COMMERCIAL BANKS

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

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

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

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

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

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

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

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

iii) encouragement of a new class of entrepreneurs and

iv) strengthening the professional banking management system.

The nationalized banks were:

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

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

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

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

Functions of Commercial Bank

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

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

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

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

Policies and Performance of Commercial Banks

i) Branch Expansion

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

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

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

Regional Distribution of Commercial Bank Branches

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

Number of Rural and Semi Urban Bank Branches in India

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

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

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

(Figures in Parentheses indicate percentages to total)

Branch Expansion of Commercial Banks and Regional Rural Banks

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

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

ii) Sectoral allocation

Lending to Priority Sector

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

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

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

Categories of Priority Sector

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

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

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

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

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

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

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

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

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

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

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

Targets / Sub-Targets

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

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

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

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

The detailed guidelines in this regard are given hereunder.

1. Agriculture

Direct Finance

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

- Short-term loans for raising crops, i.e., for crop loans. This will include traditional/non-traditional plantations and horticulture.
- Advances up to Rs. 10 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.
- Short-term loans under tie-up arrangements with sugar mills, agro-processing units and agri-exporters.
- Working capital and term loans for financing production and investment requirements for agriculture and allied activities.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.
- Loans granted for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading, sorting, processing and transporting undertaken by households or groups/cooperatives of households.

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

Indirect Finance

Finance for Agriculture and Allied Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Small Enterprises

Direct Finance

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

Small (manufacturing) Enterprises

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

Micro (manufacturing) Enterprises

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

Small (service) Enterprises

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

Micro (service) Enterprises

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

Khadi and Village Industries Sector (KVI)

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

Indirect Finance

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

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

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

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

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

3. Other Small Business / Service Enterprises

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

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

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

4. Micro Credit

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

Loans to poor indebted to informal sector

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

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

State Sponsored Organizations for Scheduled Castes/Scheduled Tribes

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

Education

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

7. Housing

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

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

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

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

8. Weaker Sections

The weaker sections under priority sector shall include the following:

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

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

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

(d) Scheduled Castes and Scheduled Tribes;

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

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

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

(h) Advances to Self Help Groups;

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

9. Export Credit

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

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

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

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

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

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

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

2. Foreign Banks – Deposit by Foreign Banks with SIDBI

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

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

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

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

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

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

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

Priority Sector Lending

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

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

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

Credit to Agriculture and Allied Activities

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

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

Relief Measure for Agriculture – Interest Rate Subvention

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

Loan Amount Outstanding under Priority Sector by Public Sector Banks

(Rs.Crores)

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

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

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

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

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

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

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

(Rupees crore)

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

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

Indirect Institutional Credit for Agriculture and Allied Activities in India

(Rupees crore)

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

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

REC: Rural Electrification Corporation Ltd.

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

: Priority sector advances as at the end-March.

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

Scheduled Commercial Banks' Advances to Agriculture

(Rupees crore)

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

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

P : Provisional.

@ : Data relate to end-December.

PACS : Primary Agricultural Credit Societies.

FSS : Farmers' Service Societies.

LAMPS : Large-sized Adivasi Multipurpose Societies;

Source: RBI. Mumbai.

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

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

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

Institutional Credit Flow to Agriculture Sector

(Rs. crores)

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

* Target was fixed under doubling of agricultural credit initiative

iii) Credit-Deposit Ratio

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

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

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

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

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

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

iv) Specialized Branches for Agricultural Lending

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

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

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

c) Gramodaya Kendra (GK) - Indian Bank.

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

e) Farm Clinic Centre - Syndicate Bank.

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

v) Schematic Lending

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

vi) Multi-Agency Approach

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

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

Problems

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

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

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

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

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

vii) Area Approach

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

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

i) Allotment of Districts among the Lead Banks

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

ii) Impressionistic Surveys and Branch Expansion

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

iii) Formation of District Consultative Committees (DCCs)

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

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

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

v) District Credit Plan (DCP)

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

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

vi) Standing Committee of DCC

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

Vii) Lead Bank Officers and Lead District Officers

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

Forums under Lead Bank Scheme for Co-ordination and Monitoring

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

State Level Banker's Committee (SLBC)

Status of the Committee

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

Functions of the Convener Bank

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

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

Liaison with State Governments

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

Review of the Functioning of District Consultative Committees

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

District Credit Plans (DCP)

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

Uniformity in Terms and Conditions of Lending

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

Review of Credit Flows

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

District Consultative Committee (DCC)

Constitution

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

Chairman District Collector / Deputy Commissioner

Convener Lead District Manger

Members

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

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

Periodicity of meeting Once a quarter

Functions

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

15. Monitoring the position in regard to Credit Deposit ratio (CD Ratio) in the light of RBI stipulations in this regard.

16. Discussing the follow up of DLRC's decisions.

17. Identifying activities / programmes / schemes suited to local circumstances.

18. Recommending to SLBC to request State Government to devise suitable polices for inputs, services and marketing and in building suitable supporting organizations for all the three items.

19. To deliberate on broad planning and operational aspects and not to deal with individual cases.

20. To review Credit Deposit ratio, priority sector advances, advances to weaker section, etc.

21. Confirming/ratifying the action initiated by the Standing Committee.

Functions of the Convener

1. Obtaining necessary background notes and data from financial institutions, Government departments and other agencies to prepare comprehensive agenda notes for DCC meeting.

2. Convening the meeting by issuing notice and agenda notes to the members sufficiently in advance, say, 15 days.

3. Recording the proceedings of the meeting. The proceedings should bring out clearly the discussions and decisions arrived at. The agencies responsible for taking further action on the decisions together with the time schedule for such action should be indicated in the proceedings. The concerned agencies should provide necessary feedback to DCC regarding the action taken on the decisions. The items not advised before hand but raised in the meeting should be listed separately in the proceedings.

4. Circulating minutes to the member of DCC, all banks, financial institutions, Government departments, etc., within a fortnight.

5. Following up issues requiring action by banks, other financial agencies and Government departments.

6. To act as resource person for the entire banking sector in the lead district so far as the implementation of credit plan is concerned.

7. While ensuring that DCC becomes a compact forum for meaningful discussions, it is necessary to secure an arrangement for adequate rapport between DCC and those institutions which are not represented on it on a permanent basis. The LDM should function as the focal point of such co-ordination by convening regularly, meetings with the District co-ordinators of all non-lead banks and other financial institutions. These meetings could be held well in advance of DCC meetings so that the problems thrown up could be takes up at the DCC forum. LDOs of RBI and representative of NABARD may also be invited for such meetings.

Block Level Bankers' Committee (BLBC)

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

Chairman Lead District Manager.

Convener

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

Members

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

Periodicity of meeting Quarterly.

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

Functions

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

Constraints in the Lead Bank Scheme

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

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

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

vii) Village Adoption Scheme (VAS)

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

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

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

Constraints

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

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

Performance

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

Emergence of Service Area Approach

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

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

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

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

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

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

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

Stages of Implementation of SAA

SAA comprises of the following stages:

i) Identification of the service area for each bank branch

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

ii.) Survey of the villages in the Service Area

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

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

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

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

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

SAA has the following advantages

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

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

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

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

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

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

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

Constraints of SAA

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

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

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

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

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

Important Recommendations of Dr. Ojha Committee

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

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

Capital Rationing

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

Instant Credit Scheme

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

Crop Production Loan

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

Features

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

Scale of finance

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