Government of India has given enough emphasis on the institutional credit in fostering agricultural growth and development since the beginning of planned development era in India.

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases **(Golait R, 2007)**[4] -

i) Phase I- Predominance of co-operatives and setting up of RBI (1904-1969),

ii) Phases II- Nationalization of commercial banks and setting up of Regional Rural Banks (RRBs) (1969-1975).

iii) Phases III- Setting up of NABARD (1975-1990).

iv) Phases IV- Financial Sector reforms (1991 onwards).

The institutional credit movement for agricultural credit started its journey by the enactment of the Co-operative Societies Act in 1904. But the process of institutional development for agricultural credit has reinforced by the establishment of the RBI in

1935. **(Reddy Y V, 2001)**[5], said that the RBI may be the first central bank in the world, which has taken into the consideration the matters related to agriculture and agricultural credit and it continues to do so for agricultural development.

3.4: Sources of Institutional Credit for Agriculture in India

The major sources of Institutional credit for agriculture in India can be classified into four categories, these are as follows-

1. Commercial Banks.
2. Regional Rural Banks (RRBs).
3. Co-operative Banks.
4. National Bank for Agriculture and Rural Development (NABARD)

3.5: Commercial Banks

A bank is an institution which deals in money and credit. According to Prof. Kinley, "A bank is an establishment which makes to individuals such advances of money as may be required and safely made and to which individuals entrust money when not required by them" **(Myneni S R, 2008)**[6]**.**

The banks which are for profit making are called commercial banks. According to Section 5(c) of the **(Banking Regulation Act, 1949)**[7]**,** "Banking Company means which transacts the business of banking such as acceptance of deposits and advancing of loans". In addition to this, the banking company is taking its policy in the interest of monetary stability or sound economic growth of the country and also the efficient use of its deposits and resources.

The Banking system reflects the economic health and strength of any country. A well-organized banking system in a modern economy can efficiently mobilized savings in productive sector without imposing any burden on government. Since independence the banking sectors are playing a key role in overall economic development of our country as it is one of the most important parts of the financial sector.

3.5.1: History of Commercial Banks in India

The banking system was found in India during the Vedic period. Later on during the Mauryan period in 4th century B.C., there was a strong evidence of the banking transactions in the book of Kautilya's Arthashastra. Even in the Mughal rule, the indigenous banking had great opportunities to develop the very profitable private banking business. Therefore, the banking system in India has started its journey from ancient time to the time of British period to the period of post independence **(Kabilavathani S, 2016)[8].**

The history of Indian Banking system can be segregated into four distinct Phases **(Nelapati S K, 2011)[9]-**

i) Pre-Independence Phase (Prior to 1947)
ii) Pre-Nationalization Phase (1948 to 1968)
iii) Post-Nationalization Phase (1969 to 1990)
iv) Post Reform Phase (1991 to onwards)

Pre-Independence Phase (Prior to 1947)-

The first joint stock bank under British rule in India was the Bank of Hindustan, which was set up in 1770 by Alexander & Co. at Calcutta. Later on during the first half of the 19th century the East India Company established three Presidency Banks, Namely-i) Bank of Bengal (1809), ii) Bank of Madras (1843) and Bank of Bombay (1840). These three Presidency banks were amalgamated after passing the Imperial Bank of India Act in 1920. A large number of joint stock banks were established after 1860 without having proper plans and objectives such as Allahabad Bank(1865), Alliance Bank of Shimla (1875), Oudh Commercial Banks (1881), Punjab National Bank (1894) etc. During the period of 1860 to 1900, most of them failed due to several reasons like mismanagement, wild speculations etc. During the period of 1900-1913 a number of joint stock banks were started by Indians, some of them are working today also such as bank of India, Bank of Baroda, Bank of Mysore, Central Bank, Indian Bank and Canara Bank. During the period of 1913 to 1947, a large number of banks were established in India, but they were failed to survive. At such a hard time, the formulation of Reserve Bank of India Act, 1934 as

the Central Bank of the country with a prime objective to healthy growth of the banking system in the country **(Kabilavathani S, 2016)**[10].

Pre- Nationalization Phase (1948 to 1968)-

At the time of Independence in 1947, 648 commercial banks comprising 97 scheduled and 551 non-scheduled banks were running in India. So, the first task before the Reserve bank of India was to develop a sound banking structure in India. As a result, the banking Regulation Act, 1949 was passed and Reserve Bank of India became the Central Banking authority of the country in order to supervise the banking system in India. In 1955, the Imperial Bank of India became nationalized and renamed as State Bank of India (SBI). The SBI took control of eight private banks floated in the erstwhile princely states in 1959. During 1960s, the weak banks were forced to merge with the strong one by the RBI and as a result the total number of banks came down to 85 in 1969 **(Nelapati S K, 2011)**[11].

Post- Nationalization Phase (1969 to 1990)-

The banking system has witnessed some progress in terms of deposit growth during the period 1950s and 1960s in urban areas of the country. In order to rapid economic growth with social justice, the Government of India nationalized 14 major banks with deposits over Rs. 50 Crore the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance in July, 1969. The major objectives behind the nationalization of the banks are reduction of regional imbalance, bring rural and semi-urban people under banking system and bring a large area of economic activity within the organized banking system. Again six more private sector banks were nationalized on April 15, 1980 and the total number of public sector banks became 27. Another important structural development of banking system during this period was the formation of Regional Rural Banks (RRBs) under the 'Regional Rural banks Act, 1976' and National Bank for Agriculture and Rural Development (NABARD) as apex institution under the 'NABARD Act, 1981 in order to extend the credit to the weaker section of society **(Kumar P, 2014)**[12].

Post Reform Phase (1991 to onwards)-

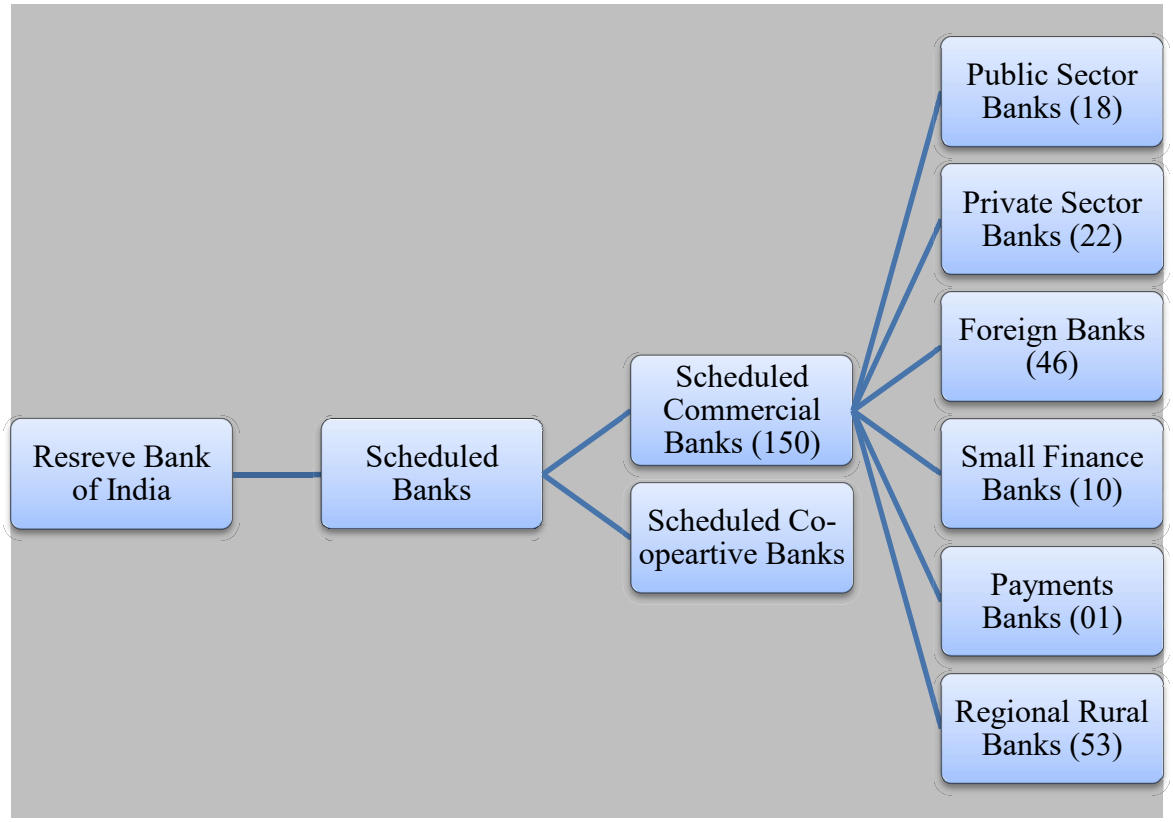
At the end of 1990s decade, the Indian economy was facing several extreme situations such as huge fiscal deficit, Balance of Payment problems etc. In order to put the domestic economy in growth path, a radical structural reforms was much needed in Indian financial sector. The major objectives of these reforms were to improve efficiency, diversity and competency of the financial sector in order to achieve profitability and higher growth of the real sector of the economy. With an aim to improve financial strength and profitability, the Government of India constituted Narsimham Committee simultaneously under the chairmanship of M Narsimham, a former Governor of RBI. The first committee submitted its report in 1991 and the second committee submitted report in 1998.

Both the Committees have made several recommendations such as establishment of private sector banks, allowing the foreign banks etc. in order to promote competitive culture in banking system. In recent era, the banking system in India has been passing through some radical changes with the help of information technology in order to achieve higher efficiency at lower transaction cost **(Kumar P, 2014)**[13].

3.5.2: Banking Structure in India

The organized banking system in India can be broadly classified into three categories such as the Central Bank of the country known as the Reserve Bank of India (RBI), the Commercial Banks and the Co-operative Banks. The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. Under the Reserve Bank of India Act, 1934, banks in India were classified as Scheduled Banks and Non-Scheduled Banks. The Scheduled Banks are those which are entered in the second scheduled of RBI Act, 1934. Such banks are those which have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 Lakhs and which satisfy RBI that their affair are carried out in the interests of their depositors. All commercial banks such as Indian and Foreign, Regional Rural Banks and State Co-operative banks are scheduled banks in India. On the other hand, Non-Scheduled Banks are those which have not been included in the Second Scheduled of RBI Act, 1934 **(Datt G & Mahajan A, 2011)**[14]**.**

Figure 3.1: The Banking Structure in India



Source: Reserve Bank of India **(rbidocs.rbi.org.in)**[15]

Note: As on October 01, 2019, (figures in the parentheses indicate total No. of operating Banks)

The above figure 3.1 captures present Banking structure in India as on October 01, 2019. All the scheduled banks are supervised by the Reserve Bank of India and these are broadly categories into two i.e. Scheduled Co-operative Banks and Scheduled Commercial Banks. A total of 150 Scheduled Commercial Banks are working in India as on October 01, 2019. The scheduled commercial further divided into six categories i.e. i) Public Sector Banks, ii) Private Sector Banks, iii) Foreign Banks, iv) Small Finance Banks, v) Payments Banks and vi) Regional Rural Banks. As on October 01, 2019, 18 numbers of public sector banks including State Bank of India (SBI), 22 numbers of private banks, 46 foreign banks, 10 small finance banks, 1 payments bank and 53 numbers of Regional Rural Banks are working in India.

3.5.3: Functions of Commercial Banks

According to Section 5(b) of the **(Banking Regulation Act, 1949)**[16]**,** "Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise". It is clearly evident from the above definitions that the commercial banks perform two primary functions i.e. i) Acceptance of Deposits and ii) Lending of these Deposits, and allowing deposits to withdraw through cheque, draft or otherwise. In addition to this, according to Section 6(1) of the Banking Regulation Act, 1949, the commercial banks also perform some other functions such as agency functions, financing trade, credit creation and miscellaneous functions. These important functions of the commercial banks are discussed as follows-

i) **Acceptance of Deposits**- The basic function of commercial banks is accepting of deposits in the form of savings bank account, current account and term deposits from the depositors usually from the public.

ii) **Advancing of Loans-** The another major function of the commercial banks is to give loans and advances to all types of persons, businessmen or firms in the form of ordinary loans, cash credit, overdraft and discounting bills of exchange.

iii) **Agency Functions-** The commercial banks also perform various agency functions such as transfer of funds, purchase and sale of shares and securities for the customers, collecting dividends on the shares of the customers, trustee and executor, pays subscriptions to insurance premiums and mutual funds etc.

iv) **Financing Trade-** The commercial banks gives loans to traders for internal and external trade on the security of commercial papers such as exchange bills. It also carries on the business of buying and selling foreign currencies.

v) **Creation of Credit-** It is one of the outstanding functions of a modern bank. The commercial banks grant loan to its customers through a loan account. Thus, whenever a bank grants a loan, it creates a deposit or liability against itself. As the deposits of the bank circulate as money, the creation of such

deposits leads to a net increase in the money stock. This is known as creation of credit done by the commercial banks.

vi) **Miscellaneous functions-** The commercial banks perform several miscellaneous such as safe custody of valuable goods, issuing of traveller's cheque, collection of statistics and financial advice to its customers etc.

3.5.4: Performance of Commercial Banks in India

The efficiency of banks is directly related with the productivity of the economy as it is one of the strongest drivers of India's economic growth. So, the performance of banks has become on e of the major concerns of planners and policy makers in India since independence. In order to evaluate the performance of banks, several performance indicators are there such as number of banks and branches, amount of deposits and advances, credit-deposit ratio, non-performing assets (NPAs), return on assets (RoA) and net profits etc.

In banking system, expansion of branches is an indicator of expansion of business in different regions of the country which helps to increase a competitive environment among different types of commercial banks. In case of deposits, it is the accessible fund to the banks for investment and lending and higher level of deposits helps to increase the profitability of banks. It has also a direct impact of the capital formation in the country which directly accelerates growth of the economy. On the other hand, advances are those amounts which are available for advancing loans and making investments in order to earn profit in the form of interest of the banks. The Credit-Deposit (CD) Ratio provides an indication of the extent of credit deployment for every unit of resources raised in the form of deposits and the ratio of 60 percent is considered a norm for the banks. The Non-Performing Assets are those loans which are recorded on a bank's balance sheet after non-payment by the borrowers for long period of time. In business sense, the profit is the excess of income over expenditure and is an absolute measure of the financial performance of commercial banks. The Return on Assets (RoA) defined as net income divided by total assets, measures banks profits per currency unit of assets **(Nelapati S K, 2011)[17].**

Table 3.1

Progress of scheduled Commercial Banks (excluding RRBs) in terms of performance indicators during 2000-01 to 2018-19

(Amount in Rs. Crore)

Particulars	**Year (End of March)**			
	2000-01	**2006-07**	**2012-13**	**2018-19**
No. of Banks	100	82	89	94
No. of Branches	51488	58777	92294	123621
Deposits	1055233	2696936	7012600	12887262
Loan & Advances	529272	1981236	4964200	9709829
Credit-Deposit Ratio (%)	53.5	83.8	79	78.2
NPA as % of total Advances	11.4	2.5	3.6	09.1
Net Profit	6371	31203	912	-23397
Return on Assets (RoA)	0.47	0.90	1.03	-0.09

Source: RBI, Reports on Trend and Progress of Banking in India **(2000-01)[18], (2007-08)[19], (2012-13)[20] & (2018-19)[21]**

The above table 3.1 captured the progress of Scheduled Commercial Banks excluding RRBs in terms of performance parameters during the period 2000-01 to 2018-19. The number of commercial banks has reduced to 82 in 2006-07 from 100 in 2000-01 and again it increased to 89 in 2012-13 and 94 in 2018-19 but during this time several private sector banks have merged with other banks, at the same time some private and foreign banks have started its journey and small finance banks and payments banks have emerged in recent past. In case of branch expansion, the numbers of branches expanded gradually from 51488 in 2000-01 to 123621 in 2018-19 and as a result of this more unbanked area are come under the banking system in India. During the study period the commercial banks have witnessed a steady growth in deposits and loan & advances from Rs. 1055233 Crore and Rs. 529272 Crore in 2000-01 to Rs. 12887262 Crore and Rs. 9709829 Crore in 2018-19 respectively. The commercial banks have witnessed a fluctuating trend in credit-deposit (CD) ratio i.e. 53.5 % in 2000-01 to 83.8 in 2006-07 which reduced to 78.2 % in

2018-19. In case of Non-Performing Assets (NPAs) as percentage of total advances was lowest i.e. 2.5 % in 2006-07 but after that gradually increased to 9.1 % in 2018-19 which indicates a large amount of loans have not paid to the commercial banks for a long period of time. In terms of net profit earned by the commercial banks, it showed that in 2006-07 witnessed a high net profit i.e. Rs. 31203 Crore but after that it declined to negative i.e. a loss of Rs. 23397 Crore in 2018-19. In the case of profitability ratios, the performance of commercial banks were evident a difficult situation in 2018-19 with compare to the previous years.

3.6: Regional Rural Banks (RRBs)

A Regional Rural Bank is also known as "Gramin Bank" in India. It has started its journey on 2 October 1975 under the provision of the Ordinance promulgated on 26th September 1975 followed by Regional Rural Banks Act, 1976 on the recommendations of Narasimham Working Group (1975). The major objective behind the establishment of Regional Rural Banks (RRBs) is to ensure sufficient institutional credit facilities for agriculture and other rural sectors particularly to agricultural Labourers, small and marginal farmers, artisans and small entrepreneurs etc.

In order to provide excess demand of institutional credit at low-cost in the rural areas, particularly among the socially and economically marginalized sections of the society, the Regional Rural Banks (RRBs) was created by Government of India. The equity of Regional Rural Banks is shared by Central Government, State Government and Sponsor Bank in proportion of 50:15:35 respectively **(RRB Act, 1976)**[22].With a view to provide better customer service, infrastructure, computerization, experienced work force and marketing efforts etc, the Government of India initiated a structural consolidation of RRBs with sponsor banks from same state.

3.6.1: History of Regional Rural Banks (RRBs)

India is a country of villages and development of the country depends upon overall progress of the rural India, and rural India virtually the cultivator **(RBI, 1955)**[23]**.** As credit is one of the important resource for both carrying on the day-to-day activities and also for growth and progress of rural India, but considering the gross absence of banking facilities

in the rural areas of the country, The **(Banking Commission, 1972)**[24] in its report that despite of large expansion of network of commercial banks, there would still be the need and possibility of having special network of bank branches to cater the needs of rural poor.

(Working Group, 1975)[25] on rural banks under the chairmanship of Shri M Narasimham suggested the setting up of state sponsored, region based, rural oriented commercial banks which would blend the rural touch, local feel, familiarity with rural problems and low cost profile which co-operatives possesses in a large degree.

(Prof. M L Dantwala Committee, 1977)[26] The Reserve of India has appointed the Review Committee on RRBs under the Chairmanship of Prof. M L Dantwala Committee, who has submitted its report in 1978 and made certain recommendations broadly falling under two categories, viz structural and functional aspects of working of RRBs. It was committee's view that this institutional innovation was well conceived and was necessary to make good some of the inadequacies of the existing system. Hence Committee recommended that RRBs should form an integral part of the rural credit structure.

At the beginning, five Regional Rural Banks (RRBs) were set up in October, 1975 **(Bapna M S, 1989)**[27] in five states in Haryana, West Bengal, Rajasthan , with one each and two in Uttar Pradesh. These RRBs were sponsored by different commercial banks and state governments. These banks covered eleven districts of these five states. The detail of first five RRBs are given below-

Table 3.2

The First Five Regional Rural Banks in India

Sl. No.	Name of the Bank	Sponsor Bank	Location of H.O	State	Jurisdiction
01.	Prathama Bank	Syndicate Bank	Moradabad	Uttar Pradesh	Moradabad
02	Gorakhpur Kshetriya Grameena Bank	State Bank of India	Gorakhpur	Uttar Pradesh	Gorakhpur and Deoria

03.	Haryana Kshetriya Grameena Bank	Punjab National Bank	Bhiwani	Haryana	Bhiwani
04.	Jaipur-Nagpur Ananchalik Grameena Bank	United Commercial Bank	Jaipur	Rajasthan	Jaipur and Nagaur
05.	Gour Gramin Bank	United Bank of India	Malda	West Bengal	Malda West Dinajpur Mursidabad

Source: M S Bapna, Regional Rural Banks in Rajasthan, Himalaya Publishing House, New Delhi, 1989, p-23.

Over the years, the Regional Rural Banks(RRBs) which have played a key role in rural credit structure in terms of geographical coverage, clientele outreach and business volume as also contribution to the development of the rural economy. A remarkable feature of their performance over the past three decades, it has been expanded its retail network in rural areas from 6 RRBs covering 12 districts in October, 1975 to 196 RRBs with over 14000 branches working in 380 districts across the country in March, 1990. The government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a state as per the recommendations of the **(Vyas Committee, 2004)[28].** The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced workforce, publicity-marketing efforts and also derive the benefits of a large area of operation, enhanced credit exposure limits and diverse banking activities. As a result of amalgamation the number of RRBs was reduced 196 to 96 as on 30thApril 2007 and as on 31st March, 2011 there are 82 RRBs and 56 RRBs are functioning as on March, 2015 **(financialservices.gov.in)[29].** Finally, the number of RRBs came down to 53 as on March, 2018-19 and also the NABARD provided extensive inputs to the Government of India for building the road map for the amalgamation of RRBs, which aims to reduce the number of RRBs in India to 40 **(NABARD Annual Report, 2018-19)[30].**

3.6.2: Objectives of Regional Rural Banks

The preamble of **(Regional Rural Banks Act, 1976)**[31] is to provide for the incorporation, regulation and winding up of Regional Rural Banks with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. The major objectives of Regional Rural Banks are-

1. To grant cheap credit and other facilities to small and marginal farmers, land less labourers, artisans and small entrepreneurs engaged in agriculture and others livelihood.
2. To play an active role for the development of the rural economy of the country by granting moderate financial assistance to agriculture, trade and commerce, industries and other enterprises in rural areas.
3. To spread the banking habit among rural masses and mobilize their saving for the acceleration of economic growth in rural areas.
4. To generate employment opportunities among the rural educated youth of the country.
5. To provide banking facilities at an affordable cost to the rural areas of the country.

3.6.3: Functions of Regional Rural Banks

The prime function of the RRBs is to provide credit and banking facility to the rural people of the country. The Regional Rural Banks undertake various other functions to uplift the socio-economic condition of the rural people. The major functions of RRBs are-

1. To offer short-term and medium-term credit for agriculture and allied purposes to rural people and long-term loans to agriculturists with help of the Land Development Bank.
2. To create saving habit among rural masses through the customization of saving schemes and canalize them to influence the productive activities in rural areas.

3. To inject the sufficient amount of credit in right time to the target group such as small and marginal farmers, agricultural labourers, artisans and small entrepreneurs etc.
4. To provide non-farm services like set up and maintain storage facilities, marketing facilities and supply of inputs to the agriculture.
5. To spread ancillary banking services among rural masses.
6. To promote overall socio-economic development of rural areas of the country.

3.6.4: Features of Regional Rural Banks

Regional Rural Banks in India are started their operation in rural areas to their clientele of small and marginal farmers, agricultural labourers and rural artisans with some specific features. These special features RRBs are-

1. **Banking Business**- According to section 5 (a) of the Banking Regulation Act, 1949 RRBs can accept deposits, lending money, other related functions and advance loans to economic purposes **(rbidocs.rbi.org.in)**[32] RRBs can avail various the financial assistance from NABARD.
2. **Scheduled Bank**- Regional Rural Banks come under Schedule II of the Reserve Bank of India Act, 1934 and they are recognized as Scheduled Banks **(rbidocs.rbi.org.in)**[33]**.**
3. **Target Group**- Small and marginal farmers, agricultural labourers, small business, artisans and other weaker sections of the rural areas are the priority group for getting financial support from the Regional Rural Banks.
4. **Jurisdiction**- Regional Rural Banks establish its branches within the district(s) in a State and operate under their geographical jurisdiction. The branch office of a Regional Rural Bank covers one to three blocks where co-operative credit system and commercial banks have not been able to inject the adequate amount of credit to the rural people. According to the sub section (1) of Section 23A of RRB Act, 1976 the Government of India followed the process of amalgamation to strengthen regional rural banks **(RRBs Act, 1976)**[34]**.**
5. **Sponsorship**- According to sub section (1) of Section 3 (g) of RRB Act, 1976 each RRB is sponsored by a public sector commercial bank (**RRBs Act, 1976)**[35]**,**

it will be operated under the supervision of Reserve Bank of India in consultation with state government, central government and the sponsored bank. The RRBs are provided several financial assistance, management support and staff assistance by the sponsored banks. Generally the concerned lead bank of the district become sponsored bank of RRBs.

6. **Capital structure**- The issued capital of Regional Rural Banks is shared by Central Government, State Government and Sponsor Bank in proportion of 50:15:35 respectively **(RRBs Act, 1976)[36],** as the authorized share capital was Rs. 1 crore, divided into 1 lakh shares of Rs. 100 each. The authorized capital of each RRB has been increased to Rs. 5 crore and paid-up capital to 1 crore by the enactment of the **[Regional Rural Banks (amendment) Act, 1987][37].**
7. **Management**- The general supervision, direction, management and business of the RRBs control by the board of directors which is consist of nine members headed by its Chairman. According to RRBs Act, 1976 the board of directors should act on business principles and should have due regard to the public interest. The Board of directors shall consist of the Chairman appointed under sub-section (1) of section 11, and the following other members, namely:--(a) two directors, who are not officers of the Central Government, State Government, Reserve Bank, National Bank, Sponsor Bank or any other bank, to be nominated by the Central Government; (b) one director, who is an officer of the Reserve Bank, to be nominated by that Bank; (c) one director, who is an officer of the National Bank, to be nominated by that Bank; (d) two directors, who are officers of the Sponsor Bank, to be nominated by that Bank; and (e) two directors, who are officers of the concerned State Government, to be nominated by that Government **(RRBs Act, 1976)[38].** The number of board members may be increased by the Central Government up to fifteen in the aggregate and also prescribe the manner in which the additional number may be filled in.

3.6.5: Expansion of RRBs in Rural Credit Market of India

3.6.5.1: Branch expansion of RRBs

Table 3.3

Metamorphosis of RRBs (1976 to 2019)

Expansion Phase	Declining Phase	Turn Around Phase	Consolidation Phase
1976 -1986	1986-1995	1996-2006	2006-2019

Source: NABARD Annual report, 2018-19. **(www.nabard.org)**

The Regional Rural Banks established under Regional Rural Banks Act, 1976 is to provide healthy banking structure in rural India. Since then, RRBs have come a long way i.e. 1976 to 2019 with limited area of operation and finance only target group beneficiaries to viable banks with operations extending the economic growth of rural areas. The whole journey of RRBs segregated into four phases-i) Expansion Phase (1976-1986), ii) Declining Phase (1986-1995), iii) Turn Around Phase (1996-2006), iv) Consolidation Phase (2006-2019). In consolidation phase the process of amalgamation has started to improve the banking system of RRBs. During the first two phases of amalgamation the number of RRBs reduced from 196 to 56 in the year 2014-15. The Government of India initiated amalgamation on phase-III in 2018-19 on the principle of 'One State- One RRB' in smaller states and a reduction in the number of RRBs in larger states aiming at eventual count of 40 RRBs across India. As on 31 March, 2019, the number of operating RRBs stood at 53. In the process of amalgamation, it would be further reduced to 45 during 2019-20 **(NABARD Annual Report, 2018-19)**[39]**.** Although the numbers of RRBs have decreased over the years from 2006 to 2019, the branch network has increased to 21,747 in 2017-18 from 14,494 branches in 2005-06. During the period of 12 years under consideration, 7,253 new branches have opened in order to cover more number of districts. It is found that the number of districts covered by the RRBs in the country has increased from 525 in 2006 to 644 districts in 2017-18. It shows that an additional 119 districts were covered by setting up of new branches in the various uncovered and under-banked districts of the country. In the following table, the gradual Branch Expansion of RRBs in India has shown from the period of 2006 to 2018.

Table 3.4

Branch Expansion of RRBs in India

Year	No. of RRBs	No. of Offices	No. of Districts covered
2006	196	14,494	525
2007	133	14,520	534
2008	91	14,761	591
2009	86	15,235	617
2010	82	15,444	618
2011	82	16,001	618
2012	82	16,914	635
2013	64	17,856	635
2014	57	19,082	642
2015	56	20,024	644
2016	56	20,904	644
2017	56	21,422	680
2018	56	21,747	683

Source: NABARD Annual reports, 2005-06 to 2017-18. **(www.nabard.org)**

3.6.5.2: Deposit Mobilization of RRBs

The Deposit mobilization is a significant indicator of bank's performance as it is an integral part of banking activity. The basic aim of branch expansion is to collect deposit with injecting the savings habit of the community and use these for productive purposes. As a result, various schemes were launched over the years by the Government to make all possible efforts to access to new deposits that can only generate the pace of landing activities. There has been a gradual rise of deposits of RRBs during the period of 2006 to 2018 as depicted in table 3.5. In spite of decreasing in the total numbers of RRBs in the country, the quantum of deposit is increasing over the years. The total amount of deposit has gone up to Rs. 4,00,459 crores in 2017-18 from Rs. 71,329 crores in 2005-06, it increased around 5.61 times over the years.

The bank credit is one of the important inputs in the production of agriculture, industry, commerce and allied productive activities for the development of socio-economic condition of the rural region of the country. In this connection, the channelization of bank credit in proper direction can play an important role, as otherwise there will be adverse effect on the economy of the country **(Pandey K L, 1968)[40].** The loans given by the RRBs in the country are also increasing over the years in a continuous manner. It is shown in table-X that the Gross Loan with out-standing was Rs. 35,520 crores in 2005-06; the amount has gone up to a total of Rs. 2,53,978 crores in 2017-18. It is observed that the gross loan (o/s) of RRBs in the country has increased by more than 7 times over the period.

Table 3.5

Deposit Mobilization and Credit –Deposit Ratio of RRBs in India

(Rs in Crore)

Year	Deposit	Gross Loan(O/S)	CD Ratio(%)
2006	71,329	38,520	55.6
2007	83,144	47,326	58.3
2008	99,093	57,568	59.5
2009	1,20,189	65,609	56.4
2010	1,45,035	79,157	57.6
2011	1,63,928	98,244	59.6
2012	1,86,336	1,16,385	62.5
2013	2,11,488	1,39,652	64.8
2014	2,39,503	1,59,302	66.51
2015	2,73,018	1,80,955	62.27
2016	3,15,048	2,07,279	65.79
2017	3,71,910	2,26,175	60.81
2018	4,00,459	2,53,978	63.42

Source: NABARD Annual reports, 2005-06 to 2017-18. **(www.nabard.org)**

3.6.5.3: Credit –Deposit (C/D) Ratio of RRBs in India

Credit-Deposit Ratio is the proportion of loan-assets created by a bank from the deposits received. Credits are the loans and advances granted by the bank. In other words it is the amount lent by the bank to a person or an organization which is recovered later on. Interest is charged from the borrower. Deposit is the amount accepted by bank from the savers and interest is paid to them **(Singh & Tandon, 2012)[41].** The credit deposit ratio is one of the important indicators of efficiency of bank's participation in the development process. In order to have satisfactory C/D ratio, there should be proper recovery of loan amount from the borrowers otherwise banks would suffer causing harm to the economy as a whole **(Nandal R S & Singh A, 2002)[42].** The credit deposit ratio of RRBs in India has been increased over the years. The fact has been clearly seen in table 3.5. In 2005-06, the credit ratio of the RRBs in the country was 55.6 percent which increased to 63.42 percent in 2017-18.

3.6.5.4: Ground Level Credit (GLC) flow in Agriculture and Allied Sectors by RRBs in India

Table 3.6

Ground Level Credit (GLC) flow in Agriculture and Allied Sectors by RRBs

(Rs in Crore)

Year	GLC flow by RRBs	Total flow of GLC by SCBs	RRBs share (%) of credit flow to agriculture
2006	15,223	1,80,486	08
2007	20,435	2,03,296	10
2008	25,312	2,54,658	10
2009	26,765	3,01,908	09
2010	35,218	3,84,514	09
2011	44,293	4,68,291	09
2012	54,450	5,11,029	11
2013	63,681	6,07,375	10

2014	82,652	7,11,621	12
2015	1,02,483	8,45,328	12
2016	1,19,260	9,15,509	13
2017	1,23,216	10,65,755	12
2018	1,41,216	11,62,617	12

Source: NABARD Annual reports, 2005-06 to 2017-18. **(www.nabard.org)**

Credit facilities are one of the most important inputs for agriculture. Supply of credit to rural areas will be highly effective in rehabilitating the cultivators and the development of agriculture is only possible by providing requisite amount of bank credit to agriculture allied activities. So the institutional credit facilities are an essential condition for the economic development of the rural poor.

There has been an impressive growth in agricultural credit flow from Rs.1,80,486 crore to Rs. 11,62,617 crore during the thirteen year period of 2005-06 to 2017-18, which is shown in the above table 3.6. Further it is found that the contribution of RRBs has also increased from Rs. 15,223 crore to Rs. 1,41,216 crore during the study period. The share of RRBs to the total Ground Level Credit flow to agriculture has increased from 08 % to 12 %. i.e only 4 percent during the considered time period. But agricultural credit disbursement continues to be dominated by Commercial Banks (76%), followed Co-operative Banks and RRBs (12%) **(NABARD Annual Report, 2018-19)[43].**

3.6.5.5: Recovery Performance of RRBs in India

The meaning of the recovery of loans is realization of loans and it is scheduled to be repaid by the borrowers. The bank will have to assemble additional funds through deposit mobilization or borrowing for carrying on the existing and potential business, if the recovery rate of the banks is low. A bank is giving loans and advances at different maturities and ranging from very short to longer period. The sanctioned loans at different maturities become due in part at different points of time during a year of operation. At a particular point of time, the banks calculate the amount due for recovery and send demand notices to clients.

The following table 3.7 exhibits that the recovery performance of the RRBs on India has been very encouraging during the period from 2005-06 to 20017-18. The recovery performance of RRBs was varied between 79.80% and 82.57% during the study period. This reveals that the RRBs in India made a good recovery performance.

Table 3.7

Profitability and Recovery Performance of RRBs in India

Year	No. of Profit/Loss making RRBs	Recovery (%) of RRBs
2006	111/22	79.80
2007	81/15	79.80
2008	83/8	80.84
2009	80/6	77.76
2010	79/3	80.09
2011	75/7	81.18
2012	79/3	81.60
2013	63/1	82.57
2014	57/0	81.9
2015	51/5	79.49
2016	51/5	82.51
2017	49/7	81
2018	45/11	78

Source: NABARD Annual reports, 2005-06 to 2017-18. **(www.nabard.org)**

3.6.5.6: Profitability Performance of RRBs in India

A profit-oriented business is the accurate identification of market needs and the choice of a strategic position compatible with their own management resources of any financial institutions. The profit and loss account shows an immediate impression about the working of an organization. It also provides a clear picture about the organization which facing profit or incurring losses.

The above table 3.7 depicts the number of RRBs faced profits or losses during the period from 2005-06 to 2017-18. It is found that 111 RRBs earned profits out of 133 RRBs in India in 2005-06 and finally the number of profit earned RRBs stood at 45 out of 56 RRBs in India in 2017-18. During the study period only in the year 2013-14 all the 57 RRBs faced profits. Though the RRBs have made a significant in the socio-economic development of rural people but they still need to make efforts to be profitable and viable.

3.7: Co-operative Banks

The term 'Co-operative' has been derived from the Latin word 'C-operate' and it simply means 'Working together' for a common purpose. International Labour organization (ILO) has defined a co-operative organization as "as association of persons, usually a limited means, who have voluntarily joined together to achieve a common economic and through the formulation of democratically central business organization, making equitable contribution to the capital required and accepting a fair share of the risk and benefits of the undertaking". Therefore, co-operation is based on inter-personal relations, peace and happiness **(Vinayek R & Ruchi, 2015)[44].**

The Co-operative movement was originated from England and later on it has given direction to the whole world. The great philosopher from England Robert Owen (1771-1858) has given the idea of "Self help through mutual help" to alleviate the sufferings of the exploited class of the society. Later on concept of co-operative reached all over the world in diversified economic fields such as consumer co-operatives, workers' co-operatives, agricultural credit co-operatives and service co-operatives etc. **(Samanta T K, 2013)[45].**

The Co-operative credit movement started its journey in India with Co-operative Credit Society Act, 1904 after the failure of Taccavi loans. The Taccavi loans were ineffective and inadequate to solve the problems of rural indebtedness, which pushed the people into a deep poverty. As a result of this, the Edward Law Committee was constituted by Government of India under British rule in June 1901 to examine the necessity of the co-operative legislation. After the recommendation of Edward Law Committee the Co-operative Societies Act was passed in 1904. But there was no provision to register non-

credit societies and apex societies. So in order to remove this defect, the federal character of Co-operative society into banking unions has incorporated in the Co-operative Society Act, 1912 **(Vaikunthe L D, 1991)[46].**

3.7.1: History of the Co-operative Movement in India

The Co-operative movement in India has been initiated, nurtured and flourished by active involvement of the government through the enactment of the Co-operative Credit Societies Act, 1904. But, "Co-operation" is not new to India because the co-operative form of social and economic activities had been found in our oldest literatures like Vedas, Upanishads, Bhagawat Purana, Kautilya's Arthashastra where it was referred about joint actions of the people. Even in ancient India there were four forms of traditional co-operatives such as "Kula", "Grama", "Shreni" and "Jati". The indigenous co-operative societies called 'Nidhis' were also existed in South India in 19th century. The members of Nidhis started a mutual loan where they contributed monthly and they were allowed to take loans whenever they required **(Basak A, 2008)[47].**

In order to study of rural indebtedness the Government of Madras deputed Sir. Frederick Nicholson in March 1892. He made a strong recommendation for introduction of Co-operative credit societies in his reports in two volumes in 1895 and 1897. Meanwhile some 200 co-operative societies and Nidhis in Uttar Pradesh and Madras had already come into existence with 36,000 memberships and 75 lakh working capital in 1903. In order to study the introduction of co-operative credit societies in India, the Government of India appointed a committee under the Presidentship of Sir Edward Law in 1901. The committee realized that no real advance was possible without Government legislation, accordingly the Co-operative Societies Act was passed in 1904 on the basis of Raiffeisen Model **(Das T, 2014)[48].**

The Co-operative movements have fairly long history in India and it has become quite evident to analyse its progression in four phases such as **(Patra R N & Agasty M P, 2013)[49]-**

i) First Phase (1900-1930)-
ii) Second Phase (1930-1950)

iii) Third Phase (1950-1990)

iv) Fourth Phase (1990s and onwards)

The First Phase (1900-1930)-

The first phase was recognized by the institutionalization of the co-operative system through the Co-operative Societies Act, 1904 and continued to 1930. But this Act was failed to give legal recognition to the societies and also found difficulty to raise capital locally. Therefore the second Co-operative Credit Societies Act has come into play in 1912 in order to give legal recognition to producers and distributive societies and to different forms of central organization i.e. Co-operative Unions, Central banks and Provincial banks. With a view to examine the development of co-operative movement the Government of India appointed a committee under the chairmanship of Sir Maclagan in October, 1914. The committee has suggested that the societies could be classified into four categories such as i) Primary Societies, ii) Co-operative Unions, iii) District Central Co-operative Banks and iv) Provincial Co-operative Banks. After that the Government of India passed the Reforms Act, 1919 in order to expand the co-operative societies across the country **(Das T, 2014)[50].**

The Second Phase (1930-1950)-

The second phase was identified by the period of consolidation and reorganization of the co-operative movement in India. This phase witnessed the establishment of Reserve Bank of India in 1935 and which has taken a key role to strengthen the co-operative credit societies. Since inception RBI is taking an active interest in the working of co-operative movement towards prosperity through its Agricultural Credit Department (ACD). The co-operative movement made a rapid growth during this phase, as a result of that the Government of India appointed the Agricultural Finance Sub-Committee under the chairmanship of Prof. D R Gadgil in order to suggest the particular way to reduce the rural indebtedness in 1944. The committee expressed the view that "Co-operation would provide the best and the most lasting solution for the problem of agricultural credit". With a view to plan for the future development the Government of India appointed the Co-operative Planning Commission under the chairmanship of Shri R G Saraiya in 1945.

The committee felt realized that the activities of Primary Cooperative Societies should be so extended as to cover the whole life of the cultivator **(Das T, 2014)**[51].

The Third Phase (1950-1990)-

The third phase started with introduction of economic planning for rapid and equitable economic growth with co-operatives as active agents. Government of India, the Planning commission, the Reserve Bank of India and different ministries of the government have appointed different committees and commissions and wanted their recommendations from time to time for strengthening the cooperative system, improving their performance and financial health, and increasing the flow of cooperative credit to the rural sector. These include the Cooperative Planning Committee (1951), Central Committee on Cooperatives (1953), Committee on Cooperative law (1956), Committee on Cooperation (1965), Santhanam Committee (1969), National Commission on Agriculture (1971, 1976), Special Study Group (1971), RG Sariya Committee (1972), working group on cooperation for the Fifth Five year plan (1973), Hazari Committee (1975), CRAFICARD (1981), Committee on Cooperative law (1985), Committee on Democratization and Professionalization of Cooperative Management (1987), Agricultural Credit Review Committee (1989). In addition to these the Government of India established few national level institutions such as National Cooperative Development Board (1964) and the NABARD (1981) in order to give financial, technical, advisory and training support to cooperative system **(Patra R N & Agasty M P, 2013)**[52].

The Fourth Phase (1990s and onwards)-

The fourth phase started with nationwide economic reforms with focus to reduce political interference, poor management and improve the financial health of the co-operative system. So, Government of India introduced the Committee on Model Co-operatives Act (1991), High level Committee on formation of Co-operative Business as Companies (1999) and Committee on Urban Co-operative banks (1992) to accelerate the rapid growth of Co-operative System in India. Finally, the Government of India Constituted a Task Force to Formulate Action Plan for Implementation of National Cooperative Policy (2001) and the Task Force for Reviving Rural Cooperative Credit Institutions (2004) to

suggest an action plan for reviving rural co-operative credit institutions and legal measures necessary for facilitating this process **(High Powered Committee on Cooperatives, 2009)**[53].

3.7.2: Major objectives of the Co-operative movement

The major objectives of Co-operative movement are as follows **(Samanta T K, 2013)**[54]**-**

i) The Co-operatives stands of the principle of 'Each for all, all for each', a member of the Co-operative can develop the society as a whole through developing himself and other members of the co-operative.

ii) The prime aim of the co-operative body is to serve the people without too much commercial motive.

iii) With an aim to remove the monopolistic situation of the market, the Co-operatives can take care of its members and the community as a whole.

iv) The utmost purpose of Co-operatives is to share the income and wealth amongst its members. The members not only share their success in the form of wealth but also deal out the crisis together.

v) The basic intention of the Co-operatives is to improve the standard of living and social development of rural people through providing employment opportunities and financial facilities.

vi) Co-operatives help to protect the working class from the exploitation by the owners.

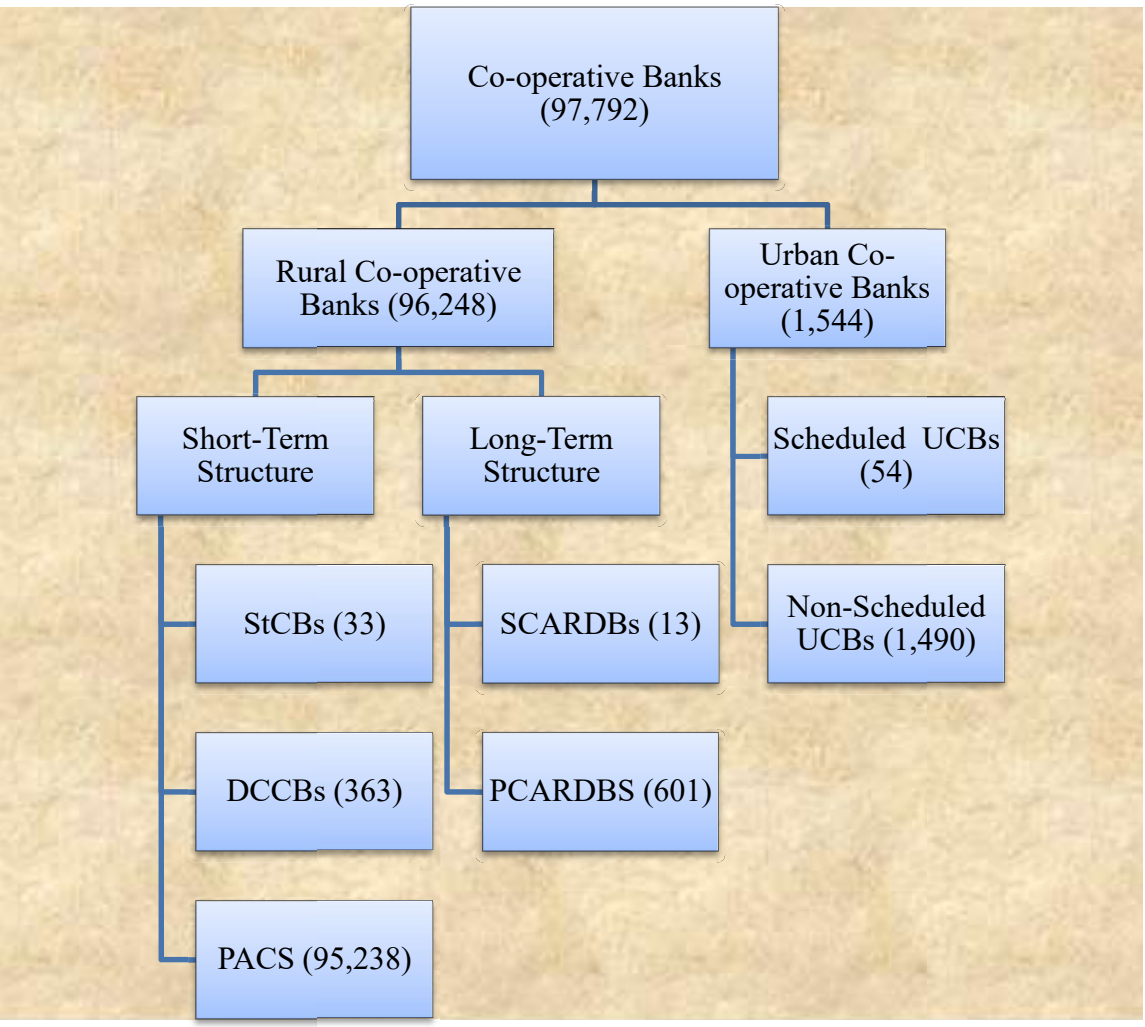
vii) In order to run the Co-operative institutions fairly, it based on the principle of non-exploitation.

3.7.3: Organizational Structure of Co-operative Banks in India

The Co-operative Banks in India can play a critical role in last-mile credit delivery and in extending financial services across the length and breadth of the country with help of its geographic and demographic outreach. The Co-operative Credit institutions in India mainly divided into two parts- i) Rural Co-operative Banks and ii) Urban Co-operative Banks. The rural co-operative credit institutions can be segregated into two categories i.e. Short-Term Credit Structure and Long-Term Credit Structure. The short-term co-

operative credit institutions have followed a three-tier structure. At the grass root level there are large numbers of Primary Agricultural Credit Societies (PACS), District Central Co-operative Banks (DCCBs) at the district level lies in the second tier of the structure and State Co-operative Banks (SCBs) at the state level situated at top of the structure. But in case of smaller states and union territories there are two-tier structure with SCBs directly look after the credit requirements of PACS. On the other hand, the long-term rural co-operative structure followed the two-tier system i.e. Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the takula level and State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the state level. In case of Urban Co-operative Banks, it can be classified into two categories i.e. Scheduled Urban Co-operative Banks and Non-Scheduled Urban Co-operative banks.

Figure 3.2: Structure of Co-operative Credit Institutions in India



Source: RBI, Report on Trend and Progress of Banking in India, 2018-19 **(rbidocs.rbi.org.in)**[55]

Note: Figures in parentheses indicate the number of institutions at the end March, 2018

3.7.3.1: Rural Co-operative Banks

Since inception Rural Co-operative Banks are playing an important role in delivering institutional credit to the underbanked areas through their geographical outreach. Generally the short-term co-operative requires for crop loans while long-term loans needed for capital formation, rural industries and housing.

Table 3.8

A Profile of Rural Co-operative Banks at end of March, 2018

(Amount in Rs. Crore)

Item	Short-Term			Long-Term	
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
No. of Co-operatives	33	363	95,238	13	601
Owned Funds (Capital+ Reserves)	16,782	40,624	30,942	4,305	3,288
Deposits	1,23,534	3,47,967	1,19,632	2,341	1,306
Borrowing	72,170	90,312	1,28,333	15,400	16,349
Loans & Advances	1,31,934	2,77,079	2,07,322	20,788	15,821
Total Liabilities	2,26,841	5,25,157	2,43,563*	28,994	30,550
No. of Institutions in Profit/Loss	32/1	311/52	46,405 /37,838	9/4	257/344
Overall Profits (+)/Loss(-)	1,030	851	-3,182	-9	-511

NPAs as % of Loan Outstanding	04.7	11.2	28.2	25.0	38.4

Source: RBI, Report on Trend and Progress of Banking in India, 2018-19 **(rbidocs.rbi.org.in)**[56]

Note: * Working Capital.

A brief Profile of Rural Co-operative banks at end of March 2018 has given in the above table 3.8. The StCBs lies at the top of the three-tier short-term structure in most of the states. It provides liquidity support and gives technical assistance to DCCBs and PACS. The total deposits and borrowings of StCBs stood at Rs. 1,23,534 Crore and Rs. 72,170 Crore respectively as on March, 2018. 32 StCBs earned profits and one StCB faced a loss, while the overall profit reached at Rs. 1,030 Crore and their NPAs as percentage of loan outstanding touched at 04.2 per cent in 2017-18.

The DCCBs are the intermediate tier in the short-term rural co-operative structure and mobilize deposits from the public and provide credit to the public and PACS. They generally get loans and advances from StCBs and direct refinancing from the NABARD. The total deposits and borrowings DCCBs stood at Rs. 3,47,967 Crore and Rs. 90,312 Crore respectively at end of March 2018. Only 311 DCCBs earned profit out of 363 DCCBs operating in India, while they earned the overall profit of Rs. 851 Crore in 2017-18. The NPAs of DCCBs as percentage of loan outstanding touched at 11.2 per cent in 2017-18.

The PACS are lying at the bottom of the tier of short-term rural co-operative banks. They are not only supplying agricultural credit but also arrange of supply of agricultural inputs, distribution of consumer articles and provide marketing facilities of agricultural product. The total deposits and borrowings stood at Rs. 1,19,632 Crore and Rs. 1,28,333 Crore respectively at end of March 2018. Only 46,405 PACS earned profit but a large numbers of PACS i.e. 37,838 faced the loss, as result the PACS witnessed the overall loss of Rs. 3,182 Crore in 2017-18 and the NPAs as percentage of loan outstanding touched at 28.2 per cent.

On the other hand, long-term rural co-operative banks are composed of State Co-operative Agriculture and Rural development Banks (SCARDBs) operating at the state

level and Primary Co-operative Agriculture and rural development Banks (PACS) operating at the district/ block level. The total deposits and borrowings of SCARDBs stood at Rs. 2,341 Crore and Rs. 15,400 Crore at end of March 2018. Only 9 SCARDBs earned profit out of 13 and their overall loss were Rs. 9 Crore and the NPAs as percentage of loan outstanding was 25.0 % in 2017-18. In case of PCARDBs, the total deposits and borrowings stood at Rs. 1,306 Crore and Rs. 16,349 Crore at end of March 2018. Majority of the PCARDBs i.e. 344 faced loss out of 601 and the overall loss were Rs. 511 Crore in 2017-18. Their NPAs as percentage of loan outstanding reached at its hightest i.e. 38.4 % in 2017-18.

3.7.3.2: Urban Co-operative Banks

The Urban Co-operative banks (UCBs) captured an important place in the non-agricultural credit societies in urban areas. The UCBs are registered under the Co-operative Societies Act of the concerned State Government or under the Multi State Co-operative Societies Act, 2002, so they have a dual control of Reserve Bank of India and the respective State Government. The UCBs further divided into two categories i.e. Scheduled UCBs and Non-Scheduled UCBs. 1,544 UCBs (i.e. 54 Scheduled UCBs and 1,490 Non-Scheduled UCBs) occupied only 35.6 per cent of the total assets of Co-operative Banks in India at the end of March 2019. Regarding financial performance the UCBs recorded a decline in net profit after taxes in 2018-19 and profitability of UCBs, which measured in terms of return on equity (RoE) has deteriorated marginally due to the below performance of Non-Scheduled UCBs **(RBI, 2018-19)[57].**

3.8: National Bank for Agriculture and Rural Development (NABARD)

" An Act to establish a development bank to be known as the National Bank for Agriculture and Rural Development for providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto" **(NABARD Act, 1981)[58].**

The National Bank for Agriculture and Rural Development (NABARD) came into existence on 12th July, 1982 as an unique institution in this world under the National Bank for Agriculture and Rural Development Act, 1981. The NABARD serves the nation with multipurpose roles, such as a Central bank, a development agency, a financial institution, an infrastructure funding agency, a microfinance institution, a planning board and an apex-level policy maker. In addition to these, the NABARD is working at grass-roots level for credit planning and monitoring through its district presence **(Rao P S, 2012)[59].** The prime objective of NABARD is to promote the health and strength of rural credit delivery system of India with a close and organic links to Reserve Bank of India. NABARD has also an utmost responsibility for institutional development in the rural financial sector through supporting institutional credit sources i.e. Commercial Banks, Regional Rural Banks and Co-operative Banks.

In order to achieve the sustainable Development Goals (SDGs), poverty alleviation and inclusive growth, the Government of India has been implementing various programmes and schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri MUDRA Yojana, Pradhan Mantri Awas Yojana (PMAY) and Mahatma Gandhi National Rural Employment Gaurantee Act (MGNREGA), where the NABARD has been taking an active part **(NABARD Annual Report, 2018-19)[60].**

3.8.1: Genesis of NABARD

The credit is one of the most important determinants of value added in agriculture. The non-institutional credit sources in rural areas had dominated in the pre-independence period of India. So, it was felt necessary for the ruling government to strengthen the institutional credit system in post-independent period of India. Till late 1970s, various institutional credit sources have been established to improve institutional credit facilities but still a dedicated national level institution for the development of agriculture and rural sector was much needed. So, several committees have been appointed by the government in order to develop agricultural credit in India.

At first the Agricultural Finance Committee (Gadgil Committee 1945) had recommended the establishment of an independent public corporation for agricultural credit, but it had

been rejected by the All India Rural Credit Survey Committee (1951-54). Once again the Mirdha Committee (1965) on co-operation accepted the idea of National Bank and had recommended that National Cooperative Bank should be established which may act as an apex of the cooperative structure of credit in the country, even this proposal had also been rejected by the All-India Rural Credit Review Committee in 1969 **(High Powered Committee on Cooperatives, 2009)[61].**

The Banking Commission (1972) strongly proposed to come together the Agricultural Refinance and Development Corporation (ARDC) and Agricultural Finance Corporation (AFC) to begin a new institution within the Reserve Bank of India (RBI) regime. Finally, the RBI stepped forward after the advice of National Commission on Agriculture with its primary role to "integrating the total structure for financing agriculture and rural development from ground level upwards right upto the creation of an Agriculture Development Bank of India as the apex organization" **(CRAFICARD, 1979)[62].**

After recommendation of the National Commission on Agriculture, the Committee to Review arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD) has been appointed by RBI under the chairmanship of B. Sivaraman at the end of 1979 to evaluate the structure and operation of ARDC under the circumstances of an increasing need of institutional credit at national, state, district and village levels **(Dutta S, 2019)[63].**

The primary aim of the committee was to examine the functions of Agricultural Refinance and Development Corporation (ARDC) and find the requirement of any national level setup for agricultural credit in order to develop the agriculture and rural sector of the country. The committee sincerely analysed the arguments in favour and against the establishment of a National Bank for agriculture and realised that a separate body should be constituted for agriculture and rural credit which would be equally responsible as RBI to guide grass roots institutions for improvement of financial health of the rural India. Finally, the committee observed that "An Organizational Device" is required to be established to give enough priority for the integrated development of agriculture and rural sector of the country. Therefore, the committee came to the following conclusions: "Therefore, the committee is convinced that the balance of

advantage in the present context lies in setting up a national level bank with close links with the RBI. However, we envisage the role of the RBI as one of spawning, fostering and nurturing the new banks, somewhat in the same manner as the ARDC. We would cast a special responsibility on the RBI to develop the new institution which in our view is a logical step in the organizational evolution of the RBI itself" (**(CRAFICARD, 1979)**[64].

The CRAFICARD preferred National Bank for Agriculture and Rural Development (NABARD) as the name for national level organization which will decentralize the Central Bank's function for facilitating all kind of production and investment credit to agriculture, small-scale industries, artisans, khadi and village industries, handicrafts and other allied economic activities for agricultural and rural development **(Furqan M, 2005)**[65]**.**

The Sivaraman Committee (CRAFIVARD) has submitted an interim report late in November 1979 and the final report in March 1981. The proposal of the establishment of NABARD has been accepted by both the Government of India and RBI in January 1980. Finally, the NABARD Act was passed by the parliament of India through the Act of 61 of 1981 on 1st December 1981 and the National Bank for Agriculture and Rural Development (NABARD) was established on 12 July, 1982 **(Gadgil M V, 1997)**[66]**.**

3.8.2: Major Objectives of NABARD

The National Bank for Agriculture and Rural Development (NABARD) was started its journey as an apex institution for agriculture and rural credit system in India by the Government of India after taking over the Agricultural Credit Department of RBI, Agricultural Refinance and Development Corporation (ARDC), the National Agricultural Credit (Long Term Operations) and the national Agricultural Credit (stabilisation) Fund of the RBI. Therefore, it is mainly concerned with the undivided attention and purposeful direction for integrated rural development of India. The major objectives of NABARD are as follows **(Furqan M, 2005)**[67]**-**

i) To facilitate refinance to the Rural Financial Institutions (RFIs) for integrated rural development activities.

ii) In order to improve the absorptive capacity of the credit delivery system, NABARD is taking various initiatives such as monitoring and restructuring of credit institutions etc.

iii) With an aim to formulate policies, NABARD always keeps link with Government of India, State Governments and RBI and other national level institutions.

iv) To reduce regional imbalance in India.

v) To undertake monitoring and evaluation of projects refinance by NABARD.

3.8.3: Important Functions of NABARD

The important functions of NABARD have been classified into three categories: 1) Credit Distribution, 2) Development and 3) Regulatory. These functions are discussed as follows **(Vijayakumari K & Thomas R, 2017)[68]-**

1) **Credit Distribution**- On the basis of time, the NABARD provides different types of credit facilities-
   i) **Short-Term Credit**- NABARD provides short-term credit to State Co-operative Banks (SCBs), Regional Rural Banks (RRBs) and other financial institutions approved by the RBI for various purposes such as seasonal agricultural operations, marketing, agricultural trade and other activities related to agriculture sector. the time duration of the short-term loans for those purposes is up to 15 months.
   ii) **Medium-Term Credit**- The NABARD facilities medium term loans to RFIs for investment purposes related to agriculture and rural sector and the time period is 18 months to 7 years.
   iii) **Long-Term credit**- NABARD provides refinance to various institutions for the development of infrastructure of the agriculture and allied sector. The duration of the loan is a period of 25 years.
2) **Development Functions-** NABARD performs various developmental functions such as- i) Coordination among different Rural Financial Institutions, ii) It provides financial support to promote research in agriculture and rural

development, iii) Acts as liaison with Government of India, RBI and different state Governments in order to monitor works in agriculture and allied sectors.

3) **Regulatory Functions-** the NABARD also performs several regulatory functions such as- i) Inspects the working of RRBs, State and Central Cooperative Banks and ii) it also inspects apex cooperative marketing federations, state handloom weaving societies etc. which are financed on voluntary basis.

3.8.4: Management and Organization of NABARD

Any organization can achieve a great success through the efficiency and excellence of its management. With an aim to achieve the national goal of rural development, the NABARD has a dedicated leadership team to steer the organization at its fullest. According to Section 6(1) of the **(NABARD Act, 1981)[69],** the Board of Directors of the National Bank appointed by the Government of India in consultation with the RBI, the board consists of 15 members such as- i) a Chairman, ii) a Managing Director, iii) three directors are experts in rural economics, rural development, cottage and village industries, small scale industries, persons having experience in cooperative banks or RRBs or commercial banks, iv) three directors are from the directors of the RBI, v) three directors are officials of the Government of India and vi) four are State Government officials.

In order to act as an apex institution, NABARD has divided its organizational set up into various segments which create a smooth path to the working of NABARD towards the goal of agriculture and rural development. These are as follows **(Pinamkar N V, 2018)[70]-** i) Board of Directors, ii) Departments, iii) Councils, iv) Committees, v) Offices and Training Establishment.

3.8.5: Sources of Funds of NABARD

The NABARD is a unique financial institution which does not accept public deposits and it provides refinance only at low risk. NABARD's lending rates on refinance are influenced both by economic and extra-economic considerations and the latter one includes the government's desire to keep the ultimate lending rates on rural credit as low

as possible in order to direct credit to the desired activities up to the targeted levels **(Gadgil M V, 1997)**[71].

Under the provision of Section 4.(1) of the **(NABARD Act, 1981)**[72]**,** " the capital of the National Bank shall be one hundred (100) Crores of rupees: Provided that the Central Government may, in consultation with the Reserve Bank and by notification, increase the said capital up to five thousand crores of rupees". Since inception NABARD has a strong financial support, as a result it achieved the target in the given time period. In order to accomplish financial strength and sustainability in the long run, the financial sources of any institution can play a vital role and it is also observed that the NABARD has increased the sources of funds through various instruments.

Table 3.9

Progress of Sources of Funds of NABARD during 2001-02 to 20018-19

(Amount in Rs. Crore)

Particulars	**Year (end of March)**		
	2001-02	**2011-12**	**2018-19**
Capital, Reserves & Surplus	5,626	16,408	43,674
NRC (LTO) & NRC (Stabilisation) Funds	13,975	16,058	16,086
Deposits	110	291	--
STCRC Fund	--	20,000	45,000
ST Fund for RRBs	--	--	10,000
LTRC Fund	--	--	43,000
Tea, Coffee & Rubber Deposits	--	--	83
RIDF Deposits	9,725	75,107	1,19,763
Bonds & Debentures (including BNB)	6078	38,584	39,857
Bonds for LTIF	--	--	34,249
Bonds for PMAY-G	--	--	17,999
Bonds for SBM-G	--	--	8,698
Term Loans from Banks	--	--	27,000

Certificates of Deposit	--	1,281	14,037
Commercial Papers	--	2,245	25,626
Term Money Borrowings	--	182	4,067
Tax Free Bonds	--	--	5,000
Foreign Currency Loan	250	503	1,094
Borrowings JNN Solar Mission	--	--	03
Warehouse Infrastructure Fund	--	--	5,971
Food Processing Fund	--	--	330
CBLO & Repo	--	--	6,049
Borrowings against STD	--	--	50
Borrowing from GoI	832	85	--
Borrowings from RBI (GLC)	6,500	--	--
Other liabilities/ Funds	2002	11,331	19,835
Total	**45,098**	**1,82,075**	**4,87,470**

Source: NABARD Annual Report, (2002-03)[73], (2012-13)[74] & (2018-19)[75]

The above table 3.9 depicts the progress of sources of funds of NABARD during the study period 2001-02 to 2018-19. From its inception the paid up capital gradually increased from Rs. 100 Crore to Rs. 2000 Crore and the capital, reserve & surplus as a whole stood at Rs. 5,626 Crore in 2001-02. Finally, the capital, reserve & surplus reached at Rs. 43,674 Crore in 2018-19 and out of which the authorized capital was Rs. 30,000 Crore and paid-up capital was Rs. 12,580. Similarly RIDF deposits has increased from Rs. 9,725 Crore in 2001-02 to Rs. 1,19,763 Crore in 2018-19, which was almost twelve times greater than that was in 2001-02. Similarly the other funds like NRC (LTO) & NRC (Stabilisation) Funds, Bonds & Debentures and foreign currency loan has witnessed a great hike during the study period. On the other hand, NABARD has given enough emphasis to build-up their own capital and as a result the borrowing from Government of India reduced to zero in 2018-19 from Rs. 832 Crore in 2001-02. It is also found from the above table that NABARD raised sources for various other funds like STCRC fund, LTRC fund, Warehouse Infrastructure Fund, Bonds for PMAY-G, Bonds for SBM-G, Bonds for LTIF and Food Processing Fund etc. in 2018-19 significantly. During the study

period it is also observed that the total amount of fund has increased from Rs. 45,098 Crore to Rs. 4,87,470 Crore, which was more than ten times higher that that was in 2001-02.

3.8.6: Uses of Funds of NABARD

With an aim to generate greater impact on agriculture and rural sector in India, NABARD utilized its funds through various ways and finally it became a key solution provider in the rural space. The following table 3.10 describes the uses of funds of NABARD during the study period 2001-02 to 2018-19. It is seen that NABARD spent majority of its fund for Production and Marketing Credit (short-term) and Medium- and Long-term Project Loans (long-term) with a great hike i.e. Rs. 6,772 Crore to Rs. 66,737 Crore and Rs. 22,871 to Rs. 1,52,409 Crore during the study period. A short-term multipurpose credit product designed for DCCBs for the meeting the working capital farm maintenance needs of the individual borrowers increased from Rs. 910 Crore in 2011-12 to Rs. 4,450 Crore in 2018-19. Similarly the outstanding loans provided for RIDF as direct loans stood at Rs. 1,20,163 Crore as on 2018-19 compared to Rs. 10,435 Crore as on 2001-02. In oder to develop the infrastructure of the rural economy, the other direct loans like Warehouse Infrastructure Fund, NIDA Loan, Producers' Organisation Development Fund, Food Processing Fund and Dairy Processing and Infrastructure Development Fund (DIDF) have increased by NABARD significantly during the study period. With a view to achieve house for all by 2022, NABARD has already provided Rs. 18,008 Crore under the scheme Pradhan Mantri Awaas Yojana–Gramin (PMAY–G) in 2018-19. NABARD also provided an outstanding loan of Rs. 8,698 Crore in 2018-19 under the scheme Swachh Bharat Mission–Gramin (SBM–G) with a goal to achieve universal sanitation cover in rural areas.

Table 3.10

Progress of uses of Funds of NABARD during 2001-02 to 2018-19

(Amount in Rs. Crore)

Particulars	Year (End of March)		
	2001-02	2011-2012	2018-19

Cash and Bank Balance	916	8,313	12,125
Government Securities and Other Investments	1,299	5,867	37,871
Collateralised Borrowing and Lending Obligation / Tri-Party Repo Lending	--	231	--
Production and Marketing Credit	6,772	48,338	66,737
Conversion of Production Credit into Medium-term Loans	488	129	137
Medium- and Long-term Project Loans	22,871	43,107	1,52,409
Direct Refinance to DCCBs	--	910	4,450
Medium-Term Investment Credit	15	--	--
Loans out of RIDF	10,435	70,860	1,20,163
Long Term Irrigation Fund	--	--	34,249
Pradhan Mantri Awaas Yojana–Gramin (PMAY–G)	--	--	18,008
Swachh Bharat Mission–Gramin (SBM–G)	--	--	8,698
Dairy Processing and Infrastructure Development Fund (DIDF)	--	--	432
Warehouse Infrastructure Fund	--	759	4,984
NIDA Loan	--	423	9,126
Food Processing Fund	--	--	276
Producers' Organisation Development Fund	--	--	139
Credit Facilities to Federations	--	--	11,375
Green Climate Fund	--	--	344
Long Term Non-Project Loans	472	140	70
Co Finance Loans (net of provision)	--	72	--
Other Loans (including JNN Solar Mission)	09	231	414
Sub-total of Loans and Advances	43,227	1,79,380	4,82,007

Fixed Assets & Other Assets	1,821	2,695	5,463
Total	**45,098**	**1,82,075**	**4,87,470**

Source: NABARD Annual Report, (2002-03)[76], (2012-13)[77] & (2018-19)[78]

3.9: Conclusion

The Agriculture Sector in India is an unorganized sector, its success and failure mostly depends on climate factors. With the commercialization of agriculture the cultivator has to invest at large scale on inputs, for this the farmers mostly depend of credit. In this chapter we have categories the need for credit to the farmers on the basis of time, purpose and nature. At the time of Independence, the most important source of agricultural credit was the moneylenders but after that the Government of India has taken various initiatives to develop the institutional sources of credit. As a result, the share of non-institutional credit sources decreased gradually.

Throughout this chapter, we have studied the establishment, objectives, functions, organizations and progress of different major institutional credit sources such as Commercial Banks, Regional Rural Banks, Co-operative Banks and NABARD. It is found from the above study that all the institutional credit sources have made a remarkable progress in terms of providing the credit facilities to the farmers and also these are expanded in such a way that more and more unbanked areas can be covered so that an adequate numbers of people have institutional credit facilities. With an objective of ensuring the banking facilities to each family, the Government of India launched a national mission namely the Pradhan Mantri Jan-Dhan Yojana (PMJDY) on 28th August 2014 and has become the largest financial inclusion mission in the world. As on 27th March, 2019, about 35.27 Crore accounts have been opened, out of which 59 % belong to rural or semi urban areas **(NABARD Annual Report, 2018-19)[79].**

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