LECTURE NOTES
Course No. AECO 142

Agricultural Finance and Co-operation

Compiled by

Dr. P.RAGHURAM
Professor and University Head
Department of Agricultural Economics
S.V. Agricultural College
TIRUPATI

&

Dr.S. Hymajyoti
Assistant professor
Agricultural College
RAJAHMUNDARY

LECTURE-1

Definition of agricultural Finance – nature-scope- meaning - significance -micro & macro finance

Meaning:

Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of India.

The financial aspects include money matters relating to production of agricultural products and their disposal.

Definition of Agricultural finance:

Murray (1953) defined agricultural. finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture ."

Tandon and Dhondyal (1962) defined agricultural. finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units."

Nature and Scope:

Agricultural finance can be dealt at both micro level and macro level. Macro-finance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses with in the farm. It is also concerned with the future use of funds.

Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business.

Significance of Agricultural Finance:

1) Agril finance assumes vital and significant importance in the agro – socio – economic development of the country both at macro and micro level.
2) It is playing a catalytic role in strengthening the farm business and augmenting the productivity of scarce resources. When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.
3) Use of new technological inputs purchased through farm finance helps to increase the agricultural productivity.
4) Accretion to in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.
5) Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset and wealth variations.
6) Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.
7) As Indian agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.
8) Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

LECTURE -2

Credit needs in Agriculture – meaning and definition of credit-classification of credit based on time, purpose, security, lender and borrower.

The word "credit" comes from the Latin word "***Credo***" which means "I believe". Hence credit is based up on belief, confidence, trust and faith. Credit is other wise called as loan.

Definition: Credit / loan is certain amount of money provided for certain purpose on certain conditions with some interest, which can be repaid sooner (or) later.

According to Professor ***Galbraith*** credit is the "temporary transfer of asset from one who has to other who has not"

Credit needs in Agriculture:

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. For a long time, the major source of agricultural credit was private moneylenders. But this source of credit was inadequate, highly expensive and exploitative. To curtail this, a multi-agency approach consisting of cooperatives, commercial banks ands regional rural banks credit has been adopted to provide cheaper, timely and adequate credit to farmers.

The financial requirements of the Indian farmers are for,

1. Buying agricultural inputs like seeds, fertilizers, plant protection chemicals, feed and fodder for cattle etc.
2. Supporting their families in those years when the crops have not been good.
3. Buying additional land, to make improvements on the existing land, to clear old debt and purchase costly agricultural machinery.
4. Increasing the farm efficiency as against limiting resources i.e. hiring of irrigation water lifting devices, labor and machinery.

Credit is broadly classified based on various criteria:

1. Based on time: This classification is based on the repayment period of the loan. It is sub-divided in to 3 types

- **Short–term loans:** These loans are to be repaid within a period of 6 to 18 months. All crop loans are said to be short–term loans, but the length of the repayment period varies according to the duration of crop. The farmers require this type of credit to meet the expenses of the ongoing agricultural operations on the farm like sowing, fertilizer application, plant protection measures, payment of wages to casual labourers etc. The borrower is supposed to repay the loan from the sale proceeds of the crops raised.
- **Medium – term loans:** Here the repayment period varies from 18 months to 5 years. These loans are required by the farmers for bringing about some improvements on his farm by way of purchasing implements, electric motors, milch cattle, sheep and goat, etc. The relatively longer period of repayment of these loans is due to their partially-liquidating nature.
- **Long – term loans:** These loans fall due for repayment over a long time ranging from 5 years to more than 20 years or even more. These loans together with medium terms loans are called investment loans or term loans. These loans are meant for permanent improvements like levelling and reclamation of land, construction of farm buildings, purchase of tractors, raising of orchards ,etc. Since these activities require large capital, a longer period is required to repay these loans due to their non - liquidating nature.

2. Based on Purpose: *Based* on purpose, credit is sub-divided in to 4 types.

- **Production loans**: These loans refer to the credit given to the farmers for crop production and are intended to increase the production of crops. They are also called as seasonal agricultural operations (SAO) loans or short – term loans or crop loans. These loans are repayable with in a period ranging from 6 to 18 months in lumpsum.

- **Investment loans**: These are loans given for purchase of equipment the productivity of which is distributed over more than one year. Loans given for tractors, pumpsets, tube wells, etc.
- **Marketing loans:** These loans are meant to help the farmers in overcoming the distress sales and to market the produce in a better way. Regulated markets and commercial banks, based on the warehouse receipt are lending in the form of marketing loans by advancing 75 per cent of the value of the produce. These loans help the farmers to clear off their debts and dispose the produce at remunerative prices.
- **Consumption loans**: Any loan advanced for some purpose other than production is broadly categorized as consumption loan. These loans seem to be unproductive but indirectly assist in more productive use of the crop loans i.e. with out diverting then to other purposes. Consumption loans are not very widely advanced and restricted to the areas which are hit by natural calamities. These loams are extended based on group guarantee basis with a maximum of three members. The loan is to be repaid with in 5 crop seasons or 2.5 years whichever is less. The branch manager is vested with the discretionary power of sanctioning these loans up to Rs. 5000 in each individual case. The rate of interest is around 11 per cent.

The scheme may be extended to

1) IRDP beneficiaries
2) Small and marginal farmers
3) Landless Agril. Laborers
4) Rural artisans
5) Other people with very small means of livelihood hood such as carpenters, barbers, washermen, etc.

4. Based on security: The loan transactions between lender and borrower are governed by confidence and this assumption is confined to private lending to some extent, but the institutional financial agencies do have their own procedural formalities on credit transactions. Therefore it is essential to classify the loans under this category into two sub-categories viz., secured and unsecured loans.

- **Secured loans:** Loans advanced against some security by the borrower are termed as secured loans. Various forms of securities are offered in obtaining the loans and they are of following types.

I. **Personal security**: Under this, borrower himself stands as the guarantor. Loan is advanced on the farmer's promissory note. Third party guarantee may or may not be insisted upon (i.e. based on the understanding between the lender and the borrower)

II. **Collateral Security**: Here the property is pledged to secure a loan. The movable properties of the individuals like LIC bonds, fixed deposit bonds, warehouse receipts, machinery, livestock etc, are offered as security.

III. **Chattel loans:** Here credit is obtained from pawn-brokers by pledging movable properties such as jewellery, utensils made of various metals, etc.

IV. **Mortgage:** As against to collateral security, immovable properties are presented for security purpose For example, land, farm buildings, etc. The person who is creating the charge of mortgage is called mortgagor (borrower) and the person in whose favour it is created is known as the mortgagee (banker). Mortgages are of two types

a) **Simple mortgage:** When the mortgaged property is ancestrally inherited property of borrower then simple mortgage holds good. Here, the farmer borrower has to register his property in the name of the banking institution as a security for the loan he obtains. The registration charges are to be borne by the borrower.

b) **Equitable mortgage:** When the mortgaged property is self-acquired property of the borrower, then equitable mortgage is applicable. In this no such registration is required, because the ownership rights are clearly specified in the title deeds in the name of farmer-borrower.

V. **Hypothecated loans**: Borrower has ownership right on his movable and the banker has legal right to take a possession of property to sale on default (or) a right to sue the owner to bring the property to sale and for realization of the amount due. The person who creates the charge of hypothecation is called as hypothecator (borrower) and the person in whose favor it is created is known as hypothecate (bank) and the property, which is denoted as hypothecated property. This happens in the case of tractor loans, machinery loans etc. Under such loans the borrower will not have any right to sell the equipment

until the loan is cleared off. The borrower is allowed to use the purchased machinery or equipment so as to enable him pay the loan installment regularly.

Hypothecated loans again are of two types viz., key loans and open loans.

a) **Key loans :** The agricultural produce of the farmer - borrower will be kept under the control of lending institutions and the loan is advanced to the farmer . This helps the farmer from not resorting to distress sales.

b) **Open loans:** Here only the physical possession of the purchased machinery rests with the borrower, but the legal ownership remains with the lending institution till the loan is repaid.

- **Unsecured loans:** Just based on the confidence between the borrower and lender, the loan transactions take place. No security is kept against the loan amount

4. Lender's classification: Credit is also classified on the basis of lender such as

- **Institutional credit:** Here are loans are advanced by the institutional agencies like co-operatives, commercial banks. Ex: Co-operative loans and commercial bank loans.
- **Non-institutional credit :** Here the individual persons will lend the loans Ex: Loans given by professional and agricultural money lenders, traders, commission agents, relatives, friends, etc.

5. Borrower's classification: The credit is also classified on the basis of type of borrower. This classification has equity considerations.

- Based on the business activity like farmers, dairy farmers, poultry farmers, pisiculture farmers, rural artisans etc.
- Based on size of the farm: agricultural labourers, marginal farmers, small farmers , medium farmers , large farmers ,
- Based on location hill farmers (or) tribal farmers.

6. Based on liquidity: The credit can be classified into two types based on liquidity and they are

- ***Self-liquidating loans***: They generate income immediately and are to be paid with in one year or after the completion of one crop season. Ex: crop loans.
- ***Partially -liquidating***: They will take some time to generate income and can be repaid in 2-5 years or more, based on the economic activity for which the loan was taken. Ex: Dairy loans, tractor loans, orchard loans etc.,

7. Based on approach:

- ***Individual approach***: Loans advanced to individuals for different purposes will fall under this category
- ***Area based approach***: Loans given to the persons falling under given area for specific purpose will be categorized under this. Ex: Drought Prone Area Programme (DPAP) loans, etc
- ***Differential Interest Rate (DIR) approach***: Under this approach loans will be given to the weaker sections @ 4 per cent per annum.

8. Based on contact:

- ***Direct Loans***: Loans extended to the farmers directly are called direct loans. Ex: Crop loans.
- ***Indirect loans***: Loans given to the agro-based firms like fertilizer and pesticide industries, which are indirectly beneficial to the farmers are called indirect loans.

LECTURE NO: 3

Credit Analysis-Economic Feasibility Tests- Returns to investment, Repayment capacity and Risk bearing ability (3Rs)

The technological break-thorough achieved in Indian agriculture made the agriculture capital intensive. In India most of the farmers are capital starved. The farmers need credit at right time, through right agency and in adequate quantity to realize maximum productivity. This is from farmer's point of view.

In contrast to the farmer's point of view, when a farmer approaches an Institutional Financial Agency (IFA) with a loan proposal, the banker should be convinced about the economic viability of the proposed investments.

Economic Feasibility Tests of Credit

When the economic feasibility of the credit is being observed, three basic financial aspects are to be assessed by the banker.

If the loan is advanced,

1. Will it generate returns more than costs?
2. Will the returns have surplus, to repay the loan when it falls due?
3. Will the farmer stand up to the risk and uncertainty in farming?

These three financial aspects are known as 3 Rs of credit, which are as follows

1. Returns from the proposed investment
2. Repayment capacity the investment generates
3. Risk- bearing ability of the farmer-borrower

The 3Rs of credit are sound indicators of credit worthiness of the farmers.

Returns from the Investment

This is an important measure in credit analysis. The banker needs to have an idea about the extent of returns likely to be obtained from the proposed investment. The farmer's request for credit can be accepted only if he can be able to generate returns that

enable him to meet the costs. Returns obtained by the farmer depend upon the decisions like,

- What to grow?
- How to grow?
- How much to grow?
- When to sell?
- Where to sell?

Therefore the main concern here is that the farmers should be able to generate incremental returns that should cover the additional costs incurred with borrowed funds.

Repayment Capacity:

Repayment capacity is nothing but the ability of the farmer to repay the loan obtained for the productive purpose with in a stipulated time period as fixed by the lending agency.

At times the loan may be productive enough to generate additional income but may not be productive enough to repay the loan amount. Hence the necessary condition here is that the loan amount should not only profitable but also have potential for repayment of the loan amount. Under such conditions only the farmer will get the loan amount.

The repayment capacity not only depends on returns, but also on several other quantitative and qualitative factors as given below.

$Y = f(\underline{X1, X_2, X_3, X4} \quad \underline{X_5, X_6, X_7}\ldots)$

Where, Y is the dependent variable ie., the repayment capacity

The independent variables viz., $X_1$to X_4 are considered as quantitative factors while X_5 to X_7 are considered as qualitative factors.

$X_1(+)$ = Gross returns from the enterprise for which the loan was taken during a season /year (in Rs.)

$X_2(-)$ = Working expenses in Rs.

$X_3(-)$ = Family consumption expenditure in Rs.

$X_4(-)$ = Other loans due in Rs.

$X_5(+)$ = Literacy

X_6(+) = Managerial skill

X_7(+) = Moral characters like honesty, integrity etc.

Note: Signs in the brackets are apriori signs.

Hence, eventhough the returns are high, the repayment capacity is less because of other factors.

The estimation of repayment capacity varies from crop loans (i.e. self liquidating loans) to term loans (partially liquidating loans)

i) Repayment capacity for crop loans

Gross Income- (working expenses excluding the proposed crop loan + family living expenses + other loans due+ miscellaneous expenditure)

ii) Repayment capacity for term loans

Gross Income- (working expenses + family living expenses + other loans due+ miscellaneous expenditure + annual installment due for term loan)

Causes for the poor repayment capacity of Indian farmer

1. Small size of the farm holdings due to fragmentation of the land.
2. Low production and productivity of the crops.
3. High family consumption expenditure.
4. Low prices and rapid fluctuations in prices of agricultural commodities.
5. Using credit for unproductive purposes
6. Low farmer's equity/ net worth.
7. Lack of adoption of improved technology.
8. Poor management of limited farm resources, etc

Measures for strengthening the repayment capacity

1. Increasing the net income by proper organization and operation of the farm business.
2. Adopting the potential technology for increasing the production and reducing the expenses on the farm.
3. Removing the imbalances in the resource availability.

4. Making the schedule of loan repayment plan as per the flow of income.
5. Improving the networth of the farm households.
6. Diversification of the farm enterprises.
7. Adoption of risk management strategies like insurance of crops, animals and machinery and hedging to control price variations ,etc.,

Risk Bearing Ability

It is the ability of the farmer to withstand the risk that arises due to financial loss. Risk can be quantified by statistical techniques like coefficient of variation (CV), standard deviation (SD) and programming models. The words risk and uncertainty are synonymously used.

Some sources / types of risk

1. Production/ physical risk.
2. Technological risk.
3. Personal risk
4. Institutional risk
5. Weather uncertainty.
6. Price risk

Repayment capacity under risk

Deflated gross Income- (working expenses excluding the proposed crop loan+ family living expenses + other loans due+ miscellaneous expenditure)

Measures to strengthen risk bearing ability

1. Increasing the owner's equity/net worth
2. Reducing the farm and family expenditure.
3. Developing the moral character i.e. honesty, integrity , dependability and feeling the responsibility etc. All these qualities put together are also called as ***credit rating***.
4. Undertaking the reliable and stable enterprises (enterprises giving the guaranteed and steady income)

5. Improving the ability to borrow funds during good and bad times of crop production.
6. Improving the ability to earn and save money. A part of the farm earnings should be saved by the farmer so as to meet the uncertainty in future.
7. Taking up of crop, livestock and machinery insurance.

LECTURE NO: 4

Five Cs of credit - Character, Capacity, Capital, Condition and Commonsense and Seven Ps of credit - Principle of Productive purpose, Principle of personality, Principle of productivity, Principle of phased disbursement, Principle of proper utilization, Principle of payment and Principle of protection

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Next to 3 Rs of credit, the other important tests applied to study the economic feasibility of the proposed investment activity are 5 Cs of credit viz., character, capacity, capital, condition and commonsense.

1. Character:

The basis for any credit transaction is trust. Even though the bank insists up on security while lending a loan, an element of trust by the banker will also play a major role. The confidence of an institutional financial agency on its borrowers is influenced by the moral characters of the borrower like honesty, integrity, commitment, hard work, promptness etc. Therefore both mental and moral character of the borrowers will be examined while advancing a loan. Generally people with good mental and moral character will have good credit character as well.

2. Capacity:

It means capacity of an individual borrower to repay the loans when they fall due. It largely depends upon the income obtained from the farm.

$C= f(Y)$ where $C=$ capacity and $Y =$ income

3. Capital:

Capital indicates the availability of money with the farmer - borrower. When his capacity and character are proved to be inadequate the capital will be considered. It represents the networth of the farmer. It is related to the repayment capacity and risk bearing ability of the farmer - borrower.

4. Condition:

It refers to the conditions needed for obtaining loan from financial institutions i.e. procedure to be followed while advancing a loan.

5. *Commonsense*:

This relates to the perfect understanding between the lender and the borrower in credit transactions. This is in fact *prima-facie* requirement in obtaining credit by the borrower.

7 Ps of farm credit/ principles of farm finance

The increased role of financial institutions due to technological changes on agricultural front necessitated the evolving of principles of farm finance, which are expected to bring not only the commercial gains to the bankers but also social benefits. The principles so evolved by the institutional financial agencies are expected to have universal validity. These principles are popularly called as 7 Ps of farm credit and they are

1. Principle of productive purpose.
2. Principle of personality.
3. Principle of productivity.
4. Principle of phased disbursement.
5. Principle of proper utilization.
6. Principle of payment and
7. Principle of protection.

1. Principle of productive purpose:

This principle refers that the loan amount given to a farmer - borrower should be capable of generating additional income. Based on the level of the owned capital available with the farmer, the credit needs vary. The requirement of capital is visible on all farms but more pronounced on marginal and small farms. The farmers of these small and tiny holdings do need another type of credit i.e. consumption credit, so as to use the crop loans productively (without diverting them for unproductive purposes). Inspite of

knowing this, the consumption credit is not given due importance by the institutional financial agencies.

This principle conveys that crop loanss of the small and marginal farmers are to be supported with income generating assets acquired through term loans. The additional incomes generated from these productive assets add to the income obtained from the farming and there by increases the productivity of crop loans taken by small and marginal farmers.

The examples relevant here are loans for dairy animals, sheep and goat, poultry birds, installation of pumpsets on group action, etc.

2. Principle of personality:

The 3Rs of credit are sound indicators of credit worthiness of the farmers. Over the years of experiences in lending, the bankers have identified an important factor in credit transactions i.e. trustworthiness of the borrower. It has relevance with the personality of the individual.

When a farmer borrower fails to repay the loan due to the crop failure caused by natural calamities, he will not be considered as willful – defaulter, whereas a large farmer who is using the loan amount profitably but fails to repay the loan, is considered as willful - defaulter. This character of the big farmer is considered as dishonesty.

Therefore the safety element of the loan is not totally depends up on the security offered but also on the personality (credit character) of the borrower. Moreover the growth and progress of the lending institutions have dependence on this major influencing factor i.e. personality. Hence the personality of the borrower and the growth of the financial institutions are positively correlated.

3. Principle of productivity:

This principle underlines that the credit which is not just meant for increasing production from that enterprise alone but also it should be able to increase the productivity of other factors employed in that enterprise. For example the use of high yielding varieties (HYVs) in crops and superior breeds of animals not only increases the productivity of the enterprises, but also should increase the productivity of other complementary factors employed in the respective production activities. Hence this

principle emphasizes on making the resources as productive as possible by the selection of most appropriate enterprises.

4. Principle of phased disbursement:

This principle underlines that the loan amount needs to be distributed in phases, so as to make it productive and at the same time banker can also be sure about the proper end use of the borrowed funds. Ex: loan for digging wells

The phased disbursement of loan amount fits for taking up of cultivation of perennial crops and investment activities to overcome the diversion of funds for unproductive purposes. But one disadvantage here is that it will make the cost of credit higher. That's why the interest rates are higher for term loans when compared to the crop loans.

5. Principle of proper utilization:

Proper utilization implies that the borrowed funds are to be utilized for the purpose for which the amount has been lent. It depends upon the situation prevailing in the rural areas viz., the resources like seeds, fertilizers, pesticides etc., are free from adulteration, whether infrastructural facilities like storage, transportation, marketing etc., are available. Therefore proper utilization of funds is possible, if there exists suitable conditions for investment.

6. Principle of payment:

This principle deals with the fixing of repayment schedules of the loans advanced by the institutional financial agencies. For investment credit advanced to irrigation structures, tractors, etc the annual repayments are fixed over a number of years based on the incremental returns that are supposed to be obtained after deducting the consumption needs of the farmers.With reference to crop loans, the loan is to be repaid in lumpsum because the farmer will realize the output only once. A grace period of 2-3 months will be allowed after the harvest of crop to enable the farmer to realize reasonable price for his produce. Otherwise the farmer will resort to distress sales. When the crops fail due to unfavourable weather conditions, the repayment is not insisted upon immediately. Under such conditions the repayment period is extended besides assisting the farmer with another fresh loan to enable him to carry on the farm business.

7. Principle of Protection:

Because of unforeseen natural calamities striking farming more often, institutional financial agencies can not keep away themselves from extending loans to the farmers. Therefore they resort to safety measures while advancing loans like

- Insurance coverage
- Linking credit with marketing
- Providing finance on production of warehouse receipt
- Taking sureties: Banks advance loans either by hypothecation or mortgage of assets
- Credit guarantee: When banks fail to recover loans advanced to the weaker sections, Deposit Insurance Credit Guarantee Corporation of India (DICGC) reimburses the loans to the lending agencies on behalf of the borrowers.

LECTURE – 5

Methods and Mechanics of Processing Loan Application

Procedure to be followed while sanctioning farm loan:

The financing bank is vested with the full powers either to accept or reject the loan application of a farmer. This is nothing but the appraisal of farm credit proposals or procedures and formalities followed in the processing of loans.

The processing procedure of a loan application can be dealt under following ten sub-heads or steps.

1. Interview with the farmer
2. Submission of loan application by the farmer
3. Scrutiny of records.
4. Visit to the farmer's field before sanction of loan
5. Criteria for loan eligibility
6. Sanction of loan
7. Submission of requisite documents
8. Disbursement of loan
9. Post-credit follow-up measures , and
10. Recovery of loan.

1. Interview with the farmer:

A banker has a good scope to assess the credit characteristics like honesty, integrity, frankness, progressive thinking, indebtedness, repayment capacity etc, of a farmer-borrower while interviewing. During the interview, the banker explains the terms and conditions under which the loan is going to be sanctioned. Interview also helps the banker to understand the genuine credit needs of farmer. Therefore an interview is not a

formality, but it facilitates the banker to study a farmer in detail and assess his actual credit requirements.

2. Submission of loan application by the farmer:

The banker gives a loan application to the farmer borrower after getting satisfied with his credentials. The farmer has to fill the details like the location of the farm, purpose of the loan, cost of the scheme, credit requirements, farm budgets, financial statements etc.

The items like 10 -1 (indicating the ownership of land or title deeds) and adangal (statement showing the cropping pattern adopted by the farmer-borrower), farm map, no-objection certificate from the co-operatives, non-encumbrance certificate from Sub-Registrar of land assurances, affidavit from the borrower regarding his non-mortgage of land elsewhere are to be appended to the loan application. A passport size photograph of farmer is also to be affixed on the loan application form.

3. Scrutiny of records:

The relevant certificates indicating the ownership of land and extent of land are to be verified by the bank officials with village karnam or village revenue official.

4. Visit to the farmer's field before sanction of loan:

After verifying the records at village level, the field officer of the bank pays a visit to the farm to verify the particulars given by the farmer. The pre-sanction visit is expected to help the banker in identifying the farmer and guarantor, to locate the boundaries of land as per the map, assess the managerial capacity of the farmer in farming and allied enterprises and the farmer's attitude towards latest technology. Details on economics of crop and livestock enterprises, economic feasibilities of proposed projects and farmer's loan position with the non- institutional sources are ascertained in the pre -sanction visit. Hence, the pre-sanction visit of the bank officials is very important to verify credit-worthiness and trust-worthiness of the farmer - borrower.

While appraising different types of loans, different aspects should be verified. For advancing loan for well digging, the location of proposed well, availability of ground

water, rainfall, area to be covered (command area of the well) and distance from the nearby well etc, are verified in the pre-sanction visit. In the same way, for other loans, the relevant aspects are verified. All these aspects are included in the report submitted to the branch manager for taking the final decision in sanctioning of the loan amount.

5. Criteria for loan eligibility:

The following aspects are to be considered while judging the eligibility of a farmer - borrower to obtain loan.

- He should have good credit character and financial integrity.
- His financial transactions with friends, neighbours and financial institutions must be proper (i.e. he should not be a wilful defaulter in the past)
- He must have progressive outlook and receptive to adopt modern technology.
- He should have firm commitment to implement the proposed plan.
- The security provided by the farmer towards the loan must be free from any sort of encumbrance and litigation.

6. Sanction of loan:

The branch manager takes a decision whether to sanction the loan (or) not, after carefully examining all the aspects presented in the pre-sanction farm inspection report submitted by the field officer. Before sanctioning, the branch manager considers the technical feasibility, economic viability and bankability of proposed projects including repayment capacity, risk-bearing ability and sureties offered by the borrower.

If the loan amount is beyond the sanctioning power of branch manager, he will forward it to regional manager (or) head office of bank, incorporating his recommendations. The office examines the proposed projects and take final decision and communicate their decision to the branch manager for further action.

7. Submission of requisite documents:

After the loan has been sanctioned, the following documents are to be obtained by the bank from the farmer- borrower.

- Demand promissory note
- Deed of hypothecation – movable property
- Deed of mortgage (for immovable property)
- Guarantee letter
- Instalment letter
- An authorisation letter regarding the repayment of loan from the marketing agencies.

Title deeds are to be examined by the bank's legal officer. Simple mortgage is followed in the case of ancestral property and equitable mortgage in respect of self-acquired property.

8. Disbursement of loan:

Immediately after the submission of requisite documents, the loan amount is credited to the borrower's account. The sanctioned loan amount is disbursed in a phased manner, after ensuring that the loan is properly used by the farmer- borrower. Based on the flow of income of the proposed project a realistic repayment plan is prepared and given to the farmer.

9. Post-credit follow-up measures:

To ascertain the proper use of the sanctioned loan the branch manager or field officer pays a visit to the farmer's field. Apart from this, farmer can get the technical advice if any needed from the field officer for the implementation of the proposed project. These visits are helpful for developing a close rapport between the farmers and the banker. And these visits are more informal than formal. These visits also help in assessing any further requirement of supplementary credit to complete the scheme.

10. Recovery of loan:

Well in advance the bank reminds the farmer- borrower about the due date of loan repayment. Some appropriate measures like organising recovery camps, special drives, village meetings etc, are to be organised by banks to recover the loan in time. In case of default, the reasons are to be ascertained as to whether he is a wilful defaulter or

not. If he founds to be a non-wilful defaulter, he is helped further by extending fresh financial assistance for increased farm production. In the case of wilful defaulter, the bank officials initiate stringent measures to recover loan through court of law. In some possible cases banks make some tie-up arrangements i.e. the recovery of the loan is linked with marketing. In respect of justifiable cases re-phasing of repayment plan is allowed.

LECTURE-6

Repayment plans: Lumpsum repayment /straight-end repayment, Amortized decreasing repayment, Amortized even repayment, Variable or quasi variable repayment plan, Future repayment plan and Optional repayment plan

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The repayment of term loans (i.e. medium term loans and long term loans) differs from that of short term loans because they are characterized by their partially liquidating nature. These loans are recovered by a given number of installments depending up on the nature of the asset and the amount advanced for the asset under consideration.

There are six types of repayment plans for term loans and they are

1. Straight-end repayment plan or single repayment plan or lumpsum repayment plan
2. Partial repayment plan or Balloon repayment plan
3. Amortized repayment plan
   a) Amortized decreasing repayment plan
   b) Amortized even repayment plan or Equated annual installment method
4. Variable repayment plan (or) Quasi-variable repayment plan
5. Optional repayment plan
6. Reserve repayment plan (or) Future repayment plan

1. Straight-end Repayment Plan or Single Repayment Plan (or) Lumpsum Repayment Plan

The entire loan amount is to be cleared off after the expiry of stipulated time period. The principal component is repaid by the borrower at a time in lumpsum when the loan matures, while interest is paid each year.

2. Partial repayment plan or Balloon repayment plan

Here the repayment of the loan will be done partially over the years. Under this repayment plan, the installment amount will be decreasing as the years pass by except in the maturity year (final year), during which the investment generates sufficient revenue. This is also called as balloon repayment plan, as the large final payment made at the end of the loan period (i.e. in the final year) after a series of smaller partial payments.

3. Amortized repayment plan:

Amortization means repayment of the entire loan amount in a series of installments. This method is an extension of partial repayment plan.

Amortized repayment plans are of two types

a) Amortized decreasing repayment plan

Here the principal component remains constant over the entire repayment period and the interest part decreases continuously. As the principal amount remains fixed and the interest amount decreases, the annual installment amount decreases over the years. loans advanced for machinery and equipment will fall under this category. As the assets do not require much repairs during the initial years of loan repayment, a farmer can able to repay larger installments.

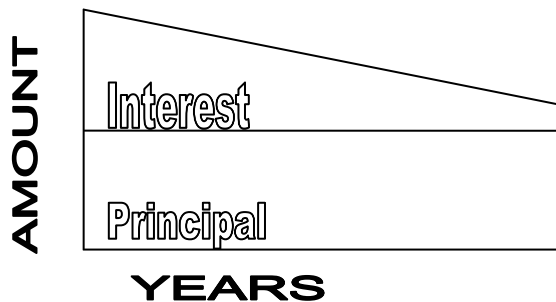

Fig:1 Amortized decreasing repayment plan

b) Amortized even repayment plan

Here the annual installment over the entire loan period remains the same. The principal portion of the installment increases continuously and the interest component declines gradually. This method is adopted for loans granted for farm

development, digging of wells, deepening of old wells, construction of godowns, dairy, poultry units, orchards etc.

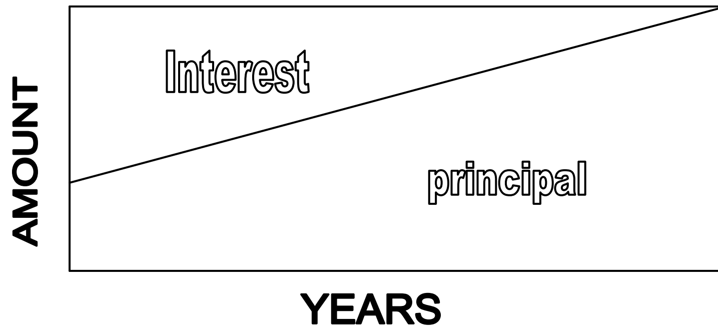

Fig 2: **Amortized even repayment plan**

The annual installment is given by the formula

$I = B^* i/1-(1+i)^{-n}$ Where I= annual installment in Rs.

B= principal amount borrowed in Rs.

n= loan period in years

i= annual interest rate

4. Variable repayment plan or Quasi-variable repayment plan

As the name indicates that, various levels of installments are paid by the borrower over the loan period. At times of good harvest a larger installment is paid and at times of poor harvest smaller installment is paid by the borrower. Hence, according to the convenience of the borrower the amount of the installment varies here in this method. This method is not found in lendings of institutional financial agencies.

5. Optional repayment plan:

Here in this method an option is given for the borrower to make payment towards the principal amount in addition to the regular interest.

6. Reserve repayment plan or Future repayment plan

This type of repayment is seen with borrowers in areas where there is variability in farm income. In such areas the farmers are haunted by the fear of not paying regular loan installments. To avoid such situations, the farmers make advance payments of loan from the savings of previous year. This type of repayment is advantageous to both the banker and borrower. The bankers need not worry regarding loan recovery even at times of crop failure and on the other hand borrower also gains, as he keeps up his integrity and credibility.

LECTURE-7

Recent trends in Agricultural finance-Social control and Nationalization of Banks

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Recent trends in Agricultural finance:

Finance in agriculture is as important as development of technologies. Technical inputs can be purchased and used by farmer only if he has funds. But his own money is always inadequate and he needs outside finance.

Professional money lenders were the only source of credit to agriculture till 1935. They used to charge exorbitantly high rates of interest and follow unethical practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them are living in perpetuated debts. There was widespread discontentment among farmers against these practices and there were instances of riots also.

With the passing of Reserve Bank of India Act 1934, District Central Co-operative Banks Act and Land Development Banks Act, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest in easy terms, both in terms of granting loans and recovery of them. Both the co-operative banks advanced credit mostly to agriculture. The Reserve Bank of India as the central bank of the country took lead in making credit available to agriculture through these banks by laying down suitable policies.

Although the co-operative banks started financing agriculture with their establishments in 1930s real impetus was received only after independence when suitable legislation were passed and policies formulated. Thereafter, bank credit to agriculture made phenomenal progress.

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

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

The quantum of agricultural credit can be judged from the figures of credit disbursed by all the banks at all India level.

Year	Rs. in crore
1987-88	9255
1988-89	9785
1989-90	10186
1990-91	8983
1991-92	11303
1992-93	13000
1993-94	15100
1994-95	16700
1999-2000	43000
2000-01	51500
2001-02	NA
2002-03	69560
2003-04	86981
2004-05	125299
2005-06	180486
2006-07	229400
2007-08	254657
2008-09	264455*

2009-10	325000**

Note: * Proposed, ** Targeted

Table1: Flow of Institutional Credit to Agriculture and Allied Activities (Rs. Crore)

Institutional Credit from	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09*	2009-10**
Cooperative Banks	23716	26959	31424	39786	42480	48258	35747	_
RRBs	6070	7581	12404	15223	20435	25312	25852	_
Commercial Banks	39774	52441	81481	125477	166485	181087	202856	_
Grand Total	69560	86981	125299	180486	229400	254657	264455	325000

Source:http://www.indiabudget.nic.in * Proposed, ** Targeted.

Extent and Nature of Farmers' Indebtedness

The National Sample Survey Organization (NSSO) in the country surveyed the extent of indebtedness among farmers in its 59th round of surveys as far back as 2003.

The survey indicated that nearly half (48.6%) of farmer households were indebted and 61 per cent of them were small farmers holding less than one hectare. Of the total outstanding amount, 41.6 per cent was taken for purposes other than the farm related activities. About 30.6 per cent of the total loan was for capital expenditure purposes and 27.8 per cent was for current expenditure in farm related activities. The other important fact was that 42.3 per cent of the outstanding amounts are from informal sources like moneylenders and traders.

An expert group on agricultural indebtedness under the chairmanship of Shri. R. Radhakrishna was formed. In its report in July, 2007, it estimated that in 2003 non-institutional channels accounted for Rs. 48,000 crore of farmers' debt out of which Rs. 18,000 crore was availed at an interest rate of 30 per cent per annum.

It said that the cropping pattern in India is highly skewed in favour of cash crops in recent years which invited more investment in agriculture. For cash crops, there is a need for long term loans, but short term credit dominates the farm credit structure, accounting for more than 75 per cent of the total.

Social control and Nationalization of Banks

At the time of independence, the private sector banks were predominantly urban–oriented and under the control of a few industrialists which had not helped in achieving the basic socio–economic objectives. The credit needs of agriculture, small–scale industries and also weaker sections such as small traders and artisans continued to be ignored.

Even though for nearly three fourths of population, agriculture is the main occupation and contributed 50 per cent of gross domestic product, the total bank credit advanced to this sector was only one per cent as on June, 1967. The bulk of the deposits contributed by the public were being advanced to the industrial and trade sectors ignoring the prime sector of agriculture. In agriculture, the credit scene was dominated by the private money lenders who were charging exorbitant rates of interest.

All these situations compelled the imposition of social control over the banks in 1968. The main aim of social control was achieving of wider spread of bank credit to the priority sectors thereby reducing the authority of managing directors in advancing the loans.

Social control created the tempo of banks expansion, as evident by the addition of 785 new branches by the end of first half of 1969. But this did not make dent in increased canalisation of credit to agricultural sector and to the other weaker sections .The directions issued by the Government were also ignored by many of the banks. Under these circumstances the Government thought that the social control of banks was not

sufficient for socio – economic development and nationalisation of banks was considered as an alternative solution.

The Government of India on 19th July 1969, promulgated an ordinance called "The Banking companies Ordinance 1969" (Acquisition and Transfer of Undertakings). Under this act 14 commercial banks having deposits of more than Rs. 50 crore each were nationalised and they were

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

The objectives of nationalisation of banks (done by the former Prime Minister, Smt. Indira Gandhi) were

- Removal of control on banking business by a few industrialists.
- Elimination of the use of bank credit for speculative and unproductive purposes.
- Expansion of credit to priority areas which were grossly neglected like agriculture and small scale industries.
- Giving a professional bent to the bank management
- Encouragement of new entrepreneurs
- Provision of adequate training to bank staff.

The average population served per bank branch declined markedly from 65,000 in June, 1969 to 32,000 by June, 1975.

Encouraged by the success of first spell of nationalisation of banks, six more banks in the private sector, having deposits more than Rs.200 crore were nationalised on 15th April 1980.

The six banks nationalised in the second spell were

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

As a result of two spells of nationalisation of banks, by the end of June, 1992 bank advances towards agriculture sector were 16.2 per cent of total credit as against one per cent by the end of June, 1967.

LECTURE-8

Lead Bank Scheme- Origin-Objectives-functions and progress; Regional Rural Banks (RRBs)- origin-objectives-functions-progress-RRBs in Andhra Pradesh

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Lead Bank Scheme

The study group appointed by National Credit Council (NCC) in 1969 under the chairmanship of Prof. D.R.Gadgil recommended "Service Area Approach" for the development of financial structure.

In the same year i.e., 1969, RBI appointed Sri. F.K.F Nariman committee to examine recommendations of Prof. Gadgil's study group. The Nariman committee also endorsed the views of the Gadgil committee on "Service Area Approach" and recommended the formulation of "Lead Bank Scheme". The RBI accepted the Nariman's committee recommendations and lead bank scheme came into force from 1969.

Under the lead bank scheme, specific districts are allotted to each bank, which would take the lead role in identifying the potential areas for banking and expanding credit facilities.

Lead bank is the leading bank among the commercial banks in a district i.e. having maximum number of bank branches in the district. Lead bank acts as a consortium leader for coordinating the efforts of all credit institutions in the each allotted district for the development of banking and expansion of credit facilities.

The activities of lead bank can be dealt under two important phases

Phase I: Survey of the lead district

The RBI has mentioned the following functions of lead bank under phase-I

- Surveying the potential areas for banking in the district.

- Identifying the business establishments which are so far dependent on non – institutional agencies for credit and financing them so as to raise their income
- Examining the available marketing facilities for agricultural and industrial products and linking credit with marketing.
- Invoking cooperation among different banks in opening new bank branches.
- Estimating the credit gaps in various sectors of district economy.
- Developing contacts and maintaining liaison with the Government and other agencies.

Phase II-Preparation of credit Plans:

RBI emphasized that the lead bank should

- Formulate the bankable loaning schemes involving intensive use of labour, so as to generate additional employment.
- Disburse loans to increase the productivity of land in Agriculture and allied activities, so as to increase the income level.
- Give maximum credit to weaker sections of the society mainly for productive purposes.

Therefore lead bank scheme expects the banker to become an important participant in the developmental process in the area of its operation in rural areas, and the service area approach put the banker in the position of implementing the development plans.

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Table2: Lead Banks of Different Districts in Andhra Pradesh

S.No	District	Lead Bank
1	East Godavari	Andhra Bank
2	West Godavari	Andhra Bank
3	Guntur	Andhra Bank
4	Srikakulam	Andhra Bank
5	Chittoor	Indian Bank
6	Krishna	Indian Bank
7	Anantapur	Syndicate Bank
8	Cuddapah	Syndicate Bank
9	Kurnool	Syndicate Bank
10	Nellore	Syndicate Bank
11	Prakasam	Syndicate Bank
12	Mahbubnagar	State Bank of India
13	Medak	State Bank of India
14	Visakhapatnam	State Bank of India
15	Vizianagaram	State Bank of India
16	Warangal	State Bank of India
17	Adilabad	State Bank of Hyderabad
18	Karimnagar	State Bank of Hyderabad

19	Khammam	State Bank of Hyderabad
20	Nalgonda	State Bank of Hyderabad
21	Nizamabad	State Bank of Hyderabad
22	Ranga Reddy	State Bank of Hyderabad

Regional Rural Banks (RRBs)

All India Rural Credit Review Committee (AIRCRC) under chairmanship of Sri. B. Venkatappaiah during the year 1969 was of the opinion that over large parts of the country the marginal and small farmers were deprived of having access to the cooperative credit both for production and investment purposes. This stressed the establishment of institutional financial agencies under public sector. Consequently the first spell of nationalization of banks was done with greater expectations, but the situation had not changed as per the expectations.

Hence, the Government of India appointed a working committee under the chairmanship of Sri. M. Narasimham to study the financial assistance rendered to the weaker sections in the rural areas. This working committee recommended the setting up of rural based institutional agencies called "Regional Rural Banks" after identifying shortcomings in the functioning of commercial banks and cooperatives.

The Government of India accepted the recommendations of Sri.Narsimham committee and regional rural banks came in to existence through regional rural banks ordinance on 26th September, 1975. Initially only 5 RRBs were set up on pilot basis with sponsorship of commercial banks on October 2nd, 1975. This ordinance of 1975 was replaced by the Regional Rural Banks Act, 1976. The list of five RRBs opened in the country is presented in table 3.

Table 3.List of RRBs

S.No	Sponsoring Bank	Name of RRB	Head quarters
1.	Syndicate Bank	Pratham Bank	Moradabad (UP)
2.	State Bank of India (SBI)	Gorakhpur	Gorakhpur (UP)
3.	United Bank of India	Gaur Grameena Bank	Malda (WB)
4.	Punjab National Bank	Haryana Kshetriya	Bhiwani (Haryana)

		Grameena Bank	
5.	United Commercial Bank	Jaipur Nagalur Anchalik Grameena Bank	Jaipur, Rajasthan

The objectives of RRBs are:

- To develop rural economy.
- To provide credit for agriculture and allied activities.
- To encourage small scale industries, artisans in the villages.
- To reduce the dependence of weaker sections (Marginal farmers, small farmers and rural artisans) on private money lenders.
- To fill the gap created by the moratorium on borrowings from private money lenders.
- To make backward and tribal areas economically better by opening new bank branches.
- To help the financially poor people in their consumption needs.

Functioning of RRBs:

Each RRB is being sponsored by a scheduled commercial bank. The operational area of each RRB is one or two districts. Each branch of RRB can serve a population of roughly 20,000 people.

Authorized share capital of each RRB is Rs. one crore, contributed by central government, state government and sponsoring commercial bank in the ratio of 50:15:35. Issued capital for each RRB is Rs. 25 lakhs.

The rate of interest charged by RRBs on the loans is same as that of Primary Agriculture Credit Societies (PACS), but they are allowed to offer 0.5 per cent interest more than that of commercial banks on its deposits.

RRBs have simplified procedural formalities in giving agricultural finance on recommendations of Sri. Baldev Singh's working group. RRBs use local languages in their transactions. The cost of operation i.e. user charges are low as compared to that of commercial banks.

Contd…

Regional Rural Banks in AP:

Table: Amalgamated Regional Rural Banks in Andhra Pradesh

S.No	Sponsoring Bank	Name of New RRB	Names of Amalgamated RRBs
1.	Andhra Bank	Chitanya Godavari Grameena bank	Chitanya Grameena bank Godavari Grameena bank
2.	Indian Bank	Saptagiri Grameena bank	Kanakadurga Grameena bank Shri Venkateswara Grameena bank
3.	State Bank of Hyderabad	Deccan Grameena bank	Golconda Grameena bank Sri Rama Grameena bank Sri Saraswathi Grameena bank Sri Satavahana Grameena bank
4.	State Bank of India	Andhra Pradesh Grameena Vikas Bank (APGVB)	Kakatiya Grameena bank Manjira Grameena bank Nagarjuna Grameena bank Sangameswara Grameena bank Sri Visakha Grameena bank
5.	Syndicate Bank	Andhra Pragathi Grameena bank	Pinakini Grameena bank Rayalseema Grameena bank Sree Anantha Grameena bank

LECTURE - 9

Crop Loan System: Objectives- Importance- Scale of Finance-Estimation- Term Loans – Objectives and Interest Rates, Kisan Credit Card

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Crop Loan System:

Even though All India Rural Credit Survey Committee (AIRCSC) under the chairmanship of Sri. Gorwala during 1954 and V.L. Mehra Committee on Co-operative credit in 1960 recommended the adoption of crop loan system in all states; it was not implemented due to several reasons. After a lapse of five years i.e. in the year 1965 it was introduced throughout the country and in Andhra Pradesh from Karif, 1966.

The twin objectives of crop loan system are:

1. Treating the crop as security instead of immovable property like land.
2. Fixing the scale of finance depending up on the actual farm expenditure i.e. based on cost of cultivation.

Salient features of the crop loan system:

- The credit requirements of the farmers are to be estimated based on the cost of cultivation of the crops cultivated by them.
- The eligibility to receive the loan by the farmer is not measured by the ownership of land but by the fact that he is a real farmer who needs credit for cultivation.
- The crop loans should be advanced on the hypothecation of the crop.
- The disbursement and recovery of the loans are to be made in accordance with the crop production schedule.
- The loans should include both cash and kind components.

- The quantum of loan should be fixed according to the variety (i.e. local, improved variety or HYV), the season in which it is grown and the type of crop i.e. whether it is irrigated or rainfed crop.
- Crop loan is fixed by the District Level Technical Committee (DLTC) consisting of experts from the fields of agriculture, animal husbandry, banking etc.

Scale of Finance

Definition: It is an indicative cost taken as base cost depending on which the amount to be financed to a farmer is fixed.

Normally scale of finance is given in a range, as the cost of cultivation for a farmer practicing traditional methods of farming and that of a progressive farmer practicing modern methods of cultivation differs. The lower value of the range corresponds to the requirement of the former while the upper value corresponds to the latter.

Scale of finance is fixed for annual, perennial crops and livestock also. Livestock will have fixed costs of finance and they are termed as unit costs. The unit varies with the type of livestock. Ex: for milch cattle the unit refers to two animals, for sheep and goat a minimum of 10 animals and for poultry a minimum of 500 birds.

Factors influencing the scale of finance:

1. Type of the crop: It varies from crop to crop.
2. Nature of the crop: With in the same crop between the improved varieties and high yielding varieties (HYVs) the scale of finance differs.
3. Season: Scale of finance differs with season for the same crop.
4. Type of land: Based on the type of the land i.e. irrigated or dry the scale of finance differs with the same crop.
5. District/Area: For the same crop the scale of finance varies from district to district.

How Scale of Finance is fixed:

Scale of finance is fixed for each district by a committee known as District Level Technical Committee (DLTC).The members of DLTC constitute representatives of lead bank of that district, NABARD, local co-operative banks and commercial banks, officials of department of agriculture& animal husbandry etc. The meetings of DLTC are chaired by district magistrate/ district collector and convened by respective lead bank district manager.

DLTC compiles technical survey report with the information obtained from NABARD. NABARD in turn obtains information from the state agricultural department every year, which will have the necessary details like what are crops grown, their extent etc. By using the above details a potential map is prepared. By using this one can list out the priority activities to be financed in each part of the district and extent to which these are to be financed. Finally cost of cultivation is estimated based on the market trends and needs. This scale of finance is not fixed and keeps on changing every year.

Kisan Credit Card (KCC)

The Government of India introduced Kisan Credit Card scheme by banks during 1998 -99. The scheme was designed by NABARD. KCC aims at adequate and timely support from the banking system to the farmers for their short-term production credit needs in cultivation of crops, purchase of inputs etc in a flexible and cost effective manner.

Under this scheme, the farmers would be issued a credit card-cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period etc and it will serve both as an identity card as well as facilitates the financial transactions.

Credit limit on the card may be fixed on the basis of operational holding, cropping pattern and scale of finance as recommended by the District Level Technical committee (DLTC) / State Level Technical committee (SLTC)

As per the recommendations of Sri R.V. Gupta committee in the year 1998, on the flow of credit to agricultural sector, apart from the total credit need, a 20 per cent of

total peak level credit requirement (PLCR) will be given contingent credit need (with a maximum ceiling of Rs.10,000)

The KCC should normally valid up to 3 years and subject to annual review. The KCC will be considered as a non-performing asset (NPA) if it remains inoperative for a period of two successive crop seasons.

Table5: Bank-Wise Position of Kisan Credit Card during Financial Year, 2006-07

(Rs. in Lakhs)

Name of the Bank Group	Target 2007-08	From 1-4-2006 to 31-12-2007			% of achievement of target	Cumulative position since inception	
	No	No of Cards issued	Limit sanctioned	Disbursement		No	Amount sanctioned
Commercial Banks	63100	31349	17521	16391	49.68	199567	75311
Cooperatives	189300	118384	29640	10382	62.53	956276	291201
RRBs	60900	27421	6776	11801	45.02	428703	40200
Total	313300	177154	53947	38574	56.54	1584546	406712

Source: www.pdfxp.com/kisan-credit-card-pdf.html

LECTURE-10

Schemes for financing weaker sections- Differential Interest Rate (DIR), Integrated Rural development Programme (IRDP), Ganga Kalyan Yozana (GKY), Swarnajayanti Gram Swarozgar Yojana (SGSY), Self Help Groups etc.

Schemes for financing weaker sections: Following are the schemes for the benefit of weaker sections.

Differential Rate of Interest Scheme (DIR)

On the recommendations of RBI committee under the chairmanship of Dr. B. K. Hazare, the Ministry of Finance, and the Government of India instructed all the public sector commercial banks to introduce differential rate of interest scheme (DIR). All the commercial banks under public sector implemented DIR scheme since 1975 and private sector banks also volunteered to participate in the scheme from 1977 onwards. The scheme was originally implemented at selected bank branches in 265 backward districts of the country and later on the scheme was extended to cover all parts of the country. Under DIR scheme, loans are being extended to the weaker sections of the society, who do not possess tangible assets to put as security, at a concessional rate of 4 per cent per annum. The DIR loans are covered by Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Under DIR scheme the loans are extended to marginal farmers and agricultural labourers, schedule castes and schedule tribes engaged in agriculture, people having rural industries and cottage industries, hoteliers, rickshaw pullers, cobblers, basket makers, carpenters, physically challenged persons, orphans and indigent students having higher education etc. From 1981 onwards , the banks were allowed to give their advances under DIR scheme through RRBS in their area of operation on refinance basis and these advances will be kept under lending account of the respective sponsoring banks only.

The size of the borrower's holding should not exceed 1.0 acre of wet land and 2.5 acres of dry land. Family incomes of the borrowers should not exceed **Rs.24000** per annum in urban and semi urban areas and Rs.18000/- in rural areas as per the revision in 2008-09. However, the restrictions on the loan amounts are relaxed for persons belonging to schedule castes and schedule tribes.

The commercial banks are required to advance 0.5 to 1.00 per cent of their aggregate lending towards this scheme and forty per cent of total amount available under the scheme should be made available to SC and ST borrowers.

During the April, 1983 a task force was appointed to examine the various provisions of the DIR scheme. As per the task force recommendations, GOI decided the DIR scheme, IRDP and Self Employment Programme for the Urban Poor (SEPUP) would be mutually exclusive (i.e. if a person is assisted under IRDP or SEPUP, he will not be eligible for the benefit under DIR scheme).

Therefore, DIR scheme is a measure to attain "social justice" as it safeguards the interests of the weaker sections of the society.

Integrated Rural Development Programme (IRDP)

Most of the programmes aimed at improving the economic conditions of the rural poor, did not create an expected impact. The reasons for this failure were

- None of the programmes covered the entire country
- Frequent overlapping of the schemes in the same area
- Lack of coordination among the implementing agencies etc.

Hence, the Government of India has decided to replace all these programmes with one single integrated programme, in 1978 -79, with the twin objectives of

- Elimination of poverty and unemployment in rural areas.
- Rural development.

This programme was named as integrated rural development programme. IRDP is basically an action-oriented and time bound programme. Under IRDP other existing programmes like SFDA, MFAL, DPAP, CADA, National Rural Employment Programme (NREP) and Training of Rural Youth for Self Employment (TRYSEM) etc, have been merged. IRDP scheme is funded by central and state governments in the ratio 50: 50

IRDP is popularly called as anti-poverty programme. Under this programme in addition to small and marginal farmers , agricultural labourers, landless agricultural workers, artisans, schedule castes and schedule tribes and others living below Poverty line (BPL) are covered .

As Per 1976 data a family of 5 members was said to be below the poverty line, if it earns an annual income of less than Rs.11, 600/- in rural areas and Rs.12, 800 /- in urban areas. As per 2005-06 data the same was Rs.22, 080/- and Rs. 33600/- respectively.

Specific Objectives:

1. Increasing the productivity of land by providing the needed inputs in required quantities at right time, thereby raising the productivity and production in agriculture.
2. Creating tangible assets for the rural poor to improve their economic conditions.
3. Augmenting the resources and income levels of weaker sections.
4. Diversifying the agriculture through poultry, dairy, fishery, sericulture etc.
5. Providing infrastructural facilities like processing, storage, organised marketing, milk chilling and collection centres, artificial insemination centres etc.

Identification of beneficiaries:

Those people living below poverty line are eligible to be covered under this programme apart from small and marginal farmers, agricultural and non-agricultural labourers, and rural artisans, schedule castes and schedule tribe families. Each bank branch should finance IRDP scheme in villages falling under its service area.

Purpose of advance under IRDP

Three major kinds of activities capable of income generation on continuous basis have been selected for targeted families. They are

1) Primary sector: The activities are agricultural, animal husbandry, fisheries, farm forestry etc.
2) Secondary sector: Activities like khadi and village industries, handlooms, handi-crafts, blacksmithy, pottery, carpentary etc., are included.
3) Tertiary sector: Activities like transport, small business and other activities like tailoring, workshops, repair shops etc., are included.

Implementing Agency:

At national level IRDP is administrated by the Ministry of Rural Development. The states and union territories have set up bodies known as DRDAs (District Rural Development Agencies).

DRDA identifies beneficiaries, draws up income generating projects for them and brings them into contact with banks. DRDA provides capital subsidy to the identified families and supply the list of such families along with suggested economic activities to the financing institutions for extending loan assistance. DRDA also ensures backward linkages (supply of inputs, technical advice, etc) and forward linkages (processing facility and marketing arrangements, etc) in respect of the proposed economic activities.

Subsidies: The subsidy in the case of small farmers is 25 per cent while for marginal farmers and agricultural labourers 33.33 per cent and for scheduled tribes 50 per cent.

Ganga Kalyan Yojana (GKY)

A central Government. sponsored scheme i.e. Ganga Kalyan Yojana was launched in the year 1997. The objective of the scheme is to provide irrigation through exploitation of ground water by tube wells and bore wells to individual as well as group of beneficiaries belonging to the target groups i.e. small and marginal farmers, falling below poverty line (BPL).

Swarnajayanti Gram Swarozgar Yojana [SGSY]:

SGSY is an ambitious programme launched by Government of India from 1-4-1999 for poverty alleviation through self employment. It is a holistic programme covering all aspects of self-employment such as organization of the poor into self-help groups, training, credit, technology, infrastructure and marketing. It replaces earlier poverty alleviation programmes viz. Integrated Rural Development Programme, Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA).

SGSY places emphasis on group financing for poverty alleviation by organizing the rural poor into self-help groups (SHGs). Accordingly, the bulk of assistance under SGSY is expected to be provided to SHGs for supporting the group level micro-enterprises established by their members.

The objective of SGSY is to bring the Swarozgaris (poor families) below the poverty line by providing them with income generating assets through a mix of bank credit and government subsidy by ensuring appreciable sustained level of income over a period of time. The target group under SGSY consists of all families below poverty line.

SGSY envisages providing training of basic orientation and skill development, critical infrastructural facilities, revolving fund and credit linked subsidy to SHGs and individuals. The key activities under implementation in the District are dairy development, fisheries, vegetable growing and vending, cane and bamboo work, agarbatti , artistic pottery, pickles and papad, wood carving, etc.,

Self Help Groups (SHGs):

In the year 1992, the National Bank for Agriculture and Rural Development (NABARD) introduced a pilot project for linking 500 Self-Help Groups (SHGs) with banks, after thorough discussions with the RBI, commercial banks and non-governmental organizations (NGOs).

Other Programmes of Rural Development:

Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Development Agency (MFAL).

Small and marginal farmers were however denied to receive the benefits from the nationalization of banks due to

- Cumbersome lending procedures
- Their inadequacy to furnish tangible securities for obtaining loan

- Undue delays in disbursement of loans

As a result, the marginal and small farmers depended mostly on the private money lenders for their credit needs paying high rates of interest. To avoid this situation prevailing in rural areas, “All India Rural Credit Review Committee, 1969 under the chairmanship of Sir. Venkatappaiah (AIRCRC) recommended the establishment of SFDA and MFAL in 1969. They came into operation in 1971.

LECTURE: 11

Crop Insurance-meaning and its- advantages-progress of crop insurance scheme in India-limitations in application-Agricultural Insurance Company of India-National Agricultural Insurance scheme (NAIS) - salient features-Weather insurance

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Origin and Importance of crop Insurance scheme:

Insurance-meaning

Insurance is a legal contract that transfers risk from a policy holder to an insurance company in exchange for a premium.

- Risk: The possibility of financial loss
- Policyholder: The person who has purchased and owned an insurance policy.
- Insurance Company: A company that provides the insurance coverage for its policyholders
- Premium: The cost of insurance

The desire to introduce two pilot schemes viz., crop insurance and cattle insurance with the objective of protecting the farmers from the heavy losses of crop and livestock by Government of India was dates back to 1948 soon after the independence. But due to paucity of funds, none of the state governments agreed to implement the programme.

The Government of India during the year 1970 appointed an expert committee on crop Insurance under the chairmanship of Dharam Narain to examine and analyse the administrative and financial implications of the scheme. Sri. Dharam Narain ruled out the possibility of implementing the scheme in India. In contrast to the above committee, Prof. Dhandekar strongly supported the implementation of the scheme. By accepting Prof. Dhandekar's views in 1973, the GOI had set up General Insurance Corporation (GIC) to carry out all types of insurance business throughout the country with four subsidiary insurance companies. They are

1. National Insurance Company Limited
2. The New India Assurance Company Limited
3. The oriental Insurance Company Limited
4. United India Insurance Company Limited

On pilot basis in 1973, the GIC introduced the crop Insurance scheme in selected centres of Gujarat covering only H_4 variety of cotton. Later on the same was extended to

West Bengal, Tamilnadu and Andhra Pradesh for the cotton crop and this scheme was in operation till 1979.

In 1979, area based crop Insurance scheme was introduced on pilot basis in selected areas. If the actual average yield of the crop in the area was less than the guaranteed yield of the crop, then the indemnity would be payable to all the insured farmer-borrowers. Sum insured under crop insurance was 100 per cent but with a ceiling limit of Rs.5000 per farmer in the case of dry land and Rs.10, 000 per farmer - borrower in the case of irrigated areas. The scheme was implemented in 12 states up to 1984.

Comprehensive Crop Insurance Scheme (CCIS): In the year 1985, the Comprehensive Crop Insurance Scheme (CCIS) was introduced by GIC in all the states. This scheme covers all farmers who availed the crop loan and it is limited to cereals such as paddy, wheat, millets, oil seeds and pulses. The loans given from 1st April to 30th September were considered for kharif insurance business. The loans granted from 1st October to March 31st of next year qualify for rabi insurance. Therefore the insurance cover will be considered as built-in-aspect of crop loan.

Crop insurance risk is taken by GIC and the respective state governments in 2:1 ratio. The sum insured is 100 per cent of crop loan taken by the farmers during that season. Here the sum insured was limited to Rs. 10000 /- per farmer for all insurable crops irrespective of the quantum of loan taken by the farmer. Only that part of crop loan is insurable which is utilized for the purpose of covering insured crops.

The insurance premium is fixed at 2 per cent of sum insured for paddy, wheat and millets and for oilseeds and pulses it is one per cent. The premium is sanctioned as an additional loan to the farmers and should not be deducted from original loan amount. For small and marginal farmers, 50 per cent of insurance premium is subsidized by the central and state governments in equal proportion.

Indemnity payable under the scheme is calculated on the basis of "threshold yield" and it is equal to 80 per cent of the average yield for a given crop for the previous 5 years . Normally 80 per cent of the average annual yield of the given crop in a given area over the last preceding five years is considered as "threshold yield" of that area. Short fall in yield of crop is difference between threshold yield and actual yield of the crop in particular area for the year under consideration.

$$\text{Indemnity (Guaranteed Compensation)} = \frac{\text{Shortfall in the yield of the crop}}{\text{Threshold yield of the crop}} \times \text{Sum insured.}$$

The yield data for this purpose is obtained from the crop-cutting experiments conducted by the state Government in accordance with the prescribed procedure as approved by National Sample Servey organization (NSSO), Ministry of Planning, Government of India.

Advantages of CCIS:

Comprehensive crop insurance scheme has some specific advantages, which is in operation in all the states from 1985 onwards. They are

- It stabilizes the farm business during the periods of crop failure.
- The farmer can act much more confidently in farm business as there is protection against hazards of farming.
- It prevents the farmers to approach non-institutional agencies at times of crop failure.
- It enhances the use of modern inputs to boost the productivity in agriculture
- In high-risk areas crop insurance serves as a catalyst in bringing areas under cultivation, which otherwise would have remained uncultivated.

Demerits of CCIS are

- It provided coverage only to a limited number of crops like wheat, paddy, oilseeds, millets and pulses excluding important cash crops like sugarcane, potato, cotton etc.
- As the coverage was restricted to rainfed crops only, the scheme was not effective in agriculturally intensive states such as Punjab, Haryana and Western U.P.
- The scheme covered only those farmers who had availed crop loans from financial institutions. Sum insured per farmer was also limited to a maximum of Rs.10, 000 /- only.

Eminent economists made some suggestions for the satisfactory functioning and improvement of CCIS and they are:

- All crops and all the farmers should be brought under the purview of the scheme.
- The premium rates should vary with the nature and indices of crop production in different areas.
- The unit area considered for paying indemnity should be a village or group of villages as against block/mandal.
- Threshold yield should be worked out on the basis of crop production indices over a ten year period as against five year period.

National Agricultural Insurance Scheme (NAIS)/Bharatiya Krishi Bhima Yojana (BKBY):

With a view to take insurance closer to the farmers, a newly improved insurance package over the existing CCIS was launched by the former Prime minister Sri. Atal Bihari Vajpayee on 23-06-1999. It is National Agricultural Insurance Scheme.

Irrespective of the size of their holdings, the NAIS would provide insurance facilities to all farmers from 1999 -2000 season onwards. The NAIS would cover all crops, including coarse cereals, all pulses and oil seeds. Apart from these, three more cash crops viz., sugarcane, potato and cotton were also brought under the purview of the scheme in the first year i.e.1999-2000 itself.

All the other crops i.e. horticulture and commercial crops were also proposed to be included under the scheme from the year 2002. There was no maximum limit for the sum insured. The premium rates were 3.5 per cent of sum insured for bajra and oilseeds and 2.5 per cent for other kharif crops. It was 1.5 per cent of sum insured for wheat and 2 per cent for other rabi crops. Similar to that CCIS, in this NAIS also 50 per cent subsidy in premium is there for small and marginal farmers. However, this subsidy will be proposed to be phased out from five years after its inception. i.e 2005 onwards.

The scheme would be operated on the basis of area approach. All the farmers in a defined area would be entitled for payment of insurance claim according to the indemnity rates prescribed for that area. Individual claims of the affected farmers would also be entertained in the case of localized calamities like hailstorm, land slip, cyclone, floods etc.

Agriculture Insurance Company of India (AIC) Limited:

Agriculture Insurance Company of India Limited (AIC) had been formed by the Government of India in 2003 to subserve the needs of farmers better and to move towards a sustainable actuarial regime. It was proposed to set up a new corporation for agriculture Insurance. AIC has taken over the implementation of National Agricultural Insurance Scheme (NAIS) which until 2003 was implemented by General Insurance Corporation of India. In future, AIC would also be transacting other insurance businesses directly or indirectly concerning agriculture and its allied activities.

Agriculture Insurance Company of India Limited is a public sector undertaking with headquarters at New Delhi. It currently offers area based and weather based crop insurance programs in almost 500 districts of India. It covers almost 20 million farmers, making it one of the biggest crop insurers in the world.

Agriculture Insurance Company of India Ltd (AIC) is promoted by General Insurance Corporation of India (GIC), NABARD and the 4 public sector general Insurance companies. AIC has taken over the implementation of National Agricultural Insurance Scheme (NAIS) in 2003 which until the financial year 2002 – 03 was implemented by GIC.

AIC is under the administrative control of Ministry of Finance, Government of India, and under the operational supervision of Ministry of Agriculture. Insurance Regulatory and Development Authority, Hyderabad, is the regulatory body governing AIC.

Main objective of AIC:

To provide financial security to persons engaged in agriculture and allied activities through insurance products and other support services.

Share Capital

- Authorized share capital - Rs. 1500 crores
- Paid-up share capital - Rs. 200 crores

Promoted by:

- General Insurance Corporation of India - share holding: 35 %
- National Bank for Agriculture And Rural Development (NABARD) - share holding: 30 %
- National Insurance Company Ltd - share holding: 8.75 %
- New India Assurance Company Ltd- share holding: 8.75 %
- Oriental Insurance Company Ltd - share holding: 8.75 %
- United India Insurance Company Ltd.- share holding: 8.75%

Weather Insurance:

Agriculture is still the dominant sector in India, contributing around 20 per cent of GDP and providing employment to two-thirds of its population. Therefore, even the slightest change in this sector can affect the economy. However, most of it is rain-fed and prone to unfavourable weather conditions like deficit or excess rainfall and variations in temperature. Though phenomenon of unpredictable rainfall in India remains an unresolved issue, weather insurance has emerged as a ray of hope to farmers to tackle the uncertain pattern of their crops.

Weather Insurance- an insurance cover against crop losses incurred due to unfavorable weather conditions such as deficit, excess or untimely rainfall or variations in temperature. Weather insurance product is designed on the basis of location's agricultural and climatic properties and productivity levels over the last several years. This serves as a good alternative to farmers for mitigating their production related losses. Weather insurance is now a common term in countries likes US, Canada, UK and other

western countries. In India, ICICI Lombard is the most popular company in the field of weather insurance.

In India Weather Insurance was developed by government of India in association with the World Bank and launched in kharif 2007 in Karnataka. In 2008-09 it was extended to states like Andhra Pradesh, Rajasthan, Bihar, Haryana, West Bengal Chhttisgarh, Gujarat, Madhya Pradesh, Maharastra, Orissa, Tamilnadu, Jharkhand, Himachal Pradesh, Kerala, Uttaranchal and Uttar Pradesh. It was launched as a pilot scheme to insure groundnut in Andhra Pradesh during Kharif 2008. There are several benefits of weather insurance.

They include:

- High level of client comfort
- Low management expenses
- Scientifically developed objective

Weather insurance provides protection to the farmers, banks, micro-finance lenders and agro-based industries. This in turn results in boosting the entire rural economy. Some vital factors of Weather Insurance are:

- Peril/ hazard Identification
- Index Setting
- Back testing for payouts
- Pricing
- Monitoring
- Claims Settlement

There are some examples of deals initiated by Weather Insurance for oranges in Jhalawar, Rajasthan, 782 farmers were aided by the Weather Insurance which provided a cover for 613 acres for a sum insured of **Rs.**18.3 million to them. Another example states various crops in Andhra Pradesh were provided cover when they faced losses due to deficit rainfall.

Weather Insurance – Broad Challenges/limitations

1. Needs large no. of Automatic Weather Stations (AWS) to minimize Basis Risk (*Basis risk:* Without sufficient correlation between the index and actual losses, index insurance is not an effective risk management tool. This is mitigated by self-insurance of smaller basis risk by the farmer; supplemental products underwritten by private insurers; blending index insurance and rural finance; and offering coverage only for extreme events.)

2. Precise actuarial modeling: Insurers must understand the statistical properties of the underlying index.
3. Education: Required by users to assess whether index insurance will provide effective risk management.
4. Market size: The market is still in its infancy in developing countries like India and has some start-up costs.
5. Weather cycles: Actuarial soundness of the premium could be undermined by weather cycles that change the probability of the insured events
6. Microclimates: Make rainfall or area-yield index based contracts difficult for more frequent and localized events.
7. Reliable and verifiable data
8. Tamper proof weather stations (Automatic Weather Stations - AWS)

Weather Insurance for Farmers in Andhra Pradesh

The former Chief-Minister Dr Y. S. Rajasekhara Reddy launched the Weather Based Crop Insurance Scheme (WBCIS) in Andhra Pradesh during kharif 2009-10. The new scheme is intended to provide compensation to farmers who lose their crop due to insufficient rainfall. The scheme in the first phase covered the red chilli crop in Guntur district during kharif 2009-10. The Weather Based Crop Insurance Scheme helps to mitigate the hardships of the farmers against the likelihood of financial losses on account of anticipated crop loss resulting from the incidence of adverse weather conditions like rainfall, temperature, humidity, frost etc.

The crop selected is "Red " which includes both irrigated and unirrigated Red chilli crop under WBCIS for Kharif-2009 season. All the cultivators (including sharecroppers and tenant cultivators) growing the notified crop i.e., red either irrigated or unirrigated in any of the Reference Unit Areas shall be eligible for coverage. Sum Insured is equivalent to the total cost of cultivation i.e. Rs.1,50,000/- per hectare in respect of red chilli (Irrigated) and Rs.1,00,000/- per hectare for red chilli (Unirrigated) crop. For this purpose weather stations were established in the 42 mandals of Guntur district, during the lunching of the scheme. The Chief Minister said the weather-based

crop insurance should be extended to all horticulture crops in phases in all the districts of the State. Weather stations will be established in all mandals of the state.

The National Agricultural Insurance Scheme (NAIS) which is already in force provided relief only if the crop is damaged to the extent of 50%. However, the new scheme i.e. WBCIS will provide compensation to all farmers irrespective of the quantity of crop damaged.

In the last five years (2005-2009), the AP government has allocated RS.19.61 billion for crop insurance scheme as against Rs. 7 billion spent during 1999 to 2004. About 16,500 farmers in the Guntur district of Andhra Pradesh have received the first-ever insurance claim under the Weather-based Crop Insurance Scheme launched by the Agriculture Insurance Company (AIC) for farmers. The scheme covered events like deficit rainfall, excess rainfall and uneven distribution of rainfall. It calculates the crop damages with **village** as a unit as against block, mandal or district in the other agriculture insurance schemes.

The state government received a cheque for Rs 17.34 crore from Agricultural Insurance Company(AIC), towards insurance claims for the farmers who the lost the crop during the kharif season 2009-10 benefiting the farmers of 38 mandals in Guntur district. As the weather-based insurance scheme provided better coverage, the Andhra Pradesh state government had decided to extend the scheme to cotton farmers in Adilabad, Khammam and Warangal districts, sweet lime in Nalgonda districts, palm oil in West Godavari district and mangoes in Chittoor and Rangareddy district," during 2010-2011.

Lecture-12

Higher Financing Agencies- Reserve Bank of India (RBI)- origin –objectives and functions- role of RBI in agricultural development and finance; National Bank for Agricultural and Rural Development (NABARD)- origin, functions, activities and its role in agricultural development; International Bank for Reconstruction and Development (IBRD); International Monetary Fund (IMF); International

Development Agency (IDA); Asian Development Bank (ADB); Insurance and Credit Guarantee Corporation

Higher Financing Agencies: An account of higher financing agencies is furnished hereunder

Reserve Bank of India (RBI)

Origin, functions and role of RBI in agricultural development and finance:

The Reserve Bank of India (RBI) was established in 1935 under the Reserve Bank of India Act, 1934. Its headquarters is located at Mumbai

The RBI was set up to

- regulate the issue of bank notes
- secure monetary stability in the country
- operate currency and credit system to its advantage

The role of RBI in agricultural credit was found in the establishment of Agricultural Credit Department (ACD).

The primary functions of ACD are

- To coordinate the functions of RBI with other banks and state cooperative banks in respect of agricultural credit
- To maintain expert staff to study all the questions of agricultural credit and be available for consultation by central government, state governments, scheduled commercial banks and state cooperative banks.
- To provide legislations to check private money lending and checking other malpractices.

All India Rural Credit Survey Committee (AIRCSC) under the chairmanship of Sri. Gorwala in 1954 suggested several recommendations with regard to the activities of RBI in the sphere of rural credit. Based on this, two funds were established after amending RBI act, 1934.

1. ***National Agricultural credit (Long-term operations) fund-1955:*** It has started with an initial capital of Rs.10 crores and annual contribution of Rs.5 crore and later this was increased to Rs. 15 crore. This fund was meant to provide long–term loans to various state

governments so as to enable them to contribute to the share capital of different types of cooperative societies including Land Mortgage Banks (LMBs). Loans and advances out of this fund are made to state governments for a period not exceeding 20 years.

2. ***National Agricultural credit (Stabilization fund)-1956*:** It was started with RBIs initial contribution of Rs. 1 crore and subsequent annual contribution of Rs. 1crore. This fund is utilized for the purpose of granting medium-term loans to State Co-operative Banks (SCBs), especially during the times of famines, droughts and other natural calamities when they are unable to repay their loans to RBI.

The state and central cooperative banks and PACS in turn provide a similar facility to the farmer - borrowers regarding short-term production loans taken for crops affected by the natural calamities. This helps the farmers in getting additional finance at the same time reducing their burden of repaying the loans immediately.

The functions of RBI in the sphere of rural credit can be dealt seen under three aspects:

1. Provision of finance
2. Promotional activities, and
3. Regulatory functions

Provision of Finance:

- Reserve Bank of India provides necessary finances needed by the farmers through the commercial banks, cooperative banks and RRBs on refinance basis.
- It advances long-term loans to state governments for their contribution to the share capital of the cooperative credit institutions like State Cooperative Banks (SCBs) and District Cooperative Central Banks (DCCBs).
- It advances medium-term loans to State Cooperative Banks.
- It extends refinance facility to the RRBs only to an extent of 50 per cent of outstanding advances.

Promotional activities:

Reserve Bank of India constitutes study teams to look into the organisation and operation of the cooperative credit institutions all over the country. It also conducts number of surveys and studies pertaining to rural credit aspects in the country.

The RBI felt that the cooperatives are the major force in the field of agricultural credit and hence following measures were framed for the strengthening of cooperatives.

- Reorganisation of the state and central cooperative banks on the principle of one apex bank for each state and one central bank for each district.
- Rehabilitation of those central cooperative banks, which are financially weak due to mounting overdues, insufficiency of internal finances, untrained staff, poor management etc.
- Strengthening of PACS to ensure their financial and operational viability.
- Arranging suitable training programmes for the personnel of cooperative institutions.

Regulatory functions

- Reserve bank of India is concerned with efficiency of channels through which credit is distributed.
- Banking Regulation Act, 1966 makes the RBI to exercise effective supervision over cooperative banks and commercial banks.
- As per the Credit Authorized Scheme (CAS) of 1976, the cooperative banks should get prior authorization from RBI for providing finances beyond a certain limit.
- The cash liquidity ratio (CLR) and cash reserve ratio (CRR) are fixed by RBI for cooperatives, farmers service societies (FSS), regional rural banks (RRBs) and agricultural development banks (ADBs) at lower levels than those fixed for commercial banks. For these cooperative banks the bank rate was 3 per cent less than that of commercial banks. They are permitted by RBI to pay 0.5 per cent higher rate of interest on deposits.

Credit Control/ Credit Squeeze:

The term credit control or credit squeeze indicates the regulation by monetary authority i.e. RBI, on the volume and direction of credit advanced by the banking system, particularly the commercial banks.

At times of inflation, credit control operations aim at contraction of credit, while during deflation they aim at expansion of credit. There are two methods of credit control

1. ***Quantitative or General Credit control***: It aims at regulating the amount of bank advances i.e. to make banks to lend more or less.
2. ***Qualitative or Selective credit control***: It aims at diverting the bank advances into certain channels or to discourage them from lending for certain purposes. These controls, in recent times assumed special significance, especially in under developed economies.

Credit Rationing: It is nothing but rationing of loans by non-price means at times of excess demand for credit. Under variable capital-asset ratio, the RBI fixes a ratio of capital to the total assets of the commercial banks.

Origin of National Bank for Agricultural and Rural Development (NABARD):

Agricultural Refinance and Development Corporation (ARDC) had not made an expected dent in the field of direct financing and delivery of rural credit against the massive credit demand for rural development. As a result many committees and commissions were constituted like,

* Banking commission in 1972

*National Commission on Agriculture (NCA) in 1976

* Committee to Review Arrangements for Institutional Credit in Agricultural and Rural Development (CRAFICARD) in 1979. This CRAFICARD, under the chairmanship of Sri. B. Sivaraman, a former member of planning commission recommended the setting up of a national level institution called NABARD for providing all types of production and investment credit for agriculture and rural development. As a result of CRAFICARD'S recommendations NABARD came into existence on July 12th, 1982.

The then existing national level institutions such as Agricultural Refinance and Development Corporation (ARDC), Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI were merged with NABARD with a share

capital of Rs.500 crore equally contributed by Government of India and RBI. NABARD operates through its head office at Mumbai and 17 regional offices-one each in major states, 10 sub-offices in smaller states / U.Ts and 213 district offices.

Board of Management:

Central Government in consultation with RBI appoints all the directors in the "Board of Management "along with the chairman and the managing director (MD). The M.D. is the chief executive officer (C.E.O) of NABARD and he is primarily responsible for the various operations of the bank. Apart from M.D and Chairman, the Board of Management consists of 13 other directors and these directors will act as "Advisory council" of NABARD. Of the 13 directors of Advisory council

- 2 are experts in rural economics and rural development.
- 3 are representatives of co- operatives
- 3 are representatives of commercial banks
- 3 are the officials of Government of India
- 2 officials belong to State Governments

Sources of funds:

Authorized share capital of NABARD is Rs. 500 crore equally contributed by Government of India and RBI and Issued and paid up capital of Rs. 100 crore. Other sources are:

- Borrowings from Government of India (GOI) and any institution approved by GOI
- Borrowings from RBI
- Deposits from state governments and local authorities
- Gifts and grants received.

Objectives:

- As an apex refinancing institution, NABARD survey and estimates all types of credit needed for the farm sector and rural development
- Taking responsibility of promoting and integrating rural development activities through refinance.
- With the approval of Government of India, NABARD also provides direct credit to any institution or organization or an individual.
- Maintaining close links with RBI for guidance and assistance in financial matters.

- Acting as an effective catalytic agent for rural development i.e in formulating appropriate rural development plans and policies.

Functions of NABARD:

The functions of NABARD are broadly categorized as

a) Credit activities
b) Development activities, and
c) Regulatory activities

a) Credit activities:

- NABARD prepares for each district a potential linked credit plan annually and this forms the basis for district credit plan.
- It participates in finalization of annual action plan at block, district and state level.
- It monitors the implementation of credit plans.
- It frames the terms and conditions to be followed by credit institutions in financing rural farm and non- farm sectors.
- It provides refinance facilities.

Refinance is of two types

1. Short-term refinance is extended for agricultural production operations and marketing of crops by farmers and farmers' cooperatives and production and marketing activities of village and cottage industries.

The eligible institutions for short term refinance are state cooperative banks (SCBs), regional rural banks, commercial banks and other banks approved by RBI. The time period is 12 months.

2. Medium term and long term refinance is extended for investments in agriculture and allied activities such as minor irrigation, farm mechanization, dairy, horticulture and for investment activities of rural artisans, small scale industries(SSI) etc. The period is up to a maximum of 15 years. The eligible institutions are land development banks(LDBs).

The extent of refinance under various schemes is

- Pilot rainfed farming projects (100%)
- Wasteland development scheme of individuals (100%)
- Non-farm sector schemes (out side the purview of IRDP) 100%
- Agro-processing units (75%)

- Bio-gas scheme (75%)
- All other schemes including IRDP(70%)
- Farm mechanization (50%)
- Rural Electrification Corporation (50%)
- Apart from refinance, NABARD also provides direct finance to state governments, state sponsored corporations.

NABARD will monitor its assisted projects in order to ensure their proper implementation. It also undertakes consultancy work for projects even though they are not refinanced by NABARD.

b) Development activities:

For the productive use of credit the following developmental activities are under taken by NABARD.

- Institutional development: Providing financial assistance for establishment and development of institutional financial agencies.
- Research and Development Fund: Providing funds for research and development efforts of institutional financial agencies.
- Agricultural and Rural Enterprises Incubation Fund (AREIF): For providing assistance while inception of new enterprises.
- Rural Promotion Corpus Fund (RPCF)

  It is meant to provide financial assistance for training - cum production centers, rural entrepreneurship development programmes, and technical monitoring and evaluation centers.
- Credit and Financial Services Fund (CFSF)

  It aims at providing the assistance for innovations in rural banking and credit system, supports institutions for research activities, surveys, meets etc.
- Linking SHGs to credit institutions: During the year 1992, NABARD started the pilot project of linking SHGs to credit institutions. Under this, it provides 100 per cent refinance to banks for loans extended to SHGs.

c) Regulatory activities

As an apex development bank, NABARD shares with RBI, some of the regulatory and supervisory functions in respect of cooperative banks and regional rural banks (RRBs). They are

- Under Banking regulation act 1949, NABARD undertakes the inspection of RRBs and cooperative banks (other than PACs)
- Any RRB or cooperative bank seeking permission of RBI, for opening branches needs recommendation of NABARD.
- The state and district central cooperative banks also need an authorization from NABARD for extending assistance to units outside the cooperative sector and non -credit cooperatives for certain purposes beyond the cut-off limit.

World Bank (WB):

The International Bank for Reconstruction and Development (IBRD) also called as World Bank was established in the year 1945 and started its operations in the year 1946. It is the sister institution of another international financial agency, International Monetary Fund (IMF)

The IBRD/world bank's main aim is to reduce the poverty by promoting sustainable economic development in member countries. It attains this goal by providing loans and technical assistance for projects and programmes in its developing member countries.

The financial strength of IBRD is based on the support it receives from its shareholders and financial policies and practices adopted by it. The main activity of World Bank is to provide loans to the member- countries.

Functions of World Bank

- ***Development activities***:

It provides loans to its member-countries to meet their developmental needs. It also provides technical assistance and other services to the member countries to reduce poverty.

- ***Providing Loans:***

Each loan must be approved by IBRD's executive directors. Apart from providing loans it also waives the loans under special circumstances i.e. occurrence of natural calamities. After providing loans, the appraisal of the projects is carried out by IBRD's operational staff comprising engineers, financial analysts, economists and other specialists.

The loan disbursements are subjected to the fulfillment of conditions laid in the loan agreement. During the implementation, IBRD's experienced staff periodically visits the project site to review the progress and monitor whether the execution of project is inline with IBRD's policies. During these visits the bank staff help in resolving any problems that may arise during the execution of the project.

After the completion, the projects are evaluated by an independent body and findings will be reported to the executive directors to determine the extent to which project objectives were fulfilled.

- ***Consultancy:***

In addition to the financial help, IBRD also provides technical assistance to its member countries irrespective of loans taken from it or not. There is a growing demand from borrowers for strategic advise, knowledge transfer and capacity building.

- ***Research and Training:***

For assisting its member countries, the World Bank offers courses and training related to economic policy development and administration for governments and organizations that work closely with IBRD.

- ***Trust–Fund Administration:***

IBRD itself or jointly with International Development Agency (IDA), on behalf of donors restricts the use of funds for specific purposes only. The funds so obtained are not included in the list of assets owned by IBRD.

- ***Investment Management:***

IBRD provides investment management services for external institutions by charging a fee. The funds thus obtained are not included in the assets of IBRD.

Affiliated Organizations of IBRD:

To complement the activities of IBRD, there are three affiliated organizations and they are

1. ***International Development Association (IDA):***

It was established in the year 1960. Its main goal is to reduce the poverty through promoting economic development in less developed areas of the world.

The International Bank for Reconstruction and Development (IBRD), better known as the World Bank, was established in 1944 to help Europe recover from the devastation of World War II. The success of that enterprise led the bank, within a few years, to turn its attention to developing countries. By the 1950s, it became clear that the poorest developing countries needed softer terms than those that could be offered by the bank, so they could afford to borrow the capital they needed to grow.

With the United States taking the initiative, a group of the bank's member countries decided to set up an agency that could lend to the poorest countries on the most favorable terms possible. They called the agency the "International Development Association." Its founders saw IDA as a way for the "haves" of the world to help the "have-nots." But they also wanted IDA to be run with the discipline of a bank. For this reason, US President Dwight D. Eisenhower proposed, and other countries agreed, that IDA should be part of the World Bank.

IDA's Articles of Agreement became effective in 1960. The first IDA loans, known as credits, were approved in 1961 to Chile, Honduras, India and Sudan.

IDA currently has 169 member countries. Members subscribe to IDA's initial subscriptions and subsequent replenishments by submitting the necessary documentation and making the required payments under the replenishment arrangements.

The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by

providing interest-free credit and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions.

IDA complements the World Bank's other lending arm–the International Bank for Reconstruction and Development (IBRD)–which serves middle-income countries with capital investment and advisory services. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards.

IDA is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries.

IDA lends money (known as credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA also provides grants to countries at risk of debt distress.

Since its inception, IDA credits and grants have totaled US$207 billion, averaging US$14 billion a year in recent years and directing the largest share, about 50 percent, to Africa.

2. ***International Financial Corporation (IFC):***

It was established in the year 1955.Its main aim is to encourage the growth of productive private enterprises in the member- countries by providing loans and investments without a member's guarantee.

3. ***Multilateral Investment Guarantee Agency (MIGA):***

Its main aim is to encourage the flow of investments for productive purposes among member countries particularly in developing countries.

IBRD, IDA, IFC and MIGA are collectively called as *World Bank Group.* Each of them is financially independent, with separate assets and liabilities.

International Monetary Fund (IMF):

The International Monetary Fund (IMF) is an international organization. At present 185 countries are the members of IMF. Its headquarters is located at Washington, DC., USA.

Origin: *A*fter the Second World War, many countries felt the need to have an organization to get help in monetary matters between countries. To begin with, 29 countries discussed the matter, and signed an agreement. The agreement was the Articles of Association of the International Monetary Fund. IMF came in to being in December 1945.

Membership: Any country can apply to become a member of the IMF. When a country applies for membership, the IMF's Executive Board examines the application. If found suitable, the Executive Board gives its report to IMF's Board of Governors. After the Board of Governors clears the application, the country may join the IMF. However, before joining, the country should fulfill legal requirements, if any, of its own country. Every member has a different voting right. Likewise, every country has a different right to draw funds. This depends on many factors, including the member country's first subscription to the IMF.

Functions:

The IMF does a number of supervisory works relating to financial dealings between different countries. Some of the works done by IMF are:

- Helping in international trade, that is, business between countries
- Looking after exchange rates
- Looking after balance of payments
- Helping member countries in economic development

Management

A Board of Directors manages the IMF. One tradition has governed the selection of two most senior posts of IMF. Firstly, IMF's managing director is always European. IMF's president is always from the United States of America.

The major countries of Europe and America control the IMF. This is because they have given more money to IMF by way of first subscriptions, and so have larger share of voting rights.

Asian Development Bank (ADB):

The Asian Development Bank is a regional development bank established in the year 1966 to promote economic and social development in Asia and Pacific countries by providing loans and technical assistance. The ADB's head quarters are located at Manila, Philippines. It aims at eradication of poverty in the Asia –Pacific region.

It is a multilateral financial institution owned by 67 members, with 48 members from the region of Asia- pacific and 19 from other parts of globe. The highest policy-making body of the bank is the *Board of Governors* consists of one representative from each member country. The Board of Governors, in turn, elect among themselves, the 12 member *Board of Directors*. Eight of the twelve members come from Asia- Pacific members, while the rest come from non-regional members.

The Board of Governors also elects the bank's president who is the chairperson of the Board of Directors and manages the ADB. The term of office of president lasts for five years, and may be reelected for second term. As Japan is the largest share holder of the bank, traditionally the president has always been from Japan.

The ADB was founded in 1966 with goal of eradicating the poverty in the Asia-Pacific region. With over 1.9 billion people living on less than $2 a day in Asia, the institution has a formidable challenge. It plays the following functions for countries in the Asia –Pacific region:

- Provides loans and equity investments to its developing member countries (DMCs).
- Provides technical assistance for the planning and execution of development projects, programmes and for advisory services.
- Promotes and facilitates investment of public and provide capital for development.
- Assists in coordinating developmental policies and plans of its DMCs.

Deposit Insurance and Credit Guarantee Corporation (DICGC):

The concept of insuring deposits kept with banks received attention for the first time in the year 1948 after the banking crisis in Bengal. The question came up for

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

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

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

Further, the Government of India, in consultation with the Reserve Bank of India, introduced a Credit Guarantee Scheme in July 1960. The Reserve Bank of India was entrusted with the administration of the scheme, as an agent of the Central Government, under Section 17 (11 A)(a) of the Reserve Bank of India Act, 1934 and was designated as the Credit Guarantee Organization (CGO) for guaranteeing the advances

granted by banks and other credit institutions to small scale industries. The Reserve Bank of India operated the scheme up to March 31, 1981.

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

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

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

Objective of DICGC: To contribute to stability and public confidence in the banking system through provision of deposit insurance and credit guarantee to small depositors and borrowers.

Lecture: 13

Co-operation-Meaning-Scope, Importance and definition - principles - objectives of co-operation.

Meaning of co-operation:

Co-operation is voluntary association of persons for achieving a common goal. It generally means working together for a common goal. It indicates joint effort and coordinated action of all the members of the association. Ex: Producer's cooperatives, Consumer's cooperatives, Marketing cooperatives, Credit cooperatives, Multi-purpose cooperative societies, etc.

Definition: According to Huber Calvert "Co-operation is a form of organization, where in persons voluntarily associate together on the basis of equality for the promotion of common economic interest of themselves"

According to Sir. Horace Plunkett, "Co-operation is self - help made effective by organization."

Co-operation helps in protecting the weak, provides equal justice to all and promotes welfare of the society. The motto of co-operation is ***"Each for all and all for each."***

Principles of Cooperation:

Rochdale pioneers were a group of 28 weavers and other artisans in Rochdale region of England formed against the advent of industrial revolution forcing many skilled workers into poverty. Rochdale pioneers were most famous for designing the Rochdale principles i.e. a set of principles of co-operation now followed worldwide. The important principles of co-operation are

1. *Principle of open and voluntary association:*

The admission and membership into a co-operative society is open to everybody irrespective of caste, religion, any social and political affiliations. It does not allow any discrimination. The membership is open as well as voluntary. It implies that there is no compulsion exercised on any individual to join the cooperative. Once an

individual joins as a member, there is no compulsion on him to continue as such. At any time he has every freedom to withdraw from the society.

2. *Principle of Democratic organization:*

Co-operatives are organized and managed based on the principle of democracy. Each member is given equal right to vote irrespective of his share capital in the society. "One man one vote" is the important principle of cooperation. The elected board of management will work based on the acts, rules and laws guiding the matters of co-operation.

3. *Principle of service:*

Co-operatives main aim is to cater to the needs of its members. Unlike business organizations, the cooperatives are more service - oriented rather than profit - oriented. This spirit of service invokes loyalty among the members.

4. *Principle of self-help and mutual help:*

The funds of society are contributed by the members in the form of share capital. In co-operatives generally, the members are financially weak. The society can barrow required capital from different financial sources at lower interest rates and offer the same to the members for productive purposes. This may not be possible at individual level. Hence, in co-operatives, the principle of self-help and mutual-help can work for the welfare of the members.

5. *Principle of distribution of profits and surpluses:*

Co-operatives are not interested in making profits like business organizations. But, they are also required to run on same minimum profits through efficient working. In co-operatives a certain amount of profits i.e. 25 per cent will be kept back as reserve fund and the remaining 75 per cent can be distributed among the members based on their contribution to the share capital.

6. *Principle of political and religious neutrality:*

The important strength for growth of the cooperatives is the unity among the members and non-interference of political parties. The members of the cooperatives should continuously work for the growth of the society with harmony, integration and un-biasedness towards any religion or political party. The political and

religious differences of the members should be kept away for the smooth running of the cooperatives.

7. *Principle of Education:*

If the members in cooperative society are illiterate, their participation is poor in running the cooperatives and they cannot understand what is going on in the society. Hence, first such type of illiterate members should be made literate. For promoting awareness and efficiency in the operations of cooperatives, education to members and training to office bearers and executives is necessary.

8. *Principle of thrift:*

The cooperatives must aim at inculcating the habit of thrift i.e. "propensity to save" among the members. Thrift and service are part and parcel of cooperation. The members who save their money with cooperatives should get incentives. Thrift is very much basis of self-help, but it must precede credit. It implies that in sanctioning of credit, a priority should be given to the members who save.

9. *Principle of publicity:*

The cooperatives should make sincere efforts to tell their members about the society and all the dealings of the society should be made public.

10. *Principle of honorary service:*

The honorary personnel will simply supervise and direct operations of cooperatives. But to have efficiency in the society, trained secretaries with salaries are needed. But if the societies are started with poor members, it is better to have honorary office bearers, because such societies cannot afford to pay salaries to such office bearers.

Maxims of co-operation:

The founder of Irish co-operative movement Sir Horace Plunkett sums up co-operation in three famous maxims.

1. *Better Farming*:

It means helping the farmer to realize a better production in the farm business through adoption of requisite technology. The farmers' objective of achieving higher production and productivity will be realized only when the resources are available in adequate quantities and at right time. For this necessary capital for the farmer also should

be provided by institutional agencies at right time. A well developed co-operative network helps in meeting this particular requirement of the farmers.

2. *Better Business*:

Farmers should get a better deal in buying the inputs as well as disposing the products. The efforts of the farmer will be fruitful only when an efficient marketing system is accessible to him. Farmers as a group enjoy better bargaining power when compared individually. Hence co-operatives should provide inputs needed by the farmers at reasonable rates and arrange for the disposal of produce at favourable prices.

3. *Better Living*:

This implies that the cooperative societies should supply consumer goods to the consumers at reasonable rates. This helps the consumers to pay less than what they pay in open market. A good and successful cooperative help in preventing marketing middlemen (as minimum as possible) especially private traders from taking undue advantage.

Thus co-operatives help in getting favourable prices to producers for their products and providing the same products for consumers at reasonable prices.

Lecture 14: origin and history of Indian cooperative movement-cooperative movement during pre-independence period-progress of cooperative movement during post- independence period.

Lecture 15: Short comings of Indian co-operative movement and remedies- recommendations of various committees –development of co-operative credit and non-credit organizations- co-operative credit structure

The origin and history of cooperative movement in India can be dealt under two eras.

a) Pre-Independence Era:

The cooperative movement in India during pre-independence era can be divided in to four phases viz.,

1. Initiation phase (1904-1911)
2. Modification phase (1912-1918)
3. Expansion phase (1919-1929)
4. Restructuring phase (1930-1946)

Initiation phase (1904-1911):

In olden days rural credit service was dominated by non-institutional financial agencies (i.e. private money lenders) charging exorbitant interest rates from farmers. In extreme cases or out of distress the poor farmers have to sell their belongings to clear their debts. This precarious situation triggered a sort of agitation by farmers against private money lenders in certain areas. The revolts found in Poona and Ahemadnagar areas of Maharashtra attracted the attention of government. Immediately the government passed three acts viz.,

- Deccan Agriculture Relief Act (1879)
- Land Improvement Loan Act (1883)
- Agriculturists Loan Act (1884)

In 1892, the Madras government appointed Federick Nicholson to study and examine the village banks organized on cooperative lines in Germany. After coming from there Nicholson submitted a report and raised a slogan "Find Raiffeissen".

During 1901, Indian Famine Commission and another committee headed by Sir Edward Law recommended the formation of credit societies on Raiffeissen model. These recommendations resulted in the enactment of Cooperative Credit Societies Act (1904).

***Important/salient features of 1904 Cooperative Credit Societies Act:**.*

- Classification of cooperative societies into rural and urban was made. According to this, rural societies are those having $4/5^{ths}$ of the total members from farming community and urban societies are those having $4/5^{ths}$ of the total members from non-agriculturists.
- Both the organization and control of these societies was to be done by Registrar of cooperatives.
- Loans could be extended to the members on personal and collateral security.
- The principle of "one man one vote" was specified in the Act.

Modification phase (1912-1918):

Cooperative Societies Act of 1912 was enacted for rectifying the shortcomings of 1904 Act.

Important features of 1912 Cooperative Societies Act:

- It provided legal protection to all types of cooperatives
- Liability is limited in the case of primary societies and unlimited for central societies.
- As this act of 1912 gave provision for registration of all types of cooperative societies, it led to the emergence of rural cooperatives both on credit and non-credit fronts. But this growth was uneven spatially i.e. localized in some areas only.

During the year 1914, the Government appointed a committee under the chairmanship of Edward Mac Lagan to look in to the performance of the societies. He presented his report in 1915. The Mac Lagan committee's recommendations and Cooperative Societies Act of 1912 introduced the cooperative planning process in India.

The important observations of Mac Lagan committee were:

- Illiteracy among the members.
- Misappropriation of funds.
- Rampant nepotism.
- Undue delays in sanctioning of loans.
- Irregularity in repayment of loans.

Suggestions offered by Mac Lagan committee for the effective functioning of cooperatives:

- All the members of the society should be made aware of the cooperative principles.
- Dealings should be restricted to the members only.
- Honesty should be the main criterion for extending a loan to some one.
- Careful scrutiny of applications before advancing a loan and effective follow up for proper utilization of loan amount.
- Loans should not be advanced for speculative purposes like investment in stock markets, lotteries etc.
- Ultimate authority should be with all the members but not with the office bearers.
- Thrift should be encouraged among the members, so as to build reserve fund.

- The principle of “one man one vote” should be strictly followed.
- As far as possible, the capital should be raised from the savings of the members only.
- Punctuality in repayment should be strictly insisted up on the borrowers.

Expansion phase (1919-1929):

This phase was considered as “Golden Era” for the cooperative movement in India. Cooperative movement got impetus as the cooperatives became a provincial subject under Montague Chelmsford Act of 1919. The economic prosperity during the period 1920-1929 also contributed to the growth of cooperative movement.

During the same period, the birth of Land Mortgage Banks (LMBs) took place first in Punjab (1924) subsequently in Madras (1925) and in Bombay (1926).

Restructuring phase (1930-1946):

In the year 1931, Indian Central Banking Enquiry Committee also emphasized shortcomings with reference to undue delays in advancing loans and inadequacy of credit.

In the year 1932, Madras Cooperative Societies Act came into existence aiming at the growth of the cooperative movement. Madras Cooperative Land Mortgage Banks Act (1934) came into force for the development of long-term credit. Excessive and abnormal fall in prices of agricultural commodities and the economic depression of early thirties lead to the collapse of the cooperative movement. Various enquiry committees were also constituted for restructuring and reorganization of cooperative societies. They were

- Vijayaraghavacharya committee in Madras.
- Rehabilitation Enquiry committee of Travancore (Kerala) and Mysore.
- Kale committee of Gwalior.
- Wace committee of Punjab.

The Agricultural Finance sub-committee under the chairmanship of Prof. D.R. Gadgil, in 1944 recommended the

- Adoption of limited liability for cooperatives.
- Assessing the credit –worthiness of a farmer based on his repayment capacity.
- Subsidizing the cost of administration of small cooperative societies.

- Linking credit with marketing.

In 1945, the Cooperative Planning Committee (CPC) under the chairmanship of Sri. R.G. Saraiya pointed out that the limited progress of cooperatives is due to the Laissez-faire policy of Government and illiteracy of the people, etc.

b) *Post-Independence Era:*

Planning commission was established in March, 1950, prepared *first five year plan* (1951-1956) in 1951 under which main objectives with regard to cooperatives were

- Involvement of cooperatives in rural development programmes.
- Development of well organized credit system.
- Extending cooperatives to the fields of farming, industry, housing, marketing etc.
- Training of higher level personnel engaged in cooperatives.

During the year 1951, All India Rural Credit Survey Committee (AIRCSC) appointed under the chairmanship of Sri. A.D. Gorwala pointed out two main drawbacks of cooperative credit. They were

- Cooperative credit was unevenly distributed.
- Cooperative credit was inadequate and mostly lent to the asset-oriented large cultivators rather than small and marginal farmers.

He also pointed that weakest link in chain of cooperatives was the primary credit societies. The All India Rural Credit Survey Committee also observed that "Cooperation has failed in India but must succeed". This All India Rural Credit Survey Committee also recommended an integrated scheme as a remedy for the then existing situation. The important recommendations of it were

- State/Govt partnership in cooperatives at all levels.
- There should be coordination between cooperative credit, marketing and processing.
- Development of adequate warehousing.
- Giving adequate training for cooperative personnel engaged at all levels.

Under ***Second five year plan (1956-1961),*** on the recommendations of All India Rural Credit Survey Committee during the year 1956, National Cooperative Development and Warehousing Board (NCDWB) was established. Apart from this, the second five year plan initiated the setting up of producers' cooperatives and processing cooperatives.

During the year 1959, the Committee on Cooperative Credit under the chairmanship of Sri. V. L. Mehtha opined that the membership in a cooperative should not be too large and each village falling under the service area of the cooperative should be at a distance of less than 3-4 miles.

The Committee on Taccavi (Govt) loans and cooperative credit under the chairmanship of Sri. B.P Patel in 1961-62, stressed that the cooperatives should provide loans to the farmers for carrying out agricultural operations and land improvement. These loans should be given only to the farmers under distressed conditions.

The Committee on Cooperative Administration headed by Sri. V. L. Mehta said that the supervision of cooperatives at grassroots level i.e. PACSs should be done by District Cooperative Banks.

During ***Third five year plan (1961-1966),*** the emphasis was placed on the revitalization of dormant societies apart from increased emphasis on cooperative credit and cooperative farming. During this period National Cooperative Development Corporation (NCDC) was established in 1963 and also National Federation of Cooperative Sugar Factories (NFCSF).

All India Rural Credit Review Committee (AIRCRC) was constituted during July, 1966 under the chairmanship of Sri. B. Venkatappaiah. He submitted his final report in the year 1969 and recommended the

- Setting up of Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers Development Agency (MFAL) and Rural Electrification Corporation (REC).
- Reorganization of primary societies into economically viable units.
- Revitalization of weak cooperative central banks.

- Checking of overdues.
- Greater flexibility in conversion of short-term loans into medium-term loans.
- Simplification of loan application.
- Disbursement of a part of loan in kind form.

During the third five year plan period itself the new concept of transport cooperatives was initiated.

After the third five year plan, during 1966-1968 there were three annual plans called rolling plans. In the year 1967, Vaikunth Mehta National Institute of Cooperative Management (VAMNICOM) was started in Poona.

Fourth five year plan (1969-1974), gave impetus for the rehabilitation and reorganization of District Cooperative Credit Societies for the smooth flow of cooperative credit. During this plan, Indian Farmers Fertilizer Cooperative Limited (IFFCO) was established at Kandla, Gujarat.

During ***Fifth five year plan (1975-1979)*** new fertilizer projects were initiated with the success during fourth five year plan.

National Bank for Rural Development (NABARD) was established for providing credit to agriculture and allied activities under ***Sixth plan (1980-1985)*** **.**The strengthening of dairy cooperatives was also given importance in this period.

Seventh five year plan (1985-1990), stressed up on

a) Organizing of special cooperative loan recovery camps
b) Strengthening of National and State Consumer Federation (NSCF)
c) Introduction of single window system of credit in Andhra Pradesh.

Eighth five year plan (1992-1997) emphasized replication of Anand Pattern of cooperatives for milk and strengthening of processing cooperatives.

During Ninth Five Year Plan (1997-2002) measures have been initiated to revitalize the co-operatives to make them vibrant democratic institutions with economic viability and active involvement of members by the Government. These include the framing of national policy on cooperatives and finalisation of a new Multi State Cooperative Societies Bill to replace the existing Multi State Cooperative Societies Act, 1984.

Broadly, the following issues have been addressed in the proposed legislation.

(i) Greater degree of autonomy of Multi State Cooperative Societies

(ii) Reduction in the control and level of intervention of the Government

(iii) Establishment of Quasi-judicial Dispute Settlement Authority

(iv) Provisions for safeguarding the interest of members

(v) Removal of some restrictive provisions on the functioning of societies

(vi) Freedom of societies to determine their own priorities

Amendments to the NCDC Act are proposed. The main features of the proposed amendment are as follows: (a) expansion of NCDC's scope to include animal husbandry, forestry, horticulture, pisiculture, etc. (b) extension of NCDC's coverage to livestock, industrial goods, handicrafts and the services sector, and (c) provision of loans directly to cooperative societies on appropriate security to be furnished by the borrower.

Tenth Five Year Plan (2002-2007)

The following initiatives were taken with respect of cooperatives during tenth five year plan

- To make a special study of the role of the cooperatives and challenges to be met in the wake of globalization of Indian economy and also the issues relating to competitive efficiency of the cooperatives, constraints and remedial measures for improving the commercial and economic viability of the cooperatives with regard to modernization, diversification, technology upgradation, quality improvement, marketability and export promotion, etc.

- To study the regional disparity in the development of cooperatives, identify the factors inhibiting the development of cooperatives in the states and suggest suitable programmes for encouraging cooperatives in the cooperatively underdeveloped states.
- To suggest measures for human resource development in the cooperatives.
- To review the role and functioning of consumer cooperatives and suggest suitable measures for their improvement

Lecture: 16

Classification of co-operative credit institutions- Short Term (ST), Medium Term (MT) and Long Term (LT) Credit- Primary Agricultural Cooperative Credit Societies (PACS)- Farmers Service Societies (FSS)- Multi-Purpose Cooperative Credit Societies (MPCS) and Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS)- Objectives and functions- Reorganization of Rural Credit Delivery System and concept of single window system- Andhra Pradesh mutually aided Co-operative Societies Act,1995

Government of India realized that cooperatives were the only alternative to increase agricultural credit and development of rural areas, as recommended by All India Rural Credit Survey Committee (AIRCSC) headed by Sri. Gorwala. Hence, cooperatives received substanti al help in getting credit from Reserve Bank of India and large-scale assistance and encouragement from both central and state governments for their growth and development. Many schemes of Government with components of subsidies and

concessions to the weaker sections were enrooted through the cooperatives. With this the cooperative institutions registered a remarkable progress in the post-independence period. Cooperative structure was delineated into two types viz., three-tier structure for providing short-term and medium-term loans and two-tier structure for long-term loans in all states except Bihar, Jammu and Kashmir, Maharashtra and Uttar Pradesh, where the structure is unitary i.e. concentrated at a single point. The cooperative credit structure is illustrated in Fig

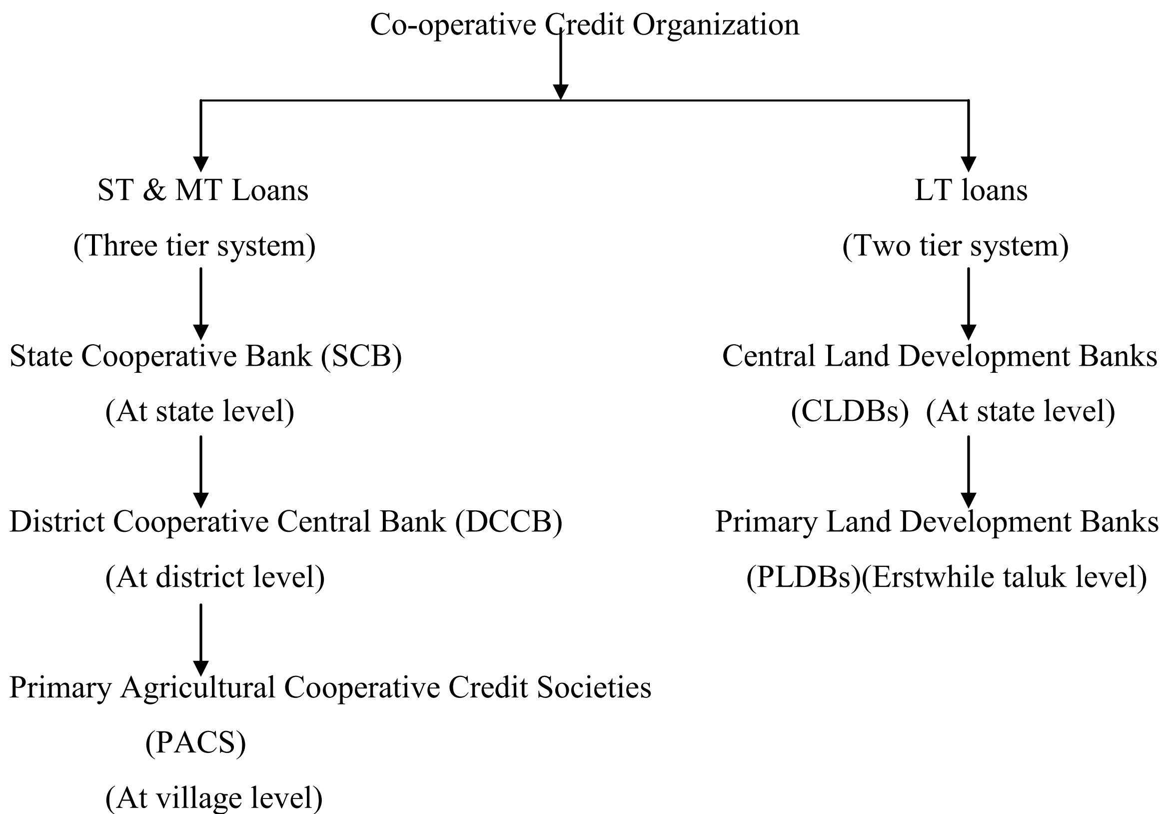


Fig:Cooperative credit structure

State Cooperative Banks (SCBs):

These are the apex credit organizations existing at the state level. District cooperative central banks (DCCBs) and primary agricultural cooperative credit societies will act as members of these banks. These SCBs supervise the activities of the member banks and mobilize and deploy the financial resources among the member banks. They serve as a bridge between RBI and PACS.

Specific functions of SCBs are

- They help the state governments in formulating developmental plans pertaining to cooperative institutions.
- They also help in coordinating the cooperatives with the government.
- They formulate and implement uniform credit policies pertaining to cooperative development in the state.
- They act as bankers bank to DCCBs.
- They will grant subsidies for the smooth functioning of DCCBs
- Similar to any other commercial bank, they also perform the normal banking operations.

District Cooperative Central Banks (DCCBs):

They act as link between state cooperative banks and primary agricultural cooperative credit societies. DCCBs also undertake normal banking functions like accepting of deposits from public, collection of bills, cheque and drafts etc. They also provide required credit for needed persons.

In DCCBs membership is open to individuals and other societies falling under its area of operation. Marketing societies, consumers' societies, farming societies, urban banks and PACS usually enroll as its members.

Specific functions of DCCBs are:

- They supervise and inspect the activities and functions of PACS and help them to function smoothly.
- Apart from providing guidance they also provide leadership to PACS

- They also undertake non-credit activities like supply of seeds, fertilizers and also consumer items like sugar, kerosene etc.
- They provide requisite credit for societies under their control.
- They accept deposits from the member societies as well as from public.

Primary Agricultural Cooperative Credit Societies (PACS):

With the enactment of Cooperative Societies Act of 1904, PACS came into existence following the guidelines of Raiffeissen model. The cooperative principles are framed for their smooth and efficient functioning.

These societies will function at village level providing the farmers the required short term and medium term loans. Supply of other agricultural inputs and essential consumer items is also taken up by these societies. PACS also help in formulating and implementing the agricultural developmental plans.

Specific functions of PACS are:

- They borrow adequate and timely funds from DCCBs and help its members by providing required finances.
- To inculcate the habit of thrift they attract local savings of members towards share capital and deposits from the villagers.
- They supervise the end use of credit.
- They distribute fertilizers, seeds and pesticides to the needy farmers.
- They provide machinery to the farmers on hire basis.
- They also associate themselves with the plans and programmes meant for the socio-economic development of the village.
- They help the farmers in marketing of farm produce.
- They provide storage facilities and marketing finance.
- They help in supplying certain consumer goods like rice, wheat, sugar, kerosene, clothes etc, at fair prices.

Central Land Development Bank (CLDB):

Central Land Development Bank is an apex bank in the two-tier cooperative credit structure providing long-term credit to PLDBs and its subsidiary/affiliated branches. The branches of CLDBs, PLDBs and individual entrepreneurs are the members of CLDB.

National Bank for Agriculture and Rural Development and Life Insurance Corporation (LIC) subscribe for its debentures. NABARD is a refinancing agency to the CLDBs. CLDB is a link between NABARD and government in long-term transactions.

Specific functions of CLDB are:

- CLDB inspects, supervises and guides PLDBs in their banking operations.
- It floats debentures for raising the necessary funds.
- It inculcates the spirit of thrift among the members by mobilizing savings and stimulating capital formation i.e. asset creation.
- It provides loans to the member banks for the redemption of old debts, development of land, purchase of machinery and equipment, development of minor irrigation, etc.

Primary Land Development Banks (PLDBs):

The establishment of land mortgage banks on cooperative lines was initiated in Punjab during the year 1920 itself. During 1920-29 i.e. in the expansion phase many Land Mortgage Banks (LMBs) were established in Mysore, Madras, Assam, Bengal, Bombay, etc.

Even though there was slow progress of these banks until 1945, good progress of these banks was achieved in the post independence era i.e. 1948-53. During this period only large and affluent farmers obtained loans from the LMBs and small and marginal farmers were benefited very little. Later on LMBs received massive support from institutional agencies like RBI, SBI, LIC and ARDC. With this LMBs directed their lending policies towards small and marginal farmers emphasizing agricultural development.

In the year 1974, LMBs were renamed as Land Development Banks (LDBs) in Andhra Pradesh.

Specific functions of PLDBs are:

- To provide long-term credit to the needy farmers for the land development, increased agricultural production and productivity of land.
- They provide loans for minor irrigation, purchase of land and for redemption of old debts.
- They finance farmers in purchase of tractors, machinery and equipment.
- They provide finance to farmers for the construction of farm buildings.
- They mobilize rural savings, etc.

Farmers Service Societies (FSS)

Farmers Service Societies are well organized and registered units functioning on the principles of cooperation. As many cooperatives are rendering their services only to affluent farmers, the National Commission on Agriculture (NCA) strongly felt that separate societies for meeting the needs of weaker sections in rural areas are envisaged. Hence with the recommendations of NCA, the FSS were organized in the year 1971, on cooperative lines to provide integrated credit services to weaker sections of rural areas viz., small farmers, marginal farmers and agricultural labourers and rural artisans.

Important functions of FSS are:

- To supply all types of loans i.e. crop loans (ST), MT and LT loans to weaker sections.
- To provide adequate supplies of requisite inputs and technical guidance for their development.
- To encourage dairy, poultry, fisheries, farm forestry and other subsidiary occupations in rural areas.
- To make arrangements for bringing about improvements in agricultural markets.
- To mobilize deposits and small savings from weaker sections by providing incentives.

The area of operation of these societies is SFDA and MFAL districts. The sponsorship of these societies is done by lead bank of the respective district. The number of directors in the board of management varies from 9 to 13 based on the size of the society. One full- time Managing Director is deputed by lead bank. Of the nine members,

five will be elected members (3 from SF and MF category and 2 from LF category) and four will be representatives of financial institutions, Department of Agriculture and cooperative societies besides Block Development Officer (BDO).

Multi-purpose Cooperative Societies (MPCS)

As the name itself indicates these societies offer assistance in many ways like providing credit, supplying of farm inputs like fertilizers, seeds (sometimes on subsidized rates), offering marketing facilities, technical guidance etc.

Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS):

In line with the objectives of FSS, LAMPS were organized for the first time in December, 1971 on the recommendations of Bawa team appointed by Government of India in tribal areas of the country.

Objectives of LAMPS:

- To provide all types of credit including consumption credit.
- Intensification and modernization of agriculture with appropriate technical guidance.
- Improving the marketing of agricultural and forest products in tribal areas.

Management of LAMPS include eleven board of directors. These eleven members are

- Five tribal members
- Two Non-tribal members
- Two nominated by Registrar of co-operatives.
- Two nominees of lead bank

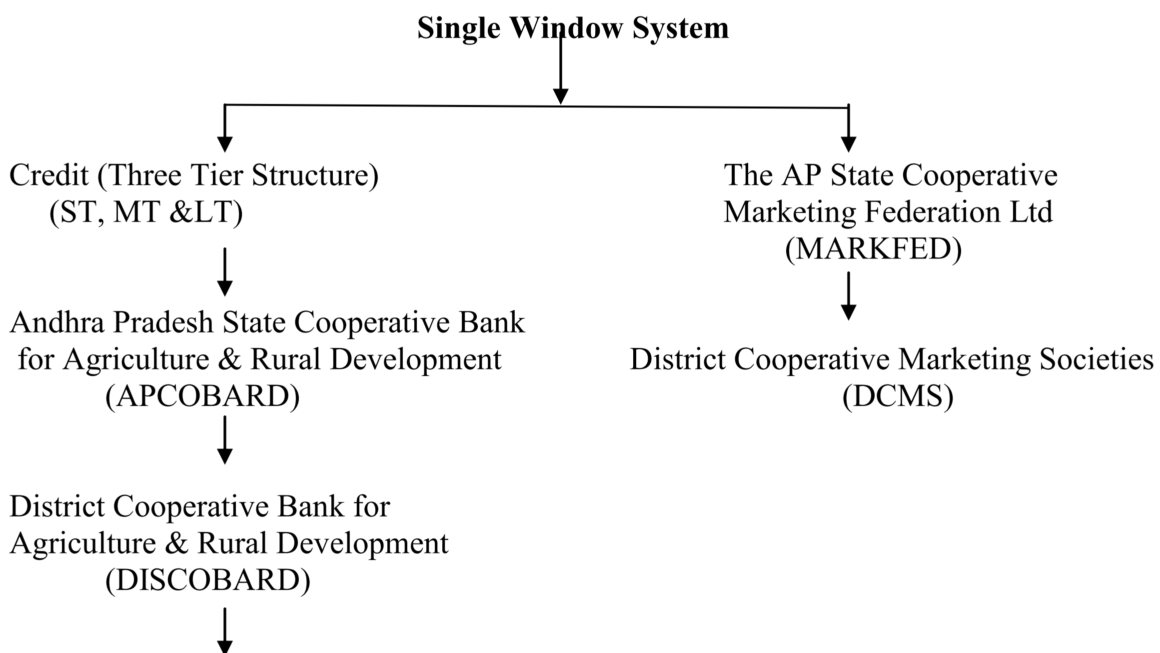
Single Window System:

Till 1987 the farmers in Andhra Pradesh depended on primary agricultural credit societies functioning under three - tier structure for short-term and medium-term credit requirements and on primary land development banks functioning under two-tier

structure for ling-term credit needs. It means that the farmers have to obtain their total credit requirements from two different cooperative institutions. In addition to this the performance of PLDBs was not satisfactory. In marketing their farm produce also, farmers faced many difficulties in getting marketing services from PACS in three- tier structure.

Against this backdrop, to make cooperatives render their meaningful services, the Government of A.P thought to bring some appropriate organizational changes in the working of cooperatives in the state. Subsequently, a committee under the chairmanship of Sri. Mohan Kanda, an IAS officer was constituted to bring out some meaningful and practicable alternatives in the structure of cooperatives. The committee submitted its report in May, 1985 and recommended the establishment of "Single Window System" and a bill was passed for its establishment in the AP state assembly in January, 1987. The main intention and idea of introducing the single window system is to supply all types of agricultural credit needed by the farmers through PACS and provide adequate marketing facilities to farm produce through District Cooperative Marketing Societies (DCMS).

Single window system is a three-tier structure in cooperative credit and two-tier structure in cooperative marketing as shown below.



Primary Agricultural Cooperative
Credit Societies (PACS)

With the introduction of single window system in Andhra Pradesh during the year 1987

- No of PACS were reduced from 6801 to 4257.
- Primary Cooperative Agricultural Development Banks (PCADBs) numbering 218 were merged with DCCBs.
- Primary cooperative marketing societies were amalgamated with DCMS

Major functions of PACS under single window system are:

- To advance short, medium and long term loans.
- To supply required farm inputs like seeds, fertilizers and pesticides.
- To distribute essential commodities like rice, wheat, sugar, kerosene etc.
- To arrange for marketing of farm produce of the members through DCMS.

Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995:

The Andhra Pradesh Mutually Aided Cooperative Societies (APMACS) Act, 1995 (the APMACS Act or the 1995 Act) was passed unanimously by the Andhra Pradesh Legislative Assembly on 4th May 1995. It was notified on 1st June 1995. The Government of Andhra Pradesh had decided to undertake legislation in order to promote self-reliant and autonomous cooperative societies and make the cooperative movement more vibrant in the State. The salient features of the Act are,

- to enable not less than ten individuals belonging to different families to form a cooperative society and confer on it the status of a body corporate.
- to enable the cooperative societies to regulate their functioning by framing byelaws subject to the provisions of the Act in respect of the various matters specified in the legislation.
- to enable the cooperative societies to change the form or the extent of their liability, to transfer their assets and liabilities, to divide or amalgamate in furtherance of their stated objectives.
- to enable the societies registered under the Andhra Pradesh Cooperative Societies

Act, 1964 to become cooperative societies registered under this Act by making a suitable provision therefore.

- to enable the cooperative societies to mobilize their own funds;
- to empower the cooperative societies to provide for the qualifications and disqualifications for membership.
- to provide for the constitution, powers and functions of the board of directors and for matters incidental thereto.
- to define the powers and functions of the general body
- to make the cooperative societies responsible to hold the elections and to regulate the process thereof.
- to provide for proper accountability and for that purpose to conduct audit, special audit, inquiry and for the recovery of loss caused to the society by misconduct.
- to provide for the settlement of disputes by constituting a cooperative tribunal.

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